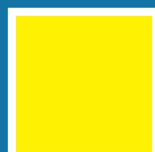
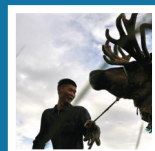


Sakhalin Energy Investment Company Ltd.

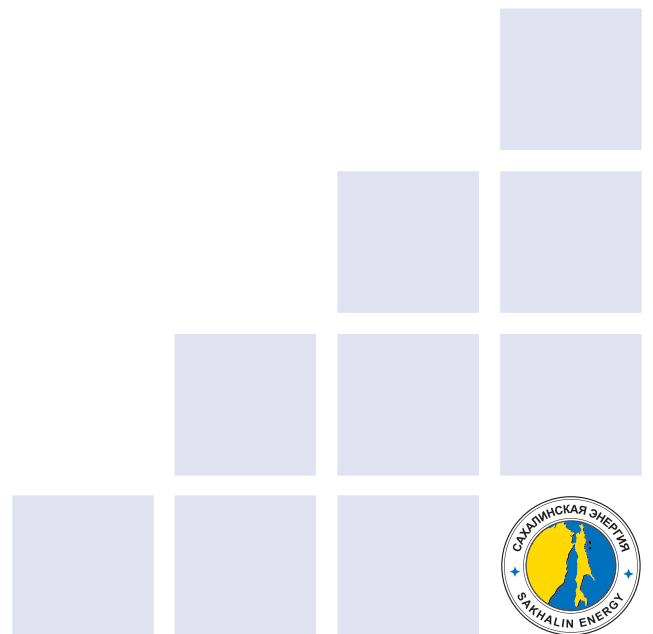
# SUSTAINABLE DEVELOPMENT REPORT

2022



Sakhalin Energy Investment Company Ltd.

# SUSTAINABLE DEVELOPMENT REPORT



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**Roman Dashkov, Chief Executive Officer**

Dear Colleagues,

For Sakhalin Energy, 2012 was the third year of full-scale operations involving our comprehensive oil and gas infrastructure. Despite many challenges, this was a successful year for our Company which achieved excellent results in a number of areas—first and foremost, in health, safety, and environment as well as in LNG plant

performance. In both these areas, we are at the top of the global oil and gas industry.

Our excellent teamwork resulted in efficient planned asset shutdowns with safety ensured across the board. These shutdowns required not only extensive preparation, but a lot of interfacing among various Company divisions as well, and they were completed ahead of schedule.

In March 2012, Sakhalin Energy reached an important milestone: production sharing has started earlier than expected thanks to the Company's work on production optimisation. Based on the financial results of the 2012 fiscal year, we will start our profit tax payments at the 32% rate in 2013. The Company is expected to generate approximately USD 500 million more in tax revenue in 2013 than it did in 2012.

Our entire project is designed and operated around our top priorities, which include safety, reliability of production, deliveries, economic efficiency, and growth.

Our main safety areas include industrial safety, occupational health and safety, road safety, and safe employee conduct.

Since 2009, the Company has been operating its oil, natural gas, and LNG assets in compliance with strict environmental standards. As of today, the rate of oil leaked to oil produced is less than one-millionth of one percent.

Sakhalin Energy strives to reduce associated gas flaring to reasonable practicable levels through maximum recovery and utilisation. Even though Russia has no centralised statistics on greenhouse gas emissions, the Company maintains its own inventory.



**A view of the LNG Jetty at the Prigorodnoye Production Complex**

In 2012, we had no traffic incidents with injuries.

We continue to stay focused on environmental protection issues. Sakhalin Energy has developed and implemented an integrated action plan aimed at preserving the Sakhalin Island's biodiversity. Protecting endangered Gray Whales, whose summer feeding areas are offshore of Sakhalin, and monitoring the island's Steller's Sea Eagle population and Sakhalin wetlands are among the crucial environmental programmes implemented by the Company. Our Ballast Water Control and Management Programme is another large-scale Company undertaking aimed at protecting the environment. Sakhalin Energy began to address this issue from the very start of its offshore operations.

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

Process safety is closely aligned with issues of production reliability. Experience shows that, in any industrial activity, a serious incident at the place of production can prevent a company from ever getting back into business. Our goal is to ensure serviceability and operational safety of Sakhalin Energy's industrial facilities and to prevent any incidents.

In 2012, Sakhalin Energy continued its work on development projects in a number of areas, including optimisation of oil, domestic gas, and LNG production as well as further improving performance of Company facilities.

An opinion survey conducted at the end of 2012 became an important milestone in personnel development. The survey covered a number of issues, including administration and management, collaboration and teamwork, responsibility and accountability, diversity and inclusiveness, etc. The Company values the team's input; as always, this will play a significant role in implementing our HR strategy in the future.

The Company is actively involved in the United Nations Global Compact (UNGC), a global policy initiative aimed at promoting corporate responsibility and corporate sustainable development efforts.

Sakhalin Energy's social initiatives won awards in three categories in the 2012 Corporate Philanthropy Leaders contest organised by Vedomosti business newspaper, Donors Forum partnership and PricewaterhouseCoopers; our Company ranks fourth on the list of Russian corporate philanthropy leaders.

Our 2012 Report showcases all aspects of Company activities. We strive to consider broad public opinion as much as possible when developing these reports. Our openness is both the result and the proof of our public engagement through which joint decisions are made. This approach is of paramount importance to ensure the success of such a large international project as the Sakhalin Energy project.



Roman Dashkov  
1 March 2013





## 2.1 GENERAL

This Report describes the Company's sustainable development performance in 2012 and has been prepared according to the Global Reporting Initiative (GRI, G3) (hereinafter — Reporting Initiative).

The target audience of this Report is both internal and external stakeholders listed in the Stakeholder Engagement Management Section. This is the fourth annual Sustainable Development Report issued by the Company.

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

In preparing this Report, the Company held two rounds of dialogues with its stakeholders according to

the AA1000SES International Standard. Details on the consultations and their results are presented in Appendix 2, Company's Answers and Commitments, as Part of Its Dialogues with Stakeholders on the 2012 Sustainable Development Report.

This 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.

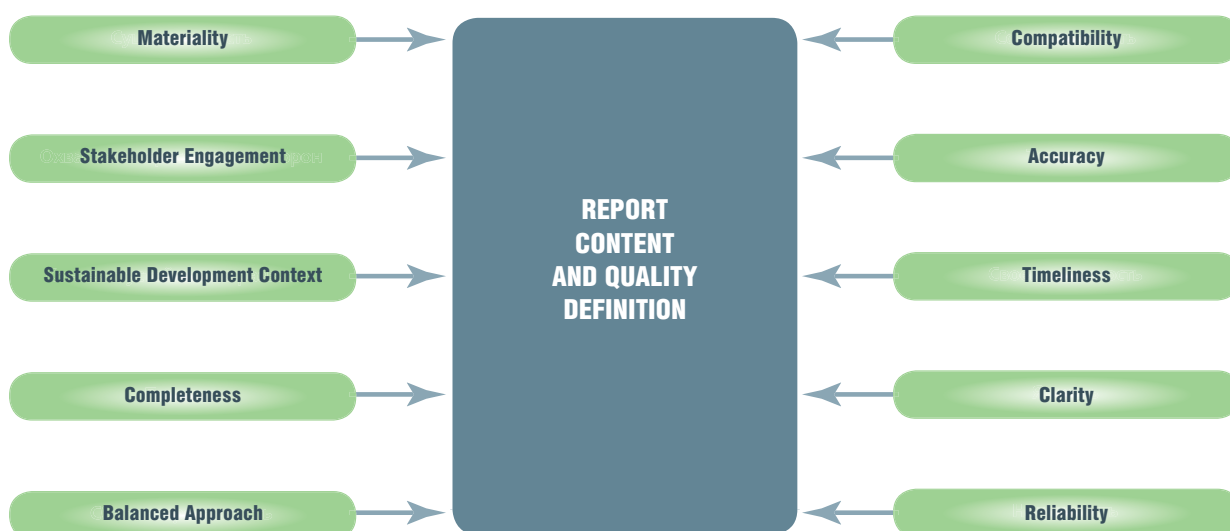
The Company values opinions, suggestions and comments from all stakeholders on this report. To share your opinion, you can:

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

## 2.2 PRINCIPLES OF REPORT CONTENT AND QUALITY DEFINITION

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

### Report content and quality definition



The Company shares and applies the following basic principles of international reporting on sustainability.

Principles	Definition
<b>Definition of the Report Content</b>	
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.); systematic media analyses and annual public opinion surveys; public concerns shared with the Company and special consultations held in preparation of this Report (see Section 7). Besides, recommendations and comments regarding the 2011 Sustainable Development Report (filled feedback forms) were also taken into account, as well as recommendations of the RUIE Non-Financial Reporting Council that conducted public endorsement of the 2011 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 2012, the Company continued systematic and consistent engagement with all the 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 is presented in the Company's Report on Public Consultation and Disclosure at Sakhalin Energy's website.
Sustainable Development Context	This Report provides balanced and sound information on all aspects of the Company's sustainable development performance — economic, environmental and social.
Completeness	This Report contains information on all areas of the Company's sustainable development performance in the reporting period according to the GRI principles and indicators of Level B applicability, based on the stakeholders' assessment of the topics' and issues' materiality and the priorities set by Shareholders, Lenders and the Company management.
<b>Definition of Report Quality</b>	
Balance	The Report includes both favourable (accomplishments) and unfavourable aspects (action items) of the Company performance in the year under review. The Company identified the topics and issues to be disclosed in the Report based on 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 it 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 fourth 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 easily understandable and clear format, 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 the results of the Company's sustainable development performance have also been verified independently, with references to such verifications provided appropriately.



## 2.3 DEFINITION OF THE REPORT SCOPE

The Report contains information on all assets and structural units of the Company and on all areas influ-

enced by its sustainable development performance, including economic, environmental and social.

## 2.4 GRI APPLICATION LEVEL AND PUBLIC ENDORSEMENT

GRI application levels

		2002 In accordance with	C	C+	B	B+	A	A+
Mandatory	Self-Declaration				✓			
	Third-Party Check				✓			
	GRI Check							
Optional								

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

This Report has passed the procedure of external public endorsement of corporate non-financial reports to the highest applicable professional level in the Russian Federation — independent expert review (public endorse-

ment) 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. 2012 Sustainable Development Report for the purpose of public endorsement (see Appendices 6 and 7, 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.

## 2.5 LIST OF ACRONYMS AND ABBREVIATIONS

ALARP	As Low As Reasonably Practicable
ANPO	Autonomous non-profit organisation
APR	Asia Pacific Region
BAP	Biodiversity Action Plan
BoD	Board of Directors
BS-2	Booster Station No.2
CED	Committee of Executive Directors
CSR	Corporate social responsibility
EMERCOM	Ministry for Emergency Response
ERC	Emergency Response Committee
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
IMO	International Maritime Organisation
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	Association of the Indigenous Minorities of the North, Siberia, and the Far East of the Russian Federation
RAS	Russian Academy of Sciences
RoW	Onshore Pipeline Right of Way
RS	Road Safety
RTI	Road traffic incident
RUIE	Russian Union of Industrialists and Entrepreneurs
SSI	Sakhalin Salmon Initiative
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



A meeting with the public

#### Corporate social responsibility and sustainable development as integral components of Sakhalin Energy strategic development

Companies applying higher standards of corporate social responsibility as the basis for their sustainable development are currently a worldwide trend, especially in the extraction and processing industries. This is connected with higher requirements and pressure, on the one hand, and the deliberate implementation of the best HSE and social performance practices by companies, on the other hand.

Sustainable development (SD) and corporate social responsibility (CSR) are integral components of the business activities and strategic development of Sakhalin Energy. CSR is a mechanism for implementing corporate strategy to improve the Company's role in

society and help carry out the Company's business activities in compliance with the standards of sustainable development and good business ethics.

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 through the prism of its role in improving the Company's overall sustainability in a broader business environment, in Russia and worldwide.

Corporate sustainability is not based solely on a progressive and efficient production process which brings the sought-for profit and supports a sustainable production growth. Any company that wants to strengthen its own corporate sustainability would have to combine its economic, environmental and social activities into an integrated self-organising system. The concepts of CSR and sustainable development help the Company to effectively achieve the above results by meeting the following goals, including:

- Minimised financial and non-financial risks;
- Greater credit and investment attractiveness;
- Enhanced reputation and corporate image of the Company in the country of operation and worldwide;
- Better transparency of the Company for key stakeholders and public at large;
- Better team work and creativity of the Company personnel; and
- Social and economic input into the sustainable development of the Sakhalin Oblast and the country of operation.

### 3.2 SAKHALIN ENERGY'S CSR SYSTEM

The Company applies a structured, systemic approach to the CSR management. This approach is supported by its mission, vision and values and a whole range of corporate documents, including its Statement of General Business Principles, the key corporate document, its Sustainable Development

Policy, Code of Conduct, Human Rights Policy, and HSE Commitments and Policy (see Section 5 Corporate Governance). The requirements and principles defined in these documents apply to both suppliers and contractors. In addition to special contractual provisions, the Company arranges training sessions

and workshops to ensure a more effective introduction of such principles into the activities of its contractors and an efficient control over compliance with those (see Section 6.4 Contractor and Procurement Management).

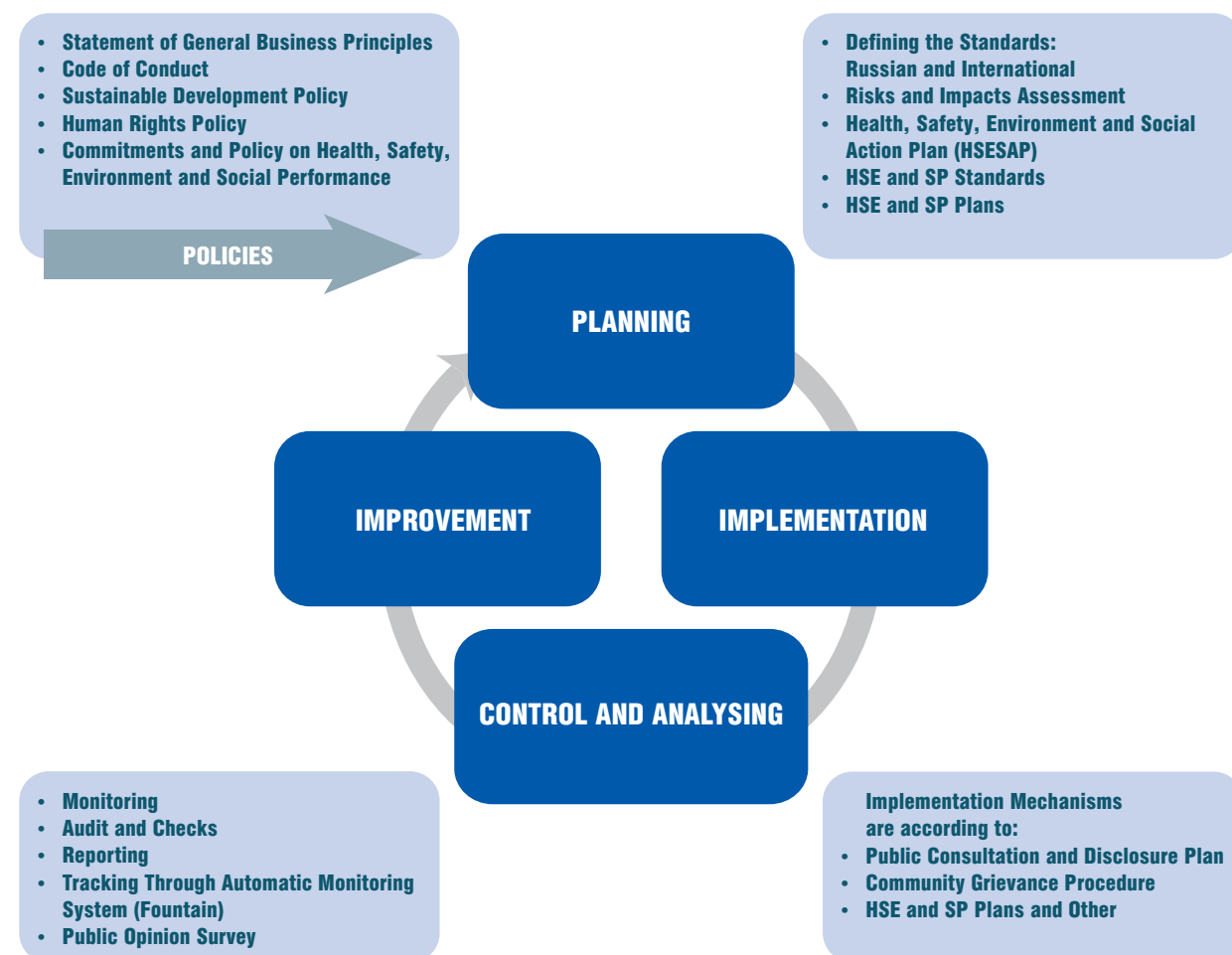
Also, the Company at all times keeps control of and focus on the detection and mitigation of non-financial risks. A non-financial risk occurs in circumstances when the Company's efforts to achieve its corporate goals are resisted by stakeholders, whether knowingly or not (see Section 5.6 Risk Management).

In any company, non-financial risks stem from the uncertainty inherent to 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. In this case, it is important to maintain dialogues and other forms of engagement with all the stakeholders. To influence stakeholders in their choice of behaviour, it is required to appropriately implement a CSR system, through continuous efforts to analyse, understand and spot mutually advantageous solutions.

Any socially responsible business, which has been implementing innovative and effective CSR tools over a long period of time and has been consistently improving its sustainable development management, is bound to objectively evaluate its CSR practices and their effectiveness on a regular basis.

The CSR progress at Sakhalin Energy is regularly evaluated through the system of corporate assurance and through audits conducted by authorised personnel and the Company management, third party experts, Lenders, their advisors and independent controllers, as well as through various formats of stakeholder engagement: public consultations, workshops, opinion surveys, topical meetings, dialogues and consultations in information centres set up by the Company all over the Sakhalin Island, and through the well-functioning grievance procedure (see Section 7 Stakeholder Engagement Management). The Company submits on a regular basis reports on sustainable development and fulfilment of its commitments, which are available to general public and stakeholders.

#### Company's CSR System



### 3.3 PERFORMANCE STANDARDS



The Company uses meetings with stakeholders to explain its performance standards

As is known, many initiatives and standards have been established worldwide in the area of environmental and social responsibility. They are being actively implemented by advanced businesses, in Russia as well. The

**The Russian Union of Industrialists and Entrepreneurs (RUIE) highly appreciates the excellent work that Sakhalin Energy has done on the self-assessment of its activities, within the framework of its social responsibility principles based on the ISO 26000 International Standard, and the findings of this assessment, including those related to the implementation of relevant RUIE recommendations.**

**Detailed information, which was prepared and made publicly available by the Company, on the organisation of business processes and management systems diagnostics and the self-assessment findings, including information on major policies, procedures and business practices of Sakhalin Energy, looks significant and convincing.**

**The successful record of Sakhalin Energy, which is the first Company in Russia to have implemented a large-scale self-assessment programme in accordance with ISO 26000, was presented and recommended for distribution at the joint session of the RUIE Committee for Corporate Social Responsibility and Demographic Policy, and the CSR Committee of the Russian Managers Association held in December 2012.**

Alexander Shokhin

President of the Russian Union of Industrialists and Entrepreneurs

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 AA 1000SES, i.e. the Stakeholder Engagement Standard, the International

Financial Corporation (IFC) Standards, as well as the recently approved ISO 26000:2010 Standard Guidance on Social Responsibility Standard and many others.

In their practical activity, which includes various forms of non-financial reporting, Russian companies refer to CSR business, social, and environmental activities provided by legislation, as well as a range of additional programmes and responsibilities with regard to employees and society. These additional responsibilities are taken by companies beyond the minimum set by legislation, based on their strategic and regional priorities and given the level of corporate culture. Sakhalin Energy is no exception. It operates in accordance with the best international standards established with regard to CSR.

The main standards that the Company is compliant with are as follows:

- ISO standards (environmental management, quality management, safety and health management);
- Standards and directives of the European Commission and the United Nations (environment, human rights, indigenous people, etc.);
- Standards of the World Bank and the International Financial Corporation (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).



In 2011–2012, Sakhalin Energy adopted another form of assessment of its Corporate Social Responsibility status and performed a self-assessment, and subsequent self-declaration, based on ISO 26000:2010 Guidance on Social Responsibility, the first integrated international CSR standard.

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**LEAD is a platform launched in January 2011 as an initiative to support the UNGC's leading participants in their effort to enhance corporate efficiency in the area of sustainable development.**

**LEAD provides that LEAD companies perform certain activities in the environmental, social protection and management spheres, and create new CSR standards. When speaking to LEAD members, UN Secretary-General Ban Ki-moon stated that "From the beginning, the Global Compact has been driven by business leaders willing to move beyond the status quo. Through Global Compact LEAD, you can help guide the way to the level of sustainability performance our world requires from business today".**

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Sakhalin Energy's self-declaration was announced at the extended meeting of the Committee of the Russian Union of Industrialists and Entrepreneurs (RUIE) for Corporate Social Responsibility and Demographic Policy and the CSR Committee of the Russian Managers Association, devoted to discussing the

theme Responsible Corporate Practice Assessment Tools: Experiences, Problems and Prospects. In support of its self-declaration, Sakhalin Energy published on its corporate website a Statement by Sakhalin Energy Investment Company Ltd., providing information on the main policies, procedures, corporate culture and business practices that were the basis for the Company's statement on the application of ISO 26000:2010.

At the meeting, Sakhalin Energy shared its experience in implementing self-assessment as well as the results of testing recommendations regarding self-assessment for companies, issued by the RUIE on the basis of the ISO 26000:2010.

As the next step, the Company intends to carry out such assessment within this standard on a regular basis. The plan is to perform such assessments once every three years.

In 2009 Sakhalin Energy joined the UN Global Compact and pledged its commitment to follow consistently and rigorously 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.

---

### 3.4 SUSTAINABLE DEVELOPMENT POLICY

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 recognised international 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 implements into practice this definition of SD.

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 ecosystem. 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 accumulated

experience, Sakhalin Energy in 2012 reviewed and amended its main strategic document in the area of Corporate Social Responsibility — the Sustainable Development Policy, approved as a publicly available document by the Committee of Executive Directors, which is the highest level of corporate governance.

The starting point of the Policy are the seven principles of sustainable development to which the Company adheres in taking 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;
- Profits 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, the Sakhalin Oblast and Shareholders;
- Sakhalin Energy will contribute to the present and future needs of society on the Sakhalin Island, while keeping a balance between economic development, environmental protection and social responsibility, beside taking into account cultural diversity;
- Sakhalin Energy will work with stakeholders to identify ways to contribute to the wider, long-term economic, environmental and social benefits in the Sakhalin Oblast.

To comply with the abovementioned principles, Sakhalin Energy's commitments are:

- 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);

- 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 control mechanisms and procedures;
- Develop strategic partnerships with external stakeholders to maximise the positive impact of community development programmes;

**In June 2012, Sakhalin Energy took part in the Corporate Sustainability Forum organised by the UN Global Compact with the support from the Rio+20 UN Conference Secretariat and the UN Global Compact Network in Brasil. The Forum became the key function for the business community at the Rio+20 UN Conference and the most representative UN GC conference in the past decade.**

**The Forum issued recommendations by the business community to the leaders of the countries, which were presented to the UN Secretary-General at the extended meeting of the UN Global Compact Board and LEAD members (see Section 7.9 International and Regional Cooperation).**

- Issue annual non-financial reporting in accordance with the international AA1000 standart, 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.



The Sustainable Development Policy booklet

## 4.1 SAKHALIN ENERGY, SAKHALIN-2 PROJECT OPERATOR



The LNG Jetty at night

Sakhalin Energy Investment Company Ltd. (Sakhalin Energy or the Company) was founded in 1994 to develop the Piltun-Astokhskoye and Lunskeye oil and gas deposits in the Sea of Okhotsk on the shelf of the Sakhalin Island as per the Production Sharing Agreement (PSA) signed with the Russian Federation (the Sakhalin-2 project).

The development and work in these fields required the construction of a new, large-scale infrastructure for extraction, transport, processing and subsequent sale of hydrocarbons. It includes three stationary offshore platforms, offshore and onshore pipeline systems, an Onshore Processing Facility, an Oil Export Terminal with a Tanker Loading Unit, and the first Russian 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.

The level of tasks and magnitude of projects, the volume of necessary investments, the harsh natural and climactic conditions and unique Sakhalin ecosystem, the lack of appropriate transport and other infrastructure on the island at the beginning of the project, as well as the region's remoteness from the main Russian economic centres required the application of the best experience in the industry, the use of innovative technologies and the application of efficient management decisions throughout the project's implementation. This task was successfully achieved by virtue of the unique partnership with Sakhalin Energy Shareholders.

## 4.2 MAIN PRODUCTION RESULTS IN 2012

### 4.2.1 ASSETS

#### 4.2.1.1 Molikpaq platform (PA-A)

In 2012, the operating well stock of the Molikpaq platform included 13 oil producing wells (four of which were temporarily closed), four water injection wells and one well for cuttings re-injection to rock formations.

In 2012, the average daily production rate on the platform was about 37.5 thousand barrels of oil and 0.85 million cubic metres of associated gas.

In March 2012, large-scale platform upgrade operations, which were completed in 2011, allowed the

Company to initiate workovers of wells that were temporarily closed in 2009–2010. As result of successful drilling workovers, two wells commenced production in 2012. The rejuvenation of the drilling rig that has not been used for many years required major efforts and encountered unique challenges, resulting in a delay of new well delivery and impacting oil production at the Astokh field.

The first gas lifted well was successfully brought on stream in December 2012. Gas lift is a mechanised production technique that enables the water and hydrocarbon mixture to be lifted to the surface.



The Molikpaq platform

The Astokh field has a proven effective water flood scheme which maximises the hydrocarbon recovery from the subsurface and leads to significant increment 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 there is an uncertainty related to the exact timing of the water arrival at the producer side. In the near future the number of water-producing wells will be increased as result of effective water injection. In order to sustain production from such wells and achieve expected oil recovery gaslift is being implemented on Molikpaq.

**In 2012 PA-A achieved high uptime performance. This was accomplished by virtue of efficient maintenance practices, which were applied as part of our Maintenance and Integrity Execution programme, as well as a focus on accident prevention in production as part of the Operations Reliability Improvement Programme.**

PA-A successfully underwent a planned maintenance shutdown campaign from 1 to 17 September 2012.

In 2012 the Company updated the Reservoir Management Plan (RMP), with approval by the regulatory authorities. The updated project documentation reflects the new understanding of the short and long term field development, with the associated production forecasts.

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

In 2012, the PA-B platform had ten production wells, five water injection wells and one cuttings re-injection well. That year an additional water injection well was drilled and a workover of one oil producer was carried out.

In 2012, the platform's average daily production rate was 39.1 thousand barrels of oil and 2.9 million cubic metres of gas.

In December, water injection successfully commenced after commissioning the first high pressure pump. Water was routed to the reservoirs that would benefit from it the most, optimising the long-term recovery of hydrocarbons from the reservoirs. With water injection re-established at the Piltun field,

**Sakhalin Energy production platforms are controlled using Distributed Control Systems (DCS). DCSs are advanced automated technologies for online remote data control, enabling surveillance of the platform operation, as well as warnings and prevention of possible mishaps, which maximally optimises the hydrocarbon production. Besides, DCS is used to model actual well production for each individual well.**

work is underway to prepare produced water handling facilities at capacities to accommodate a successful reservoir sweep.

The platform underwent a successful preventive maintenance shutdown from 1 to 5 October 2012.



The PA-B platform



Smart well technology deployment at the geologically complex Piltun field continued in 2012.

The Reservoir Management Plan (RMP) of the Piltun field was updated in 2012 and approved by the regulatory authorities. The last update for this field was made in 2008. Since then, production at the Piltun field had commenced and therefore, important new data was incorporated for characterising the Piltun reservoir.

#### 4.2.1.3 Lunskeye-A platform (LUN-A)

At Lunskeye field, gas is produced from wells with the largest diameter ever drilled in Russia. In 2012 the LUN-A platform continued stable and reliable production from its eight existing gas wells. One new big bore gas well was drilled in 2012.

**Oriented perforation was successfully executed in the gas well that was completed and brought on stream in 2012. This technology will help to delay sand production for a longer period than any of the existing wells in the Lunskeye field. This was the first time that such technology was deployed in Sakhalin Energy.**

The platform's average daily production rate was 44 million cubic metres.

An oil rim, being part of the gas-condensate-oil formation, has a significantly smaller size and in-situ reserves than the gas (or gas-condensate) part of the formation. The first oil rim well, completed in 2011, was

used in 2012. The oil rim is part of the additional reservoir appraisal, where decisions regarding drilling new oil rim wells are made on the basis of previous wells' drilling and operation.

**The Lunskeye field structure is divided into six blocks, with all the currently producing wells located in blocks IV and V. The planned future wells will target 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. Two of these wells will be drilled in 2013 in Lunskeye field, thereby providing vital experience for drilling such wells in future.**

In 2012, the first phase of the produced water handling system was commissioned, allowing water that is produced from the oil rim well to be reinjected into the reservoirs used for allocating drilling wastes and produced water.

#### 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 stream in late 2008.

The original design capacity of the OPF plant is 51 million cubic metres of gas and up to 60 thousand barrels of oil and condensate. In addition to upgrades undertaken in July 2011 at the OPF train 2, the same upgrades were implemented at train 1 in 2012. This increased the gas processing capacity to 28 million cubic metres of gas for each train.



The LUN-A platform



The Onshore Processing Facility

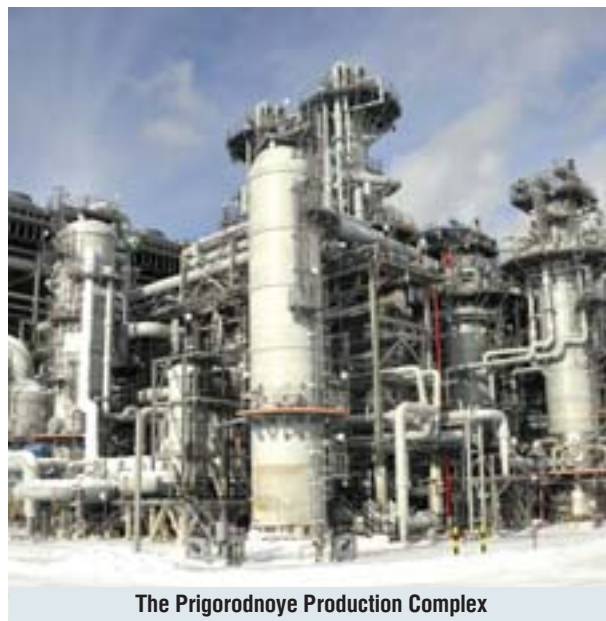


The Northern Gas Transfer Terminal

#### 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 over 1,600 km of oil and gas onshore pipelines, as well as 105 block valve stations, five Pipeline Maintenance Depots and two Booster Stations (BS). The maintenance of the Trans-Sakhalin Pipeline System is provided by Sakhalin Energy's contractor, Gazprom Transgaz Tomsk.

Construction of the Northern and Southern Gas Transfer Terminals (GTT) enabled natural gas supply to the Russian domestic market. In 2012, all construction and commissioning activities on Northern GTT were completed. In addition, permanent metering systems at Northern GTT and Southern GTT were commissioned.



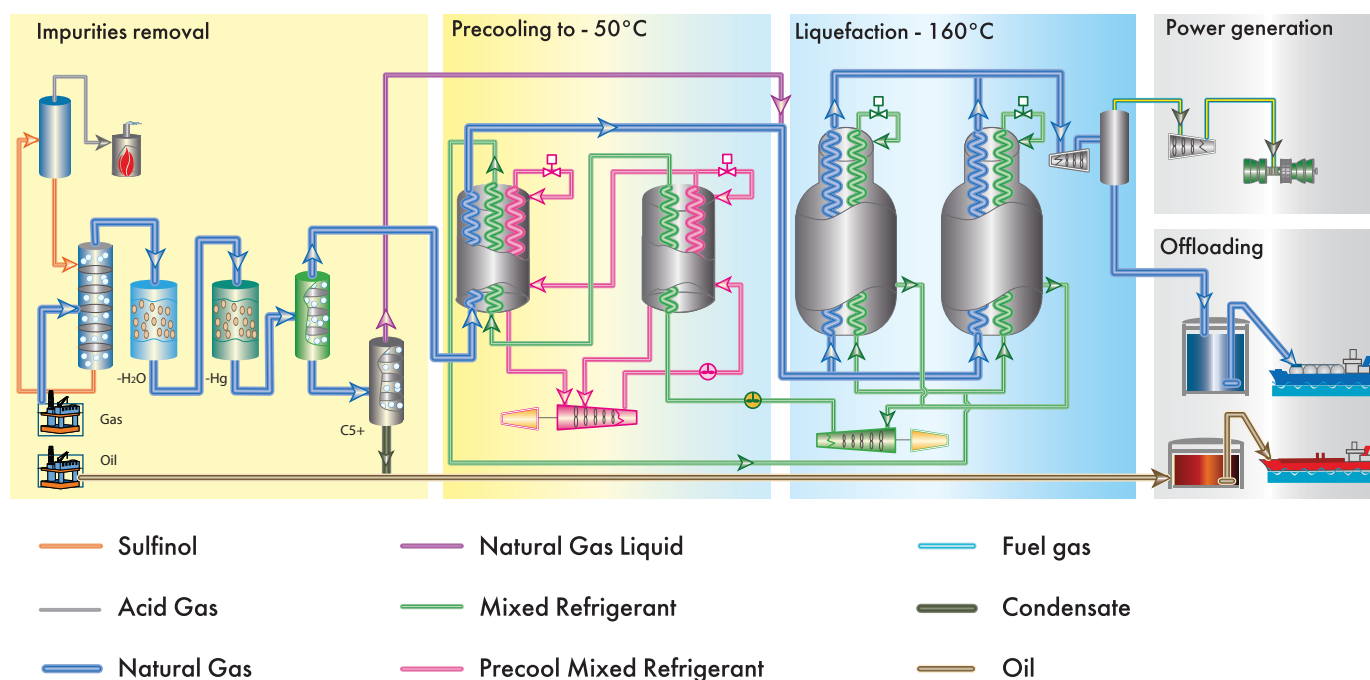
The Prigorodnoye Production Complex

#### 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 into the sea. The LNG plant was inaugurated on 18 February 2009. It occupies 490 hectares of land and has two trains, each with a nameplate capacity of 4.8 million tonnes of LNG per year.

