

Sakhalin Energy Investment Company Ltd.



EA BEST PRACTICES BOOK

Volume 2

2013

This is a second volume of the series “EA Best Practices Book”. The first book was published in 2009 and aroused great interest amongst External Affairs and Public Relations specialists. This edition integrates Sakhalin Energy’s best public relations projects implemented between 2010 and 2012.

This book’s focus is for those persons interested in public relations, internal and external communications, stakeholder engagement, sustainable development and corporate social responsibility practices. Many of the projects described in this book can be called Global Best Practices. The project authors personally participated in their execution and wish to share their professional experiences with those who want to expand their sphere of activity and get new ideas to improve their work and performance.

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SAKHALIN ENERGY AND SAKHALIN-2 PROJECT

Sakhalin Energy's eighteen years' experience of successfully developing and operating of one of the world's largest integrated oil and gas projects and its active social performance support the Company's right to operate.

In 2009 Sakhalin Energy published its first book discussing the experience and accomplishments in environmental and social projects, employee support programmes in volunteer activities and personnel awareness.

The experience we shared in the first edition greatly interested readers. We received questions not only regarding the projects we described but also about newer programmes. In this publication, we continue to share our practices in the area of community liaison and corporate social responsibility.

The numerous awards received by Sakhalin Energy in 2011–2012 indicate the quality of programmes described in this book. These include:

- 2011 – the winner of the All-Russian Competition "Russia's Best Enterprises: Dynamics, Efficiency, Responsibility – 2011" in the nomination "For Social Investments and Projects".
- 2011 – the second award of the nationwide project for ranking the corporate charity programmes efficiency "Corporate Philanthropy Research 2011".
- 2012 – Grand-Prix in the National Contest of Corporate Media Resources, "Silver Threads 2011".
- 2012 – the winner of the HR-brand prize in the nomination "Regions".
- 2012 – the forth place in the All-Russian ranking of "Leaders of Corporate Philanthropy – 2012" and a special prize for "Consistency".

If you have any questions or require additional information about Sakhalin Energy or the project's implementation, please e-mail us at External-Affairs@sakhalinenergy.ru. We reply to all requests!

Sakhalin Energy Investment Company Ltd. (Sakhalin Energy), the Sakhalin-2 project operating company was founded in 1994. Its shareholders are world leading corporations: Gazprom (50% + 1 share), Shell (27.5%), Mitsui (12.5%) and Mitsubishi (10%).

Sakhalin-2 is Russia's first project in offshore oil and gas production and one of the world's largest integrated oil and gas projects. The unique large-scale production infrastructure that has been built under the project includes the following:

- Three offshore oil and gas production platforms.
- Onshore processing facility (OPF).
- Offshore pipeline system with a total length of 300 km.
- Trans-Sakhalin pipeline system which runs from north to south of the island up to Prigorodnoye production complex over a distance of more than 800 km.
- Booster station (BS) 2.
- Oil export terminal (OET).
- First liquefied natural gas (LNG) plant in Russia.

The Sakhalin-2 project is one of the most complicated engineering projects ever undertaken by the global oil and gas industry. Its massive scale and technical proficiency required an enormous investment. Due to the harsh environment, varied climate, unique ecosystem of Sakhalin Island, the virtual lack of oil and gas infrastructure on the island at the outset and the remoteness of the region from the main Russian economic activity centres, meant we had to use best industry practices, attract innovative technologies, and apply efficient managerial solutions. Implementation of Sakhalin-2 was also successful due to Sakhalin Energy's unique shareholders partnership.



STAKEHOLDER ENGAGEMENT

A PATH TO CONSENT

The implementation of second Sakhalin Indigenous Minorities Development Plan

Sakhalin is home to some four thousand indigenous minorities. They belong to four major ethnic groups: Nivkh, Uilta, Evenki, and Nanai. Sakhalin Energy has had a running dialogue with indigenous people since the Company was founded in 1994. In 2005–2006 the Company, jointly with the representatives of the Sakhalin indigenous minorities and the Sakhalin Oblast Government, created a new engagement mechanism called the “Sakhalin Indigenous Minorities Development Plan” (SIMDP).

SIMDP is a three-sided partnership programme for lifespan of the Sakhalin-2 project. The implementation of the first SIMDP from 2006 through 2010 is detailed in the External Affairs Best Practices, Vol.1. The second SIMDP was developed in 2010 to cover the following five years.

The development and implementation of the second SIMDP are subject to the principle of Free, Prior and Informed Consent (FPIC), which is described in the United Nations Declaration on the Rights of Indigenous Peoples (2007) and the new Performance Standard 7: Indigenous Peoples of the International Financial Corporation. Following this principle makes SIMDP unique. For the first time globally, an industrial company has successfully applied this principle to the stakeholder engagement sphere. The concept of FPIC is that indigenous people should participate in development of the programme and give their implied or explicit consent to its implementation.

The procedure for implementing SIMDP and its governance structure are based on international standards related to indigenous peoples. These standards require greater involvement by indigenous people in the implementation of relevant programmes, identify the necessity of consultations and call for a mandatory distribution of benefits from such programmes.



Nivkh's ensemble "Pila Ken" (Big sun)



Signing of an agreement on the implementation of the second Sakhalin Indigenous Minorities Development Plan for 2011 through 2015, December 2010

PURPOSES

- Improve the lives and livelihoods of Sakhalin Oblast's indigenous minorities through social development programmes in a culturally appropriate and sustainable manner.
- Enhance the capacity of indigenous communities and individuals to actively participate in the management of the SIMDP and, by extension, similar socio-cultural and economic intervention strategies.
- Assist Sakhalin's indigenous minorities in the eventual establishment of an independent indigenous minorities development fund.
- Avoid or mitigate any potential negative effects caused by the operation of Sakhalin-2 project facilities.

TASKS

- Involve the indigenous people's representatives in the development, governance, and implementation of the SIMDP.
- Stimulate their aspiration to more active participation in the community self-government.
- Contribute to the economic growth of communities and tribal farms.
- Provide additional opportunities to the indigenous people in education and healthcare, among other social and culture programmes.
- Develop businesses, crafts, and cultural traditions of the indigenous people.
- Stimulate understanding and respect for the historic and cultural heritage of the Sakhalin indigenous minorities; protect them, through programmes aimed at preserving their traditions.

TARGET AUDIENCE

- Sakhalin indigenous minorities.
- Non-profit organisations (local, regional, Russia-wide, and international).
- Organisations engaged in the preservation, development and promotion of the culture and traditions of the Sakhalin indigenous minorities.
- Sakhalin-2 project lenders.

PARTICIPANTS

Partners:

- Sakhalin Energy.
- Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities (Regional Council).
- Sakhalin Oblast Government.

Other organisations/persons involved in the programme's governance:

- Russian Association of Indigenous Peoples of the North.
- Batani International Fund for Development of Indigenous Minorities of the North, Siberia and the Far East of the Russian Federation.
- One representative of indigenous minorities in the Sakhalin State Duma.

Other organisations:

- Independent experts.
- Auditors.

CONCEPT

The SIMDP has been developed based on an inter-sector partnership model. It takes account of the public sector interests (Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities), government (regional government and municipal power bodies), and business (Sakhalin Energy). All three partners control the Plan implementation. Each partner has different responsibilities:

- The Sakhalin Oblast Government coordinates the executive authorities' activities in implementation of the SIMDP and ensures compliance with Russian and Sakhalin legislation.
- Sakhalin Energy coordinates implementation of the Plan and provides programme financing.
- The Regional Council represents the interests of the Sakhalin indigenous minorities and coordinates work of the indigenous minorities' organisations.

All decisions on funds' distribution are made by the elected representatives of Sakhalin's indigenous minorities, representing each district of traditional residence.

IMPLEMENTATION

The first SIMDP (2006–2010) was a successful starting point for further programme development. As part of the next stage, in February 2010, based on equal partnership principle, a working group was established to prepare the second Plan. The group included representatives of the Regional Council, the Sakhalin Oblast Government, the Sakhalin Oblast Duma, Sakhalin Energy, and the Russian Association of Indigenous Peoples of the North. Six out of eight members of the working group were indigenous minority representatives. The working group was responsible for the development of the second SIMDP, providing consultations, and collecting recommendations and opinions of the indigenous stakeholders.

In order to ensure the participation of Sakhalin's indigenous minorities in developing the second SIMDP, the working group held two rounds of open consultations regarding traditional residence and economic activities of indig-



Galina Tumali, Head of "Union of Nanais, Uilta and Evenkis" NGO



Presentation of Uilta translation of the Universal Declaration of Human Rights, September 2012



Sakhalin Energy participates in the international conference “UN Global Compact in Russia: Business and Indigenous People”, September 2011



Indigenous ensemble “Kekb” (Seagull)

enous minorities. The consultations were held in 10 Sakhalin communities and involved more than 500 indigenous representatives.

The implementation of the first SIMDP contributed to active involvement of Sakhalin’s indigenous minorities (SIM) in the decision-making process. For example, unlike the first SIMDP, it was a great achievement that, during the consultations, representatives understood the importance of their participation in the process and enjoyed taking personal responsibility for the Plan’s contents. Everyone interested took the opportunity to voice his or her opinion and concerns.

While working on the second SIMDP, we also considered the results of the first Plan’s final evaluation, public opinion surveys and recommendations obtained during the consultations. For example, support was obtained for the proposals on establishing two programmes in the second SIMDP: a social development programme and a traditional economic activities support programme. The representatives of indigenous people also wanted both programmes to run completely under the SIM’s supervision. The draft of the second Plan, prepared by the working group which considered proposals and recommendations, was made available for comments and concurrence to all stakeholders, including a broad-based community of the indigenous minorities residing in seven Sakhalin districts.

The principle of Free, Prior and Informed Consent

In November 2010 Yuzhno-Sakhalinsk hosted a special conference organised by the Regional Council. The main purpose of this conference was to approve or amend the second SIMDP. Indigenous minorities’ delegates from all the districts of their traditional residence in Sakhalin Oblast took part in the conference. All participation in the consultations was voluntary, conducted in a timely manner and provided an opportunity for the general public to discuss the issues. The delegates were provided with the information required to produce their own independent assessment of the Plan.

At the conference, the delegates authorised their representative, the Chairperson of the Regional Council, to sign a statement of consent with the second SIMDP and also a new tripartite agreement on the Plan’s implementation.

In December 2010 Sakhalin Energy, the Regional Council, and the Sakhalin Oblast Government signed an agreement on the implementation of the second Sakhalin Indigenous Minorities Development Plan for 2011 through 2015.

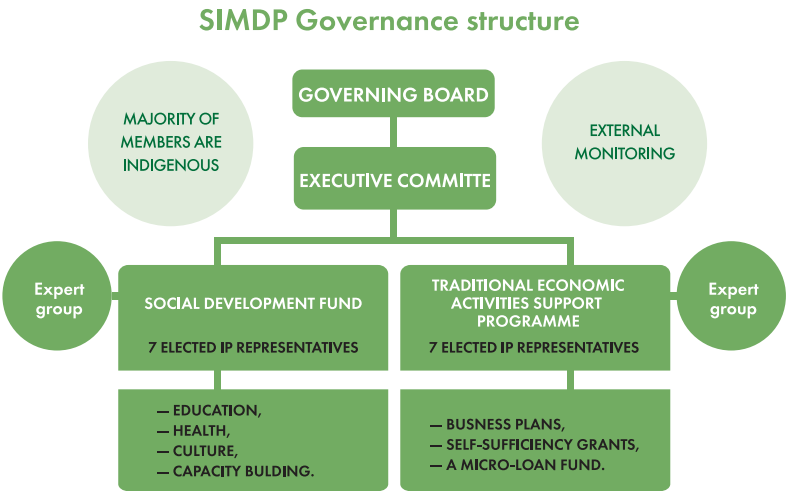
The use of the principle of Free, Prior and Informed Consent in the course of work on the second Plan has become further evidence of the effective partnership and synergy amongst the indigenous people, government bodies, and business.

Governance structure

Compared to the first Plan, the second is implemented with even greater involve-

ment of indigenous people. The supreme body of the Plan’s governance is the Board. Its work is complemented by the Executive Committee, the Committee of the Traditional Economic Activities Support Programme, and the Social Development Fund Council. The Committee of the Traditional Economic Activities Support Programme and the Social Development Fund Council are responsible for making decisions regarding relevant programmes. Both of them are composed of only indigenous minorities’ representatives.

During the implementation of the first SIMDP, a mechanism for Mini-Grants Fund was tested. This mechanism performed effectively as a prototype for an independent fund supervised only by indigenous people, proving that such supervision was effective. Hence, all decision-making, programmes implementation, and supervision within the project became the responsibility of Sakhalin’s indigenous minorities.



Microloan programme

The second Plan incorporated an innovative feature in the form of a microloan programme. This programme has been received quite positively by the representatives of the indigenous minorities’ organisations. They believe the Plan’s microloan component will surely help meet the goals regarding sustainable development.

The goal of the programme is to develop traditional economic activities of the Sakhalin indigenous minorities and to increase access to funding sources for indigenous communities and other indigenous business organisations. Microloans provide an opportunity for indigenous minorities to gain experience in markets and to enhance their ability to plan and complete business projects. The programme is su-



Sea spirit feeding festival



The regional conference “Prospects for Further Cooperation Under the Second Sakhalin Indigenous Minorities Development Plan”, November 2010



Presentation of project "Playroom equipment for "Berezka" kindergarten" in January 2008



SIMDP web-site: <http://www.simdp.ru/eng.php>

pervised by the Batani International Fund for Development of Indigenous Minorities of the North, Siberia and the Far East of the Russian Federation.

Transparency is the key to success

Timely provision of information and the assured transparency of all the Plan's aspects were raised by indigenous people as crucial issues during SIMDP development consultations. To meet those requirements, the SIMDP partners developed and took the following measures: the Plan's website was created (www.simdp.ru), both in the Russian and the English languages; during the biannual consultations, meetings are scheduled in all the indigenous communities, and information is posted on designated information boards. This distribution of information complements the function of the Company established information centres, which currently operate in 23 of Sakhalin's communities.

One of the important tools to establish transparency and build confidence with the indigenous people is the Grievance Procedure. This procedure effectively regulates the process of receipt, registration, and handling of grievances related to the implementation of the second Plan. This procedure was developed together with indigenous communities and based upon the general principles of Sakhalin Energy's Community Grievance Procedure¹.

RESULTS

Sakhalin Energy is committed to contributing in the development of the Sakhalin's indigenous minorities throughout the lifespan of the Sakhalin-2 project. Both SIMDP plans are the first amongst many aimed at SIM development. Presently, there is positive evidence regarding the effects of implementing the first two plans. In addition trends point towards the plans having a positive impact for the rest of the project. For example:

- The representatives of the indigenous people gain decision-making experience, e.g. the experience in funds' distribution.
- New methods of engagement between indigenous people, the government, and business were developed and tested. The experience of tripartite partnership can be utilised by other organisations in Russia and other countries.
- Based on the SIMDP, we have created a framework for the discussion of different issues raised by indigenous people.

The positive experience of SIMDP is recognised by Russian authorities as well as by international organisations, and is receiving worldwide recognition. For example:

- The Russian Association of Indigenous Peoples of the North, the leading organisation of Russia's indigenous people, recommends using the SIMDP as an example of collaboration between indigenous people and industrial companies in other regions of the country, especially for projects requiring foreign investments.

