

SUCCESS STORIES AND NEW OPPORTUNITIES



Sakhalin Energy:
RUSSIAN CONTENT



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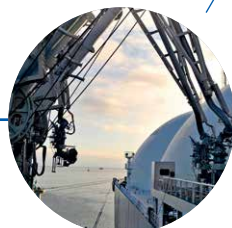
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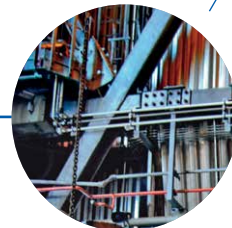
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Contacts

Sakhalin is the biggest Russian island which offers unique opportunities to everyone who is ready for cooperation and believes in success.

Sakhalin Energy is the operator of Sakhalin-2, one of the world's largest oil and gas projects. During two decades, the company has been creating favourable conditions and ample opportunities for Russian contractors who supply materials, equipment, and services. Total amount of the contracts concluded with domestic vendors since the start of the project implementation has exceeded 23 billion USD with continuous increase of the Russian content level throughout the project life — the valuable target that remains one of the company's priorities nowadays.

Aiming to increase project performance even further, Sakhalin Energy is welcoming new Russian enterprises for cooperation in the Sakhalin-2 project for better future we could start building together!

Message from Chief Executive Officer

1

Dear colleagues,

I am pleased and proud to present you with this booklet on the development of Russian content under the Sakhalin-2 project.

Sakhalin Energy has repeatedly declared its intent to maximise Russian industry utilisation in the project. The company has come up with its Russian Content Development strategy that includes a number of measures to achieve this goal. Signing Memorandums of Understanding with promising Russian vendors to state our intention to cooperate and determine our mutual plans has become good practice for Sakhalin Energy. These efforts generally result in new service contracts and equipment/materials purchase orders.

Over the last two years, the company awarded 5,819 contracts to Russian enterprises. The combined value of these contracts is 3.78 billion USD, or 84% of the total value of all contracts executed during that time period. Getting a number of major contracts awarded to and a number of cooperation agreements signed with Russian shipbuilders, equipment manufacturers and steel producers over this period is a significant achievement for the company.

Thanks to their participation in the Sakhalin-2 project, Russian companies gain access to unique opportunities to modernise their assets, introduce state-of-the-art technology and adopt international quality, safety and environmental protection standards, clearly enhancing their competitiveness, both

As the operator of Sakhalin-2, one of the world's largest oil and gas projects, and a party to Russia's first Production Sharing Agreement, Sakhalin Energy will make every effort to bring the share of Russian content to 70% throughout the lifetime of the project.

domestically and internationally.

We put a lot of focus on the financial sector. Since 2010, Sakhalin Energy has been actively cooperating with Gazprombank. In 2015, the company has started running a significant share of its transactions with Russian vendors through this bank. Today, we are jointly exploring a new opportunity for cooperation: negotiations are under way for Gazprombank to extend a revolving working capital credit facility to the company.

Involvement of Russian enterprises in the Sakhalin-2 project results in the multiplier effect across various related sectors of the economy, increasing local, regional and federal government tax revenue and spurring the development of social infrastructure.

In 2009, after the commissioning of liquefied natural gas (LNG) plant, Sakhalin Energy set on a new mission: to be the premier energy source for the Asia-Pacific. Today, the company is actively pursuing the expansion of its LNG plant. The Train 3 project will open new opportunities for Russian vendors and create additional jobs.

There is no doubt that the company will need highly skilled Russian personnel. In the next two years, Sakhalin Energy plans to Russianise dozens of expatriate

positions. This means that our universities face a new challenge of developing programmes and curricula to train world-class Russian personnel.

It is equally important to keep the focus on import substitution in the oil and gas industry. I am convinced that this will give an extra boost to the development of Russian manufacturing companies and create an environment that will allow them to supply their goods to major oil and gas projects.

I sincerely hope that Russian enterprises will be proactive in offering ideas and opportunities for cooperation, and would like to welcome everyone who wishes to partner with us on our project and to grow together.

Regards,



Roman Dashkov



2

Sakhalin Energy and Sakhalin-2: Facts and Figures

THE LEADER OPEN FOR PARTNERSHIP

Sakhalin Energy is an advanced high-technology international company. Our core values are efficient, reliable, and safe production, as well as social and environmental responsibility. Thanks to the activities of Sakhalin Energy, Russia has become one of the key players in the promising market of the Asia-Pacific region.

Sakhalin-2 Project

This is one of the largest and most technologically sophisticated integrated oil and gas projects in the world. It is operated by Sakhalin Energy Investment Company Ltd. (Sakhalin Energy).

