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Sakhalin Energy Investment Company Ltd. Health, Safety, Environmental and Social Action Plan

**План действий в сфере охраны труда, здоровья, окружающей среды и
социальной деятельности**

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Content:

1 INTRODUCTION 3

1.1 PURPOSE AND SCOPE 3

1.2 STRUCTURE 3

1.3 BACKGROUND TO SAKHALIN ISLAND AND THE PROJECT 3

2 MANAGEMENT OF HSE AND SOCIAL PERFORMANCE..... 4

2.1 SAKHALIN ENERGY’S GENERAL BUSINESS PRINCIPLES 4

2.2 SAKHALIN ENERGY’S SUSTAINABLE DEVELOPMENT POLICY 4

2.3 SAKHALIN ENERGY’S COMMITMENT AND POLICY ON HSE AND SP 5

2.4 SAKHALIN ENERGY’S MANAGEMENT SYSTEM 6

2.4.1 *Framework and content of the management system* 6

2.4.2 *Hazard and risk management* 7

2.4.3 *Objectives and annual improvement plans* 7

2.4.4 *Organisation, resourcing, roles and responsibilities* 7

2.4.5 *Awareness, training and competence* 8

2.4.6 *Communication and consultation* 9

2.4.7 *Management of change* 9

2.4.8 *Emergency preparedness and response* 10

2.4.9 *Corrective and preventative actions* 10

2.4.10 *Management review* 10

3 COMMITMENTS 11

3.1 COMMITMENTS TO RUSSIAN AND INTERNATIONAL STANDARDS 11

3.2 COMMITMENTS TO MANAGEMENT SYSTEM STANDARDS 11

3.3 COMMITMENTS TO COMPANY STANDARDS 12

3.4 CHANGES IN COMMITMENTS 12

	Health, Safety, Environmental and Social Action Plan	Rev. 04
---	--	---------

1 INTRODUCTION

1.1 Purpose and Scope

Health, Safety, Environmental (HSE) and Social issues are managed by Sakhalin Energy Investment Company Ltd. (Sakhalin Energy or the Company) as an integral part of Company business activities. Sakhalin Energy is committed to pursue the goal of no harm to people, to protection of the environment, and to contribute to sustainable development including bringing benefits to the inhabitants of Sakhalin Island and other key stakeholders.

This Health, Safety, Environmental and Social Action Plan (HSESAP) has been developed for the Sakhalin-2 Phase 2 Project (the Project). Under the Common Terms Agreement between Sakhalin Energy and the Phase 2 Senior Lenders (CTA), the Company commits to comply in all material respects with this HSESAP.

The HSESAP consolidates the commitments from the Environmental, Health and Social Impact Assessments (including supporting documentation and Addenda). It details the measures agreed between the Company and the Phase 2 Senior Lenders to eliminate, mitigate or manage identified adverse HSE and social impacts to acceptable levels.

The HSESAP applies to all Project facilities, construction activities, and operations on or around Sakhalin Island, whether undertaken by the Company or on its behalf by contractors.

The HSESAP was first published in October 2005, updated in August 2007, revised in February 2010 for the operations phase and in July 2014 following the adoption of the updated World Bank/IFC Performance Standards (2012).

It should be noted that the Company's obligations arise exclusively under the CTA, which prevail over any text in this HSESAP where there is a conflict or ambiguity.

1.2 Structure

This HSESAP document:

- summarises the high level principles adopted by the Company,
- outlines the Company's HSE and Social Performance (SP) Management System, and
- identifies Sakhalin Energy's commitments to Russian Federation requirements and International standards, management system standards, and Company standards that specify the detailed commitments of the company under this HSESAP.

References under Section 3.3 form an integral part of this HSESAP.

1.3 Background to Sakhalin Island and the Project

The Sakhalin-2 Project is developed under a Production Sharing Agreement (PSA) signed by the Government of the Russian Federation, the Sakhalin Oblast Administration and Sakhalin Energy in June 1994. Sakhalin-2 is the world's biggest integrated oil and gas project.

Phase 1 involved first oil production from an offshore platform Molikpaq installed at the Piltun-Astokhskoye field in 1999. Phase 2 included the installation of two further platforms located off the north-east coast of Sakhalin Island, 300 km of offshore pipelines connecting all three platforms to shore, more than 800 km of onshore oil and gas pipelines, an onshore processing facility (OPF), an oil export terminal and the construction of Russia's first liquefied natural gas (LNG) plant. Further information is available on the Company's internet website.