- In 2010 the SIMDP became a contest winner for the best social programme "Good Deed" in the nominated category of "Cultural Revival" at the All-Russian Festival of Social Programmes "CoOperation".
- At the 10th Annual Session of the UN Permanent Forum on Indigenous Issues (New York, USA 2011), the experience of tripartite cooperation under the SIMDP was approved as the best world approach for engagement.
- In September 2011 the UN Global Compact Network Russia, jointly with the RF Public Chamber and the Association of Indigenous Peoples of the North, held an international conference "UN Global Compact in Russia: Business and Indigenous People". At this conference, Sakhalin Energy presented its experience of cooperation with indigenous minorities. As a result, the Company's experience was included in the guidelines "Indigenous Peoples and Industrial Companies: Best Practices of Cooperation in the Russian Federation".
- In 2011 at the contest "Leaders of Corporate Philanthropy", organised by Price-waterhouseCoopers, the Vedomosti business newspaper, and the Donors' Forum, the SIMDP won in the nominated category of the Russian Union of Industrialists and Entrepreneurs "The Best Programme for Corporate Philanthropy Policy and Social Investment Principles".
- In 2012 SIMDP experience was presented at the Rio+20 Corporate Sustainability Forum as one of the world best practices on business engagement with indigenous peoples and FPIC implementation.

"The Sakhalin Indigenous Minorities Development Plan has become cross point where Sakhalin Energy, the Government of the Sakhalin Oblast, and the indigenous peoples come together to foster responsible business practices, liable government policy and where indigenous peoples express their desire to learn how to manage their own resources."

S. K. Kurmanguzhinov, the Chairman of the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities

"Thank you for sharing your valuable experience and we hope to continue collaboration in shared learning about experiences related to indigenous peoples' development."

Reidar Kvam, Manager, Policy and Quality Assurance, Environment, Social and Governance Department International Finance Corporation, World Bank Group

"There is a tremendous spirit of cooperation in the partnership, because everyone adheres to the principle of equality, openness, transparency, and information sharing."

A. V. Khoroshavin, Sakhalin Oblast Governor



Approving the second SIMDP by voting, November 2010



Nivkh woman, Maria Khugan – the elder

¹ See section "Community Grievance Procedure" (pages 15–23)



STAKEHOLDER ENGAGEMENT

COMMUNITY GRIEVANCE PROCEDURE

An integral part of respect for human rights and effective stakeholder engagement

The construction of the 800-km onshore pipeline, the liquefied natural gas plant, the onshore processing facility and other facilities adjacent to more than 60 settlements called for the performance of a Social Impact Assessment and the development of an action plan aimed at mitigating potential adverse impacts. The same approach was used for shaping the stakeholder engagement strategy.

At the same time, it was recognised that avoiding all risks and impacts was impossible. Project-related works would raise concerns and grievances in communities, especially in view of the fact that such large-scale construction works were new to the residents of many settlements. Therefore, the Company had to ensure an effective grievance resolution mechanism.

Such a mechanism, in the form of the Community Grievance Procedure (the Procedure), was developed by the Company as part of the Social Impact Assessment and implemented in 2003 at the initial phase of construction works.

A grievance is a statement of complaint by an individual, group or organisation that reflects concern and dissatisfaction with Sakhalin Energy or its contractors. A grievance may be caused by a real or perceived problem.

PURPOSES

- Establish strong and effective relations with everyone affected by the Sakhalin-2 project.
- Consolidate mutual trust with all of the stakeholders.

TASKS

- Resolve problems before a conflict emerges.
- Resolve grievances in a timely and effective manner.
- Develop preventative measures and reduce the probability of repeating similar grievances.
- Ensure that grievances and corrective actions are carefully documented.
- Prioritise grievances lodged by vulnerable groups of the community.
- Implement the Sakhalin-2 project in-line with the best international human rights standards and lenders requirements.

TARGET AUDIENCE

- Sakhalin residents.
- Contractors and subcontractors personnel.
- Sakhalin-2 project lenders.

PARTICIPANTS

- Sakhalin Energy.
- Sakhalin residents.
- Contractors and sub-contractors.
- Authorities.
- Experts and specialised organisations.

CONCEPT

To create a clear, accessible and definitive grievance mechanism that provides effective and timely assessment, resolution, and monitoring.

To apply the best international human rights standards, including the standards promulgated by the UN (UN Guiding Principles on Business and Human Rights, i.e. the so-called Ruggie Principles¹), International Finance Corporation (Performance Standards on Environmental and Social Sustainability), International Organisation for Standardisation (ISO 26000:2010 Guidance on Social Responsibility), and others.

IMPLEMENTATION

At the time of the development of this Procedure (2001–2002), specialised international standards to address grievances at the corporate, or the so-called

operational level did not exist. Hence, since the very beginning the Company was seeking to use the best practices and to meet the requirements of potential lenders² when addressing grievances. Thus, at the time of the Procedure’s implementation (2003), the priority was given to the principles of accessibility, dialogue, engagement, and availability of clear-cut steps and timeframes.

The Procedure was subsequently revised on a number of occasions to take into account the experience gained in addressing grievances, as well as the latest requirements of international standards in the field of non-state based grievance response mechanisms.

In particular, in 2006 the International Finance Corporation (IFC) introduced Performance Standards on Environmental and Social Sustainability which formulated, for the first time ever, the requirement for a community grievance procedure. Later in 2009 the IFC published its guidelines “Addressing Grievances from Project-Affected Communities”. By that time the draft Ruggie Principles were already in place, and in 2010, ISO 26000:2010 Guidance on Social Responsibility was approved. This Guidance, as well as the 2012 IFC Standards, took into account the Ruggie Principles.

The Company analysed all these standards to ensure that all their key provisions were already incorporated. Additionally, some of Sakhalin Energy’s implemented practices are essentially more advanced and unique.

As of today, the Procedure features the following advantages and strengths:

- Clear delineation of roles and responsibilities in the Company (action parties to address grievance, complainant communication, monitoring, etc.).
- Existence of a defined timeframe to address grievances as well as communication with complainants.
- Existence of a variety of channels to lodge grievance.
- Existence of a clear, mandatory complainant communication system.
- Monitoring by the Company’s top managers.
- Internal and external monitoring and audit (including monitoring and audits by the project lenders); and use of performance indicators tracking the addressing of grievances.
- Inclusion of information regarding the Procedure’s implementation in internal and external reports (including routine reports for lenders and shareholders as well as annual public reports on sustainable development).
- Careful documentation of the entire grievance process and results, including follow-up using the automated incident registration system.
- Intensive training for all parties involved in the process of grievances receiving and resolution with special attention to contractors.

Ruggie Principles. Effectiveness criteria for non-judicial grievance mechanisms:

- legitimacy;
- accessibility;
- predictability;
- transparency and openness;
- rights-compatibility;
- dialogue and stakeholders engagement;
- continuous learning.

Grievance receipt scheme



¹ As of today, UN Guiding Principles on Business and Human Rights or the so-called Ruggie principles, are the key standard for business in the context of human rights. In particular, Principles 28 through 31 list the provisions regarding non-state mechanisms of addressing grievances. These principles were formulated by Professor John Ruggie as part of his special authority as the UN Secretary-General’s representative for entrepreneurship and human rights and are listed in the UN Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework. In June 2011, the Guiding Principles were approved by the UN Council for Human Rights and recognised as a new standard for international business community in the field of human rights.

² At that time, potential lenders did not have any grievance standards.



Discussing corporate social responsibility issues with contractors

- Ensuring regular information sharing with stakeholders on the Community Grievance Procedure and ways to lodge grievances.
- Regular public opinion surveys, which include the questions about the Community Grievance Procedure, and discussion of the Procedure with stakeholders.

Grievance resolution mechanism

Throughout the entire grievance resolution period, the Company ensures communication with a complainant and with other stakeholders, as necessary. Monitoring and reporting must be ensured as well.

All issues are addressed confidentially in line with confidentiality principle of the Procedure. Moreover, identification details of a complainant and the subject of grievance are not disclosed to any third parties without written consent of the complainant.

Step 1: Grievance receipt

Grievances shall be accepted via a number of channels (see “Grievance receipt scheme”).

Step 2: Grievance assessment and registration, appointment of action parties

Upon receipt of a grievance, Sakhalin Energy’s Independent Grievance Committee makes a preliminary assessment of the grievance using the risk assessment matrix (see chart “Risk assessment matrix”) and appoints the action parties to resolve it and to communicate with the complainant.

Information about the grievance is entered in the automated incident registration and tracking system which enables follow-up to all steps of work and ensures automatic notification of the employee responsible for grievance resolution and his/her manager about the receipt of grievance, due date of grievance resolution, including the warning of due date approaching or its delay (if this is the case).

Step 3: Written acknowledgement

The Company shall send a letter of acknowledgement to the complainant which shall contain a formal statement of acknowledgement of the grievance receipt, contact name, grievance registration number, and date when the grievance is expected to be resolved.

Step 4: Investigation, communication, and resolution

This step includes clarification of causes of the grievance and its resolution.

CONSEQUENCES						INCREASING LIKELIHOOD				
SEVERITY	PEOPLE	SOCIAL	ASSETS	ENVIRONMENT	REPUTATION	A	B	C	D	E
						Never heard of in the Industry	Heard of in the Industry	Has happened in the Company or more than once per year in the Industry	Has happened at the Location or more than once per year in Company	Has happened more than once per year at the Location
0	No injury or health effect	No Impact	No damage	No effect	No Impact					
1	Slight injury or health effect	Slight impact	Slight impact	Slight impact	Slight impact					
2	Minor injury or health effect	Minor impact	Minor impact	Minor impact	Minor impact					
3	Major injury or health effect	Moderate impact	Moderate impact	Moderate impact	Moderate impact					
4	PTD or up to 3 fatalities	Major impact	Major impact	Major impact	Major impact					
5	More than 3 fatalities	Massive impact	Massive impact	Massive impact	Massive impact					

Risk assessment matrix

If the grievance is not resolved within the due timeframe (45 working days), the automated incident registration system, which follows up grievance response dates, will send notifications about overdue grievances not only to the action parties responsible for grievance resolution but also to their line managers.

If the grievance cannot be resolved within due dates for objective reasons, the Company and the complainant will sign an agreement to extend due date of grievance resolution.

Grievance resolution process largely depends on successful communication between all parties involved. This process enables grievance resolution in an effective way and raises trust in the process and its results. It is vital not only to communicate with the complainant but also with other parties involved, such as contractor personnel. In some cases the Company communicates with local administrations, experts, and specialised organisations that may provide relevant expertise, opinion or consultation.

Step 5: Close-out

If the complainant agrees that the grievance has been resolved, the Company offers to sign a statement of satisfaction with grievance response results and communication process. If the grievance remains unresolved, it will be addressed again. In this case, the Company will discuss with the complainant further opportunities for grievance resolution.



The Community Grievance Procedure calls for six steps



Informing people about the Community Grievance Procedure

Step 6: Follow-up actions (monitoring)

This step is used to monitor grievance resolution results. If the complainant does not object, the Company may contact him or her to make sure that its activities no longer raise concern of the complainant.

Grievance receipt and resolution trends

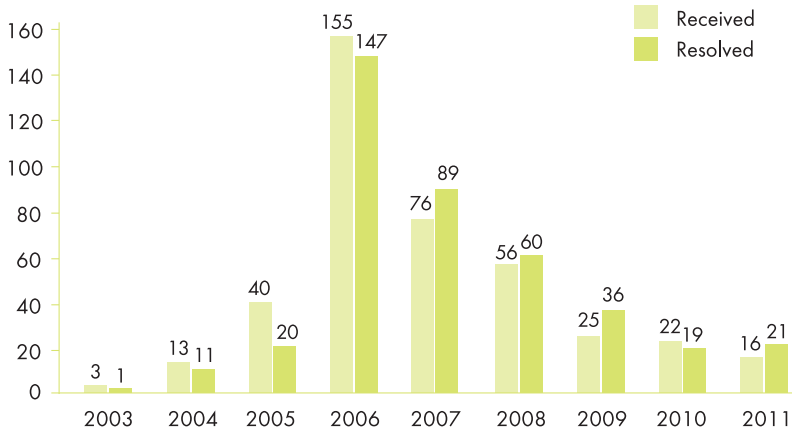
The number and the nature of grievances (see chart “Grievance receipt and resolution trends”) lodged to the Company vary and depended on a number of factors. The key factors included:

- Particular features and intensity of construction and, consequently, its impact on social environment and infrastructure in settlements.
- Awareness about the Procedure, ability to use grievance-lodging methods and readiness to contact the Company.
- Attitude of contractors to address grievances and generally manage social issues.

Issues raised in grievances during the large-scale construction were mainly focused on damage to or degradation of the roads and inconveniences to communities (dust and noise caused by traffic, damages to land plots or restrictions of access to land plots, etc.).

With the onset of the operation phase after the construction works, the number of grievances significantly decreased. This is explained both by a significant reduction of impact and by proactive actions aimed to mitigate situations that could cause grievances.

GRIEVANCE RECEIPT AND RESOLUTION TRENDS



Information campaigns and building trust

Ensuring the awareness of the community and contractor personnel about the existing Procedure and ways to lodge grievances, trust in the Procedure, and its accessibility are the major factors of the Programme’s effectiveness towards addressing grievances and, eventually, managing problems and risks.

In 2003 the level of awareness regarding the Procedure was low. Additionally, communities were unaccustomed to use corporate grievance mechanisms. Hence, from 2003 to 2005, ensuring awareness and building trust among communities became the Company’s priority in addressing grievances. The phrase “Welcomplain!” was the information campaign’s slogan.

The Company first carried out conventional awareness activities (publication of information on the Company’s web-site, announcements in newspapers, etc.). Subsequently, the Company conducted a series of interviews with communities and contractor personnel to identify the awareness level regarding: who are the contact persons, how to contact them in the event of a grievance or concern, the preferred ways to receive information, etc.

Such interviews improved the quality of information materials, increased awareness and ensured a larger diversity of methods to engage the Procedure. For instance, during the most intensive construction, Sakhalin Energy posted cards with information about the Procedure to each household in settlements (i.e. population less than 1000) located close to the construction works. Additionally, the Company distributed leaflets and special posters, which were placed in frequently visited locations (e.g. shops, post offices, etc.).

In 2005 the Company prepared its Community Grievance Leaflet. This leaflet became the basic tool for ensuring constant awareness for both the community and contractor personnel. It was published in those languages used by contractor personnel (English, Turkish, Japanese, Korean and Russian). During the course of the information campaign, the Company distributed more than 5,000 leaflets and posters about the Community Grievance Procedure in settlements.

The Company regularly communicated with settlement administrations and provided detailed description of the Community Grievance Procedure. This was done in order to ensure that any project-related grievances lodged through local administrations would immediately be delivered to the Company.

Presently, special attention is still paid to the Procedure, and ways to lodge grievances, at annual community public meetings. Additionally, information regarding the Procedure is readily available in the Company’s information centres.



Regular meetings with the community – part of “Welcomplain” information campaign



Information poster in communities located in close vicinity to construction works

RESULTS

In the course of the Sakhalin-2 project, the Company resolved almost 400 grievances and requests (as of late 2011). Undertaking grievance resolution work, the Company held approximately 1,000 meetings between Company’s representatives, contractors and complainants, and arranged hundreds of visits to Sakhalin’s settlements for the purpose of control and monitoring the grievance response process.

