



SAKHALIN ENERGY INVESTMENT COMPANY LTD.

PUBLIC CONSULTATION AND DISCLOSURE REPORT

**Issue 02
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1 INTRODUCTION

Sakhalin Energy Investment Company Ltd. (Sakhalin Energy) considers regular and meaningful engagement with the public and key stakeholders, as well as the public disclosure of relevant project information, to be important elements for the successful development of the Sakhalin-2 Project (the Project). To this end, since the Phase I component of the Sakhalin-2 Project began in 1992, the Company has actively sought to engage with stakeholders and provide information about its activities.

This document describes Sakhalin Energy's plans and programmes for public consultation and the disclosure of information undertaken by Sakhalin Energy as of 31 December 2009, and includes:

- Summary of consultation held in 2009;
- Summary feedback from consultation;
- Community Grievance Procedure Implementation;

There are two appendices to this document:

- Appendix 1 provides a summary of non-governmental and community organisations which have been involved to date;
- Appendix 2 lists the existing stakeholders in Japan, in particular, on the island of Hokkaido, which is situated in relatively close proximity to the southern end of Sakhalin Island.

Sakhalin Energy will update this Report on an annual basis.

2 CONSULTATION AND INFORMATION DISCLOSURE

2.1 CONSULTATION CARRIED OUT IN 2009

The types of consultation Sakhalin Energy has carried in 2009 are presented in Table 3 below.

Table 3: Types of Consultation Carried out in 2009

| TYPE | EXAMPLES |
|----------------------|---|
| Public Consultations | - Public meetings in town halls, culture centres, libraries |
| Group Meetings | - Focus group meetings (e.g., heads of enterprises, indigenous people, vulnerable groups) - Seminars (e.g., with school children, entrepreneurs) - Spontaneous group meetings (e.g., in a shop, school or on the street) often called group discussions |
| Individual Meetings | - Meetings with experts (e.g., administration, specialists from health, education, social or cultural departments, entrepreneurs, key figures in the community) - Interviews with local residents - Others |

Table 4: Community Consultations in 2009

| DATE | CONSULTATIONS | KEY PURPOSE | COMMUNITIES | No. PEOPLE |
|-------------------------|---|--|-------------|------------|
| January - December 2009 | Consultations under SIMDP | Update on SIMDP implementation | 10 | 330 |
| Q1 | Meetings with IP in Okha, Nekrasovka, Nogliki, Val, Viakhtu and Poronaisk | Update on SIMDP implementation, Grievance Procedure | 6 | 107 |
| Q2 | Community public meetings in Nogliki, Tymovskoe, Al-Sakhalinsky, Smirnykh, Poronaisk, Makarov, Dolinsk, Aniva, Korsakov districts | Update on Sakhalin-II project progress and most recent information about Project benefits, Project related local activities, social initiatives, SD/SI (Sustainable Development /Social Investment) projects, grievance procedure, employment opportunities and local business development | 13 | 202 |
| July – August | Public opinion survey | Assessment of public attitude towards the Project activities under social impact monitoring programme | 23 | 800 |
| Q4 | Community public meeting with Novikovo, Ozersk | Update on Sakhalin-II project progress and most recent information about Project benefits, | 2 | 90 |

| DATE | CONSULTATIONS | KEY PURPOSE | COMMUNITIES | No. PEOPLE |
|--------------|----------------------------------|---|-------------|-------------|
| | communities in Korsakov District | Project related local activities, social initiatives, SD/SI (Sustainable Development /Social Investment) projects, grievance procedure, employment opportunities and local business development | | |
| Total | | | | 1529 |

2.1.1 Engagement with Community-Based Organisations and Non-governmental Organisations

Sakhalin Energy joined to UN Global Compact, a leadership initiative, requiring a commitment signed by the company's chief executive. Joined to the Initiative the Company has committed to embrace, support and enact within its sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption of ten Global Compact principles.

In November arranged and conducted the first round of a dialogue with stakeholders on non-financial reporting (for 2009 year) in accordance with GRI (Global Reporting Initiative).

Table 5 reflects the number of meetings held with organisations that have been consulted with, either as groups or separately in 2009.

