# SUSTAINABLE DEVELOPMENT REPORT


Sakhalin Energy Investment Company Ltd.

2010

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**Sakhalin Energy Investment Company Ltd.**

2010

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# 1. MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

**Dear colleagues and friends**

The final year of the 21st century's first decade is now over. It was the first year our oil and gas infrastructure was operating at full capacity and the Company achieved stable production and commercial performance. We can be proud of what we have achieved by reaching and even exceeding the nameplate capacity of our LNG plant and providing reliable gas supplies to our buyers. With over 5% of the world LNG production, we are now a recognised and significant player in the Asia Pacific and global energy community.

Our milestones were also noted by our shareholders, as well as Russian and international professional communities. Among the key achievements of the 2010 are the following:

We finalised 2010 with the excellent safety performance, including road safety – zero road traffic LTI performance.

The Company passed OHSAS 18001 audit and got compliance certification on occupational health and safety management standard.

Sakhalin-2 project was awarded the 'Best Oil Project' at the World Finance 2010 Oil and Gas Awards.

Sakhalin Energy became a winner of the Russian Award 'Best Russian Companies'.

The Company won Shell's WALT (Well Activities Leadership Team) Global Performance Award.

We received a Special Merit Award in the 2010 Shell Chief Executive Officer HSSE and SP Awards in the category 'Excellence in Social Performance'.

In the past year, we demonstrated our adherence to the principles of sustainable development and corporate social responsibility. As a committed and active member of the UN Global Compact, the Company has stepped up experience sharing within Russian UN Global Compact Network in such areas as corporate social responsibility and sustainable development. As a leader in corporate social responsibility and sustainable development, we were the first Russian company to present our approaches and best practices to the UN Global Compact New York Summit in June and the World Forum in Lille in November, thus demonstrating that Russian oil and gas companies were in the mainstream of the world sustainable development process.

The signing at the end of 2010 of a tripartite agreement on the Second Sakhalin Indigenous Minorities Development Plan for 2011-2015 was a landmark event for the Company's main activities.

The second Sustainable Development Report 2010 is in line with the policy accepted by the Company for improving the extent and quality of information disclosure in all areas of concern of stakeholders and general public, both in Russia and worldwide. The Company uses it as a mechanism to invigorate and improve its interrelationships with external environment.

Andrei Galaev

**Andrei Galaev**
**Chief Executive Officer**
**Sakhalin Energy Investment Company Ltd.**

# 2.

# ABOUT THE REPORT

## 2.1 General

This report describes the Company's sustainable development performance in 2010 according to the principles and indicators of the Global Reporting Initiative (GRI, G3). The target audience of this report are both internal and external stakeholders listed in 'Stakeholder Engagement Management' section. This is the second Sustainable Development Report issued by the Company. The first one described the Company performance in 2009 and was presented in September 2010 in Moscow.


The process of the Report preparation, review and approval was based on the Company's previous experience and the procedure and schedule approved by the Company CEO. A dedicated working group was set up for the report preparation, which included managers and specialists from various Company departments responsible for particular aspects of corporate governance as well as economic, social and environmental performance of the Company. In preparing this report, the Company held two rounds of dialogues with its stakeholders according to the AA1000SES International Standard. Detailed information about the consultations and their results is presented in Appendix 2.

The report is published on the Company's public website in addition to being circulated among the principal stakeholders. The Company welcomes opinions, suggestions and comments from all stakeholders on this sustainable development report. To do so, you may:

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

## 2.2 Report contents and quality assurance

Basic approach to presenting information regarding the Company's performance is to provide a balanced report on the material aspects of three main areas of sustainable development – economic, environmental and social.

The Company shares and uses the following key international principles of sustainable development reporting:


## Definition of the Report Content

The Report presents all the material topics, issues and indicators relating to the Company's economic, environmental and social performance, including the executives' appraisal of the Company's performance in the period under review, as well as the stakeholders' expectations and concerns on material issues. In identifying these material issues, the Company has based its findings on the following: stakeholder engagement results obtained in 2010 and previous years (individual, group and public consultations, etc.); systematic media analyses and annual public opinion surveys (conducted in 23 communities of Sakhalin, covering 940 respondents, in 2010); public concerns shared with the Company (including through the Company information centres, see Section 7.3) and special consultations held in preparation of this Report (see Section 7.2). In addition, recommendations and comments regarding the 2009 Sustainable Development Report (filled feedback forms) were also taken into account, as well as the issues presented in the non-financial reports prepared by Russian and non-Russian companies in accordance with best international practices.

**MATERIALITY**

In 2010, the Company continued systematic and consistent engagement with all the stakeholders based on the strategy and principles described in Section 7.1. Section 7 of this Report presents information on stakeholder engagement, including identification, methods, mechanisms and results of the engagement processes. Detailed information about the consultations and their results is presented at Sakhalin Energy's website.

**STAKEHOLDER INCLUSIVENESS**

This Report provides balanced and sound information on all aspects of the Company's sustainable development performance – its operations affecting economic, environmental and social spheres.

**SUSTAINABILITY CONTEXT**

This Report contains information on all areas of the Company's sustainable development performance in the reporting period according to the GRI principles and indicators of Level B applicability within the boundaries of its operations (primarily, the Production Sharing Agreement), based on the stakeholders' assessment of the topics' materiality and the priorities set by shareholders, lenders and the Company management.

**COMPLETENESS**

## Report Quality Assurance

The Report includes both favourable (accomplishments) and unfavourable aspects (action items) of the Company performance in the year under review. The Company identified the topics to be disclosed in the report based on the issues' materiality, as well as the interest and wishes of stakeholders.

**BALANCE**

In preparing this Report, the Company followed the GRI Sustainable Development Reporting Guidelines and their Technical Protocols, and proceeded with the topics and indicators covered by the previous report.

**COMPATIBILITY**

**ACCURACY**

The Company seeks to make an accurate, specific and sufficiently detailed presentation of its performance results, so as to enable stakeholders' objective evaluation thereof. To that end, the Company uses both qualitative descriptions and quantitative information based on the standard financial and statistical reports, reports to the relevant oversight agencies, the Russian Party, shareholders and lenders, as well as internal reports drawn up according to the procedures and methods adopted by the Company. Where estimates are used, either a reference to the source or rationale for using an estimate is provided.

**TIMELINESS**

This sustainable development report is the second report prepared according to the GRI Guidelines. Its preparation was carried out on a planned basis, including special consultations with stakeholders (see Section 7.2), public endorsement procedure (see Section 2.5) and publication.

**CLARITY**

This Report information is presented in an easily understandable and clear format, avoiding specialised technical terms or industry-specific jargon, etc., and omitting information that requires special knowledge to be properly perceived. The Report makes a wide-ranging use of charts, graphs, schemata and explanations of the terms used. Below we provide a list of the acronyms used in the Report, which are also explained when first mentioned within each section.

**RELIABILITY**

The Report contains credible information, which can be verified and confirmed. A number of the Report details reflecting the results of the Company's sustainable development performance have also been verified independently, with references to such verifications provided appropriately.

## 2.3 Definition of the report scope

This Report contains information on all assets and structural units of the Company and on all areas influenced by its sustainable development performance, including economic, environmental and social.

## 2.4 List of acronyms and abbreviations

This Report uses the following acronyms and abbreviations:

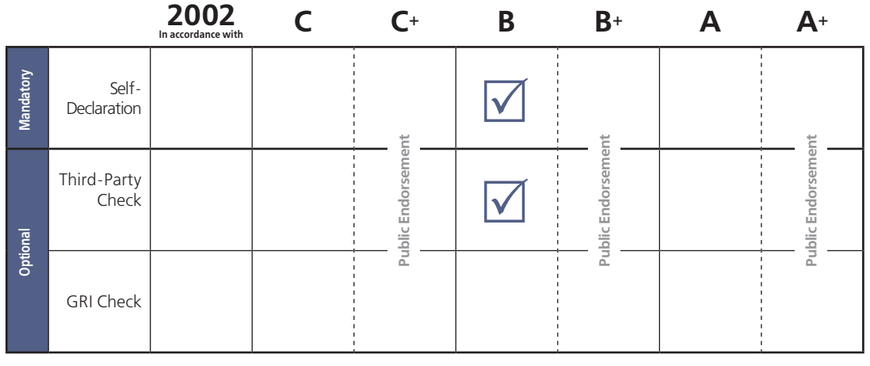
| | |
|---|---|
| **ALARP** | As Low As Reasonably Practicable |
| **APR** | Asia-Pacific Region |
| **BPP** | Biodiversity Protection Plan |
| **BS2** | Booster Station 2 |
| **CEO** | Chief Executive Officer |
| **CSR** | Corporate social responsibility |
| **EMC** | Emergency Response Committee |
| **EMERCOM** | Ministry for Emergency Response |
| **ESHIA** | Environmental, Social and Health Impact Assessments |
| **GRI** | Global Reporting Initiative for sustainability reporting |
| **GTT** | Gazprom Transgaz Tomsk |
| **FEI** | Fuel and energy industry |
| **HE** | Health and environment |
| **HSE** | Health, safety and environment |
| **IEC and LM** | Industrial Environmental Control and Local Monitoring |
| **IFC** | International Finance Corporation |
| **IMO** | International Maritime Organisation |
| **IPNS** | Indigenous People of the North, Sakhalin |
| **ISO** | International Organisation for Standardisation |
| **IUCN** | International Union for Conservation of Nature and Natural Resources |
| **IVMS** | In-vehicle monitoring system |
| **LNG** | Liquefied natural gas |
| **LUN–A** | Lunskoye-A platform |
| **MHMS** | Minimal Health Management Standards |
| **MNR** | Ministry of Natural Resources |
| **MPE** | Maximum Permissible Emission |
| **NGO** | Non-governmental organisation |
| **NPO** | Non-profit organisation |
| **OET** | Oil export terminal |
| **OPF** | Onshore processing facility |
| **OSR** | Oil spill response |
| **PA-A** | Molikpaq platform (Piltun-Astokhskoye-A) |
| **PA-B** | Piltun-Astokhskoye-B platform |
| **PMC** | Maximum Permissible Concentration |
| **PMD** | Pipeline maintenance depot |
| **PRISCO** | Far East Shipping Company |
| **PSA** | Production Sharing Agreement |
| **RAS** | Russian Academy of Science |
| **RTI** | Road traffic incident |
| **SIMDP** | Sakhalin Indigenous Minorities Development Plan |
| **SSI** | Sakhalin Salmon Initiative |
| **TEOC** | TEO (Feasibility Study) of Construction |
| **TLU** | Tanker loading unit |
| **UN** | United Nations Organisation |
| **WGW** | Western gray whale |
| **WGWAP** | Western gray whale Advisory Panel |
| **WWF** | World Wildlife Fund |

## 2.5 GRI Application Level and Public Endorsement

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

In addition, within three months after the publication of the Report the Company intends to put it through the external public endorsement procedure for non-financial corporate reporting to the highest applicable professional level in the Russian Federation. The information about the results of the process will be duly provided to stakeholders.

The public endorsement is primarily sought for the materiality and completeness aspects of the information disclosed in a non-financial report according to best practice of responsible business.




**GRI application levels table**

# 3.

# INTRODUCTION

Ever since its establishment, Sakhalin Energy has been dedicated to strengthening and enhancing its social and environmental responsibility – through continuous improvement of its principles and practices for stakeholder engagement in the Russian Federation, with a focus on Sakhalin and in the Asia Pacific, and the unfailing compliance with the requirements of international lenders based on the recognised international standards. Non-financial reports offer an additional and efficient tool for building stable two-way relationships between the Company and, firstly, stakeholders and, secondly, the public at large.

The reporting on sustainability and corporate social responsibility (CSR) is now firmly integrated in the practices of world business majors.

More than of 7,400 international companies, including major multinationals and national business champions, regularly submit their achievements and sometimes challenges for judgment by their customers and shareholders, governments and civil society (http://www.CorporateRegister.com).

Such public reporting is not only about enhancing business reputation and public image of a company by demonstrating its successful operation, though this goal is of course pursued.

Achieving higher corporate social responsibility presumes and ensures economic effectiveness, environmental and social responsibility, which constitute the three interrelated aspects of sustainable development. Such approach has been accepted across the board by a majority of the leading international companies and also by part of the Russian business leaders. Key international standards in this area are also aimed at spreading the best practices.

The Company sees the sustainability reporting process not only as a way to demonstrate its achievements and challenges, but also as a tool to maintain a constructive dialogue between the Company and its stakeholders and communicate with the outside world.

Therefore, the reporting format selected by the Company is meant to be focused on the interests of all the stakeholders, including our buyers and vendors, government authorities, various NGOs and environmental organisations, and even our business competitors.

This report has been developed based on the methodology and the main operating standard in this area – Global Reporting Initiative (GRI) for sustainable development reporting. This standard is convenient, because it offers unified reporting elements, including 42 descriptive and 79 performance indicators in the economic, social and environmental areas. The reports prepared in such format are clear to the world business community and are convenient for comparing actual achievements and shortcomings between business rivals, as well as between any world companies in specific areas.

Sakhalin Energy is in many instances a unique Russian company. First, it is operating on the basis of a Production Sharing Agreement (PSA), one of the three PSAs in the Russian Federation. Second, it is an international company co-owned by such recognised giants as Gazprom, Shell, Mitsui and Mitsubishi. Third, the Company succeeded not only in building a state-of-the-art oil and gas infrastructure from scratch in a remote region, but also in introducing Russia to the elite club of the companies producing LNG. Our project ranks among the best high-technology and innovative projects in the oil and gas sector in Russia. Finally, most of the Sakhalin-2 Project financing has been provided since the 2000s by an international consortium of banks and financial institutions based on the principles of social and environmental responsibility and responsible financing.

Well before embarking on the GRI non-financial reporting, the Company had regularly (on a monthly basis during the construction phase) issued reports to the international consortium of banks according to many (up to 350) social and environmental indicators. Because of its long-term experience, the Company's transition to the non-financial public reporting went quite smoothly in 2009.

An important element of Sakhalin Energy's non-financial reporting are additional public dialogues ('public hearings') involving all the stakeholders. These consultations help define the stakeholders' respective scopes of interests relating to the Company, which should be taken into account and reflected in the annual non-financial reports.

Therefore, this second non-financial sustainable development report keeps up the Company's course of strengthening corporate social responsibility to stakeholders, as first priority, and also to Russian and international communities.

2010 was an intensive year of our activity to further promote the Company's reputation and public image as socially responsible company, both nationally and internationally. With this we endeavour to achieve a range of significant goals, both tactical and strategic, including:

- Gaining national and international recognition for the Company;
- Demonstrating the Company's adherence to responsible business practices;
- Finding practical solutions for PR challenges in the host region and beyond;
- Indirectly contributing to business reputation of the Company's shareholders;
- Giving assurance to the international lenders that they did right to have provided a syndicated loan on the basis of socially responsible financing and investment;
- Providing opportunities for critical discussions of the Company's practices within the oil and gas community and for joining efforts aimed at efficient mechanisms in various areas and aspects of sustainable development, as well as further improvement of the corporate practices in this field.

# 4.

# ABOUT SAKHALIN ENERGY

## 4.1 Sakhalin Energy, Sakhalin-2 operator

Sakhalin Energy Investment Company Ltd. ('Sakhalin Energy' or 'Company') is implementing the Sakhalin-2 Project on the basis of the Production Sharing Agreement with the Russian Federation. The Company was established in 1994 for the purpose of developing Piltun-Astokhskoye and Lunskoye oil and gas fields off Sakhalin Island in the Okhotsk Sea, Russian Far East. The development of these two fields involved the construction of a new integrated infrastructure for offshore production, transportation, processing and sales of hydrocarbons. This infrastructure includes three offshore platforms, offshore and onshore pipelines, an onshore processing facility, a booster station, an oil export terminal with a tanker loading unit and Russia's first LNG plant. This is one of the most technically challenging projects that have been developed in the world oil and gas industry in the past decade. The scope of the project targets, work and investment, the severe climate and unique ecosystem of Sakhalin, the lack of the required transportation and other infrastructure on the island at the time of the project launch, and the project's geographical remoteness from traditional Russian economic hubs, called for the industry's best practices, technological innovations and efficient management solutions to be applied to the project. This challenge was successfully met by the unique co-partnership of the Sakhalin Energy shareholders.

Sakhalin Island has become the world's new oil and gas province. Hydrocarbon reserves offshore Sakhalin are estimated at 45 billion barrels in oil equivalent, which is close to the overall volume of unexplored reserves in the North Sea.

## 4.2 Main production and business achievements in 2010

### 4.2.1 ASSETS

#### 4.2.1.1 MOLIKPAQ PLATFORM (PA-A)

In 2010, the Molikpaq well stock remained unchanged, with thirteen oil production wells, four water injection wells, one gas reinjection well and one waste disposal well. The average production rate was about 45 thousand barrels of oil and about 1.5 million cubic metres of gas per day.

Intensive rejuvenation work was carried out on the platform throughout 2010, enabling the Company to drill new wells and increase production efficiency in the future. The Molikpaq rejuvenation project is expected to be completed by December 2011, following which the Company intends to start additional drilling from the Molikpaq.

To debottleneck the existing wells' operation and improve the future Molikpaq wells' lay out and trajectories, the first-ever 4D seismic in Russia was successfully carried out in the Astokh area to study changes occurring in the field after 12 years of oil production. The seismic data was processed and issued for interpretation, which is expected to be finished by the end of 2011.

The Molikpaq, the first stationary offshore platform not only for Sakhalin Energy, but for Russian offshore oil and gas industry in general, was installed near Sakhalin in 1998.

#### 4.2.1.2 PILTUN-ASTOKHSKOYE-B PLATFORM (PA-B)

At the end of 2009, the PA-B platform had six production wells and one waste disposal well. Two oil production wells and three water injection wells were additionally drilled in 2010. The latter are expected to increase the oil production rate through the pressure maintenance programme in Piltun area. With that aim it is planned to drill two new water injection wells in 2011.