Application of the Procedure became an integral component of effective stakeholder engagement, as well as risk and impact management.

One of the most remarkable achievements under the Community Grievance Procedure was that during both the construction and operation phases the Company avoided any significant social conflict that could have stopped the progress of project works.

According to the results of independent audits, the community trusts the grievance process.

The fact that the Company’s practice of addressing grievances and its general observance of, and respect for, human rights is successful and advanced is supported by the following:

- In 2009 Sakhalin Energy was elected as one of five companies in the world for participation in testing of Ruggie Principles with regards to corporate grievance response mechanisms. The Company’s experience was highly recognised among the other participants.
- In 2010 Sakhalin Energy was awarded by Shell for high social performance in view of successful implementation of the Community Grievance Procedure.
- In 2011 the Company was elected to the UN Global Compact Work Group for human rights.
- Information about the Community Grievance Procedure was included in the collection of practices of International Business Leaders Forum Improving Business Ethics and Reducing Risks of Corruption: Experience of Russian and multinational companies.
- In 2012 the Company was invited to participate in the advisory group for the development of practical guidelines for implementation of the UN Guiding Principles on Business and Human Rights for the oil and gas industry. The project for the development of the said Guidelines was initiated by the European Commission.

“Sakhalin Energy’s grievance mechanism continues to function successfully. The Company developed and implemented the procedures ensuring that the community and personnel of the Company and contractor organisations have access to information about grievance review and resolution mechanism. Information is openly published on Company’s official web-site and in the major public areas...”

Report by lenders’ independent environmental advisor on social monitoring, 2010

“Participation of Sakhalin Energy in the pilot project demonstrated the applicability of the Guiding Principles in a situation where the grievance resolution mechanism is already in place. We would like to thank Sakhalin Energy’s grievance team for their efforts and great respect for their stakeholders.”

Report by John Ruggie, UN Secretary-General’s special representative for the problems of human rights, transnational corporations and other enterprises.

*“The principles of effective grievance mechanism between company and stakeholders”
17-th session of the UN Council for human rights, 2011*



Community Grievance Leaflet



ROAD SAFETY

Sakhalin Road Safety Council – implementation of partnership project

Sakhalin Energy has a constant focus on road safety. In June 2004 a road safety programme was launched within the Company to improve driving culture and ensure a safe environment for passenger and cargo transport. However, as the traffic situation in the Sakhalin Oblast was worsening due to an increasing number of car accidents, a concerted effort was required from all stakeholders.

In March 2005 in reaction to a worrying rise in traffic accidents, the first Sakhalin Road Safety workshop was hosted by Sakhalin Energy. It worked towards creating a partnership programme to improve road safety on Sakhalin. The workshop was supported by the Sakhalin Oblast Government and the Global Road Safety Partnership (GRSP), and attended by more than 60 representatives from 25 government and business organisations.

In June 2005 representatives from the Sakhalin Oblast Government, the Sakhalin Oblast Department of Internal Affairs, businesses and the community came together and signed an agreement forming the Sakhalin Road Safety Partnership, thus confirming officially their willingness to join efforts to improve road safety in the Sakhalin Oblast.

In 2010 the Partnership's Steering Committee decided to transform the Sakhalin Road Safety Partnership into the Sakhalin Road Safety Council (Council). As a result, in July 2011, the Sakhalin Oblast Government, the Sakhalin Oblast Department of Internal Affairs, and Sakhalin Energy signed a new agreement to cooperate under the auspices of the Sakhalin Road Safety Council. The restructured programme management system helped concentrate stakeholders' efforts on the implementation of priority activities and projects.



Signing of an agreement on cooperation under the auspices of the Sakhalin Road Safety Council, July 2011



“Safe Route to School” event, 1 September 2011

PURPOSES

- Help reduce road accidents in the sakhalin oblast.
- Help reduce the number of road traffic casualties.

TASKS

- Help improve road safety and promote a road safety culture among all road users.
- Help implement new tools and techniques for rendering first aid at car accidents.
- Contribute to the development of car accident prevention system.
- Contribute to the development of a communication and awareness-raising system promoting road safety amongst road users of all age groups, using modern tools and techniques.

TARGET AUDIENCE

Road users, including drivers, pedestrians of all age and social groups:

- Children.
- Teenagers.
- Parents.
- Teachers.
- Drivers.
- Passengers.
- Road police officers.
- Emergency and rescue services.
- Healthcare providers (including ambulance service).

PARTICIPANTS

Programme partners:

- Sakhalin Energy.
- Sakhalin Oblast Government.
- Sakhalin Oblast Department of Internal Affairs/Road Safety Department of the Ministry of Internal Affairs in the Sakhalin Oblast.

Programme participants:

- Educational institutions.
- Medical institutions.
- Ministry of Emergency Situations (EMERCOM).
- NGOs (regional and local).
- Global Road Safety Partnership.

CONCEPT

The primary function of the Sakhalin Road Safety Council is to be a platform for stakeholder engagement and interactions, thus enabling the development and implementation of social projects. The projects should help to decrease the number of road accident casualties as well as the overall number of road accidents.

The Council functions on the principles of partnership, information accessibility and transparency. Extensive use is made of the achievements and experiences gained by the Sakhalin Road Safety Partnership between 2005 to 2010, together with road safety global best practices. Each partner of the Council has a specific role and commitments:

- The role of the Sakhalin Oblast Government is to ensure an effective engagement and communication among local authorities, community and industry; provide input to the development and implementation of projects and their expert evaluation.
- The role of the Road Safety Department of sakhalin oblast’s Ministry of Internal Affairs is to provide input to the development and implementation of projects and to ensure their expert evaluation.
- The role of Sakhalin Energy is to manage financial matters, coordinate the work of the Sakhalin Road Safety Council, and provide input to the development and implementation of projects and their expert evaluation.

Such clear delineation of roles and responsibilities among the programme partners and participants sets the framework for effective management of both the programme itself and the work of the Council.

The Steering Committee oversees the implementation of the Programme. It consists of three co-chairpersons, one representing each of the three partners. The Steering Committee determines priority tasks, approves long-term strategy for the Sakhalin Council, reviews and approves the projects, and distributes resources among project teams.

Day-to-day management of the Council work is ensured by the Executive Committee. It consists of six members, two representatives per each partner. The Executive Committee selects projects for grant awards, contributes to projects development, and assists in their implementation.

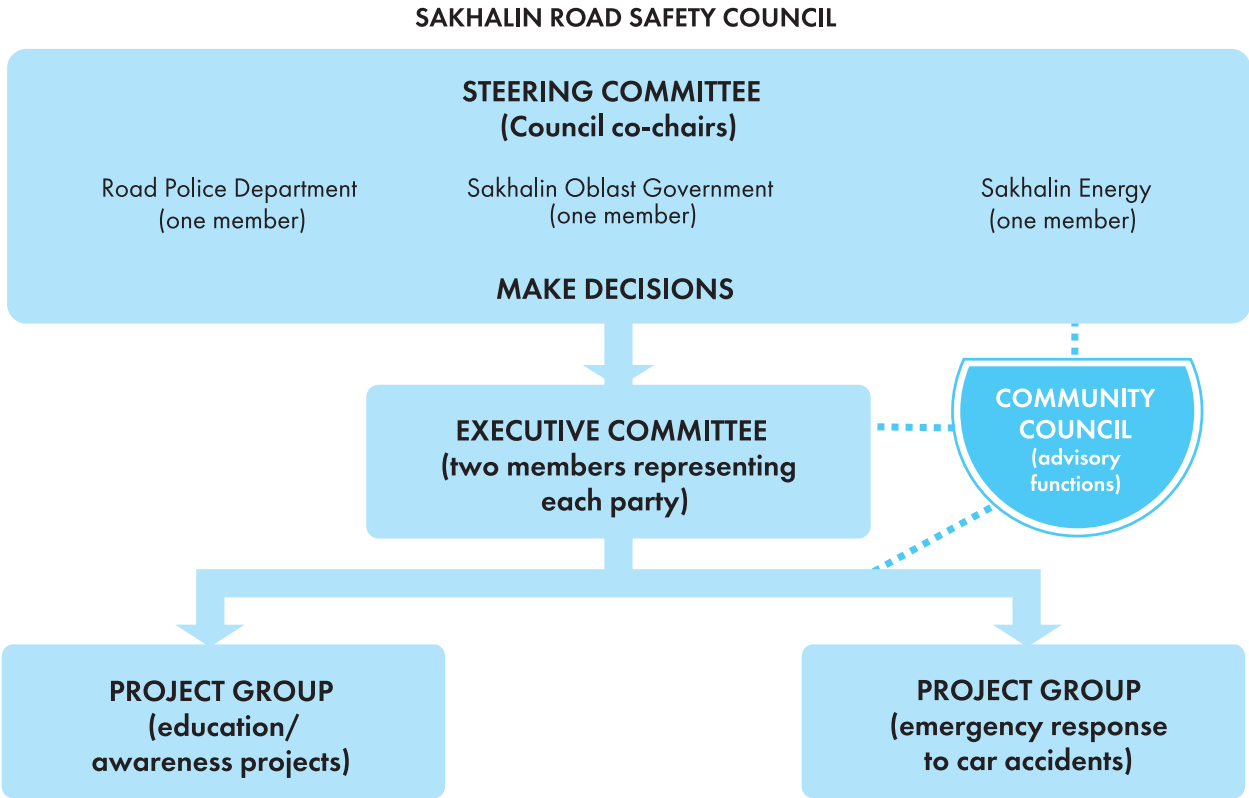
There are other stakeholders that also take part in the Programme. These include health care providers, scientific and educational institutions, public organisations, and so forth. Their representatives are members of the Community Council and of various project teams within priority areas of the Programme. The project teams are formed to examine, analyse and coordinate the activities of all stakeholders in particular areas, using expert input from various companies and organisations to develop projects.



Map of safe route to school



“Safe Route to School” – students studying the map with danger zones around their school neighbourhood



Governance structure

IMPLEMENTATION

The key to success in these efforts has been the comprehensive and holistic support given by all the participants of the partnership. Each of the partners contributes to implementation of the programmes, providing relevant support, skills and expertise to the extent they are able to, according to their individual resources and capabilities.

This equal partnership, with maximum engagement of all the stakeholders, has been the key to the Sakhalin Road Safety Council’s success. The members of the Council have been working together as partners for many years. It has contributed largely to building cooperation and trust among the project’s participants, ensuring the effective implementation of joint programmes.

The Council continues to implement the following key activities:

- 1. Seatbelt campaign on Sakhalin (2005 – up to the present).
- 2. “Safe Route to School” project (2007–2012).
- 3. “Blackspots” initiative (2007–2008).
- 4. “Pre-hospital First Aid to Car Accident Survivors” project (2006 – up to the present).

A systematic approach addressing road safety issues is not only about improving the condition of local roads and vehicles, but also about the important role played by road users and their individual safety culture. Therefore, starting in 2011, the Sakhalin Road Safety Council began focusing on two priority areas: road safety education/awareness projects and helping to develop a system for car accident emergency response.

The first project implemented by Sakhalin Energy under the aegis of the Sakhalin Road Safety Partnership was a long-term seatbelt campaign called “Choose Life – Buckle Up!” The goal of this large-scale campaign was to raise awareness among drivers and passengers of the benefits of wearing a seatbelt. It comprised of several different components that varied each year and with each particular phase of the campaign.

Moreover, since 2012, this project has become a part of an education and awareness programme, implemented as an open contest; the development and implementation of the best awareness and information campaign promoting the use of safety harness (seatbelts, car seats, and child restraints/adapters).

2012 saw completion of the “Safe Route to School” project, initiated in 2006, with the view of ensuring schoolchildren safety on city roads and streets. The goal of the project is to decrease the road injuries rate among children through the joint efforts of GIBDD, teachers, parents and by improving the road safety education process.

Under this project, alongside with teaching aids, the Sakhalin schools received maps showing safe routes to school and also indicating dangerous sections of streets and roads. Specifically for the project, a “Children and Road” video was filmed for teachers and parents. This video calls for parents’ attention to how children perceive danger, and provides details on children’s psychological, physical and age-related features. The film also provides recommendations on how to teach children the rules of safe behaviour while on roads and streets. In addition to this video, two other educational videos were produced: “Parents, Be Alert!” and “Road Traffic Rules Training: Experience of Sakhalin Teachers”.

All the materials were developed with specific attention to local environment, so that the schoolchildren could learn road traffic regulations based on practical examples, and consider real situations they face in their daily lives.



GIBDD representative gives a road safety lesson



Pre-hospital First Aid to Car Accident Survivors Exercise



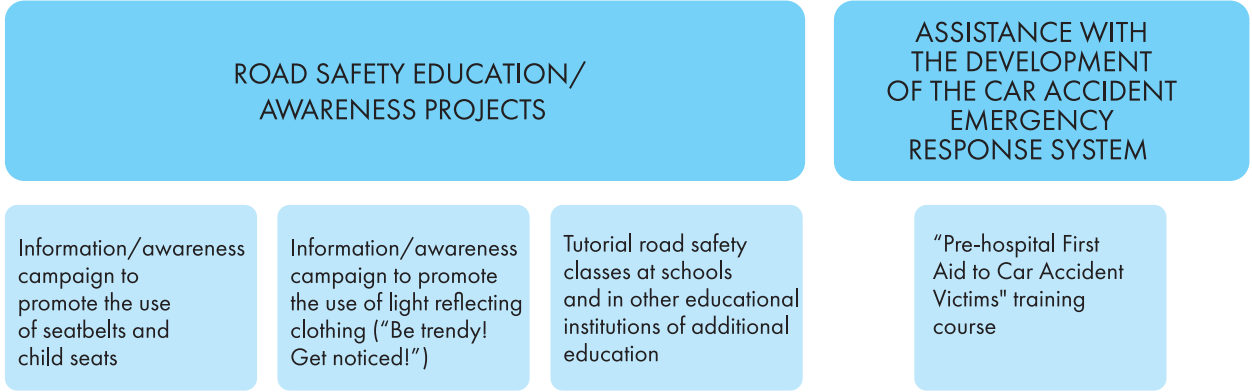
Social awareness campaign on safety seat belts

In addition, many other information and awareness campaigns were carried out. For example, on 1 September 2011, promotional leaflets were handed out to drivers and children in 13 different island municipalities. Children were shown special educational cartoons starring the character Senya, and learned how to draw up a safe route to school and also safe bicycle routes.

“Pre-hospital First Aid to Car Accident Survivors” is another project implemented by Sakhalin Energy. As proven globally, rendering first aid, as soon as possible, on or near the scene of an accident, is crucial for rescuing human’s life. This is why the training programmes aimed at developing first-aid skills among road police officers and paramedics should be defined as the priority tasks in reducing fatalities and casualties.

Since 2009 the Company has been sponsoring training seminars through advanced cardiac life support programmes. More than 70 medics from municipal hospitals and clinics attend these training seminars every year. In addition to that, the Road Police Department received 135 first-aid kits for police cars from 2005 to 2007. In September 2007, an advanced two-week training seminar was held for emergency service officers and fire fighters, aimed at improving their skills in freeing car accident victims from wrecked vehicles. The training was delivered by World Rescue Organisation specialists.