The company was established in 1994 to develop two fields on the north-eastern shelf of Sakhalin Island: Piltun-Astokhskoye oil field and Lunskeye gas condensate field. The fields are located in the Okhotsk Sea, at about 15 kilometres away from the shore, at a depth of 28-48 metres.

Gazprom, Shell, Mitsui and Misubishi are shareholders of the company.

Legend:

- ONSHORE ASSET
- OFFSHORE ASSET
- OIL PIPELINE
- GAS PIPELINE

PILTUN-ASTOKHSKOYE-B
(PA-B) platform

PILTUN-ASTOKHSKOYE-A
(PA-A/Molikpaq) platform

LUNSKOYE-A
(LUN-A) platform

Sakhalin Island

Booster station
(BS) 2

Gas transfer
terminal (GTT)

YUZHNO-SAKHALINSK

Oil export
terminal (OET)

Liquefied natural gas
(LNG) plant

LNG tanker

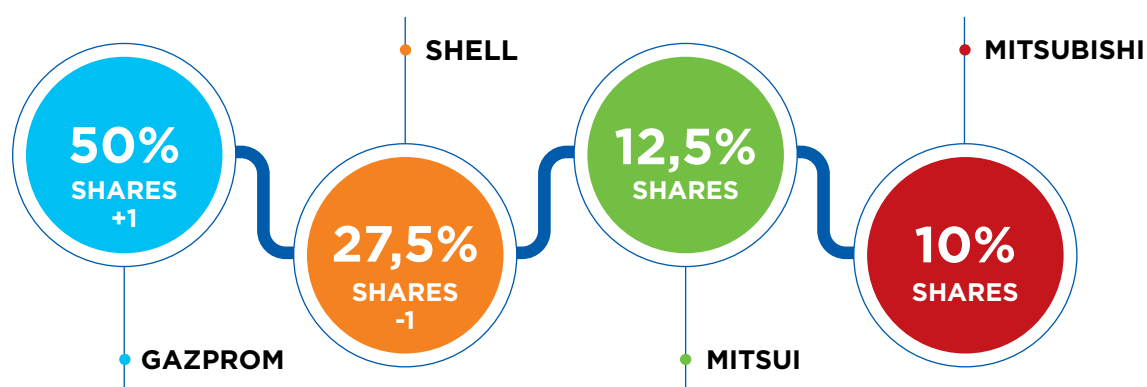
Oil tanker



2

FIELDS —
Piltun-Astokhskoye
(mostly oil)
and Lunskoye
(mostly gas)

Sakhalin Energy's Shareholders



Production Facilities of the Company

OFFSHORE OIL AND GAS PRODUCTION PLATFORMS	PIPELINES	ONSHORE PRODUCTION FACILITIES
PILTUN-ASTOKHSKOYE-A (PA-A/Molikpaq)	OFFSHORE PIPELINE SYSTEM	ONSHORE PROCESSING FACILITY (OPF)
PILTUN-ASTOKHSKOYE-B (PA-B)	ONSHORE PIPELINE SYSTEM	BOOSTER STATION (BS) 2
LUNSKOYE-A (LUN-A)		OIL EXPORT TERMINAL (OET)
		LIQUEFIED NATURAL GAS (LNG) PLANT
		TWO GAS TRANSFER TERMINALS (GTT) to transfer gas, including the Sakhalin Oblast gasification

Sakhalin Energy and Sakhalin-2: Facts and Figures

2

41

**MILLION BARRELS
OF OIL —**
shipped to buyers
in 2015

≈ 4%

THE SHARE OF SAKHALIN
LNG ON THE MARKET

LNG

Sakhalin Energy is the first and largest producer of liquefied natural gas (LNG) in Russia. LNG is transported both by the buyers' vessels and by the Grand series LNG tankers built specially for the project and chartered by the company on a long-term basis from two Russian-Japanese consortia. Liquefied natural gas is supplied to the countries of the Asia-Pacific region, where the share of Sakhalin LNG is about 6%.

0,4%

THE SHARE OF SAKHALIN
OIL ON THE MARKET

Oil

In 2014, Sakhalin Energy brought Sakhalin Blend sweet light crude oil to the global market. The principal buyers of the Sakhalin Blend oil are Japan, South Korea, and China. These markets have strategic importance primarily due to their geographical proximity to the project and stable demand for sweet light crudes.

1st

LNG PLANT IN RUSSIA

Infrastructure

While developing the oil and gas fields, the company has created a large-scale infrastructure for production, transportation, processing, and sale of hydrocarbons.