#### 4.2.1.3 LUNSKOYE-A PLATFORM (LUN-A)

Gas is produced from the largest diameter wells ever drilled in Russia. Two new gas production wells were completed in 2010, which brought the total number of wells to seven. The LUN-A gas production rate is up to 10 million cubic metres of gas / day / well. It means that the gas amount supplied by each of the LUN-A wells can feed a 2GW power plant at full operation.

The Company also drilled wells to the oil rim in 2010. Production of oil

The LUN-A gas production rate is up to 10 million cubic metres of gas per day per well. It means that the gas amount supplied by each of the LUN-A wells can feed a 2GW power plant at full operation.

from the oil rim is technically a very complicated task, because of the formation thickness and geometry parameters. The oil rim well was completed in January 2011, following which the Company embarked on assessment of the Lunskoye oil rim commercial development feasibility.

#### 4.2.1.4 ONSHORE PROCESSING FACILITY (OPF)

The main purpose of the Onshore Processing Facility (OPF) is to process gas and condensate from the Lunskoye field before hydrocarbons are pumped into the pipelines for transportation to the Oil Export Terminal and LNG plant. The oil and associated gas from Piltun-Astokhskoye field are also processed at the OPF. Both OPF trains were put on stream in late 2008. The OPF daily processes 51 million cubic metres of gas and about 60 thousand barrels of oil/condensate.

The OPF currently employs 250 Russian personnel in winter and 400 in summer.

#### 4.2.1.5 TRANS-SAKHALIN PIPELINE SYSTEM

All project facilities are integrated via the Trans-Sakhalin Pipeline System, which comprises about 300 km offshore pipelines and over 1,600 km oil and gas onshore pipelines, as well as 104 block valve stations, five pipeline maintenance depots and two booster stations, of which one is installed at the OPF and the other about halfway between the OPF and Prigorodnoye asset in the south of the island.

The day-to-day operation and maintenance of the Trans-Sakhalin Pipeline System is provided by Sakhalin Energy's contractor, Gazprom Transgaz Tomsk (GTT). GTT also provides the operation and maintenance services for Booster Station 2 (BS2), which was put on stream in 2010. In June 2010, the Company received a certificate of conformity certifying BS2 compliance with the design documentation. The BS2 final commissioning and hand-over to GTT for operation and maintenance was an outstanding result of successful cooperation between Sakhalin Energy and GTT in 2010.

In 2010, the Company started the construction of two gas transfer terminals required for gas deliveries to Gazprom, which was nominated a party responsible for gas supplies to the Russian Far East.

After the two gas transfer terminals are put on stream and reach full capacity, they will throughput around 2 billion cubic metres of natural gas every year.

#### 4.2.1.6 LNG PLANT AND OTHER PRIGORODNOYE ASSETS

The Prigorodnoye Complex assets, operating in the south of Sakhalin, on the shore of Aniva Bay that stays ice-free nearly year-round, comprise an LNG plant with an LNG Jetty, and an Oil Export Terminal (OET) with a Tanker Loading Unit (TLU) installed 5 km into the sea.

The LNG plant was inaugurated on 18 February 2009. It occupies 490 hectares of land and has two trains with a nameplate capacity of 4.8 million tonnes of LNG per year each. The LNG facilities also include an LNG jetty, a laboratory, a control room and LNG storage tanks.

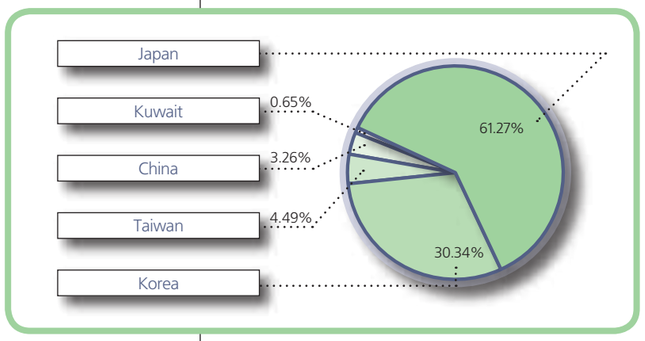
In terms of capacity, the Sakhalin LNG plant ranks sixth among all the LNG plans operating in the world. During 2010, Sakhalin Energy implemented a debottlenecking programme, which increased the plant's capacity by several percent. The debottlenecking programme will continue.

The LNG plant celebrated two milestones in 2010. In January 2010, the Company successfully delivered the hundredth LNG shipment from Prigorodnoye asset (symbolically, this shipment was carried by the Grand Aniva, the LNG carrier that shipped the first LNG cargo from Sakhalin), and as soon afterwards as October 2010 the two hundredth cargo set off to its destination. These achievements speak loudly of the fact that the Company's entire production chain running from the offshore platforms in the island's north to the LNG terminal in the south, is operating in a reliable and safe way. Sakhalin Energy, with its 5% of the world LNG production, has become a significant element of the regional energy security system.

### 4.2.2 HYDROCARBON PRODUCTION AND EXPORT

#### 4.2.2.1 LNG

The LNG plant reaching full production capacity and providing reliable LNG supplies to buyers were Sakhalin Energy's key achievements in 2010, the first full year of the LNG production. Due to the management structure optimisation, successful debottlenecking and equipment adjustment, the LNG plant reached and even exceeded its design output by producing over 10 million tonnes of LNG in 2010. The Company's LNG shipments in 2010 were to Japan, Korea, China, Kuwait and Taiwan.

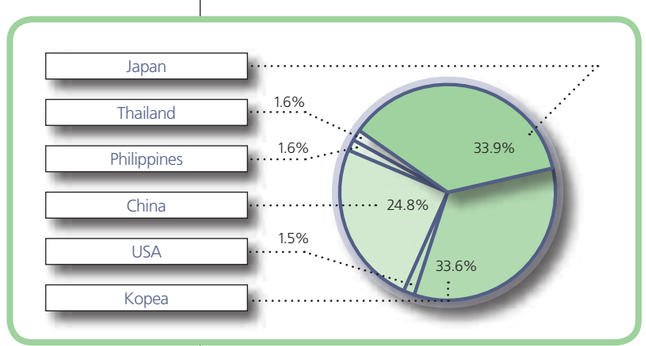



**Sales of Sakhalin LNG in 2010**

The Sakhalin LNG was delivered to destinations either by the buyers' ships or by the LNG carriers – Grand Elena, Grand Aniva and Grand Mereya – owned and operated by two Russian-Japanese consortia and provided to the Company under long-term charters.

Liquefied natural gas (LNG) is a colourless odourless liquid, less than half the density of water, consisting mainly (about 90%) of methane. After being cooled to approximately -160°C at standard atmospheric pressure, natural gas converts to liquid and shrinks to 1/600th of its initial volume, becoming suitable for sea shipment.
Natural gas is one of the cleanest fuels. The $CO_2$ emissions from the production of one thermal unit from coal are 67% higher than from the burning of an equivalent amount of natural gas.

**Sales of Vityaz Blend in 2010**




#### 4.2.3.2 OIL

Sakhalin Energy produced and exported over 6.1 million tonnes (47 million barrels) of Vityaz Blend from the Prigorodnoye terminal in 2010. That is 10% higher than in 2009 (5.5 million tonnes), irrespective of the fact that the oil production was slightly below target.

Vityaz Blend was supplied in 2010 to 14 buyers in Japan, Korea, China, the Philippines and Thailand.

Since the LNG plant reached full capacity in 2010, the hydrocarbon production and export have grown significantly, boosting the Company's total revenue. Sakhalin Energy's total revenue in 2010 was $6,086.9 million (IFRS), with gross profit of $2,258.9 million.

### 4.2.3. OIL SPILL PREVENTION AND RESPONSE PREPAREDNESS

Oil spill prevention and Oil Spill Response (OSR) preparedness are top priority with Sakhalin Energy. The Company comprehensively addresses this challenging mission. The changeover to year-round production required a review of potential oil spill risks and resulted in definition of more sophisticated and larger-scale tasks designed for oil spill prevention and response. Accordingly, the Company revised its planned requirements in special-purpose equipment and trained personnel, developed OSR plans for new production assets, as well as new oil spill response procedures for swamps, wetland, coastal strip and ice conditions.

In accordance with the Russian law requirements, Sakhalin Energy submits its OSR plans for approval to Russian state agencies detailing the techniques and procedures to be used for response operations. The OSRP approvals process had been completed before full-scale start-up of the Sakhalin-2 facilities and the Company today is fully compliant with the OSR statutory requirements.

Sakhalin Energy has vast experience in oil spill prevention and has achieved an impressive record in these activities. From commencement of oil production through present, the Company has produced almost 200 million barrels of oil spilling only about 25.8 barrels (approximately 3.5 tonnes). Over all these years there has been no oil or petroleum product spill which could be graded as an emergency situation. The Company continues to maintain preparedness of its resources and facilities to respond to accidental oil spills onshore and offshore.

The Company has developed, obtained approval for and implemented OSR plans for all of its production assets. Asset OSR plans of the Company, as well as the Oiled Wildlife Response Plan are available on the Company's website (www.sakhalinenergy.com).

To ensure OSR ongoing preparedness, Sakhalin Energy has contracted companies which provide professional emergency response and rescue services for the Company's onshore and offshore assets. Sakhalin Energy also maintains non-professional emergency response teams at its facilities – at Prigorodnoye, OPF, BS2, on all of its offshore platforms and onboard Smit Sakhalin and Smit Sibu vessels. Personnel of these teams are well trained and are prepared to respond to oil spills immediately.

To maintain its OSR preparedness, on an annual basis Sakhalin Energy carries out various exercises at its assets, including OSR equipment drills, tabletop exercises, and various level training drills including biannual corporate level mandatory drills. These allow testing

preparedness of all oil spill response chain elements. In 2010, the Company held about 800 activities, including about 180 OSR drills and exercises at production assets, a corporate exercise at the BS2 and LUN-A platform, a training course for on-duty personnel of emergency and crisis management units on OSR activity planning, as well as an oiled wildlife rehabilitation exercise, etc.

The Vityaz Blend is a new oil grade introduced by Sakhalin Energy. It is a light semi-sweet grade similar to the light oil produced in Oman.

# 5.

# CORPORATE MANAGEMENT

## 5.1 Company mission, vision, values and policies

The success of a company's business is to a great extent dependent on its **mission** and **vision**, which, in their turn, set up a framework for corporate objectives and strategies.

Sakhalin Energy updated its mission and vision in 2010, which became necessary due to the completion of the Phase 2 construction and commissioning work and the safe putting of the Phase 2 facilities on stream and bringing the Project to a new stage of full-cycle production, which implied new goals.

The Sakhalin Energy mission and vision are currently defined as follows:

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

**Mission**: Sakhalin Energy intends to be a premier energy supplier in the global market. We conduct our business based on operational excellence, reliability and safety in an environmentally and socially responsible manner.

**Objectives**: Commercial development and operation of the hydrocarbon fields and the sales of hydrocarbons in accordance with the Sakhalin-2 licenses, as well as the development of a required project infrastructure, for the benefit of our shareholders, the Russian Federation, Sakhalin and local community.

Sakhalin Energy activities are based on a set of general business principles, in which the underlying core values are honesty, integrity and respect for people, in line with the Companys' responsibilities to the shareholders, Russian Party, buyers, employees, business partners – all parties that have business relationships with the Company – and the society.
The general business principles cover such areas as business, competition, business integrity, political activities, health, safety and environment, liaison with the local population and engagement with stakeholders.
The Company Business Principles are available at the Sakhalin Energy website (www.sakhalinenergy.com).

## 5.2 Sakhalin Energy business corporate management system and structure

Corporate business management is a process ensuring due organisation, management and control within Sakhalin Energy. The Business Management System of Sakhalin Energy provides guidance on how the Company's business is managed.

### Leadership and Commitment

Management is fully committed to the Business Management System, with which all staff and contractor staff must comply. Management provides a leading role towards constant improvement of business processes through their decisions and actions.

### Policy and Strategic Objectives

Sakhalin Energy's policies and standards comply with Russian laws and regulations and with the requirements of its shareholders and lenders. The Sakhalin Energy strategic objectives are consistently incorporated in the policies, standards, processes and plans adopted by the Company.

### Organisation, Responsibilities, Resources, Competency

The organisation and resources are adequate to meet the strategic objectives. Responsibilities at all levels are clearly described, communicated and understood. Staff are developed and trained in accordance with the results of structured competency assessment.

### Risk Management

In setting objectives, management considers the overall risk levels of its activities and identifies those critical activities for risk management.

### Processes, Assets and Standards

Processes and assets are defined with clear, assigned responsibilities. Process/Asset standards and procedures incorporating risk controls are in place and understood at the appropriate organisational levels. Preparation, review and distribution of all key control documentation is adequately controlled. Process owners ensure compliance to their processes through a continuous programme of self-assurance.

### Planning

All approved plans are optimised and fully resourced. Performance targets are set to ensure progression towards the long-term objectives. Changes to the plans are documented and appropriately approved. Contingency and emergency response plans are in place and regularly tested.

### Implementation (Monitoring and Corrective Action)

Performance indicators are established, monitored, and results reported. Corrective actions are taken as necessary, and policies, organisation, risks, plans, processes updated. All control incidents with significant actual or potential consequences are thoroughly investigated and reported with learning appropriately disseminated throughout the Company.


### Assurance

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

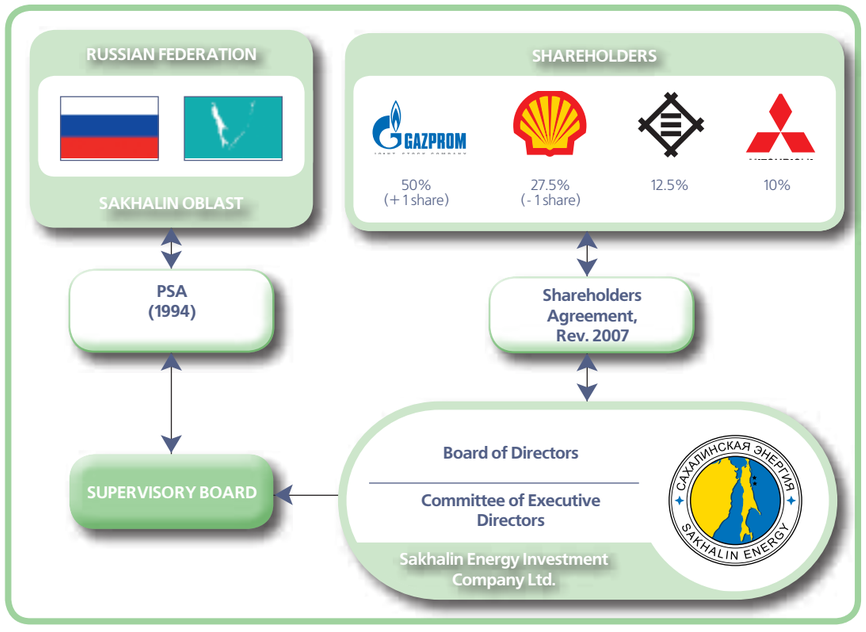
### Communication

Transparent and honest communication is essential to ensure alignment with and delivery of business objectives. Line managers engage with their staff, communicating business direction and priorities. The CED receives their feedback for information and possible follow up. CEO and other members of the CED reinforce this communication framework by quarterly staff engagement sessions. For more detail see Section 5.4 Corporate Culture.

## 5.3 Sakhalin Energy governance model

Strategic governance is executed jointly by Sakhalin Energy, the Russian Party and shareholders. They set appropriate policies, establish accountability and appraise performance, including in sustainable development.

Under the shareholding structure of Sakhalin Energy, which has not changed since 2007, Gazprom holds 50% plus one share, Shell 27.5%, Mitsui 12.5% and Mitsubishi 10%, all the shareholders operating through their subsidiaries.




Sakhalin Energy governance model

Sakhalin Energy operates within a three-tier management structure where:

1. Certain key decisions are reserved for the shareholders.

2. The Board of Directors (BoD) is responsible for the overall management of the Company.

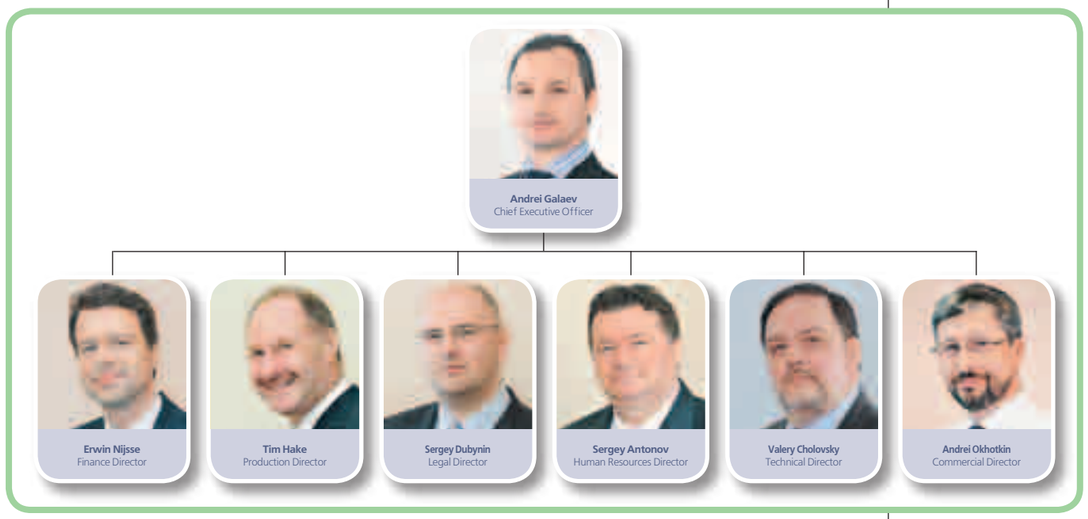
3. The day-to-day management and operations of the Company are delegated to a Committee of Executive Directors (CED).