SAKHALIN ROAD SAFETY COUNCIL



Main trends in Sakhalin Road Safety Council activity



Sakhalin Energy employees and their families personalised road safety information campaign, October 2012

The integration of several projects (previously implemented individually without connection to one another) under one team helped to develop and promote various activities as part of a comprehensive campaign in the drive towards safety awareness among road users. In this way, educational institutions are now not only recipients of funds, but also have become active project participants. Implementation of contest as a tool, (such as a contest among educational institutions for establishing the best road safety class in 2012), has helped to define, promote and apply the best practices and techniques that are currently used in schools and other educational institutions. The implementation of projects to promote the use of light-reflecting materials was in a format of an open contest for the best promotional activities and campaigns. This format helps stakeholder organisations and companies develop and implement their own initiatives, while engaging more people to take part in the Council’s programmes.

In December 2011 the Steering Committee approved the 2012–2013 Council’s activities strategic focus. The Council’s continues to organise information and awareness campaigns among drivers and passengers, to promote the use

of seatbelts and children’s safety seats and to promote wearing light-reflecting stickers among Sakhalin schoolchildren as the target group. The Council will also actively support organisation of road safety activities in schools and other educational institutions, and will assist in further training and education of road accident response providers.

RESULTS

The Road Safety Partnership, (and later on, the Council), have brought together the efforts of business, public organisations, regional and local executive authorities, educational institutions and road police in developing and jointly implementing projects aimed at promoting a road safety culture.

Interactive quiz on road safety rules devoted to the World Traffic Light Day, August 2012



A whole series of large, multi-staged projects were initiated and implemented by the partners throughout the seven years of collaboration, including:

- A large-scale road safety awareness campaign in 13 communities in the Sakhalin Oblast with the involvement of road police and educational institutions.
- “Safe Route to School” project (2007–2012).
- Equipping police cars with pre-hospital emergency kits.
- Car accident first aid refresher (advanced) courses for 134 health care providers from 11 Sakhalin municipalities.
- Development and distribution of teaching aids promoting road safety for Sakhalin schools (e.g. posters and videos for children, parents and teachers).

Decreasing number of car accidents and injuries can be considered the biggest achievement of the partnership. These figures are dropping slowly but steadily. Compared to 2010, according to the Road Police Department of the sakhalin oblast, in 2011 the number of car accidents in the region reduced by 9.4%, the number of deaths decreased by 2.4%, and the number injured in car accidents dropped by 7.9%.

“The results of Sakhalin Road Safety Council activity are clearly visible. They are proved by the road safety statistics, by the facts of using seat belts by the drivers, and by the construction of modern pedestrian subways. The work is valuable and we have opportunity to step on new quality level.”

V. Degtyarev, Minister of Transport and Road Affairs, Sakhalin Oblast



Going to school with Senya, safety project, September 2011



SOCIAL IMPACT ASSESSMENT

RESETTLEMENT

Resettlement Action Plan – solution of resettlement issue due to construction activities

Appropriation of lands for the purpose of any project may turn out to be detrimental for the land users as their use of such lands is sometimes the primary source of their income.

Sakhalin Energy assumed an obligation to minimise land appropriations for the project's onshore facilities and provide compensation to people whose livelihoods could be affected by such appropriations (125 households and 66 enterprises).

The appropriate principles, measures and programmes were developed as part of the 2001–2003 Social Impact Assessment. Later these steps were detailed in the Resettlement Action Plan (hereinafter referred to as the Plan).

When developing and implementing the Plan, the Company was guided by RF requirements and the World Bank's Operational Directive 4.30 (OD 4.30). At the time (2003–2005), OD 4.30 included international best practices in the field of involuntary resettlement. This was the first time in Russia these resettlement requirements were put in place as part of a project's implementation.



Old house in Firsovo settlement



Firsovo settlement – new house

PURPOSES

- Minimise the project's adverse impact caused by land appropriations.
- Ensure that all those affected by land appropriations received compensation for any loss of property or for changes in their socio-economic conditions.

TASKS

- Minimise land appropriations, scale of physical resettlement and impact on income sources.
- If land appropriations cannot be avoided, provide land, arrange resettlement and pay compensations in line with Russian law and international resettlement standards.
- Pay compensations before commencement of construction.
- Hold consultations with persons, whose interests were potentially affected in the course of land allocation and resettlement.
- Pay special attention to vulnerable groups of land users and maintain communication with such target groups.
- Perform internal and external monitoring of the Plan implementation process.

TARGET AUDIENCE

- Project-affected groups:
 - Private households (individual land users, farmers, dwellers of country houses, and reindeer herders).
 - Enterprises (forestry enterprises, agricultural producers, fishing enterprises, etc.).
 - Municipal organisations, etc.
- Sakhalin-2 project lenders.

PARTICIPANTS

- Sakhalin Energy.
- Project-affected groups.
- Local authorities, specialised organisations (in the field of registration, appraisal, etc.).
- Independent experts.
- Auditors.

CONCEPT

To develop an effective mechanism to ensure that all people whose interests are affected by land appropriations receive compensation for any loss of property or changes in socio-economic conditions. Provide an opportunity to the land users

to recover their standard of living and income at least to the level that existed before the project, if not to a higher level.

IMPLEMENTATION

Implementation of resettlement, provision of compensations and supplemental assistance started in 2001 (as part of the Social Impact Assessment) and was completed in 2011 (final external assessment of the Plan implementation).

Social Impact Assessment (SIA)

In 2001–2003, the Company assessed the scale of potential impact and identified the groups that could be effected by land appropriations required for the construction and operation of the project facilities. In addition, the Company formulated the related principles, measures and programmes (see Sakhalin Energy's web-site, Social Impact Assessment (2003), chapters 7, 8 and 12).

In the course of talks with potential lenders it was decided to develop a special document – "Resettlement Action Plan", which would detail the Company's approaches and procedures as related to compensations, resettlement, impact mitigation actions, and applicable monitoring.

Development of the Plan and application of international standards

One of the requirements imposed by potential project lenders was the application of international best practices and standards in the field of resettlement and compensations. At that time, the World Bank's Operational Directive 4.30 (OD 4.30) Involuntary Resettlement was considered the best program in this area.

The Company developed the Plan with participation of leading international experts in resettlement and using the International Finance Corporation (IFC) guidelines for the development of resettlement action plan.

The initial efforts included analysing Russian Federation requirements, OD 4.30 and international experience in the field of compensations and resettlement.

The OD 4.30 requirements are sometimes more strict than Russian Federation requirements. For example, Russian law does not require preparation of a resettlement action plan. In addition, some groups of land users are not entitled for compensation; compensations are calculated based on the market value of property, which sometimes does not reflect or compensate for the full losses. Furthermore, Russian law does not require the development of any special measures and approaches for communicating with the affected vulnerable groups, etc.

All discrepancies between the requirements of international standards and Russian law are described in the Plan. The Company took into account these dis-



Handing over the documents to the relocating family



Family of relocatees at new location



By tradition the cat should enter the house first



First guests in the new house

crepancies while defining the work method, and prepared a Supplemental Assistance Programme (see section "Supplemental Assistance Programme"), which took into account OD 4.30 requirements.

Work phases for resettlement, compensations, and supplemental assistance

- Interface with project-affected land users was accomplished in several phases:
1. Identification of land users (including non-registered land users), generation of the list and delivery of land appropriations notices.
 2. Identification of rights for compensation under the Russian law and/or the Supplemental Assistance Programme.
 3. Development and approval of compensation packages.
 4. Implementation of compensation process.
 5. Monitoring and adjustment of compensation and Supplemental Assistance.
 6. Reinstatement and return of land upon completion of construction.

Consultations

The key integral component of all phases and actions under the Plan was provision of consultations to project-affected people.

In the course of consultations, land users received full information about the compensation process (rights and obligations of the parties, compensation forms and calculation methods, compensation agreement procedure, and forms of supplemental assistance, grievance procedure, etc.). Land users voiced their preferences and participated in the planning of resettlement and compensation processes.

Compensation process was followed by regular consultations as part of the internal and external monitoring (see section "Internal and external monitoring" below).

The process of consultations and the decisions were recorded and documented.

Resettlement

The Company paid special attention to the cases of physical resettlement of families (ten cases) and approached each case individually.

Six of ten resettled families did not have duly registered rights for the land and real estate. In this view the Company accomplished their resettlement under the Supplemental Assistance Programme (see section "Supplemental Assistance Programme" below).

Listed below are examples of compensations and supplemental assistance provided to the resettled families.

BEFORE RESETTLEMENT	AFTER RESETTLEMENT
Ramshackle wooden house (hut), furnace heating, no shower/bathroom, no water supply and sewage, toilet in the backyard	Well-furnished stone house, toilet and bathroom indoors, central water supply/heating/sewage or individual heating (boiler) and sewage (septic)
Ramshackle household outbuildings	New household outbuildings
No bath house	Bath house made from roller beams
Country land plot without a house; no electrical power and water supply	Country land plot with a country house, large land plot, convenient access road, centralised electrical power supply, and regular delivery of water

Supplemental Assistance Programme

To handle cases where compensations stipulated by the Russian law were insufficient, and in order to meet the OD 4.30 requirements, Sakhalin Energy developed a Supplemental Assistance Programme (hereinafter referred to as the Programme). The Programme was financed from the Company designated fund.

The Programme allowed for flexible interface with project-affected people, especially vulnerable groups such as non-registered land users, low income families, reindeer herders and senior citizens.

For example, about one half (out of 125) of the affected households were not entitled for compensation under Russian law (non-registered users), but were entitled for compensation under OD 4.30. Compensation and the required support were therefore provided under the Supplemental Assistance Programme.

Non-registered land users are those who had been openly using the land plots for years but did not have any formal rights for the land plots. Those non-registered land users were mostly residents of country areas who had previously worked in collective farms. They joined their efforts to till large areas of land which were split into plots assigned to individual families.

To identify any non-registered land users, the Company specialists interfaced with the heads of rural administrations, questioned the villagers, visited the land plots to define the boundaries of each family's plot, prepared maps, detailed descriptions and the history of land plot use, etc.

Based on the acquired information, the Company prepared an act stating a list of people, whose land plots were going to be appropriated. It included infor-



Old cow barn



New cow barn constructed under the Plan



The house in Prigorodnoye settlement before the relocation



The house in Korsakov town after the relocation from Prigorodnoye

mation on the plot size, a map locating the plot and was signed by both the local head of rural administrations and by the land users.

In addition, the Programme included the development of a compensation calculation procedure to estimate and pay compensation for appropriations of lands and lost crops. According to this procedure, compensation accounted not only for the lost crops but also for the lost revenue associated with the development of land plot (using the maximum indicators). Thus, the amount of compensation was sufficient for the development of a new land plot and harvesting crops as early as the following year, i.e. compensation was provided on a full replacement cost basis as required by the OD 4.30.

Community Grievance Procedure¹

An important and effective mechanism for identification of potential and actual problems under the Plan was established through a Community Grievance Procedure (the Procedure).

During each meeting with the land users, the Company specialists explained that there was an established Community Grievance Procedure and the land users could contact Sakhalin Energy regarding any problems associated with the project implementation. A brochure was prepared especially for those communities, explaining in a simple and clear language how the Procedure worked and how to send a complaint to the Company.

For example, during the course of meetings with the land users, the problem of restricted access to their land plots during construction works was identified. Such problems were registered in line with the Procedure. To act upon the existing complaints and to avoid similar complaints in the future, the Company, jointly with onshore infrastructure construction contractor, developed series of measures which included ensuring land user awareness, their approval of work timeframes, and arrangement of passages across the pipeline route, etc. These measures minimised the number of such complaints.

Over the period of the Plan’s implementation, the Company registered and acted upon an estimated 100 complaints, 30% of all complaints that reached the Company from 2003 till 2011.

Internal and external monitoring

Another effective tool and a mandatory condition of project lenders was internal and external monitoring of the Plan’s implementation, including its results.

Internal monitoring was accomplished by the Company specialists. External monitoring was performed with involvement of international experts in the field of

resettlement. The experts were recommended by the project lenders. The role of the international experts consisted of the following:

- Verification of compliance with the Plan’s requirements by the Company and contractors.
- Monitoring of recovery of social and economic conditions of people, whose interests were affected by the project.
- Monitoring and reviewing the results from complaints that were received by the Company under the Plan, etc.

The Independent Monitoring Programme included the development of special performance indicators to track the implementation and progress of compensation and impact management measures and assess the satisfaction of land users covered by compensation processes and compensation packages, etc.

The internal and external monitoring included:

1. Performance of field work (meetings and interviews with the affected land users, collection of socio-economic information about project effected households, identification of actual and potential problems, visits to the land plots, etc.).
2. Analysis of collected information, preparation of analytical report, and development of recommendations and corrective measures (where required).

Where the internal or external monitoring identified any potential or actual problems, the Company carried out target surveys to identify the causes of such problems. This was followed by the development of corrective actions or problem management actions.

For example, according to the internal monitoring results, some of the land users were not satisfied with the results of the land’s reinstatement post completion of pipeline construction. To identify the scale of this problem, the Company performed a field examination of the land plots and identified the problem plots. As a result, the Company developed a corrective action plan and regularly monitors the soil conditions. Those of the land users who chose to perform additional soil reinstatement work on their own were provided with monetary compensation.

RESULTS

The Company’s obligations toward all those whose interests were affected by the project activities were fulfilled in line with the RF law and World Bank’s OD 4.30.

While acting under the Resettlement Action Plan, the Company:

- Paid compensations and provided additional support to all of project-affected households, including individual land users, farmers, dacha owners and reindeer herders (a total of 125 households) and enterprises (66).



Young plants for future harvest at the new dacha



The new dacha in exchange for the old one

¹ See section “Community Grievance Procedure” (pages 15–23).



Company representatives meeting with the project-affected land users



At the new location

- Improvement of the living conditions of all resettled and affected families (10); as acknowledged by international resettlement expert and lenders.
- Compensation paid for potential damage to fish resources.
- Compensation paid for partial loss of the beach in the Korsakov District.
- Reviewed and resolved an estimated 100 complains associated with the Plan's implementation.
- Performed 16 internal and 7 external audits under the monitoring programme.

To summarise the results, it should be noted that the Company complied with lenders' requirements and received a positive opinion by the international resettlement expert regarding the fulfilment of the Company's commitments under the Plan.

Listed below are the key factors that enabled the Plan's successful implementation:

- Timely performance of regular consultations with the affected households, and their participation in resettlement and compensation planning processes.

- Use of a flexible individual approach while interfacing with people, provision of compensations and additional support (with special attention paid to vulnerable groups, e.g. non-registered land users, reindeer herders, etc.).
- Transparency of the processes and approach for defining the compensation amounts.
- Use of the Community Grievance Procedure.
- Performance of the internal and external monitoring.

In November 2012 Sakhalin Energy took part in a workshop "Resettlement issues: key questions, standards, practices" arranged by UN Global Compact in Russia. The Company shared its many years' experience of Resettlement action plan realisation.

"The RAP commitments related to resettlement, compensation, supplemental assistance, livelihood restoration and land reinstatement have been met or are in the process of being met (the reinstatement soil monitoring programme is in the process). The external monitoring process was a mechanism to assess the adequacy of RAP related measures being undertaken, the robustness of the internal systems in identifying and addressing issues as they arise, and the commitment of the Company to communicate and consult through transparent and regular mechanisms. Overall the Company is in compliance with the RAP and World Bank OD 4.30. The measures to restore or enhance project affected people's standard of living were implemented and livelihood restoration was effectively completed."

From the report on final external monitoring check under the Resettlement Action Plan

The Plan and the external monitoring results are available at the Company's web-site www.sakhalinenergy.ru.