Table 5: Meetings with Community and Other Non-governmental Organisations

| Location | 2009 |
|--|------|
| Local (includes formal Indigenous organisations) | 11 |
| Regional | 4 |
| National | 4 |
| Japan | 3 |
| Other International | 5 |

2.2 CONSULTATION AND INFORMATION DISCLOSURE IN PROJECT AFFECTED COMMUNITIES

Sakhalin Energy endeavoured to ensure that the people and groups it consulted with were representative and inclusive of vulnerable groups such as the elderly; local traditions are respected in discussions and decision-making; and that face-to-face meetings arranged are varied and create conditions that encourage diverse participation.

Sakhalin Energy undertook a public meetings programme in key project-affected communities in 2009. The Company provided transport to and from the meeting locations to facilitate public attendance at these meetings as appropriate.

The date, time and venue for the public meetings were announced in key Sakhalin newspapers (as listed in Table 9) three weeks prior to any public meeting. Key stakeholders with whom the Company has frequently engaged were informed of the meetings by e-mail or in writing.

2.2.1 CLO Activities in Communities

During 2009, Sakhalin Energy carried out regular consultation with affected communities using dedicated Community Liaison Officers (CLOs).

Community Liaison Officers hold “open hours” in dedicated offices around Sakhalin Island where residents can ask questions, discuss issues of concern or lodge grievances. Community liaison offices have been opened in 3 district centres and one settlement (Val).

Sakhalin Energy has developed a Grievance Procedure to ensure that grievances are resolved as efficiently as possible. The steps that should be undertaken to lodge a grievance were available in CLO offices, in the libraries listed in Appendix 2, and on the Sakhalin Energy website. As well CLOs have been trained to record grievances.

CLOs met with key community members (authorities, social institutes, employment Centres, etc) regularly. CLOs also made frequent visits to project-affected communities on Sakhalin Island to ensure that communities without a CLO office have regular access to a representative of the company to discuss any project-related issues. These visits were announced in advance in those communities.

In addition to the CLO Network, Sakhalin Energy also provided printed information about the project. Sakhalin Energy encouraged people with grievances to complete a Public Grievance Form, which is appended to the public grievance leaflet, as these are processed as a high priority).

Company Information’s centres were opened in 20 communities. With this project Sakhalin Energy endeavours to establish an effective system of receiving feedback from communities residing in close vicinity to Sakhalin-2 assets, the direct involvement of settlements libraries helps to develop and introduce more effective tools of communication with communities.

2.2.2 Other Methods of Communication with Affected Communities

Sakhalin Energy provided regular information about the project in advertisements, question and answer sessions and in local media (newspapers are listed in Section 2.7) and on its public website in Russian and English: www.sakhalinenergy.ru (Russian) and www.sakhalinenergy.com (English).

Sakhalin Energy operates a special free hotline for telephone queries and complaints from communities within Sakhalin Island. The number is 8 4242 662400 (dial from Sakhalin Island). For people who would prefer to speak to a woman or to a man, or who would like to speak to someone in Russian, English, or Japanese, Sakhalin Energy operates a number of special telephone lines, which were listed in PCDP.

Sakhalin Energy conducted public meetings and expert interviews twice a year in project-affected communities. This programme was designed to assess the impact of the Phase 2 project and develop recommendations to Corporate Managers to mitigate these impacts.

2.2.3 Consultations and Information Disclosure with Dachas at Prigorodnoye in 2009

The size of the sanitary protection zone (SPZ) around the Prigorodnoye LNG plant/OET has been determined as an approximate radius of 1km. There are no communities within this location, however, approximately 100 dachas lie in close proximity to the edge of the SPZ¹. These are generally seasonally (summer) occupied residences. The Prigorodnoye dacha residents, closest to the SPZ edge, belong to the dacha community ‘Stroitel’ (over 1 km west of the LNG/OET site) and ‘Teplovik’ (3,5 km west of the LNG/OET site).

In 2009 the Company continued its regular engagement with the “Stroitel” dacha community:

- Implementation of the dedicated monitoring program of air quality and noise level at the community during May-October. Total 7 measurements were taken (6 scheduled and 1 on the dacha community request) Monitoring results submitted to the Dacha community Chairman.
- Meetings with the Company’s specialists. 10 meetings were held with the Dacha community Chairman. In April Company’s specialists met with the dacha community administration to discuss environmental aspects.