**Supervisory Board** is the Company's strategic management body established and operating in accordance with the Production Sharing Agreement. The Supervisory Board supervises the fulfillment of the PSA terms and approves the Company's long-term development plans and budgets, annual work programmes and budgets, LNG sales agreements, procurement procedures, Russian National employment and training plans, etc. The Supervisory Board also reviews the Company's annual reports and appoints the Russian Party auditors. The Supervisory Board is made up of six members from Sakhalin Energy and six members from the Russian Party, including two from the Sakhalin Oblast Government and four from the Government of the Russian Federation.

**Board of Directors (BoD)**, a body appointed by the Company shareholders, is responsible for the overall governance of the Company and for key decisions regarding economic, environmental and social activities, as well as strategy and business direction of the Company. The BoD members in 2010 included seven Executive Directors, eight Principal Non-Executive Directors and eight Alternate Non-Executive Directors. Charles Watson (EVP Russia Caspian for Shell) was the BoD Chairman in 2010.

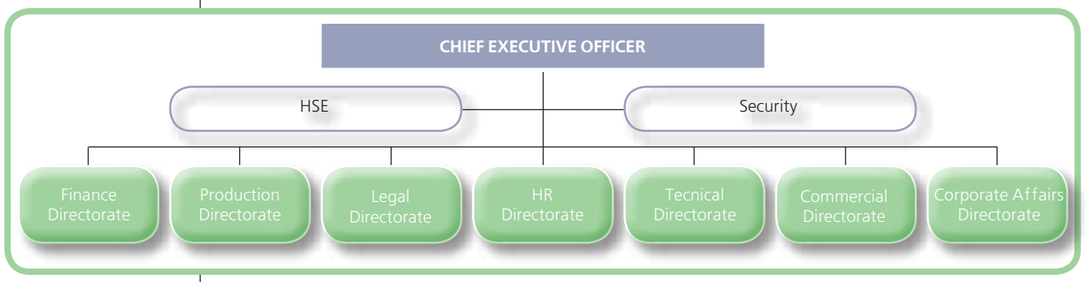
The BoD activities are supported by the functions of several committees, including:

- Commercial Committee consists of representatives of the Company headed by the Commercial Director, who is also the Commercial Committee Chairman, and representatives of the shareholders, who meet to discuss commercial issues. The Commercial Committee also includes observers from the Company shareholders;
- Technical Committee is a committee consisting of representatives of the Company headed by the Company Technical Director, who is also the Technical Committee Chairman, and representatives of the shareholders, who meet to discuss technical issues. The Technical Committee also includes observers from the Company shareholders;
- Financial Advisory Committee comprises representatives of the Company headed by the Finance Director, who is also the Finance Committee Chairman, and representatives of the shareholders, who meet to discuss financial issues. The Financial Advisory Committee also includes observers from the Company shareholders;
- Board Assurance Committee consists of representatives of the Company (members should not be Executive Directors) and representatives of the Company shareholders, who meet to discuss the assurance issues;
- External Affairs Committee is an advisory committee to BoD consisting of representatives of the Company, headed by the External Affairs Manager, who is also the External Affairs Committee Chairman, and representatives of the shareholders, who meet to discuss the external affairs issues.




**Committee of Executive Directors (as of 31 December 2010)**

**Committee of Executive Directors (CED)** is responsible for the day-to-day management of the Company. The Committee of Executive Directors sets, directs and controls the daily activity of Sakhalin Energy through business plans and strategies, as well as decisions on their implementation. In 2010, the Committee of Executive Directors was made up of seven members: Chief Executive Officer (who heads the committee), Production Director, Technical Director,




**The Company organisational structure**

Human Resources Director, Commercial Director, Finance Director and Legal Director.

Executive Directors head the respective functional subdivisions and are responsible for the Company's day-to-day operation and management.

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

- Tender committees;
- Management Development Committee;
- Business Integrity Committee;
- Business Assurance Committee;
- HSE Management Committee;
- Sustainable Development Council.

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

## 5.4 Corporate culture

Sakhalin Energy employees share the core values of honesty, integrity and respect for people. Fundamental to Sakhalin Energy's mode of operation is the importance of trust, openness, teamwork and professionalism and to take pride in what we do. These values are captured in Sakhalin Energy's framework of behavioural standards and guidelines, notably:

- Statement of General Business Principles;
- Code of Conduct;
- Whistle Blowing/Grievance Procedure;
- Sustainable Development Policy;
- Conflict of Interest Procedure;
- Anti-Bribery Corruption Procedure.

These documents ensure that Sakhalin Energy operates within the framework of applicable laws and in accordance with the ethical requirements set out in Sakhalin Energy General Business Principles. The business principles compliance system makes the Company management responsible for provision to the Company employees safe and confidential methods for expressing concerns, raising issues and whistle blowing (see Section 9.4). Sakhalin Energy employees, in their turn, are expected to report to the Company any incidents of non-compliance with the General Business Principles.

Sakhalin Energy operates in a manner that is intended to complement the core values and provide a way of thinking and behaving for the best interest of the overall business. Leadership, accountability and teamwork characterise this behaviour.

The Code of Conduct provides clarity about the behaviours and standards that Sakhalin Energy expects from its employees. Applying the Code of Conduct ensures compliance with relevant legislation and regulations whilst employees and management display the Sakhalin Energy core values.

The Company continuously works to reinforce its staff engagement and two-way communication framework using such methods as direct communication (general staff communication sessions, meetings within each group/department, etc.), as well as various types of electronic and written communications and feedback (see Section 7.7 for staff communication and engagement).

The support of the employees' active social attitude is an important element of the Company's corporate culture. The 'Hurry up for Good Deeds' programme was set up in 2003 to support the employees' charitable initiatives and has been effective ever since. Charitable activities of the employees enable them to master new practices, exhibit or develop leadership skills and feel proud of their contributions to the community problem-solving process, acting as conduits of the Company's corporate responsibility.

## 5.5 HSE and social performance management system

Sakhalin Energy manages its health, safety, environment and social issues within the framework of its business activities. The Company pursues the goal of no harm to people, protecting the environment and contributing to sustainable development, and this attitude is beneficial to the people of Sakhalin and other key stakeholders.

The Russian Federation and Sakhalin Oblast enjoy various benefits from the Sakhalin-2 Project, including, but not limited to, multi-billion investments, high local employment, involvement of Russian contractors, etc. However, due to its scope and complexity, the Project can potentially generate environmental and social impacts, and the Company has committed to deal with these impacts in a systemic way so as to minimise risks and prevent negative consequences. For that goal, the Company uses a preventive approach, with a strong focus on risk management and social impact assessment.

The HSE and social management is an integral part of the management of the Company. Sakhalin Energy is guided in its HSE and social performance activities by the following three key policies:

- Sustainable Development Policy;
- HSE Commitments and Policy;
- Social Commitments and Policy.

The above documents are approved by CED and signed by the Sakhalin Energy CEO; they set the foundation for the HSE management system and are communicated to all staff and contractors.

The Health, Safety, Environmental and Social Action Plan (HSESAP) consolidates the commitments from the Environment, Health and Social Impact Assessments and details the measures agreed between the Company and the Phase 2 lenders to eliminate, mitigate or manage the identified adverse HSE and social risks and impacts to acceptable levels.

Such comprehensive approach to the HSE and social management system is designed to ensure effective risk management, compliance with Russian legal requirements and applicable international standards and to achieve continuous HSE and social improvement.

The Company's integrated health, safety, environment and social performance management system provides the right tools for Sakhalin Energy to manage relevant impacts and risks. The

system applies to all the Project assets, facilities and operations, including those undertaken by contractors on behalf of the Company. Sakhalin Energy sees the management of such risks as critical to the business success. The Company will update and develop its management system to keep it consistent with good international industry practice, and will continually work for its improvement.

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

- Set objectives and establish procedures required for achieving the desired results in accordance with the Company HSES policy, which includes definition of legal and other requirements, risk management and problem solving, identification of hazards, risk and impact assessment, determination of controls, development of objectives and annual improvement plans;
- Introduce procedures, including the organisation, awareness, training and competence processes, contractors management, participation and consultation, change management, emergency preparedness and response, as well as operational controls addressing occupational health, personal safety, asset integrity and process safety, transportation, environmental protection, social performance, including indigenous peoples, cultural heritage, land acquisition, resettlement and supplemental assistance, public consultation and disclosure, grievances, and social investment;
- Control and determine process effectiveness in compliance with the tasks, legal and other requirements, reporting on the results, incidents and non-compliance, lessons learning, remedial and preventive measures and inspection and audit;
- Review the management system on a regular basis and take measures for continuous improvement of the Company HSES performance.

Sakhalin Energy manages the HSE issues through its integrated HSE management system as described below. The CEO-chaired HSE Management Committee oversees the HSE management system implementation and performance. The HSE General Manager, directly reporting to the HSE Management Committee, is responsible for the HSE management system development, operation and monitoring. The HSE services established in the Company's structural units are designated to satisfying the Company's commitments in industrial safety, health and environmental protection.

Internal and external audits are conducted pursuant to the approved annual inspection plans, to review the integrated management system performance. The Company's shareholders and lenders, as well as external certification authorities, are invited to perform external audits. Internal audits are carried out by the properly trained auditors – the Company's properly skilled personnel and the shareholders' experts. Apart from the ISO 14001 and OHSAS 18001 audits, the following additional audits were carried out in 2010:

- Three external audits of the HSE and social performance were conducted by AEA Technology, an independent HSE consultant of the Company's shareholders (the audit reports were published on the Company's public website and distributed to the Sakhalin communities through Sakhalin Energy's information centres);
- Internal audits of the HSE Management System performance and HSE checks during aircraft flights and diving operations.

**HSE and Social Hazard and Risk Management**

The Company manages all Project risks with the aim of reducing residual risk to As Low As Reasonably Practicable (ALARP) level, based on the industry's best practices. A set of processes, which have been detailed to meet the requirements set by Russian legislation and the Sakhalin Energy lenders, as well as by the recognised international standards and industry's best practices (see Action Plan, Section 3, on the Sakhalin Energy public website) are used to identify the HSE and social performance hazards, assess risks and impacts, and determine relevant design and management controls.

As a key element of this, the Company commits to conduct impact assessments prior to any new major project or significant modifications to existing facilities. Stakeholder consultation will be an integral part of any impact assessment performed by the Company, and respective impact assessment documentation will be distributed to the stakeholders.

Another important tool is the risk assessment matrix applied by the Company to classify actual and potential consequences, to determine significance and to guide appropriate risk management. The risk assessment matrix is also used for classification of and response to incidents and non-compliances (see Action Plan, Section 3.3).

Sakhalin Energy's occupational health and safety management system was certified for compliance with OHSAS 18001 in 2010. In 2011, Lloyd's Register Quality Assurance will perform two more audits of the HSE management system for compliance with international standards.

# 6.

# ECONOMIC IMPACT MANAGEMENT

## 6.1 Benefits from Sakhalin-2 for the Russian Federation and Sakhalin Oblast

- $1.837 billion aggregate payments to the Russian budgets from the launch of the Project to the end of 2010;
- Access to new technologies and business development opportunities for Russian companies;
- $15 billion contracts awarded to Russian companies and organisations;
- Experience in managing an integrated high-tech project in a remote location in sub-Arctic conditions;
- $100 million payments to the Sakhalin Development Fund (under the Sakhalin-2 PSA);
- Significant payments to the budgets of Sakhalin Oblast and local municipalities;
- Significant upgrades of the Sakhalin infrastructure (ca. $600 million);
- Notable increase in local employment (both direct and indirect effect) and local workforce quality;
- Increase in salaries and living standards in Sakhalin;
- Many contracts and subcontracts awarded to Sakhalin companies, enhancing their opportunities and competitiveness;
- Extensive implementation of the Company's social and public initiatives in the host region.

Sakhalin Energy's work on the Sakhalin-2 Project boosted development of many local, regional and national enterprises, giving them potential access to non-Russian markets, and generating more employment, higher salaries, increased retail trade, better social programmes and larger tax payments. The Project has contributed to a wide-ranging revitalisation of the economy on Sakhalin Island, generally referred to as a 'multiplier effect.'

## 6.2 The take of the Russian Federation and Sakhalin Oblast

The Russian Party's (the Russian Federation and Sakhalin oblast) take from the Sakhalin-2 Project includes various fees, tax and royalty payments, the Russian Party's share of profit production and the profits tax payment by the Company. The latter two types of payment occur after full recovery of the Project costs.

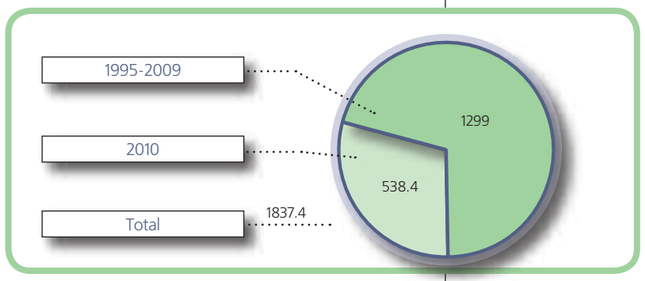
In 2010, the second year of year-round oil production and the first full year of LNG production, the royalty payments went up $200 million from the 2009 level, reaching almost $481 million.

In 2010 Sakhalin Energy's contributions to the Russian Federation budgets of all levels totalled $538.4 million paid in taxes and other mandatory payments. This exceeds the amount paid in 2009 by 46%.

Inclusive of the proceeds from the Sakhalin-2 Project in 2010, the total amount of payments from the Sakhalin-2 PSA to the Russian party in 1995-2010 is in excess of $1.8 billion.

Taxes and other mandatory payments by Sakhalin Energy have accounted for a significant part of the revenues received by a vast majority of the municipalities involved in the works by the Project. The Company paid $59.8 million taxes and other mandatory payments to Sakhalin Oblast and local municipalities in 2010.

**Total Russian party take, million dollars**




In 1994, Sakhalin Energy signed a PSA with the Russian Federation, represented by the Government of the Russian Federation and the Administration of Sakhalin Oblast, collectively referred to as the Russian Party. The PSA is a commercial contract between an investor and a state, allowing the investor to make large-scale, long-term and high-risk investments under a stable tax regime. The PSA provides that most types of taxes and customs duties are substituted with production sharing. This effectively means that instead of some taxes (including tax on the extraction of commercial minerals, corporate property tax, etc.) and fees, Sakhalin Energy has been paying royalty (a fee for subsoil use) since the start of the Sakhalin-2 oil production. Production sharing between the Company and the investor is triggered by full recovery of the investor's costs. The PSA also provides that the Company should pay a profits tax under Russian legislation, and the profits tax for the Company is currently payable at the rate that is higher than the profits tax rate charged from the non-PSA tax payers.

## 6.3 Russian Content

Meeting the Russian Content requirements is Sakhalin Energy's strategic priority. Russian companies involved in the Project have unique access to the world best practices, international business opportunities and management skills.

The Russian Content is the use of Russian labour, materials, equipment and contract services. The Sakhalin-2 PSA requires the Russian Content to be measured in labour input (in man-hours) and the volume and quantity of materials and equipment (in weight units) delivered by Russian contractors. Sakhalin Energy will use its best efforts to achieve a level of Russian Content of 70% over the life of the entire Sakhalin-2 Project.

The utilisation of Russian Content in 2010 was 94% in man-hours and 96% in materials and equipment.

Sakhalin Energy keeps up intensive effort to increase Russian Content in the Sakhalin-2 Project, being guided in this work by the Russian Content Policy and Russian Content Development Strategy (both documents are available at Sakhalin Energy website). These efforts mainly consist in the long-term planning of the procurement and contracting demands of the Sakhalin-2 Project, timely identifying opportunities for the Russian Content development and providing targeted assistance to Russian companies so as to increase their competitive potential.

Russian Content can also be measured in value terms, which is also taken into account by the Company. The Company demonstrated very good Russian Content performance in value terms as well. The total value of contracts awarded to Russian companies from the Project start till the end of 2010 is $15.1 billion. In 2010, the value of new contracts and amended contracts with Russian companies was $788.12 million, or 66% of the total contract value.

In addition to new jobs (especially in the construction phase) and personnel and capacities' development, Russian companies also benefit from the following:

- Improvement in quality of services and materials, as well as safety standards;
- Access to new technologies and unique experience;
- Doing business with international partners and setting up joint ventures;
- Higher competitiveness as bidders in other project operators' tenders, both in Sakhalin and internationally.

**Vendor Development Programme**

The long-term Vendor Development Programme is a unique programme developed by Sakhalin Energy, intended to increase the competitiveness of Russian companies and share the unique experience of the international oil and gas project. The Programme contains a number of training modules and informs Russian vendors about various ways of cooperation with Sakhalin Energy.

The Vendor Development Programme implements the following training modules:

- Health, Safety and Environment;
- Quality Assurance;
- Bidding.

**Some of the contracts awarded in 2010:**

- Contract with SakhalinShelfService for the Kholmsk support base services.
- Contract with Transstroy Sakhalin for the construction of Gas Transfer Terminals in Dalneye and Boatasino.
- Contract with Vakkor (Korsakov) for demolition of temporary structures on the LNG site.
- Contract with SOGAZ for physical damage insurance of the offshore facilities.

The Vendor Development Programme held 14 workshops in 2010 for current and potential contractors of Sakhalin Energy, which were attended by 80 people from 45 Russian companies.