In November 2012 Sakhalin Energy took part in a workshop "Resettlement issues: key questions, standards, practices" arranged by UN Global Compact in Russia



STAKEHOLDER ENGAGEMENT

INFORMATION TO PEOPLE

Information centres network for remote communities

During the early stage of the project's implementation, one of the Company's top priorities was the development of an effective communication tool for interaction with the island's communities. This was due to Sakhalin Energy's commitment towards fulfilling its obligations within the social sphere as defined by its lenders and to comply with the international standards of conducting information campaigns with the public. Several elements of the Sakhalin-2 project run through ten different municipalities inhabiting approximately 70% of the Sakhalin Oblast population. Such geographical footprint dictated the need for a special mechanism to continuously share information with the many communities and stakeholders. During the construction phase, the community engagement and discussions were performed by a group of 15 Company and contractor's specialists. Closer to construction completion, the group was reduced; contractor companies and their specialists were completing their work and departing the island. The change required a revision in strategy and the development of a new mechanism for the Company to interact with all the remote communities.

The previous experience of collaboration with both the district and country libraries provided a potential mechanism for the Company to use those as a key source for distributing information to the remote communities. The availability of the library system throughout the island and the popularity of libraries as sources of information amongst local residents were of great significance. As a result, based on the existing library network, Sakhalin Energy developed information centres, which main function is – providing continual awareness for residents throughout Sakhalin regarding the project's status and continuing operations.



Information centre in Poronaysk settlement



Master class on submitting applications for Sakhalin Energy social and grant programmes, October 2011

PURPOSES

- To meet social commitments (accepted by the Company) as prescribed by the project financing conditions.
- To build mechanism for effective interaction with communities residing within close proximity of the Company’s facilities and supporting infrastructure.
- To build and strengthen the Company’s reputation within communities.

TASKS

- To regularly inform stakeholders regarding: Sakhalin Energy activities and Sakhalin-2 project updates, safety rules near pipeline right-of-way, as well as the Company’s social programmes and grant projects.
- To prevent possible incidents and formally accept public grievances.

TARGET AUDIENCE

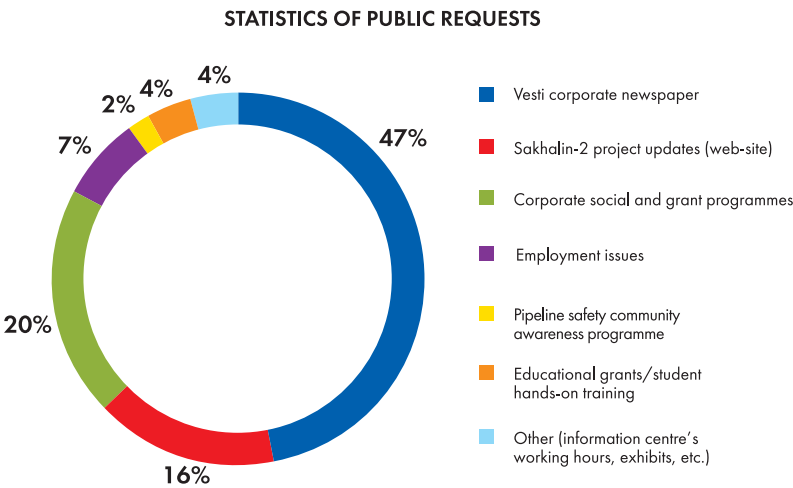
- Island population.
- Social institutions.
- Local NPOs.
- Local businesses.
- Sakhalin-2 project lenders.

CONCEPT

To create a mechanism for interacting with local communities within the Sakhalin Oblast. To comply with the international standards as committed to within Sakhalin-2 project financing conditions. To utilise the existing infrastructure — a network of district libraries and most importantly involve librarians as consultants on the distribution of information related to the Company’s activities. Develop collaboration between the Company and libraries on a mutually advantageous basis.

IMPLEMENTATION

The implementation of the information centre network began in 2008, when the construction works on Sakhalin-2 project were completed. At first, under a pilot project, four information centres were established in the north, centre and south of the island. The experience gained from these four centres showed that the network was an effective, accessible and popular tool for interaction between the Company and communities. The centres’ performance analysis allowed the team to identify problems, organisational challenges and define better approaches for rolling out the project with remote communities. Hence, adjustments were made and the project was fully rolled-out and implemented.



Currently, 23 information centres based within district and village libraries have been established and successfully function in the settlements located along the Trans-Sakhalin pipeline system and adjacent to other Company facilities. Each one of them has information boards, office equipment and computers with Internet access. This not only allows the Company to achieve its goals but also builds up the libraries’ capacity. During normal library business hours, the librarians provide assistance to the information centres’ visitors on Company related activities. The main task for librarians, acting as Sakhalin Energy advisors, is to familiarise the visitors with the information regarding the Company activities, and to help search for the requested materials (i.e. hard copies and multimedia). The Company updates the information materials on a regularly basis.

Annually, all librarians attend special workshops that, in particular, include a field trip to the Company’s facilities. The workshop programme provides the participants with an understanding of Sakhalin Energy, the Sakhalin-2 project, as well as social, grant and other programmes sponsored by the Company. The Company regularly publicises the information centres purpose and functions to the communities through various communication tools, including local newspapers, websites, and informational posters.

In order to support the libraries, top up their reserves and attract more attention to the libraries as well as the information centres, the Company launched the “Book as a gift” project, which became very popular. Every year





Presenting books under the “Book as a Gift” project, 2011



“Book as a Gift” project, 2012

under this project all the participating libraries receive a gift set of books on a particular theme. This project received positive feedback not only from the library staff, but also from the communities.

Every year, up to 4,000 visitors come to the information centres. Generally, people are interested in employment opportunities, but also about the Sakhalin-2 project and the opportunity to participate in social programmes and the Company’s social campaigns. Also the communities can address their grievances through the information centres.

There are people of different age categories amongst the information centres’ visitors. Junior school students are first of all interested in Senya, the animation hero of the “Safety is Important” programme, whereas high school students are more interested in environmental issues and educational grants, and people of 25 to 50 years of age are mostly interested in employment issues and social projects. The pensioners like the corporate newspaper “Vesti”. The information centres are being treated by the communities as quasi on-sites Company “branches”.

RESULTS

- The Company has complied with the lenders’ requirements on establishing effective communication with the remote communities.
- The Company has created an effective tool for remotely sharing information and interacting with communities within the affected municipalities.
- As confirmed by public polls, the Company has improved its popularity and reputation as a socially responsible organisation.

“It is essential that public awareness about Sakhalin Energy information centres and other ways of communicating with the Company is maintained at high level. One of the indicators of Sakhalin Energy’s fair business practice is the promotion of these information centres. The Company promotes them with various methods, including the placement of relevant information in print media (local newspapers), informational posters, and announcements (notifications) for local community, and in phonebooks. It is necessary to maintain active public relations at the same level as it will provide the opportunity to learn about existing ways of interaction with the project to Sakhalin residents.”

*Extract from the report of ENVIRON UK,
a lenders’ independent consultant, following 2011 audit results*

“I am sure that all the readers of Sakhalin and the Kurils will be happy to read the books received from Sakhalin Energy under the “Book as a Gift” project. It is not a secret that many books which are published on the mainland do not reach



Sakhalin. We have to make search for and order them. Here, however, there is a good set of well-chosen, interesting and well-printed books.”

V. A. Malysheva, director, Sakhalin Regional Universal Scientific Library

“Sakhalin Energy information centres project is innovative in the area of interaction with the local population. Now people living in the Sakhalin Oblast are sure that not only the infrastructure of the Sakhalin-2 project is available in the area where they live, but also that they can ask the Company any time and get answers to their questions.”

N.L. Zagoruiko, librarian of town library No. 13, Vostok village, Poronaysk city district

*St. George Ribbon Campaign in Nogliki
information centre, May 2011*



WHALES’ SECRET

Action plan for protection and conservation of gray whales

Not far from the Piltun-Astokhskoye offshore field, developed as part of the Sakhalin-2 project, is a zone of gray whales feed during summer and autumn. Until 1983, when several species were spotted near Sakhalin Island, these whales in the Sea of Okhotsk were thought to be completely exterminated by whalers. The gray whales are listed in the Russia’s Red Book and the International Union for the Conservation of Nature (IUCN). Thus the project initiated a public discussion of both the environmental consequences of offshore oil and gas production, as well as an impassioned national, and international discussions about possible harm to these endangered animals during the construction and operation of a major oil and gas project. The discussions in which the Sakhalin Energy’s international lenders and the shareholders became involved, were prolonged and hampered mainly by the absence of reliable scientific knowledge regarding gray whales; in particular their migration routes, the hazards to which they are exposed beyond Sakhalin waters, their breeding and wintering grounds, their food reserves, their reaction to certain impacts and, of course, the different interpretations of the same facts. Neighbouring with these unique animals led the Company to take extraordinary environmental safety measures during all operations in the vicinity of the Piltun-Astokhskoye field. In addition, special measures were developed for efficient and transparent evaluation and adequate control measures for the gray whales safety.



Gray whale monitoring



Gray whale fluke

PURPOSES

- Protect gray whales and minimise any possible adverse effects.
- Enhance the Company's reputation as a responsible operator that ensures adequate conditions so that the Company can execute its business activities without endangering protected species.

TASKS

- Research and monitor gray whales in order to develop measures for the prevention and/or minimisation of any impact to their environment.
- Develop and implement impact preventive/minimising measures.
- Obtain international verification of the measures implemented and their results.
- Distribute obtained data amongst the target audiences.

TARGET AUDIENCE

- International environmental community.
- Scientific community.
- Sakhalin Energy shareholders.
- Sakhalin-2 project lenders.
- State and interstate environmental agencies, including IUCN, the United Nations, etc.

PARTICIPANTS

- Sakhalin Energy, initiator and sponsor of the research and conservation works of the gray whales.
- Exxon Neftegas Limited (Sakhalin-1 project operator) – Sakhalin Energy partner in financing the research programme.
- Western Gray Whale Advisory Panel (WGWAP) – a panel of independent scientists and experts working under the auspices of the IUCN for the conservation of gray whales.
- Ministry of Natural Resources and Environment of the Russian Federation.
- Russian and foreign researchers engaged in gray whales research programmes.

CONCEPT

To develop strong partnership between oil and gas companies and the global scientific community through the exchange of information in order to define and implement measures for the conservation and protection of the Red Book marine mammals in the region. To create a mechanism for clear, independent evaluation of the Company's activities, which helps to avoid any adverse impacts on gray whales, and ensures the continued involvement of all stakeholders in the partnership system.

IMPLEMENTATION

The first priority was to obtain reliable information about the whales, which had basically not been studied prior to the start of offshore exploration. Starting from 1997, Sakhalin Energy and the operator of another oil and gas project, Sakhalin-1, launched programmes to research the gray whales. They included acoustical monitoring, benthos studies, photo-identification of whales and creation of a catalogue, research of the whale habitat in order to determine their location and population, and whale behaviour studies. Over the past two years, marking whales with special chips and satellite monitoring of their migration patterns beyond the Sakhalin waters was added to the programme.

The programme is ongoing, and comprehensive data on Sakhalin gray whales has been obtained because of it. The programme's researchers now have unique information on the whale's behaviour: benthos base, population, gender and age structure, reproduction rates, distribution near Sakhalin shores, and several migration routes. Additionally, a photo catalogue was created. Technically, western gray whales are the only mammals for which such complete photo catalogues have been created. Each whale has been assigned a number, and some of them have been given names. As a result of the program, two more feeding areas have been discovered; one southeast of Piltun Bay (where approximately 60 gray whales feed) and another in East Kamchatka, Kronotsky's preserve (about 20 whales) conservation zone. Altogether, over 206 whales have been registered in the photo catalogue. Some of the gray whales are not being seen near Sakhalin shores for five, seven or even more years, but eventually they are being spotted near the island. Every year new adult whales, previously not registered, are being discovered.

Satellite tagging programme

During the 2010 and 2011 seasons, the Institute of Environmental and Ecological Issues of RAS and Oregon State University, satellite tagged seven gray whales near Sakhalin's shores. This study was sponsored by Sakhalin Energy and Exxon Neftegas Ltd. WGWAP and the scientists from the International Whaling Commission (IWC) developed safe standards and regulations for the tagging. Unfortunately, only three tags were functioning long enough to track whales' migration: one tag in 2010, and two tags in 2011. During both seasons, the tagged whales migrated to the western shore of North America, to the relatively large habitat of the Chukotka-California population (i.e. eastern gray whales). Further



Photo identification of gray whales



The programme of satellite tagging – information about the whales movement is available online
<http://mmi.oregonstate.edu/sakhalin2011>



Collecting information for photo identity catalog



Satellite tagging, 2011

comparison of California and Sakhalin photo catalogues also indicated that at least 23 animals in California were identified in Sakhalin waters. The data obtained contradicted previous assumptions that western gray whales were a completely isolated population. "It is clear that we need to re-examine our understanding of the population structure of gray whales in the North Pacific", said Greg Donovan, a member of the IWC and the IUCN Advisory Panel.

Marine Mammal Protection Plan

The second priority of the Company's activity is to ensure the protection of whales during operations. Together, scientists and the Company's specialists developed a range of measures in order to limit the impact of construction and operations. For this purpose, the Company prepared and approved the "Marine Mammal Protection Plan." This was a voluntary corporate decision, as no legislative requirements for such documents and methods exist. The Plan contains a description of the Company's approach to the protection of the gray whales during their summer feeding, and is intended to minimise any potential negative impact on the whales and their feeding areas.

The Plan has been revised more than once since its implementation in 2001. The most recent version was published in 2008. It includes recent information obtained in the studies of the gray whales, as well as measures for the reduction of impact, updated and revised performance evaluation, and new information and recommendations by independent experts.

The Plan includes navigation restrictions, the mandatory presence of Marine Mammal Observers (MMO) onboard all vessels, establishment of special corridors for vessels' passage in the zones close to feeding areas, adjustment of operation schedules in order to ensure a minimal impact on the area during whales' feeding months. It also includes restrictions and requirements for helicopter flights: noise limits requirements (noise levels to be avoided), etc. The project design and construction schedules were also adjusted. Some high-cost amendments were made to the offshore pipeline route in order to avoid the feeding areas. In 2004, the Company froze the construction of offshore pipelines for two years in order to study the situation in greater detail. The Company then decided to reroute the pipeline moving it 20 km southwards, far from areas where the gray whales have been observed. Although the decision involved significant financial costs (a two-year construction delay, and the installation of additional 120 km of offshore pipeline estimated at US\$ 300 million), it eliminated potential negative impact on the gray whales and helped promote the Company's reputation as a responsible operator.

Seismic survey

Another convincing example of how the Company takes the gray whales into account involved the preparation and implementation of seismic survey of the Piltun-Astokhskoye field.

The technology of 4D seismic surveys provides the best real time monitoring of the wells' condition and developing reservoir beds. Special acoustic guns generate noise. The reflections from such noise provide a full picture of the conditions in the oil or gas field.

The Company and experts prepared for the seismic survey two years in advance. A special seismic expert working group was established. Detailed monitoring plans and a range of measures to reduce the impact were developed at the groups' numerous meetings and seminars.