2.3 INDIGENOUS STAKEHOLDERS

2.3.1 Sakhalin Indigenous Minorities Development Plan (SIMDP) Consultations

The Company has undertaken regular engagement with indigenous peoples in the north east of Sakhalin Island. The consultation activities undertaken and supplemental assistance provided are detailed in the Sakhalin Indigenous Minorities Development Plan (SIMDP),

Consultations with the indigenous people held in 2009 were focused on the implementation of the SIMDP, i.e. updating/explaining its status, the process, gathering concerns and ideas for potential projects, reminding on the Grievance Procedure and the way it works.

2.3.2 Consultations with the reindeer herders

In 2009 regular meetings were held with the reindeer herders to update on the implementation of the SIMDP, i.e. updating/explaining its status, the process, gathering concerns and ideas for potential projects, reminding on the Grievance Procedure and the way it works.

Table 8: Focused consultations with indigenous communities in 2009

| DATE | CONSULTATIONS | KEY PURPOSE | COMMUNITIES | No. PEOPLE |
|-------------------------|---|--|-------------|------------|
| January - December 2009 | Consultations during implementation of the SIMDP | Update on SIMDP implementation, Public Grievance Procedure | 10 | 330 |
| Q1 2009 | Meetings with IP in Okha, Nekrasovka, Nogliki, Val, Viakhtu | Update on SIMDP implementation Public | 6 | 107 |

¹ An SPZ is a designated area around an industrial facility separating it from any nearby residential areas, established to protect local residents from any negative effects of industrial activities.

| DATE | CONSULTATIONS | KEY PURPOSE | COMMUNITIES | No. PEOPLE |
|------|---------------|---------------------|-------------|------------|
| | and Poronaisk | Grievance Procedure | | |

2.4 CONSULTATIONS AND DISCLOSURE IN OTHER SAKHALIN COMMUNITIES

In 2009 Sakhalin Energy conducted consultation in 9 of Sakhalin Island's 15 district centres as well as other towns, villages and settlements. Community Liaison Officers hold regular meetings in all of these places, which are announced in advance in those communities.

Sakhalin residents could consult the two main Sakhalin Island newspapers for details of project news. These were: Gubernskiye Vedomosti and Sovetsky Sakhalin.

In addition, project news and information relevant to specific communities were published as required in the following 11 district newspapers:

Table 9: District Newspapers are used for Project News and information Distribution

| DISTRICT | NEWSPAPER(S) |
|-----------|----------------------|
| Aniva | Utro Rodiny |
| Dolinsk | Dolinskaya Pravda |
| Kholmsk | Kholmskaya Panorama |
| Korsakov | Voskhod |
| Makarov | Novaya Gazeta |
| Nogliki | Znamya Truda |
| Tymovsk | Tymovsky Vestnik |
| Poronaisk | Express, Zvezda |
| Smirnykh | Novaya Zhizn |
| Okha | Sakhalinsky Neftyani |

2.5 COMMUNITY AND OTHER NON-GOVERNMENTAL ORGANISATIONS

2.5.1 General

The Annual Report, fact lists and other publications that may be of interest were provided during the course of the year.

2.6 JAPANESE STAKEHOLDER ENGAGEMENT

2.6.1 Introduction

Representatives of Sakhalin Energy were in contact with specialists in trans-boundary issues, such as oil spill response (OSR), Steller's sea eagle (SSE) and biodiversity, and have attended a number of conferences and technical meetings in 2009.