The capacity enhancement programme, which commenced in 2010, continued in 2012 and has

#### Prigorodnoye simplified production scheme



increased the plant's capacity by 8%. In the summer of 2012 the Company completed the second major integrated gas system maintenance shutdown, 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.

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**In the beginning of 2012, the Laboratory of the Sakhalin Energy Prigorodnoye Production Complex was recognised as the best performing laboratory in the Global Gas and LNG Proficiency testing scheme, held by the International Metrological Company, an independent organisation. The laboratory, having less than three years operating experience, won first place and surpassed 17 other competitors, some of whom have worked in the field for over 30 years.**

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After two years of extensive preparations, Prigorodnoye Production Complex successfully achieved ISO 9001 for its Quality Management System (QMS).

#### 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 planned production levels as the wellhead pressure from the Lunkoye field begins to decline. Design and other pre-construction activities for this project are scheduled to begin in 2013.

##### 4.2.2.2 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. With our newly built hi-tech oil and gas infrastructure now fully operational at planned capacity, Sakhalin Energy has begun to explore opportunities for increasing the operational efficiency and hydrocarbon production from hitherto undeveloped Piltun-Astokhskoye reservoirs.

The Company continues to analyse various options for the South Piltun development. The South Piltun site is located at the centre of the Piltun-Astokhskoye field and has never been part of the Sakhalin-2 Phase 2 scope of work. In July 2012, Sakhalin Energy conducted engineering and geological surveys at the potential location of an additional offshore platform at the Piltun-Astokhskoye field. The work included seabed acoustic surveys, engineering and geological surveys and coring.

##### 4.2.2.3 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. The Company and its Shareholders are currently looking into this opportunity.

#### 4.2.3 HYDROCARBON PRODUCTION AND EXPORT

##### 4.2.3.1 LNG

Due to successful debottlenecking and equipment adjustment, the LNG plant exceeded its design output by producing 10.9 million tonnes of liquefied natural gas in the reporting year.

The Sakhalin LNG was transported either by specialised customer ships or by the Grand LNG tankers (Grand Elena, Grand Aniva and Grand Merya),

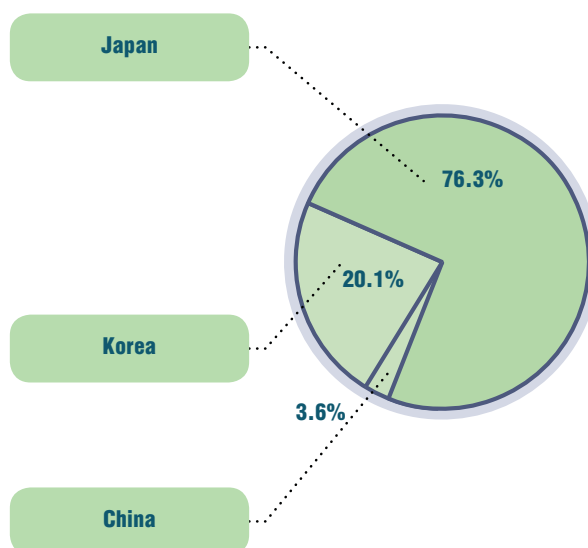
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**Liquefied natural gas (LNG) is a colourless and odourless liquid half the density of water, consisting mainly (up to 90%) of methane (CH<sub>4</sub>), the simplest natural gas in the group of gaseous hydrocarbons. When cooled to approximately -160°C (-250°F) at standard atmospheric pressure, natural gas liquefies and contracts to 1/600th of its initial volume, thereby becoming suitable for collection, storage and sea shipment.**

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constructed especially for this project and operated by two Russian-Japanese consortia, provided to the Company under long-term charters, as well as Grace Barleria and Fuji LNG chartered on a short-term basis.

Sakhalin LNG sales market structure in 2012





In 2012, Sakhalin Energy shipped a total of 168 LNG cargoes (145,000 cubic metres per cargo) to Japan, Korea and China.

#### 4.2.3.2 Oil

In 2012, Sakhalin Energy produced and exported 5.5 million tonnes (about 43 million barrels) of Vityaz Blend oil from the Prigorodnoye terminal.

China's share in purchasing the Company's products increased considerably (by 39%) as compared to last year. In total, 12 companies from seven countries purchased the oil blend in 2012. Products were delivered through 15 transit and destination ports in Japan,

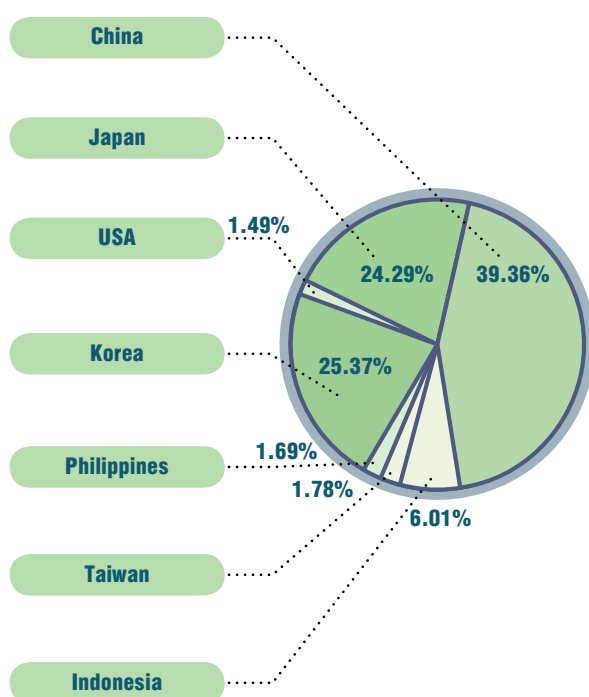
**The Vityaz Blend is a new oil grade introduced by Sakhalin Energy to the Asia-Pacific Region. It is a light, low-sulphur oil blend, similar in quality and composition to the light oil produced in Oman.**

China, Korea, Philippines, Indonesia, Taiwan and USA. For the first time since the beginning of its year-round operation, the Governor Farkhutdinov tanker delivered an oil cargo to the Kaohsiung port in Taiwan.

#### 4.2.3.3 Natural gas

As of 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.

Vityaz oil blend sales market structure in 2012



The gas is transferred via two terminals in the Northern and Southern parts of the 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, 393 million cubic metres of natural gas have been delivered. In 2012, 798 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, 1,105 million cubic metres of gas was supplied to the Russian Party in 2012.

#### 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) shall be 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 atmospheric air, aligning it with hygienic standards.

According to Russian legislation, the SPZ size for industrial sites and facilities is developed in the following sequence: estimated (preliminary) sanitary protection zone, arranged on the basis of a design with estimations of the polluted atmosphere air dispersion and physical impact on the atmospheric air (noise, vibration, EMI, etc.); established (final) — based on the results of field studies and measurements to confirm the design parameters.

SPZs have been established for three Company production facilities: Prigorodnoye Production Complex, OPF and BS-2.

The estimated SPZ, having a width of 1,000 metres from the emission sources for the Prigorodnoye Production Complex, was established in 2002. In 2009, the Federal Service for Supervision in the Area of Consumer Rights and Human Welfare (hereinafter—Rospotrebnadzor) carried out an expert review of the draft standards of the maximum permissible emissions (MPE) by its own initiative and confirmed the earlier established SPZ of 1,000 metres in width.

Because new regulatory documents on SPZ design and establishment were issued, a sanitary protection zone design needed to be developed, along with a community health risk assessment, to be then presented to Rospotrebnadzor for approval.

In 2010, the Company developed a SPZ design for the Prigorodnoye Production Complex, which was duly approved by the Rospotrebnadzor Department of the Sakhalin Oblast and by Rospotrebnadzor. According to the design, the estimated SPZ of variable size was approved as follows: from the 700 metres point from the boundary of the industrial site territory (1,000 metres from the emission sources) westward to the 300 metres point from the boundary of the industrial site territory (500 metres from the emission sources) eastward.

The above SPZ design provides for the Air Quality, Noise Levels and Electromagnetic Fields Monitoring Plan. According to this Plan, SPZ monitoring conducted over a year confirmed that the permissible levels of atmospheric air pollution, noise and electromagnetic fields were not exceeded at the SPZ border. In November 2011, the monitoring results were submitted for review to Rospotrebnadzor with a request to establish the final SPZ for the Prigorodnoye Production Complex.

In 2010, based on the new regulatory documents for SPZ design and establishment issued by the Russian sanitary authority, the SPZ designs for OPF and BS2 were also developed and duly approved by the Rospotrebnadzor Department of the Sakhalin Oblast and by Rospotrebnadzor.

According to the design, an estimated SPZ of variable size was approved for OPF from 670 metres north-eastward to 330 metres westward from the boundary of the industrial site territory. For BS-2, an estimated SPZ of variable size was approved from 300 metres westward to 160 metres north-eastward from the boundary of the industrial site territory.

Studies according to the Air Quality, Noise Levels and Electromagnetic Fields Monitoring Plans developed in the SPZ designs for OPF and BS-2 demonstrated that permissible levels of atmospheric air pollution, noise and electromagnetic fields were not exceeded at SPZ borders. In November 2011, the monitoring results were submitted for review to Rospotrebnadzor with a request to establish the final SPZs for OPF and BS-2.

In April 2012, SPZs for Prigorodnoye Production Complex, OPF and BS-2 were confirmed in the previous boundaries by the order of the Chief Sanitary Inspector of the Russian Federation, based on the monitoring carried out in previous years.

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 for trunk pipelines is established to prevent any possible damage to them. This zone is determined by the Guidelines for Trunk Pipelines Patrol, approved by the Ruling of Gosgortekhnadzor (presently, Rostekhnadzor, the Federal Service for Environmental, Technological and Nuclear Supervision) of Russia No. 9 of 22 April 1992. Along the routes of pipelines transporting oil and natural gas, the safety zone is established as a land plot limited by nominal lines running at 25 metres from the pipeline axis on each side. Any activities that may disturb normal pipeline operation or result in their damage are prohibited in the pipeline safety zones.

#### **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 developed OSR plans for all its facilities that are at risk of oil spills and submitted them for approval to Russian state agencies.

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**The organisational level of activities aimed at oil spill prevention in Sakhalin Energy is evidenced by the following statistics. Since 1999, the Company has produced nearly 285 million barrels of oil, while the total oil product spill over the last 14 years amounts to only one millionth of a per cent (about 26.2 barrels or 3.54 tonnes). For 2012, the Total Oil Spill Volume amounts to 0.3075 litre. Between 1999–2012 there has been no registered oil or petroleum product spill that could be graded as an emergency situation.**

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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 addition, Sakhalin Energy has concluded contracts for the provision of OSR services with CREO professional emergency response teams for onshore assets and Ecoshell for the LNG plant (in Port Prigorodnoye).

To coordinate activities in case of an emergency situation, the Company has organised around-the-clock duty by emergency and crisis management bodies, including crisis coordination teams/emergency coordination teams (CCT/ECT), and a 24-hour duty dispatcher service.

In order to increase the personnel's OSRP 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 2012, the Company organised corporate exercises at the following assets: OPF (a spill of 4800 cubic metres — approximately 4 thousand tonnes of condensate according to the legend); PA-B platform (a spill of 1.5 thousand tonnes of oil offshore according to the legend) and Prigorodnoye Asset (a spill of 1.5 thousand tonnes of oil offshore according to the legend). The corporate exercise at Prigorodnoye asset combined three objectives: offshore oil spill response, shore-line protection and wildlife protection. In addition, OSR integrated exercises for Piltun Bay protection were conducted (a spill of 1.5 thousand tonnes of oil offshore according to the legend). Based on the results of the exercises, recommendations were elaborated and relevant measures were taken to improve OSR activities. Analysis of the conducted drills and exercises confirmed the Company's preparedness for oil spill prevention and response at the Sakhalin-2 project offshore and onshore facilities.**

In 2012, 88 Company employees completed training under Level I and II OSR programmes, as well as a Level II emergency situation management system. Level I of the programme is basic and designed for regular rescuers and emergency liquidators, while Level II is designed for training supervisors, team leaders and oil spill liquidators.

In accordance with the 2012 training schedule, 199 OSR drills and trainings were conducted at Company facilities.

#### 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, Sakhalin Energy invited IFAW (International Fund for Animal Welfare) and IBRRC (International Bird Rescue Research Center) to advise 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 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.



An Oil Spill Response exercise

#### 4.2.5.3 Full scale oil spill response and oiled wildlife response exercise at the Lake Busse in September 2012

Oiled wildlife response consists of two aspects: field-work (capture, hazing and field stabilisation activities) and rehabilitation (washing, conditioning and release of wildlife). To accomplish effective oiled wildlife response, Sakhalin Energy purchased a complete range of field equipment and established a fully equipped wildlife rehabilitation site at LNG plant in Prigorodnoye, which can be deployed within 24 hours.

In September 2012, Sakhalin Energy organised a two-day, full-scale oil spill response exercise in Aniva Bay, Lake Busse. For the first time in the Company's history, oil spill response and oiled wildlife response were combined into one general exercise.

Theoretical and practical oiled wildlife response trainings have been organized since 2005. However, during the Lake Bussee exercise, deployment of oiled wildlife response equipment and personnel were tested under field circumstances for the first time.

18 oiled wildlife response trainees (volunteers from among the Company employees who have been trained at a preliminary theoretical programme), fully attired in PPE, practiced capturing and stabilising water fowl dummies at the Lake Bussee shore line. They also deployed and operated hazing devices, such as sonic



Trainees capturing and hazing water fowl dummies at the shore line of Lake Busse during oiled wildlife response exercise

booms and inflatable Scary Men, and created a 75 metre long hazing zone with Mylar tape and Evil Eye balloons around an imaginary oil spill site.

At the rehabilitation site situated at LNG plant in Prigordonoye, the Company installed washing, rinsing and drying stations where the trainees received additional training in bird handling, washing and drying.

The Lake Bussee exercise provided unique opportunities for evaluating practical field scenarios and verifying efficient collaboration between different groups of spill responders, organisation and general oil spill response management.

## 4.3 OPERATIONAL EXCELLENCE PROGRAMME

In 2010 Sakhalin Energy developed, implemented and still continuously improves the Operational Excellence Programme. The programme is designed for a long-term period and is part of the production and corporate culture. The aim of the programme is to ensure that Sakhalin Energy is one of the most efficient global energy companies. The programme's main objectives include the following:

- No harm to people, assets or the environment (Safety);
- Economic efficiency (Cost reduction);
- Satisfied customers (Reliability and Cargo size); and
- Support for the stakeholders.

In 2012 an external assessment of the Operational Excellence Programme was carried out to benchmark the Company performance and to identify future improvement opportunities.





## 5.1 COMPANY MISSION, VISION, VALUES, AND PRINCIPLES

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

The Sakhalin Energy mission and vision are defined as follows:

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

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

**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, and local community.

updated its mission and vision in 2010 after completing commissioning work on facilities, safely putting them into

operation, and, with this, bringing the project to a new stage which will ensure dependable and sustainable production.

Sakhalin Energy activities are based on general business principles, in which the underlying core values are honesty, integrity, respect and care for people, teamwork, and professionalism in line with the Company's responsibilities to its Shareholders, the Russian Party, customers, Company employees, and business partners — i.e. all parties which 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 Business Principles is available at the Sakhalin Energy website ([www.sakhalinenergy.com](http://www.sakhalinenergy.com)).

## 5.2 CORPORATE GOVERNANCE SYSTEM AND STRUCTURE

Corporate governance is a process ensuring due diligence in organisation, management, and control within Sakhalin Energy. Corporate governance is accomplished through engagement of Sakhalin Energy management with Shareholders and the Russian Party to determine the direction of the Company activities, establish areas of responsibility, and assess performance.

The business management system of Sakhalin Energy provides guidance on how the Company is managed.

### Leadership

Sakhalin Energy management is fully committed to the business management system. Compliance with Management decisions is mandatory for all staff and contractors. Management provides a leading role in constantly improving business processes through its 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 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

In setting objectives, the Company identifies, assesses, and considers overall risk levels of its activities and identifies measures for risk management. For more details see Section 5.6 Risk Management.

### Organisation, Responsibilities, Resources, Competence

The organisation and resources are adequate to meet strategic objectives. Responsibilities at all levels are clearly described and communicated. Staff is developed 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 spheres of responsibility. Process/Asset standards and procedures incorporating risk controls are in place and must be understood at appropriate organisational levels. Process owners ensure proper accomplishment of processes through regular testing for compliance with procedures.

### Planning

All approved plans are optimised and fully resourced. Performance targets are set to ensure progression towards long-term objectives. Development of five-year plans, which are annually assessed and adjusted, forms

## Corporate Governance System



the basis of planning. They are established through active and open discussion with the Company's staff from all directorates at annual 100 Workshops (see Section 7.3 Engagement with Personnel). Goals, strategies, targets, and measures to achieve them can be found in the Journey Book, a copy of which is given to each employee of the Company. Changes to the plans are documented and appropriately authorised. Contingency and emergency response plans are in place and regularly tested.

### Implementation (Monitoring and Corrective Actions)

Performance indicators have been established for monitoring and reporting. Corrective measures are taken as necessary, and policies, organisation, risks, plans, and processes are updated. All control incidents with significant potential or actual consequences are thoroughly investigated and reported with lessons learned properly disseminated throughout the Company.

### Assurance

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

### Communication

Transparent and open communication is essential to ensure delivery of business objectives. Line managers engage with their staff, communicating priorities and the direction of business activities. The CED receives their feedback for information and possible follow-up. The CEO and other members of the CED reinforce this communication framework by 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 engagement of 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 27.5% minus one share, Mitsui

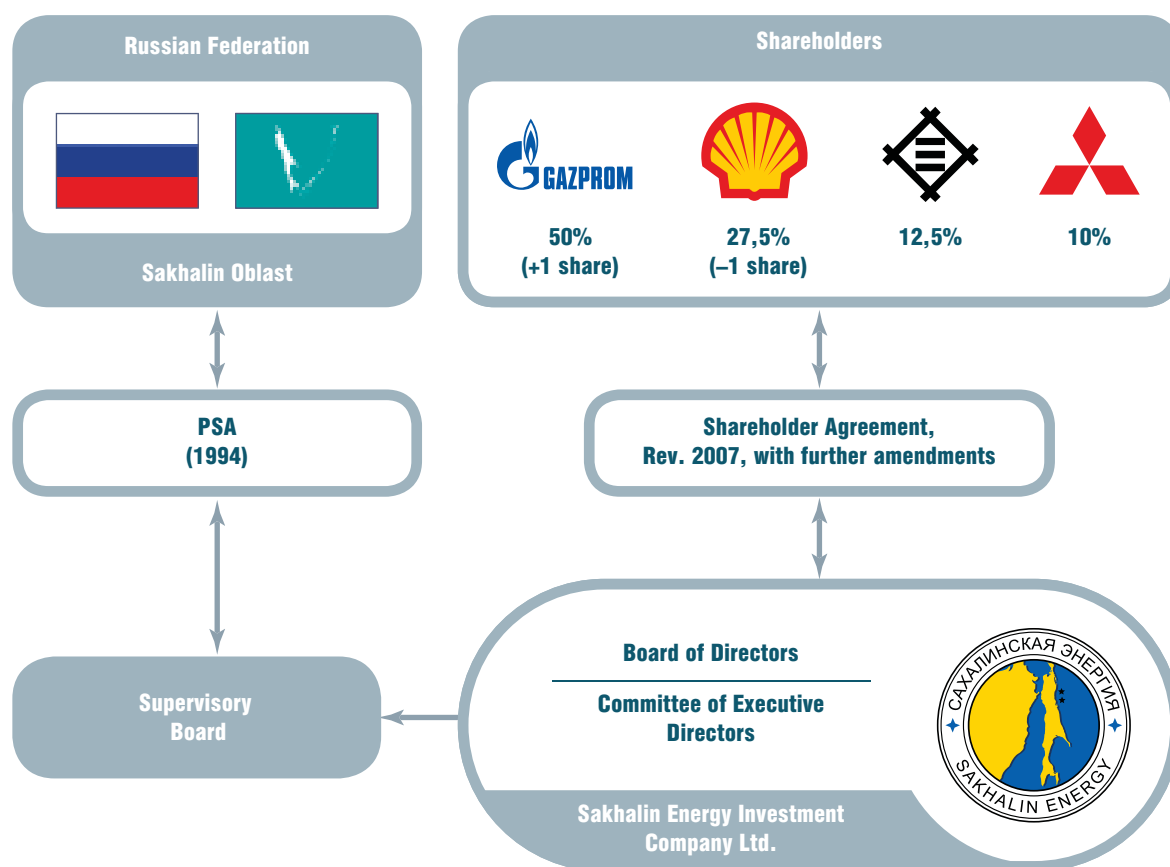
12.5%, and Mitsubishi 10% — all the Shareholders operating through their subsidiaries.

Sakhalin Energy operates through a three-tier corporate management structure where:

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



## Corporate Governance Model



The Production Sharing Agreement describes certain decisions which are subject to review and approval by the Supervisory Board. Listed below are external committees which play their respective roles in the corporate governance model.

**Supervisory Board** — the Sakhalin-2 strategic management body established and operating in accordance with the Production Sharing Agreement. The Supervisory Board supervises the fulfilment of PSA provisions and approves the Company's long-term development plans and budgets, annual work programmes and budgets, LNG sales agreements, procurement procedures, employment and training plans for Russian nationals, etc. The Supervisory Board also reviews the Company's annual reports and appoints auditors. The Supervisory Board consists of twelve members: six representatives of the Company and six representatives of the Russian Party. The authority of the Supervisory Board is established by the Production Sharing Agreement.

**Board of Directors (BoD)** — this body appointed by 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 2012 included all the executive (7) and non-executive (8) directors of the Company. Harry Brekermans, Executive Vice-President of Russia and Caspian, Shell, served as the Chairman of the Board in 2012.

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, general and financial business controls, cost recovery issues, internal/external audits, Work/Service contracts and agreements and amendments thereto, tax liabilities, insurance, treasury policy, and accounting policies and practices.
- **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.

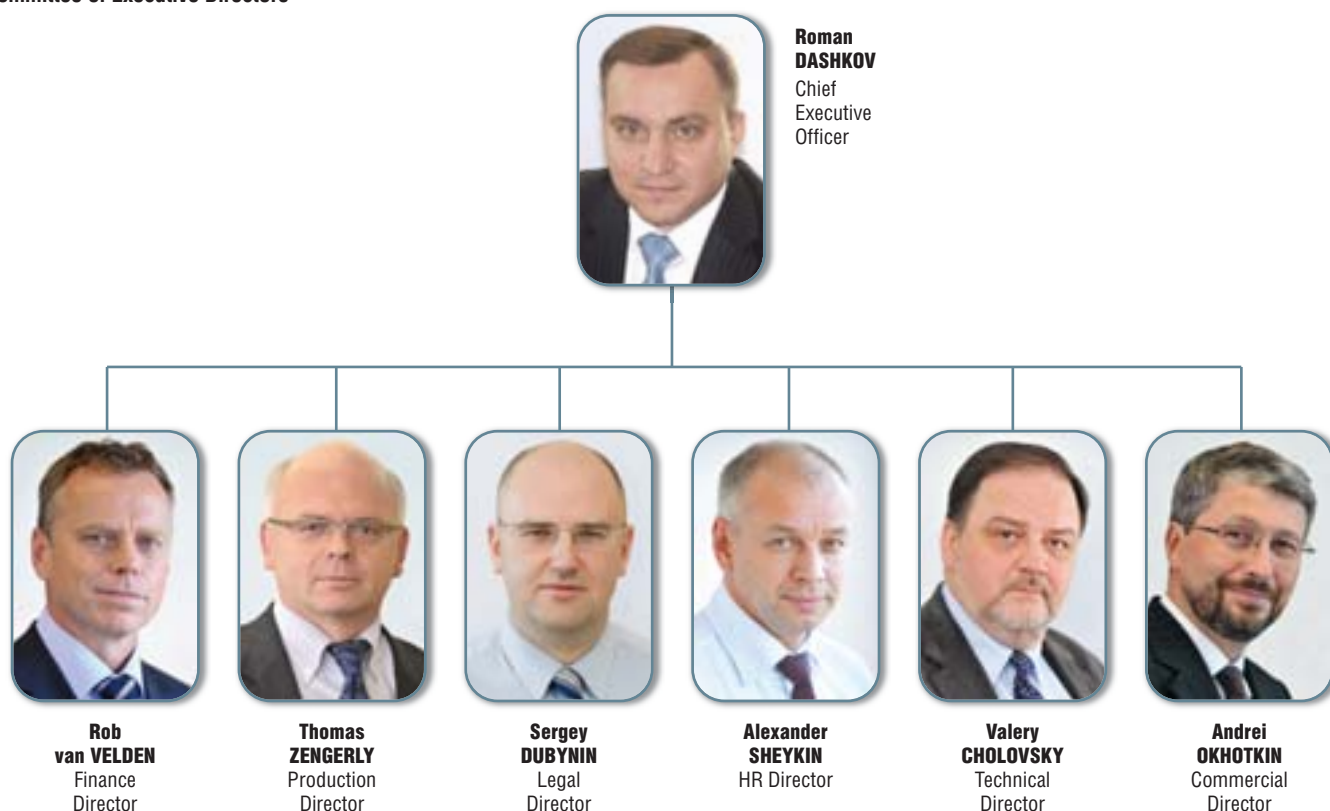
- **Board Assurance Committee** — consisting of two representatives from each of the Company Shareholders, one of which one is a Non-Executive Director. The Company is also represented by the Finance Director and the head of the Company's Internal Audit unit.

- **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 March 2013 are shown below in the Committee of Executive Directors organisational chart.

#### Committee of Executive Directors



The Executive Directors are the heads of operational divisions (directorates) and are responsible for day-to-day operations of the Company.

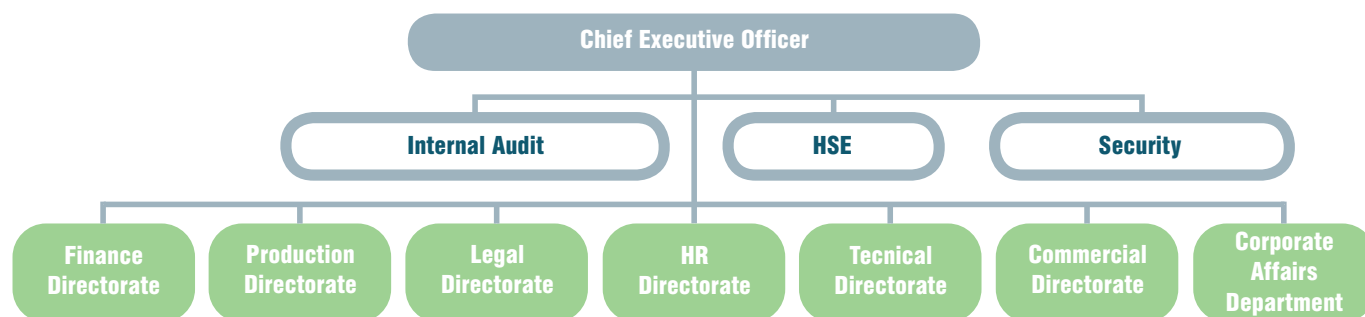
CED activities are supported by internal committees, including, but not limited to:

- Tender Committees;
- Management Development Committee;

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

The Company organisational structure is functionally efficient on the facility and process level.

#### Company organisational structure



## 5.4 CORPORATE CULTURE

#### Corporate values



People and corporate culture are of primary importance in achieving efficiency of our Company. Respect, support and promotion of human rights are core principles for Sakhalin Energy, and the Company staff are fundamental to its success. The basic qualities each Company employee should strive for are professionalism, responsibility, initiative, integrity, self-development, improved effi-

ciency, and strict observation of ethical principles and standards of conduct. Strengthening and developing corporate culture is an important element of the Company efforts to achieve and improve 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 captured in Sakhalin Energy's framework of behavioural standards and guidelines, most notably:

- Statement of General Business Principles;
- Code of Conduct;
- Sustainable Development Policy;
- Human Rights Policy;
- Whistle Blowing/Grievance Procedure;
- 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 business principles compliance system obligates Company management to ensure that Company employees have access to safe and confidential methods for expressing concerns, raising issues, and whistle blowing. Sakhalin Energy employees, in their turn, are expected to report to the Company any incidents of non-compliance with the General Business Principles.

Sakhalin Energy operates in a manner which is intended to complement the core values and provides

a way of thinking and behaving for the best interest of the overall business. Leadership, accountability, and teamwork characterise this behaviour. Strengthening and developing corporate culture is an important component for achieving and improving operational excellence.

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 which explains the fundamental rules and standards acceptable to the Company which 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;



The Code of Conduct booklet

- 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.

## 5.6 RISK MANAGEMENT

Sakhalin Energy believes that effective risk management plays an important role in achieving Company goals.

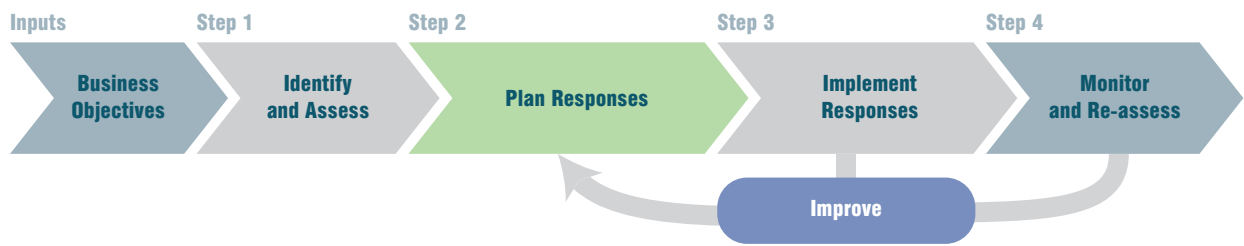
Risk management aims to maximise the use of opportunities or minimise the adverse impact of identified risks, including risks of losses or failure to achieve goals, as well as risks of adverse factors in various areas such as safety, production efficiency, environment, the social sphere, observance of 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 in Sakhalin Energy involves identifying and assessing risks, planning and implementing a response, monitoring performance, and reassessing risks on an ongoing basis to ensure that areas for improvement are captured and implemented (see Risk Management Lifecycle chart). This process is regulated by the corporate Risk Management Procedure. The purpose of this Procedure is to define the process by which risks are identified, assessed, and mitigated (implementation of risk controls) in accordance with Sakhalin Energy controls framework (see Risk Controls Framework chart).

## Risk Management Lifecycle



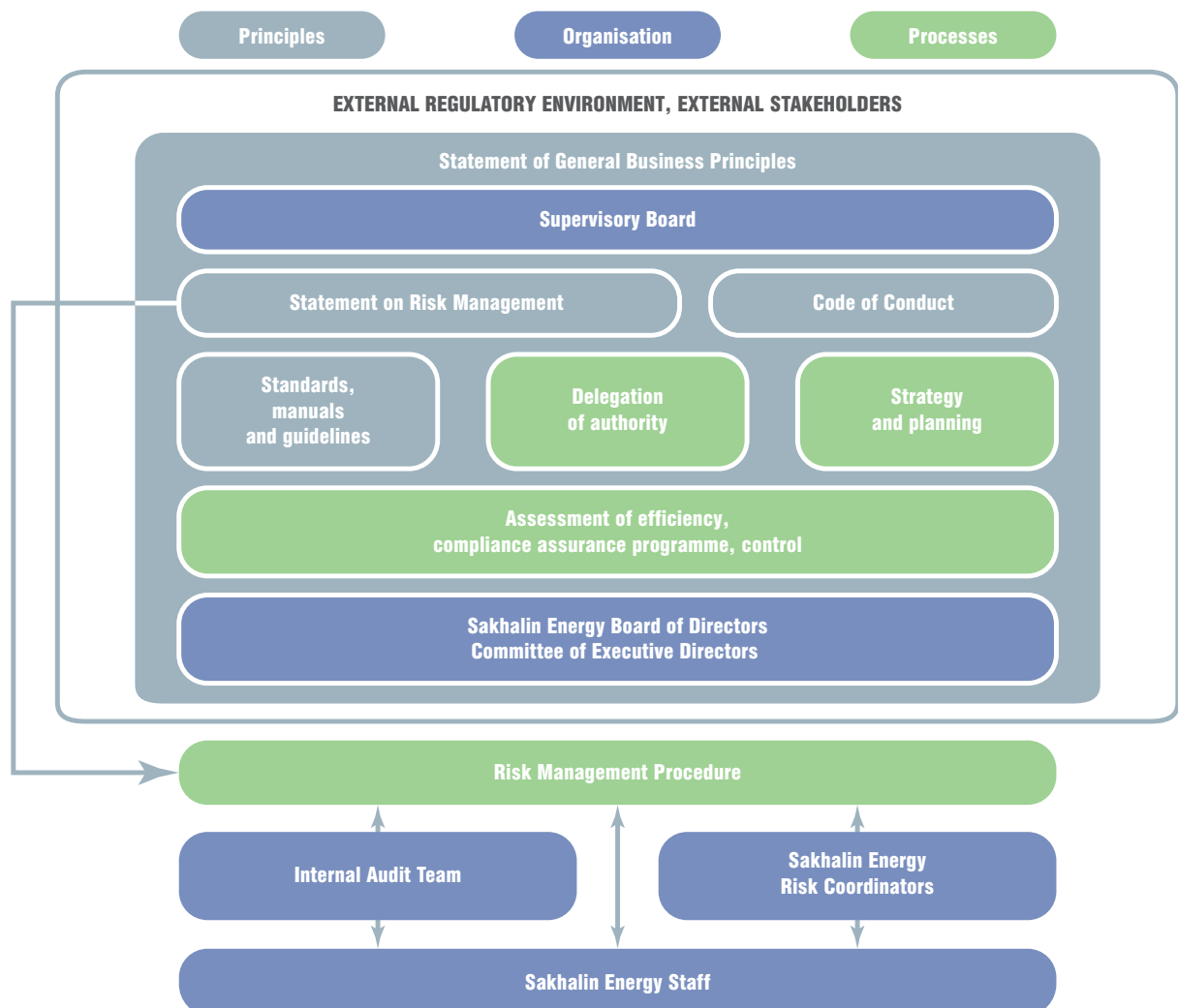
One of the most important components of efficient risk management process is impact assessment. This process is to be carried out before commencement of any operation which may potentially affect various spheres of activity (for more details see Section 5.8.2 Impact assessment).