Sakhalin Energy relied on the recommendations of WGWAP again in 2009, delaying the seismic survey for one year in order to obtain more detailed data on the whales' movements and behaviour. As a result, the set-aside seismic survey was carried out early 2010. As per the working group's recommendation, the survey started as soon as satellite photos revealed the region's sea ice pack breaking. This research lasted three weeks and was accompanied by acoustic monitoring via remote acoustic buoys. The observations in 2010 and 2011 showed that the whales continued to feed in the Piltun area and did not manifest signs of discomfort. Additionally, in 2011 a record number of 15 female/calf pairs were identified.

Advisory panel

The third group of measures is related to the development of a special and highly efficient mechanism for collaboration between the Company, the scientific world and environmentalists. The mechanism ensures clear, effective evaluation and assessment, facilitating the ability to test the adequacy of measures protecting gray whales. For this purpose, in 2004 the Company requested assistance from the IUCN. Based on Sakhalin Energy's initiative and under the guidance of IUCN, the WGWAP was originally established.

The Company provided the WGWAP with an unprecedented amount of information about its activities, project design and results from the gray whales research. Sakhalin Energy is the first and the only international oil and gas company which has initiated such cooperation between business, the scientific community and environmentalists.

In 2006 the WGWAP became a permanent independent forum of scientists from different countries. The main goals of that forum were to assess the Company's technical plans from the perspective of impact on whales and to issue



A gray whale in Piltun bay



Studying of benthos in Piltun bay



Survey vessel "Academic Oparin" conducting the research in Piltun bay



Photo identification of gray whales

recommendations on improvements. Currently the panel includes 11 experts from different scientific areas. The WGWP continues its work on an ongoing basis, organising workshops and subgroups on different themes. The WGWP has general sessions twice a year. These sessions gather the panel members, representatives from Sakhalin Energy, as well as from NGOs, international credit organisations, the Ministry of Natural Resources and Ecology of Russian Federation, and other stakeholders. One of the permanent members of WGWP is also a member of the special Inter-Agency Working Group established with the view of getting support in protecting gray whales by the Ministry of Natural Resources and Ecology of Russian Federation in 2009. This creates additional synergy between international experts and national regulators.

RESULTS

- The number of adult gray whales was believed to be less than 100 at the beginning of the research programme. According to the estimates, from 2004 to 2012 this number grew to 150. The WGWP noted that annual number growth was between 1.5% and 3%.
- The majority of data on the ecology of the gray whales was obtained as a result of extensive research held by Russian research institutions and international experts (with both Sakhalin Energy's and Sakhalin-1 project operator's financial support).
- A balance between Russia's economic growth, developing the region's energy sector and the protection of the gray whales was developed.
- The Company's created mechanism of engagement became a recognised model of cooperation amongst the scientific community, non-profit organisations and business, and evidence towards an environmentally consistent, socially responsible business.
- A detailed monitoring programme developed by Sakhalin Energy in collaboration with the Advisory Panel from IUCN, especially for the 2010 seismic survey, was evaluated and commented on by the scientists: "WGWP welcomes the report on 4D seismic survey completed by the working group. This shows not only the significant volume of work done but also the fact that cetacean study due to the seismic survey seems to be the most thoroughly done study out of all those ever made before."

"Modern knowledge of the gray whale population feeding in the Sea of Okhotsk and understanding the ways of their preservation have been mostly obtained due to the active support of scientific investigations by Sakhalin Energy and Exxon Neftegas Ltd., as well as through collaboration between Russian, foreign and



international government, and scientific and non-government nature-preservation organisations."

V.Yu. Ilyashenko, Russian Federation Commissioner,
International Whaling Commission, 2012

"The IUCN meetings organised between WGWP, Sakhalin Energy and other stakeholders provide an important mechanism of cooperation and collaboration between various stakeholders. Moreover, it provides a useful model of how business, scientists and the conservation community can work collectively to address environmental threats."

IUCN, 2012, www.iucn.org/wgwap/wgwap/

"The issues raised and discussed by WGWP and Sakhalin Energy are of great importance to the other companies working on the Sakhalin Shelf and to the oil and gas industry in general. The understanding of how offshore oil and gas operations affect the whales, and designing effective and feasible ways to address these impacts, is relevant in many other local and global contexts. There is no doubt that other energy companies are interested in the results of the panel's work and the ways in which Sakhalin Energy is using those results."

IUCN, 2011, Evaluation of the Western Gray Whale Advisory Panel by S. D. Turner



ENVIRONMENTAL CARE

Implementation of the Biodiversity Action Plan on Sakhalin

Sakhalin Energy pays great attention to environmental protection and biodiversity conservation. When carrying out any work, one of our foremost priorities is to comply not only with Russian, but also international requirements. Each year, the Company undertakes a large number of researches reviewing the environmental conditions in the vicinity of the Sakhalin-2's industrial facilities. These are long-term programmes monitoring flora, avifauna, mammals, soil, ground waters, river ecosystems, and the marine environment. Not only are these research results necessary for estimating the condition of the environment, flora, and fauna in areas where the Company facilities are located, but they are equally important for the timely detection of any negative trends and implementation of preventative measures. In 2008 the Company developed an integrated Biodiversity Action Plan (BAP). In a way, this plan became the end result of the Company's multi-year efforts for preservation of the environment. The plan systematises the Company's experience, and simultaneously defines further actions under environmental monitoring and adverse impact mitigation programmes.

Through the use of the best international practices and its shareholders' experiences of, Sakhalin Energy has become the first non-governmental company to develop and implement an integrated system of actions to preserve the Sakhalin's biodiversity.

The BAP sets out Sakhalin Energy's approach to fulfill commitments to manage biodiversity and ecological impacts from operations. It describes the framework and rationale to support monitoring programmes that Sakhalin Energy, its stakeholders, government authorities, and project lenders believe are important, not only for environmental protection, but because it makes good business sense.



Monitoring of the rare birds species



The Steller's Sea Eagle – red listed bird of Sakhalin

PURPOSES

- Minimise the ecological impacts of Sakhalin-2 and any future associated development.
- Identify opportunities and actions for conserving biodiversity that could be affected by Sakhalin Energy's activities during the lifetime of the project.
- Identify biodiversity management priorities with account of the zone impacted by Sakhalin Energy.

TASKS

- Provide a general introduction to the importance and value of biodiversity in the context of sustainable development.
- Develop and implement a fully integrated process to address biodiversity issues in a coordinated and consistent manner.
- Provide focus for the ongoing work that Sakhalin Energy undertakes to address the minimisation of potential effects on biodiversity.
- Describe the frameworks for biodiversity planning at international, national, regional and industry levels.
- Assess and unite the work being undertaken in biodiversity protection before the BAP development.
- Provide an overview of the further development of biodiversity monitoring programmes in relation to existing monitoring frameworks.

TARGET AUDIENCE

- International environmental community.
- Scientific community.
- Sakhalin Energy stakeholders.
- Sakhalin-2 project lenders.
- State and interstate environmental agencies.

PARTICIPANTS

- Sakhalin Energy, initiator and customer of the Biodiversity Action Plan.
- Panel of independent reviewers and experts.
- Russian and foreign specialists.

CONCEPT

Sakhalin Energy is committed to conserving the biodiversity of Sakhalin Island that could be affected by the activities of the Sakhalin-2 project. This commitment is reflected in Sakhalin Energy's HSE Policy, and in its Biodiversity Standard that states, Sakhalin Energy shall comply with:

- Applicable Russian Federation laws and regulations.
- International Health Safety Environment and Social Performance commitments.

The Biodiversity Action Plan identifies the areas and prioritises Sakhalin Energy's current efforts for mitigating the potential impact of its production activities on biodiversity.

IMPLEMENTATION

In 2007 Sakhalin Energy, together with the Environmental Council of the Sakhalin Oblast, established a Biodiversity Expert Working Group. Its main objective is to deliver professional advice to the Company on BAP development and implementation. The biology experts included in the group monitor rehabilitation of animal and bird habitats previously exposed to any kind of impact from the Sakhalin-2 project activities.

The Biodiversity Action Plan includes the following components:

- I. Biotopes and ecosystems preservation action plan:
 - Wetlands.
 - Indigenous dark coniferous forests.
 - Aniva Bay ecosystem.
- II. Species preservation action plan:
 - Gray whales.
 - Steller's Sea Eagles.
 - Protected birds.
 - Protected plants.
 - Sakhalin Taimen.

Gray whales

Every summer a number of gray whales feed off the north-east coast of Sakhalin Island, near the Piltun-Astokhskoye field. This proximity bounds Sakhalin Energy to take enhanced environmental protection measures in its offshore activities.

Recognising such potential impact, Sakhalin Energy together with Exxon Neftegaz Limited, the operator of Sakhalin-1, has been financing (since 1996) programmes studying and monitoring of the gray whales.

In association with the IUCN WGWAP, the Company has used the data from these studies to draw up and implement a plan for monitoring and mitigating effects on the gray whales. This plan has been designed to provide all reasonable measures, reducing potential impact on these sea mammals¹.



Cypripedium macranthos. Protected plants are part of the Biodiversity Action Plan

¹ See section "Whales' secret" (pages 51–57).



Young Steller's Sea Eagles



The Siberian Grouse – endemic red listed bird of Russia

Steller's Sea Eagles

A programme was launched in 2004 to study and preserve the Steller's Sea Eagle in the north-eastern part of Sakhalin. In the course of construction works, Sakhalin Energy paid great attention to the development and implementation of impact mitigation measures. Each of the occupied nests of the Steller's Sea Eagle impacted by construction activities was assigned a protective zone, including restrictions or outright ban on appearance of people and equipment, certain works and audio signals during the nesting period. Steller's Sea Eagle couples were constantly monitored in certain nesting areas where the expected impact was especially high. These efforts minimised the impact produced by construction works: all nesting areas were preserved, and during the multi-year construction the Steller's Sea Eagle's fertility rate remained at this population's average.

To assess the condition of the whole population, the Company's studies covered not only the zones impacted by its facilities, but also a vast territory in the north-eastern part of Sakhalin, including five large bays – Lunskeye, Nabyl, Nyisky, Chaivo, and Piltun. Once Sakhalin-2 entered the operational phase, the Company updated and continued the Steller's Sea Eagle Monitoring Programme identifying new risks and mitigation measures.

Protected birds

Baseline studies and subsequent monitoring of the areas, housing Sakhalin-2 project industrial facilities, revealed about 40 protected species of birds listed in the Red Books at various levels. In addition to the Steller's Sea Eagle and White-tailed Eagle, key species include: Latham's Snipe, Siberian Grouse, Japanese Robin, several species of owls, Long-billed Murrelet, Sakhalin Dunlin, and Aleutian Tern.

Special attention was paid to migrating species – Sakhalin Dunlin and Aleutian Tern which have colonies on the Chaivo Spit. In the course of construction of a pipeline route, it was decided to change the route to by-pass nesting areas of those species. Additionally, construction was suspended for the entire duration of the nesting period, while some types of works were not allowed until the nesting areas were mapped, confirming those birds were not nesting in the vicinity of the work area. Monitoring is being conducted during the operational phase, and its results prove that the actions taken by the Company turned out to be effective: the condition of the bird colonies is stable.

In the course of Prigorodnoye production complex construction, the meadow lands that used to accommodate the nests of the Latham's Snipe were withdrawn. Following reclamation, the number of snipes in this area were not only restored to their original level but exceeded it, with six couples of snipes continuing to

nest in the bottom-land of the Goluboy spring on the territory of Prigorodnoye production complex.

Sakhalin Taimen

Sakhalin Taimen is a rare protected species of the salmon family. In 2007 Sakhalin Energy launched a research programme to identify river systems along the pipeline route where the taimen dwell. The Company sponsored the project to learn more about the species population, the abundance of taimen in rivers with pipeline crossings and to make certain that its activities do not endanger the species. Initially, the Company selected several rivers for studying the distribution and number of Taimen fry. In 2011 a new phase was launched under the programme, based on the basin-oriented approach to studying ichthyofauna, including the Sakhalin Taimen.

Monitoring wetlands

The wetlands of Sakhalin have a unique value to Sakhalin's natural environment. The wetlands absorb precipitation and feed water to streams and rivers, maintaining the surface water balance, and are therefore very important for migrating and spawning salmon. It is necessary for Sakhalin Energy to make sure construction of the pipeline does not effect these fragile ecosystems. The Company analysed all of the risks associated with wetland activities and developed impact mitigation steps used during pipe-laying activities. The identified impact mitigation steps included temporary restrictions on works (primarily during winter); requirements for equipment; arrangement of plank roads (temporary roads); earthworks only for the trench line; and reclamation of right-of-way (dismantling of plank roads, peat levelling on the trench line).

The Company, pursuant to its obligations before the shareholders, monitored the reinstatement of wetlands after the project's construction phase, and looks for any long-term impacts caused by the construction or presence of pipelines.

Controlling ballast water discharge

The migration of alien organisms from one region to another within ships' ballast water poses a global problem, often leading to major environmental and economic disasters. Since there is no law in Russia to regulate the control of ballast water discharge, Sakhalin Energy decided to use international practices based on the IMO Convention for the Control and Management of Ships' Ballast Water and Sediments requirements. Although Russia ratified the Convention in April 2012, it will not take effect until it is signed by 30 maritime nations holding 35% of the world's merchant tonnage. Though Russia has become the 34th nation to sign the Convention, so far these countries hold only 26.46% of world tonnage.



Sakhalin Taimen



Monitoring of wetlands along the Sakhalin-2 pipelines route

THE KEY RESPONSIBILITIES FOR BAP IMPLEMENTATION

CENTRAL ENVIRONMENT TEAM	EXTERNAL AFFAIRS	ASSETS	BIODIVERSITY GROUP
<ul style="list-style-type: none">• Collate and analyse environmental data.• Develop biodiversity database/GIS.• Establish priorities and objectives for action.• Develop or revise mitigation and management actions.• Determine and implement monitoring programmes.• Implement specific actions/projects.• Liaise with stakeholders.• Report on implementation.	<ul style="list-style-type: none">• Assist with stakeholder engagement.• Manage stakeholder/Sakhalin Energy expectations.• Assist with reporting mechanisms.• Assist with communications protocols.	<ul style="list-style-type: none">• Implement management actions/mitigation measures.• Assist with resourcing for specific actions and projects.• Support monitoring programmes.	<ul style="list-style-type: none">• Assistance in the implementation of BAP.• Assistance to the Environmental Council of the Sakhalin Oblast in the development of the Sakhalin biodiversity concept.

Sakhalin Energy decided not to wait for the Convention to be enacted internationally or ratified by Russia, and as early as 2008 developed and implemented its own integrated Ballast Water Management Plan. Every year since 2007, the Company has been monitoring Aniva Bay near Prigorodnoye production complex by sampling and analysing plankton, benthos, and epibioses. Monitored results lead to the firm conclusion that the Company's controls are highly effective.

Communications

An important component of the implementation and evaluation of the BAP is to report on and communicate its progress and outcomes. This has been undertaken internally (i.e. within Sakhalin Energy staff and with shareholders), and externally (i.e. Russian Federation, stakeholders and with relevant interested parties).

Where a specific communications strategy is required, tools such as memos, newsletters, brochures, posters, performance appraisals, slogans, and letters, were used. The Company holds several levels of internal HSE meetings at which objectives and performance are discussed. Personnel are made aware of biodiversity preservation and environmental management issues through the cor-

porate intranet, while all stakeholders can get information on the public website www.sakhalinenergy.com. Sakhalin Energy's public website includes a library containing several documents that are directly relevant to this BAP (e.g. Environmental Impact Assessment, Marine Mammal Protection Plan, Gray Whale Protection Programme, River Crossing Strategy, Policy on Fishing, Gathering and Hunting during Construction, and Remedial Action Plans).