2.6.2 Materials available in Japanese

On topics that are of a relevant transboundary nature, Sakhalin Energy translates key public domain information into Japanese. Principally this includes information about trans-boundary environmental and social issues. The following materials have already been made available in Japanese:

- Overview of the ESHIA;
- Sections of the Environmental Impact Assessment Addendum that have relevance in a transboundary context:
 - Executive summary,
 - Oil spill response,
 - Baseline Stellar Sea Eagle,
 - Marine mammals (other than Western Gray Whale),
 - Marine and coastal commercial fisheries,
 - Dredging and disposal in Aniva Bay,
 - Material project changes since the 2003 EIA,
 - Red data book and migratory birds,
 - Vancouver WGW workshop report,
 - Summary of the comparative environmental appraisal of the offshore Piltun pipeline routes.
- Tables from Health, Safety, Environment and Social Action Plan (HSESAP) 2005 that have relevance in a transboundary context:
 - Part 1. Overview of HSE and social management framework,
 - Table 2.1. Hydrocarbon spill prevention, preparedness and response,
 - Table 2.3. Onshore biodiversity,
 - Table 2.4. Offshore biodiversity;
- Phase 1 Oil Spill Response summary;
- The Corporate Oil Spill Response Plan for Phase 2;
- The Offshore Prigorodnoye Oil Spill Response Handbook;
- Chapter 6.6 of the PCDP; and
- Minutes of stakeholder meetings in Sapporo and Tokyo.

2.6.3 Public consultation activities in Japan

During 2009 the Company has undertaken a number of consultation and engagement activities in Japan. This programme has been developed with feedback from stakeholders, including the participants at several meetings in Japan, which the Company have attended and/or initiated.

Key stakeholder activities in 2009:

- Meetings with Hokkaido Fishery and Okhotsk Stakeholders – 17 February, 12 November;
- Participation to relevant stakeholders seniors; the Company made presentations on the project status and environmental issues – 2 June, 23 August, 4 September;
- Biodiversity Group Meeting including Japanese Specialists in Yuzhno-Sakhalinsk; 17 September.

A review of the engagement activities in Japan has been undertaken at the end of Quarter 4 2009 to determine the 2010 programme in consultation with JBIC.

2.7 MEDIA AND OTHER INTEREST GROUPS

Sakhalin Energy's External Affairs departments in both Moscow and Yuzhno-Sakhalinsk communicated regularly with representatives of the mass media as well as other interest groups such as educational and research institutions.

Formal meetings, such as press conferences and discussion were held regularly. There was also informal interaction with representatives of these groups.

Media were informed in advance of press conferences and other meetings by telephone, fax or email as appropriate.

In 2009 four media briefings were held in Yuzhno . Media representatives of the Island's and national media were invited to attend.