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 appro-

priate risk management. The risks are assessed in terms of their probability and level of impact on existing goals.

Risk management is the responsibility of those who are accountable for achieving objectives associated with these risks. Each 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 assurance committee consisting of the Company executive directors, and the Board assurance committee. See chart Risk Controls Framework below.

## Risk Controls Framework



Listed below are risks which the Company considers to be the most substantial as well as measures to control them.

Risks	Controls	References
Operational Excellence (risks — opportunities)	Many Sakhalin Energy processes can be improved to become more effective and/or more efficient, enabling the Company to realise its vision of becoming the premier energy source in the Asia-Pacific Region. Controls in place: in 2010 the Company worked out a strategy to achieve maximal operational excellence — the Operational Excellence Programme.	For more details please see Section 4.3 Operational Excellence Programme.
<b>Commercial risks</b>		
Cost management	Control of investment decisions leading to optimal usage of scarce resources and challenging of the costs, allowing for efficient budgeting, are the main elements of cost management. Transparency, awareness, efficiency, and management of expenditures and contracts are aimed at reducing the long-term cost structure. The cost management strategy of the Company relies on the Journey Book, Business Plan and Operational Excellence Programme.	For more details about managing contractors and suppliers, please see Section 6.4 Contracting and Procurement Management.
<b>Social risks</b>		
Staff retention, competence, and succession plan	Recruiting and developing Russian staff is a key element of our Company to operate successfully and is essential to ensure a sustainable business. There is a risk that recruitment or retention of Russian nationals falls behind requirements due to the current labour shortages in oil and gas markets. Succession planning, talent retention strategies, and development policies are in place to reduce exposure to this risk.	For more details please see Section 9.1. Personnel: Management and Development.
Risk of occupational illnesses	The Company uses the following controls to reduce the risk of occupational illnesses: assessment of health risks for personnel at the Company assets; in-process control of harmful factors; workplace assessment; regular medical examinations and health surveys; control for compliance with job instructions during work; control over use of personal protection equipment; sanitary awareness events to prevent occupational illnesses.	For more details please see Section 9.3 Occupational Health and Appendix 5 Occupational Hygiene of the Company standard Occupational Health and Hygiene.
<b>Environmental risks</b>		
Risk of hazardous invasive organisms intruding into Aniva Bay due to ballast water discharge from vessels in Port Prigorodnoye.	According to the Company-approved procedure for ballast water discharge from LNG and oil tankers into Aniva Bay, the risk of invasive organisms' penetration to the bay is controlled as follows: mandatory replacement of ballast water in the open waters of the Sea of Japan and the Pacific Ocean; minimisation of the amount of ballast water being discharged; quality control of ballast water before it is discharged to Aniva Bay; sampling of ballast water from tankers for analysis of potential invasive species, regular monitoring of the Port Prigorodnoye water area to reveal possible changes in flora and fauna caused by ballast water discharge.	For more details please see Section 8.2.1.6 Ballast Water Control.
Risk of invasion by alien flora into the environment through seeds during RoW repairs	According to the Company's biodiversity standard, basic controls of alien flora invasion risks during RoW repairs include: minimisation of soil disturbance; shortest recovery of vegetation on disturbed sites; minimisation of probability of disturbed sites' invasion by alien seeds; and regular monitoring of disturbed sites to reveal alien flora and assess the risk severity and effectiveness of actions being taken.	For more details please see Section 8.3 Maintaining Onshore Pipeline Right of Way



Risks	Controls	References
Risk of collision with marine mammals	According to the Company's Marine Mammal Protection Plan, the following actions are taken to reduce this risk: control over vessel movements by establishing navigation paths, with an obligation for all vessels to move only within such paths except as otherwise required by safety considerations or other emergency reasons or allowed by special permit; restrictions on vessel speed (not to exceed 21 knots within navigation paths); use of duly trained marine mammal observers on basic types of vessels.	For more details please see Section 8.2.2.1 Monitoring of Gray Whales.
Risk of noise exposure during operations of facilities and vessels and during seismic surveys	According to the Company's Marine Mammals Protection Plan, the following actions are taken to reduce the noise exposure risk for marine mammals: acoustic monitoring to monitor noise levels in Gray Whales feeding areas; use of equipment and procedures producing the minimum level of noise impact; helicopters shall fly at least 300–450 m above sea level. Gray Whales monitoring and the adverse impact mitigation programme was highly praised internationally.	For more details please see Section 8.2.2.1 Monitoring of Gray Whales.
Risk of exposure on population of Steller's Sea Eagle and other bird species	According to the Company's Biodiversity Standard, basic controls for the risk of exposure on population of Steller's Sea Eagle and other bird species include: hazard identification and risk assessment; implementation of Steller's Sea Eagle research and monitoring programmes; routing of helicopter flight paths with consideration of location of birds' nests and seasonal migration paths; establishment of protection zones (500 m from any active Steller's Sea Eagle nest) where no work is permitted; monitoring of the Company personnel access to bird habitats during nesting and migration.	For more details please see Section 8.2.2.2 Monitoring of Steller's Sea Eagle.
Safety risks		
Personnel safety risks	<p>The main risks in this group are those associated with lifting works, electric safety and the risks of dropped 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: assessment of the risks, preparation of a detailed lifting pattern describing all 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: work only under a permit to work, carrying out of risk assessment; inspecting electrical systems for damage on a regular basis; timely testing of all electrical equipment units; securing wires whenever possible above ground level; protecting high-voltage wires from possible damage and clearly identifying them; protecting wires and electrical outlets from groundwater, rain and snow; repairing electrical equipment only by qualified staff; and assigning persons responsible for first-aid treatment in the event of electrical shock.</p> <p>To reduce the risks of trauma from dropped objects, the Company has initiated a programme to help prevent dropping of objects and set up a team representing all Company facilities. After undergoing training, team members have successfully implemented the programme at their respective facilities. The Company also initiated a programme to monitor and analyse incidents associated with dropped objects.</p>	
Road safety	<p>The volume of vehicular traffic decreased with the transition to the operations phase, but risk levels remain high over the service life of facilities — there is still a high volume of road traffic, often in difficult conditions. The most frequent road safety violation by contractors is speeding.</p> <p>For controlling risks and preventing traffic violations, the Company has adopted measures such as: active monitoring of speed limit violations with the help of IVMS and the Road Safety Team; providing training and briefings for drivers; the gatekeeper programme in place at every Company facility; strict implementation of the journey management process; and work of the Sakhalin Road Safety Council.</p>	For more details please see Sections 9.2.2 Road Safety and 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 bribes and are not allowed;
- Complies with all Russian and international laws and regulations; and
- Has a firm belief in the principal importance of integrity and legality in all Company activities.

Sakhalin Energy expects the same level of ethical behaviour from its 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 and their control 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 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 Anti-Bribery and Corruption Procedure includes a list of categories of employees who are considered as high-risk with regard to the Procedure and must attend face-to-face trainings. 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 Laws, including:

- Defining requirements in the area of anti-bribery and corruption;
- Identifying violations;
- Reporting to the business assurance committee;
- Utilising the system of potential risks 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;
- 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.

## 5.8 HSE AND SOCIAL PERFORMANCE MANAGEMENT

### 5.8.1 HSE AND SOCIAL PERFORMANCE MANAGEMENT SYSTEM

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

The Russian Federation and Sakhalin Oblast 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 generate

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:

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 Company's website (in Russian and English), at Company information centres, and in libraries of townships 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 such 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.

- 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.

**Sakhalin Energy passed planned re-certification of all its facilities and operations in accordance with international standards ISO 14001 and OHSAS 18001. Certification was performed by the Russian company LLC Russkii Registr — Baltiiskaya Inspektsiya (Russian Register — Baltic Inspectorate).**

**ISO 14001 and OHSAS 18001 are international standards for assessing organisations in the area of environmental (ISO 14001) and occupational health and safety (OHSAS 18001) management systems.**

**Sakhalin Energy has a long history of certifications. Initially in 2003, auditors assessed the environmental component of the HSE management system for Vityaz Production Complex and certified it for the ISO 14001:1996 Standard. After that, other project facilities were certified, until finally in 2010 all Sakhalin-2 facilities and operations were combined under a single certificate. The certificate, received in 2012, confirms that the Company manages HSE issues in a responsible manner and in conformity with international best practices.**

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.



Sakhalin Energy has been certified as being compliant with ISO 14001 — an international standard on environmental management

The Company's integrated health, safety, environment, and social performance management system describes the control tools which Sakhalin Energy utilises to manage impacts and risks. The system applies to all Project assets, facilities, and operations, including those undertaken by contractors. Sakhalin Energy sees the management of such risks as critical to 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 definition of legal and other requirements, risk management and problem solving, identification of hazards, risk and impact assessment, determination of controls, and development of objectives and annual improvement plans;
- Introduce procedures, including organisation, awareness, training, and competence processes, contractor management, participation and engagement, change management, 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;
- Control and determine process effectiveness in compliance with given tasks as well as legal and other requirements, reporting results, incidents, and non-compliance, lessons learning, remedial and preventive measures, and inspection and HSES 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.

### 5.8.2 IMPACT ASSESSMENT

The Company's commitment to perform impact assessment prior to any new activities and significant changes in the existing project is the basis of due diligence approach and all risk management processes. Impact management is targeted at minimisation of potential adverse impacts and maximisation of benefits from the Company activities. Sakhalin Energy endeavours to avoid or reduce impacts to a minimum or compensate them if they occur. The following measures are developed when any potential negative impact has been identified:

- Impact avoidance;
- 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 environ-

mental 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.

**Sakhalin Energy, in compliance with international standards, held public consultations in 2012 as part of integrated assessment of potential environmental, social, health impacts (ESHIA) in regard to planned OPF Compression Project construction (see Section 4.2.2.1 about the OPF front-end compression project).**

**The consultations included meetings with local residents in Nogliki and Nysh as well as discussions with members of the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities.**

**In the course of these discussions, the Company and the ESHIA contractor presented information on the OPF Compression Project and discussed questions from stakeholders. This engagement effort, including public consultations on assessment of impacts from the project, will be continued into 2013.**

The results of impact assessments are published on the Company's website. The accuracy and completeness of such assessments are controlled by both government authorities and Sakhalin Energy Lenders.

### 5.8.3 CHECKS AND AUDITS

For control of all elements of 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 Shareholders, Lenders, external certification agencies, etc. For internal audits, specially trained auditors — qualified personnel of the Company and Shareholders — are engaged. Seven audits of the HSE and SP management system were completed in 2012, including four external and three internal audits (see table below).

Checks and Audits of HSE and Social Performance Management Systems in 2012		
Level	No. of audits	Description
External	4	HSE and SP Monitoring Visit (performed by an independent environmental consultant representing Company Lenders)*.
		Prigorodnoye Production Complex ISO 9001 Certification Compliance Audit.
		ISO 14001 and OHSAS 18001 Certification Surveillance Audit.
		Sakhalin Indigenous Minorities Development Plan Implementation Audit*.
Internal	3	Shell Audit and Company Offshore Assets HSES Audit.
		Two (2) Prigorodnoye Asset Logistics HSES Controls Audits.
* Audit report has been published.		

## 6.1 IMPORTANCE OF THE SAKHALIN-2 PROJECT FOR THE RUSSIAN FEDERATION AND THE SAKHALIN OBLAST

- Since Sakhalin Energy started its operations, Russian Party's proceeds from the Sakhalin-2 project have totalled almost USD 5 billion.
- Russian companies have gained access to new technologies and business development opportunities.
- Over USD 17 billion worth of contracts have been awarded to Russian companies and organisations.

**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 the Sakhalin Island, generally referred to as a 'multiplier effect'.**

- Russia has gained wide experience in managing the implementation of complex high-tech projects in remote locations and in sub-arctic conditions.

- Significant funds have been received by the Sakhalin Oblast and the local municipalities.
- Implementation of a large-scale upgrading of the Sakhalin Island infrastructures (over USD 600 million invested by the Company).
- Notable increase in local employment (both direct and indirect effect) and local workforce quality.
- Rising salaries and living standards for the local population.
- Many contracts and subcontracts have been awarded to Sakhalin companies that took active part in the Sakhalin-2 project, thus dramatically enhancing their capacity and competitiveness.
- Extensive implementation of the Company's social and public initiatives on the Sakhalin Island.

In 2012, according to the International Accounting Standard (IAS), revenues of Sakhalin Energy amounted to USD 9,502 million, and its total net income to USD 4,649 million.

## 6.2 THE TAKE OF THE RUSSIAN FEDERATION AND THE SAKHALIN OBLAST

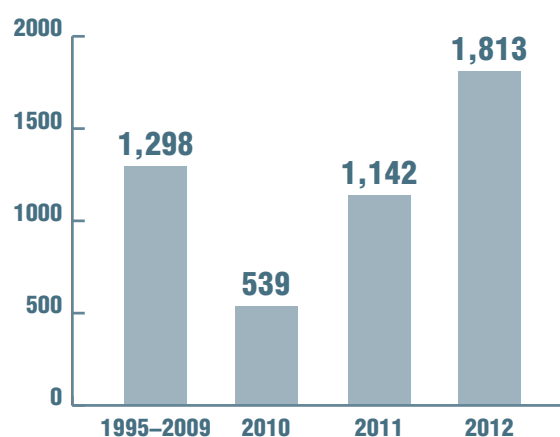
In 1994, Sakhalin Energy signed a Product Sharing Agreement (PSA) with the Russian Federation, represented by the Government of the Russian Federation and the Administration of the Sakhalin Oblast. The PSA is a commercial contract between an investor and a state, allowing the investor to make large-scale,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

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

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

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

**Total amount of the Russian Party take from the Project in USD million**



**Total amount of the Russian Party take from the Project: USD 4,792**



corporate property tax, etc.) and fees, Sakhalin Energy has been paying a royalty (a fee for subsoil use), since the start of the Sakhalin-2 oil production.

The Russian Party's (the Russian Federation and Sakhalin Oblast) take from the Sakhalin-2 project includes various fees, tax and royalty payments, the Russian Party's share of profit production and the profits tax payment by the Company.

In 2012, the amount of royalty obligations fulfilled (provided for payment in kind and cash) totalled USD 619 million.

Production sharing was achieved by the Company in March 2012, earlier than initially expected. In 2012, the Russian Party share amounted to USD 676 million.

The 2012 fiscal year profit tax owed by the Company totalled USD 598 million; it will be paid by the Company in 2013.

Taxes and other mandatory payments by Sakhalin Energy play a significant part in the formation of budget revenue of a vast majority of the municipalities involved in the Project. In 2012, the Company paid

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**In the 2012 reporting year, Sakhalin Energy paid USD 1813.6 million (provided for payment in kind and cash) to the Russian budgets of all levels, USD 671 million (or 59%) more than in 2011. Between 1995 and 2012 and including last year's amounts, the Russian Party take from the Sakhalin-2 Project has reached almost USD 5 billion.**

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USD 391 million in taxes and other mandatory payments to the Sakhalin Oblast and local municipalities, exceeding the 2011 figure by USD 331 million (a more than fivefold increase).

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## 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 being

both legal entities and individuals. Sakhalin Energy will use 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 2012 the Company reached a level of 95% measured in man-hours and 77% (the quantity of used materials and equipment), respectively.



SakhalinMorNefteGazServis has achieved 5 million exposure hours without an LTI

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 2013, has exceeded USD 17 billion. In 2012, the value of new contracts and amendments to existing contracts with Russian companies totalled

USD 804.4 million, or 61% 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 capacities development, Russian companies also benefit from the following:

- Improvement in quality of services and materials, as well as safety standards;
- Introduction of technologies that are new to Russia and acquisition of unique experience;
- Doing business with international partners and setting up joint ventures; and
- Higher competitiveness as bidders in other project operators' tenders, both in the Sakhalin Oblast and worldwide.



Aviashelf provides helicopters for the Sakhalin-2 project

## 6.4 CONTRACTING AND PROCUREMENT MANAGEMENT

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

Our fundamental C&P document is the 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.

Contracts and Procurement Manager is responsible for the presence of the appropriate terms and condi-

tions in our model contracts, and for the effective implementation of these terms and conditions in the procurement processes, and for ensuring control and assurance measures, 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);
- 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.);
- 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 through 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);
- 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 the international oil and gas project carried out by Sakhalin Energy. The Programme contains a number of training modules.

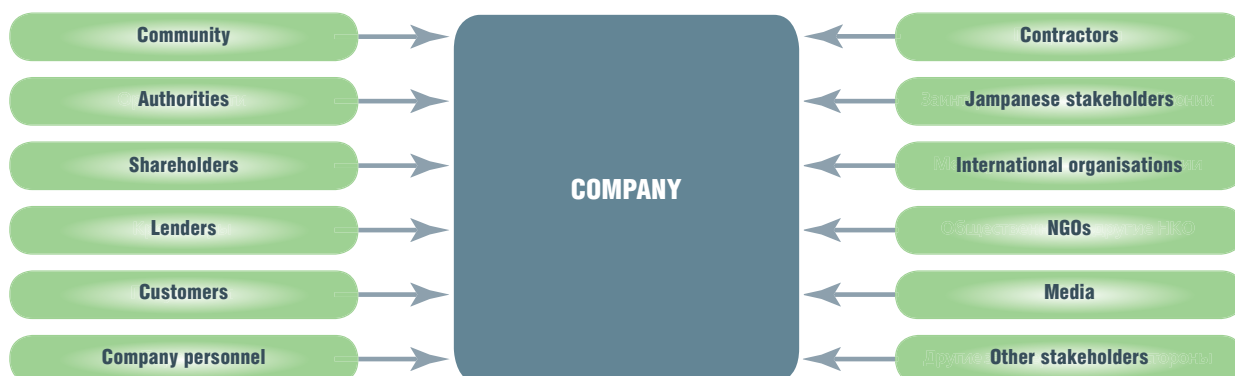
As part of the Vendor Development Programme, in 2012, the Company held 13 workshops for both current and potential Sakhalin Energy contractors. These workshops were attended by 37 specialists from 27 Russian companies.

**Some of the contracts awarded to Russian vendors in 2012:**

- **SakhalinRemFlot:** management and maintenance of cargo containers pool;
- **EcoShelf:** provision of a service vessel during oil spill response operations in the Port Prigorodnoye;
- **SMNM-VECO:** repair of the 48' onshore pipeline;
- **Krillion Service:** maintenance and repair of telecommunication systems;
- **RN Bunker:** fuel supply to offshore and onshore production facilities;
- **NefteGazDiagnostics:** onshore gas pipeline intelligent pigging;
- **ISS-Prisco (Nakhodka):** provision of shipping agent services.

## 7.1 STAKEHOLDER ENGAGEMENT: STRATEGY, PRINCIPLES, MECHANISMS AND TOOLS

### Company stakeholders



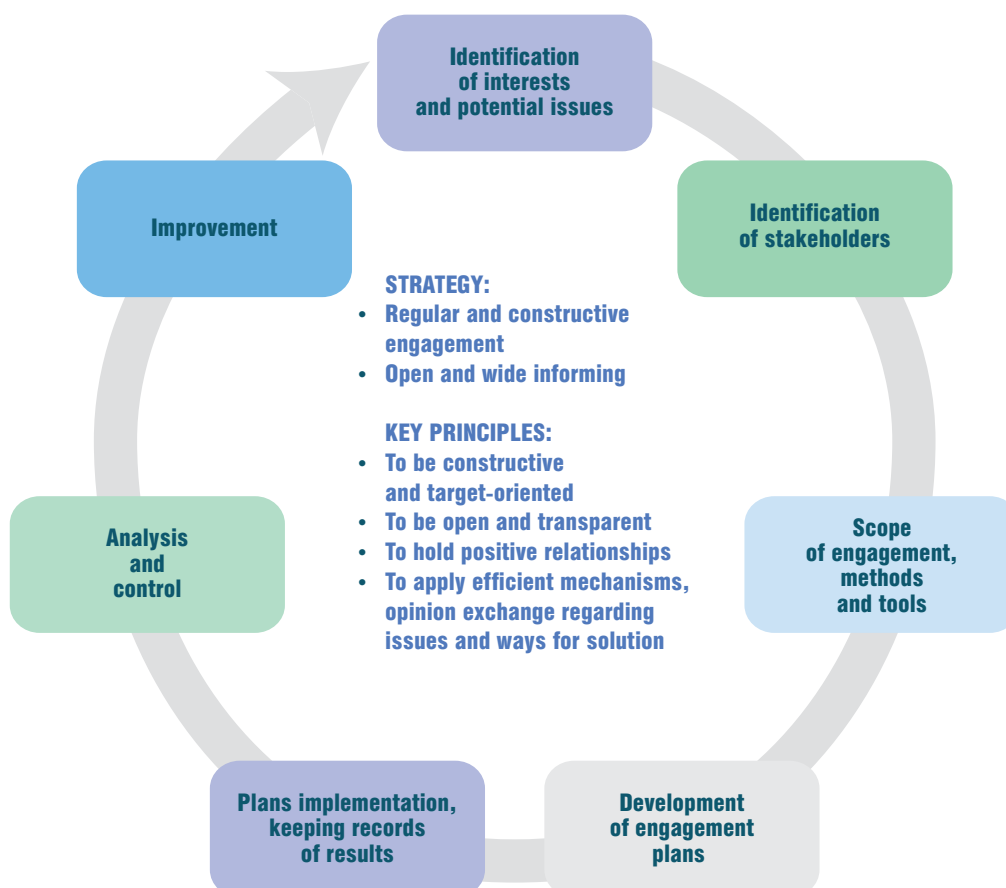
Assuming that regular and meaningful engagement with communities and key stakeholders is an especially important element of successful operations, Sakhalin Energy has been sharing information and consulting with stakeholders since the start of the Sakhalin-2 project.

Stakeholders are organisations, companies, individuals, or groups who have a vested interest in the

Company or the project it implements, i.e. such individuals or entities that are influenced by the Company or themselves influence or can potentially influence the Company operations.

The Company has defined the range of stakeholders, which includes the following groups: personnel, community, government authorities, Shareholders,

### Stakeholder engagement process





Lenders, customers, suppliers and contractors, stakeholders in Japan, international organisations, public organisations and other non-governmental and non-profit organisations, mass media, and other stakeholders.

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 (in the Section Public Consultations and Information Disclosure); and
- Public Consultation and Disclosure Plan (updated annually).

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

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

## 7.2 STAKEHOLDER ENGAGEMENT PERFORMANCE IN 2012

In 2012, the Company continued systematic and consistent engagement with key stakeholders.

The key stakeholder engagement activities in 2012 included as follows:

- 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 the Company activities, and receive feedback;
- Information sharing through the following tools: Sakhalin Energy public website, Energy weekly TV programme broadcast in Sakhalin, Vesti monthly newspaper, information reports and other materials distributed in communities, and through mass media (radio, newspapers, and TV);
- Work of Company 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).

### Key statistics of engagement in 2012:

- **10 public meetings in communities located near the Company's facilities with participation of more than 100 Sakhalin residents;**
- **3002 visitors at information centres;**
- **11 public meetings in areas of compact settlement of Sakhalin Indigenous Minorities with participation of more than 290 of their representatives.**
- **Two rounds of consultations with stakeholders as part of preparing the Sustainable Development Report.**

In addition, as per GRI international standards, further special dialogues with stakeholders were conducted.

These were attended by forty-seven (47) representatives of local, regional, and international NGOs, including environmental and social organisations, representatives of Sakhalin Indigenous Minorities, Sakhalin authorities, social organisations, etc.

## 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:

- Regular staff communication meetings to inform employees on the results of meetings of the Committee of Executive Directors, Board of Directors, and Supervisory Board as well as on other important developments in Sakhalin Energy;



In November 2012, Sakhalin Energy held a regular 100 Workshop devoted to discussion of the Company's main lines of activity: HSE, reliability and integrity, production and development, costs, personnel, customers, and stakeholder engagement.

This was the fourth annual workshop 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 Company's Journey Book resulted from the seminar, this time for 2013–2017 with a primary focus on objectives for 2013.



The 100 Workshop, November 2012

- Vesti corporate newspaper and various informational and reference materials. Vesti newspaper 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 2012, a survey was 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 study involvement of staff in sports activities, their interest in additional educational services for school-aged children, defensive driving course, and other topics. Additionally, nine (9)

quick-response quizzes were conducted through the internal corporate website on various subjects including HSE, community activities, and personal interests;

- News releases distributed through the daily news bulletin and e-mail from the Company 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 the Company offices for announcements, posters, and other information;
- Workshops and information sessions to explain the Company's new procedures and programmes. For example, lunch-and-learn sessions which are very popular among Company personnel are being continued. At these lunchtime sessions, employees can learn about the work and achievements of various departments of the Company; and

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 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).

- Internal intranet resources available to all employees where information about Company activities, including policies, procedures, schedules, etc., is regularly posted and updated.

## 7.4 INTERACTION WITH LOCAL COMMUNITIES THROUGH THE COMPANY INFORMATION CENTRES

In 2012, as in previous years, the Company continued to engage with Sakhalin communities. The information centre network remained the most efficient and popular tool of work with residents.

The information centres were set up in district and village libraries in communities along the route of the

Trans-Sakhalin pipeline system and in the vicinity of other Company facilities. They are furnished with information display stands, office equipment, furniture, and Internet connection, which help to accomplish not only Company objectives but also enhance functional capabilities of the libraries.

Library workers consult visitors at information centres with questions connected with the Company's activities during normal library working hours. In order to increase the level of awareness of Company activities, in November 2012 the librarians attended the latest training and visited one of the Company's production facilities.

As part of their work, information centres perform the following functions:

- Regularly update Company materials on the information display stands;
- Advise on how to find information at the Company website;
- Assist people in preparing and submitting grievances to the Company in accordance with the Company's grievance procedure;
- Provide the Company printed materials to visitors (on request); and
- Provide support for the Company's local campaigns (e.g. St. George 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 replenishment of library holdings. In 2012, Sakhalin Energy donated sets of books about the Patriotic War of 1812 to twenty-five (25) Sakhalin libraries. The sets include books about the war, autobiographies of famous people, and beautifully illustrated children's books with inserts for readers.

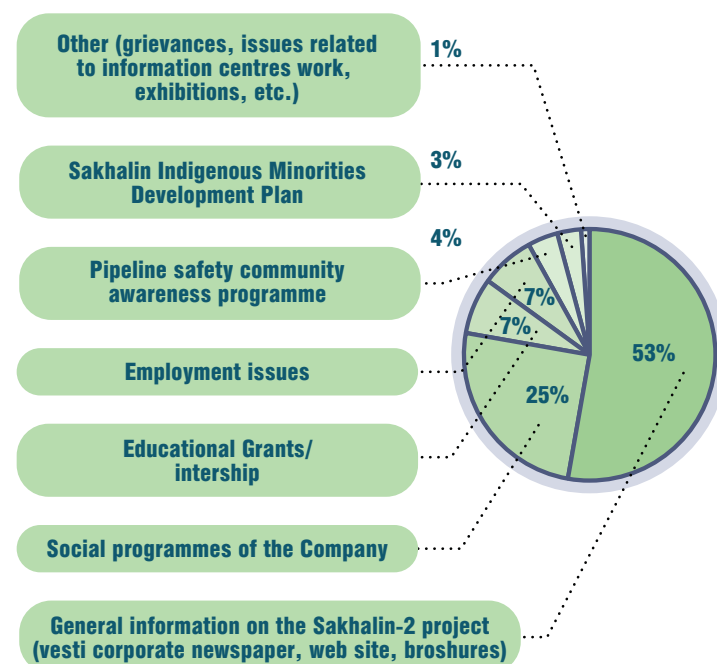
Overall, 3,000 visitors stopped in at Sakhalin Energy's information centres in 2012. The main focus of people's interest was on information about the Company and the Sakhalin-2 project, employment opportunities, and participation in Company social programmes and public campaigns. Detailed statistics is represented in the Chart Statistics about inquiries at the information centres.

**The network of 23 information centres continues to operate very effectively. The results of 2012 monitoring show that these centres proved to be fully functional and constituted one of the primary channels of communication between Sakhalin Energy and local communities.**

**In general, librarian consultants working in information centres who were interviewed as part of monitoring responded very positively to materials provided by the Company regarding diversity, range, and completeness of information. Also positive was the fact that residents found it easy to meet and consult with the Company specialists. In addition, specialised training provided by the Company and The Donated Book Project, a charity initiative implemented by Sakhalin Energy in 2010, received high marks.**

Extract from the report of ENVIRON UK, an independent consultant for Lenders, following the 2012 audit

Statistics about inquiries at the information centres



## 7.5 COOPERATION WITH SAKHALIN INDIGENOUS MINORITIES

In 2012, the Company continued regular engagement with representatives of Sakhalin Indigenous Minorities (SIM) in areas of their traditional living and economic activities.

Implementation of the Sakhalin Indigenous Minorities Development Plan (hereinafter SIMDP or Plan, for more details see Section 9.5.8 Information on Plan Implementation) has continued. Following the recommendations obtained during preparation of the second Plan, its partners placed special emphasis on informing the popula-

tion about the implemented programmes and new opportunities opening up. To this purpose, the following activities were accomplished in 2012:

- Individual, group, and public meetings with SIM representatives were held regularly;
- A periodic information bulletin (four issues in 2012) and other printed materials (booklets, brochures, etc.) pertaining to the Plan were distributed throughout a wide stakeholder audience;



The UN Declaration of Human Rights is translated to 403 languages

- Information about the Plan, its programmes, news, etc. was updated on special information boards installed in all communities where SIM traditionally live and work.
- Information was regularly updated on the Plan website ([www.simdp.ru](http://www.simdp.ru)).

**Active participation of SIM representatives in SIMDP management is a critical component of the approach of the three partners (the Company, the Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities, and the Sakhalin Oblast Government) for development of the Sakhalin indigenous people capacity. The Plan itself, as well as its preparation and implementation, considers approaches which involve SIM in management of the Plan in the most effective way, including:**

- Giving consideration to the SIM culture during engagement and organisation of consultations;
- Recognition of the need for achieving consensus in the context of both traditional and innovative structures, values and practices;
- Recognition of the fact that achieving consensus takes time;
- Planning and use of a multi-aspect approach taking into account ethnic, geographic, age-related, social, organisational and gender characteristics;
- Focus on transparency of actions and timely exchange of information during the entire life of the Plan;
- Ensuring open information interchange; and
- Reliance upon shared responsibility with SIM.

In February 2012, representatives of the Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities, Sakhalin Energy, the Sakhalin Oblast Government, and Indigenous Peoples' Representative at Sakhalin Duma conducted public consultations and meetings with representatives of municipal administrations in 11 communities of SIM traditional living and economic activities. The meetings were conducted in a dialogue format.

**The Company's partnership project—Sakhalin Indigenous Minorities Development Plan—was a finalist in the European Ethical Corporation Award nominated for its Unique Approach to Stakeholder Engagement. This European award is a great honour in the area of sustainable development and corporate social responsibility. It attests to the significance of this project which the jury selected out of more than 260 applications from companies and corporations.**

First, participants were informed about implementation of SIMDP and results for 2011 Plan, opened contests, implemented projects and activities of the Traditional Economic Activities Support Programme and the Social Development Fund Council, about measures under the mitigation matrix of the Sakhalin-2 project (e.g. informa-



tion about spills of oil and other substances, biodiversity programmes, etc.), and about the Grievance Procedure for management of SIMDP-related grievances. Afterwards, participants discussed these topics and other issues related to management and implementation of the Plan in general as well as its individual programmes. Overall, 290 persons took part in these discussions.

In June 2012, the Company took part in the UN Conference on Sustainable Development. As part of the Conference, 500 events were held, including a session on Business Engagement with Indigenous Peoples which discussed issues related to respect and support for indigenous people's rights, as well as problems and priorities in this area. Also presented were the intermediate results of the UN Global Compact LEAD programme

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**On 1–4 October 2012, the Committee of the Council of Federation of the Federal Assembly of the Russian Federation for Federal Structuring, Regional Policy, Local Self-Government, and Affairs of the North held a meeting in Yuzhno-Sakhalinsk devoted to “Natural resources management, environmental protection, and environmental safety as a basis for life and work of people living in the Northern area (Sakhalin Oblast taken as an example)”.**

**By decision of the Committee, it was recommended to government bodies of constituent entities of the Russian Federation to follow the Sakhalin Oblast practice with regard to engagement of industrial companies with indigenous peoples specifically to preserve the SIM traditional way of life based on the experience of engagement with Sakhalin Energy.**

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Human Rights: Business Engagement with Indigenous Peoples which was initiated by Sakhalin Energy in 2011.

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## 7.6 ENGAGEMENT WITH NON-GOVERNMENT AND NON-PROFIT ORGANISATIONS

The Company continued cooperation with local, regional, and international NGOs in 2012 in various ways, including through meetings and written correspondence. Some of the most important avenues of cooperation are as follows:

- Collaboration with Japanese stakeholders: 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);
- Collaboration with the Western Gray Whale Advisory Panel (WGWAP) for preservation of Gray Whales as

part of developing optimal solutions to minimise impacts on whales. Two sessions of the WGWAP were held in 2012 (in February and November), 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; and

- At the invitation of the World Wildlife Fund Russia (WWF), the Company attended two environmental forums devoted to wetland conservation and associated gas utilisation.

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## 7.7 ENGAGEMENT WITH JAPANESE STAKEHOLDERS

Engagement with Japanese stakeholders is of special importance to Sakhalin Energy, considering the geographical proximity of the Sakhalin Island to the Hokkaido Island. Japanese specialists, businessmen, and representatives of NGOs, fishermen, and other stakeholders are concerned about issues related to environmental aspects of the Company's activities — for example, oil spill response operations and biodiversity preservation.

The Company has been successful in establishing a regular, open, and constructive dialogue with Japanese stakeholders. During 2012, Sakhalin Energy held a number of consultations and meetings with the Japanese stakeholders, including:

- Meetings with representatives of the Hokkaido Government (February, Sapporo, Japan);
- Participation in the 27th International Symposium on the Sea of Okhotsk (seminar on oil spill response — February, Mombetsu, Japan);
- Meeting with the Hokkaido Fisheries Environmental Centre (February, Sapporo, Japan);
- Participation in the 8th 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, Otaru, Japan); and
- Participation in the Forum on Sakhalin Projects (August, Wakkanai, Japan).