This includes three offshore oil and gas production platforms, offshore and onshore pipeline systems, the onshore processing facility, two booster stations, an oil export terminal, the LNG plant, and gas transfer terminals. This is one of the world's most technologically advanced oil and gas projects implemented over the recent decades.



3

Production Sharing
Agreement
and Russian ContentProduction Sharing Agreement
and Russian Content

> 23

BILLION USD —
value of contracts
concluded with Russian
companies by the end
of 2015Production Sharing Agreement:
Advantages for the CountryMECHANICS OF
SUCCESS

The Sakhalin-2 project is being implemented under the Production Sharing Agreement (PSA), which is a solid commercial foundation for exploration and development of oil and gas fields.

The Production Sharing Agreement (PSA) for the Sakhalin-2 project was concluded in 1994 between Sakhalin Energy, the RF Government, and the Sakhalin Oblast Administration (currently, the Sakhalin Oblast Government) and became the first agreement of this kind in Russia.

The current PSA is a viable mechanism for attracting long-term investments into the country's economy, and it is rightfully considered to be one of the principal conditions for the

successful implementation of the Sakhalin-2 project. It determines the algorithms of interaction between the parties and covers the issues of the Russian enterprises' participation in the project.

The PSA ensures stable legal and financial conditions throughout the project implementation and, in spite of a difficult global economic situation, allows keeping all the arrangements and continuing the work.

The Russian Federation has powerful levers which guarantee financial transparency of the

project. The RF Government and the Sakhalin Oblast Government, through their representatives, participate in the project's governing bodies and continuously monitor the work progress and the company's expenses under the agreement.

Successful performance of the PSA at the Sakhalin-2 project is of considerable importance for Russia, as this generates additional revenue for the federal and regional budgets, stimulates social and economic development, and boosts inflow of investments into the Russian economy.

Advantages for Russia from the Sakhalin-2 PSA

- › Inflow of foreign investments

› New technologies and unique experience

› Modernisation of the existing infrastructure and creation of new one

› Contribution to social and economic development of the region

› Increase in tax revenues of budgets of various levels

› Development of domestic enterprises and companies

› New jobs

› Russian personnel training and development

What Is the Russian Content?

Russian content is one of the principal conditions of the Sakhalin-2 Production Sharing Agreement.

Having become a party to the agreement, Sakhalin Energy committed to use its best efforts to increase the share of the Russian content in the project to 70% throughout the whole period of the project implementation. This means the use of Russian manpower, materials, equipment, and services.

Creation of tangible opportunities for engaging Russian contractors is one of the company's priorities. In compliance with the PSA, when holding tenders for the supply of goods and services, Sakhalin Energy prefers Russian enterprises if their prices, quality, and terms satisfy the company's requirements. Special attention is paid to the creation of joint ventures. This helps Russian companies obtain international business experience, learn

international management standards, and adopt advanced technologies. Joint ventures with the equity participation of Russian companies and/or individuals of at least 50% and registered in the RF as legal entities are considered Russian.

Roman Sinitsky

Deputy Finance Director,
Supply Chain Manager
Sakhalin Energy

Increase of the Russian content in the Sakhalin-2 project is one of the priority tasks of Sakhalin Energy, and we manage our procurement accordingly. We realise the importance of our commitments and the high degree of responsibility to the Russian party and shareholders, so we constantly expand the base of domestic vendors of oil and gas equipment, materials, and services.



4

Russian Vendors:
Success Stories

PRIORITY

PARTNERSHIP

PRINCIPLE

Sakhalin Energy strives for maximum participation of Russian enterprises in the implementation of the Sakhalin-2 project. Such partnership is especially important within import substitution programmes, and helps create high-quality and competitive domestic products.



4

ICE CLASS
SUPPLY VESSELS —
for the Sakhalin-2
project



Russian Vendors:
Success Stories

20

YEARS —
the duration
of the contract
with Sovcomflot
Group



Sovcomflot Group

PARTNERSHIP SPHERE



Construction and operation
of four multifunctional
ice-class supply vessels

Sergey Frank

Director General,
Sovcomflot

"We are grateful to our partners for the opportunity to expand our involvement in Sakhalin-2 project. It fully corresponds to the Sovcomflot development strategy, which envisages addition of high-tech vessels to the company fleet and increasing the level of involvement in industrial projects, including those in adverse climatic conditions. We support the involvement of Russian shipbuilders in implementation of such projects."



In 2014, Sakhalin Energy and Sovcomflot Group concluded contracts for long-term charter of four multifunctional ice-class vessels to work under the Sakhalin-2 project. The ships had to be designed and constructed specifically for the project. The duration of the charter parties are 20 years each. During this period the vessels will ensure year-round delivery of cargoes and personnel to oil and gas platforms at the Sea of Okhotsk.