	<p>Health, Safety, Environmental and Social Action Plan</p>	<p>Rev. 04</p>
---	---	----------------

2 MANAGEMENT OF HSE AND SOCIAL PERFORMANCE

The Russian Federation and the Sakhalin region have and continue to benefit directly from the Sakhalin-2 Project in a variety of ways, including the billions of dollars invested in Russian jobs and contracts. That said, a project of this size and complexity inevitably gives rise to HSE and social issues, and the Company is committed to managing these issues in a systematic manner to manage risks and avoid harm.

This Section 2 provides an overview of the Company's principles, policies, and management in relation to HSE and Social matters. Content and documents mentioned in this section are quoted in this HSESAP by way of information only, and are subject to continual improvement.

2.1 Sakhalin Energy's General Business Principles

The Company's general goal, set out in the Sakhalin Energy Statement of General Business Principles, is to commercially develop, operate and market the hydrocarbon resources and associated infrastructure governed by the Sakhalin-2 licences for the sustainable benefit of shareholders, the Russian Federation, the Sakhalin Oblast and the wider community.

Other more specific objectives relevant to HSE and social matters, set out in the same statement, include to:

- Observe the laws of the Russian Federation;
- Conduct business as a responsible corporate member of society;
- Provide its staff and contractors with good and safe conditions of work, good and competitive conditions of service and promote the development and best use of human talent and equal opportunity employment;
- Insist on honesty, integrity and fairness in all aspects of its business;
- Give proper regard to health, safety and the environment consistent with the Company's commitment to contribute to sustainable development;
- Manage HSE matters as it does any other critical business activity, setting targets for improvement and measure, appraise and report performance; and
- Provide full relevant information about its activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost.

The steps which the Company is taking to apply these principles in relation to HSE and social matters are reflected in the rest of this HSESAP including the detailed commitments set out in Section 3.

2.2 Sakhalin Energy's Sustainable Development Policy

The Company has adopted an overarching policy on Sustainable Development including the following main policy commitments:

- 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 community and shareholders.
- Sakhalin Energy will contribute to the present and future needs of society on Sakhalin Island while keeping a balance between economic development, environmental protection and social responsibility 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 region.

	<p>Health, Safety, Environmental and Social Action Plan</p>	<p>Rev. 04</p>
---	---	----------------

2.3 Sakhalin Energy's Commitment and Policy on HSE and SP

The following statement reflects the Company's aims in relation to managing HSE and SP and sets the foundation for the Management System (refer section 2.5). It is signed by the Chief Executive Officer, disseminated to all staff and contractors, and communicated in a language and way that they understand.

Sakhalin Energy Commitment on Health, Safety, Environment and Social Performance

In Sakhalin Energy we all commit to:

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

In this way we aim to have an HSE performance we can be proud of, earn the confidence of customers, shareholders and society at large, to be a good neighbour and to contribute to sustainable development.

Sakhalin Energy Policy on Health, Safety, Environment and Social Performance

Sakhalin Energy:

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

... all of us have a duty.

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

	Health, Safety, Environmental and Social Action Plan	Rev. 04
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2.4 Sakhalin Energy's Management System

2.4.1 Framework and content of the management system

Sakhalin Energy has a systematic approach to HSE and Social Performance management designed to ensure compliance with RF law and adopted international standards and to achieve continual performance improvement.

The Company's integrated HSE and Social Performance **Management System** describes the controls that Sakhalin Energy uses to manage HSE and Social matters and risks. It applies to all Sakhalin Energy assets, facilities, projects and activities, including those undertaken by contractors on behalf of the Company. Sakhalin Energy sees the management of these risks as critical to the success of the business. The Company will maintain and develop the Management System such that it is consistent with relevant international good practice and will work for its continual improvement.

The Management System is based on the **Plan-Do-Check-Act** methodology of the management system standards ISO 14001 and OHSAS 18001, which is to:

- establish the objectives and processes necessary to deliver results in accordance with Company's HSE and Social policy,
- implement the processes,
- monitor and measure processes against policy, objectives, legal and other requirements, and report the results, and
- take actions to continually improve HSE and Social performance.