## 7.8 ENGAGEMENT WITH CUSTOMERS

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

Sakhalin Energy holds annual forums with customers to discuss topics which facilitate development of constructive relationships. These forums cover issues of transportation and maintenance, safety and environmental protection under the Sakhalin-2 project, and many others. In February and August 2012, two such forums were held

**Sakhalin Energy is also a sponsor of an annual forum dedicated to shipping. This forum has been established so that ship owners and the commercial and technical operators of the Company fleet can communicate and exchange information. The forum is the main venue for making decisions with regard to transportation of LNG and crude oil produced by the Company.**

in Sakhalin which were attended by about fifty (50) representatives of oil and gas customers.



A Buyers' forum

## 7.9 INTERNATIONAL AND REGIONAL COOPERATION

In 2012, Sakhalin Energy continued to vigorously promote its business reputation and image as a socially responsible company both within and outside of Russia. The Company attended a wide range of important international and regional events, including:

- The Conference Responsible Business and Social Investments: Business and Government Partnership**, February 2012, Moscow (Russia). The Conference was held as part of the 2012 Russian Business Week. Sakhalin Energy shared its practices in the area of social corporate responsibility, possibilities for using the responsible business principles and results achieved, and development of local communities via multi-sector partnerships i.e. via engagement of two or three sectors (government, business and public) that is beneficial for local community and each party and is ensuring synergy of social development resources.
- The 15<sup>th</sup> European Business Congress (EBC) Annual General Meeting**, 31 May–1 June 2012, Portorozh (Slovenia). The annual meeting was attended by more than 300 representatives from 100 companies and organisations from OSCE member countries. Company representatives also attended the 17th Session of the EBC Presidium (December 2012, Berlin, Germany) and sessions of the EBC Working Committee for Law, Banking, and Finance (June 2012, Portorozh, Slovenia, and September 2012, in Budva, Montenegro).
- The 74<sup>th</sup> EAGE Conference and Exhibition incorporating SPE EUROPEC**, June 2012, in Copenhagen (Denmark). The consolidation of two well-known forums, EAGE (European Association of Geoscientists and Engineers) and SPE EUROPEC (Conference of the Society of Petroleum Engineers), makes this event the largest industrial conference in Europe. The



programme included a conference and technical exhibition which presented the most recent works in geophysics, geology, and development of oil fields. For the first time, a Company specialist made a presentation at the conference of presidents of EAGE local branches. He told about the establishment and development of a local geosciences and engineering society of Sakhalin as well as about its performance and plans. Participants noted that geosciences and engineering had great prospects in terms of their development on Sakhalin and expressed readiness for cooperation to promote the geosciences.

- **Rio+20 United Nations Conference on Sustainable Development**, June 2012, Rio-de-Janeiro (Brazil). The Conference was held twenty (20) years after the first historic high-level Earth Summit in 1992. It was the largest forum ever convened under the auspices of the United Nations, bringing together more than 50,000 participants: scientists, politicians, and heads of international and non-profit organisations. The Conference was attended by 135 heads of states and governments. The world leaders together with representatives of business, NGOs, public and other groups worked on approaches for fighting poverty, assuring social justice, and protecting the natural environment in the context of world population growth. During the Conference, Sakhalin Energy took part in two sessions of the Corporate Sustainability Forum: Corporate Respect and Support for Human Rights: A Key Foundation for Sustainability and Business Engagement with Indigenous Peoples. As part of the closing plenary Compact for Rio, the Company held a Social Development discussion and summarised the results; these were included in the final text of the Forum and approved by the UN Secretary-General.
- **The St. Petersburg International Economic Forum**, June 2012, Saint Petersburg (Russia). The Company traditionally participates in this Forum — one of the leading annual international economics and business summits, also called Russian Davos.
- **The IUCN World Conservation Congress**, September 2012, Jeju (Korea). This World Congress is the main event of the International Union for Conservation of Nature (IUCN), where its Chairman and Board are elected and resolutions on environmental protection and sustainable development are adopted. The Congress is held once every four years. The Company's representatives attended the Congress

round-table Business and IUCN join forces: Lessons learned from Western Gray Whale conservation and shared best practices for decreasing potential impact on marine mammals during oil-field development.

- **The 16<sup>th</sup> International Conference Sakhalin Oil and Gas 2012**, September 2012, Yuzhno-Sakhalinsk (Russia). 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. Sakhalin Energy made several presentations at the Conference about Company experience in implementing its complex integrated oil and gas project, about using wells with complex trajectory, about ensuring operational excellence in the Company, and about prospects for production and LNG markets.
- **Eurasian Forum 2012 Innovations and International Integration**, October 2012, Verona (Italy). The Company gave a presentation on innovative approaches of Sakhalin Energy in all spheres of its activity as well as participation in the UN Global Compact.
- **Gastech 2012 International Oil and Gas Conference and Exhibition**, October 2012, London (Great Britain). Sakhalin Energy representatives told Conference attendees about implementation of Sakhalin-2 in harsh subarctic conditions of the Sea of Okhotsk and shared their vision of the LNG market.



16<sup>th</sup> Sakhalin Oil and Gas International Conference, 2012

- **The Committee of the Council of Federation of the RF Federal Assembly for Federal Structuring, Regional Policy, Local Self-Government and Affairs of the North** held a field session on the theme: Natural resources management, environmental protection and environmental safety as a basis for the life and work of people living in Northern area (Sakhalin Oblast taken as an example), October 2012, Yuzhno-Sakhalinsk (Russia). Sakhalin Energy shared its experience in engaging with Sakhalin Indigenous Minorities (SIM).
- **Environmental Conference**, October, 2012, Yuzhno-Sakhalinsk (Russia). The Conference discussed results of the environmental studies performed in the zone of potential impact at the Company's onshore facilities. Ten reports were presented to scientists, representatives of the public, government agencies, and NGOs, covering various aspects of research done as part of environmental monitoring programmes.
- **The 2<sup>nd</sup> International Conference Far East Hydrocarbons 2012**, October 2012, Yuzhno-Sakhalinsk (Russia). It was the second conference Far East Hydrocarbons: From oil and gas basin studies to field models held by European Association of Geoscientists and Engineers (EAGE) in Yuzhno-Sakhalinsk. The Company specialists were in the presidium of the Conference, its committee's and made presentations at the Conference sessions.
- **2012 SPE Russian Oil and Gas Exploration and Production Technical Conference and Exhibition**, October 2012, Moscow (Russia). This Conference is a key Russian event in the oil and gas exploration and production industry. The main theme of the 2012 Conference was "Delivering Value through Technology and Operational Excellence". Sakhalin Energy representatives gave reports about the Company experience of deployment of oriented perforation in the Lunskeye field.
- **Symposium Exploring the Oceans and the Arctic**, November 2012, Delft (Netherlands). The Symposium was held to discuss arctic challenges of hydrocarbon development and was arranged to celebrate the 75<sup>th</sup> anniversary of the Department for Geosciences of Delft University. The Company told about its assets work experience.
- **International Workshop Involuntary Resettlement: Key Issues, Standards, and Practices**, November 2012, Moscow (Russia). This workshop was arranged by UN Global Compact Network Russia. Representatives of businesses, non-profit organisations, and research and educational institutions, UN specialists, and international experts convened to discuss issues of involuntary resettlement in Russia and internationally. Sakhalin Energy shared its innovations in application of international standards during Sakhalin-2 implementation.
- **The First Forum on Business and Human Rights**, December 2012, Geneva (Switzerland). Representatives of Sakhalin Energy, speaking at the opening ceremony, highlighted that it was time to start practical implementation of the Guiding Principles on Business and Human Rights adopted by the UN Human Rights Council in 2011.
- **The Third International Conference Investment in Sustainability. Partnership between Finance Institutions and the Real Economy**, December 2012, Moscow (Russia). Conference discussed application of the CSR in the course of selection and implementation of investment projects as well as interaction between financial institutions and real sector of economy for the purpose of the CSR principles' promotion. Sakhalin Energy representatives made a presentation on socially responsible investments and participated in the discussion on conditions to be defined for a roadmap that would guide the real sector of Russia's economy in its movement to providing access to the capital for socially responsible investors.



Sakhalin Energy's Environmental Conference

Participation in high-level international forums allows the Company to identify and advance global experience and the best sustainable development and CSR practices that are required to keep leadership in this sphere.

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 the organisation and implementation of industrial environmental control, environmental monitoring and biodiversity conservation.

The environmental management system is described in Section 5.8 HSE and Social Performance Management System.

## 8.1 INDUSTRIAL ENVIRONMENTAL CONTROL

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

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

- Air emissions control;
- Water use and discharge control; 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 2012, the total gross emissions amounted to 10,700 tonnes; these have decreased

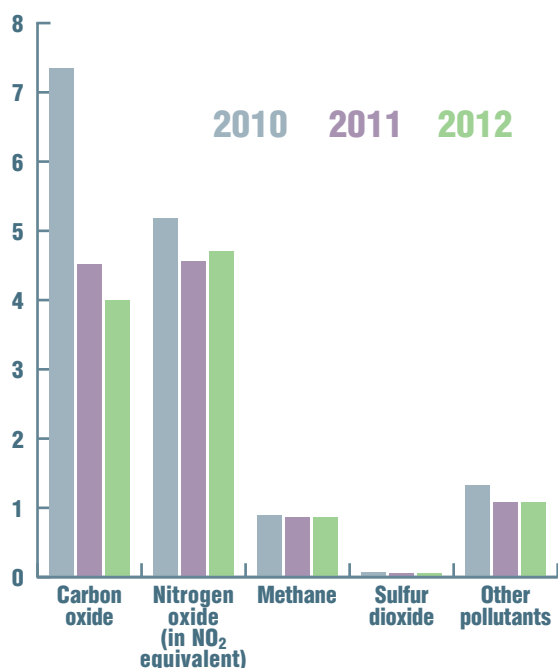
by 3% compared to 2011, due to the implementation of the Plan of Flared Gas Reduction at Offshore Platforms, OPF, LNG plant, and the reduction of the number of unplanned shutdowns at the LNG plant. In order to reduce its emissions, Sakhalin Energy uses gas turbines equipped with low-NO<sub>x</sub> burners. A system of additional gas supply is used on flaring units to increase the gas turbulence, which facilitates flaring of gas in soot-free mode.

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

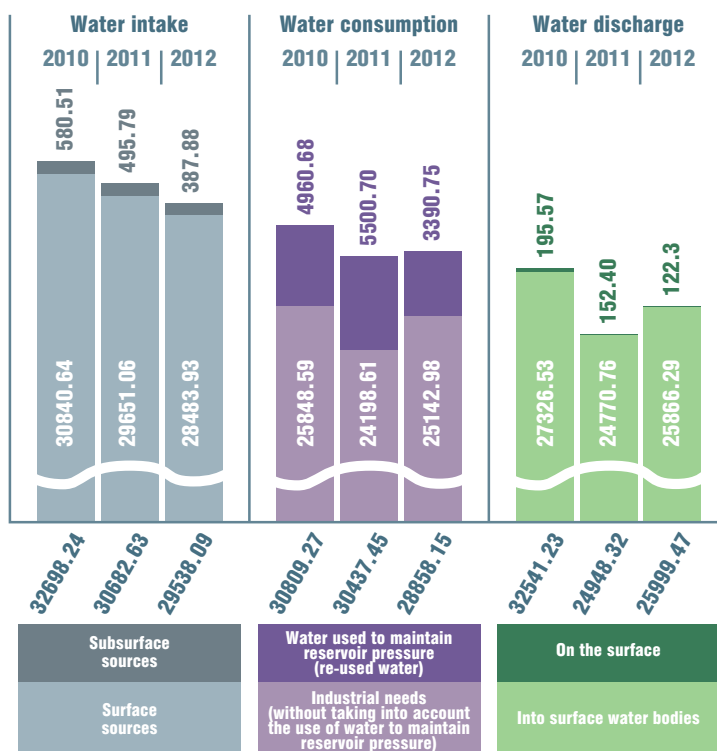
### 8.1.2 WATER USE AND DISCHARGE CONTROL

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

Company gross emissions in 2010-2012, thousand tonnes



Consolidated figures of water use at Company's assets in 2010-2012, thousand cubic metres



In 2012, the total water intake remained at the level of the previous year.

The 2012 water intake limits were not exceeded.

The slight increase in wastewater discharge (by 4%), including the one into the surface water bodies, was due to PA-A (Molikpaq) prior to drilling platform equipment tests and workover.

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

### 8.1.3 WASTE MANAGEMENT CONTROL

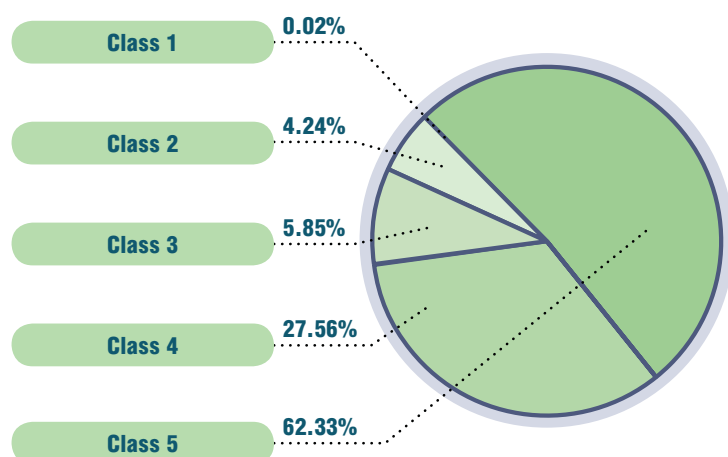
Responsible waste management begins with environment contamination prevention. Such prevention involves avoidance, change or reduction of operating practices, which result in the release of pollutants into land, air or water. This should be a basic principle when designing and operating the Company facilities and in business planning as well.

If waste avoidance is 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.

When handling waste management, the Company is guided by the following principles:

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

Company waste generated in 2012 by hazard class (without drilling wastes)



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

The total volume of waste generated has increased by 43% compared to 2011, due to the increase of drilling wastes and wastes remaining after construction period and commissioning.

In 2012, the volume of waste transferred for recycling or reuse increased by a factor of 1.5 as compared to 2011. The volume of waste buried at Sakhalin landfills increased by 11%, mainly due to the disposal of wastes, left after construction phase.

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

#### Waste management figures for the whole Company (including drilling waste), thousand tonnes

	2010	2011	2012
Presence of waste at the beginning of the year (all hazard classes)	0.05	0.02	<0.01.
Waste generated in the reporting year (all hazard classes)	88.12	73.83	105.37
Waste used in own production	0.19	0.13	0.04
Transferred to other organisations for use or treatment	2.16	4.26	6.86
Transferred to other organisations for burial at landfills, including:	2.82	2.90	4.05
inside the Sakhalin Oblast	2.82	2.90	3.22
outside the Sakhalin Oblast	–	–	0.83
Waste buried at own sites	82.98	66.57	94.42
Presence of waste at the end of the year (all hazard classes)	0.02	<0.01	0



### Comparison of greenhouse gas emissions (2010–2012), tonnes of CO<sub>2</sub> equivalent

Source	2010	2011	2012
Fuel consumption	3,055,828.9	2,920,229.8	2,994,142.2
Flared gas	567,379.0	358,045.3	343,015.7
Non-controlled leaks	-	11,598.7	9,984.2
Mobile sources	109,820.5	108,356.9	107,719.9
Gas discharge emissions	-	1,790.5	1,793.1
Indirect emissions	11,491.6	7,361.4	5,806.8
Total emissions	3,744,519.9	3,407,382.5	3,462,461.8

#### 8.1.4 ENERGY CONSUMPTION

Most of Sakhalin Energy's assets are new facilities recently put on stream and using efficient equipment and processes. All of the Company's production facilities use independent power supplies. Natural gas, the cleanest of all fossil fuels, is largely used for power generation. Diesel generators are used as backup supplies for the Company assets, with preference given to low-sulphur fuel.

In 2012, the Company produced 867.7 million gigajoules of primary energy by means of the hydrocarbons' production and sold 768.1 million gigajoules.

The total consumption of primary energy by Sakhalin Energy's assets was 57.1 million gigajoules, of which 1.6 million gigajoules of primary energy purchased as fuel.

The quantity of used intermediate energy, namely the electricity purchased, was 0.11 million gigajoules.

#### 8.1.5 GREENHOUSE GAS AND OZONE DEPLETING SUBSTANCE EMISSIONS

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

The total greenhouse gas emissions from the Company assets in 2012 remained at the level of 2011.

In 2012, there were no emissions from the Company assets of substances listed in Attachments A, B, C and E of the Montreal Protocol on Ozone-Depleting Substances.

#### 8.1.6 UTILISATION OF ASSOCIATED GAS IN PRODUCTION

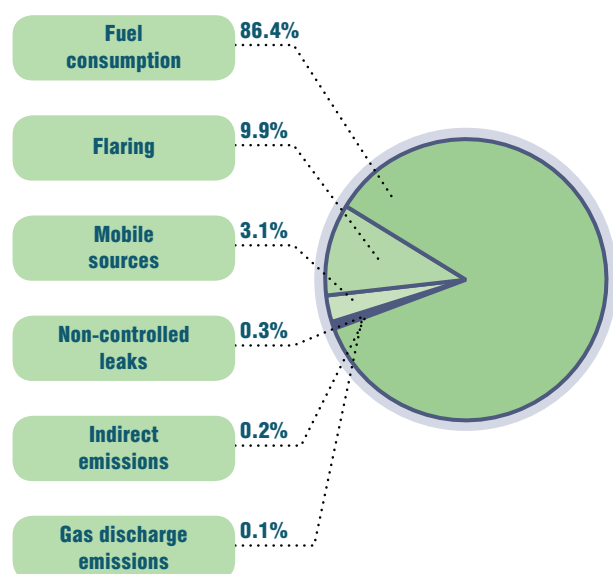
The Company aims at reducing gas flaring volumes to the level as low as reasonably practicable (ALARP). Associated gas is produced at PA-A, PA-B and LUN-A platforms and transported onshore by subsea pipelines. PA-A and PA-B gas is transported to the Northern Gas Transfer Terminal and the excess gas to the OPF, where it is mixed with LUN-A gas for further transportation to LNG and the Southern Gas Transfer Terminal. A part of the associated gas is used as fuel for processing facilities.

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

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 2012 was 93%.

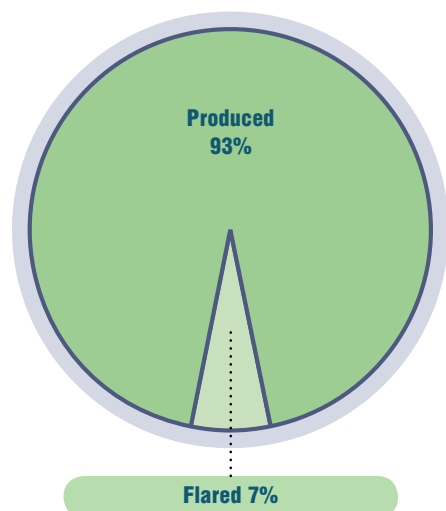
In order to minimise the flaring of gas, the Company is constantly taking steps to minimise the consequences

Structure of greenhouse gas emissions in 2012





## Utilisation of associated gas during production



of unplanned stops of production processing equipment. The Company continues to use all reasonable measures to reduce flaring and correspondingly increase the percentage of utilisation of associated gas.

### 8.1.7 ENVIRONMENTAL PROTECTION COSTS AND POLLUTION PAYMENTS

Sakhalin Energy carries out environmental protection activities according to the international and Russian environmental requirements, which in 2012 involved RUR 822,605 thousand in operating expenses.

The total amount of payments for the adverse environmental impact, which the Company effected in accordance with requirements of the Russian environmental legislation in 2012, was RUR 5,757.4 thousand.

If compared with 2011, the environmental protection costs have increased by 74%, due to the expansion of the structure of accounted costs, which are related to current environmental protection costs.

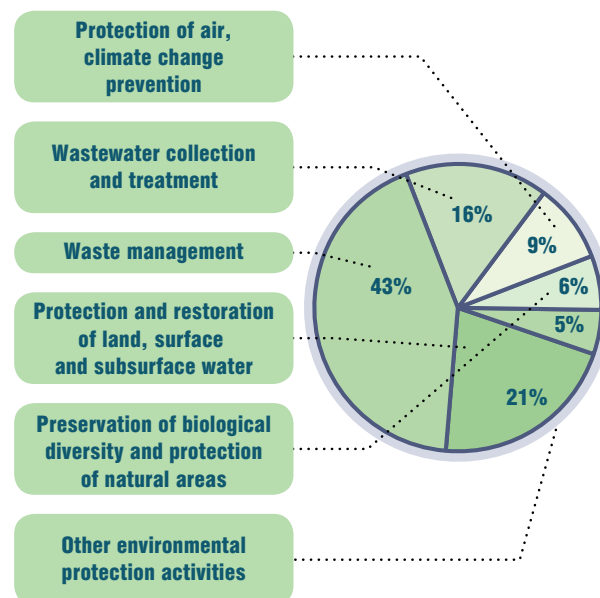
Payments for adverse impact have increased by 48%, which has resulted from the introduction of specific charges calculation for pollutant discharges during associated gas flaring in 2012.

The Company's environmental activities are controlled by the state 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 the Sakhalin Oblast.

In 2012, the regional authorities carried out inspections of the Company's facilities and identified cases of minor non-compliance (water wells' operation, waste certification, compliance with discharge limits for effluents treated to standard quality). No cases of significant environmental non-compliance by the Company resulting in negative environmental impact were identified in 2012.

#### 2012 environmental operating expenses breakdown



#### Pollution payments, thousand roubles

Type of negative impact	2010	2011	2012
Emissions into the air	1,458.6	1,442.0	4,664.7
Discharge into water bodies	184.6	191.6	242.5
Waste disposal	2,304.4	2,251.1	850.2
<b>Total</b>	<b>3,947.6</b>	<b>3,884.7</b>	<b>5,757.4</b>

## 8.2 ENVIRONMENTAL MONITORING AND 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 order to effectively control the risks associated with environmental impact, the Company runs a number of environmental monitoring programmes (local environmental monitoring) at production facilities' locations. The data obtained during monitoring activities are used as a basis for environmental assessment, identification of adverse changes and development of mitigation measures.

In the beginning of 2012, the programmes of further monitoring have been optimised, based on the past performance 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 conservation:

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

### 8.2.1 ENVIRONMENTAL MONITORING

In 2012, environmental monitoring covered the following:

- Flora and vegetation monitoring in the area of impact from onshore pipelines, OPF, BS-2 and Prigorodnoye Production Complex;

- Soil monitoring in the area of impact from onshore pipelines, OPF, BS-2 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;
- 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;
- Ballast water control in Aniva Bay; and
- Monitoring of small mammals in the area of impact from Prigorodnoye Production Complex, BS-2 and OPF.

#### 8.2.1.1 Flora and vegetation monitoring

Vegetation, along with other components of the biota, is sensitive to environmental changes, either caused by natural phenomena or human impact. Plants' response to human impact can be as follows: a suppressed state, chlorosis and necrosis on the surface of leaves and stems, the disappearance of some species and the emergence of others in vegetation communities, which can ultimately result in partial or complete change of the vegetation community.

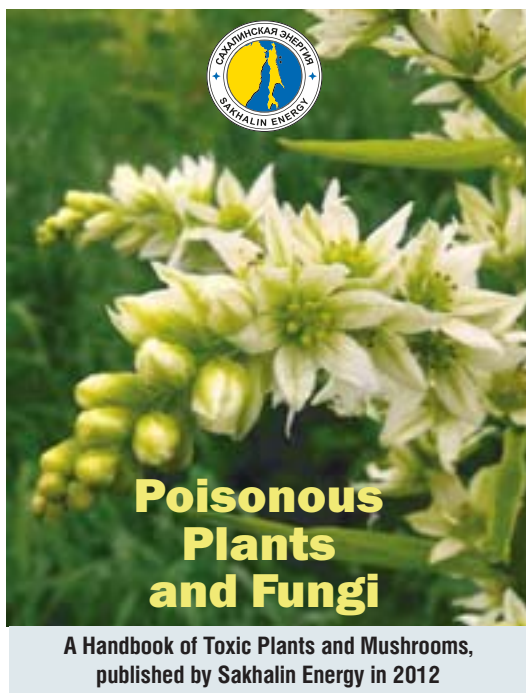
The implementation by Sakhalin Energy of the environmental monitoring programme of vegetation enables it to assess the current state of flora and vegetation in order to timely identify any negative impact of process facilities on the environment.

The programme of monitoring includes the following tasks:

- Assessment of vegetation cover condition at areas adjacent to the Company's facilities;
- Assessment and forecast of natural and human-induced changes (successions) in vegetation communities;
- Monitoring of populations of rare and protected species of plants, lichens and mushrooms;
- Monitoring of condition of vegetation in specially protected natural territories near the Company's production facilities;
- Monitoring of invasive species;
- Monitoring of vegetation recovery in the pipeline right of way, development of recommendations for additional works at its individual segments; and
- Assessment of plant tissues contamination.

**In October 2012, a conference was held on the results of environmental surveys conducted in the area of the potential impact of the Company land-based facilities. Ten reports covering various aspects of environmental surveys, which have been carried out within the framework of the Company's monitoring programmes, were presented to scientists, the public, government agencies and non-governmental organisations. Below are participants' conclusions:**

- Sakhalin Energy pays considerable attention to the preservation of biodiversity of the Sakhalin Island;
- The environmental impact mitigation measures during construction have proved to be efficient; and
- No significant effect on the environment was identified in the vicinity of facilities.



The first three-year cycle of vegetation monitoring in the area of the potential impact of the pipeline route during the operational phase ended in 2011. The findings of a comparative analysis of 95 sample areas along the entire route, and the data acquired during the construction phase, showed no significant changes in the vegetation outside the RoW or that it had changed to a small degree on the border of the RoW. In this connection, it was decided to suspend the monitoring of vegetation in the area of the potential impact of the pipeline route (outside the RoW) for a period of two years and continue the monitoring in 2014.

In 2012, the flora and vegetation monitoring in the areas of potential impact of the Prigorodnoye Production Complex was performed at 21 sample areas, and at 35 areas in zones of OPF potential impact.

Additionally, an assessment of the condition of 37 endangered species of lichens and mushrooms was conducted at 19 sample areas of potential impact of the pipeline route.

The nature and degree of required restoration of vegetative layer was assessed at the RoW.

The monitoring findings are as follows:

- In general, the species composition of flora and the structure of vegetation communities in the area of the Prigorodnoye facility and the OPF, as well as the condition of endangered species of plants and lichens in the area of possible impact of these facilities and the pipelines, either remain unchanged, or have changed scarcely;

- The sound grow over of the RoW with vegetation is noticed in the southern, central and northern areas of the pipeline route (about 80%). Poorly overgrown areas still exist in places where the offshore pipelines land (on the north of Sakhalin), and at the tops and slopes of some hills in the central and southern parts of the pipeline route; and
- Numerous young plants grow on the RoW, such as birch, willow, alder and larch.

For the purpose of RoW maintenance, some measures to control trees and shrubs have been developed and recommended, in particular, the cutting of young trees after they reach 1 m in height, the cutting of plants as close to the ground as possible (at the root), clearing the RoW during the second part of summer and in early autumn.

The long-term monitoring will enable us to fully determine the nature of the impact of Sakhalin Energy's production facilities on vegetation and timely develop adequate measures to mitigate this impact.

#### 8.2.1.2 Soil monitoring

The purpose of soil monitoring is the assessment of impact on the soil of ecosystems in adjacent areas caused by the construction and operation of the Company's facilities. The monitoring objectives are as follows:

- Assessment of the soil condition along the onshore pipelines, around the LNG plant, OET and OPF; and
- Identification and assessment of soil degradation processes, including mechanical disturbances, compaction, soil erosion processes, water logging, oil and benzo(a)pyrene pollution.

According to the results of 2012 monitoring, the characteristics of soil around the Company's facilities are close to baseline characteristics of relevant soil types.

The soil of ecosystems adjacent to the OPF and Prigorodnoye Production Complex is in sound condition and has a higher content of organic matter, natural petroleum hydrocarbons, mineral nutrients and high acidity. The content of benzo(a)pyrene, which is a key indicator of possible contamination, is negligible — at the lower limit of detection according to the method used in line with GOST. During the five years of monitoring, such soil properties as the structure of the profile, width and colour of the genetic horizons, organic carbon content, width and density of soil have modified only slightly.

The number of permanent soil monitoring sites used to determine changes in the condition of soil under onshore pipelines' RoW, which was subject to human-induced impact, increased from 24 to 36 in 2012. The monitoring results confirmed the 2011 findings concerning the gradual recovery of biogeochemical cycles of plants' mineral nutrition elements. This positively affects the growing of plants on the RoW and, therefore, implementation of the programme of additional seeding (please refer to Section 8.3 Maintaining Onshore Pipeline Right of Way) at turf-free areas of the RoW. The results of farmland soil monitoring at 12 sites showed that these were clean relatively at the pollution parameters studied, and the level of their fertility conformed to the needs of herbaceous vegetation in mineral elements.

The results of soil monitoring at 6 soil-geochemical catenae (network of soil profiles/pits along the surface water flow line) enabled us to obtain additional information on the background condition of soil, and confirmed the 2011 findings concerning the absence of residual impact of the oil and gas pipelines' construction on the soil adjacent to the RoW.

Based on the 2013–2017 work plan and taking into account the 2009–2012 results, the Company will continue adjustment and implementation of the adaptive, risk assessment-based programme of soil monitoring in accordance with Russian and international requirements.

### 8.2.1.3 Monitoring of protected bird species

Almost 40 bird species registered in the Endangered Species List of the Sakhalin Oblast can be encountered in the potential effects zone of Sakhalin Energy's industrial facilities.

Protected bird species were monitored in 2012 within a two-kilometre corridor along the onshore pipeline route and across four kilometres around the OPF. Additionally, the monitoring was continued at the Chaivo spit, in places inhabited by the colonies of endangered migratory birds (Sakhalin dunlin and Aleutian tern). The first three-year survey cycle was completed in the area of Prigorodnoye Production Complex in 2010. Its results certified the favourable status of bird communities and an increase in the numbers of endangered bird species, after that it was decided to suspend monitoring at the area for two years and for this reason no surveys were conducted in 2012 in the area of Prigorodnoye facility.

In 2012, three areas with the largest diversity and high numbers of endangered bird species were

surveyed along the onshore pipeline route. These were: a site in the area of Dolinskiy wildlife preserve, a site bordering Makarov wildlife preserve and a site in the Tymovskoye district. Surveys in each area were conducted in main habitats preferred by endangered birds. In addition, general condition of these habitats and ornithological complexes was assessed.

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

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The results certified the favourable status of all populations of endangered bird species. At the Tymovskoye site near the pipeline route, a new hobby nest and a couple of bitterns were found. The population density of Japanese robins in Dolinsk district increased, the number of Japanese snipe couples, uttering mating calls, remained the same. In Makarov district, the Japanese snipe population grew, due to their settlement at meadow habitats along the pipeline route.



The Great Gray Owl is included in the Sakhalin Region's Red Book



No negative changes have been noticed at the OPF area compared to the previous periods of monitoring (2009–2011). The distribution of Siberian spruce grouse at adjoining sites and the migration corridors of long-billed murrelet have not changed. A slight increase in the number of pygmy-owls and Tengmalm's owls has been noted, which is, most likely, due to the increase in the number of small mammals.

In the area of the north OPF spit, the number of Sakhalin dunlin, as in previous seasons, was about 10 couples per 1 square kilometre, and in some areas the colony density was 2 or 3 times higher. In 2012, the number of aleutian tern was fairly higher, there were small colonies in all suitable habitats.

All in all, the results of endangered bird species monitoring indicate that the production facilities of Sakhalin Energy have no impact on their number.

#### 8.2.1.4 River ecosystems monitoring

There are more than 61,000 rivers and streams on the Sakhalin Island. Over 1,000 water bodies were crossed in the course of construction.

Some special programmes of water bodies monitoring were developed with the project's transition to the operation phase. These programmes enable us to monitor the quality of surface water and bottom sediments, and to eliminate any specific impact after the identification thereof.

Along with that, it is possible both to assess the impact of the Company's facilities on water courses and aquatic ecosystems, and to identify the inverse impact of the environment (changes in the river bottom structure and river bed configuration, changing of the hydrological regime, etc.) on the integrity of engineering structures.

The monitoring of river ecosystems includes:

- Determination of the hydrological characteristics of water courses;
- Determination of the hydrochemical characteristics of water;
- Assessment of the bottom sediments condition in rivers;
- Identification of hydromorphological changes (river bed and banks erosion in the areas of pipeline crossings);
- Assessment of benthic composition and quantity;
- Assessment of the quality of potential pacific salmon spawning areas; and
- Assessment of the ichthyologic community in model water courses.

In 2012, surface water and bottom sediment surveys were continued at 27 water courses crossed by Sakhalin Energy's onshore pipelines, one water course located within the OPF impact area and two water courses within the Prigorodnoye impact area. Samples were collected at homogeneous hydrological sections downstream and upstream the pipeline system. The surveys were conducted during three hydrological seasons: spring high water, summer low water, and autumn flood season.

Findings from the analysis of physical and chemical composition of surface water:

- There is no significant horizontal or vertical deformation of river beds at the inspected crossings (from upstream to downstream stations, including details on the condition of the river bed and engineering stabilisation within the right-of-way). Crossings are in satisfactory condition, no destructions of utility lines were found;
- Physical and chemical properties of surface water in the watercourses under survey, as well as the content of biogenic substances (ammonium ion, nitrites, nitrates and phosphates), hydrocarbons, phenols and anionic surfactants met the regulatory values in all monitoring periods;
- Seasonal fluctuations were observed in suspended substance concentrations. The metal content tests showed the highest variability in iron and copper concentrations;
- In terms of easily oxidable organic substances measured by BOD5 (biological oxygen demand for 5 days), the watercourses were clean;
- Grain-size composition of bottom sediments was homogenous in almost all watercourses and in all seasons;
- High fluctuation of quantitative characteristics of benthos, which was due to natural processes, was observed in the course of benthic ecosystems survey; and
- The content of hydrocarbons in bottom sediments slightly varied from season to season. No differences were revealed between concentrations measured at the upstream and downstream stations.