The new vessels will be equipped with electronic mapping systems by Transas, a Russian manufacturer, as well as with GLONASS navigation systems. All the vessels will be operated by Russian crews and navigate under the flag of the RF.

The vessels are being built in compliance with all the standards and requirements of the international conventions in force and the Russian Maritime Register of Shipping. These high-tech vessels will make it possible to successfully fulfil the most complex production tasks, and will ensure safe and reliable deliveries of cargoes and personnel in adverse climatic conditions of the Sea of Okhotsk.

Currently, Sovcomflot owns three oil tankers chartered by Sakhalin Energy on a long-term basis, one Pacific series icebreaker class supply vessel and two Grand series LNG carriers in partnership with NYK (Japan).



≈ 270

KILOMETRES —
the total length
of completed wells
in the Sakhalin-2
project, including
sidetracks

Russian Vendors: Success Stories

4

37

**PRODUCING
WELLS —**
in the Sakhalin-2 project
by the end of 2015

TMK

PARTNERSHIP SPHERE



**Certification of pipes
in compliance with international
standards for the Sakhalin-2
project**

Alexander Shiryaev

Director General,
TMK

Sakhalin-2 is a project of immense engineering complexity, and it is being implemented in adverse environmental and climatic conditions. The tubular goods used in this project must meet the highest requirements. TMK has many years of experience in supplying premium products intended for use in the most severe regions of the world in terms of climate and geology. We are ready to provide our partners with unique opportunities and highly effective pipe solutions, which will fully meet their expectations, including those concerning import substitution.

For a few years now, Sakhalin Energy has been actively cooperating with the Pipe Metallurgical Company (TMK), one of the world's leading suppliers of tubular goods for the oil and gas sector and the largest Russian producer of steel pipes.

In 2015, the companies signed a memorandum of partnership in the qualification and certification of the pipes with premium threaded connections for their use in the Sakhalin-2 project.

The companies will perform the qualification of the TMK UP premium threaded casing pipe connections of chromium, high-carbon, and corrosion-resistant steel grades in compliance with international standards, and

carry out a joint technical audit of TMK's production enterprises in order to include them into the Sakhalin Energy's approved vendors list. The certification will allow TMK to become a supplier of pipes for the Sakhalin-2 project and to considerably increase the share of Russian content in the project.



> 50

MILLION CUBIC
METRES OF
GAS PER DAY —
the capacity
of the Sakhalin-2
OPF

Russian Vendors:
Success Stories

25

THOUSAND TONNES
OF OIL PER DAY —
OPF pump capacity

REP Holding

PARTNERSHIP SPHERE



Manufacture and
supply of three gas
compression packages

Igor Starinkov

President,
REP Holding

For our company, participation in the Sakhalin-2 project is another step forward in the development of production and integrated supply of advanced equipment. The project will be implemented in cooperation with global oil and gas companies, in compliance with the highest international environmental and process standards. For REP Holding, this opens new prospects of increasing the supplies of highly efficient domestic equipment for the development of the Far East region, which is a part of a strategic programme of import substitution and Russian oil and gas sector modernisation.

Sakhalin Energy and REP Holding have concluded a contract for the manufacture and supply of three gas compression packages for the OPF Compression project. All of the units are to be delivered by the end of 2017.

Gas compression packages by REP Holding have a high level of throughput, economical operation, and long service life. Based on the experience of General Electric, a well-known global producer, REP Holding has successfully mastered advanced technologies of producing this type of equipment. The company has manufactured more than 50 turbine units for Gazprom.

At present, REP Holding is the only Russian producer of gas compression packages that can replace the similar imported equipment under the Sakhalin-2 project, thanks to their economic and operational characteristics.

Signing the contract for the supply of such Russian equipment is another example of large-scale engagement of domestic enterprises in the Sakhalin-2 project.



100

BAR —
the pressure that
Izhorskiye Zavody's
separators will
withstand

Russian Vendors: Success Stories

1,000

TONNES —
the total weight
of the equipment
to be supplied under
the contract

Izhorskiye Zavody

PARTNERSHIP SPHERE



Manufacture and supply
of two units of three-phase
inlet separators

Alexander Sharapov

Director General,
Izhorskiye Zavody

Signing of the contract is the beginning of cooperation between Izhorskiye Zavody and Sakhalin Energy, and I am sure that this cooperation will be fruitful, mutually beneficial, and long-lasting. We can ensure high quality and reliability of our products. We have everything for that: a unique technological base and highly skilled personnel.