The Management System is a **structured framework** of documents including standards, procedures, operating criteria, and plans extending from corporate to facility level. It addresses each of the items listed in Table 1.

Table 1: Content of the Management System

<i>Items addressed</i>	<i>More information is provided in sections:</i>
<i>Policy</i>	<ul style="list-style-type: none"> • policy 2.3, 2.4, 3.3
<i>Plan</i>	<ul style="list-style-type: none"> • risk and issues management, including hazard (aspect/issue) identification, risk and impact assessment, determination of controls 2.4.2 • legal and other requirements 3.1-3.3 • development of objectives and annual improvement plans 2.4.3
<i>Do</i>	<ul style="list-style-type: none"> • organisation, resourcing, roles and responsibilities 2.4.4 • awareness, training and competence 2.4.5 • contractor management 3.3 • internal and external communication, participation and consultation 2.4.6 • documentation, document control, and records 2.4.6 • operational controls addressing occupational health, personal safety, asset integrity and process safety, transport, environment, and other topics 3.3 • operational controls addressing social performance, including indigenous peoples, cultural heritage, land acquisition, resettlement and supplemental assistance, public consultation and disclosure, grievances, and social investment 3.3 • management of change 2.4.7 • emergency preparedness and response 2.4.8
<i>Check</i>	<ul style="list-style-type: none"> • regulatory compliance and performance monitoring and reporting 3.3 • incident and non-conformance reporting and learning 3.3

	<p>Health, Safety, Environmental and Social Action Plan</p>	<p>Rev. 04</p>
---	---	----------------

<i>Items addressed</i>	<i>More information is provided in sections:</i>
<ul style="list-style-type: none"> • corrective and preventative action 	2.4.9
<ul style="list-style-type: none"> • verification and audit 	3.3
<i>Act</i>	<ul style="list-style-type: none"> • management review 2.4.10

2.4.2 Hazard and risk management

The Company manages HSE risk and Social issues to reduce significant risks to levels As Low As Reasonably Practicable (ALARP), and to achieve continual improvement. ALARP is the point at which the cost (in time, money) of implementing further risk reduction measures becomes grossly disproportionate to the benefit (risk reduction) obtained.

A series of detailed processes are undertaken to identify HSE hazards/aspects and Social issues, assess risks and impacts, and determine appropriate design and management controls in accordance with the requirements of the Russian Federation, Lenders, adopted international standards, and good industry practice (refer sections 3.1-3.3).

As a key element of this, the Company commits to conduct Impact Assessments (IA) prior to new major projects or significant modifications to existing facilities in accordance with the Project Expansions Procedure. Stakeholder consultation shall be an integral part of any IA, and IA documentation shall be made available as part of public consultation. Previous environmental and social IAs (including related addenda and special studies) have contributed to Company standards, and the subsequent related management plans and programs have informed current work.

Another important tool is the Risk Assessment Matrix that is applied by the Company to classify actual and potential consequences, determine significance and guide appropriate risk management. This matrix is also utilised in the Methodology for Classifying and Remediating Incidents and Breaches (refer section 3.3).

The Company's Issues Management Process is applied to identify, assess, develop action plans for, and monitor issues potentially affecting reputation including HSE & Social Performance. Reviews of issues are undertaken by the Sakhalin Energy Committee of Executive Directors when required.

2.4.3 Objectives and annual improvement plans

In order to apply the aims set out in Company policies, each year the Chief Executive Officer (CEO) of Sakhalin Energy endorses strategic objectives (5 year), specific performance indicators and targets, and plans for HSE and Social Performance activities.

The Corporate HSE Plan, Corporate Social Performance Plan, and supporting plans, detail actions, timeframes, and resources and cascade to relevant functions and levels within the organization. The Company will publish an outline of these strategic objectives in its annual report on HSE and Social Performance activities.

Requirements are communicated to contractors, who are required to align their own plans to meet Company requirements, to the extent applicable to that contractor (refer section 3.3).

Performance against targets and the implementation of plans is regularly monitored and reported (refer section 3.3) and reviewed (refer section 2.4.10).

2.4.4 Organisation, resourcing, roles and responsibilities

Accountability for HSE and Social performance is held by the **CEO** who runs the Company with a committee of executive directors.