# 7.

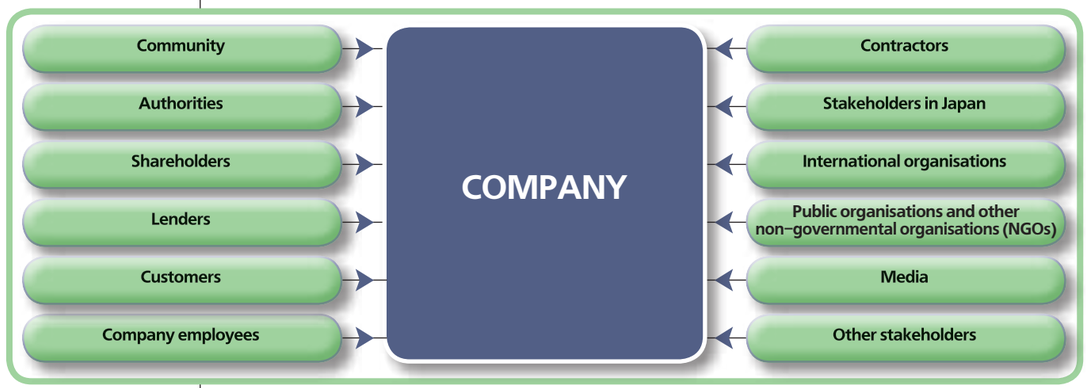
# STAKEHOLDER ENGAGEMENT MANAGEMENT

## 7.1 Stakeholder engagement: strategy, principles, mechanisms and tools

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

Stakeholders are organisations, companies, individuals or groups who have a vested interest in the Company, i.e. such individuals or entities that are influenced by the Company or themselves influence or can potentially influence the Company operations.

**Sakhalin Energy stakeholders**

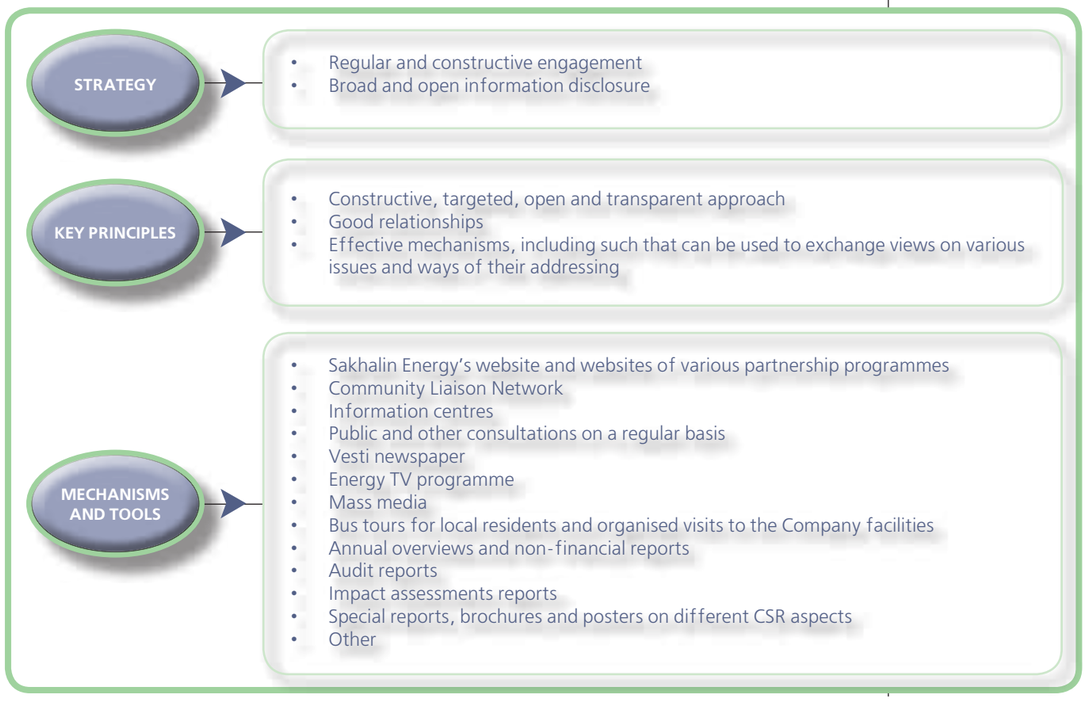



Sakhalin Energy's engagement with stakeholders is based on its commitments as set forth in the key corporate documents, which include:

- Statement of General Business Principles;
- Sustainable Development Policy;
- Social Performance Standard (see 'Public Consultations and Information Disclosure');
- Public Consultation and Disclosure Plan (updated on an annual basis);
- Media Policy, etc.

The above-listed documents define the engagement strategy, principles, mechanisms and tools.

Stakeholder engagement mechanisms and tools are selected based on the stakeholder engagement goals and depending on the stakeholder group.




In 2010, the Company together with the UN Global Compact and the UN Development Programme (UNDP) in Russia initiated a round table discussion on the business-stakeholder engagement mechanisms and practices. The discussion was held in the UNDP office in Moscow on 2 November 2010. The Company presented its experience in stakeholder engagement – from the identification of stakeholders and selection of engagement mechanisms and tools to the practical use of such mechanisms and tools. The round table was attended by representatives of Russian business, Russian Union of Industrialists and Entrepreneurs, NGOs specialising in corporate social responsibility and indigenous people issues, UNDP and UN Global Compact, etc. Sakhalin Energy's programmes compare favourably with other similar programmes. The Company's strategic and systematic approaches and practices, including some that are really unique, should be disseminated, said Alexander Bim, Director Global Compact Sustainable Development Project, UNDP Russia.

## 7.2 Stakeholder engagement performance in 2010

In 2010, the Company continued its systematic and consistent engagement with stakeholders. In doing this, the Company was governed by the strategy and principles described in the previous section.

According to the Public Consultation and Disclosure Plan, the key stakeholder engagement activities in 2010 included:

- Public, group and individual consultations to update the participants on the latest developments and

The Vesti corporate newspaper and the Energy TV programme cover the most important developments of the Company. Twelve issues of the newspaper and 51 issues of the TV programme were delivered in 2010. Both Sakhalin Energy's media resources were declared winners in Silver Threads, a national corporate media competition, for excellence in achievement of corporate goals (Vesti) and as the best corporate TV programme (Energy) in December 2010.

Two new websites dedicated to partnership programmes were launched in 2010 – one for Sakhalin Indigenous Minorities Development Plan (www.simdp.ru) and the other for Korsakov Sustainable Development Partnership Council (www.korsakovsovet.ru). These websites cover the programmes day-to-day activities and offer useful information on various aspects of the programmes history and implementation. Another partnership website – What to Do in Emergency Situations? – is to be launched in Q1 2011.

other aspects of the Company activities, and receive feedback. A total of 10 public meetings were held in 2010, which were attended by over 200 members of the Sakhalin communities;

- Information sharing through the following tools: Sakhalin Energy public website, Energy weekly TV programme broadcast in Sakhalin, Vesti monthly newspaper, information letters and other materials distributed in communities, media (radio, newspapers and TV), etc.;
- Indigenous people engagement in the framework of the Sakhalin Indigenous Minorities Development Plan (SIMDP) and preparation of the new 5-year SIMDP for 2011-2015 (for more detail on SIMDP, see Section 9.5.3);
- Company information centres set up in local libraries (read more on Information Centres in Section 7.3).

In addition, special consultations with stakeholders were held as part of the preparation process of the nonfinancial report. These consultations were attended by more than 50 representatives of local, regional and international NGOs (including environmental and social NGOs), representatives of the indigenous peoples of Sakhalin, Sakhalin legislative and executive authorities, social organisations, etc.

## 7.3 Interaction with local communities through the Company information centres

**Participants of workshop for librarians / employees of information centres**

The activity of twenty information centres in 2010 revealed that this network is an efficient, accessible and important tool used for the Company interaction with local communities. In 2011, the Company plans to open another three information centres in Nogliki, Poronaisk and Korsakov.

The information centres were set up in district and village libraries in communities along the route of the Trans-Sakhalin pipeline system and in the vicinity of other project facilities. The information centres are equipped with information stands and office equipment and have an Internet access, which both helps reach the Company's objectives and enhances functional capabilities of the libraries.

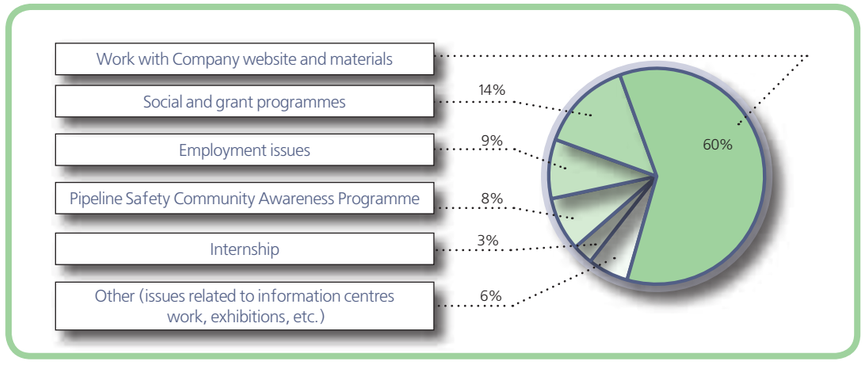
Information centres visitors are consulted and served by library employees during the usual library hours. In October 2010, these employees attended a training workshop organised by the Company in Yuzhno-Sakhalinsk.

Information centres personnel work include:

- Advise on how to find information at the Company website;
- Assist in preparing and submitting complaints to the Company in accordance with the Company community grievance procedure;
- Provide the Company information materials (as requested);
- Assist in preparing and submitting applications for grant projects of the Company;
- Update on a regular basis the Company display stands' information;
- Provide support to the company campaigns held locally (e.g.: St. George Ribbon campaign).


**Information centres map**

The total of 3,753 people visited Sakhalin Energy's information centres in 2010. The focus of the people's interest was on employment opportunities, additional information on Sakhalin-2 Project, as well as participation in the Company social programmes and public campaigns.




**Information centres statistics**

## 7.4 Cooperation with Sakhalin indigenous minorities

In 2010, the Company continued regular engagement with the Sakhalin Oblast indigenous minorities in areas of their traditional living and economic activities. A highlight of 2010 was the development of the second Sakhalin Indigenous Minorities Development Plan 2011-2015 (hereinafter 'SIMDP' or 'Plan', see Section 9.5.3 for SIMDP information). As part of this programme, extensive and detailed consultations were held with indigenous communities and stakeholders. Two rounds of consultations were held in spring and autumn 2010 with more than 500 participants. Detailed information on the consultations, including their venues, objectives and deliverables, is available in the 2010 Public Consultations and Information Disclosure Report at Sakhalin Energy website (www.sakhalinenergy.com), at the SIMDP website (www.simdp.ru) and in the second Plan (available at the SIMDP website), as well as in the Company's information centres and Sakhalin district libraries.

The second SIMDP was developed with a 'free, prior and informed consent' (FPIC) of the indigenous people, as this principle was set forth in the United Nations Declaration on the Rights of Indigenous Peoples (2007). What makes the second SIMDP really unique is that for the first time ever an industrial company used the FPIC principle in its interrelations with the local community.

Active involvement of Sakhalin indigenous minorities is critical to the approach inherent in the trilateral programme (involving the Company, the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities and the Sakhalin Oblast Government) aimed at the development of Sakhalin indigenous minorities. The Plan, including the process of its preparation and implementation, is based on efficient involvement of the Sakhalin indigenous minorities in the Plan management on the following principles:

- Provide consultations and interaction with the account of cultural differences;
- Admit the need for public consent to be achieved in the context of traditional and innovation structures, values and practices;
- Admit the fact that achieving consent takes time;
- Plan and use multi-aspect approach with ethnic, geographic, age-related, social, organisational and gender differences taken into account;
- Attach utmost importance to transparency of actions and timely exchange of information through the whole period of the Plan implementation;
- Ensure transparent information sharing;
- Joint responsibility with the indigenous people.

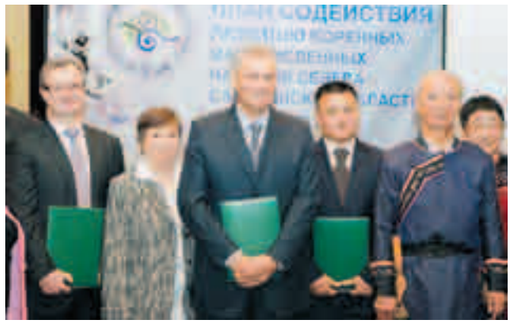
For detailed discussion of the second Plan's components, management structure, controls and other aspects, two rounds of consultations with the Sakhalin indigenous people were held in indigenous communities and Yuzhno-Sakhalinsk. The holding of a special conference completed the preparatory work by the second SIMDP working group.

On 17 November 2010, the conference 'Prospects for Further Cooperation under the second Sakhalin Indigenous Minorities Development Plan' was held in Yuzhno-Sakhalinsk. The event was prepared and held by the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities.

The main purpose of the conference was to discuss readiness for implementation of the second SIMDP for 2011 – 2015, that addresses issues of social and economic development of Sakhalin indigenous people.

The main outcome of the conference was the signing of a Declaration of Consent between the Company and the Chairman of the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities.

On 14 December 2010, Sakhalin Energy, the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities and the Sakhalin Oblast Government signed the cooperation agreement for implementation of the second SIMDP for 2011-2015.



Ekaterina Koroleva, Head of the Sakhalin Indigenous Minorities Section in the Sakhalin Governor's Office and the Sakhalin Oblast Government: 'Our private-public partnership is unique, and this practice will be discussed by the UN. Isn't it evidence of the strategic importance of the document?'

## 7.5 Engagement with NGOs

The Company continued cooperation with local, regional and international NGOs. Consultations were held in various forms, including personal and group meetings and through written correspondence. The most important consultations and meetings with key local, federal, regional and international NGOs are as follows:

- Cooperation with the Japanese stakeholders: Hokkaido authorities, associations of Hokkaido fishermen and other interested groups in Hokkaido on oil spill response, protection of the Steller's sea eagle and preservation of biodiversity;
- Cooperation with the Western Gray Whale Advisory Panel (WGWAP) for Preservation of Western gray whales as part of developing optimal solutions to minimise impacts on whales. Two meetings

In 2009-2010, Sakhalin Energy in cooperation with the Western gray whales Advisory Panel (WGWAP) developed a comprehensive programme of the WGW monitoring and impact mitigation. Following the Advisory Panel recommendations, the Company postponed its planned 4D seismic survey until 2010. This decision was highly appraised by international environmental community and NGOs.

From the Minutes of the Fourth WGWAP meeting: 'The approach to preparation of seismic and whale protection work was unprecedentedly scrupulous.'

were held with the WGWAP in 2010 (in April and December). In the framework of the above Advisory Panel meetings, the Company met with representatives of World Wildlife Fund (WWF) and Pacific Environment and Resources Centre (PERC);
- Cooperation with the Wild Salmon Centre and the Sakhalin Salmon Initiative in implementation of the programme with the same name.

## 7.6 Engagement with Japanese stakeholders

Engagement with Japanese stakeholders is important to the Company, considering the proximity of Sakhalin Island to Hokkaido Island. Japanese experts, business people, NGOs, fishermen and other stakeholders are concerned with issues relating to the environmental aspect of Sakhalin-2, specifically oil spill response operations, biodiversity preservation and protection and preservation of rare birds and animals.

The Company has achieved a mutually beneficial and open dialogue with the Japanese stakeholders on the Sakhalin-2-related issues, including potential exposure of Aniva Bay and the Sea of Japan to the Project's impacts.

In 2010, Sakhalin Energy held a range of consultations and meetings with the Japanese stakeholders, including:
- Participation in the 25th International Symposium on the Sea of Okhotsk: Oil Spill Response (Monbetsu, Japan);
- Meeting with the Okhotsk Environment Protection Net (Sapporo, Japan);
- Meeting with representatives of the Japan Coast Guards (Yokohama, Japan);
- Meetings with the Hokkaido Government and Hokkaido Fisheries Environmental Centre (Sapporo, Japan);
- Meeting on Ryobun Island with the Okhotsk Environment Protection Net and representatives of communities living on the coast of the Sea of Okhotsk (jointly with the representatives of JBIC which is one of the Sakhalin-2 lenders);
- Participation, as observers, in the Russian – Japanese OSR drill (Wakkanai, Japan);
- Attendance of the 6th Stakeholder Meeting for safety assurance and accident prevention during tanker navigation under the Sakhalin projects held by the Japan Coast Guards (Wakkanai, Japan);
- Attendance of the forum on Sakhalin projects (Wakkanai, Japan);
- Meeting with the Hokkaido Government, Hokkaido Fisheries Environmental Centre and Okhotsk Environment Protection Net (Yuzhno-Sakhalinsk).

**In token of cooperation**

An unusual tree appeared in Zima complex. It was planted on 14 October 2010 to symbolise cooperation between Sakhalin Energy and Hokkaido Fisheries Environmental Centre. The birch planting ceremony was one of the items on the extensive agenda of the Hokkaido Fisheries Environmental Centre delegation visit to Sakhalin Island. The delegates were able to discuss with the Company the issues of their concern, and on their visit to the Prigorodnoye Production Complex were able to see for themselves how much importance the Company attaches to safety and environmental protection.

Regular meetings with representatives of fishery organisations, NGOs, Japan Coast Guards and Hokkaido Government demonstrate strong interest in the Project on the part of Japanese stakeholders and their approval of the measures the Company takes to mitigate environmental impacts.