Opportunities for cooperating with Russian and international research and educational institutions have also been considered where those associations and cooperative programmes can significantly improve the achievement of biodiversity objectives, through assisting research, implementing controls, and communicating findings and conclusions in scientific publications that contribute to the broader scientific knowledge base.

The Company also publishes information in science magazines that have undergone independent expert assessment. This approach is useful since it:

- Communicates the strategy, methodology, findings, and conclusions to interested parties.
- Receives feedback during the peer-review process that can be used to confirm or shape the Company's approach.
- Enhances the image of the BAP through independent verification of the work.

To improve awareness of Plan's implementation results, Sakhalin Energy participates in various international congresses and workshops. In 2010 Sakhalin Energy took part in the 3rd International Eurasian Ornithological Congress. Also, in 2010, the Plan was presented at the 24th International Congress for Conservation Biology in Canada. In 2011 the Company arranged the scientific workshop Results of Protected Bird Species Monitoring under Sakhalin-2 project. In 2012 the Company took part in the round-table meeting Oil and Gas Complex and Protection of Wetlands, chaired by the Ministry of Natural Resources and Environment.

Twice yearly, the Company submits reports on environmental programme results to the Governing Board of Sakhalin Indigenous Minorities Development Plan¹. The BAP is widely covered in the Company's sustainable development reports as well as in the RF Ministry of Natural Resources and Sakhalin-2 shareholders reports.

Sakhalin Energy undertakes to share its biodiversity protection experience and integrated data generated in the course of Plan implementation. For this purpose, the Company publishes a series of books each devoted to the monitoring programmes. In 2011–2012 the Company published two special editions: one about Sakhalin birds and the other about the Steller's Sea Eagle. These books are also available on the Sakhalin Energy website.



Indigenous dark coniferous forests



Great Grey Owl is in the list of Sakhalin Red Book

¹ See section "A path to consent" (pages 7–13).



Sakhalin Energy publishes a series of books devoted to each of the monitoring programmes



Scientists regularly monitor protected plants of Sakhalin along the pipelines route

RESULTS

- The development of BAP resulted in recognising the necessity to include biodiversity issues into Sakhalin Energy oil spill response plans.
- Sakhalin Energy initiated the establishment of the Ecological Council and Biodiversity Working Group.
- Sakhalin Energy’s Biodiversity Action Plan is the first document of this kind in the Sakhalin Oblast, and it may serve as the basis for the development of a regional action plan.
- The Sakhalin Energy BAP was approved by the Working group of experts of Environmental Council of the Sakhalin Oblast and was highly praised by independent international experts and the Company’s lenders.
- The Company became a leader in the global oil and gas industry in terms of biodiversity. Sakhalin Energy conducts its activities in accordance with Russian Federation laws, regulations, decrees, and other legal requirements, and environmental standards generally accepted in the international oil and gas industry, as well as the Company’s commitments.
- Sakhalin Energy established a precedent by developing and implementing the first BAP in Russia by a private company. To date, state regional strategies have been developed for a number of areas in the Russian Federation including; Lake Baikal region, Nizhny Novgorod, Volgograd, Republic of Severnaja Osetija, Republic of Yakutia and Penza region. There is presently no state regional strategy or Biodiversity Action Plan for Sakhalin Island or the Sakhalin Oblast.



Pogonia japonica – new species of protected plants on Sakhalin

- In 2010 United Nations Development Programme (UNDP) and Global Environment Facility invited Sakhalin Energy to participate in full-sized project “Mainstreaming biodiversity conservation into Russia’s energy sector policies and operations”. The project is carried out jointly with the Russian Ministry of Natural Resources and Environment. In 2012 Sakhalin Energy took part in the First Inception Workshop and Steering Committee meeting within the framework of that project.

The independent environmental consultant to the Sakhalin-2 project lenders described Sakhalin Energy’s BAP as “a clear, concise, comprehensive, and thoroughly researched document. It draws on the best available evidence from peer-reviewed scientific literature, coupled with knowledge and understanding of national and international policy and legislative frameworks, and presents a reasoned account of the relationships between Sakhalin Energy’s activities and the biodiversity/ecosystems of Sakhalin and how any detrimental impacts might be assessed and mitigated.”

AEA Technology, independent environmental consultant, 2008

“Environmental Council appreciates the efforts of the Biodiversity Expert Working Group and extends thanks to Sakhalin Energy for its input in biodiversity preservation.”

Decision of the Environmental Council of the Sakhalin Oblast, 21 March 2012



White-flowered Platanthera camtschatica, near Prigorodnoye production complex



100 WORKSHOP

Employees' engagement in developing the Company's strategic goals and objectives

Before 2008, in order to build state-of-the-art oil and gas infrastructure on the island, Sakhalin-2 project was mainly focused on construction. During this time, the Company's annual plans mostly related to construction works and were very specific both in terms of activities and completion deadlines. In 2008–2009 the Company started a phased launch of the new production facilities; gradually moving from construction to full-scale start-up and production operations.

Advancing to a new phase meant that range of priority activities broadened and the employees were expected to clearly understand the Company's strategic goals and objectives, as well as how to achieve them.

To accomplish this, the Company chose to hold staff engagement sessions. Who else but the Company's employees, tackling specific challenges, would know the most realistic and effective solutions in order to accomplish the best result in a specific field? The purpose of each session was to develop a document that formulates strategic work streams, determines goals and solutions and defines key performance indicators.

The discussions were shaped into what is now known as the "100 Workshop" format. The "100 Workshop" is an all-day session where Company employees representing all assets and directorates gather to discuss specific steps required to accomplish the upcoming years' goals. The format of open democratic dialogue has been ever evolving in order to help improve the Company's planning mechanism.



Andrei Galaev, Sakhalin Energy Chief Executive Officer opening “100 Workshop”, November 2011



Working on Company plans – goals, targets, strategies....

PURPOSES

- Set Sakhalin Energy production plans for the next year, based on the Company’s goals and strategy.
- Utilise the benefits of “100 Workshop” in order for employees to understand the directors’ opinions regarding the Company’s prospects.
- Utilise the “100 Workshop” format to enhance corporate values, culture, and establish mutual trust amongst the employees.

TASKS

- Engage delegates of all directorates working at various assets and representing interests of all employees in framing the Company’s next five year plan.
- Enhance commitment to the key corporate values.
- Set an example of respect for employees’ professionalism and competence in planning issues.
- Enhance the sense of employees’ responsibilities in accomplishing the goals.

TARGET AUDIENCE

- All staff.

PARTICIPANTS

- Sakhalin Energy Committee of Executive Directors (CED).
- Senior Extended Leadership Forum (SELF).
- Leading specialists from all Company directorates.

CONCEPT

Since 2009 the Company has been involving its employees in the planning activities. This resulted from the decision by the CED (the Company’s main executive body) to involve personnel in discussing the Company’s work goals, targets and strategies. The idea behind CED’s decision is to ensure everybody understands that the Company’s success is driven not only by the employees’ awareness about the plans but also by understanding their respective roles within it. This understanding is gained through personnel’s involvement in discussion of these plans.

The outcomes of “100 Workshop” are laid out in the Journey Book; a new edition is published after each workshop. Throughout the year, the Company’s employees, line managers and directors refer to the book when discussing progress, reconciling the plans and recognising achievements.

IMPLEMENTATION

As mentioned above, the “100 Workshops” have been occurring since 2009. At the end of the year, the Company holds a special all-day meeting involving up to 100-120 (over 5%) employees. The Company’s directors are invited to take part in the workshop (typically CEO and other directors are required to participate), as well as line managers and lead specialists from all Company assets. They spend the day away from their offices taking part in this informal meeting (usually hosted at the Company’s Recreation Centre) discussing strategic development issues. One of the key requirements is to involve all departments and assets representatives in active discussions, talking honestly and being open-minded to all opinions.

These interactive sessions are preceded by the directors’ presentations providing their insights on the Company’s journey ahead and the key conditions in order to achieve the Company’s vision of being the premier energy source for Asia-Pacific.

The directors’ presentations are followed by questions and answers. This live dialogue offers an opportunity to create an atmosphere of trust and mutual respect, making participants eager to learn more and help the Company progress in the most efficient way.

In the second part of the workshop, discussion continues in groups. Each group suggests actions and ways forward to accomplish strategic goals in the Company’s key areas of activities. Each of the eight or nine areas of activities, are matched to a group. The outcome of such discussions is a list of actions for the coming years that will help the Company accomplish its strategic goals in the key activities. The workshop is organised in such a manner to allow employees to take part in several group discussions throughout the day. In 2011 when the Company held its annual workshop, nine areas of activities have been discussed. These were Core Values, Health, Safety, Environment and Security (HSES), Reliability and Integrity, Production and Development, Costs, People, Customers, Stakeholders and Growth.

The workshop’s simultaneous discussion of several areas of activities broadens employees’ horizons, introducing employees to little-known Company’s activities, or, conversely, activities that are important to employees. The delegates representing the Company’s directorates and assets in the workshop come well prepared. They know that they will discuss and agree on the Company’s plans in the key areas of activities for the next year.

The discussion is conducted in an open and democratic manner. Each participant has the right to express his/her own opinion, suggest new ideas, and put questions to management or other colleagues.



Everybody contributes to the overall discussion process



Working in groups



Group discussions cover several areas of Company activities



At the beginning of the seminar the participants express their opinions on Company's performance improvement

The workshop is concluded with a short debriefing. The key results are summarised: how the discussions went overall and what is going to be made part of the work programme during the coming years.

The first experience of "100 Workshop" revealed that not all employees understood the goal of this new workshop format. Some doubted whether it was practical to devote a whole work day to the workshop. This concern has been allayed by continuously providing information to employees regarding the goals of the workshop, distribution of the Journey Book resulting from the workshop and continuous and regular (throughout the year) reminders of the work progress based on discussed and approved plans.

Step by step, over the period of three years "100 Workshop" has become an excellent tool of open and sincere communication between management and personnel, an opportunity to share views and get answers to the questions regarding the Company's strategic activities. More importantly, the Company was able to prepare an integrated document which became a guideline for the Company's activities in the years to come.

The Journey Book is distributed among the employees at departmental meetings where they discuss Company goals and objectives, work format and how the Journey Book should be utilised to plan individual yearly goals. The Journey Book informs all the employees regarding the Company's plans and results. Throughout the year, the Journey Book is continuously referred to in order to monitor and discuss the plan's progress.

Both "100 Workshop" and its results, as well as the publication of the Journey Book, are always welcomed pieces of information highlighted in the Company's internal publications. They are published on the daily news pop-up screen (intranet communication resource) and in the Vesti monthly corporate newspaper. Moreover, the introduction of the annual Journey Book edition to directorates, departments and groups is always accompanied with a narration about the goals and objectives of this publication and the employees' contribution to its preparation.

RESULTS

During the last three years, "100 Workshop" has become an integral part of Sakhalin Energy's corporate culture. The introduction and approval of this workshop was dictated by the need to develop and promote core values, as well as managers' and employees' commitment.

Engagement by employees who are not necessarily senior or middle managers in "100 Workshop" is proof of the Company's confidence in their professionalism and ability to take initiative and demonstrate leadership skills.

The "100 Workshop" outcomes become a new Journey Book edition that is distributed among the Company's employees. This book, based on the workshop discussions, contains major production, economic, social and reputational goals and indicators, as well as the how-to-accomplish actions. All these are related to the Company's key activities, such as HSES, Reliability and Integrity, Production and Development, Costs, People, Customers, Stakeholders and Growth.

In these three years, the Journey Book has become a fundamental document for each Company's employee. It provides an opportunity to grasp where we are now, and how the Company will progress in the coming five years.

With the help of the Journey Book, the employees develop their individual professional goals which are recorded and maintained electronically in a special HR portal.

In 2011 all managers and supervisors received a video report on the workshop, which was used at the meetings when discussing the Company's 2012 plans. These meetings took place at all the Company's assets and directorates. They were meant to explain once again the Company's approach to developing corporate plans, and to ensure all employees clearly understood the plans.

"The Journey Book is a very efficient way of communication with the employees. This document allows a continuous dialogue with the personnel on the subjects of great importance for the Company."

Peter Norman, LNG/OET/TLU Manager

"All the projects that we are covering here today are important for the Company and for us, and we need to think on the way of how to do them more effectively and at a lower cost."

Inna Sakhnevich, Onshore Category Manager



Sakhalin Energy Journey Books published in 2010–2012



Every participant can express the opinion or ask a question



STAKEHOLDER ENGAGEMENT

GOOD NEIGHBOURS

The development of constructive dialogue with Japanese stakeholders

Modern business development standards in implementation of large-scale projects require special attention in social and environmental risks evaluation, reduction of potentially negative effects of industrial development and open mutual dialogue with the stakeholders. The absence of understanding between parties sometimes leads to large losses.

The Espoo Convention¹ indicates that this is applied not only in the territory of industrial impact but also in neighbouring countries which may as well be affected by industrial facilities. Russia signed the Convention in 1991 but did not ratify it; however, some sections were adopted in the federal environmental law.

Sakhalin Energy's business approach is guided by leading global principles, including sections of this Convention. As a result, the Company pays special attention to collaboration with Japanese stakeholders, especially focusing on Hokkaido Island as it is the nearest to Sakhalin island within the Japanese Archipelago.

Sakhalin Energy is involved in many activities jointly with several Japanese parties, such as customer multilateral cooperation, technical and hydrocarbon transportation safety issues, organising and participating in emergency response training on transporting ships and interaction with the lenders in order to verify Company obligations. This case study will only consider the collaboration with stakeholders, as an example to approaching public relations.



Meeting with Hokkaido Fisheries Environmental Centre, February 2011



The ceremony of tree planting as a symbol of cooperation between Sakhalin Energy and Hokkaido Fishery Association, October 2010

PURPOSES

- Develop and maintain the mechanism of effective information sharing with stakeholders.
- Meet the requirements for international stakeholder cooperation according to the project lenders’ terms and best international experience.
- Establish and maintain partner relations with local communities.
- While acting in the Company’s interests create and maintain the Company’s positive image in Japan.

TASKS

- Support long-term professional relations with the stakeholders.
- Inform stakeholders on the project’s implementation, progress and benefits to Japan.
- Prevent and resolve potential and existing problems.
- Meet the Company’s obligations in corporate social responsibility.

TARGET AUDIENCE AND PARTICIPANTS

The major target audience and cooperation partners are in Japan. However, we should consider the fact that the network of international NPOs continuously expands. Japanese NPO’s representatives will pass the information received further beyond Japanese borders.

- Hokkaido government.
- Japan Ministry of Energy and Commerce representatives, Hokkaido Island.
- Japan Coast Guard responsible for emergency response.
- Sea Disasters Prevention Centre.
- Commercial fishing businesses operating in Hokkaido.
- Ecological organisations.
- Other business fields, e.g. tourist operators.
- Local community.
- Scientists.

CONCEPT

In order to develop a concept of partnership with Japanese stakeholders, the following factors were considered:

- Goals and tasks of the Company’s positioning in Japan.
- Trans-border issues (i.e., relevant both to Russia and Sakhalin in particular, and Japan).
- Trans boundary risks (i.e., the events happened in the project which may affect Japan).