The **HSE and Security Management Committee** is chaired by the CEO and meets monthly

	<p>Health, Safety, Environmental and Social Action Plan</p>	<p>Rev. 04</p>
---	---	----------------

to oversee HSE strategy, implementation and performance. A number of other key senior managers (e.g. Asset Managers) are members of the committee, and the Company HSE General Manager is secretary.

An external affairs review workshop (including SP issues) is held annually. SP priorities, Objective and Strategies actions and targets are defined in the Annual Sakhalin Energy SP Plan, based on the outcomes of the review. Progress against plan is tracked and reviewed on a monthly basis.

HSE and Social Performance is a **line responsibility**. This means that the CEO, directors and managers are accountable for ensuring that the relevant HSE and Social commitments are properly implemented at site level. Functional support is provided by an HSE team within each asset/project, and centrally by the Corporate HSE Department and Social Performance Team.

Asset/Project HSE teams are responsible for supporting assets and projects to: achieve compliance with applicable HSE law and consents, implement plans, implement standards including HSESAP commitments, and work directly with contractors to support implementation of requirements.

The **Corporate HSE Department** is responsible for overseeing the HSE governance of the Company, including being functional owner of the HSE and Social Performance Management System and standards, coordinating the annual Corporate HSE plan, providing specialist advice (on topics such as biodiversity, road safety, and incident investigation), quality control of data, all formal HSE reporting to external parties, and coordinating HSE assurance activities.

The **Corporate Social Performance Team (SPT)** is responsible for: overseeing the Social Performance governance of the Company, including being functional owner of the Sakhalin Energy Social Performance Standard, coordinating the annual Corporate Social Performance Plan and supporting plans, providing specialist advice (on topics such as SI/SD activities, social impact assessments/monitoring/compliance and mitigations, and indigenous peoples), collection and quality control of related monitoring data, reporting to external parties, and coordinating Social Performance assurance activities.

During major project construction that potentially involves significant social impacts, **Asset/Project Social Focal Points (SFP)** are in place to ensure that responsibilities for implementing commitments and ongoing monitoring are clearly defined and that there is an interface with SPT and contractors.

HSE and Social commitments that need to be implemented by **contractors and sub-contractors** are cascaded via contracts and contractor plans (refer section 3.3).

2.4.5 Awareness, training and competence

It is essential for the Company to ensure that staff and contractors are aware of requirements relating to HSE and Social aspects of their work, and are competent to perform their work in accordance with legal requirements and the Company's Management System.

To achieve this, Sakhalin Energy commits to:

- Allocate appropriate resources (human, physical and financial) to the responsibilities assigned at each level, via the Company's manpower plan and annual budgeting exercise;
- Inform employees of the HSE hazards and Social issues and requirements relevant to their work, including the provision of standards, procedures, work instructions, and awareness materials;
- Identify and implement training courses and requirements for particular job roles and activities, that fulfil the requirements of Russian Federation law, adopted international requirements, and good industry practice;
- Implement and maintain a process for competence assurance of HSE Critical Positions, including HSE Critical Positions (Level 1 and Level 2, these are staff who require formal

	<p>Health, Safety, Environmental and Social Action Plan</p>	<p>Rev. 04</p>
---	---	----------------

HSE competencies for critical activities identified within their job descriptions), Senior Leadership Positions, and HSE Professional Positions;

- Include training commitments on social performance in the Social Performance Plan each year, and
- Communicate relevant requirements to contractors.

2.4.6 Communication and consultation

Communication and consultation with external stakeholders, such as authorities and the public, is very important to Sakhalin Energy. Public Consultation and Disclosure is conducted in accordance with commitments (refer section 3.3). The Community Liaison organisation (CLO) maintains community relations (refer section 3.3). CLO roles and responsibilities are set out in the CLO Overview, which is appended to the Public Consultation and Disclosure Plan (PCDP)¹.

As a general policy, Sakhalin Energy intends to work pro-actively towards prevention of any grievances through impact mitigation measures and community liaison activities that assist to anticipate and address potential issues before they become grievances. Where grievances do arise, they are addressed in line with the Company's Community Grievance Procedure (refer section 3.3). A public grievance information leaflet is available describing how to lodge a grievance and the process through which the complainant can expect the grievance to be addressed.