Izhorskiye Zavody has won an international tender for the manufacture and supply of two units of three-phase inlet receivers (separators) including process internals for the Sakhalin-2 project. The separators will be used at the booster compressor station being built to increase the compressing capacity of the OPF asset. Two separators are necessary to prepare the gas coming from LUN-A offshore platform for further transportation to the south of the island.

Founded in 1722 upon the decree of Peter the Great, Izhorskiye Zavody has been, over almost three centuries, one of the leading domestic producers of industrial equipment. Today, Izhorskiye Zavody is an advanced machine-building complex possessing unique engineering capabilities and highly skilled personnel.

The enterprise has more than half a century's experience in the manufacture of nuclear reactors. The experience of working with high standards of quality management systems for nuclear power plant equipment has made it possible for the enterprise to master the production of high-technology equipment for the oil and gas sector.



5

International Business: Contributing to Sakhalin Development

International Business: Contributing to Sakhalin Development



≥ 70%

OF RUSSIAN CONTENT —
over the whole lifetime
of the Sakhalin-2 project

STRATEGY OF MUTUAL UNDERSTANDING

Partners of the Sakhalin-2 project include subsidiaries of the leading international oil and gas service companies, which actively support the strategy of expansion of Russian content in the project by engaging local companies as suppliers and contractors.

Meeting the commitment to develop Russian content and the related use of domestic industrial resources and manpower is an important condition of the successful implementation of the Sakhalin-2 project. Participation of local companies in the project contributes to social and economic development of the region and creation of a reliable material and technical base in immediate proximity to the company's facilities.

Prominent in this process they are international partners, which, through engagement of manpower and use of local vendors' services, create tangible opportunities for transferring modern technologies and mastering the best international oil and gas business practices.

Interaction between Sakhalin Energy and foreign contractors is based on the principle of obligatory fulfilment of requirements for Russian content development. When concluding work contracts and placing orders for the supply of goods and services, the company pays special attention to fulfilling these requirements, and often includes them in the contractual obligations.

Sakhalin Energy renders all-round support to the development of international cooperation in the Sakhalin Oblast, and has a vast set of measures and mechanisms for that.

A number of international partners of Sakhalin Energy actively work on developing Russian content by increasing the presence of local vendors and local manpower in the Sakhalin-2 project.



> 70%

OF SCHLUMBERGER'S
SUPPLIERS
ON SAKHALIN —
Russian companies

Schlumberger

HAS BEEN COOPERATING WITH SAKHALIN ENERGY SINCE 1994

PARTNERSHIP SPHERE



Performance of
oilfield work and
supply of materials

Rob Algie

Geomarket Manager,
Russia Far East,
Schlumberger

We have achieved encouraging success in the work with our partners and constantly strive to increase the company's contribution in the development of the region.

International Business:

Contributing to Sakhalin Development

Schlumberger is the leading global supplier of technologies in the integrated formation evaluation, well construction, and hydrocarbon production management. Over many years, the company has been making considerable contribution to the development of the Russian oil and gas sector and to the social and economic development of the country by investing in the Russian personnel, infrastructure, and technology.

History of the Partnership

1994

Start of cooperation between Sakhalin Energy and Schlumberger

1999

Commissioning of production base in Kholmsk

2004

Opening of production base in Yuzhno-Sakhalinsk

2007

Opening of production shop for electric centrifugal pumps maintenance in Okha

2009

Construction of a centrifugal pump and maintenance centre

2012

Foundation of a large production centre for servicing wells construction projects in Yuzhno-Sakhalinsk

At Home on Sakhalin

Schlumberger carried out the very first works in the Sakhalin Oblast as early as in 1977. In 1996, the company's permanent representative office was opened on the island. In 2006, Schlumberger-Vostok, a Russian company registered in Yuzhno-Sakhalinsk, was created. Over these years, the company created a well-developed infrastructure on Sakhalin with extensive involvement of local resources. More than 900 employees of the company work in the Sakhalin Oblast, 87% of them are Russian citizens.

More Local Purchases

The list of the company's vendors includes over 300 Russian enterprises. More than 70% of suppliers of Schlumberger on Sakhalin are local companies. The company renders comprehensive assistance to the development of regional vendors and helps them reach maximum compliance with the international quality and security standards, through training of personnel and localisation of technologies. The Russian barite supply, transportation, and storage network fully complying with both Russian and international standards which has been created by the company is one of the examples of such initiatives.