In 2012, ichthyofauna surveys continued in the Severnaya Khandasa River (Smirnykh district) and its tributaries (May through October). It can be basically noted that fish communities are relatively stable. Variations in species composition and their distribution are the result of natural seasonal fluctuations and natural migrations of fish. Masu salmon, Dolly Varden, White-spotted Char





Monitoring of River Ecosystem

and Sakhalin Taimen are represented with the highest biomass.

The monitoring of Pacific Salmon migration and reproduction in the Goluboi stream, which partially passes through the Port Prigorodnoye and the LNG plant, was resumed in 2012. The surveys collected the data for the quantitative assessment of Pacific Salmon juveniles, which had migrated out of the Goluboi stream; the number of spawning Pink Salmon (fertile part of the population) that had come into the Goluboi stream was registered; the assessment of Pacific Salmon reproduction efficiency in the water course was conducted.

In general, the results of river ecosystems monitoring indicate that pipeline crossings over the water courses do not affect the quality of surface waters, their flora and fauna.

#### 8.2.1.5 Offshore environment and biota monitoring

In 2012, Sakhalin Energy continued implementation of 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 enables 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 2012:

- 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-Astokhskoye and Lunskeye 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 on offshore ecosystems local areas, the following main conclusions were made as per the results of 2012:

- Hydrochemical characteristics in the area of the offshore facilities complied with the baseline values and were under the standards established for the fishery water bodies;
- Concentrations of oil hydrocarbons and heavy metals in bottom sediments had inferior values, which could result in biological effects;
- The survey regions were characterised by rich species diversity of benthos and plankton, with high values of their quantitative characteristics, which indicates favourable environmental conditions of the habitats;

- Wells 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 are not accumulated in the area of the appraisal wells' heads.

#### 8.2.1.6 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 those ports for the purpose of vessel stability may contain dangerous invasive species which, if discharged in Port Prigorodnoye, may lead to irreparable damage to the ecosystem existing in Aniva Bay. Today, the most effective way to prevent such a danger is to comply with the International Convention for the Control and Management of Ship's Ballast Water and Sediment. This convention served as a basis for internal corporate ballast water management policy way back in 2009. In March 2012, Russia joined this Convention. For the purpose of control of compliance with this policy, each vessel is inspected for a number of parameters, and the discharge is allowed only after confirmation of ballast water replacement in the open sea.

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

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

Following the results of the 5-year observations, new data on structural characteristics of the communities was obtained, and changes of the qualitative composition and quantitative indices were evaluated. No significant changes have been identified in the structure of the communities. No new species unusual for that area have been observed.

As for the biological monitoring of the ballast waters, the Company takes unprecedented measures as well. In 2012, it was decided to start sampling during the cold season. This experiment confirmed the scientists' opinion that all species brought with the ballast waters

in winter time, cannot actually survive in the cold waters of Aniva Bay. Samples of phyto- and zooplankton were taken from each vessel, where it was technically possible, and were analysed by the specialists under various characteristics, including availability of potentially hazardous alien species. Sample analysis has not revealed any hazardous species in the ballast water of tankers, which was the evidence of proper fulfilment of the Company's requirements and, therefore, the requirements of the International Convention.

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

#### 8.2.1.7 Monitoring of small mammals

Small mammals (rodents and burrowing mammals) are sensitive to human-induced impacts and respond quickly to even the slightest environmental changes, including not only transformation of landscapes, but also physical and chemical pollution of soil and vegetation. Therefore, they are considered indicators of the environmental conditions.

The Company monitors the species structure of small mammals' communities in the Prigorodnoye Production Complex, BS-2 and OPF areas, and determines species abundance and diversity indicators, as well as biological, morphological, physiological and demographic characteristics of species of small mammals.

In 2012, the number of burrowing and gnawing animals increased strongly; it was observed in all survey areas. It was found out that the communities of small mammals had undergone structural changes, which were related to the natural intra-population dynamics of some species. Changes of age and sex composition, as well as individual morphological and physiological parameters, were identified at both test and control sites, which identifies their natural origin. In general, in spite of the natural irregular distribution of animals at the surveyed area and variability of some biological parameters, in 2012, negative changes in populations of indicator species and the structure of the communities were not identified at the areas adjacent to the production facilities.

### 8.2.2 CONSERVATION OF BIODIVERSITY

The Biodiversity Action Plan, developed and implemented in compliance with the best practices, enables Sakhalin Energy to fulfil its commitments related to the impact on biodiversity and environment in course of the operation of its production facilities.

In 2012, in accordance with the priorities set in the Biodiversity Action Plan, surveys of Gray Whales, Steller's Sea Eagle, and wetlands were conducted.

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

In 2012, the composition of the Biodiversity Expert Working Group (BG), established on the initiative of Sakhalin Energy under the Sakhalin Oblast Environmental Council, was increased. The Council officially included the representatives of Exxon Neftegas Limited and RN-Sakhalinmorneftegaz in the BG. Observers of other oil and gas companies, carrying on their business at Sakhalin, also participated in the sessions of the Working Expert Group.

In the course of the spring session, they discussed the soil condition in the area of the Prigorodnoye Production Complex and the results of the coastal area monitoring and salmon fishing in Aniva Bay. Special attention was given to the problems and perspective of studying of the Sakhalin Taimen, a protected species registered in the Red Book of the Sakhalin Oblast.

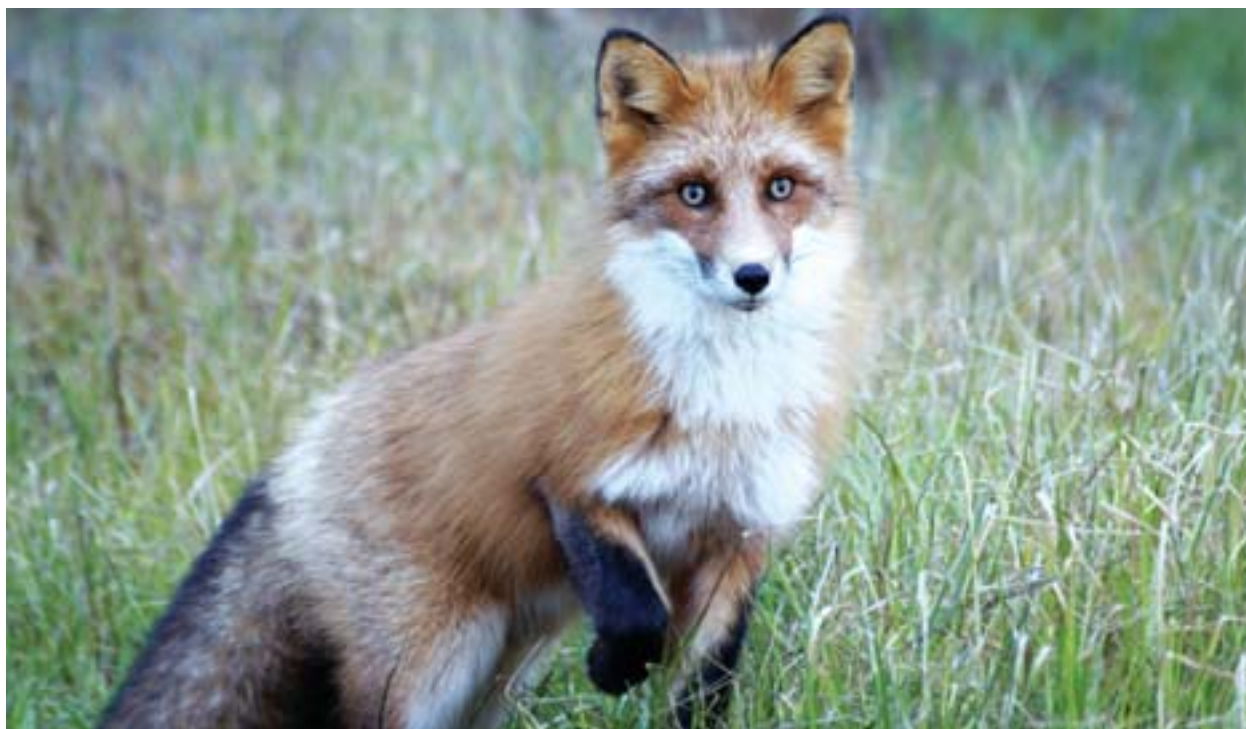
In the course of the autumn session, they provided the results of the Gray Whales Monitoring Programme, results of reclamation and monitoring of the wetlands at the right-of-way conducted by Sakhalin Energy and Exxon Neftegas Limited. They also discussed an integrated approach to the industrial environmental monitoring and control of the Sakhalin-3 project oil and gas facilities, in the course of construction of the main gas pipelines OPF Kirinskoye gas and condensate field, GSK Sakhalin and Sakhalin-Khabarovsk-Vladivostok in the territory of the Sakhalin Oblast.

#### 8.2.2.1 Monitoring of Gray Whales

The Company pays great attention to the monitoring and protection of Gray Whales. The scope of activities and amount of resources devoted for this purpose are not limited to standard activities within the Company's area of responsibility. In accordance with the Company's commitment to the concept of sustainable development, the Company believes that it is necessary to consider the risks induced by industrial activities and to apply all timely measures to mitigate risks for all marine mammals and not only for the endangered species.

As during the previous years, in 2012, Sakhalin Energy, together with Exxon Neftegas Limited, the operator of Sakhalin-1 project, continued implementing the integrated Gray Whales monitoring programme at the north-eastern coast of the Sakhalin Island. Besides annual research and studies of whales distribution, their feeding areas, acoustic monitoring of underwater noise, photographic identification of individual Gray Whales and assessment of their nutritional status, in 2012 researchers collected biopsy samples from 17 Gray Whales. Collected biological material will enable researchers to perform genetic analysis and identify the sex of the mammals, as well as identify their kinship connections and obtain information on their physical state.

Besides, in 2012 the Company continued to monitor Varvara, a Gray Whale female, with a satellite tag, which she received back in 2011 during the Telemetering Study of Gray Whale programme. Varvara spent the



Foxes are frequent visitors to the Project locations





A Gray Whale feeding area

winter, together with other whales, in California lagoons. In early March, she started the way back, moved along the coast of North America, came to the Bering Sea, then down along the east coast of Kamchatka and, by the middle of May, returned to the coast of the Sakhalin Island. It is interesting that, despite the satellite tag regularly transmitting information on Varvara's movement along Sakhalin in summer, not a single group involved in photo identification of Gray Whales had a chance to meet and photograph her. This once again confirms the complexity and difficulty of studying marine mammals. However, in 2012 nine calves and some adult whales were photographed in the waters of northeast Sakhalin that have not been registered previously. All of them were added to the list of 206 whales that is a part of the Gray Whales photo catalogue. Gray Whales are the only whales that are bottom feeders; they feed on benthos. Studies conducted in 2012 showed that benthos biomass indicators (amphipods and isopods being the main feed components) continue to increase. Also, 2012 was the first time when a lipid analysis was conducted. The results confirmed the importance of these components in the whales' diet.

As during the previous years, Gray Whales were observed in both feeding areas: in the shallow waters of Piltun and in the deeper waters of the offshore feeding area. At the same time, the nature of their distribution became more stable compared to previous years. This is extremely important considering the Company's engineering and geological survey held on the shelf in July 2012. The survey included a two-dimensional geophy-

sical research on a segment of the Piltun-Astokhskoye Licence Area to clarify geological information and to evaluate the possibility of installing another platform.

Following the requirements of the Russian environmental legislation and the recommendations of the Western Gray Whale Advisory Panel (WGWAP) at the International Union for the Conservation of Nature (IUCN), these works started as early as possible and ended prior to the approach of most whales to their feeding areas. Geophysical research was conducted together with observations of whales' behaviours, hydroacoustic measurements, and mitigation and control measures. As a result, no damage to the health of whales resulting from continuing works was determined, and further studies have shown no negative consequences in the feeding period either.

The entire set of environmental protection measures, successfully implemented by the Company, received praise from the Ministry of Natural Resources of Russia Western Gray Whale Working Group and the independent Advisory Panel (WGWAP).

The international panel was established in 2006, and since then has been providing regularly independent assessment of the Company's activities to protect the Gray Whales. As agreed with IUCN, all the Company's activities at the shelf with potential impact on marine mammals, including plans for installation of another platform, are subject to detailed consideration at the Panel's meetings. The Panel includes leading international scientists and experts; international NGOs such as WWF, IFAW, Pacific Environment and others are present at the discussions.

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**Seismic surveys are taking place every year on the Sakhalin shelf, but Sakhalin Energy's project is unique in terms of what has been invested in mitigation and monitoring. We hope it will come to be regarded as a good model for other companies in Sakhalin and other parts of the world.**

Randall Reeves, Chairman of the WGWAP

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However, although the contribution of Sakhalin Energy to protection of Gray Whales and the Company's experience in cooperation with international, governmental and non-governmental organisations, scientists and experts from different countries, is recognised as best practice, it is clear that the efforts and capabilities of one or several companies on the Sakhalin shelf are not enough to protect whales from the dangers they face all the way during their migration outside of the

Sakhalin shelf. It requires initiative and concerted efforts of relevant international organisations and individual countries to ensure the restoration of Gray Whales in all parts of their historic range.

#### 8.2.2.2 Monitoring of Steller's Sea Eagle

Sakhalin Energy's programme for monitoring of the Steller's Sea Eagle started in 2004. The objective of the programme is to conserve both the Steller's Sea Eagle and White-tailed Eagle population registered in the Red Book (endangered species list) of Sakhalin and the Russian Federation. Investigations are mainly aimed at obtaining reliable information on long-term dynamics of the population, assessment of impact of anthropogenic factor on the population and development of associated mitigation measures. Monitoring is performed in the northeastern part of Sakhalin, including four bays and the lower courses of rivers crossing the onshore pipelines.

An integrated analysis of the seven-year period data was held in 2010 and the monitoring programme was revised and optimised accordingly. As there were no negative changes in the areas where the Sakhalin-2 project facilities were located, the dimensions of the survey zones were reduced to 3 km around OPF and to 2 km along the pipeline route. As a control area, in which to compare and evaluate interannual changes of natural factors, the Programme included the area of Lunkoye Bay natural monument as a segment of the north-eastern Sakhalin coast least impacted by human-induced factors.

2012 was a good year for the eagles within the territory monitored. The level of reproduction has increased against the previous year. The number of couples, which came back to their nesting places, has increased in the pipeline potential impact area. Both in the ROW and the control area the number of active nesting places where they brought out nesting, has increased. The nesting base condition, both in the potential impact area and the control area, can be considered as good. Eleven small birds were successfully grown by eagles within a 2-kilometre corridor along the RoW in 2012. The changes in impact from the bear population show a gradual decline in predation after the peak in 2005–2006.

#### 8.2.2.3 Wetlands reclamation monitoring

Wetlands are a very important type of Sakhalin ecosystems. Their importance is determined by their water regulating and water treatment functions. Wetlands are habitats to many bird species, including protected species, during nesting and seasonal migrations.

Sakhalin Energy implements a long-term monitoring programme of wetland reclamation on the RoW, which includes the following tasks:

- Monitoring of bog reclamation as part of RoW and adjacent territories;
- Assessment of all negative potential factors impacting bogs as a result of onshore pipeline construction and operation; and
- Impact mitigation.



Steller's Sea Eagle chicks



In 2012, monitoring was carried out at 40 wetland areas (166 testing areas) located along all the pipeline RoW, from the south up to the north. Integral assessment of vegetation and soil reclamation has been developed, which has allowed us to carry out general assessment of qualitative and quantitative characteristics of reclaiming wetland ecosystems on the RoW.

Monitoring results are as follows:

- Reclamation of natural wetland ecosystems on the RoW is at different stages and depends on the degree of soil changing in the course of construction;
- 50% of investigated wetlands are in the middle stage of vegetation restoration, 50% are in the initial stage.
- It was established that a low rate of natural growing, especially in the north of Sakhalin, should be considered, when forecasting a reclamation period for the wetlands on the RoW;
- No aggressive invasive species were found on the RoW crossing the wetland areas;
- It has been noted that protected species of plants growing in wetland areas adjacent to the RoW are in good condition.



Wetlands of the Smirnykh area

The Company will continue monitoring the wetlands in 2013.

In 2012, the Company participated in the Oil and Gas Complex and Wetlands Protection Round Table under the auspices of the Ministry of Natural Resources of the Russian Federation, and in the workshop Rational Use of Wetlands and Development of the Oil and Gas Industry: Issues and Prospects, held in the form of a side event, at the Eleventh Conference of the Parties of the Ramsar Convention.

### 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.

**In spring 2012, the Company's representatives took part in a conference in New Orleans (USA), dedicated to soil reclamation. At the forum, some approaches were introduced to be applied in the development of standards relating to land use management, reclamation and the management of impact on biodiversity.**

**Experts from different departments of the Shell group and members of academic community presented their reports at the conference. The conference served as an effective platform for sharing experience on the best soil reclamation practices and for establishing new contacts between relevant experts from around the world.**

The list of RoW monitoring actions for 2012 included:

- Helicopter flight-overs;
- River crossing surveys;
- River surveys based on geomatics principles;
- Monitoring of river hydrological characteristics;
- Surveys of geological hazards, cover thickness;

- Annual profile surveys and cathodic protection systems surveys;
- Plant growth and soil local monitoring;
- Groundwater surveys;
- Satellite surveys of the pipeline RoW; and
- Boggy areas surveys.

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

Repair and maintenance of RoW were completed in November 2012, as planned. The works were performed on 141 sites and included elimination of natural erosion consequences as well as repair of existing anti-erosion structures. Repair of bank protection structures on five water bodies have been successfully completed.

Reseeding programme for RoW rare vegetation, which has been launched since 2010 and planned for four year duration, has demonstrated good results.

Satellite sounding data of the field survey in 2012 show that out of 776 hectares of areas included in the reseeded programme, only 50 hectares of lean sand soils in the North of Sakhalin require additional reseeded.

## **9.1 PERSONNEL: MANAGEMENT AND DEVELOPMENT**

### **9.1.1 HR MANAGEMENT AND HR POLICY**

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

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

The Company's objective is to create an organisation that would help all the employees feel engaged in its activities, feel the Company's support and respect, and have an opportunity to express their best qualities and talents, as this is 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 balance of production 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 to receive personal support, training, self-development and information sharing;
- 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 where 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, based on a detailed strategy and tactics in all spheres.

HR policy is a comprehensive, strategic policy governing the Company's relations with its employees. The

HR Director leads the process of developing the Company's HR policy and determines its key objectives. Shaping and maintaining the HR policy, 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 motivation, corporate culture and social programmes implementation, are just some of the issues that are addressed by Sakhalin Energy's HR directorship.

The Company devotes great attention to such basic human values as openness, honesty and respect for

**The Company holds sociological employee surveys on a regular basis. The feedback received through the surveys is carefully analysed by the Company management and is accommodated in business objectives and plans, both for line managers and senior management with the aim of resolving the issues raised by the Company employees. Regular surveys enable the tracking of general trends and establishing how efficient and prompt the Company as an employer is in reacting to its employees' requests. For example, in 2012 nine quick surveys and one sociological investigation were held to cover a wide range of issues, including the employees' opinion of the Company as an employer, the working conditions, accessibility of managers to discuss the existing problems, etc.**



**The specialists of Sakhalin Energy's HR Directorate provide Company employees with full professional support relating to all aspects of the HR Strategy**

other people. Sakhalin Energy encourages diversity among its personnel and has an attitude of consideration for their individual traits.

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:

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

### 9.1.2 GENERAL INFORMATION

At the end of 2012, the total number of Company employees was 2,052, of which 88% or 1,806 people were Russian nationals. Out of this total number, 2,016 employees were based in Sakhalin, working at production sites and offices, and the rest worked at the Moscow office. The Company seeks to recruit as many Russian nationals as possible, especially Sakhalin locals. This is not only stipulated by the Sakhalin-2 PSA, but is first and foremost the approach dictated by the Company's HR policy. To date, 1,129 people, or 55% of

the Company personnel, are Sakhalin residents (see chart).

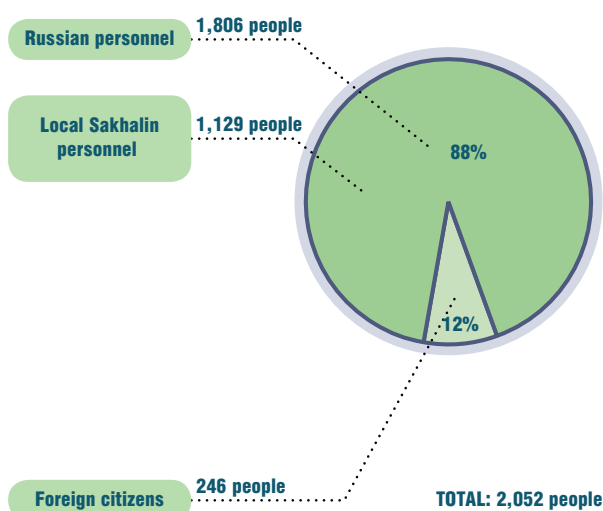
In view of the specific nature of the Company's activities as the project operator, 83% of its personnel are managers, specialists and clerical workers, of whom about 62% are office staff; and the rest work at the Sakhalin-2 production facilities (see chart). In 2012, 27% of the Company employees worked on a rotational basis and were housed. They were accommodated in fully furnished shared housing facilities, like hotels and shift camps, established in accordance with Russian legislation and best international practices.

In 2012, 338 managerial positions in Sakhalin Energy were held by Russian nationals, including 194 Sakhalin residents (see the Managerial personnel structure chart). Sakhalin Energy has developed an action plan to increase the share of the Russian managerial personnel. In addition to a proactive approach of training and promoting Russian nationals who are already employed at the Company, the action plan calls for hiring new skilled Russian employees as well as apprentices, who are a source of constant technical personnel inflow to the Company (see sections 9.1.7.3 and 9.1.7.2 on planning and developing the successors pool and on-the-job training as part of the apprenticeship programme).

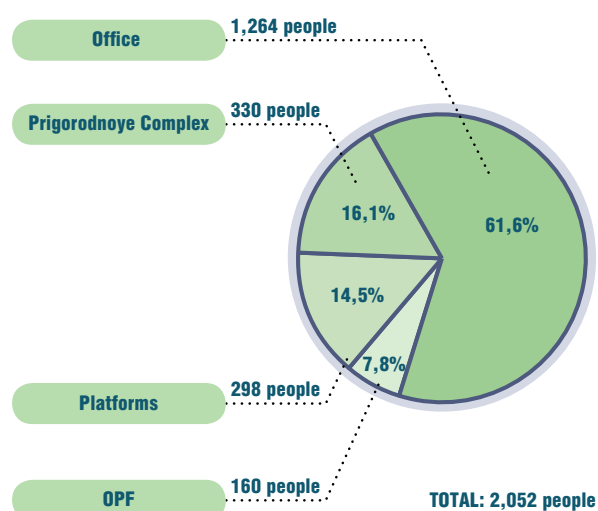
Around 29% of the Company's personnel are women (603 women at the end of 2012), of whom 75 are managers (see the Managerial personnel structure chart).

Over the past three years, a transitional period from construction to operation, Sakhalin Energy's workforce has gradually decreased and stabilised. Yet, due to the on-going Russianisation process, Sakhalin Energy is looking for Russian specialists, including technical

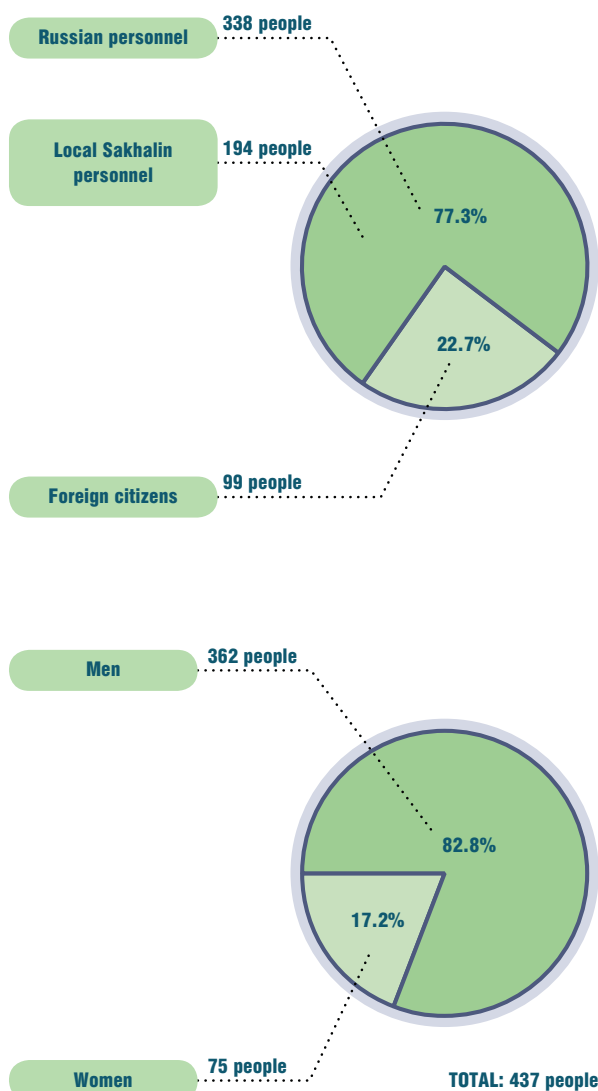
Personnel structure



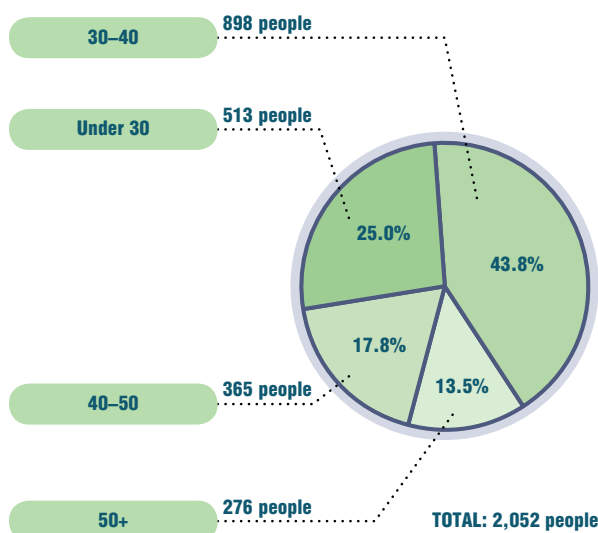
Personnel structure by assets



### Managerial personnel structure



### Personnel structure by age



personnel. In 2012, the employee turnover rate was 5.54%, which is slightly higher than the previous year (5.39%). The change is related to the end of the active crisis phase in the country and the revival of the labour market. The number of employees with a permanent contract is 1,672, or 81% of the total workforce.

At the end of 2012, the average age of Company employees was 37. Most employees (about 70%) are under 40.

### 9.1.3 PERSONNEL RECRUITMENT AND ADAPTATION OF NEW EMPLOYEES

At Sakhalin Energy, recruitment of new personnel is based on the manning schedule and a corporate recruitment plan which is developed and approved on an annual basis. To advertise new vacancies and attract candidates, the HR Directorate uses various mechanisms, 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 advanced head-hunting methods, including:

- 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 hot vacancies.

In 2012 Sakhalin Energy took part in three career fairs in Yuzhno-Sakhalinsk and in similar events in Moscow, Ufa, Kazan, Tyumen, Vladivostok and Almaty. As a result, more than 410 applications for vacancies were received.

In 2012, 390 new employees were recruited to the Company, of which 313 are Russian nationals and 63% are Sakhalin residents. In 2012, 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 which are 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. In addition, the Company makes every effort to provide a competitive compensation and benefits package to attract a highly skilled workforce.

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 official salary, hourly rate as per the manning schedule and 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 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 bonus for award; and
- One-off bonus for participation in a research-to-practice conference held by the Company on a regular basis.

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

In 2012, the minimum salary at Sakhalin Energy was 5.27 times higher than the minimum wage established by Russian legislation. In 2012, Sakhalin Energy's labour remuneration expenses totalled RUB 11,221 million, with award/bonus payments totalling RUB 1,346 million.

#### 9.1.5 SOCIAL GUARANTEES, BENEFITS AND COMPENSATIONS

The social benefits and guarantees 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:

**In 2012, in collaboration with OJSC SOGAZ, the Company significantly extended the voluntary health insurance programme to cover not only pregnancy and maternity, as well as medical care in sixteen (16) large Russian cities without de-registration/registration, including Moscow and Saint-Petersburg, but also an agreement with the insurer for priority registration of babies within three working days. Furthermore, out-of-turn registration of children and adults is possible in case emergency first aid required.**

**There is also an annual voluntary health insurance programme in place for employees' relatives on favourable terms, covering the employees' parents, their spouses' parents and non-adopted children under 21 years of age, inclusive.**



- Voluntary health insurance for employees and their families;
- Health benefits;
- Accident and sickness insurance;
- Travel insurance;
- Free meals at Company offices and facilities;
- Housing for employees and their families for the duration of their employment period (for those employed on terms of relocation from other RF regions and CIS countries, as well as from the Far North and equivalent localities). In 2012, a housing allowance was introduced for staff employed on terms of relocation;
- 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;
- 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);
- Corporate pension programme;
- Additional benefits for female workers on maternity leave; and
- Programmes for Company employees' children.

In November 2012, the employee social benefits and guarantees package was extended to include a mortgage programme.



A holiday camp for children of Sakhalin Energy's employees

#### PROGRAMMES FOR COMPANY EMPLOYEES' CHILDREN

Premises at the Zima residential complex were renovated and outfitted to arrange a preschool children centre.

Magic Island children's recreation and development centre, established and registered by Company employees as a public association, was opened on 4 June 2012. As of 1 September 2012, it accommodates educational groups for children who do not attend kindergarten as well as afternoon-care groups.

For the second year, the Merry Holidays programme has been implemented at Zima sports and recreation facilities to make summertime leisure more interesting and educational for the Company employees' children. The programme includes: specially trained youth leaders, theme camp sessions and a rich excursion programme.

All 2012 camp sessions were devoted to Russia's history in connection with the 1150<sup>th</sup> anniversary of the Russian state. The programme was attended by the Company employees' children aged 6 to 12. Overall, 380 children attended the five-session programme.

To provide safe transportation for children to Yuzhno-Sakhalinsk schools, the Company has arranged for school buses to depart from the Zima residential complex.

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

The mortgage programme is governed by the Regulations for Payments to Employees to Compensate Part of Mortgage Interest. The mortgage interest payment reimbursable by the Company shall amount to 40% of the interest payments actually made by the employee for the accounting period, but shall not exceed the amount established by the Company.

In 2012, the Social Insurance Committee continued its activities. According to the Provision on the Social Insurance Committee approved by the Company, the Committee handles the following issues:

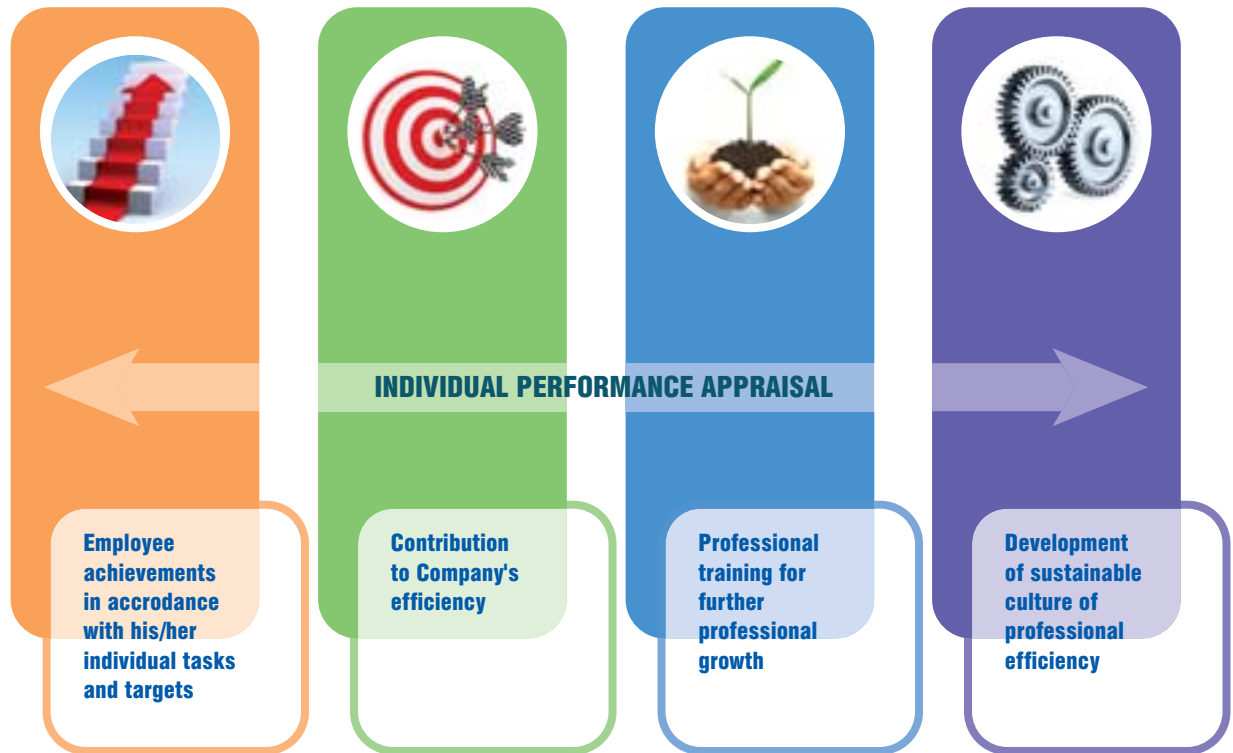
- Dispensing of social insurance funds provided for sanatorium-resort therapy and recreation of the Company's employees and their families; and
- Verifying employees' compliance with sick leave requirements and proper sick leave paperwork (if necessary).

#### 9.1.6 COMPANY EMPLOYEES' PERFORMANCE APPRAISAL

Sakhalin Energy considers building a sustainable culture of professional efficiency a top priority, and one of the major tools to achieve its strategic goals in this area is the Individual Performance Appraisal.

All employees go through the Individual Performance Appraisal process every year. Their labour efficiency is evaluated based on their achievements in accordance

## Individual Performance Appraisal



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.

## Staff development



## 9.1.7 STAFF LEARNING AND DEVELOPMENT

The development of Sakhalin Energy staff at all levels is key to achieving and sustaining a highly professional level and motivating the 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:

- Training planning and implementation;
- Regular 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-diploma internship programme.