## 7.7 Engagement with personnel

Engagement with personnel is an important component of strengthening and development of Sakhalin Energy's corporate culture and is carried out by means of an internal communication system, which includes the following:
- Opinion polls among the Company staff on a wide range of topics. In 2010 the studies of important aspects of personnel motivation and corporate culture were carried out (see Section 9.1.4), as well as regular opinion polls on the quality of the contractors' services, such as catering in the offices. Furthermore, 15 quick polls on various topics were conducted;
- The Vesti corporate newspaper and various information/reference materials. The Vesti newspaper is popular not only among the Company staff, but also among many communities in Sakhalin (the newspaper is distributed through the Company's information centres);
- Messages distributed through the daily news bulletin on intranet and e-mail, which is an efficient tool to keep employees informed about important Project milestones;
- Special information billboards in all Company offices used for announcements, posters and other information;
- Workshops and information sessions to present and explain the new Company's procedures and programmes. Very popular are lunch-and-learn sessions, at which employees can learn during their lunch about work styles and achievements

of various teams and departments. Five such sessions were held in 2010;
- Intranet resources available to all employees, with information updated on a regular basis;
- Regular staff communication meetings to inform employees on the results of the latest meetings of Committee of Executive Directors, Board of Directors and Supervisory Board, and on other important developments in Sakhalin Energy.

Another significant tool of engagement between the Company and its staff is the Whistle Blowing Procedure. Compliance with this procedure is a mandatory requirement for all staff of Sakhalin Energy and its contractors. The procedure is used to address various grievances associated with Sakhalin Energy's operation, such as grievances connected with actual or potential breaches of legal requirements, the Company's business principles or commitments (for more detail see Section 9.4).

## 7.8 International and regional cooperation

Sakhalin Energy worked hard in 2010 to promote its reputation as a socially responsible company, both in and outside Russia.

**Ban Ki-moon, UN Secretary General and Andrei Galaev, Sakhalin Enegry CEO, at the UN Global Compact Summit**

- International forum 'Business and Human Rights: Protect. Respect. Remedy' held under the UN auspices in Moscow on 16 March 2010. Delegations from the Russian Ministry of Foreign Affairs and other governmental authorities, as well as from business communities, international organisations, expert communities, human rights organisations and NGOs attended the forum. The objective of the forum was to accumulate and summarise the human rights practices and approaches in the context of business development. Sakhalin Energy made a report describing its experience in that area;
- The 14th St. Petersburg International Economical Forum held on 17-19 June 2010, under the motto 'Laying Foundation for the Future'. The forum attendance was over 4,200 people from 87 countries, including the President of the Russian Federation, governmental and parliamentary officials from various countries, heads and representatives of international organisations, businessmen, experts, scientists and public figures;
- The UN Global Compact Summit[1] chaired by the UN Secretary-General Ban Ki-moon in New York in June 2010. The New York jubilee summit discussed the accumulated experience and the ways to accelerate the spreading of the UN Global Compact principles to as many as possible business strategies and practices. The purpose of the forum was to boost activities of the corporations in support of the Millennium Development Goals. The only Russian company at the summit, Sakhalin Energy, was represented by its CEO Andrei Galaev;
- First International Workshop 'Sustainable Development of Territories – From Theory to Practice' was held in Yuzhno-Sakhalinsk on 24–26 March 2010. The workshop was organised by the Sakhalin State University together with the Sakhalin Governor, Sakhalin Oblast Government and Sakhalin Energy. The workshop was attended by Russian, Japanese and Korean scientists who use the sustainable development principles in their practice;
- Sakhalin Oil and Gas Projects Safety Forum in Vakkanai, Japan. The Company specialists attended the Vakkanai forum on 4-5 September 2010. The forum involved a joint drill of Russian and Japanese oil spill response units;
- 14th International Conference Sakhalin Oil and Gas held in Yuzhno-Sakhalinsk on 29-30 September 2010, which attracted the operators of major oil and gas projects, the representatives of Russian regional and federal authorities and the leading oil and gas experts and analysts;
- Russian-Korean Business Dialogue forum held within the framework of the G20 Summit in Seoul in November 2010. Speaking at the forum, Sakhalin Energy CEO Andrei Galaev noted a high level of partnership between the Company and Korean business communities, promoting stability in South Korea's energy market, as well as the sharing of experience and technologies between the two countries;
- Oil and Gas Outlook Arctic 2010 held in London on 16 November 2010. The Sakhalin Energy CEO addressed the forum with a speech describing the Company's achievements in the corporate social responsibility area;
- 4th World Forum in Lille. The Company participated in the annual World Forum in Lille, France, on 24-26 November 2010. That was a set of events pursuing one goal – exchange of best business practices. Some 5 thousand participants from over 50 countries attended the forum, represented big and small businesses, NGOs and public interest groups. Sakhalin Energy was the only Russian company invited to present its experience to the plenary meeting of the forum. For the majority of the forum participants it was the first time ever they heard about Sakhalin and the corporate social responsibility practices in Russia.


Crude Oil Buyers' Forum on Sakhalin
'A picture is worth a thousand words'– this Russian saying best describes the pilot programme of visits of the LNG and crude oil buyers to Sakhalin Energy's facilities. In August 2010, the Crude Oil Buyers' Forum was held on Sakhalin. Representatives of 10 oil refineries and commercial companies from Japan, Thailand, Singapore, USA and China participated in the forum's discussions and presentations. They also visited the Prigorodnoye Asset and took sightseeing tours of Sakhalin.

1.The UN Global Compact Summit is held once in every three years. The 2010 summit celebrated the 10th anniversary of the UN Global Compact establishment.

# 8.

# ENVIRONMENTAL IMPACT MANAGEMENT

In its environmental protection activities, Sakhalin Energy is based on the Russian Federal Law On Environmental Protection and environmental rules and guidelines, taking due account of the requirements of international standards and Russian norms.

The Company's environmental management system focuses on organisation and implementation of industrial environmental control, environmental monitoring and biodiversity conservation.

## 8.1 Industrial environmental control

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

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

- Air emissions control;
- Water use and discharge control; and
- Waste management control.

The Company has developed and is implementing Air Emissions and Energy Management Standard, Water Use Standard, and Waste Management Standard.

In order to reduce emissions, Sakhalin Energy uses gas turbines equipped with low-NOx burners. A system of additional gas supply is used on flaring units to increase the gas turbulence, which facilitates flaring of large volumes of gas in soot-free mode. The Company uses diesel fuel tanks equipped with fuel vapour recirculation system. This leads to reduction of VOC emissions by 90% during the refuelling operations.

### 8.1.1 AIR EMISSIONS CONTROL

The Company seeks to minimise environmental impact from air emissions.

In 2010, the total amount of polluting emissions from all Company facilities was reduced by 60%, mainly due to the facilities moving from commissioning phase to operations and diesel-to-gas conversion of power generation units. According to the Sakhalin Department of Statistics, almost 116 thousand tonnes of pollutants were emitted from all the Sakhalin Oblast sources in 2009, while in 2010 the figure was slightly above 100 thousand tonnes. The main pollutants were carbon oxide, nitrogen oxide, sulphur dioxide and solid matter. The Company's share in Sakhalin Oblast emissions reduced from 28.4% in 2009 to 14.7% in 2010 (33 thousand tonnes and 14.8 thousand tonnes, respectively).

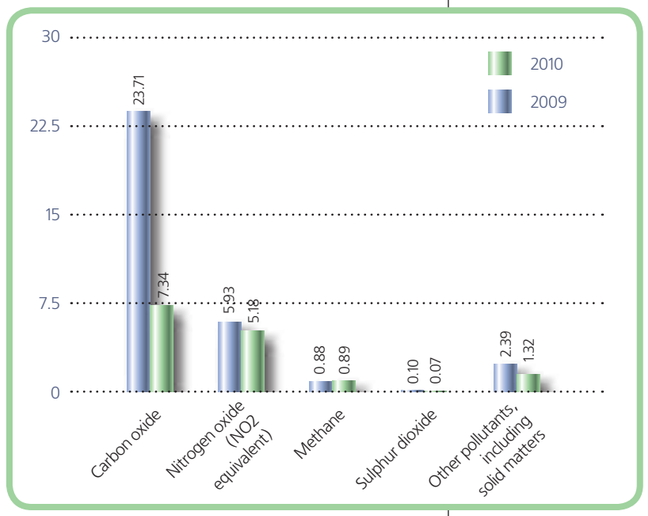
In 2010, the Company developed and implemented a plan to reduce kilometres driven by land transport, which resulted in 3% less fuel use and, consequently, lower emissions.

### 8.1.2 WATER USE AND WATER DISCHARGE MANAGEMENT

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

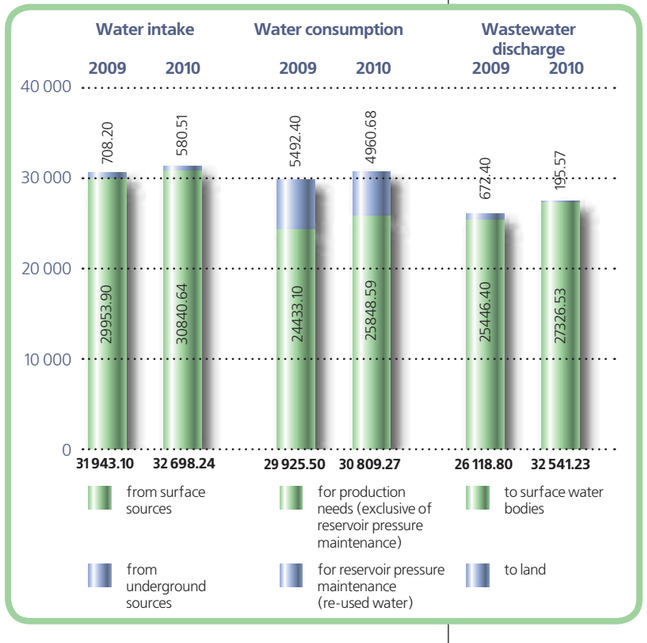
In 2010, total volume of water intake slightly increased (by 2.4%) compared to 2009 due to putting facilities into operation. However, the 2010 water intake limits were not exceeded.

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




**Company Gross Emissions of Pollutants, thousand tonnes**

**Company High-Level Water Use Performance Indicators, thousand cubic metres**




**Company Waste Generation and Disposal, thousand tonnes**

| | 2009 | 2010 |
|---|---|---|
| Waste (of all hazard classes) available at sites at the beginning of the year | 0.53 | 0.05 |
| Waste (of all hazard classes) generated during the year | 24.60 | 88.12 |
| Waste used for own production needs | 0.20 | 0.19 |
| Waste delivered to other organisations for use and neutralisation | 2.86 | 2.16 |
| Waste delivered to other organisations for disposal at landfills | 3.31 | 2.82 |
| Waste buried at own waste sites | 18.70 | 82.98 |
| Waste (of all hazard classes) available at sites at the end of the year | 0.05 | 0.02 |

### 8.1.3 WASTE MANAGEMENT CONTROL

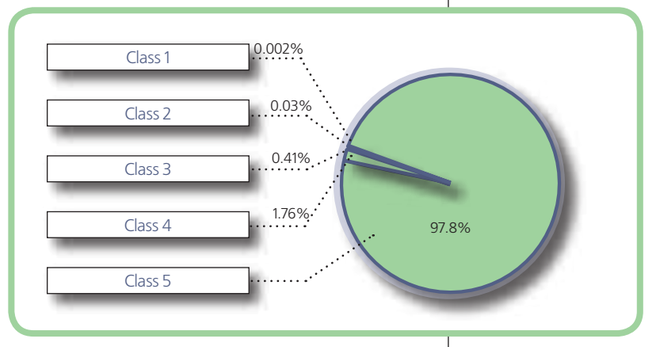
Responsible waste management begins with environment contamination prevention. Such prevention consists in avoidance, change or reduction of operating practices, which result in release of pollutants to land, air or water. This should be a basic principle when designing and operating the Company facilities and in business planning as well. If waste avoidance is not technically possible, then opportunities to minimise the amount of waste should be investigated. Responsible waste management may be accomplished through hierarchical application of waste reduction, reuse, recycling, recovery, treatment and disposal.

In waste management, the Company is guided by the following principles:

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

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

The amount of waste disposed to municipal landfills dropped by 12% from 2009 to 2010. The amount of waste available at sites at the end of the year was half of the 2009 amount.




**Waste Generated in 2010 by the Hazard Class**

Sakhalin Energy is commited to 'zero discharge' of drilling waste and liquids. A key method of handling the oil-based drilling waste is to re-inject it to disposal wells that have been specially drilled for that purpose. In 2010, 95% of total Hazard Classes 4-5 waste was disposed according to this method.

Sakhalin Energy came out a winner in the Golden Support competition of commercial companies, which were energy consumers in Sakhalin Oblast in 2009.
The competition was organised by Sakhalinenergo under the auspices of RAO Energy Systems of the Far East with the aim of improving consumer relationships. The contestants were evaluated by a number of criteria, including full and timely compliance with contractual commitments, regular invoice payments, lack of overdue payments, compliance with energy consumption regime and use of up-to-date accounting and control systems.


The name of the competition is quite symbolic – consumers that timely and properly perform their contractual duties actually represent a support in the foundation of Sakhalin's wellbeing and development.

### 8.1.4 ENERGY CONSUMPTION

Most of Sakhalin Energy's assets are new facilities recently put on stream and using efficient equipment and processes.

All of the Company's production facilities use independent power supplies. Natural gas, the cleanest of all fuels, is largely used for power generation. Diesel generators are used as backup supplies for the Company assets, with preference given to low-sulphur fuel.

In 2010, the Company produced 577.6 million GJ of direct primary energy through hydrocarbon production and sold 542.6 million GJ. Total consumption of direct power by the Company assets was 49.6 million GJ, including 14.6 million GJ of purchased primary energy in the form of fuel. Intermediate energy indirectly used by the Company assets through purchasing of electric power amounted to 0.102 million GJ.

### 8.1.5 GREENHOUSE GAS AND ODS EMISSION

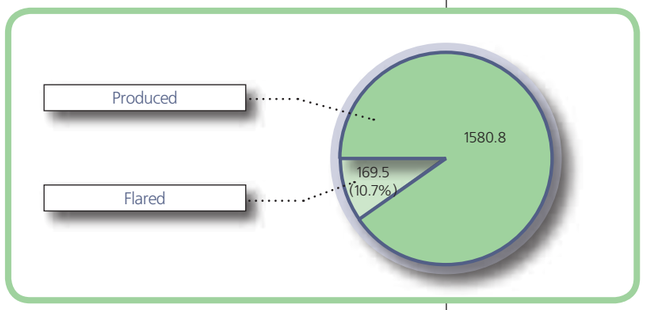
In absence of Russia's centralised statistics with regard to greenhouse gas emission, the Company maintains records of greenhouse gas emissions based on the API Guidelines for Calculation of Greenhouse Gases in the Oil and Gas Sector.

In 2010, total greenhouse gas emissions from the Company assets were 3.7 million tonnes of CO2-equivalent[1].

In 2010, there were no emissions from the Company assets of substances listed in Attachments A, B, C and E of the Montreal Protocol on Ozone-Depleting Substances.

### 8.1.6 ASSOCIATED GAS UTILISATION IN THE COURSE OF PRODUCTION

The Company aims to reduce gas flaring to 'As Low As Reasonably Practical' (ALARP) level for safe operation of the platform equipment. For this purpose, work is underway to debottleneck the equipment operation and increase reliability of compressors of varying capacity installed at PA-A and PA-B. Almost 90% of associated gas from the platforms was utilised by the Company in 2010.




**Associated gas utilisation, million cubic metres**

### 8.1.7 ENVIRONMENT PROTECTION COSTS AND ENVIRONMENTAL POLLUTION PAYMENTS

Sakhalin Energy carries out environment protection activities according to the international and Russian environmental requirements, which involved RUR 309,659.6 thousand operating expenses in 2010.

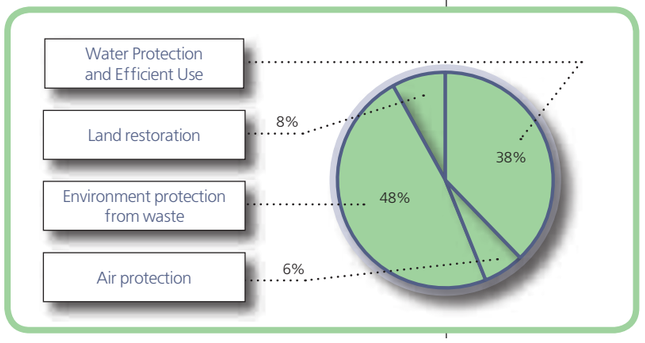
Environmental pollution payments made by the Company in accordance with Russian environmental legislation totalled RUR 3,947.6 thousand in 2010.

Environmental expenses and environmental pollution payments in 2010 were 50% of the 2009 amounts, because with the completion of construction work and the facilities now operating, environmental impacts have decreased dramatically.

The Company's environmental activities are controlled by the state authorities at federal level and by authorised bodies at regional level that identified no cases of environmental non-compliance by the Company in 2010.

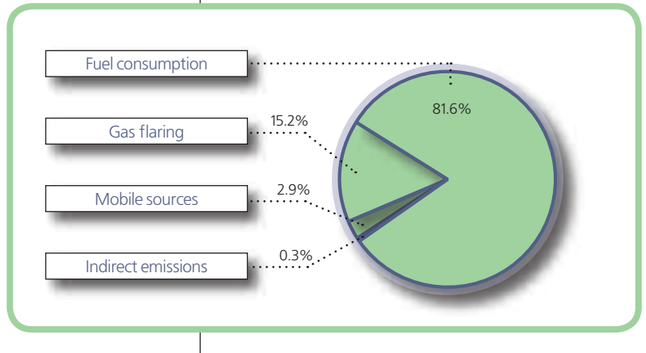
| Type of Impact | 2009 | 2010 |
|---|---|---|
| Emissions | 3085.2 | 1458.6 |
| Discharge to water bodies | 146.4 | 184.6 |
| Waste disposal | 3873.8 | 2304.4 |
| **Total:** | **7105.4** | **3947.6** |

**Pollution payments in 2009–2010, thousand roubles**




**2010 Environmental Operating Expenses Breakdown**

**The structure of greenhouse gas emissions**




1. Today, according to the International Energy Agency, total global emissions of greenhouse gases are 30 billion tonnes / year.