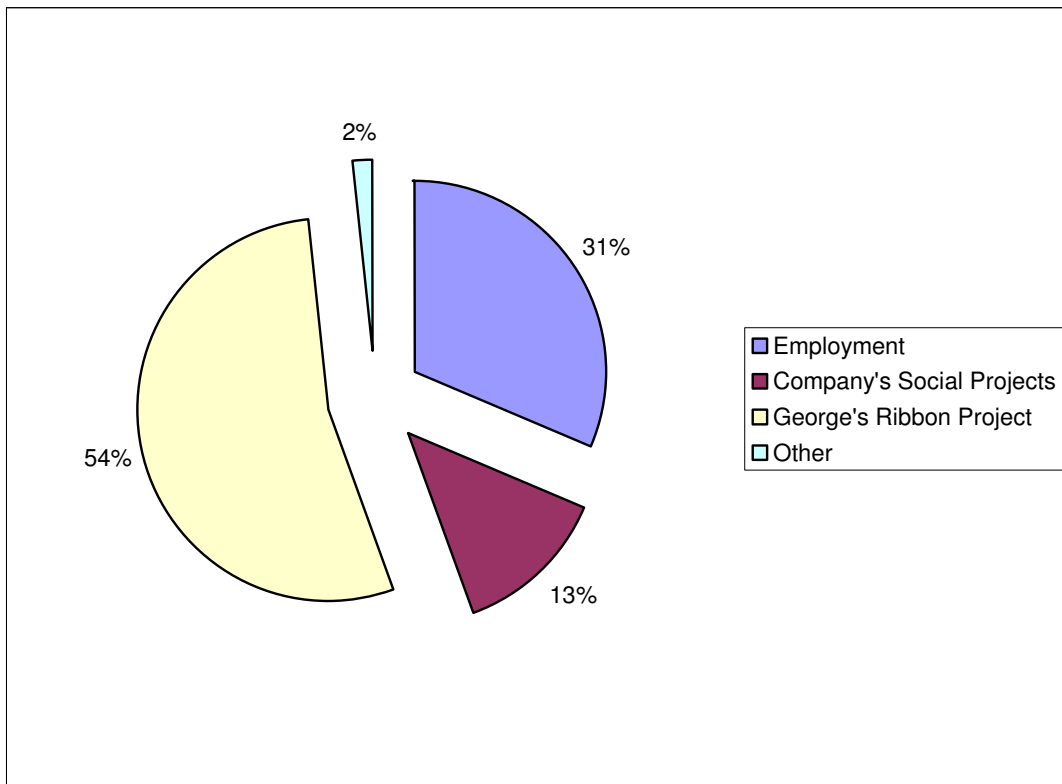
Table 10. Multi-media activity

| Format | Frequency | Language |
|--|------------------|-----------------|
| Media briefings for Sakhalin journalists | 4 | Russian/English |
| TV programme 'Energy' | 50 | Russian |
| Monthly community project update | Monthly | Russian |
| 'At a Glance' page in the internet site | Regularly | Russian/English |
| "Vesti" newspaper | Monthly | Russian |

3 FEEDBACK FROM CONSULTATION

Sakhalin Energy has relied heavily on feedback received from stakeholders in developing the consultation programmes.

The main questions that have been asked during consultations (CLO open hours, public meetings and Sakhalin Energy Information Centers) are shown at the diagram below. An overwhelming majority of people queries expressed their interest in the Company's Social Investments Projects. Sakhalin Energy has devoted considerable time and resources to answering these questions.



4 COMMUNITY GRIEVANCE PROCEDURE

4.1 REPORTING GRIEVANCES

On regular basis the Company distributes a community grievance leaflet, which advises those with a grievance on how they can lodge a grievance relating to Sakhalin-2 Project activities. The community grievance leaflet is distributed in the project affected communities and among the contractors/subcontractors employees.

In 2009 the community grievance leaflet was revised to reflect recent updates in the Company structural changes and in the process .

In 2009 the Company run a regular campaign on advertising of the Grievance Procedure aimed at distributing information on the Grievance Procedure among communities and contractors/subcontractors employees. These included:

- Leaflet and posters with CLOs contact information (in all Project affected communities and locations, including offices, camps);
- Districts newspaper announcements;
- A dedicated slide in every community presentation.

4.2 . GRIEVANCE ADDRESSING IN 2009

In 2009 the Company received 25 grievances, 55% less than in previous year which is due to significant reduction in Sakhalin-II project construction works and related temporary community inconveniences and also timely identification of potential issues of concern and their effective resolution. Among grievances received in 2009, 48% were raised in connection with the Project related impact on local communities; 28% - labour issues (contractor organisations); other grievances - compliance with the code of conduct, camp management etc (see Table below).

Table 11: Grievances lodged in 2009

| Grievance Category | Number of grievances lodged | % |
|--------------------------------|-----------------------------|-----|
| Community impact | 12 | 48 |
| Code of conduct | 1 | 4 |
| Labour relations | 7 | 28 |
| Project information disclosure | 1 | 4 |
| Camp management | 2 | 8 |
| Others | 2 | 8 |
| Total | 25 | 100 |

As of the end of 2009 out of 25 grievances 23 were addressed. Of them 20 grievances (or 80%) were resolved within the time period stipulated in Community Grievance Procedure (less than 45 working days), and even more, 11 grievances were addressed within 20 working days. Regarding status of other 2 grievances as of the end of 2009:

- Appropriate measures were taken to refine grievance related legal documents provided by complainant and respond to complainant;
- Investigation was conducted, all circumstances were clarified and final respond with requested information sent to complainant.

10 grievances were resolved with Statements of satisfaction signed by complainants. As for other grievances all practical measures were taken however either a complainant did not express his/her opinion regarding them or grievances were anonymous, or complainant applied both to the company and court, which resulted in judgement for company, and in such cases no statements of satisfaction could be signed. All those cases were assessed by the Company Business Integrity Committee and closed out by its decision as all feasible resolution measures had been taken. In addition, all grievances related to the resettlement were reviewed by the RAP² independent specialist during RAP third party monitoring. The independent specialist expressed her satisfaction with the grievance resolution process that had been implemented (relevant reports are available on Sakhalin Energy public web-site).