95%

OF EMPLOYEES
of Cape Industrial
Services (Sakhalin) —
Russian citizens

Cape Industrial Services (Sakhalin)

HAS BEEN COOPERATING WITH SAKHALIN ENERGY SINCE 2005

PARTNERSHIP SPHERE



Maintenance
of production facilities

Vadim Verchenko

Director General,
Cape Industrial Services
(Sakhalin)

Our company business requires experience and skills. Fortunately, we can cover the relevant positions by engaging local labour. The local personnel work very efficiently, and this is certainly appreciated by our customers. Conclusion of the new contract for the maintenance of Sakhalin-2 facilities is an important milestone for Cape Industrial Services (Sakhalin) and a great stimulus for further cooperation with Sakhalin Energy.

International Business:

Contributing to Sakhalin Development

Cape Industrial Services (Sakhalin) (Cape) is one of the leading contractors of Sakhalin Energy. Since 2005, the company has been operating at most important facilities of the Sakhalin-2 project: OPF, LNG plant, the onshore pipeline, and BS 2. Throughout these years, Cape has been actively contributing to increasing the share of Russian content in the Sakhalin-2 project.

Long-Term Cooperation Contract

In 2015, Cape Industrial Services (Sakhalin) and Sakhalin Energy concluded a long-term contract for provision of scaffolding services, installation of cryogenic and heat insulation, and fire protection, including application of refractory coatings. The work will be conducted during five years at all Sakhalin-2 onshore facilities. Cape has undertaken to develop the maximum potential of Sakhalin Oblast companies by engaging them as subcontractors. As per the signed contract, the share of local subcontractors will be at least 50% (in the number of man-hours) in the total volume of modification and temporary work.

Maximum of Local Staff

Cape is interested in hiring and developing local residents. As of beginning of 2016, 98% of Cape's personnel were citizens of Russia and CIS countries.

Russian Personnel Development

The company actively trains its personnel and arranges special workshops with foreign experts. Under the programme of professional personnel training, the company participates in the Supervisory Board of the training centre created in 2014 on the basis of Sakhalin Construction College. Upon completion of the training, many graduates of the centre are employed by Cape and work at Sakhalin-2 facilities.



70%

OF EMPLOYEES
of Production Services
Network Sakhalin —
Russian citizens

Production Services Network Sakhalin

HAS BEEN COOPERATING WITH SAKHALIN ENERGY SINCE 2006

PARTNERSHIP SPHERE



Technical support
services for Brownfield
projects

Tom Richardson

Assignment Manager,
Production Services Network
Sakhalin

When interacting with Sakhalin Energy and Wood Group PSN, I feel that I am a part of a joint team which constantly strives to improve and strengthen working relations for the sake of our common success. The decision to develop a Russian design institute for performing work under the Sakhalin-2 project is driven by an urgent need, and I am glad to be fully involved in this process. In order to pursue our agenda, we need to establish close working relations with Gazproektengineering (GPE) and help them create the necessary base, which will allow them to independently implement various projects for Sakhalin Energy over the next five to ten years.

International Business: Contributing to Sakhalin Development

In March 2015, Production Services Network Sakhalin (PSN Sakhalin) and Gazproektengineering (GPE), a Russian design institute, committed to prepare a long-term subcontract agreement in the framework of the technical support services contract concluded between Sakhalin Energy and PSN Sakhalin.

Gazproektengineering has been working in the oil and gas industry for more than twenty years. Hundreds of facilities have been and are being built according to the institute's designs throughout the country, from Kamchatka to Kaliningrad. More than 900 highly skilled professionals of the company are engaged in the development of unique software and new design solutions for construction, reconstruction, and technical upgrade of industrial enterprises and production complexes. The company constantly improves its technologies, competes in the oil and gas market, and offers a number of relevant services for other industries.

Production Services Network Sakhalin is a subsidiary of Wood Group PSN, an international company, one of the world's leading onshore and offshore contractors (engineering design, construction, operation, and maintenance of oil and gas facilities).

PSN Sakhalin has been operating on the island since 2006, providing technical support services to Sakhalin Energy while ensuring a considerable number of workplaces for the engineering specialists from the regional labour market. PSN Sakhalin staff consists of highly skilled professionals supporting strong growth and unassailable reputation of the company in the area of safe, efficient, and timely implementation of projects. The company provides world-class service when solving the customers' technical tasks, and contributes to the general development of the economy of the island.

The concluded subcontract agreement implies gradual transfer of the work scope and PSN Sakhalin personnel to GPE, which will ensure development of the Russian enterprise and will lead, in the long term, to replacement of the foreign service provider by the Russian one. In October 2015, PSN Sakhalin and GPE signed the project execution plan supported by Gazprom and Wood Group PSN.

PSN Sakhalin and GPE intend to round off negotiations and sign the subcontract agreement before the end of 2016.