The Company uses a competence-based approach to personnel management where a profile is developed for each employee showing his/her functional, leadership and personal competencies. The competence assessment is then used as a ground for guiding the employee's further development and training.

The employee competence assessment provides a clear understanding of the professional and behavioural



A SAP Super Users' Forum

requirements imposed on employees, depending on the reporting level, area of expertise, position and tasks performed. Employees can also assess their own competence and agree 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 nomination, individual document maintenance, personnel competence assessment, etc.).

Identifying an insufficient competence level of an employee in his/her functional area and then developing this competence is key to achieving the employee's performance targets. 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). The project of updating profiles and defining methods to increase the competence level of personnel is intended to span over several years and will require the cooperation of all Company divisions.

#### 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, distant learning, conventional training courses, workshops and case studies. In 2012, 1,664 people attended training at workshops, class training and advanced training courses (including distant learning), with some trainees attending more than one course. The average duration of training was 10.5 man-days per

employee (excluding on-the-job training). In 2012, Sakhalin Energy invested more than RUB 256 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 Company officers.

The top priority disciplines at Sakhalin Energy are as follows:

- Health, Safety and Environment (HSE);
- Specialised, professional courses in technical and other areas (finance, business, HR, etc.);
- Management and business administration;
- PC skills, Internet and Intranet training and other IT courses;
- Long-term training programmes for professional certification (CIMA, ACCA, CIPS, etc.);
- Various advanced training courses; and
- Language courses.

#### 2012 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 consists of four modules and a number of recommended online courses. This initiative was supported by participants as well as the Company management and became a vehicle for promoting knowledge and skills, as well as for creating a talent pool.

**E-learning**

In 2012, 24 online HSE courses were added to the Employee/Manager Self Service Portal (SAP HCM, which, among others, is a distance learning resource). These courses deal with important issues such as production safety and labour and environmental protection. The contractors' personnel were granted access to the Portal along with the Company employees.

Throughout the year, 214 employees completed one or more course at the Portal.

**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. Yet there is a risk that the knowledge and experience gained over 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, ten people took part in the programme.

**On 12 May 2012, Sakhalin Energy and the Gubkin Russian State University of Petroleum and Gas signed a strategic partnership agreement, which officially secured the longstanding, effective cooperation between the Company and the University and mapped out new areas for joint activities. The Agreement incorporates all of the experience of their previous cooperation. A group of students from the University visited the Company in September 2012 to take part in the programme that included lectures organised by specialists and managers of various directorates and an excursion to Russia's first LNG plant.**

**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.

In 2012, the programme was transformed from the 18-month Apprenticeship Programme to the 3-year Traineeship Programme. The initial training stage that was in place at the time — a 6-month English Language course and a 12-month Technical Training course — was supplemented by a second stage: 18 months of practical on-the-job training under the guidance of experienced production technicians. Demonstration of the progress achieved at the second training stage is a prerequisite for subsequent selection to fill the Company's technician vacancies.

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 that the studied material sinks in at the required level. The training process is supplemented with techniques such as:

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

**The Traineeship Programme not only gives trainees theoretical knowledge, but also the practical skills necessary to operate modern equipment conforming to world standards. The Programme also enabled us to obtain the necessary proficiency in English, for which I would like to say a special word of thanks. Furthermore, we were able to personally witness work at such a large facility as the LNG plant and to see the extent to which everything is well organised and thought out. Safety always comes first!**

Masalov Alexey, 2010 Trainee

Since 2003, 167 people have completed training under this Programme. In 2012, nine trainees completed training and were employed by the Company. There are 57 people undergoing training as Company's apprentices as of now. 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 area for developing the potential of Company personnel. The main objectives of the successors pool planning and development process are as follows:

- Identifying potential candidates from among Russian personnel to fill positions occupied by expatriate staff and key technical and managerial positions occupied by Russian nationals;
- Assessing the potential successors' readiness to man 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 Young Professionals' Club of Sakhalin Energy

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

In 2012, 730 positions were included into the succession plan, among them:

- 108 positions held by expatriates and planned for replacement by Russian nationals within the next five years. In 2012, all expatriate positions planned for Russianisation were succeeded by Russian staff from the internal successors pool; and
- 253 key technical and managerial positions currently occupied by Russian nationals.

During the succession planning process for 2012–2016, potential successors were identified for the short and long term for 561 positions (77% of the total number of all positions planned for succession). For each employee included into the successors' pool, Individual Development Plans were worked out incorporating training and development measures to be taken under the Company's staff learning and development framework (professional training, development of leadership and managerial skills, traineeship, coaching, participation in projects, etc.).

Potential successors' readiness to succeed 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 satisfy Sakhalin Energy's needs for talented staff. Under this programme, Sakhalin Energy's graduates are young professionals under 30 who have graduated a higher learning institution and were hired by the Company within three years after graduation. The graduates are hired by the Company for positions established in the Company's Manpower Plan especially for this type of employees. In 2012, the Company hired 13 graduates under this Programme. Since 2010, a total of 49 individuals have taken part in it.

The main requirements for candidates to the graduate positions are:

- Relevant academic background, with an average academic score of 4.0 and higher for technical disciplines and 4.5 and higher for non-technical disciplines;
- Good command of English;
- High Headroom Assessment scores, assigned during the Structured Interview; and
- Excellent recommendation letters.

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**Since 2012, the Young Energy Graduates Club has been operating in the Company to help young professionals adapt to the Company faster and develop their business and leadership skills. In 2012, the Club's activities included a familiarisation visit to the LNG plant, a simulation exercise in strategic planning, awareness sessions on Gas and Condensate Treatment and Transportation and OPF Power Supply, as well as other activities.**

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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 phases:

- I. Me and My Company;
- II. Me and My Profession;
- 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 to develop joint technical projects. In addition, the Company's professionals participate in scientific student associations, take part in preparing and delivering lectures, etc. One of the activities in this area is the Scientific and Practical Conference of Sakhalin Energy's Young Professionals, annually held by the Company.

The main objectives of the scientific and practical conferences are:

- To realise the employees' potential, develop creativity and promote the development of managerial competency;
- To discover innovative ideas and support promising projects that contribute to the growth of employees' scientific and technological capacity;
- To provide opportunities to share experience and knowledge, to inform colleagues of interesting ideas and labour-saving propositions that may help to improve the efficiency of production processes; and
- To involve young professionals in solving complex engineering problems with the use of innovative approaches.

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

The 4th Scientific and Practical Conference of Young Professionals was held in October 2012. Its programme included presentations of twelve research papers in the following areas: Information Technology and Automation of Production Processes, Supply Chain Management, Production, Engineering, Geosciences and Marketing.

The Conference Panel was formed out of highly qualified experts from the Production, Technical and Financial 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 programme enables students of Russian higher education institutions and vocational education institutions to gain familiarity 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 2012, 114 university and college students participated in an internship at the Company. Nearly 85% of the 2012 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:



Participants of the 4<sup>th</sup> Conference of Sakhalin Energy's Young Professionals

- 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 wishing to obtain specialised higher technical engineering education with a view to build a career at the Company.

Other eligibility criteria are:

- Status of the Sakhalin Oblast resident;
- 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 to build a career at Sakhalin 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



4th Conference of Sakhalin Energy's Young Professionals, October 2012

reimbursement of tuition costs to contest finalists who have been admitted to fee-based university programmes.

In 2012, 17 Sakhalin high school and vocational school graduates became winners of the Scholarship Programme.

## 9.2 LABOUR SAFETY AND PROTECTION

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

**The Life Saving Rules are a set of ten rules that have been developed and adopted by the Company as absolutely binding. Their violation inevitably leads to serious consequences, and in some cases — dismissal. Among other things, the rules prohibit alcohol and drug use, smoking in areas containing hydrocarbons, presence or use of ignition sources in areas containing hydrocarbons, and talking on a cell phone while driving. It also demands strict compliance with speed limits, compulsory seat belt wearing during vehicle movement, mandatory Journey Plans, Defensive Driving Course certificate, and compliance with the Permit to Work Requirements.**

To achieve this goal, the Company uses an integrated approach when handling HSE issues (see Section 5.6 of Health, Safety, Environment, and Social Performance Management). This approach provides both compliance with legal regulations and risk management 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
- Behaviour Safety.

### 9.2.1 RESULTS

In 2012, Sakhalin Energy improved its safety performance as compared to 2011. The Company maintained its leading position among the most successful oil and gas companies in terms of the number of incidents. The total reported incident frequency\* was 0.52 (\*the reported incident frequency is the number of registered incidents per million man-hours worked).

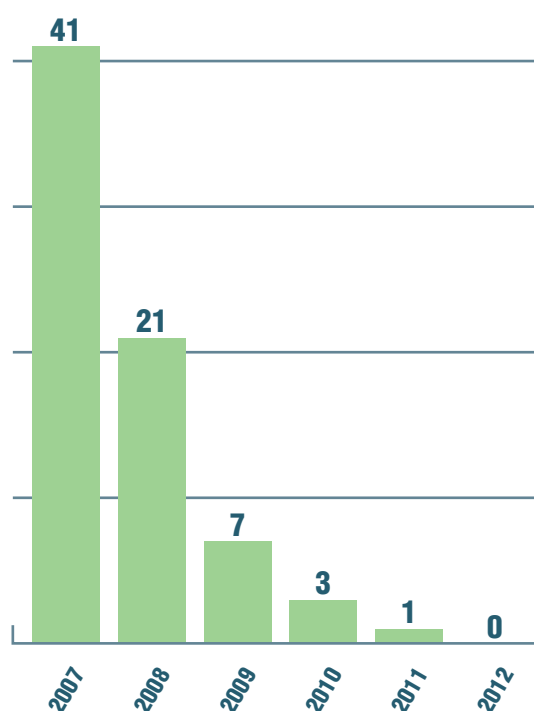
In 2012, the Company did not have a single registered case of occupational illness as per the Russian legislation.

In 2012, there were no significant incidents relating to process safety at Sakhalin Energy facilities.



In 2012, the annual Safety Day was held under the theme **Time for Safety**. On 6 June, meetings on safety at work and in daily life took place at all Sakhalin Energy directorates and departments, as well as many contractor companies. Safety Day 2012 summarised the previous Safety Days, held over the last five years, addressing the need to intervene in unsafe situations, the skill of recognising such situations and applying the appropriate measures to control them. In many departments, examples from personal experience were shared during the discussions. At Prigorodnoye Asset, employees took a quiz where they had to answer questions such as, **How do we save time when solving health and safety issues? and What can we improve and how?**

Dynamics of lost time incidents



### 9.2.2 ROAD SAFETY

In November, Sakhalin Energy reached a safety performance milestone: it did not have a single injurious road traffic incident throughout the year. During this period, our vehicles drove more than 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 2012 IVMS reports

demonstrated an improvement in driving. The entire monitoring system covers more than 1,000 drivers and 650 vehicles;

- Defensive driving training. Sakhalin Energy continues defensive driving training of all professional and non-professional drivers. In 2012, 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 compliance. Different areas of Sakhalin have three Road Safety Monitoring teams, which daily monitor the compliance of Company and contractor/subcontractor drivers and vehicles with the road safety rules and requirements as per Russian law and the Company Standards;

**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 Partnership, whose establishment was initiated by the Company back in 2005. In 2011, the Sakhalin Road Safety Partnership was transformed into the Sakhalin Road Safety Council (see Section 9.5.7 on the Sakhalin Road Safety Council).**

- Vehicles replacement. The Company is gradually replacing its motor-vehicle fleet, with 5% of the total fleet replaced in 2012;
- Interaction with other organisations. The Company initiated collaboration with Gazprom Dobycha Shelf (working on 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 facility has appointed persons responsible for road safety, who

**Sakhalin Energy employees and contractors pay much attention to communication issues related to HSE, knowledge of risk management at the workplace, compliance with the Life Saving Rules, permits to work and control of ignition sources. This is necessary for creating a sense of chronic unease to promote a culture of safety and prevent unsafe acts.**



daily monitor the operation of all vehicles, including journey management and vehicle inspection for compliance with the Russian legislation and Company requirements;

- Information campaigns. In 2012, information campaigns were held on the following topics: Speed and Seat Belts and Driver Fatigue.

### 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 2012, 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, integrated work safety systems and many other instruments to manage safety at all facilities.

### 9.2.4 LABOUR SAFETY CULTURE

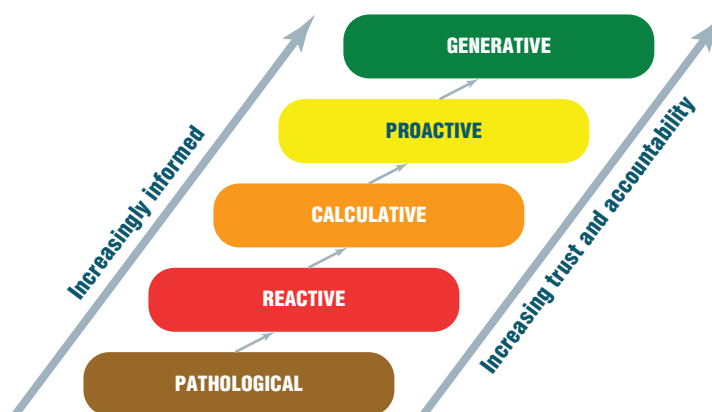
It is one of Sakhalin Energy's priorities to develop, both in the Company and in contractor organisations, a corporate culture aimed at reducing the accident rate and promoting proactive behaviour in the area of health and safety.

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, in 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 HSES culture. In 2012, 100 leaders — directors, contract holders and production facility managers — visited the Company's production facilities accor-

Safety culture evolution ladder



ding to a plan approved by the Company CEO to develop managers' commitment to production safety. While visiting the facilities, managers focused on communicating with numerous Company employees and contractors to demonstrate their sincere commitment to labour safety. This serves as an important element of employee motivation and an overall improved safety culture.

Besides a programme for involving the Company's top managers, a similar programme was implemented in 2012 for line managers. Under this programme, managers were trained in effective communication with their subordinates regarding HSE issues. Particular emphasis was placed on effective toolbox talks and intervention to prevent unsafe situations.

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.

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**Safety is Sakhalin Energy's main priority. It is the foundation of our daily work, whether at the office or at 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 2012, we received a total of 49 applications for this award. It was awarded to eight Company employees, one Company unit and two Company contractors.**

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Effective observation and intervention to prevent dangerous activities is part of creating and improving the 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, Environmental, and Social Performance Policy and Commitment.

The image shows two forms used for safety management. The 'Intervention Card' on the left is divided into sections for checking safety (Hazardous situation, PPE, Tools and equipment, Procedures, Workplace conditions) and safety (Hazardous situation, Personal Protective Equipment, Tools and equipment, Procedures, Workplace conditions). It includes checkboxes for various safety items and a section for 'Observed Information (not people observed)'. The 'Observation and Discussion Report' on the right is a form for recording observations and discussions, with sections for 'Safe Acts Discussed', 'Unsafe Acts Discussed', 'Actions Taken', and 'Observed Information (not people observed)'. Both forms include a logo for Sakhalin Energy Investment Company Ltd.

Intervention Card

The programme is being successfully implemented at all Company facilities.

For example, in 2012, Company and contractor employees registered 9,062 cases of intervention at all Company facilities (for an example of filled observation and intervention cards, see Fig. Intervention Card).



CEO Safety Award for September 2012 was given to Sergei Bunin, Chief Pilot at Port Prigorodnoye

Since 2012, positive examples of safety culture began to be registered as part of the programme as well. 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 2012, 22,203 cards were filled in with demonstrative safety culture examples.

Training based on programmes for developing a safe behaviour culture was continued at all Company production facilities. Over 2,300 Sakhalin Energy employees and contractors completed training in 2012.

## 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.

The Company's Occupational Health and Hygiene Standard was updated in 2012 to include specifications for naturally occurring radioactive material control as well as a specification for personnel fatigue management.

Compliance with this standard facilitated a low incidence of occupational diseases (the total frequency of registered occupational diseases and occupational diseases with disabilities) in 2012. 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 2012, employees and contractors were screened to assess the risk of acute coronary syndrome.

Besides mandatory health programmes, in 2012 the Company continued its policy of encouraging staff to maintain physical fitness and prevent diseases.

KPI	Outcome 2008	Outcome 2009	Outcome 2010	Outcome 2011	Outcome 2012	Target 2012
TROIF (Company only)	4,1	2,4	5,9	0,6	0	5,0
TROIF (Company and contractors)	1,2	0,6	3,8	0,6	0,8	5,0
TROIF with temporary disability (Company only)	2,8	0,8	1,6	0	0	N/A
TROIF with temporary disability (Company and contractors)	0,3	0,1	0,1	0,2	0,1	N/A

The following additional measures were carried out for this purpose.

- Measures for the prevention of acute respiratory diseases and flu, including informational campaigns and vaccination;
- A programme for promoting a healthy lifestyle and recreational sports. A peer group among Company employees initiated a series of activities aimed at improving general health and promoting fitness and sports. 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;
- An alcoholism and drug addiction prevention programme that raises awareness of the dangers of alcohol and drugs;
- 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 assets. Employees residing

outside of Yuzhno-Sakhalinsk receive financial compensation to pay for sports centre memberships;

- An active campaign against smoking. Each year on 31 May, Sakhalin Energy celebrates the World No-Tobacco Day. In 2012 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, leaflets and souvenirs. In November, the Company held another anti-smoking event that included a roundtable discussion with not only smokers, but also employees who quit this habit invited to discuss the ways and possibilities of tobacco-free living; and
- On 1 December 2012, the World AIDS Day, an annual internal information campaign was organised.

The Company continues to implement high standards of medical emergency response. In 2012, 295 Company and contractor employees completed first-aid training, four doctors undertook an internship abroad, and a licensed medical station was opened at the Zima residential complex.

## 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 Company documents, providing a foundation for human rights support in everyday business:

- Statement of General Business Principles;
- Human Rights Policy;
- Code of Conduct;
- Contracting and Procurement Policy;



The Involuntary Resettlement Workshop, Moscow, November 2012

- Whistle Blowing/Grievance Procedure; and
- Sustainable Development Policy.

The Company holds training and awareness sessions to ensure compliance with 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 for raising any concerns and reporting noncompliance. On their part, all Sakhalin Energy employees are required to inform the Company of any identified violations of the General Business Principles. As a key tool in this area, the Company applies the Whistle Blowing/Grievance Procedure.

In November 2012, Sakhalin Energy took part in a workshop titled **Involuntary Resettlement: Key Issues, Standards and Practices**, held in Moscow as part of the UN Global Compact Network Russia activities.

Involuntary resettlement is the physical or economic movement of people due to land withdrawal or acquisition for business purposes. The issues associated with involuntary resettlement are closely related to respect for and observance of human rights. Involuntary resettlement may be a very sensitive event, especially for vulnerable groups of the population. In the sphere of human rights, this issue remains one of the most crucial problems and requires special attention from businesses since its successful resolution mitigates an adverse impact on the population by a project and minimises business risks for companies that have to resettle local residents.

Sakhalin Energy is the first company in Russia that set out to resolve issues of land acquisition and residents' resettlement on the basis of the best international standards and practices. The Company successfully completed this work in 2011 and based on the results, in 2012 it issued a brochure, which was presented at a workshop and is available at the Company web-site.

As noted by the workshop participants and experts, the Company's experience is of particular importance since the number of large-scale projects that require land withdrawal or acquisition is constantly growing.

The **First UN Forum on Business and Human Rights** took place in Geneva on 4-5 December 2012. It was founded by the UN Human Rights Council in 2011 as a key annual meeting of stakeholders from various regions of the world to discuss business and human rights issues and to enhance cooperation for efficient and full-scale implementation of the UN Guiding Principles on Business and Human Rights. The Forum included 18 panel sessions where attendees shared their practical experience of implementing the Guiding Principles in different areas and their vision for further progress from a variety of angles. They also discussed the existing challenges and ways to overcome them. The Sakhalin Energy representative led the panel discussion on non-judicial remedy mechanisms and shared the Company's experience of implementing the grievance resolution mechanism. As noted by participants, some practices applied by Sakhalin Energy may well be considered unique best practices.

In 2012 the Company developed and introduced the Human Rights Policy to define 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.



The Human Rights Policy outlines the areas in which Sakhalin Energy endeavours to identify, assess and manage human rights risks and their implications. These areas include:

- Employee relations;
- Work with local communities;
- Business partners; and
- Security.

In each of these areas, Sakhalin Energy endeavours to ensure that the following processes are in place:

- 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
- Compliance monitoring and reporting.

#### 9.4.2 COMMUNITY GRIEVANCE PROCEDURE

Sakhalin Energy has developed and implemented the Community Grievance Procedure, aimed at building strong, long-term and effective relationships with all stakeholders impacted by Sakhalin Energy activities. It also provides for an effective and timely review and resolution of grievances, reduction or avoidance of the recurrence of similar grievances, as well as thorough documentation of the grievances and the remedial actions taken to enhance accountability and reduce liability.

The key principles of the Sakhalin Energy Grievance Procedure are:

- **Legitimacy and incorporation into management systems**

The Grievance Procedure consists of elements and mechanisms that instil a sense of trust in stakeholders and affected groups targeted by this procedure.

The Grievance Procedure provides for independent bodies to assess, resolve and monitor grievances. The status and progress of each case is controlled by the Company's top management and there is also an external and internal audit. Furthermore, the grievance handling process is assessed by an independent committee and is carefully documented and tracked via the Fountain System, an automated incident registration system.

- **Accessibility (ensuring awareness of all stakeholders targeted by this Procedure)**

There are different channels for lodging grievances to make the Company maximally accessible for communication with complainants. Among these channels are the Company's information centres set up in 23 Sakhalin

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

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**In 2012, information about the Community Grievance Procedure and its implementation experience was included into Business Ethics courses at the following educational institutions: Moscow International Business School, State University of Management, Russian Academy of National Economy and Graduate School of Corporate Management, MGU Graduate School of Business Administration, JSFC System Corporate University, MICEX Training Centre / Moscow Interbank Currency Exchange and Rostov State Institute of Economics.**

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- **Transparency and openness**

The Company regularly informs all stakeholders of the status and progress of grievance handling and incorporates the grievance updates in regular public corporate reports.

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

Sakhalin Energy conducts regular consultations with communities and other stakeholders on the effectiveness of the grievance handling process. Such consultations are part of community engagement and meetings with focus groups, as well as of internal social performance monitoring. Special emphasis is made on dialogue with complainants as part of grievance review and decision-making to reach a resolution.

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**Sakhalin Energy has established and effectively maintains the formalised internal mechanism (the Community Grievance Procedure) that allows the receipt, investigation, tracking, assigning of actions, and addressing of complaints from the external public, including communities and contractor personnel.**

**The Independent Environmental Consultant (IEC) has been monitoring Sakhalin Energy's grievance redress mechanism over a number of years and acknowledges that this procedure has evolved into a comprehensive, robust and transparent tool that enables the Company to effectively handle the external grievances by competent staff.**

**Overall, the IEC concludes that Sakhalin Energy's approach to the grievance redress and the internal resourcing of this mechanism is exemplary and represents an illustrative case of good practice. The IEC therefore encourages the Company to share its demonstrative positive practice with other interested parties that may also benefit from the considerable experience accumulated by the Company.**

Extract from the 2012 audit report prepared by ENVIRON,  
Lenders' independent consultant

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- **Process predictability and ensuring concerted actions for grievance handling**

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 both for the 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 lodged by Sakhalin Energy are tracked and the tendencies are analysed. This analysis serves as a basis for developing recommendations for the Company's relevant departments as well as for contractors/subcontractors to mitigate impact and take preventive measures.

**In 2011, the European Commission launched a project to develop guides for three industry sectors for the implementation of the UN Guiding Principles on Business and Human Rights. The three industry sectors were Oil and Gas, Employment and Recruitment Agencies, and Information and Communication Technology. In 2012, Sakhalin Energy was invited to participate in the Advisory Group for the development of a Guide for the oil and gas industry.**

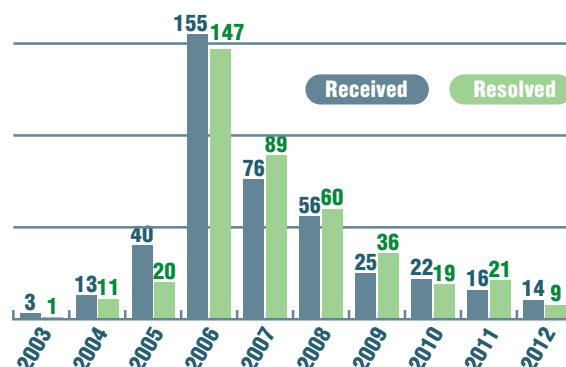
**A multi-stakeholder roundtable was held in Brussels on 1 June 2012. It was hosted and facilitated by the European Commission, with about 40 participants taking part in the consultations, including representatives of oil and gas companies, Sakhalin Energy among them, as well as NGOs, International Labour Organisation, etc.**

**The roundtable focused on the key factors impacting human rights, the challenges of implementing corporate social responsibility for human rights observance, as well as the future format and scope of the Guide.**

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

In 2012, the Company received 14 grievances, which is 13% less than in 2011 and 27% less than in 2010. This is

Grievance handling activities by year



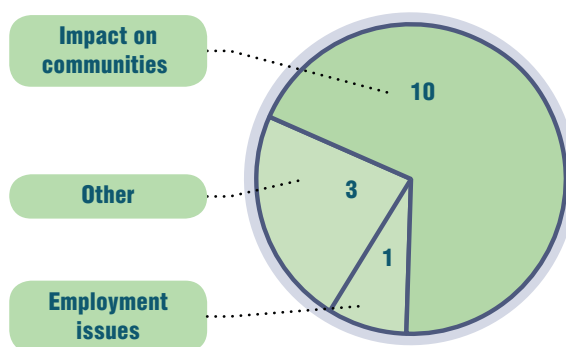
related, on the one hand, to the inconsiderable amount of construction work under the Sakhalin-2 project and consequently, a minor impact on Sakhalin communities, and on the other hand, to pro-active identification and resolution of potential issues of concern, as well as the Company's open and transparent work in this area.

Ten grievances received in 2012 were related to project impact on the local communities, one grievance was related to employment issues (of contractors), one grievance was related to implementation of the Sakhalin Indigenous Minorities Development Plan, and two grievances were filed regarding other issues.

By the end of 2012, seven of the 14 received grievances were resolved. Among them, initiators of five grievances signed statements of satisfaction. The other two grievances were closed by the decision of the Business Integrity Committee in accordance with the Procedure based on the following circumstances: in the first case, the Company did not receive any feedback from the complainant within the period stipulated by the Procedure, and in the second case, the complainant remained unsatisfied despite all the measures the Company undertook to resolve the issue within its authority.

In addition, the Company resolved two grievances that were received in 2011, with one of the complainants signing a statement of satisfaction. All the complaints were resolved within the prescribed time limits.

Categories of grievances in 2012



## 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 its establishment in 1994, the Company has paid close attention to the socially significant programmes implemented on the Sakhalin Island. Sizable and consistent investments in the social realm, as well as a targeted long-term policy to address social issues are in line with Sakhalin Energy's commitment to sustainable development principles. Sakhalin Energy's policy in this area is based on the shared contribution model and is beneficial for all stakeholders.

In 2012, the Company invested a total of over RUB 36 million (over USD 1.25 million) into various external social programmes in the Sakhalin Oblast.

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 be directly connected to the Company's activities, 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 Sakhalin Energy's commitment to sustainable development.

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 ongoing internal monitoring and a biennial independent external evaluation of social investment projects.

Corporate social responsibility is about the social impacts that a company generates and the responsibility to those who are impacted, whether directly or indirectly. Therefore, in choosing its projects and development strategies, Sakhalin Energy is guided by the viability of such projects as well as their long-term potential and capability of improving the community's life.

The Company's methods of developing and implementing projects and programmes are based on a transpa-

#### Flagship long-term partnership projects

 <p><b>SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN</b></p> <p><b>Partners:</b> 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><b>WHAT TO DO IN EMERGENCY SITUATIONS</b></p> <p><b>Partners:</b> Company, Sakhalin EMERCOM, Sakhalin Ministry of Education</p> <p>A complex educational programme, targeted on schoolchildren, carried out for more than five years</p>	 <p><b>KORSAKOV SUSTAINABLE DEVELOPMENT PARTNERSHIP COUNCIL</b></p> <p><b>Partners:</b> 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><b>SAKHALIN SALMON INITIATIVE</b></p> <p><b>Partners:</b> Company, Wild Salmon Center NGO, Sakhalin Oblast Government</p> <p>Salmon is one of the symbols of Sakhalin and has a great importance for life and culture of Sakhalinians, including indigenous peoples. The initiative brings together international expertise and Russian experience</p> <p>The project was completed in June 2012</p>	 <p><b>ROAD SAFETY PARTNERSHIP</b></p> <p><b>Partners:</b> 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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rent and unbiased approach. This approach is applied to the competitive screening process of choosing the best local initiatives as part of the Company's grants programmes. For some competitive programmes, such as Small Grants — Big Deeds, the Company invites independent third-party experts to evaluate the projects submitted for sponsorship.

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 integrated into the Company's general business strategy.

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.

Sakhalin Energy considers the following social investment areas a priority:

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

### 9.5.2 SMALL GRANTS — BIG DEEDS

Small Grants — Big Deeds is Sakhalin Energy's most diverse social investment programme with the broadest reach. The programme is a grant contest aimed to support community and non-profit organisations initiatives. The competition selects the most interesting ideas for funding. This focused effort is capable of making a serious contribution to resolving problems that are topical for certain targeted groups and reinforcing the confidence of active citizens and organisations in their ability to improve their lives and the environment.

The programme's traditional funding areas are:

- Community support programmes and projects aimed at increasing community members' involvement and developing services for vulnerable groups;
- Cultural and educational projects and initiatives;
- Environmental protection projects and initiatives;
- Sports projects; and
- Healthy lifestyle promotion projects.

The grant application selection procedures are clear 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 a focus on socially valuable results and/or promotion of innovative social technologies, rather than construction and maintenance of community facilities and infrastructure.

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**In 2012, a total of 43 projects from different areas of the region were supported. They were selected from 117 applications submitted to the grant contest. Since the Programme's launch in 2003, a total of 350 projects in 60 towns and villages have been funded. The total Company investment amounted to about RUB 23 million. Overall, 218 social Sakhalin organisations and institutions implemented their projects during this period.**

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Below are some of the projects funded in 2012:

- **The Living Water School Project** by the Boomerang Club (a Sakhalin NGO). The project focuses on the promotion of kayaking as one of the most prospective development areas of water tourism in Sakhalin. The club developed a youth training course called Kayaking School and demonstrated that kayaking is a safe and affordable water sport rather than the domain of a chosen few. Boomerang presented two eco-tours: one along River Lyutoga and the other around Lake Tunaicha. They also organised a kayaking festival that took place on Lake Verkhneye in the Yuzhno-Sakhalinsk City Park in September. To date, over 150 school and college students have attended Boomerang's Kayaking School.
- **Discover the World with Your Fingertips Project** by the Sakhalin Regional Library for the Blind. This project is the first on Sakhalin to create special tactile books that form the core of a new collection of hand-made tactile books for visually impaired children. Tactile books are printed both in large-font and Braille and contain embossed images. The books were made using new equipment that was purchased by the library under the project.
- **Reviving the Spirit of Old Russia Project** by the Children's Creativity Centre (Bykov Village of Dolinsk





Presentation of the Small Grants — Big Deeds project

district). The first Merry Fair in Bykov's history was held in October 2012. The local schoolyard was filled with rows of stalls where anyone could buy handicrafts made by Bykov children and craftswomen. The Merry Fair was the concluding event of the Reviving the Spirit of Old Russia project. New sound amplification equipment was purchased under this project. From now on, such festivals where numerous visitors can enjoy the spirit of the traditional Russian fair will be held on a regular basis. Children and their parents will join efforts to prepare for these festivals.

**As in previous years, following the announcement of the grant round, information sessions were held in ten Sakhalin districts. These sessions were attended by 291 people.**

- **The Oasis of Happiness, Land of Dreams Project** by the Teremok Kindergarten (City of Kholmsk.) The kindergarten is now home to the Moon Sand drawing studio where children can learn how to draw pictures with sand using special illuminated tablets. This activity lets children express themselves both creatively and emotionally by releasing negative emotions and deep-seated inhibitions.

### 9.5.3 WHAT TO DO IN EMERGENCY SITUATIONS PROGRAMME



The What to Do in Emergency Situations Programme is being implemented in partnership with Sakhalin Emercom and the Sakhalin Ministry of Education since 2005. Creating educational cartoons about safe behaviour in various situations is one of the Programme's traditional areas of focus. In 2012, four new cartoons

under the following themes were made: safety inside a car, in public places, at an airport and on-board a plane. One of the new educational cartoons is about dealing with peers and knowing how to say No.

In October 2012, on the eve of the International Day for Disaster Reduction, the third annual Safety Day holiday for children took place on the Sakhalin Island as part of the Programme. The event was attended by 16 teams of 11 and 12-year-olds from 15 Sakhalin districts.

**The [www.senya-spasatel.ru](http://www.senya-spasatel.ru) web site containing educational materials and developed under the What to Do in Emergency Situations Programme was named the winner of the Fourth All-Russia Constellation of Courage Journalism Contest in the Best Internet Project nomination on National Heroes Day, 9 December 2012. This web-site was also named the Best Safety Educational Site in the Far Eastern Federal District.**

In 2012, 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 Korsakov, Kholmsk and Aniva districts.

Just before the summer vacation, a new comic book was published, titled Summer with Senya, featuring Senya, an expert on safe behaviour. The comic book is based on safety cartoons that children are well familiar with. In an easy and accessible manner, it tells children about safe behaviour in water and in the forest, including advice on how to act in case of encountering a wild animal.



Awareness billboards in Sakhalin Oblast communities prone to tsunamis

A methodic book titled Life Safety Fundamentals was published, being a compilation of the best teaching materials in this area. This was the result of a contest arranged under the Programme, with a total of 42 applications submitted from 13 Sakhalin districts, of which 15 were included into the workbook.

#### 9.5.4 HURRY UP FOR GOOD DEEDS

Corporate volunteering is one way to put corporate social responsibility into practice. The opportunity to help resolve social problems brings a feeling of moral satisfaction, creates a positive attitude toward the Company and develops a sense of pride of oneself and one's team. Taking part in volunteer actions allows employees to experience a new, unfamiliar environment which enriches their personal experience, stimulates creative thinking and the search for non-standard solutions to challenges.