Internal communication on HSE and Social Performance matters is clearly critical. In addition to direct liaison as part of normal work, effective communication is supported among the various levels and functions of the organisation as follows. Staff and contractors are required to report incidents, near misses and non-conformances via defined reporting processes, and the Company strongly encourages an open intervention culture with respect to unsafe acts and conditions. HSE Forums and HSE Committees at various locations provide management, staff and contractors with the opportunity to discuss issues, performance, and improvement ideas. Focus areas are communicated via the planning process, progress and performance are regularly reviewed and communicated at various levels in the organisation, and the CEO and CED regularly communicates to the organisation on priority, progress and performance.

Documentation, document control, and records are developed and maintained in accordance with good management system practice.

2.4.7 Management of change

Management of Change is a fundamental requirement for effective HSE management in industry. Over time, changes may be required in facilities, operational procedures, and other activities that may affect HSE or Social Performance. For example, changes in legal or other requirements, monitoring results, the occurrence of unforeseen incidents, and assessment of performance against targets, may each give rise to improvements that require change.

The Company implements a Management of Change procedure to ensure that change is recognised and managed as a routine process. Changes are classified as Level 1, 2, 3 or 4 and the authorized Change Panel is assigned based on the risk, impact, cost, affected locations, and complexity of the proposed change. Changes are assessed for HSE and social impact and, where such impacts are identified, controls and mitigations are provided. Changes are reviewed by the specified Technical Authorities and authorised Change Panel, and approvals are registered. Level 1 changes are reviewed by Lenders in accordance with the Project Expansions HSE Procedure. Changes in this HSESAP are managed as defined in section 3.4.

¹ The PCDP is publicly available on the Company public web-site.

	<p>Health, Safety, Environmental and Social Action Plan</p>	<p>Rev. 04</p>
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2.4.8 Emergency preparedness and response

Sakhalin Energy plans and prepares for effective Emergency Response to mitigate the potential consequences of incidents, such as fire, spill, and medical emergency.

Emergency plans are maintained for each facility for incident scenarios associated with significant risks, in accordance with legal requirements and good industry practice. The Company’s emergency preparedness and response process provides: notification and communication arrangements, an effective response organisation with specific roles and responsibilities, appropriate resources, training, exercises and drills programme, mutual aid, and review and continual improvement.

In relation to oil spills, the Company’s Oil Spill Preparedness and Response Specification provides more detail on specific commitments (refer section 3.3).

2.4.9 Corrective and preventative actions

Corrective action and preventive action is taken by the Company to address incidents (including grievances) and non-conformance reports and learnings, findings of assurance activities, and other commitments.

Actions taken to eliminate the causes of actual and potential nonconformities shall be appropriate to the magnitude of problems and commensurate with the HSE risks encountered, and are subject to appropriate risk assessment and Management of Change. Sakhalin Energy maintains a database tool (Fountain Impact and Fountain Assurance) for reporting, recording and tracking such actions.

2.4.10 Management review

Review of regulatory compliance and performance monitoring and reporting, incident and non-conformance reporting and learning, status of corrective and preventative actions, and outcomes of assurance activities is undertaken on a regular basis.

Sakhalin Energy undertakes formal Management Review on an annual basis to ensure the continuing suitability, adequacy and effectiveness of the Management System, and takes action to improve. This Management Review shall be undertaken by Assets, Functions, and the HSE Management Committee, and shall include:

- Consideration of trends and learnings from performance, incident investigations, audits, compliance with and changes in legal and other requirements, status of corrective and preventative actions, results of participation and consultation, and other information,
- Completion of a Self Assessment of the Management System, and
- Assessment of opportunities for improvement and the need for changes to the Management System.

Relevant outputs from Management Reviews are passed on to the annual improvement planning process. Sakhalin Energy provides summary information in relation to HSE and Social Performance in the public annual report.

	<p>Health, Safety, Environmental and Social Action Plan</p>	<p>Rev. 04</p>
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3 COMMITMENTS

3.1 Commitments to Russian and International Standards

In relation to the project construction and operation, Sakhalin Energy will comply with all material HSE and social regulatory requirements of the Russian Federation, and will comply in all material respects with the terms of the TEO-C2 (Russian project approvals process) and any other applicable material HSE and social consents³ as provided for under the terms of the financing.