6

Vendor Development
Programme

Vendor Development Programme

6

>150

**RUSSIAN
ENTERPRISES —**
participated in Sakhalin
Energy's workshops
in 2014 - 2015**MORE
OPPORTUNITIES
FOR RUSSIAN
BUSINESS**

For more than ten years, Sakhalin Energy has been maintaining its Vendor Development programme. The Russian enterprises involved in the programme get valuable experience of international cooperation and unique opportunity of becoming familiar with efficient technologies and advanced standards of the company.

For several years, Sakhalin Energy has been regularly holding training workshops aimed at introducing the company's safety and quality requirements and standards to Russian vendors.

The programme runs at a national scale and is not limited to local companies. Apart from the regular training workshops and individual information sessions, field workshops are held in order to inform potential vendors about future tenders and the procedure for participation in them.

The workshops allow Russian companies to get detailed

information on the specifics of Sakhalin Energy's tender process. This is a good opportunity to acquire practical skills of tender proposal preparation.

Training of specialists under the programme promotes the culture of labour safety and environmental protection to Russian companies, which increases their competitive potential in the Russian and international markets.

Russian Vendors Training



Advanced Complex Development of Russian Vendors

POTENTIAL
VENDORS
IDENTIFICATION

COMPLEX
DEVELOPMENT

VENDOR
QUALIFICATION

INCLUSION
INTO APPROVED
VENDOR LIST

Advanced complex development of Russian vendors is aimed at aligning the production activities of potential Russian partners with international quality and safety standards as well as with the requirements of Sakhalin Energy.

Close collaboration with Russian companies makes it possible to timely identify promising vendors that can meet the production needs of Sakhalin Energy, and helps determine the goals, objectives, and specific actions for their further development.

The programme uses various formats: specialised workshops, meetings to explain technical specifications, information sessions on preparing tender documentation, reporting procedures, etc.

One of the final stages of advanced complex development of Russian vendors is their qualification for further inclusion into approved vendor list of Sakhalin Energy. Successful completion of all qualification procedures allows the Russian companies to join the ranks of Sakhalin Energy vendors and to enter the international market in the long run.



> 70

PEOPLE
from 50 companies –
participants of open
workshop in 2015

Alexander Lapin

Russian Content Manager
Sakhalin Energy

Maximum increase of the Russian content in the Sakhalin-2 project will allow the company not only to meet its commitments to the Russian party under the PSA, but also to create favourable conditions for further development of the oil and gas industry and Russia's economy in general. I genuinely believe in success of our initiatives and invite Russian equipment manufacturers and service providers to take part in the Sakhalin-2 project.



Open Workshop for Potential Contractors

In summer 2015, an open workshop for potential Russian contractors of Sakhalin oil and gas projects was held in Moscow. The event was organised by Sakhalin Energy, the operator of the Sakhalin-2 project, jointly with Exxon Neftegas Limited, the operator of the Sakhalin-1 project. The purpose of the workshop was to determine potential opportunities for participation of Russian companies in the supply of materials and services for the needs of Sakhalin oil and gas projects.

The event was attended by more than 70 people from 50 companies of the Russian oil and gas sector. During the workshop the opportunities for cooperation were presented to the potential partners. Besides, interactive sessions and consultations on tender procedures and opportunities for the participation of potential contractors in the tenders for the supply of materials and services were organised.

Rob Van Velden

Finance Director,
Sakhalin Energy

Sakhalin Energy actively cooperates with Russian companies. Today, about a thousand contractors already work under the Sakhalin-2 project. We strive to achieve 70% level of Russian content over the whole period of the project implementation.





Standards Harmonisation

In 2014, Sakhalin Energy suggested to the idea to harmonise national and international standards. This project is based on the identification and analysis of differences and compliance of international and national standards related to the company's activities.

Project Goals

Achievement of a clear vision of the international standards correspondence to the Russian ones, comparing them for potential application by the company's technical and logistics specialists, contractors, and shareholders

Creation of comparative database of the company standards and the RF standards applicable to supplies of materials and equipment for the company, to be used by potential manufacturers

Exchange of experience and information on technologies related to certain standards between Russian and international manufacturers and governmental institutions

Recognition of the fact that the company has capabilities for the application of the best world's standardisation practices

Successful implementation of the Standards Harmonisation project will allow Sakhalin Energy to increase the volume of materials and equipment purchases from Russian manufacturers.



Industrial Park Development

The idea of industrial park development in Sakhalin Oblast came up in summer 2013, when Sakhalin Energy specialists were actively discussing possible alternatives of creating a single centre for maintenance and repair of the instruments and equipment used at all production facilities of the company. During the discussion, the experts came to the conclusion that a modern production and repair base on the island would make it possible to perform a substantial part of the work locally.