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 to 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 have been successfully developed since 2011. They 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 the 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.

#### 2012 projects and initiatives

In 2012, the Company provided assistance to the Alexandrovsk-Sakhalinsky Orphanage. Company employees raised over RUB 900,000 with two fundraising campaigns held prior to and during Sakhalin Energy's Birthday and the Oil and Gas Workers' Day celebrations. We purchased new physical therapy/electrotherapy and food processing equipment, supplied new water filters, and presented the Orphanage with musical instruments and noisemakers, toys and life-size puppets. A new children's playground with an arbour will be installed in the Orphanage's yard.

Company employees and their families participated in an eco-event that took place at Yuzhno-Sakhalinsk Botanical Garden on an autumn Saturday. The volunteers planted perennial plants, cleaned up trash and removed broken twigs and branches from pathways.

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**In 2012, the Hurry Up for Good Deeds programme received recognition at many Federal-level contests and competitions.**

**One of the examples is the HR Brand 2011 award, the most prestigious and widely recognised Russian human resources award presented by HeadHunter jointly with PricewaterhouseCoopers.**

**The Company also won the Leaders of Corporate Philanthropy award in the Best Programme Promoting Philanthropy in Russia category sponsored by the Philanthropy and Volunteering Promotion Committee of the RF Public Chamber.**

**In addition, the Hurry Up for Good Deeds programme received a Certificate of Recognition at Russia's Best Social Projects contest and was named one of the best in the Internal Corporate Projects category.**

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Participants of the New Year Miracles charity project

In 2012, our annual Christmas Miracles project was focused on children with disabilities and lonesome elderly people. Company employees organised a festive tea party for elderly and disabled residents of the Yuzhno-Sakhalinsk Nursing Home and presented them with Christmas gifts. In addition, seven 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 gift sets purchased with funds donated by Company employees.

### 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, and in order to mitigate tensions and enhance the Company's reputation, 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 administered by the Korsakov Sustainable Development Partnership Council, an effective and transparent mechanism that satisfies all stakeholders and includes representatives from government authorities, the civic society and the business community. The Council is comprised of nine members, three from each party, to ensure a balance of interests and expectations of all Korsakov district residents:

- Three members representing Sakhalin Energy;
- Three members representing Korsakov Municipal District authorities (two from the municipal government and one from the local legislature); and
- Three members representing the local community.

The local community is represented by Korsakov active citizens and members of NGOs operating in the district.

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. Such monitoring results in fair and well-grounded decisions on the funding needs and priorities proposed by organisations and institutions, as well as an objective assessment tool of the social impact of community projects already implemented.

In 2012, the Council approved 22 projects, including 18 projects under the Korsakov Initiatives Grant Programme. The Korsakov Initiatives winners were selected by Korsakov City residents at the Project Fair, where projects are presented to the public.

Large projects implemented in 2012 include:

- Ensuring people's safety and health on Vavaiskoye Lake, with a rescue station set up on Vavaiskoye Lake and a youth awareness campaign on water safety issues;

- The Healthy Water Project under which drinking fountains are to be installed in all educational institutions in the Korsakov residential district. The project will be completed in 2013; and

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**In November 2012, the Korsakov Council won second place at the All-Russian Contest Leaders of Corporate Philanthropy in the nomination Best Programme for Corporate Philanthropy Policy and Social Investment Principles. It was nominated by the Russian Union of Industrialists and Entrepreneurs. The contest is organised by Vedomosti, a daily business newspaper, the PricewaterhouseCoopers audit-consulting agency, and a non-profit partnership of donor organisations, Donor's Forum.**

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- Video surveillance system to ensure community safety on Sovyetskaya Street, with a video surveillance system installed on Sovetskaya street and Lenin square in Korsakov.

To develop proposals for the further improvement of the Council's operation, Marina Mikhailova, Director of the Garant Centre for Social Technologies in Arkhangelsk, was recruited as an independent expert in November 2012. She helped to develop the

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**A Festival of Projects took place at the Korsakov Art School for Children in December. The Programme's achievements in 2010, 2011 and 2012 were presented at the Festival, which also served as a starting point for the new phase of the Korsakov Partnership.**

**The Workshop of Joy: A Theatre for All Seasons, a project developed by the Soloviyevka Community Cultural Center, was voted Best Project by members of the public who attended the Festival.**

**Winners in the Best Korsakov Initiatives projects nomination were the Magic Bubbles project by Romashka Kindergarten in Korsakov, the Music + Eurhythmics = Gymnastics project by the Korsakov District Youth Sports School, and the School of Law project by the Korsakov Library. The Teremok (Little Palace) Project by the Korsakov Okean (Ocean) Culture Centre was voted the most creative project by the local public. The special award of Korsakov SD Partnership Council was presented to the Motherhood: A Positive Approach project by Korsakov Central District Hospital.**

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regulation documents that will govern the Council's operations to further sustainable development between 2013 and 2015, as well as the Programme Concept of sustainable development and social investments in the Korsakov area.

The Council will continue its work starting January 2013, with some of the former members replaced with new ones. The Korsakov SD Programme will also





The Festival of Projects held by the Korsakov Sustainable Development Partnership Council, December 2012

undergo some changes. The number of priority funding areas will be expanded to include support for education, culture and the arts.

#### 9.5.6 ST. GEORGE RIBBON CAMPAIGN

The All-Russian St. George Ribbon Campaign pursues two main objectives: to preserve and pass down to new generations the memory of those who sacrificed everything, including their lives, to winning the Great Patriotic War, and to draw public attention to veterans' problems.

The Company has been a partner of the Campaign on the Sakhalin Island since 2008.

In 2012, the Company distributed 50,000 ribbons on the island through its community information centres, set up at local libraries in 23 Sakhalin communities.

As part of the St. George Ribbon distribution event in Yuzhno-Sakhalinsk, a concert titled Tribute to the Heroes of the Past took place at the public square by the Sakhalin Oblast Government Building on 27 April 2012. Following the previous years' tradition, the Company donated RUB 300,000 to the Sakhalin Regional Veterans Council.

#### 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 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 is focused on educational and enlightenment projects in the field of road safety.

In 2012, the Safe Ride to School project continued with presentations of safe home-to-school route maps delivered in Dolinsk School No.2, Starodubskoye School, and Kholmsk School No.9.

On 31 July, an educational event took place in Yuzhno-Sakhalinsk at the Children and Youth Creativity Centre, timed with International Traffic Light Day. Children from the local summer camp participated in a road safety quiz and together with traffic police officers, they appealed to Sakhalin's drivers and pedestrians to be attentive on the island's roads.

In 2012, Sakhalin's general schools participated in a special contest to create methodological classes on road safety. The six winners received interactive multimedia equipment to be installed in dedicated road safety classrooms. Two such classrooms were opened in 2012, one in Yuzhno-Sakhalinsk School No.31 and the other in Korsakov School No.1. Four more (two in Yuzhno-Sakhalinsk, one in Kholmsk and one in Okha) will be opened in 2013.

The Safety with a Seatbelt and a Booster Seat awareness campaign was launched on 1 August. The campaign's message was communicated via billboards, posters placed in shopping centres and child care facilities, as well as via TV and radio broadcasts in partnership with the ASTV media holding.

Road safety educational activities will continue in 2013.



## 9.5.8 SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN

### 9.5.8.1 Plan 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 Minorities of Sakhalin Oblast and the Sakhalin Oblast Government since 2006.

**The Plan is based on international standards concerning indigenous peoples. The implementation procedures and management structure of the second Plan reflect the requirements of the new international standards, effective as of 2006. The second Plan was developed in accordance with the “free, prior and informed consent” (FPIC) principle provided in the United Nations Declaration on the Rights of Indigenous Peoples (2007).**

The key objectives of SIMDP are:

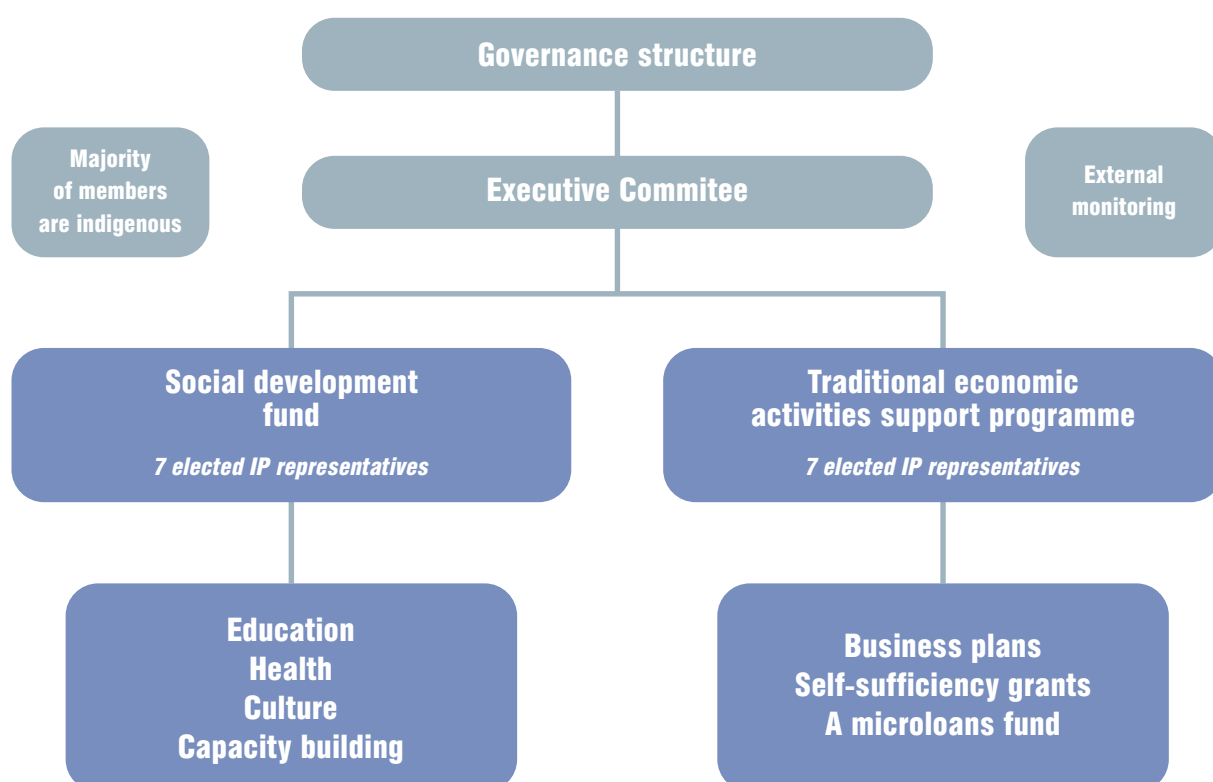
- Improving the lives and livelihoods of indigenous minorities of the Sakhalin Oblast through social development programmes in a culturally appropriate and sustainable manner;

**The active participation of Sakhalin’s indigenous minorities is a critical component of the approach employed by the three cooperating parties 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.**

- 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
- Avoiding or mitigating in an environmentally sustainable manner any potential negative effects caused by the Sakhalin-2 operations.

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). The distribution of funds allocated for the implementation of various projects under the Plan is

#### SIMDP governance structure





The Continuity of Generations festival, Nyivo Bay, August 2012

carried out by representatives of indigenous minorities elected from each district to be on the SDF Council and the TEASP Committee.

Internal monitoring is carried out to track the implementation of SIMDP programmes and ensure that the allocated funds are used as intended. It is conducted by

**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 developed. Monitoring is conducted by Gregory Gouldin, an expert on social issues with extensive international experience in indigenous minorities project development and implementation. In June 2012, he met with Sakhalin's indigenous people in their communities and in September, issued a report covering the period between January and June 2012.**

an internal monitoring team that includes representatives from each of the three Plan partners.

In 2012, the internal monitoring team reviewed 51 projects implemented under SIMDP.

#### 9.5.8.2 SIMDP Traditional Economic Activities Support Programme

The Traditional Economic Activities Support Programme (TEASP) was designed to address issues of Indigenous Minorities' employment and business development. Traditional resource use activities (herding,

fishing, gathering and crafts) are extremely important for the preservation of their cultural heritage.

In 2012, the Company allocated RUB 5,026,600 to support projects implemented under TEASP.

Programme funds are distributed in the following areas:

- Business planning;
- Self-sufficiency grants; and
- Microloans.

A total of 95 applications were received in 2012 under the first two areas, of which the Committee selected 15 for funding. These projects were designed to support clan and family enterprises and obschinas (communities), as well as other indigenous associations, and were implemented in six Sakhalin districts which are home to indigenous communities. Various types of equipment and materials used in traditional economic activities and for improving the social infrastructure in indigenous communities were purchased using programme funding, with an overall objective of preserving the traditional indigenous way of life. Detailed information about the projects implemented under this programme is available at [www.simdp.ru](http://www.simdp.ru).

The microloan programme was designed to give greater access to sources of financing for indigenous communities and other indigenous economic entities. This programme is being implemented by Batani Fund. Seven loan applications, with requested loan amounts

ranging from RUB 150,000 to 500,000, were received by the programme in 2012. Funding was provided to two indigenous organisations. Three indigenous communities (obschinas) made a complete and timely repayment of the loans they received in 2011; two of them repaid their loans ahead of schedule.

#### 9.5.8.3 SIMDP Social Development Fund

These funds are distributed in a number of areas, primarily the following:

- Education and healthcare;
- Indigenous capacity building; and
- The Continuity competitive programme.

A business planning workshop was organised in Yuzhno-Sakhalinsk for members of the SIMDP governing bodies. In 2012, the Social Development Fund Council provided support to 36 projects implemented in seven Sakhalin districts that are home to indigenous communities, with a total funding amount of RUB 4,956,120. Many of the Fund's projects were implemented in partnership with the Poronaisk District Local Community Organisation of the Indigenous Peoples of the North.

Representatives of Sakhalin's indigenous communities developed and approved the implementation of

projects in the areas of education, healthcare, and study and preservation of indigenous languages.

For instance, in 2012, as part of the Continuity programme, the Kykhkykh (Swan) Traditional Ethnic Culture Preservation and Development Centre from Okha implemented the Tagkhs (Pattern) project, aimed at preserving and developing ethnic handicraft traditions. The project funding was used for purchasing sewing equipment that will be used to make items utilising ethnic patterns and traditional sewing and embroidery techniques.

In November, the Sakhalin Regional Folk Art Centre organised the Third Regional Children and Youth Indigenous Performing Arts Festival, Inheritors of Traditions, held in Yuzhno-Sakhalinsk. During the Festival, traditional ethnic performances of many genres and types were presented to the public. The participants included children and young people performing solo and in groups, as well as young artists and artisans. The grand opening of an indigenous children's handicraft exhibition, a performers' competition and a gala took place during the Festival.

As part of the educational component, 65 vocational school and college/university students received financial support.

Detailed information about the projects implemented under this programme is available at [www.simdp.ru](http://www.simdp.ru).



Reindeer breeding is a traditional activity of the Sakhalin indigenous minorities



# 10. 2013 PLANS AND DEVELOPMENT STRATEGY UP TO 2017

The Company's objectives for 2013 are determined by its priorities: safety, reliability, production, cost efficiency and development. We connected the way to the goal, defined and identified in our mission, with an efficient, reliable and safe production and the commitment to social and environmental issues. Growth and development are the main drivers of our way forward. As ever, safety is the main priority for the Company's business.

The main production projects for 2013 involve:

- Active works at three offshore platforms: optimisation of drilling, keeping up of consistently high performance of both hydrocarbon and LNG production; and
- Development of design documentation and other preliminary works under the OPF compression project.

Main development plans up to 2017 involve:

- Optimisation of production of oil and of LNG and gas to be supplied to the internal market, as well as improvement of the facilities' operation;
- Increase of the production capacity; and
- Definition and optimisation of the concept of development of the South Piltun area in the Piltun-Astokhskoye field.

In 2012, the Company has achieved the project payback stage. This means that the budget incomes of the Russian Party including the Sakhalin Oblast will increase in 2013.

The priorities in Human Resources management in 2013 and subsequent years include:



The Onshore Processing Facility



- Engagement, recruitment and retention of highly qualified specialists in the world labour market in compliance with the Company's business demands;
- Implementation of a high-quality personnel management system and optimisation of HR processes in compliance with the Company's business demands;
- Provision of attractive and competitive employee value proposition; and
- Creation of the succession pool of professionals of the oil and gas industry and potential leaders from among the high potential Company's specialists.

The key indicators in this area are: fulfilment of technical vacancies important for the Company (85% in 2013, with a further increase up to 90% in 2017) and reduction in the turnover rate of personnel occupying technical positions important for the Company (less than 8% in 2013, with continuous reduction to less than 6% in 2017).

In 2013, projects aimed at environment protection, labour protection and health and safety (HSE) will be continued. As ever, the Company will respect its HSE and social performance commitments and standards (relevant documents and indicators are published on the Company's website). In this area, Sakhalin Energy aims to hold its leading position in the world by ensuring

compliance with the highest international standards and even setting new ones.

Regular and meaningful engagement with stakeholders remains an important component of Sakhalin Energy's successful performance. The strategy and plans for the engagement with general public for 2013 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 (80% in 2013, with continuous increase up to 90% in 2017).

In the course of implementation of social investments and sustainable development programmes, Sakhalin Energy will continue to give priority to long-term partnerships with participation of 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 Partnership Council for Sustainable Development, the Sakhalin Road Safety Council, etc., and implementing grant programmes, such as the Fund of Social Initiatives Energy.

Sakhalin Energy will continue conducting its scheduled production and financial activities in compliance with the General Business Principles and the Sustainable Development Policy adopted by the Company, and the principles of the UN Global Compact. Sakhalin Energy will endeavour best efforts towards further improvement of its activities aimed at sustainable development.

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

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
<b>1. Strategy and Analysis</b>					
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 Introduction HSE and Social Performance Management System Economic Impact Management Environmental Impact Management Social Impact Management 2013 Plans and Development Strategy up to 2017	4–5 29–32 33–35 36–39 49–62 63–89 90	
<b>2. Organisational Profile</b>					
2.1	Name of the organisation	Full	About the Company	15	
2.2	Primary brands, products and/or services	Full	About the Company	19	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	Full	About the Company Corporate Governance Model	15 25	
2.4	Location of organisation's headquarters	Full	On the outside rear cover		<a href="http://www.sakhalinenergy.com/en/contactus.asp">www.sakhalinenergy.com/en/contactus.asp</a>
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	15	
2.6	Nature of ownership and legal form	Full	Corporate Governance Model	25	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Full	About the Company	15 19	
2.8	Scale of the reporting organisation	Full	About the Company Economic Impact Management Personnel: Management and Development	15–21 36–39 63–73	
2.9	Significant changes during the reporting period regarding size, structure, or ownership	Full			No significant changes of the Company size, structure of ownership form occurred in 2012
2.10	Awards received in the reporting period	Full	Message from the Chief Executive Officer Social Impact Management	4–5	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
<b>3. Report Parameters</b>					
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	6–7	Annual
3.4	Contact point for questions regarding the Report or its contents	Full	About the Report Appendices 5-6	6 108 109	
3.5	Process for defining report content	Full	About the Report	7	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	Full	About the Report	8	
3.7	State any specific limitations on the scope or boundary of the report	Full	About the Report	7	
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	
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	
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	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Full	About the Report	7	
3.12	Table identifying the location of the Standard Aspects in the Report	Full	Appendix 1	92–99	
3.13	Policy and current practice with regard to seeking external assurance for the Report	Full	About the Report	8	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
<b>4. Governance, Commitments, and Engagement</b>					
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	25–28	
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	25–27	
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	24–25 28–29 41–46	
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements) and the organisation's performance (including social and environmental performance)	Full			There is a unified compensation system in place in the Company based on performance evaluation (including social and environmental performance)
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Full			Avoiding any conflict of interests with regulative authorities/committees have been stipulated in the Shareholders agreement All Company employees must comply with the Conflict of Interest Regulation Procedure
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social sustainable development issues	Full			One single system of competence evaluation acting in the Company
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation	Full	Company's Corporate Social Responsibility System Sustainable Development Policy Company Mission, Vision, Values and Operation Principles Corporate Culture HSE and Social Performance Management System	10–11 13–14 24 28–29 33–35	
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	24–25 29–32 33–35	



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	Company's CSR System Risk Management Impact Assessment	10–11 29–32 35	
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: • 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		In November 2009, the Company joined the UN Global Compact. The Company is a member of the UN Global Compact Network Russia. In 2012, the Company Chief Executive Officer was the Chairman of the Steering Committee of the UN Global Compact Network Russia. The Company is a member of: • Global Compact LEAD; • Working Group on Human Rights of the UN Global Compact; • European Business Congress (EBC).
4.14	List of stakeholder groups engaged by the organisation	Full	About the Report Stakeholder Engagement Management	7 40–48	
4.15	Basis for identification and selection of stakeholders with whom to engage	Full	Stakeholder Engagement Management	40–41	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Full	Stakeholder Engagement Management	40–48	
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	41–48	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
<b>5. Management Approach and Performance Indicators</b>					
<b>Management Approach</b>					
DMA EC	Disclosure on management approach—economic	Full	About the Company Corporate Governance Model Economic Impact Management	15 25 36–39	
DMA EN	Disclosure on management approach—environmental	Full	HSE and Social Performance Management System Environmental Impact Management	33–34 49	
DMA LA	Disclosure on management approach—labour practices and decent work	Full	HR Management and HR Policy Labour Safety and Protection Occupational Health	63–64 73–76 76–77	
DMA HR	Disclosure on management approach—human rights	Full	Human Rights: Principles and Management System	77–79	
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	40–41 81–82	
DMA PR	Disclosure on management approach—product responsibility	Full	About the Company Engagement with Customers	19–20 46	
<b>Economic Performance</b>					
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	19–20 36–39 66 81–82	
EC3	Coverage of the organisation's defined benefit/pension plan obligations	Full	Social Guarantees, Benefits and Compensations	66–67	
EC4	Significant financial assistance received from government	Full			In 2012, 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	66	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Full	Russian Content	37–38	
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	64 65–66	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Full	Benefits from Sakhalin-2 for the Russian Federation and Sakhalin Oblast Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	36 81–82	

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	36	Environmental performance
<b>Environmental Monitoring and Biodiversity</b>					
EN3	Direct energy consumption by primary energy source	Full	Energy Consumption	51	
EN4	Indirect energy consumption by primary energy source	Full	Energy Consumption	51	
EN8	Total water withdrawal by source	Full	Water Use and Water Discharge Management	49–50	
EN9	Water sources significantly affected by withdrawal of water	Full		49–50	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		53–62	
EN13	Habitats protected or restored	Full	Environmental Monitoring and Biodiversity	53–62	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Full	Environmental Monitoring and Biodiversity	53–62	
EN16	Total direct and indirect greenhouse gas emissions by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	51	
EN17	Other relevant indirect greenhouse gas emissions by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	51	
EN19	Emissions of ozone-depleting substances by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	51	
EN20	NOX, SOX and other significant air emissions by type and weight	Full	Air Emissions Control	49	
EN21	Total water discharge by quality and destination	Full	Water Use and Water Discharge Management	49–50	
EN22	Total weight of waste by type and disposal method	Full	Waste Management	50	
EN23	Total amount and volume of significant oil spills	Full	Oil Spill Prevention and Response Preparedness	21	No considerable oil spills were recorded
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Full	Impact Assessment Environmental Monitoring and Biodiversity	35 53–62	The Company evaluates environmental impacts and develops impact mitigation measures. The results are presented in impact assessment reports and in HSE and Social Action Plan, which are publicly available on the Company's website
EN28	Amount of significant of pecuniary penalties and total of non-monetary penalties imposed for failure to comply with environmental laws and regulations	Full	Environment Protection Costs and Environmental Pollution Payments	52	There were no significant fines or nonfinancial penalties imposed because of incompliance with the environmental legislation and regulatory requirements

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
EN30	Total of environmental protection expenditures and investments by type	Full	Environment Protection Costs and Environmental Pollution Payments	52	
<b>Labour Practices and Decent Work</b>					
LA1	Total workforce by employment type, employment contract, and region	Full	General Information	64–65	
LA2	Total number and rate of employee turnover by age group, gender, and region	Full	General Information	64–65	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Full			As per RF Labour Code (at least two months)
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	Full	Labour Safety and Protection Occupational Health	73–76 76–77	
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	76–77	
LA10	Average hours of training per year per employee, by employee category	Full	Personnel Training	69	Average duration of training was 10.6 training man-days per one employee (without regard to training at the workplace). Duration of one training day is no more than 8 hours 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	68	
LA12	Percentage of employees receiving regular performance and career development reviews	Full	Company Employees' Performance Appraisal	67–68	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	64–65	
LA14	Ratio of basic salary of men to women by employee category	Full			Basic salaries of men and women do not differ
<b>Human Rights</b>					
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%



GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
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
<b>Society</b>					
S01	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	35 81–89	
S03	Percentage of employees trained in the organisation's anti-corruption policies and procedures	Full			100%
S04	Actions taken in response to incidents of corruption	Full	Anti-Bribery and Corruption	33	Counteracting corruption is a goal of corporate Anti-Bribery and Corruption procedure and one of the components of the Sakhalin Energy Code of Conduct
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Full			As per Company's Code of Conduct Sakhalin Energy does not support any political parties nor any individual politicians
<b>Product responsibility</b>					
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			Impacts 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 RESPONSES AND COMMITMENTS AS PART OF ITS DIALOGUES WITH STAKEHOLDERS ON THE COMPANY'S 2012 NON-FINANCIAL REPORT (SUSTAINABLE DEVELOPMENT REPORT)

As part of the Sustainable Development Report preparation process, the Company undertook a commitment to regularly engage in dialogue and in-depth consultations with stakeholders where the latter could share their views of the Company's activities, including on such issues as environmental protection, social initiatives, stakeholders' engagement, employee development, etc. This is also a venue for stakeholders to present their comments and suggestions on how the Company could further improve its operational, environmental and social responsibilities.

In November 2012, Sakhalin Energy held the first round of dialogue as part of the 2012 Report development process. The Company presented stakeholders

with information on its activities and achievements over the 2012 reporting period.

In February 2013, the second round of dialogue was held where the Company presented its responses to questions, comments and suggestions voiced during the first dialogue.

The outcomes of this dialogue have been included in the 2012 Sustainable Development Report and are presented in the table below.

The left column contains questions, observations and critical comments voiced by various stakeholders in the course of the dialogue, and the right column contains the Company's responses given both during the dialogue sessions and at a later time, in case providing a response required additional time for analysis and/or preparation.

	Comment, Question or Pointed Remark	Company Response and/or Commitment
<b>Natalia P. Sharukhina, EMERCOM Chief Directorate — Sakhalin Oblast</b>		
1	<p>Over the past seven years, we have been working in partnership with the Company on the What to Do in Emergency Situations programme. My comments reflect not only the opinions of Sakhalin residents, but also the views shared by people from around the Russian Far East.</p> <p>In 2012, Life Safety Fundamentals: a Manual for Elementary School Teachers was published. Later, in June 2012, there was a training workshop attended by representatives of Emercom's subdivisions from all RFE regions. We took several copies of the Manual to this workshop, where it drew great interest from representatives of Emercom's Chief Directorates and teachers/instructors. We sent extra copies to Kamchatka, Khabarovsk and Primorye. This is an excellent initiative.</p> <p>It would be great if safe behaviour contests and events, such as the annual regional Safety Day, as well as art and literary contests were extended to involve not only elementary school students, but also middle and high schools as well as vocational school students.</p> <p>Also, it would be wonderful if you could publish a manual for ages 14 through 18. While general education schools, colleges and universities do use similar manuals, vocational schools are left out of the process.</p> <p>Another project that deserves praise is the awareness billboards installed in tsunami and avalanche hazardous areas. This is an excellent project and I believe we will continue our efforts in this area.</p> <p>I would also like to mention Senya, our favourite cartoon character who is now famous all over Russia. The cartoons are shown on large screens in the OKSION (Russian National Public Alert and Warning System) and broadcast on local TV channels. Regional TV stations use these cartoons to teach schoolchildren and others about safe behaviour. I believe adults also watch these cartoons with keen interest, as I personally do.</p> <p>Your comic and colouring books are a very good initiative as well. They have already proven to be a success with children aged 3-8 and we find these books simply wonderful. While colouring in the pictures, children discuss the book's characters — Senya and his cat, and develop a very creative approach to this issue. Therefore, I believe that what we are doing under this programme is a highly effective way to raise safety awareness and promote safe behaviour.</p>	<p>The Company would like to thank you for your comments. We value our collaboration with you and hope it will continue just as productively.</p>

	Comment, Question or Pointed Remark	Company Response and/or Commitment
<b>Fedor S. Mygun, Chairman of the Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities</b>		
2	<p>Our cooperation under the Sakhalin Indigenous Minorities Development Plan is a great example of a successful partnership. The Plan has gained international recognition as a best practice and is recommended for replication in other regions. We look forward to continuing our cooperation on the Plan.</p> <p>The Regional Conference of the Indigenous Peoples of the North took place at the end of October and the newly-elected Regional Council was tasked with the establishment of the Social Development Fund. We hope that this dialogue will pave the way towards further development and cooperation.</p> <p>The development of our family and clan enterprises is well reflected through the Microloan Programme. Today, the repayment rate is quite high. People are starting to realise that self-sufficiency is the way forward. I believe that this will make family and clan enterprises stronger from an economic standpoint.</p>	<p>The Company appreciates your comments. Our cooperation on the Plan is beneficial to all parties. The Company will continue implementing the Plan together with its partners.</p>
<b>Marina E. Mikhailova, Garant Centre for Social Technologies (Arkhangelsk), Independent Social Programme Evaluation Expert</b>		
3	<p>I would like to note that the Company's efforts in the area of corporate social responsibility and philanthropy can be an example for many other regions.</p> <p>I work in the field of philanthropy in the Arkhangelsk Region and am also involved in philanthropy development assessment in other regions as an independent expert. I always mention the programmes we have discussed today, namely, Hurry Up for Good Deeds and What to Do in Emergency Situations, as well as the partnerships that allow these programmes to be implemented as examples of best practices in the areas of corporate philanthropy and social development investment.</p> <p>This is not about philanthropy per se, but something that began as assistance and transformed into social and community development, a joint contribution to the host region's growth. I would like to note that all the awards mentioned today were truly earned by the Company and its systemic approach can serve as a model for other companies and regions.</p> <p>Beyond winning various awards, I hope the Company will make its methods and approaches available to the public. It is very important for others not only to know about, but also be able to follow Sakhalin Energy's lead and run similar programmes in other regions. I believe that the Company's example can benefit social development elsewhere.</p> <p>By the way, our favourite programme, What to Do in Emergency Situations starring Senya, has piqued people's interest beyond the Russian Far East. For example, I brought the Safe Behaviour teacher's manual to Arkhangelsk where it is now being actively used by local teachers. It would be great if the Company thought of more ways to share its unique products with others.</p>	<p>The Company would like to thank you for your comments and your appreciation of our efforts. We will continue to summarise our experience with social programmes. Opinions and recommendations of independent experts, our long-time partners, are very important for us to propel further development of our social practices. We are looking forward to our successful cooperation.</p> <p>As for sharing our experience, participation in various contests, workshops and conferences is one way that we share our experience and practices with other companies.</p> <p>The Company has been developing and sharing cases that are developed on the basis of best corporate programmes. We regularly publish our Best Practices Book and post e-versions of it on our web-site.</p> <p>All of our materials, including books, manuals, and cartoons are posted on the Company web-site and/or on our programmes' web-sites (for example, <a href="http://www.senya-spasatel.ru">www.senya-spasatel.ru</a>). Sakhalin Energy's corporate programme descriptions are also included in the collection of the Best Russian Practices, published by the Managers' Association and the Donors' Forum, among others. All of these publications are available to the public at the publishers' web-sites.</p>
<b>Alexey Yu. Knizhnikov, Oil and Gas Sector Environmental Policy Programme Coordinator, WWF Russia</b>		
4	<p>We deem it unacceptable to increase impact on the Gray Whale through the installation of a third platform. Sakhalin Energy should communicate its current position with regard to installing the third platform at the Piltun-Astokh field: the reasons why the Company cannot use directional wells for production, as well as its plans with regard to stakeholder engagement on the issue of Gray Whale impact.</p>	<p>Sakhalin Energy is constantly looking for ways to increase the economic efficiency of the Sakhalin-2 project and extending the production life of our fields. Now that our cutting-edge oil and gas infrastructure is operating at full capacity, the Company has begun looking for ways to increase the efficiency of oil and gas production at Piltun-Astokh from reservoirs that have not been previously developed.</p> <p>Extended reach drilling has enabled us to limit the number of platforms in the Piltun area. The original view was that we might need up to three platforms there, but we managed to reduce that number to just one.</p> <p>Please note that South Piltun, a separate geological feature, was never included in the work scope under Sakhalin-2 Phase 2. We have always pointed out that South Piltun development may require an additional plat-</p>