² Resettlement Action Plan

APPENDIX 1 COMMUNITIES, NGOS AND OTHER STAKEHOLDERS AS OF 2009

| Local & RFE | National | Regional | International |
|---|---|---|---|
| <ul style="list-style-type: none"> • Sakhalin Environment Watch • Sakhalin Fishing Associations and co-operatives • Russian Geographical Society • Marine Rescue Centre • Rodnik Environmental Centre • Green Island School • Poronaysk Eco-Centre • Pokrovskaya School • Young Talents of Sakhalin • Sakhalin State University • Institute of Advanced Teachers Training • Russian Association of Family Planning • AntiAIDS Foundation • Sakhalin Regional Anti-AIDS Centre • Sakhalin Branch of Russian Journalists Association • Association of Russian Far East Fisherman • Podrostok • NGO Chance • Yuzhno Rotary Club • Sakhalin Community • Garmoniya • Sakhalin Culture Fund | <ul style="list-style-type: none"> • WWF – Russia • IFAW-Russia • Greenpeace – Russia • IUCN - Russia • RAIPON | <ul style="list-style-type: none"> • Consulate General, Japan – Yuzhno • Hokkaido Government • Wakkanai Municipal Government • Abashiri Municipal Government • Monbetsu Municipal Government • Rumoi Municipal Government • Governmental Fishing Agencies • Hokkaido Bureau of Economy, Trade and Industry • Hokkaido Regional Assembly • Tourism Authorities • Japan Coast Guard – Tokyo and Regional Headquarters • Hokkaido Fishing Associations • Hokkaido regional fishing cooperatives in Wakkanai, Sarufutsu, Esashi, Abashiri, Kitarumoi, Otaru, Tokoro, Yuubetsu, Oumu, Ishikari • Japan Environment Disaster Information Centre | <ul style="list-style-type: none"> • WWF International • IFAW • IUCN • Pacific Environment • Greenpeace Netherlands • Wild Salmon Centre • Living Earth Foundation |

| Local & RFE | National | Regional | International |
|--|----------|---|---------------|
| <ul style="list-style-type: none"> • Arts Development Fund • Disabled Children's Organisation • Association of Indigenous People • Northern Nations Public Organisation • Poronaysk Lyceum of Traditional Industries of the People of the North • Museum of Local History in Nogliki and Tymovsk • Military Veterans Organisation • Korsakov Business Association • Knowledge is Power • Commercial fishery associations | | <ul style="list-style-type: none"> • Hokkaido University • Ship & Ocean Foundation • Friends of Earth Japan • IFAW – Japan • WWF Japan • Wildlife Preservation Bureau of Hokkaido • Etopilika • Hokkaido Raptores Research • Wild Bird Society of Japan • Yamashina Institute for Ornithology | |

APPENDIX 2. LIST OF EXISTING JAPANESE STAKEHOLDERS ON SAKHALIN ENERGY DATABASE AS OF 2009

| Japanese stakeholders | Japanese stakeholders |
|--|---|
| <ul style="list-style-type: none"> • Consulate General – Yuzhno • Hokkaido Government • Wakkanai Municipal Government • Abashiri Municipal Government • Monbetsu Municipal Government • Rumoi Rumoi Municipal Government • Governmental Fishing Agencies • Hokkaido Bureau of Economy, Trade and Industry • Hokkaido Regional Assembly • Tourism Authorities • Hokkaido Fishing Associations • Hokkaido regional fishing cooperatives in Wakkanai, Sarufutsu, Esashi, Abashiri, Kitarumoi, Otaru, Tokoro, Yuubetsu, Oumu, Ishikari | <ul style="list-style-type: none"> • Japan Coast Guard – Tokyo and Regional Headquarters • Japan Environment Disaster Information Centre, Hokkaido University • Ship & Ocean Foundation • Friends of Earth Japan • IFAW – Japan • WWFJapan • Wildlife Preservation Bureau of Hokkaido • Etopilika • Hokkaido Raptors Research • Wild Bird Society of Japan • Yamashina Institute for Ornithology |