At the beginning of 2016, the project entered the stage of feasibility study development, which will result in finalising the concept of the park, approving the business plan, and determining the sources of financing. During preliminary negotiations, Industrial Park Development project was supported by Exxon Neftegas Limited and the Sakhalin Oblast Government.

Sergey Prokhorchenko

Business Advisor to Finance Director
Sakhalin Energy

The industrial park will integrate production processes of the main oil and gas projects operators and be created in compliance with the requirements, standards of industrial safety and quality. This project will not only allow to cut costs, but also stimulate local production, both on Sakhalin and in the Far East region.

Sakhalin Industrial Park Project

WILL CREATE
a new Russian procurement base for the oil and gas sector

WILL REDUCE THE RISKS
and time of equipment supplies in the context of global changes of the market

WILL RAISE THE LEVEL
of cooperation efficiency between the Russian vendors of the Sakhalin-1 and Sakhalin-2 projects

WILL ENSURE ACCESSIBILITY
of resources and services in the immediate proximity to the area of work on Sakhalin

WILL REDUCE THE DEPENDENCE
on supplies of equipment and components from abroad

WILL PROMOTE
the development of the Oblast's talent pool (creation of new jobs and training centres)

WILL REDUCE COSTS
for oil and gas projects operators on the equipment maintenance, repair and overhaul of equipment

WILL IMPROVE THE PROCESS
of technical control over oil and gas facilities

WILL ALLOW TO DEVELOP
infrastructure facilities

WILL ENSURE
accelerated development of the region



7

Russian Content
in New Projects

Russian Content
in New Projects

7

58

MILLION CUBIC
METRES OF GAS
PER DAY —
the OPF productivity
in 2015

OPF Compression Project

OPF Compression project provides for creation of additional compression plants in order to maintain the gas pressure at the input of the onshore processing facility. Construction of the station will ensure maintaining the target levels of gas production.

In 2015

The company completed the development of design documentation and concluded a contract for supply of three gas pumping units for the OPF booster station with REP Holding, one of the key machine-building enterprises in Russia.

Plans for 2016

Starting the construction site preparation and concluding the main EPC contract (detailed engineering, procurement, construction).

PLANS FOR THE FUTURE

Sakhalin Energy is constantly seeking to increase the economic efficiency of the Sakhalin-2 project and extend the operational life of the fields being developed. The company simultaneously supports several advanced projects and implements a programme of the existing production expansion.



4D

SEISMIC SURVEYS —
carried out at Piltun-
Astokhskoye field
in 2015

Russian Content
in New Projects

7

Development of the South Piltun Area

Sakhalin Energy continues to examine the possibilities of producing hydrocarbons from the deposits of Piltun-Astokhskoye field which have not been developed as yet.

Analysis of the development and planning options for the area located in the central part of Piltun-Astokhskoye field, which was not included into the phase 2 development scope and under its way. Currently Sakhalin Energy is ascertaining the geologic structure and recoverable reserves of the field for subsequent submission of an integrated Reservoir Management Plan to the State Commission for Mineral Reserves.

The decision on the South Piltun area development will be made taking into account the Lunskeye gas reserves update, LNG Train 3 construction update, the macroeconomic situation, and the situation in the energy markets.

10.8

**MILLION TONNES
OF LNG —**
produced at the plant
in 2015

LNG Train 3 Project

In 2015, Sakhalin Energy signed contracts with Shell Global Solutions International and Giprogascenter, a Russian design institute, on the development of design documentation for the LNG Train 3 project.

Implementation of this project is quite significant both for the company and for its Russian partners that will get new opportunities for developing their business and mastering technologies.

The project expansion is an optimal and economically sound option to increase the volume of the Russian LNG in the global market. Train 3 construction and commissioning will strengthen Russia's position as the leading producer of energy resources, provide economic benefits to the country and the oblast, and contribute to further promotion of the energy security of the Asia-Pacific region.

Ole Myklestad

**Production Director,
Sakhalin Energy**

Our company's promising project, LNG Train 3 construction at Prigorodnoye production complex, creates ample opportunities for potential contractors. In the near future, we plan to approach the market, including the Russian one, and search for the appropriate contractors.



The purpose of the brochure is to describe Russian content in the Sakhalin-2 project, the success attained, and the plans for the future. Use of Russian industrial resources and manpower is a key commitment in the implementation of Sakhalin-2, one of the world's largest integrated oil and gas projects.

Russian content is an important indicator of the overall project success and the main source of the positive impact which Sakhalin-2 has on the economy of the Sakhalin Oblast and of Russia in general. By creating opportunities for Russian business, Sakhalin Energy forms a solid foundation for developing the project and reaching new summits.

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