- Effect on Japanese shareholders’, lenders and buyers reputation.

This cooperation may be divided into two categories: direct and indirect. Direct cooperation includes personal meetings, presentations at workshops, forums and conferences. Indirect cooperation includes publications at the Company’s website, distribution of materials to Hokkaido libraries and publications in the Japanese news media regarding meeting results.

IMPLEMENTATION

The Company should maintain positive economic activity and be a responsible corporate member of society. This is a major principle of Sakhalin Energy. In a broad sense, it guides the Company’s approach towards consultations with the society.

Throughout the project implementation period, the Company developed good relations with the Japanese stakeholders. Their cooperation evolved and strengthened in three phases.

First in 1997 twice yearly the Company had meetings with the Hokkaido government. These meetings were devoted to project implementation issues. The discussions identified certain aspects of the project’s second phase which are especially important for Sakhalin’s population as well as neighbouring populations involved in commercial fishing locally.

In 2002 the second phase started, with the project’s international impact assessment regarding environmental, societal and health issues. Company specialists, including engineers, started a new series of consultations with Japanese stakeholders. These consultations were focused on major issues of Sakhalin-2 project implementation:

- Oil spills response level.
- Safety of offshore operations in Aniva Bay.
- Safe shipping and handling.
- Impact to migrating birds.
- Impact to marine bio resources.

At this phase, as a result of meetings with government and environment organisations, information exchange with shareholders and potential lenders, the list of stakeholders significantly expanded. The details can be found in the Public Consultation and Disclosure Plan in the “Library” section of the Company’s website www.sakhalinenergy.com.

In order to make cooperation more effective, it was necessary to consider a culturally diverse communication strategy. At this point, the Company decided to invite native Japanese speakers as representatives of Japanese culture.



Sakhalin Energy EA management meets with the Japanese stakeholders representatives, October 2010



Japanese delegation visiting the Prigorodnoye production complex

¹ The Espoo Convention (Convention on Environmental Impact Assessment in a Transboundary Context) is an international agreement initiated by the United Nations Economic Commission for Europe, signed in Espoo, Finland, in 1991, which took effect in 1997.



Information sharing – one of the main components of mutually-beneficial and open dialogue



The company participates in the events, organised by the Japan Coast Guard

At the meetings, the parties agreed to hold consultations at least twice a year, not only in Sapporo, capital of the Hokkaido prefecture, but also in towns located on the northern coast of Hokkaido and on Sakhalin.

In addition, they developed a new way to inform Japanese stakeholders quickly in the event of an oil spill.

During this period, the Company paid special attention to its oil spill response procedure in the event of a spill affecting Hokkaido’s coast. Before the start of Sakhalin-2 phase 2 implementation, there was no oil spill response plan for Hokkaido. In 2006, Sakhalin Energy signed a contract with Sea Disasters Prevention Centre in order to develop a plan. During the following two years, the team held six meetings with specialists. As a result, they developed maps and a strategy for oil spill response protecting Hokkaido’s environmentally exposed coastal areas.

The third phase of collaboration with Japanese stakeholders was maintaining these relations. Since 2008 (Sakhalin-2 project construction completion), at least twice a year, Company specialists hold information meetings with the stakeholders. At these meetings they discuss the project’s progress, accomplishments and how valuable the Company and project are to Japan’s energy safety.

Every year the Company updates the Public Consultation and Disclosure Plan. In this plan, a chapter is dedicated to cooperation with Japanese stakeholders. This chapter is available in Japanese on the Company’s website, as well as in Hokkaido’s libraries, which are listed in the Plan.

RESULTS

An effective cooperation system has been established. Currently the following events are listed in the Japanese Stakeholder Engagement Plan:

- Participation in the annual International Sea of Okhotsk and Sea Ice Symposium in Mombetsu, Hokkaido every February. At this symposium, the Company sponsors a workshop on the issues of oil spill alertness and response.
- Participation in Sakhalin Projects Forum held by the Japanese coastguard; where the partners discussed the issues of shipping safety.
- Meetings with the representatives of Hokkaido government, commercial fishing, environment organisations, as well as the general public living near the Sea of Okhotsk coast and Hokkaido. At these meetings, parties discuss general progress with the project, the environmental characteristics and the oil spill response news.

More detailed information about these meetings can be found in the Sustainable Development Report and Public Consultation and Disclosure Report posted on the Company website: www.sakhalinenergy.com.



In addition, there is an agreement to inform Japanese parties in case of a significant marine oil spill.

The Company established a tool to maintain a positive image as an open and reliable partner.

The Company met international requirements as a leader of corporate social responsibility.

Japanese stakeholders strengthened their trust in the Company.

“Japan fishermen, especially in Hokkaido, are interested in the environmental matters. Sakhalin Energy supports our information sharing activities and takes them under their special consideration. We hold meetings with the Company both at Hokkaido and at Sakhalin every year and appreciate Sakhalin Energy’s cooperation and help of their staff.”

Kiyoshi Ishikawa, Hokkaido Fisheries Environmental Centre

“Okhotsk Environment Protection Net (OEPN) has achieved common consensus and mutual understanding with Sakhalin Energy for the development of Sakhalin-2 project without oil spill pollutions. For our desires, we have been exchanged information with Sakhalin Energy by holding Okhotsk Symposium every year in Mombetsu city, and have had some seminars at various districts around the Sea of Okhotsk. We hope our good relations will continue.”

Satoshi Ono, Leader of OEPN

Regular meetings with the representatives of fishing enterprises, Japan Coast Guard and Hokkaido government prove the great interest to the Sakhalin-2 project



CORPORATE CULTURE

HURRY UP FOR GOOD DEEDS

Sakhalin Energy programme to support employees' charity initiatives

Started in 2003, "Hurry up for Good Deeds" is one of Sakhalin Energy's first social programmes.

Originally the main goal of the programme was to help the Company employees with their own charity projects. To do this, the Company allotted 15,000 roubles per project. In order to receive funds, employees had to fill in an application describing the project and how they planned to implement it. These projects applications were accepted based on a majority vote competitive basis.

In 2008, the programme entered a new stage. The key innovation was the idea of co-funding. Along with the idea of a charity project, employees were suggested to launch their own fund-raising campaigns and activities to help the chosen organisations. With new condition of co-funding the Company matched the amount raised by employees. In addition, participation by the employees in project expanded: personal involvement was the key to getting financial support for project.

From 2008 to 2010 employees supported 27 projects while raising 4.3 million roubles. The focus of these projects was organisations needing support (i.e. orphanages and social shelters) and socially vulnerable groups: elderly citizens, children without parental support and children with special needs.

In 2011 the opportunities to participate in the programme significantly expanded in order to attract a greater number of employees to undertake charitable activities. In addition to the co-funding initiative two other initiatives were added: taking part in Volunteer Days and participating in company organised fund-raising campaigns.



Foster children of Nysb settlement orphanage got a new playground, September 2011



Medical equipment for the kids hospital in Yuzbno-Sakhalinsk, September 2011

PURPOSES

- Reinforce the corporate culture.
- Develop employee social responsibility.
- Create favourable conditions and broaden opportunities for employees’ active involvement in charity volunteering activities.
- Build trust within the Company among the wider population.

TASKS

- Develop a mechanism for collaboration between the Company and employees on issues regarding charitable activities.
- Expand the scale of Company social investment programmes and its support to these local social groups, who rarely participate in major social programmes.
- Secure additional financial resources in order to resolve direct and relevant social problems.

TARGET AUDIENCE

- Sakhalin Energy employees.
- Sakhalin Oblast population.

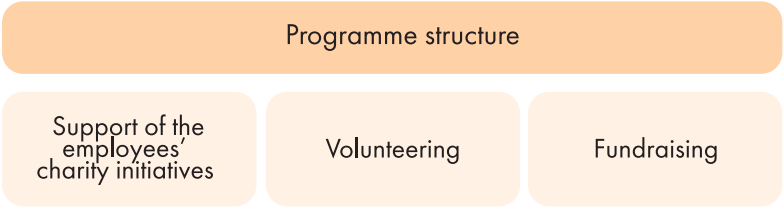
PARTICIPANTS

- Sakhalin Energy employees, their family members and friends.
- Sakhalin Energy.
- Social services institutions in the Sakhalin Oblast.
- NGOs.

CONCEPT

In 2011 “Hurry up for Good Deeds” was advanced. The programme now gives employees the opportunity to introduce and participate in charity projects in three possible ways:

1. To initiate a charity project – suggest a project idea, determine the project cost and start a fund-raising campaign to implement the project. After approval by the Social Investment Group, the Company matches the amount raised by the employees in order to implement the project.
2. To take part in the Volunteer Days, where they can work as volunteers to the benefit of any Sakhalin social institution.
3. To take part in company organised fundraising activities, either financially or as a volunteer helping to organise the charity events.



IMPLEMENTATION

The Sakhalin Energy assets are located in several districts of Sakhalin Island, with the representative office located in Moscow. This wide geography footprint of the Company assets creates additional difficulties in implementing the programme. It is necessary to make employees in remote facilities aware of charity campaigns. More importantly, to give them the opportunity to both, empathise with the campaign and get involved and engaged. Hence, there are a number of objective challenges. For example, three oil and gas production platforms are located offshore, north-east of Sakhalin, over 600 km from the Company’s Yuzhno-Sakhalinsk head office. Sometimes, due to the weather conditions, personnel are cut off from the island.

In order to involve all the Company employees in fund-raising activities, special boxes are being installed and information materials are being distributed throughout the Company facilities and offices. Additionally, some people are being placed in charge of collecting and transferring raised funds.

As a result, employees stationed at remote assets can both participate in projects as well as implement their own charity initiatives. In 2011 employees at the Onshore Processing Facility (OPF), located in northern Sakhalin, initiated a project benefitting a local orphanage: a new playground. The OPF employees raised over 100,000 roubles and this amount was matched by the Company. The OPF employees then coordinated the purchase, delivery and installation of the playground structures.

An example of a Volunteer Day in 2011 was an ecological event to improve the future Salmon Park. It is Sakhalin Oblast’s first nature preserve, and educational tourist complex facility. Sakhalin Energy volunteers cleaned over 400 meters of the park’s path. After the work was completed, organisers provided lunch to the volunteers and organised sport competitions for the children. Thus, for many employees and their families, participating in this event was not only volunteer work, but also an exciting outdoor activity.



Sakhalin Energy employees – volunteers of the programme – participating in the charity events



Sakhalin Energy employees, Father Frost and Snow Maiden, presented gifts to children (a charity support project for the disabled children), December 2011



Master class on modeling – part of the fund-raising campaign



Cleaning up the ecological path, August 2011

Especially valuable to these charity events is that whole families can participate in them. The events are usually organised in this manner, so participants of any age can support the goal.

Organising fundraising events is one of the new ideas that seem to be very effective. Fundraising campaigns benefitting Sakhalin social institutions are being run within the Company for a month. The money collection continues until the final event, traditionally a celebration is organised where employees can join in with their families. Employees take active part in organising these celebrations: they make souvenirs, bake cookies to sell at the bazaar, prepare musical shows and organise the programme, so that guests find it interesting. Company employees also volunteer as photographers and entertainers at these events. All the funds received from the bazaar and charity auctions go to the event’s general charity fund. Such events are supported by the Company’s management; in addition, the directors are regular participants in these corporate fund-raising events.

Three such events were held in 2011. One of them celebrated the Company’s birthday, another was held prior to the Oil and Gas Workers’ Day, while the last one was before the New Year. The External Affairs department organised these events, while employees of other departments supported by taking part in the campaign.

When inviting employees to take part in these events, it is always important to inform them of the event’s format (it should be interesting, exciting, festive and suitable for all ages) in advance, as well as, how the money raised will be put to use.

At the event, discussing all the steps is important: the preparatory stage, realisation and further informing about the achieved results, including how and what the money was spent on.

All the activities and projects within the “Hurry up for Good Deeds” programme are described in detail within the Company’s communication platforms. We email all the employees, upload status reports on the Intranet, and publish updates in the corporate newspaper, posters, advertising videos and campaigns. The Company uses many different approaches. For example, during charity campaigns, Company employees greet their colleagues near the office entrances and hand them leaflets regarding current charity events or selling tickets for the upcoming events. As another example, during the New Year charity campaign, the information materials were handed out by the employees dressed in costumes of Russian winter holidays characters called Father Frost and Snow Maiden. After these creative approaches, interest for planned events rises and employees get more actively involved in the campaigns donating more money to the charity.

In 2011 we dedicated a new section to the programme on the Company’s Intranet. Here anyone can read the rules for participating in charity projects and find the necessary information on both completed and planned projects. Information is also posted about the most active programme participants, which is a way to recognise individual employee commitment.

In 2012 the programme received its own logo. Company employees took part the design. The logo, included in all published materials, helps to identify the programme in a wealth of information and making it more recognisable among the employees.

RESULTS

From 2003 to 2012 over 58 projects were completed under the programme, for which the total of almost 7.4 million roubles were raised by employees. According to the programme terms, this amount was matched by the Company.

Every year, the number of the participants in these charity campaigns grows. These events maintain a culture of charity and activities which benefit the Company’s reputation as an active and compassionate member of society.

Over 150 employees and their family members took part in the first fund-raising campaign held before the Company’s birthday in 2011. Almost 530,000 roubles were raised. In 2012, a similar campaign increased the participation level to over 200 people and raised over 550,000 roubles.

In 2012 Company employees launched a fundraising campaign to support the Alexandrovsk-Sakhalinsky orphanage. The project had several phases, during which participants collected almost 950,000 roubles in support of the children’s wellbeing and equipment purchase. Part of the funds – almost 370,000 roubles – was collected during the Oil and Gas Day celebrations and was matched by the Company.

In addition, participation in these projects helps employees acquire new skills and experience not only in project work, but also in strengthening their team spirit and leadership skills.

The programme offers different forms of participation. This helps involve more employees and their family members. According to the results of the survey among the Company personnel, over 40% of the employees take part in the “Hurry up for Good Deeds” programme in one of available ways.

In March 2012 the programme to support the employees’ charity initiatives “Hurry up for Good Deeds” won the award “HR-brand 2011” in the so called “Region” nomination. “HR-brand” is the most respected and widely known Russian award in the area of Human Resources. It is awarded by Headhunter Group and PricewaterhouseCoopers.



Charity bazaar, 2012



The “Hurry up for Good Deeds” programme became a winner of HR-Brand 2011, March 2012



Sakhalin Energy employees initiated several charity campaigns to support Alexandrovsk-Sakhalinsky orphanage

"Hurry up for Good Deeds" programme logo

In 2012 Sakhalin Energy’s charitable and volunteers’ programme “Hurry up for Good Deeds” became a winner of Russian national contest “Leaders of Corporate Philanthropy – 2012” in the nomination “The Best Programme Promoting Development of Volunteering in Russia” (nomination is established by the Public Chamber of RF).

“It gives me great pleasure to participate in our charitable projects. The feedback is exceeding – people’s smiles, good mood, optimistic approach, sincere thankfulness”.

Alina Grebenschikova, Analyst

“I took part in the project, because for me it is a great opportunity to feel useful, take care of other people being in need, and bring at least one more happy day to children.”

Irina Ten, Information Management Lead

СПЕШИТЕ
ДЕЛАТЬ
ДОБРО

Программа поддержки благотворительных
инициатив сотрудников

HURRY UP
FOR GOOD
DEEDS

Programme of employees'
charitable initiatives