## 8.2 Environmental monitoring and biodiversity conservation

Sakhalin Energy operates an environmental monitoring and biodiversity programme comprising a number of surveys, each of which relates to actual or potential impacts of the Company's activities on the environment. This programme was reviewed by external stakeholders.

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.

Two main principles underlie the business case for surveys under the programme of environmental monitoring and biodiversity conservation: risk management and compliance.

### 8.2.1 ENVIRONMENTAL MONITORING

In 2010 environmental monitoring covered the following:

- Flora and vegetation monitoring in the area of impact from onshore pipelines, OPF, BS2 and LNG/OET;
- Soils monitoring in the area of impact from onshore pipelines, OPF, BS2 and LNG/OET;
- River ecosystems monitoring in the area of impact from onshore pipelines and OPF;
- Offshore monitoring in the area of impact from offshore pipelines, platforms and marine facilities at LNG/OET;
- Ballast water control.
- Terrestrial mammals monitoring in the area of impact from LNG/OET, BS2 and OPF.

#### 8.2.1.1 FLORAL AND VEGETATION MONITORING

Vegetation is a sensitive indicator of environmental changes occurring as a result of both natural processes and human-induced impacts. The response of plants to environmental changes can be used as one of the most important components of environmental monitoring.

Sakhalin Energy performs environmental monitoring of vegetation in order to assess any negative impact from production facilities on natural environment. This is achieved by studying the condition of flora and vegetation in the reference areas along the pipeline route and in the vicinity of OPF and LNG/OET. The scope of flora and vegetation monitoring is as follows:

- Assessment of vegetation cover condition;
- Assessment and forecast of natural and human-induced changes (successions) in vegetation communities;
- Control of populations of rare and protected species;
- Control of condition of vegetation in specially protected natural territories located near the Company's production facilities;
- Control of populations of invasive species;
- Control of vegetation recovery in the pipeline right of way; and
- Assessment of plant tissues contamination.

The results of monitoring show the following:

(1) Generally, the structure and species composition of the overwhelming majority of vegetation communities near Sakhalin Energy's production facilities remain unchanged.

(2) The rate of recovery of vegetation cover in the right of way is low.

(3) At this point in time is impossible to fully assess the long-term impact on the vegetation cover. Long-term monitoring is required to identify the nature of impact and develop adequate measures.

#### 8.2.1.2 SOILS MONITORING

The objective of soils monitoring is to assess the impact of the Company's production on the soils in adjacent ecosystems. The scope of monitoring includes:

- Assessment of condition of soil cover along the onshore pipeline route and in the area affected by LNG/OET, OPF and BS2;
- Mapping and assessment of soil degradation processes namely mechanical disturbances, consolidation and littering of soil, soil erosion and swamping;
- Mapping and assessment of soil contamination processes, in particular, with heavy metals, hydrocarbons and benzapyrene;
- Intensity assessment, forecast and development of recommendations for soil cover rehabilitation in disturbed areas.

Soil monitoring enables Sakhalin Energy to do the following:

- Identify the most critical (in terms of soils degradation and contamination) areas in the vicinity of production facilities;
- Develop recommendations on soil and vegetation cover rehabilitation and soil fertility recovery in the right of way, and enhance the efficiency of reinstatement activities performed;
- Predict changes in the soil environment and the levels of territories contamination, and develop preventive measures at early stages;
- Develop a substantiated system of counter measures in case of oil spills, since the prediction of potential direction of hydrocarbons migration within the soil profile and terrain in general will considerably enhance the efficiency of such counter measures and reduce the negative impact on the environment;
- Prevent the development of degradation processes in the right of way (erosion, water logging, and subsidence) and improve the operational safety of pipelines.

The first years /2009–2010/ of monitoring revealed neither radical changes in the soil condition, nor soil contamination.

#### 8.2.1.3 RIVER ECOSYSTEMS MONITORING

Sakhalin Energy's onshore pipelines cross over 1,000 watercourses.

The monitoring of ecosystems in the watercourses crossed by the Company onshore pipelines show the extent of

| | Summary of Requirements[1] | | | | | | Profile[2] | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Programme Survey Target | TEO–C | SEER | P&L | EMP | HSESAP | BAP | Ecology | Authorities | Lenders | BAP | Public | NGOs |
| Flora and Vegetation | ● | | | ● | ● | ● | 2 | 2 | 2 | 2 | 2 | 2 |
| Soils | | | | ● | | | 3 | 2 | 1 | 1 | 2 | 2 |
| River Ecology | | | | ● | ● | ● | 3 | 2 | 3 | 3 | 3 | 3 |
| Offshore Ecosystems | ● | ● | ● | | ● | | 2 | 2 | 2 | 1 | 1 | 1 |
| Ballast Water Impacts | | | | ● | | ● | 3 | 3 | 3 | 3 | 2 | 3 |
| Terrestrial Mammals | | | | ● | | | 2 | 2 | 1 | 1 | 1 | 1 |
| Western Gray Whales | | ● | | | ● | ● | 1 | 2 | 3 | 3 | 1 | 3 |
| Red Book Birds | ● | | | ● | ● | ● | 2 | 2 | 3 | 3 | 1 | 2 |
| Steller's Sea Eagle | | ● | | ● | ● | ● | 3 | 2 | 3 | 3 | 1 | 3 |
| Wetlands | | | | | ● | ● | 3 | 1 | 3 | 3 | 1 | 2 |

[1] Requirements are included in:
**TEO–C** – Technical and Economic Substantiation for Construction.
**SEER** – State Environmental Expert Review.
**P&L** – Permits and Licenses.
**EMP** – Environmental Monitoring Project.
**HSESAP** – Health, Safety, Environment, and Social Action Plan.
**BAP** – Biodiversity Action Plan.

[2] Profile assessed against judged/perceived importance to ecology, authorities, lenders, BAP, public and NGOs (non-governmental organisations), where
1 = minor importance,
2 = moderate importance,
3 = major importance.

impacts from the pipelines and production facilities on the aquatic environment as a whole.

The monitoring of the river ecosystems includes:

- Surveys of hydrological and hydro chemical composition of water and bottom sediments; and
- Surveys of benthic organisms, which characterise the condition of river communities in the pipeline crossing areas.

In 2010, surveys continued on 27 watercourses crossed by the Sakhalin Energy onshore pipelines, one watercourse in the OPF impact area and two watercourses in the LNG/OET impact area. Samples were taken from similar hydrological segments upstream and downstream of the pipeline crossings. The surveys were carried out during three hydrological seasons: spring floods, summer low water and autumn high water.

The analysis of physical properties and chemical composition of surface water revealed the following:

- Physical and chemical properties of surface water in the watercourses under survey met the regulatory requirements in all periods of monitoring;
- Biogenic substances (ammonium ion, nitrites, nitrates and phosphates) were within normal range in all periods of monitoring;
- Seasonal fluctuations were observed in suspended matter concentrations;
- In terms of easily oxidable organic substances measured by BOD5, the watercourses were clean;
- The metal content tests showed the highest variability in iron and copper concentrations;
- Monitoring revealed no contamination of surface water with any hydrocarbons, phenols or surfactants;
- The content of hydrocarbons in bottom sediments slightly varied from season to season. Concentrations measured at the upstream stations corresponded to the concentrations at the downstream stations, reflecting natural content of hydrocarbons in bottom sediments;
- Grain-size composition of bottom sediments was homogenous in almost all watercourses and in all seasons and was mainly represented by 10 mm or larger grains.

The river ecosystems surveys showed a large spread of quantitative indicators in benthos. The Company put the collected data to analysis, which showed that the changes in the watercourses were due to natural causes.

To summarise, the monitoring results provide no indications of impacts on the water quality, flora or fauna from the pipeline crossings.

### 8.2.1.4 OFFSHORE MONITORING

In 2010, Sakhalin Energy continued qualitative monitoring of the marine biota and habitats in the areas of offshore production facilities.

The monitoring was performed from a research vessel equipped with necessary laboratories and equipment.

This type of monitoring is conducted on an annual basis and is an effective method of assessing by key parameters the qualitative condition of marine ecosystems in the oil and gas developments. This allows monitoring of possible changes to environmental conditions and identifying their potential causes in a timely manner.

Hydrological, hydrochemical and hydrobiological characteristics of the marine environment were monitored in 2010 at the Sakhalin Energy offshore facilities and in other locations.

The following vessel based surveys were conducted during the year:

- monitoring of the Aniva Bay area where dredging and dumping operations were performed in 2003-2005;
- monitoring of the areas affected by LNG Jetty and tanker loading unit of the oil export terminal;
- post-construction monitoring of offshore pipelines;
- post-construction and operation monitoring of offshore platforms;
- South-Piltun baseline studies;
- monitoring of wellheads of appraisal wells.

The 2010 monitoring results give grounds for the following key conclusions:

- Hydrochemical measurements in the offshore facilities areas were within baseline values and below the maximum permissible concentrations set for fisheries.
- Concentrations of petroleum hydrocarbons and heavy metals in bottom sediment were either within the baseline range or significantly below the permissible concentrations;
- The monitored areas showed high species-level diversity in the benthic and plankton communities, which is evidence of environmentally healthy habitats;
- Impact from construction operations (platforms and pipelines) can be described as insignificant and residual;
- Well drilling, oil and gas production and export operations had no effect on the examined parameters;

- No accumulation of petroleum hydrocarbons was registered near wellheads of appraisal wells.

### 8.2.1.5 BALLAST WATER CONTROL

The LNG carriers and oil tankers arriving at the port take on ballast water in other parts of the world where marine flora and fauna differ from those in Aniva Bay. The Company has developed and introduced a range of measures to protect local valuable flora and fauna from invasive organisms' penetration. This system of measures is the most comprehensive and stringent one in Russia. One of the Company's requirements is mandatory changing of ballast water offshore. The Company carries out continuous monitoring of both ballast water and Aniva Bay water. Sakhalin Energy's programme of the ballast water monitoring includes sampling from ballast tanks of the LNG carriers and oil tankers chartered by the Company. In addition, Sakhalin Energy conducts surveys of aquatic biota in the LNG Plant/OET berthing area in Aniva Bay. The main purpose of this monitoring is to control the condition of aquatic biota near the Port of Prigorodnoye and to minimise the probability of hazardous invasive organisms' penetration when ballast water is dumped from tankers.

The surveys were carried out from May to November 2010. Monthly samples were taken of the following groups of organisms in the Aniva Bay water column: phytoplankton, zooplankton and ichthyoplankton.

Twice a year, in spring and autumn, epibioses samples were taken by divers from the berthing facilities in the Port of Prigorodnoye under the guidance of scientists. The epibioses samples from the hull of one of the tug-boats were taken as additional material for analysis.

Benthos sampling was done in autumn. In addition to studying the condition of marine flora and fauna in Aniva Bay, Sakhalin Energy paid special attention to the condition of tanker ballast waters. In particular, samples of phyto- and zooplankton were tested, their species composition was identified, characteristics were described and the extent of 'foreignness' and 'unfriendliness' for species was determined.

This work resulted in obtaining new data on structural characteristics of phytoplankton, zooplankton, ichthyoplankton and benthos. Species novel to Aniva Bay were found, but they were not invasive. Qualitative and quantitative changes were assessed for the jetty zone (coastal area) and the oil export zone. In the coastal area, on cliffy and rocky littoral, some changes in the sediments nature and bottom biocoenoses were observed due to the road surfacing works. Some of the dominant amphipod species were replaced by other species, but the biocoenosis was generally composed of the species common to Aniva Bay and the coastal waters of Southern Sakhalin.

Larvae of flat-headed goby typical of Lake Tunaycha were found for the first time in the ichthyoplankton in the LNG/OET area and Aniva Bay in general. No invasive species were found in the zooplankton of the areas monitored in 2010. All the identified phytoplankton species were also typical of Aniva Bay.

#### 8.2.1.6 SMALL MAMMALS MONITORING

Small mammals (rodents and insect-eating mammals) are sensitive to human-induced impacts and respond quickly to environmental changes. For this reason they are considered to be indicative of the environmental conditions in the areas of production facilities.

The Company monitors the species structure of small mammals' communities in the LNG/OET, BS2 and OPF areas, determines species abundance and diversity indicators, as well as morpho-physiological and demographic characteristics of indicator species of small mammals.

Small mammals were monitored at three test and three reference sites in the LNG/OET area, at two test and two reference sites in the BS2 area and at three test and three reference sites in the OPF area.

The studies conducted at the above sites within two years revealed no significant deviation from the norm in small mammal's communities in the area of Sakhalin Energy's production faculties. Some changes were observed that are due to intra-population dynamics of certain species. However, to confirm conclusions about the indicator species' stability and to identify inter-annual trends, it is necessary that the monitoring is continued.

#### 8.2.2 BIODIVERSITY CONSERVATION

At present, Sakhalin Energy is a leader in the global oil and gas industry in terms of biodiversity conservation. The Company has developed and approved a Biodiversity Action Plan (BAP), in which it describes how its is going to meet its obligations with respect to minimising impacts on biodiversity and environment at the operational phase.

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. Thus, the BAP implementation is supported by all stakeholders at both national and international levels.

In 2010, in accordance with the priorities set in the BAP, the Company carried out monitoring of the Western gray whales, Steller's sea eagle, protected (Red Book) bird species and wetlands.

#### 8.2.2.1 WESTERN GRAY WHALES MONITORING

The Western Pacific (also known as Okhotsk-Korean) population of gray whales is one of the two existing populations of this species. Both populations were brought to near extinction by commercial whaling during the nineteenth and twentieth centuries. The Eastern Pacific (or Chukotka-Californian) population, which migrates annually between Mexico and Alaska/Chukotka, and Kamchatka, has recovered substantially following the international ban on whaling and now numbers about 20,000 individuals. The Western population (or Okhotsk-Korean) is listed in the Red Book of the Russian Federation and is classified by IUCN as critically endangered. Currently, the population numbers over 130 whales. This count is based on data collected in the course of monitoring conducted off the coast of Sakhalin Island by foreign and Russian scientists, financed by Sakhalin Energy and Exxon Neftegas Limited since 1997. The results of the studies are submitted to IUCN's Western

Gray whales spend their lives migrating due to the seasonal changes in food availability in Arctic waters. It was believed that for wintering and breeding Western gray whales migrate to the coastal waters of the South China Sea, most likely near the coast of the Guangdong Province and the water area adjoining Hainan Island.
In order to monitor the migration routes, the programme on satellite tagging of Western gray whales was implemented by A.N. Severtsov Institute of Ecology and Evolution of the Russian Academy of Science in September 2010. The research was contracted through the International Whaling Commission and IUCN with funding from Sakhalin Energy and Exxon Neftegas Limited. The tagging of whales has shown that the assumption that Western gray whales winter and breed in the coastal waters of the South China Sea was probably not true – one tagged whale migrated to California. Moreover, that whale registered in the Sakhalin catalogue was also listed in the photo-identification catalogue of the Eastern gray whale population.

Gray Whale Advisory Panel (WGWAP). The Panel was initiated by Sakhalin Energy in 2004, an unprecedented action in the history of global oil and gas industry.

Studies of the Western gray whales include five main directions:

- Photo-identification;
- Distribution;
- Studying the behaviour of whales;
- Acoustic studies;
- Studying of feeding (benthos).

Work along each of these directions continued in 2010. The work showed that the Company's efforts to reduce impact on Western gray whales were successful, there was no adverse impact on the whales and the whale population was quite stable. There is another important result: absolute majority of the information that is currently available on the Western gray whale population has been obtained from Sakhalin Energy's studies and monitoring. The studies brought surprising data about the wintering behaviour of some western grey whale individuals in 2010. The satellite tagging system tracked one whale to move from Sakhalin via the Pacific Ocean to the migration corridor of the other grey whale population (Chukotka-Californian).

Of course, from the behaviour of just one whale it is difficult to judge about the wintering habits of the entire population and especially that there is a single population, in which some individuals tend to spend part of their time at the West coast of the Pacific Ocean. However, the migration of this one whale shows at least that two populations are not isolated as it was previously believed.

The programme of the whale studies and cooperation with experts for development and use of best practices to reduce impacts on the whales is really unique. Sakhalin Energy takes pride in it and intends to continue this practice.

### 8.2.2.2 PROTECTED BIRDS MONITORING

The Red Book of the Sakhalin Oblast lists 105 species of birds, about 40 of which can be found in the area potentially affected by the Company's production facilities. In 2010, monitoring of protected bird species continued within the two-kilometre corridor along the pipeline route and in the OPF, BS2, and LNG/OET areas.

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

In 2010, surveys were carried out in 10 areas (total distance of 347 km) along the pipeline route, where 26 protected bird species were registered, of which 17 were nesting species. In each area, the surveys were conducted in the main habitats preferred by the protected bird species. Also, the condition of habitats and ornithological complexes was assessed. The pipeline right of way recovery after the reinstatement work was not yet complete, so in 2010 the protected species did not use the right of way for nesting.

No negative effects from pipelines operations were registered for bird communities and populations of protected species. However, some reduction in the Japanese snipe numbers was registered in the southern part of Sakhalin, which probably reflects continuing expansion of this species to the northern districts. In recent years, this species has been moving north at a rate of about 50 km/year. Reduction in the numbers of some species was registered in the Makarov District, which was probably due to the natural fluctuation of small mammals' numbers.

In the area of the LNG/OET, 16 protected species were observed, 5 of which (the white-tailed eagle, besra sparrow-hawk, Japanese snipe, Japanese robin and reed bunting) nest within the zone of industrial influence. In 2010, further growth of the Japanese snipe population was observed due to its settlement in the reinstated areas. Seven nesting sites of Japanese snipe were found in the floodplain of the Goluboy Creek, within the territory of the LNG Plant.