	Comment, Question or Pointed Remark	Company Response and/or Commitment
4		<p>form. This is the option that has been selected from a number of alternative development concepts. At this stage, it is too early to speak about any specific details or the development timeline.</p> <p>No decision has been made so far with regard to installing a third offshore platform. However, this option is under consideration.</p> <p>The Company is currently finalising various development options for South Piltun.</p> <p>In July, the Company conducted a geotechnical survey at the potential platform installation site within the Piltun-Astokh area. The scope included a seabed acoustic survey, a geotechnical survey, and coring. The final decision on this project will be made by Company Shareholders and the Russian Party.</p> <p>Our Company has been successfully cooperating with the Western Gray Whale Advisory Panel (hereinafter WGWAP) for many years and peacefully coexisting with the endangered Western Gray Whales. This scientific and business partnership was established in 2004 to preserve the Gray Whale population. At that time, at Sakhalin Energy's initiative, the International Union for Conservation of Nature created the WGWAP, comprised of independent scientists and experts in this area. Since then, WGWAP has been providing the Company with recommendations on effective Gray Whale impact mitigation measures. We are confident that this new project can be implemented without a negative impact on the whale population. Western Gray Whale studies and monitoring show that the local Gray Whale population is gradually growing.</p> <p>The Company has made a decision to advise the WGWAP on the platform installation option as early as possible in order to involve scientists and experts at the earliest stage, when their recommendations can actually be incorporated into the project design.</p> <p>2012 survey timing along with Western Gray Whale impact mitigations measures were discussed with the WGWAP and the Seismic Monitoring Working Group. One of the results was that the 2D seismic survey was finished in July, before the mass arrival of Western Gray Whales in August and September.</p> <p>In order to completely mitigate negative impact on the Gray Whale population in the future, the Company will continue its close cooperation with the WGWAP.</p> <p>The entire scope of geotechnical surveys was approved in accordance with the Russian environmental legislative requirements. An Environmental Impact Assessment was developed and public hearings organised. In addition, an international version of the EIA was developed in line with World Bank/International Finance Corporation requirements as well as Company HSE/Corporate Social Responsibility policies and manuals and good industry practice.</p> <p>It is a mandatory requirement that EIA be included as part of project design documentation if a new platform is to be installed. Should the platform installation concept be approved by the Shareholders and the Sakhalin-2 Supervisory Board, project design documents will be developed and reviewed prior to the start of construction.</p>
5	Please comment on the Dacha owners' status. Can you also comment on the complaint submitted by them to the OECD?	<p>The Company is continuing its engagement with the SNT Stroitel Dacha Owners Cooperative as part of the approved action plan. You can find detailed information at the Company website: <a href="http://www.sakhalinenergy.com">http://www.sakhalinenergy.com</a> in our 2009, 2010 and 2011 Sustainable Development Reports, the 2009, 2010 and 2011 Independent Environmental Consultant Reports to Lenders covering the period between 2009-2011, as well as the 2008-2011 Resettlement Action Plan Independent Monitoring Reports.</p> <p>The Company is aware of SNT Stroitel's complaint submitted to the Organisation for Economic Co-operation and Development (OECD.) We believe that the Company has fully met all of its commitments to SNT Stroitel.</p>
6	WWF promotes the sharing of Sakhalin Energy's experience among the Biodiversity Group members. It would be helpful if the Company could include as much information on its biodiversity activities as possible in the Report. The Company could also include a detailed description of its oiled bird rehabilitation programme, including human and other resources involved, drills, equipment, etc. I'd like to point out that even though there are no government-mandated requirements in this area, the Company still decided to adopt this unique programme.	<p>The Company appreciates your comments.</p> <p>Section 8.2.2, Biodiversity contains information regarding the implementation of our Biodiversity Action Plan (BAP), which has been developed and implemented in line with the best international practices.</p> <p>In 2012, in accordance with the priorities set out in the BAP, we continued our Gray Whale, Steller's Sea Eagle and wetland monitoring activities.</p> <p>Section 4.2.5, Oil Spill Prevention and Response Preparedness contains information about our Oiled Wildlife Rehabilitation Programme, including details on our latest full-scale oil spill response and wildlife rescue drill that took place at Lake Bousse in September 2012.</p>



	Comment, Question or Pointed Remark	Company Response and/or Commitment
<b>Yuri F. Vygodov, Deputy Chairman of the Sakhalin Oblast Duma Economic Committee</b>		
7	In 2012, tax and other payments received by Sakhalin Oblast from the Sakhalin-2 project increased dramatically as compared to previous years. This extra revenue has greatly helped us in supporting healthcare and educational institutions, as well as raising salaries for employees of the healthcare industry and educational and cultural organisations. We are also happy to see that out of 2,000 Company employees, about 1,200 are local Sakhalin residents. This ensures the welfare of their families. We wish you success in your endeavours that will benefit both the Company and our island.	The Company appreciates your comments.
<b>Anatoly A. Shabelnikov, Chairman of the Regional Veterans' Council</b>		
8	It's nice to hear about our partnership with the Company, which began several years ago. It is a pleasure to interact with Company management and employees. They always listen to us, support us and try to understand our needs. This is very important for us, elderly people.	The Company appreciates your comment. The Regional Veterans' Council has been our partner for many years. We value our partnership and are looking forward to continuing our successful cooperation.
<b>Professor Vladimir N. Efanov, PhD in Biology, Dean at the Department of Natural Science of the Sakhalin State University, Co-Chairman of the Environmental Council</b>		
9	<p>I am familiar with Sakhalin Energy's environmental studies. Recently, the Company has implemented a number of interesting and diverse environmental monitoring projects, with interesting results obtained in a number of aspects.</p> <p>Having obtained the monitoring data, we have found that at certain sections of the pipeline right-of-way, ecosystems are not always restored according to the assessments contained in the Feasibility Study (TEO) and other documents. For example, in some of the pipeline river/stream dry-cut crossing areas.</p> <p>There are also a number of differences between the Company's monitoring results and the monitoring data obtained by myself and my undergraduate and graduate students. I would like to meet with Company experts offline to discuss these differences.</p> <p>Monitoring is good, but it is time to take some action as well. For instance, Sakhalin Energy monitors soil and vegetative cover restoration on the pipeline right-of-way, but to enhance the reinforcing of the soil layer we need to increase the vegetation's vertical stratification.</p> <p>All plant communities have a number of layers, with trees forming the top layer which supports all the lower layers. In a stable meso-ecosystem, some solar energy is consumed at each layer, so the bottom layer gets only about 5% of all solar energy that the Earth's surface receives, which is about 33% of the total energy emanated by the Sun.</p> <p>If the stratification structure is disturbed, the soil gets more solar energy, and as a result, it dries up and more solid particles enter the rivers. In order to minimise this impact, we need to restore the natural vegetation's stratification layer.</p> <p>Since we cannot plant trees along the ROW, I suggest planting bushes as an alternative. Bushes will protect the soil and grass from drying out. I suggest holding an offline meeting where we can present our study results, discuss various options and make a joint decision on how to reduce water contamination with soil particles.</p>	<p>Thank you for your interesting suggestions and recommendations. Based on the results of the studies we have conducted, the Company experts and its contractors have developed a number of recommendations to improve the situation at a number of pipeline ROW sections. These recommendations are listed in the 2012 Sustainable Development Report.</p> <p>The Company is ready to engage in offline review to discuss your study results and recommendations.</p>

	Comment, Question or Pointed Remark	Company Response and/or Commitment
<b>Natalia E. Samarina, Head of the Natural Resource Management Department, Head of the Environmental Monitoring Division, of Yuzhno-Sakhalinsk Municipal Administration</b>		
10	<p>Since we all live in Yuzhno-Sakhalinsk, we would like to see the Company pay more attention to our city.</p> <p>The city has adopted and published the Municipal Environmental Protection Programme designed to enforce environmental compliance by legal entities conducting business activities in Yuzhno-Sakhalinsk.</p> <p>Is the Company aware of this programme? Is there a way we can get information on what the Company is doing in Yuzhno-Sakhalinsk in the area of environmental protection?</p>	<p>The Company is certainly aware of this programme. However, we have not studied its goals and objectives in great detail yet since the Company is primarily focusing its efforts on environmental assessment and our asset-related programmes, all of which are implemented in compliance with Russian environmental legislation and in line with international standards.</p> <p>Speaking about Yuzhno-Sakhalinsk, we can confidently say that those who visit the Company offices and the Zima residential complex will certainly attest to our compliance with HSES standards and our attention to health and environmental issues.</p> <p>The Company will review your Programme and if our environmental protection measures and those taken by the City are somehow interconnected, we will look for opportunities to collaborate.</p>
<b>Alexander V. Buryka, Director of the Sakhalin Regional Museum of Art</b>		
11	<p>I would like to thank the Company for its collaboration and partnership projects that would never have been implemented without Sakhalin Energy's involvement. One example is an exhibition of works by the Japanese artist Hirasawa Byozan entitled The Ainu. A Mysterious World, which proved quite popular and received many reviews. Other examples include the Russian Log Home (Izba) project, devoted to Russian customs and traditions, and other projects. I look forward to continuing our collaboration with your Company and believe that through our joint efforts, we will be able to set a higher cultural standard in Sakhalin Oblast, particularly in the field of art.</p>	<p>The Company appreciates your comments. We value our partnership with the Sakhalin Regional Art Museum and are confident that our successful cooperation will continue.</p>
<b>Masao Hirano, Chairman, Hokkaido Fisheries Environmental Centre</b>		
12	<p>Do you have recommended routes for the oil and LNG tankers chartered by Sakhalin Energy as well as the ones chartered by customers under long term contracts and spot buyers?</p>	<p>The navigational employment of any vessel is a field of responsibility of ship owner and Captain of the ship. Captains normally choose navigation routes based on their safety considerations and in compliance with international and national maritime regulations.</p>
13	<p>In case if a tanker fails to satisfy technical requirement presented to the vessels entering the Port Prigorodnoye, does Sakhalin Energy void its oil/LNG sales commitment?</p>	<p>The vessels not meeting the technical requirements of Sakhalin Energy are not allowed to enter the Port Prigorodnoye. The process of contract awarding includes technical inspection of the vessels. The technical inspection is carried out by Shell, being Sakhalin Energy's technical consultant.</p>

## **APPENDIX 3: THE LIST OF STAKEHOLDERS WHO PARTICIPATED IN DIALOGUES FOR PREPARATION OF 2012 SUSTAINABLE DEVELOPMENT REPORT**

1. Department of Environmental Monitoring, Yuzhno-Sakhalinsk Municipal Administration, N.Ye. Samarina, Head of Natural Resources Management
2. Yuzhno-Sakhalinsk Municipal Administration, Local Self-Government Department, N.V. Belyaeva, Chief Specialist
3. Nogliki Municipal Administration, T.B. Golda, Document Controller
4. Garant Centre for Social Technologies, M.E. Mikhailova, Expert in Social Programmes
5. World Wildlife Fund (WWF), A.Yu. Knizhnikov, Oil and Gas Sector Environmental Policy Programme, WWF Russia, Coordinator
6. Sakhalin Regional Library for the Blind, L.A. Mishina, Director
7. Sakhalin Regional Museum of Art, A.V. Buryka, Director
8. Sakhalin Regional Museum of Art, I.G. Mal'kova, Deputy Director
9. Sakhalin EMERCOM, N.P. Sharukhina, Head of Department
10. Yuzhno-Sakhalinsk City Council, V.G. Robey, Deputy Chairman
11. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, V.V. Pankov, Head of Oil and Gas Complex Department
12. Sakhalin Regional Universal Research Library, V.A. Malysheva, Director
13. The Public Chamber of Sakhalin Oblast, L.V. Golubeva, Director
14. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, E.D. Nevenchina, Leading Advisor
15. Sakhalin Oblast Ministry of Agriculture, Fisheries and Food, E.G. Chernyavskaya, Chief Specialist
16. Public Security Department, Sakhalin Oblast Government, A.P. Antonenko, Lead Advisor
17. Sakhalin Oblast Government, R.V. Fedulova, Advisor of the SIM Department of the Sakhalin Oblast Governor and Government Office
18. Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities, F.S. Mygun, Chairman
19. Sakhalin Museum of Regional Studies, T.P. Roon, Director
20. Sakhalin Regional Council of Veterans of War, Labour, Military Forces and Law Enforcement Authorities, A.A. Shabelnikov, Chairman
21. Sakhalin Oblast Duma, V.V. Agnyun, Representative of Sakhalin Indigenous Minorities in the Sakhalin Oblast Duma
22. Sakhalin Oblast Duma, Yu.F. Vygodov, Deputy Chairman of Economic Development Committee
23. Sakhalin Public Organisation Bumerang, V.D. Mezentsseva, Chairman
24. Sakhalin State University, Natural Science Department, V.N. Yefanov, Head of Department
25. Traffic Policy Administration of Sakhalin Department of the RF Ministry of Internal Affairs, S.E. Khon, Inspector
26. Sakhalin Research Institute for Fishing and Oceanography, E.V. Frolov, Acting Department Manager
27. Hokkaido Fisheries Environmental Centre, M. Hirano, Chairman

## APPENDIX 4: USEFUL LINKS

Company public website	<a href="http://www.sakhalinenergy.com">http://www.sakhalinenergy.com</a>
Information on the Company	<a href="http://www.sakhalinenergy.com/en/aboutus.asp">http://www.sakhalinenergy.com/en/aboutus.asp</a>
On the Sakhalin-2 project	<a href="http://www.sakhalinenergy.com/en/project.asp?p=explore_phase2">http://www.sakhalinenergy.com/en/project.asp?p=explore_phase2</a>
Sustainable Development	<a href="http://www.sakhalinenergy.ru/en/default.asp?p=channel_home&amp;c=2">http://www.sakhalinenergy.ru/en/default.asp?p=channel_home&amp;c=2</a>
Media centre	<a href="http://www.sakhalinenergy.ru/en/mediacentre.asp">http://www.sakhalinenergy.ru/en/mediacentre.asp</a>
Information for contractors	<a href="http://www.sakhalinenergy.ru/ru/aboutus.asp?p=contracting_with_us">http://www.sakhalinenergy.ru/ru/aboutus.asp?p=contracting_with_us</a>
Information about vacancies	<a href="http://www.sakhalinenergy.ru/en/aboutus.asp?p=contracting_with_us">http://www.sakhalinenergy.ru/en/aboutus.asp?p=contracting_with_us</a>
Vesti corporate newspaper	<a href="http://www.sakhalinenergy.com/ru/media4.asp">http://www.sakhalinenergy.com/ru/media4.asp</a>
Energy TV programme	<a href="http://www.sakhalinenergy.com/ru/media6.asp">http://www.sakhalinenergy.com/ru/media6.asp</a>
Interesting facts	<a href="http://www.sakhalinenergy.ru/en/mediacentre/facts.asp">http://www.sakhalinenergy.ru/en/mediacentre/facts.asp</a>
Whistle blowing procedure	<a href="http://www.sakhalinenergy.ru/en/aboutus.asp?p=whistleblowing">http://www.sakhalinenergy.ru/en/aboutus.asp?p=whistleblowing</a>
<b>Company documents and material referred to in the Report</b>	
Sustainable Development Reports	<a href="http://www.sakhalinenergy.ru/en/aboutus.asp?p=annual_reports">http://www.sakhalinenergy.ru/en/aboutus.asp?p=annual_reports</a>
Statement of General Business Principles	<a href="http://www.sakhalinenergy.com/en/aboutus.asp?p=business_principles">http://www.sakhalinenergy.com/en/aboutus.asp?p=business_principles</a>
Code of Conduct	<a href="http://www.sakhalinenergy.ru/en/documents/Code_of_Conduct_Eng.pdf">http://www.sakhalinenergy.ru/en/documents/Code_of_Conduct_Eng.pdf</a>
Sustainable Development Policy	<a href="http://www.sakhalinenergy.ru/en/documents/SD_Policy.pdf">http://www.sakhalinenergy.ru/en/documents/SD_Policy.pdf</a>
Human Rights Policy	<a href="http://www.sakhalinenergy.ru/en/documents/HRPolicy.pdf">http://www.sakhalinenergy.ru/en/documents/HRPolicy.pdf</a>
Sakhalin Energy Commitment and Policy on Health, Safety, Environment and Social Performance	<a href="http://www.sakhalinenergy.ru/en/documents/Commitment_and_Policy_on_HSESP.pdf">http://www.sakhalinenergy.ru/en/documents/Commitment_and_Policy_on_HSESP.pdf</a>
Contracting and Procurement Policy	<a href="http://www.sakhalinenergy.ru/en/documents/CP_Policy_Public_version_eng.pdf">http://www.sakhalinenergy.ru/en/documents/CP_Policy_Public_version_eng.pdf</a>
Health Safety Environmental and Social Action Plan, Policies and Standards on Health, Safety, Environment and Social Performance (note: complex of documents)	<a href="http://www.sakhalinenergy.ru/en/library.asp?p=lib_policies_shelf&amp;l=lib_policies_HSEP">http://www.sakhalinenergy.ru/en/library.asp?p=lib_policies_shelf&amp;l=lib_policies_HSEP</a>
Lenders' Independent Environmental Consultant Reports on Conducted Monitoring	<a href="http://www.sakhalinenergy.ru/en/library.asp?p=lib_3rdparty_shelf&amp;l=lib_3rdparty_lendersreport">http://www.sakhalinenergy.ru/en/library.asp?p=lib_3rdparty_shelf&amp;l=lib_3rdparty_lendersreport</a>
Company Social Performance Management Standard	<a href="http://www.sakhalinenergy.com/en/documents/61_Social_Performance_Standard_Overview_E.pdf">http://www.sakhalinenergy.com/en/documents/61_Social_Performance_Standard_Overview_E.pdf</a>
Public Consultations and Information Disclosure Plan (updated annually)	<a href="http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&amp;l=lib_social_campaignplan">http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&amp;l=lib_social_campaignplan</a>
Biodiversity Action Plan	<a href="http://www.sakhalinenergy.com/en/library.asp?p=lib_environment_shelf&amp;l=lib_environment_biodiversity">http://www.sakhalinenergy.com/en/library.asp?p=lib_environment_shelf&amp;l=lib_environment_biodiversity</a>
Public Consultations and Disclosure Plan for 2012	<a href="http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&amp;l=lib_social_campaignplan">http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&amp;l=lib_social_campaignplan</a>
Statement on application of ISO 26000:2010 Guidance on Social Responsibility	<a href="http://www.sakhalinenergy.ru/en/default.asp?p=channel&amp;c=1&amp;n=452">http://www.sakhalinenergy.ru/en/default.asp?p=channel&amp;c=1&amp;n=452</a>



Projects and Programmes websites	
Sakhalin Salmon Initiative	<a href="http://sakhsalmoninitiative.org/">http://sakhsalmoninitiative.org/</a>
Sakhalin Indigenous Minority Development Plan	<a href="http://www.simdp.ru/eng.php">http://www.simdp.ru/eng.php</a>
Korsakov Partnership Council for Sustainable Development	<a href="http://www.korsakovsovet.ru/eng.php?PHPSESSID=c0a46093e1da26f26ad3dd8627055f89">http://www.korsakovsovet.ru/eng.php?PHPSESSID=c0a46093e1da26f26ad3dd8627055f89</a>
What to Do in Emergency Situations Programme	<a href="http://senya-spasatel.ru/">http://senya-spasatel.ru/</a>
Printed Materials	
ANCO Sakhalin Salmon Initiative	<a href="http://sakhsalmoninitiative.org/">http://sakhsalmoninitiative.org/</a>
Western Gray Whale Advisory Panel (WGWAP)	<a href="http://www.iucn.org/wgwap/wgwap/">http://www.iucn.org/wgwap/wgwap/</a>
Liquefied natural gas (collection of interesting facts)	<a href="http://www.sakhalinenergy.com/ru/documents/LNG_brochure_100_facts.pdf">http://www.sakhalinenergy.com/ru/documents/LNG_brochure_100_facts.pdf</a>
World in Focus photo album	<a href="http://www.sakhalinenergy.com/ru/documents/The_World_through_the_Lens_photo_album.pdf">http://www.sakhalinenergy.com/ru/documents/The_World_through_the_Lens_photo_album.pdf</a>
ABC-book of the Uilta language	<a href="http://simdp.ru/?id=56">http://simdp.ru/?id=56</a>
The Universal Declaration of Human Rights into the Uilta Language	<a href="http://simdp.com/uploads/files/FINAL_Declaration_Uilt_v4_RE_2.pdf">http://simdp.com/uploads/files/FINAL_Declaration_Uilt_v4_RE_2.pdf</a>
Comics book Summer with Senya	<a href="http://senya-spasatel.ru/page_19.htm">http://senya-spasatel.ru/page_19.htm</a>
Public Relations. Best Practices Book	<a href="http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf">http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf</a>
Life Safety Fundamentals a Manual for Elementary School Teachers	<a href="http://senya-spasatel.ru/page_63.htm">http://senya-spasatel.ru/page_63.htm</a>
Resettlement: Experience of Sakhalin Energy	<a href="http://www.sakhalinenergy.com/en/documents/Resettlement_Sakhalin_Energy_eng.pdf">http://www.sakhalinenergy.com/en/documents/Resettlement_Sakhalin_Energy_eng.pdf</a>
Sakhalin Birds (photo album) Public Relations. Best Practices Book	<a href="http://www.sakhalinenergy.com/ru/documents/Birds_of_Sakhalin_Island.pdf">http://www.sakhalinenergy.com/ru/documents/Birds_of_Sakhalin_Island.pdf</a> <a href="http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf">http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf</a>
Poisonous Plants and Fungi	<a href="http://www.sakhalinenergy.com/en/documents/Book_yad_rastenia_eng.pdf">http://www.sakhalinenergy.com/en/documents/Book_yad_rastenia_eng.pdf</a>
The Steller's Sea Eagle Sakhalin Birds (photo album)	<a href="http://www.sakhalinenergy.com/en/documents/Steller_Sea_Eagle.pdf">http://www.sakhalinenergy.com/en/documents/Steller_Sea_Eagle.pdf</a> <a href="http://www.sakhalinenergy.com/ru/documents/Birds_of_Sakhalin_Island.pdf">http://www.sakhalinenergy.com/ru/documents/Birds_of_Sakhalin_Island.pdf</a>
Reference Material and Other	
UN Global Compact	<a href="http://www.unglobalcompact.org">http://www.unglobalcompact.org</a>
UN Global Compact in Russia	<a href="http://www.undp.ru/index.php?iso=RU&amp;lid=1">http://www.undp.ru/index.php?iso=RU&amp;lid=1</a>
Global Compact LEAD	<a href="http://www.unglobalcompact.org/HowToParticipate/Lead/index.html">http://www.unglobalcompact.org/HowToParticipate/Lead/index.html</a>
Global Initiative Sustainability Reporting Guidelines	<a href="http://www.globalreporting.org">http://www.globalreporting.org</a>
Global Compact in Russia Leaflet	<a href="http://www.undp.ru/documents/GC_in_Russia_2011-rus.pdf">http://www.undp.ru/documents/GC_in_Russia_2011-rus.pdf</a>
UNGC Network, Russia. Corporate Social Responsibility Practices	<a href="http://www.undp.ru/index.php?iso=RU&amp;lid=1&amp;pid=160">http://www.undp.ru/index.php?iso=RU&amp;lid=1&amp;pid=160</a>
IUCN Western Gray Whale Advisory Panel (WGWAP)	<a href="http://www.iucn.org/wgwap/wgwap/">http://www.iucn.org/wgwap/wgwap/</a>

## APPENDIX 5: COMPANY INFORMATION CENTRES LIST

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

## APPENDIX 6: FEEDBACK FORM

### DEAR READERS,

You have just read 2012 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 2013 Sustainable Development Report?**

Yes (please provide your contact information)

☐ No

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

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

☐ Company's employee ☐ Customer (Buyer) ☐ Representative of public organisation ☐ Investor ☐ Partner (Contractor)  
☐ Shareholder ☐ Representative of authorities ☐ Mass media ☐ Other group of persons concerned

**Please indicate your contact information below:**

Name:

Job title:

Telephone:

Organisation:

Fax:

Address:

E-mail:

**12. What type of communication is preferable?**

☐ By mail

☐ By e-mail

**Please return the completed Form on the 2012 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 ASSURANCE

Russian Union of Industrialists and Entrepreneurs (RUIE)

# CERTIFICATE

of Public Assurance of Corporate Non-Financial Report

**Sustainable Development Report Sakhalin Energy Investment Company Ltd.**

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

The detailed RUIE Council conclusion regarding public assurance of 2012 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. 034.01.004.01.12**

Signed:

RUIE President A. Shokhin,  
Russian Union of Industrialists and Entrepreneurs

Moscow, 2013





## **APPENDIX 8: CONCLUSION ON THE REVIEW OF SAKHALIN ENERGY'S 2012 SUSTAINABLE DEVELOPMENT REPORT BY THE NONFINANCIAL REPORTING COUNCIL OF THE RUSSIAN UNION OF INDUSTRIALISTS AND ENTREPRENEURS FOR THE PURPOSE OF PUBLIC ENDORSEMENT**

### *Nonfinancial Reporting Council of the Russian Union of Industrialists and Entrepreneurs*

#### **Conclusion on the Review of Sakhalin Energy's 2012 Sustainable Development Report by the Nonfinancial Reporting Council of the Russian Union of Industrialists and Entrepreneurs for the Purpose of Public Endorsement**

The Nonfinancial 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 2012 Sustainable Development Report (the Report).

The Company asked the RUIE to arrange for a public endorsement process by the Nonfinancial Reporting Council, which issues its opinion on the relevance and fullness of the submitted information on the Company's performance based on the Social Charter of Russian Business promoting responsible business practices.

During the 25 February — 15 March 2013 period, 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, and express their personal opinions as experts, but not the opinions of their respective organisations, in full compliance with the business principles of independent and unbiased judgment.

The Council acknowledges that the information in this Report refers to the Company's activities, all of its facilities and structural divisions.

The Report was assessed for the information relevance and fullness based on the following criteria:

Relevant information is the information that demonstrates the company's compliance with responsible business practices as set forth in the Social Charter of Russian Business ([www.rspp.ru](http://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 that had been used by the Company is taken into account as part of the public endorsement process. However, the assessment of compliance with the 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 it is, without any changes.

***Nonfinancial 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 Non-Financial Reporting Council, the Council confirms the following:

**The 2012 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 full information on the Company activities in such areas.**

**RUIE Council recommendations, issued on the basis of the previous Sakhalin Energy 2011 Sustainable Development Report review, have been addressed in the 2012 Report. The aspect relating to the economic impact of the Company has been strengthened, the quantitative indicators have been presented in a more conclusive way and show the dynamics for the last three years, the information about the Company's self-assessment of compliance with the ISO 26000:2010 International Standard has been made more detailed.**

Company's 2012 Report contains important and significant information regarding the following aspects of responsible business practices:

**Economic freedom and responsibility:** the Report informs on key performance indicators for 2012, which have exceeded the plan in a number of areas. There is also data confirming the significance of the Sakhalin-2 Project for the economy of Russian Far East and of the Asia Pacific as a whole. The Report presents the role of the Company as a major taxpayer and exporter of light oil that is unique for Russia (Vityaz) and liquefied natural gas (LNG). The Report describes the Company's core products, their output volumes and their marketing structure in 2012 for each country. The Report presents well-founded information on the Company's production strategy, value assurance and quality management processes. There is a brief characterisation of growth projects, designed to optimise the production of oil, LNG, and gas supplied to the domestic market. The Company's priority, as follows from the Report, continues to be the reliability and safety of operations, which is a topic given considerable attention in the Report. There is a special focus on sound business practices in the Company's activities and its engagement with vendors, business partners, clients, etc. The Company's policy in this area is formulated in a number of corporate documents. It is reported that in 2012, building on its accumulated experience, the Company updated a number of strategic documents, including the Sustainable Development Policy, approved by the Committee of Executive Directors, and Company standards on various lines of activity. Along with detailed information about the structure of corporate governance and its key areas, the risk management system, which is integrated in the corporate governance system, is presented in detail. In this context, the non-financial risks are given special attention.

**Business Partnership:** Interaction with stakeholders is presented in the Report as an integral factor in ensuring the efficiency of the business strategy. The Company's position, the principles of and approaches to stakeholder engagement are formulated in a number of corporate documents, and the Report shows how those documents are used in day-to-day practice. All key groups of stakeholders are described in the Report, although with a varying degree of detail regarding their engagement and partnership with the Company. Cooperation with authorities is covered in the Report in the context of multilateral partnership, exemplified by the implementation of the agreement on cooperation with the Sakhalin Oblast Administration in the socio-economic and environmental field.

Much attention is given to suppliers and contractors. In the context of full compliance with the PSA, the Company is consistently working to increase Russian contents in terms of equipment and materials in the

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supply chain. Partnership relations with customers are briefly discussed, information is provided on annual forums with customers. Brief information is presented on engagement with the shareholders. Various aspects of engagement with the personnel are discussed in a reasonable level of detail. The Report comprehensively covers international cooperation, engagement with NGOs and civil institutions, etc. One of the strong points of the Report is that it describes a wide range of engagement tools that have been recognised both locally and internationally (namely, the Grievance Procedure, setting up of information centres at the locations of the Project infrastructure and production facilities, maintaining liaison with the Sakhalin public, training courses for suppliers, etc.). Two dialogues have been held with stakeholders as part of the preparation of non-financial reporting in accordance with the international standards requirement; the outcomes are presented in the Appendix to the Report.

**Human Rights:** the Report demonstrates that the Company is using a comprehensive approach to protection of human rights. It reads that, in the reporting year, the Company's corporate policy for human rights was approved that established principles for respect of, support to and development of human rights, as well as approaches with regard to the management of risks associated with actual or potential infringements in this area as a result of the Company's activities. The following areas have been defined, where risks related to human rights are identified and managed: personnel engagement; communication with the local public; business partners; and safety. The Report gives special attention to the Grievance Procedure that has been applied by the Company for several years. Sakhalin Energy's experience was incorporated in the UN Guiding Principle Protect, Respect and Remedy endorsed in 2011. The Company uses Free and Prior-Informed Consent (FPIC) principle when engaging with the Sakhalin indigenous minorities.

**Environmental Protection:** according to the Report and the Company's strategic documents, environmental and industrial safety, conservation of natural environment and sustainable use of natural resources are the Company's ultimate priorities. The system of environmental impact management is described as an element of the integrated HSES and Risk Management System that covers all the Company's facilities, projects and works, including those performed by contractors. All Project facilities and works are certified as per ISO 14001 and OHSAS 18001. It is also reported that the Company has updated its HSES Action Plan based on the 2012 amended IFC Performance Standards on Environmental and Social Sustainability. The Report contains information on oil spill prevention and response at the Sakhalin-2 offshore and onshore facilities and achievements in this area. In most cases, the history of environmental performance indicator trends is shown for the period of three years. Information is presented on greenhouse gas emission, and volumes of flared associated gas. Comments are provided to explain performance variance versus the year 2011. The Report provides details with regard to the scope and targets of the 2012 environmental monitoring.

The Report comments on the close cooperation of the Company in this field with the ecological community. Considerable attention is paid to the implementation of the Company's Biodiversity Protection Plan developed for the Sakhalin Island. The demonstrated achievements prove that the Company is a global oil and gas industry leader in that area. The Report covers the programmes designed to protect gray whales, monitor the population of Steller's sea eagle, wetlands and to control ballast water disposal. Information is provided concerning increasing environmental control costs.

**Contribution to Local Community Development:** The Report captures the highlights of the local community development activities conducted by the Company in the project operations area which are based on proven approaches to social investment and building an effective multilateral partnership. The Report features detailed information about key internal policies and guidelines in the field of social investment, project implementation procedures and arrangements, action plans and the results of the Company's in-house and external social programmes, as well as about the Company's experience in supporting the work of the Sustainable Development Council in Korsakov. The provided information gives ample evidence of the wide recognition of the Company's social projects at the regional and federal levels. Traditionally high emphasis is placed on the Sakhalin Indigenous Minorities Development Plan (SIMDP)

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which is implemented by the Company on a long-term basis in collaboration with the Sakhalin Region Government and the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities. The Report contains information about the findings of the third party monitoring review of 51 projects implemented under the SIMDP, which was conducted during the reporting period.

**Concluding Statements**

In general, the Report provides a sufficiently comprehensive overview of the information about integration of the sustainable development principles into Sakhalin Energy strategies and current operations. It discusses in detail the Company's position regarding corporate social responsibility based on the interpretation of this concept in line with the global practices and relevant international documents.

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 Report communicates information about completion of a comprehensive review in 2012 and about the subsequent self-assessment of the Company's organizational 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 Sakhalin Energy 2012 Sustainable Development Report is the fourth 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 (IFRS, GRI Guidelines), resulting in that information continuity and comparability is provided across reporting cycles, as well as ensuring comparability with other companies' reports.

**RECOMMENDATIONS**

Recognizing the merits of the Sakhalin Energy 2012 Sustainable Development Report, the Council would like to bring to the Company's attention a number of aspects related to the information value and completeness, which are essential for the stakeholders, and to recommend accommodating this advice in the subsequent reporting cycles.

The recommendations issued based on the review of the Sustainable Development Report 2011 remain relevant. This includes the recommendation for Sakhalin Energy to report not only achievements, but also shortcomings and the ways they are addressed, which will indicate a more integral approach to the principle of balanced information.

It appears worthwhile to further refine the analysis of the economic aspects of the Company's activities, and to include in its reports the Company's vision of the outlook for the oil and gas industry in conjunction with the Company's strategy in the context of the global challenges facing the energy sector and the oil and gas industry.

It is recommended that the actual performance indicators of the reporting year be shown together with the short-term and medium-term targets to enable clear and unbiased evaluation of the progress made towards the goals set.



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The Company has a well-developed system of interaction with stakeholders. It is recommended to give more comprehensive coverage to engagement with all the key stakeholder groups which include the shareholders and offtakers, and to present government relations in a more systematic form so that the key points, pressing issues, and cooperation formats are highlighted.

The Company regularly and fully informs its stakeholders of the status and progress of the grievance review process, and incorporates updates on resolution of grievances and on their background in non-financial reports. Along with procedural matters, another area of interest is the informative aspect which is related to the analysis of the nature of grievances and the conclusions made by the Company with regard to the potential areas and mechanisms for improvement of its corporate social responsibility work.

The Report includes a brief overview of the Company's efforts to self-assess its compliance with the ISO 26000:2010 international standard—Guidance on Social Responsibility. The results of this exercise, its organization and follow-up actions undertaken by the Company constitute essential information which can be of interest to a wide range of stakeholders. Wider coverage of the informative aspects of such diagnostics and assessment is recommended.

Taking into consideration the reporting practices established within the Company, the achieved quality standards of disclosed information, and the use of the GRI Reporting Guidance as the methodological base, the Council recommends extending the list of the performance indicators and reporting elements used in the sphere of sustainable development.

The Report offers wide-ranging information on the fundamental principles and documents governing the activities in the area of sustainable development, contains declarations of the best practices conforming to world standards and of performance assessment of the activities embedded in the management process.

To render those statements even more justified and substantiated, it would be helpful to align the information on the current activities broken down by area of impact with the principles, which are declared in relevant guidelines.

Sakhalin Energy is insistently promoting the principles of corporate social responsibility internationally. The high level of regular attendance by the Company of Russian and international forums is unique among Russian companies. Stakeholders are interested in the Company's estimates as to which reputational, competitive, and other advantages the Company will gain as a result of those activities. It is advisable that such analyses be included in the reports.

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 2012 received public endorsement.

Signed:

Chairman of the RUIE Council F.T. Prokopov

Deputy Chairman of the RUIE Council E.N. Feoktistova





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