In addition, Sakhalin Energy will execute its activities (including those executed by contractors and subcontractors) in accordance with the requirements of the qualitative and quantitative World Bank/IFC HSE and social policies and guidelines and EU quantitative and qualitative HSE directives or parts thereof that are identified in the documents identified in Section 3.3 (subject to any exceptions, deviations and express non-conformances identified in those documents and in the "Comments" column of listed Standards Comparison documents). Furthermore, the Company shall conduct its business in accordance with Good Industry Practice in accordance with the requirements of CTA.

The Company has set out in Section 3.3 the actions and values it intends to implement to fulfil its compliance obligations in this respect and this information has been reviewed by and discussed with the Phase 2 Senior Lenders.

Commitments regarding HSE and social international conventions are as follows:

- By virtue of its commitment to comply with material HSE and social law under the CTA, the Company will comply with those provisions of the HSE and social international conventions ratified by the Russian Federation which apply to private entities under Russian law and which are material to the Project.
- Subject to its overriding obligation to comply with Russian law, in relation to conventions not ratified by the Russian Federation, the Company will also comply with the spirit of those provisions specified in documents listed in Section 3.3 which are capable of application to private entities and which it is feasible for such an entity to fulfil having used its reasonable endeavours to do so, in each case to the extent described.
- In the event that any non-ratified conventions specified in documents listed in Section 3.3 are subsequently ratified by the Russian Federation, the first bullet point will apply.

The Company identifies and accesses legal and other requirements in accordance with its internal procedure, whereby specialists access up-to-date information relating to legal and other requirements (via regular reports from an external legal consultant, access to external legal databases, and certain other information sources). Documents summarising applicable RF Requirements and specifying adopted International Requirements are maintained for each Standard, where relevant, as indicated in Section 3.3. Applicable changes in relevant legal and other adopted requirements are documented in the Management System and appropriately implemented.

3.2 Commitments to Management System Standards

Sakhalin Energy commits to obtaining and maintaining certification to the:

- International Standards Organisation standard ISO 14001:2004 Environmental management systems; and

² The Technical and Economic Substantiation of Construction (TEO-C) approval was the most important approval obtained by the Project from the Russian Government prior to the start of construction.

³ This includes authorisations, permissions, permits, licences, filings, protocols, certificates, registrations or approvals, and interim permissions and Project Expansion or Permitted Project Expansions related consents and interim permissions.

	<p>Health, Safety, Environmental and Social Action Plan</p>	<p>Rev. 04</p>
---	---	----------------

- Occupational Health and Safety Assessment Series standard OHSAS 18001:2007 Occupational health and safety management systems.

This provides external assurance that the implementation of the Company's Management System is in line with good industry practice and supports continual improvement.

3.3 Commitments to Company Standards

Sakhalin Energy's Standards form part of the Company's Management System and are derived primarily from World Bank Group/IFC standards and guidelines, RF requirements, previous environmental and social IAs (including related addenda and special studies), and Shareholder requirements.

In this HSESAP, Sakhalin Energy commits to comply with all HSE and Social requirements of those Company documents listed in the document "HSESAP Commitments to Company Standards". These documents are subject to approval by Phase 2 Lenders under this HSESAP, and shall be made available on the Company's internet website on an ongoing basis.

3.4 Changes in Commitments

The Company and the Phase 2 Senior Lenders have agreed on the following process relating to changes to the HSESAP.

The Company and the Phase 2 Senior Lenders are entitled to request reasonable changes that may be necessary or appropriate to any obligation in the HSESAP (approval for which the other may not unreasonably withhold):

- to achieve legal compliance; or
- where current impact mitigation measures are not sufficient to eliminate or reduce any adverse HSE or social impact to the level contemplated in standards, or where an impact was unforeseen by or not contemplated⁴ (refer also to section 2.3);
- where neither the HSESAP nor legal requirements regulate that impact; or
- to address any Project Expansion.

Furthermore, the documents listed in "HSESAP Commitments to Company Standards" shall be updated from time to time to support continual improvement, for example to address changes in international standards where the Company decides to adopt such changes, and to incorporate appropriate learnings from investigations, audits, and management review.

The Company shall not amend the documents listed in "HSESAP Commitments to Company Standards" without the prior consent of the Phase 2 Senior Lenders (acting reasonably), and such consent shall be confirmed on the document "HSESAP Commitments to Company Standards" prior to final Company approval, publication, and implementation.

⁴ In this case CTA mandates that, with consent, additional or replacement measures are developed and incorporated in the HSESAP as soon as reasonably practicable in accordance with ALARP.