In the area of the OPF, 30 protected bird species were observed, 15 of which nest at a distance of up to 6 km from the OPF. Close vicinities of the production facilities are populated by Siberian spruce grouse, which is stable in numbers. A reduction in the number of nesting areas of pygmy-owl and boreal owl was not observed. At the same time, the numbers of Ural owl and long-billed murrelet decreased.

Monitoring of the condition of migrating birds in Chaivo Bay area continued. During the nesting period in 2010, the numbers of Sakhalin dunlin and Aleutian tern were rather high. However, reproduction of the dunlin and tern was

Offshore oil and gas developments rely on seismic profiling to identify changes related to production from the oil-bearing formation. In June-July 2010, the Company successfully completed first 4D seismic profiling offshore Sakhalin Island, at the Astokh area of the Piltun-Astokhskoye oil and gas field. The programme for monitoring and mitigation of adverse impacts on the Western gray whale population that was developed together with the Western Gray Whale Advisory Panel (WGWAP) provided for unprecedented measures that were taken during Sakhalin Energy's seismic profiling and contributed to the success of operations, as has been acknowledged by both WGWAP and IUCN (http://www.iucn.org/wgwap/wgwap/). As an example of best practice, this programme will be used for future offshore seismic profiling to be carried out in whale feeding grounds area.

Sakhalin Energy has an oiled animals rehabilitation programme in place. A bird rehabilitation centre – the only facility of this type in Russia – has been set up as part of this programme. In 2010, the Company together with Exxon Neftegaz Limited held an Oiled Wildlife Response course, using the Company's bird scaring equipment and equipment for catching and stabilising oily birds. The training involved employees of both companies, as well as people from the government institutions and private businesses specialising in wildlife protection.

extremely unsuccessful due to the weather conditions, heavy rain and localised flooding in early July. This may affect the numbers of these species next year.

The monitoring programme continues to show that the Company's production facilities have no impact on the Red Book birds' population as a whole.

### 8.2.2.3 STELLER'S SEA EAGLE MONITORING

The Steller's Sea Eagle, as one of the largest birds, occupies a special place in the multitude of protected species. In Japan, this species is considered a 'natural monument' and is protected in accordance with the law on conservation of species.

Dr. Saito, coordinator of the Sakhalin Japan Wildlife Network, during his visit to Sakhalin: 'I am pleased to be able to say that the Steller's Sea Eagle is now in very capable hands'.

Sakhalin Energy's programme for conservation of the Steller's Sea Eagle and the White Tailed Sea Eagle that are listed in the Red Books of Sakhalin and the Russian Federation was launched in 2004. An important component of the monitoring is to reveal any population-characteristic-

changing trends and their dependence on the changes in natural or induced factors, as well as to identify factors that increase nestling loss and reduce reproduction in the population. Surveys were performed in North-Eastern Sakhalin, including lagoon areas and lower parts of rivers crossed by the onshore pipelines.

In summer field-work season of 2010, 684 eagle nests were surveyed, of which 45% were found to be in good condition, 30% in satisfactory condition and 19% in decay. Generally, 2010 was not a good year for eagles, because of late egg-laying due to the lingering cold and snowy spring, late hatching and, to top it off, shortage of food resources due to abnormally high temperatures in June. All these factors lead to a drop in the population's reproduction rate. The reproduction rate drop was registered both in the affected area and in the reference zone, which shows the changes were due to natural reasons. The total number of eagles remained unchanged.

### 8.2.2.4 WETLANDS MONITORING

Wetlands are one of the most common and complex ecosystems of Sakhalin that plays an extremely important role in water protection and conservation. Sakhalin Energy has a long-term programme of wetlands monitoring, the scope of which includes:

- Control of wetlands recovery within the pipeline right of way and in adjacent territories;
- Assessment of all potential negative impacts on wetlands as a result of pipelines construction and operation;
- Mitigation of such impacts.

Wetlands are delicate ecosystems and understanding of their processes is extremely important for their conservation. A special focus on wetlands is also due to the fact that in case of disturbance they take very long time to recover. At the moment, it is difficult to determine the nature and scale of long-term impacts of the pipeline construction on the wetlands. 2010 results of the monitoring show that the process of soil and vegetation recovery in the right of way is going as slowly as it was expected, while in the adjacent areas negative effect of construction turned out to be lower than expected. The Company plans to continue the monitoring of wetlands so as to be able to mitigate any potential negative impacts.

## 8.3 Maintaining on-shore pipeline right of way (ROW)

All reinstatement activities for the pipeline right of way, erosion control and stabilisation of river banks that commenced in 2009 were completed during the spring of 2010. The right of way after that is subject to routine surveillance and geotechnical surveys. The findings are subject to evaluation and inclusion into work scopes and work schedules.

All routine maintenance activities scheduled for 2010 were successfully completed on time, before snow season.

Damages to the river banks caused by the heavy rainfall in the summer of 2009 were assessed and engineering solutions developed or implementation. Work was executed and completed successfully in the winter of 2009-2010.

Surveys conducted during 2010 identified further river bank protections requiring remedial work or upgrades. Engineering solutions have been developed for these river banks and all work has been scheduled for execution during the 2010-11 winter period.

The requirement for reseeding was clarified (in Tymovsk, Smirnykhovsk, Makarov, Dolinsk, and Korsakov Districts) through a survey in late spring of 2010 and a reseeding programme was developed. The reseeding campaign was successfully completed late in summer 2010. New reseeding survey is scheduled for late in spring 2011.

**Pipeline Right of Way (Row)**

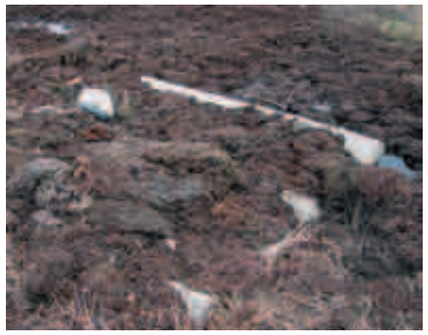
**Gar River: reinstatement of protected river bank**

**Solyanka River: gabion protection**

**Varvarka River**

Construction debris and felling waste were left behind and required removal from the Dolinsk wetlands. Dredged material blocked natural water flow and required levelling. In 2010, Sakhalin Energy successfully cleaned up and levelled the respective areas, despite difficult work conditions.

**BEFORE**



Construction debris

**WORK IN PROGRESS**

Logs Stacked for Removal

Levelling Spoil

**WORK COMPLETE**

# 9.

# SOCIAL IMPACT MANAGEMENT

## 9.1 Personnel: management and development

### 9.1.1 HR MANAGEMENT AND HR POLICY

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

The goal that the Company has set for itself is the organisation engaging all employees in the Company's activities, giving the Company's support and respect and providing with opportunities to best apply and demonstrate their respective abilities and talents on the path to the Company's success. Therefore the Company believes its duty is to:

- Manage diversity[1] as a high-importance element of business activity;
- Be guided by the principle of inclusiveness[2] in dealing with the employees;
- Respect each employee's intention to achieve an optimum balance of production and personal needs;
- Provide equal competitive opportunities to each employee by using well thought-out and consistently applied labour and quality standards, and management systems;
- Provide employees with opportunities for personal support, training, self-development and information sharing;
- Demonstrate respect and good faith when dealing with external partners, pursuant to the Company's business principles;
- Strive to continuously improve labour relationships through application of best practices;
- Promote a business culture that would encourage all the Company and contractors' employees to contribute to its performance.

Sakhalin Energy implements its HR tasks and objectives through its HR policy based on a detailed strategy and tactics in all spheres.

**HR policy** is a comprehensive strategic policy governing the Company's relations with its employees. The HR Director leads the process of developing the Company's HR policy and determines its key objectives. Shaping and maintaining the HR policy – HR cost budgeting, organisation development, administration of HR processes and reporting, recruitment and adaptation, development and training, appraisal and rotation, compensation and motivation, corporate culture and social programmes implementation – is by no means a full list of issues that Sakhalin Energy's HR services have to address. Basic human values, such as openness, honesty and respect for people, are the Company's top priorities. Sakhalin Energy considers personnel diversity and individual features.

To achieve these objectives, the Company has adopted policies, guidelines, procedures and other regulations, which are in line with Russian laws and best international HR management practices.

The basic documents regulating HR management are:

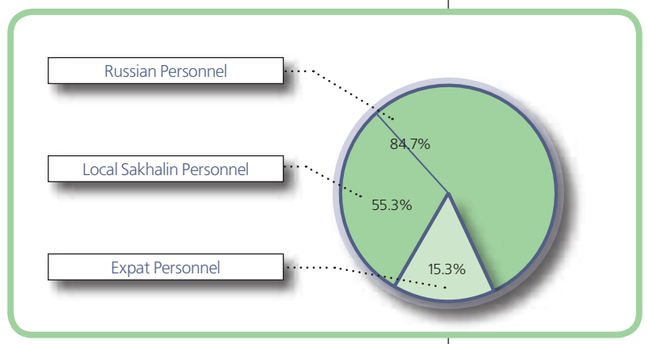
- Code of Conduct;
- Internal Working Rules;
- Diversity and Inclusiveness Policy;
- Conflict of Interests Procedure;
- Harassment and Discrimination Procedure;
- Whistle Blowing Policy;
- Whistle Blowing / Grievance Procedure;
- Grievance and Inquiry Procedure for Sakhalin Energy Personnel;
- Learning and Development Guideline;
- Recruitment Procedure for Russian National Staff;
- Procedure on Protection of Personal Data of Employees;
- Occupational Health Standard.

### 9.1.2 GENERAL

At the end of 2010, the total number of the Company employees was 1,848, of which 84.7%, or 1,565 people, were Russian Nationals. Out of this total number, 1,803 employees were based in Sakhalin, working at production sites and offices, and the rest were working at the Moscow office. The Company seeks to recruit as many as possible Russian Nationals, especially Sakhalin locals. This is not only stipulated by the Sakhalin-2 PSA, but first and foremost it is the approach dictated by the Company's HR policy. To date, more than 55% of the Company personnel are Sakhalin residents.

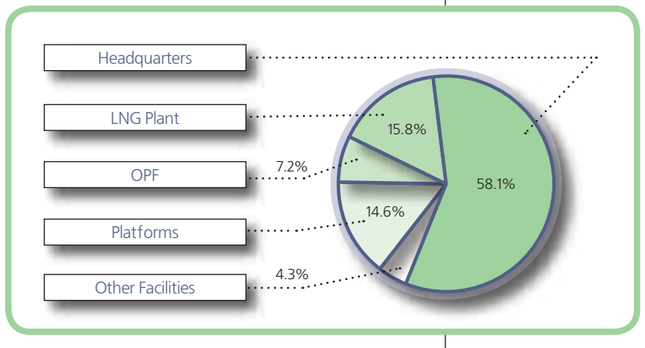
In view of a specific nature of the Company's activities as the project operator, 82% of its personnel are managers and specialists, including about 60% are office staff; and the rest work at the Sakhalin-2 production facilities (see chart). In 2010, 23% of employees worked on rotation, with accommodation in comfortable hotels and camps, which meet Russian requirements and world best practices.

In 2010, 295 managerial positions in Sakhalin Energy were held by Russian



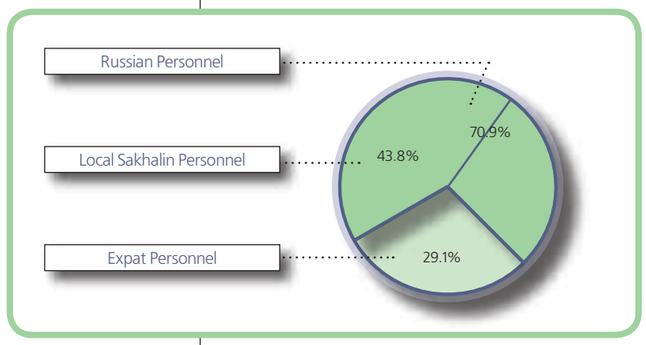

**Personnel structure by permanent place of residence, %**

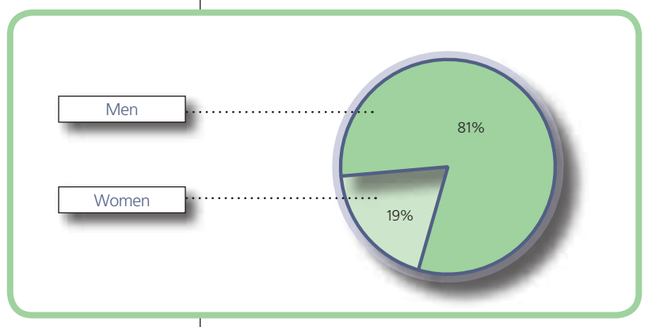
**Personnel structure by facility, %**




1 'Diversity' means respect for, high valuation of and benefiting on the entire variety of employees insights, experiences and potentials as an additional source of their personal and professional development.

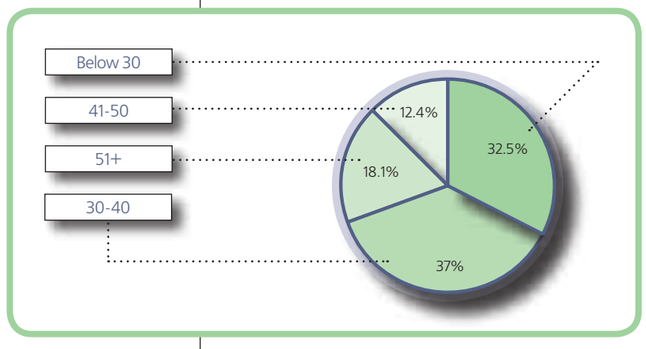
2 'Inclusiveness' means such approach to work organisation, where diversity is appreciated and rewarded, and each employee can develop professionally, as per the Company values and objectives.




**Managerial Personnel Structure (%)**

**Personnel Age Structure, %**




nationals, including 182 Sakhalin residents (see chart). The Company plans to have 75% Russians in managerial positions by 2018. Sakhalin Energy has an action plan to achieve these goals. In addition to the proactive approach to training and promoting Russian nationals who are already employed, the action plan calls for hiring new skilled Russian employees, as well as apprentices, who represent a source of constant technical personnel inflow to the Company (see sections below on planning and developing successors pool and on-the-job training, apprenticeship programme).

Over 30% of the Company's personnel are women, 556 as at the end of 2010, of which 73 are managers.

Over the past two years of the transitional period from construction to operation, Sakhalin Energy's workforce has gradually decreased and stabilised. Yet, due to the ongoing Russianisation process, Sakhalin Energy is short of Russian skilled personnel, including technical personnel. In 2010, the personnel turnover was 5.37%, a little higher than in 2009 (4.46%). This change was caused by the end of the active phase of economic crisis and growth in the Russian job market. The number of staff working on permanent contract is 1,461, or 79% of the total number.

The average age of the Company's employees was 36 in 2010. Employees under 40 constitute the majority (about 70%).

### 9.1.3 PERSONNEL RECRUITMENT AND ADAPTATION OF NEW EMPLOYEES

Recruitment of the Sakhalin Energy personnel is based on a corporate recruitment plan, which is developed and approved on an annual basis.

SAP HCM – Automated Management System: The SAP HCM system was rolled out in 2010. The use of this system optimises labour inputs, reduces risks from entering personal data manually, establishes a one-for-all approach to all HR Directorate business processes, uses a unified personnel data base, and provides access to own personal data and Sakhalin Energy's organisational chart to all Sakhalin Energy employees.



To advertise new vacancies and attract candidates, the HR Directorate uses various mechanisms based on the practices inherent in the host region (to maximise a share of local residents in the Company personnel), positions special requiriments and advanced head-hunting methods, including:

- Posting all vacancies on Sakhalin Energy's public website where an applicant questionnaire form is available;
- Provision of information to the Yuzhno-Sakhalinsk Labour Centre (on a monthly basis);
- Cooperation with recruitment agencies;
- Participation in vacancy fairs;
- Publication of vacancies on external internet resources and in newspapers and magazines;

Sakhalin Energy provides comfortable accommodation to all relocated employees coming to Sakhalin Island. The Company has camps at each Project asset to accommodate rotation personnel. These camps offer comfortable facilities for living, leisure and sports.

- Social networks when searching for candidates;
- Company Employee Referral Programme;
- Gazprom recruitment potential, including the Gazprom website to publish hot vacancies.

As a result, 251 new employees were recruited in 2010, of which 60% are Sakhalin residents.

In 2010, Sakhalin Energy continued its adaptation programme aimed to help new employees get off to a good start.

### 9.1.4 REMUNERATION AND BONUS SYSTEM

Sakhalin Energy's main principle regarding remuneration is to pay competitive salaries to its employees, which should be at least equal to the average salary registered in the Russian oil and gas industry, and also to use transparent bonus schemes for all staff categories. Also, the Company makes every effort to provide competitive employment benefits to attract highly skilled workforce.

In 2010, the Company participated in 10 vacancy fairs in Yuzhno-Sakhalinsk and in similar events at Tomsk Polytechnic University, Tyumen State University and Kazan State University. Kazan State University awarded Sakhalin Energy with a diploma for winning in the Quality Mark contest, based on the students' vote.

The vacancy fairs results:

- Sakhalin Energy received more than 500 applications for vacancies and more than 40 applications for student summer internship, and
- 14 young specialists joined Sakhalin Energy.

**Personel Motivation and Corpotative Culture Survey**
In 2010, as part of the personnel opinion survey project devoted to the most significant aspects of Sakhalin Energy personnel motivation and corporate culture, Sakhalin Energy's top managers were interviewed, focus groups were held with office and production assets employees (at LNG plant, OPF and LUN-A platform), an on-line questionnaire was sent out, which was completed by some 70% of all employees. The results were presented to the Committee of Executive Directors, following which the HR Directorate held information sessions in the format of staff engagement meetings. Working-level meetings were held in the Company directorates in Q4, 2010 to develop plans in order to improve and intensify work in the areas exposed to risk. Development and implementation of Sakhalin Energy's consolidated action plan is scheduled for 2011.

The remuneration system used by the Company is based on grades and establishes remuneration depending on the employee's skills and position level. Such remuneration system encourages efficient work and provides motivation for good performance.

Remuneration of Sakhalin Energy's employee includes:

- Base salary or hourly rate as per manning schedule and labour agreement;
- Premiums and increments of a compensatory and incentive nature to base salaries and hourly rates payable as per Regulations on Labour Remuneration, Bonuses and Social Benefits, RF Labour Code and other regulatory acts;
- Bonuses payable as per Regulations on Labour Remuneration, Bonuses and Social Benefits and other local regulations.

Sakhalin Energy's remuneration policy, practices and methods are aimed at recognition and encouragement of good personal and production performance, in short as well as long term. The existing incentive system uses one unified approach to incentivising employees in all Company units. This is achieved with the following types of bonuses as per Regulations on Labour Remuneration, Bonuses and Social Benefits:

- Annual Performance Bonus;
- Special Recognition Award (SRA);
- Long Service Award;
- Employee Referral Reward;
- One-off bonus for participation in a research-to-practice conference held by the Company on a regular basis.

To make its salaries competitive, Sakhalin Energy regularly monitors the financial segment of the job market and annually reviews salaries, depending on the employees' individual performance factors (see section on performance appraisal below).

In 2010, the initial-level salary in Sakhalin Energy was 4.5 times higher than the minimum remuneration rate established by Russian legislation. Sakhalin Energy's labour remuneration expenses totalled RUR 2.32 billion, with award/bonus payments equalling RUR 0.57 billion in 2010.

**Corporate Pension Prodramme – Achivement of the Year**
To enhance competitiveness of social guarantees and benefits package, a corporate pension programme for the RF personnel was prepared and rolled out in 2010. It is based on joint funding of the future non-state pension by the employee and by the Company.
The programme was developed together with Gazfond, a non non-state pension fund. The corporate pension programme is intended to ensure a decent standard of living for company employees after their retirement.
By early 2011, 41% of the Company Russian national staff have joined the corporate pension programme.

Zima residential complex is often the venue of cultural and public events for Sakhalin Energy employees and their families: Sports and Health Days, picnics, themed parties, etc.
Sport activities is a priority for Sakhalin Energy, because it promotes healthy life style for employees and their families. Sakhalin Energy's employees are fully involved in the Company's social and sport life. Sakhalin Energy's football club is a frequent participant in municipal and regional competitions, also organising exhibition games and internal competitions for the employees. Swimming competitions of young athletes from Sakhalin Energy Children Sport School have become common in the past two years.

### 9.1.5 SOCIAL GUARANTEES, BENEFITS AND COMPENSATIONS

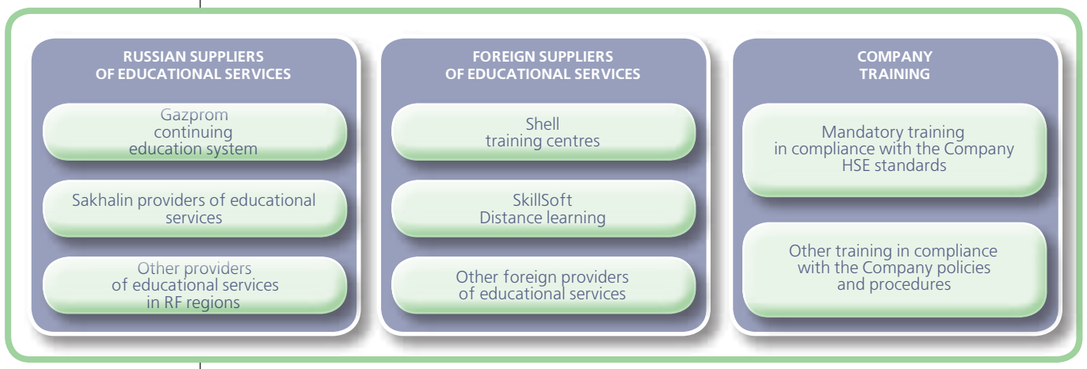
Social benefits and guarantees for the Sakhalin Energy personnel ensure improvement of the well-being and social security of Sakhalin Energy's employees and their families.

Sakhalin Energy offers to its employees a social security package that includes incentives and additional benefits, that goes beyond Russian labour law. The package includes:

- Voluntary health insurance both for employees and their families;
- Health benefits;
- Personal accident and sickness insurance;
- Travel insurance;
- Free or discounted sanatoria and holiday-homes vouchers for employees and their children, as part of the social insurance commission activity;
- Round-trip vacation travel for employees and their children, residing in the Far North and other such remote areas;
- Lump sum cash allowances in case of difficult personal circumstances;
- Recreational sports facilities.

In 2010, the existing social guarantees and benefits were analysed, which resulted in expanding the list by adding such benefits, as:

- Lump cash allowances to a Company employee on the birth (adoption) of a child;
- Additional benefits for the Company female employees on maternity leave;
- Corporate pension programme.




**Sakhalin Energy training resources are unique and include both Russian and foreign trainings**

### 9.1.6 COMPANY EMPLOYEES GOALS AND PERFORMANCE APPRAISAL

Overall success of a company depends on the performance of each employee and of the staff as a whole. Therefore, to enable the Company to achieve its strategic goals, its employees strive for continuous achievement of tangible results in their work. That is why special attention is given to building a stable culture of labour efficiency in the Company, and the process of personnel performance appraisal is a major tool to reach the strategic goals.

Employee Goals and Performance Appraisal with account for everybody's contribution to the Company performance is the most important tool enabling us to discover the individual's potential and to make it work for the Company's goals. All employees go through the performance appraisal process every year. Their labour efficiency is evaluated based on their Goals and Performance Appraisal at the end of the year. Such evaluation shows needs for professional training required for further professional growth and improvement of the Company efficiency in general. The appraisal process and its outcome are closely linked with the personnel development process, including career development and training planning.

### 9.1.7 DEVELOPMENT AND TRAINING

Development of Sakhalin Energy staff at all levels is a key element used to achieve and maintain a highly professional level and motivate personnel with a purpose to ensure maximum production efficiency, at the maximum labour potential applying the policy of diversity and inclusiveness.

The Company's comprehensive approach in personnel development includes the following:

- Training planning and implementation;
- Uninterrupted cycle of planning and regular Goals and Performance Appraisal;
- Career planning and development;
- Recruitment and development of Talent pool;
- Development of scientific potential;
- Traineeship and prediploma internship programme.

#### 9.1.7.1 PERSONNEL TRAINING

Based on the personnel performance appraisal and career development plans, the Company annually prepares strategic plans for personnel training and professional development. Implementation of these plans is monitored both by employees and their managers, on one side, and by the HR Directorate and top company management, on the other side.

Forms of training comprise on-the-job training, distant learning, conventional training courses, workshops and case studies. 1875 staff attended training at workshops, class training and advanced training courses (including distant learning) in 2010 (may be more than one course for an individual). Sakhalin Energy's investment in personnel training amounted to more than RUR 250 million.

Sakhalin Energy training resources are unique and include both Russian and foreign providers of training services.

As for disciplines, Sakhalin Energy top priorities in its training policy are as follows:

- Health, safety and environment (HSE);
- Specialised technical training courses and courses in other professional areas (finance, contracts, HR, etc.);
- Management and business

In 2008, distant learning through the programmes of SkillSoft, a leading provider of distance learning services, became available to Sakhalin Energy employees. Distant learning is a very cost-efficient, convenient and advanced tool for enhancing employees' efficiency. Besides, the choice of distant learning programmes is much wider compared to offered class courses.
The SkillSoft base has a great range of training programmes covering commercial operations, supply chain management and contracting, HR and IT. The programmes provide advanced training, development of business and leadership skills, computer skills upgrade, etc. The training is provided in various subjects: commercial activities, HR document control and information technologies. A required course or a manual are easy to find in the catalogue or through a search system. The employee chooses the learning level, timelines and duration of training. In 2010, Sakhalin Energy employees completed over 100 SkillSoft courses.

It has been 5 years since Sakhalin Energy launched financing of its employees training at the Chartered Institute of Management Accounting (CIMA). Over the time the CIMA training support policy has been in place, the Company acquired 25 highly qualified financial managers, many of whom have become team leaders and heads of departments. Another 40 people are on their way to CIMA certificates. Similarly, the Company has been supporting the CIPS (Chartered Institute of Purchasing and Supply) training programme for its employees since 2006. CIPS qualifications are a perfect tool for logistics and procurement specialists to reach top managerial positions in transportation, storage and supplies management. Over the time the programme has been in place, 10 people received certificates from the British Royal Commercial Institute.

administration;
- PC skills, Internet and Intranet training, other IT courses;
- Long-term educational courses for professional certification (CIMA, ACCA, CIPS, etc.);
- Language courses for Russians and expatriates.

Another way of personnel development is on-the-job training under the Apprenticeship Programme, which has been in place since 2003 and is aimed at supporting the development of Sakhalin residents' potential. 150 people have been trained under this programme. Another 20 individuals began their training in 2010. Many of the trained workers are now employed at the LNG plant, the OPF and the offshore assets.

### 9.1.7.2 PLANNING AND DEVELOPING THE SUCCESSORS POOL

To continue developing the potential of the Company personnel, the HR Directorate, like in previous years, sees developing the talent pool as a high priority, the main objectives here being:
- Identification of potential candidates from among the Russian personnel capable to replace expatriate specialists and Russian staff in managerial positions;
- Planning the development of this category of staff in accordance with job requirements to the positions planned for succession.

To achieve these objectives, Sakhalin Energy management approved the 2010-2015 successors pool development strategy. The strategy was approved at the meeting of the Management Development Committee, the controlling body for appointment of talent staff for the positions from the Company Successors Matrix.

In 2010, 681 positions were approved for including into the Successors Matrix, among them 153 expatriates' positions, planned for Russianisation within the next five years. During the succession planning process, potential successors were identified for 476 positions (70%), in both short- and long-term perspective.

For all employees included in the successors pool with readiness '0-1 year' and '2-3 years', Individual Development Plans were developed, which include actions for target training of candidates under the Company's current HR learning and development system (professional training, development of leadership and managerial skills, traineeship, mentoring, project management, etc.).

### 9.1.7.3 DEVELOPING THE SCIENTIFIC POTENTIAL

Of great importance to Sakhalin Energy is the development of its young professionals scientific potential. In August 2010, the Second Scientific and Practical Conference was held, which brought together representatives of the Company's young professionals under 35.

The 13 scientific papers submitted to the Conference were related to production and maintenance, industrial safety and environmental studies, production process automation and HR management. The Conference Panel consisted of high level professionals from Sakhalin Energy's various departments.

The top papers touched upon such relevant topics as: Ways to Reduce Flaring during LNG Commissioning; Integrated Approach to Well Modelling for Characterisation of the Well-Formation Relationship; Development of Strategy Against Asphalt, Resin, and Paraffin Deposits in the Company Offshore Oil Pipelines; Integrated Modelling as an Approach to Reservoir Management at Various Stages of Development; Long-term Strategy of Drilling Mud Re-injection into Lunskoye formations; Industrial Environmental Control Information Support System.

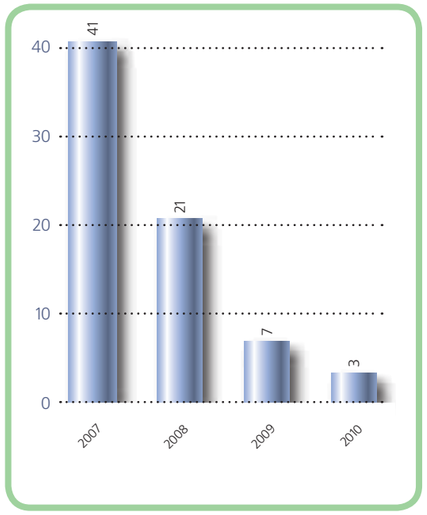
### 9.1.7.4 INTERNSHIP PROGRAMME

To form an external successors pool for young professionals positions, the Internship programme has been implemented in the Company since 2000, which comprises traineeship and pre-diploma internship. The internship programme makes it possible for the students to consolidate their theoretical knowledge, gain hands-on experience and develop their professional skills. The programme is also aimed at:
- Providing graduate students with an opportunity to work for a unique company;
- Introduce students to best current business practices.

In 2010, 93 individuals completed their internship with the Company, among them 77 university and 16 college students. Nearly 70% of the interns were Sakhalin residents. Sakhalin Energy views such students as the Company's potential

## 9.2 Labour safety and protection

In 2010, the Company was certified for compliance with Occupational Health and Safety Management Standard (OHSAS 18001).




**Lost-Time Incidents Rate**

To implement and operate large-scale projects successfully, a special effort has to be focused on labour safety and protection. Sakhalin Energy is committed to pursuing the goal of doing no harm to people and industrial safety.

For this purpose, the Company applies a systematic approach to HSE management (see section 5.5 of this Report). This approach is designed to ensure both compliance with the law and risk management in order to achieve a continuous improvement of HSE performance. We also require our contractors to manage HSE issues in line with this policy and international standards, accepted by the Company. Our main spheres of HSE activities remain:

- Industrial safety;
- Road safety;
- Safe behaviour.

### 9.2.1 PERFORMANCE

The 2010 results in the Company's safety performance were remarkable, having set a record in the number of worked LTI-free man-hours. The LTI statistics validate this tendency. The number of incidents determined on the basis of such indicators as the Total reportable case frequency (TRCF) has decreased approximately by 50%. In 2010, this indicator was 0.57. The best annual result in the industry was 0.8.

In 2010, there were no job-related fatalities in Sakhalin Energy, and only three LTI incidents were recorded.

The 2009 achievements in road safety were confirmed in 2010: no incidents with lost time injuries were recorded in the reporting year. By February 2011 the Company had worked for two years without injuries from road accidents given that the vehicles involved in the project travelled nearly 19 million km between February 2009 and February 2010.

Not a single serious process safety incident was registered at the Company facilities in 2010.

In 2010, the Company registered no cases of illnesses which could be classified as occupational diseases as per Russian law.

### 9.2.2 ROAD SAFETY

In 2010, Sakhalin Energy continued to implement the Road Safety Programme launched in 2007. Its main elements are regular inspections of vehicle condition by traffic monitoring divisions and implementation of 10 Life Saving Rules. These are a set of 10 compulsory rules, developed and adopted by the Company, which include the Alcohol and Drugs Policy, strict speed limits compliance, safety belts, prohibition to speak on the cell phone while driving and availability of a journey plan and a defensive driving course certificate.

In addition to implementing the standards and strict control over their compliance, Sakhalin Energy is also pursuing an educational and communication programme on road safety. The programme includes quizzes, presentations, information booklets and video on road safety, as well as road safety weeks, one of which was held in 2010 from 27 September till 01 October. For the Company and contractor drivers a mandatory defensive driving programme has been implemented. It was acknowledged to be one of the best programmes of this kind by Pro-Drive Training independent assessment (the Netherlands) in November 2009. All trainers were certified by The Royal Society for the Prevention of Accidents (RoSPA, United Kingdom), were qualified and given international diplomas in defensive driving.

An important element of the road safety programme is sharing the high corporate road safety standards in the communities we work in, in cooperation with the Global Road Safety Partnership: the Company established the Sakhalin Road Safety Partnership and is its active member. This initiative brings together the Government of Sakhalin Oblast, State Traffic Safety Inspection and the public and is the first consolidated public and private partnership in Russia aiming at promotion of road safety.

In 2010, the Sakhalin Road Safety Partnership incorporated approximately 30 organisations representing commercial, state and public sectors. The Partnership it is officially supported by the State Traffic Safety Inspection.

The Partnership successfully implements projects in the following four areas:

On 16 June, 2010, the Sakhalin Road Safety Partnership celebrated its fifth anniversary. The Partnerships programme together with Sakhalin Energy's internal road safety programme were highly praised by the International Energy Institute and honoured with an award as the best international project in terms of safety. They also won recognition from the RF Government.

- Seat Belt Campaign;
- First aid treatment to road traffic incident victims;
- Reduced accident rate among children through Safe Journeys to School;
- Improvement of high risk roads in Yuzhno-Sakhalinsk.

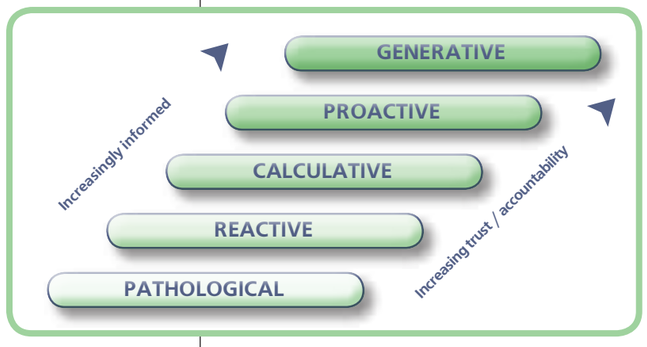
### 9.2.3 OPERATIONAL SAFETY

Sakhalin Energy's approach to HSE management is based on a combination of strict compliance with Russian rules and standards and compliance with the international management systems. The Company focuses on three areas: technologies and standards, management systems and safety culture.

State-of-the-art technologies and systems were successfully used to start production. In 2010, we made our standards easier to follow by clarifying those mandatory requirements which ensure personnel and operations safety. We updated the HSE risk analysis and controls description for each facility by including in them all HSE-critical operations which are supervised by competent specialists. Vast experience was gained from the development and implementation of combined HSE management systems which include audits of all levels, investigation of incidents, safety and health training, occupational hazard analysis, emergency response, integrated operational safety systems and many other instruments of safety management at all the facilities.

With the transition from construction to operations, the risk profile of Sakhalin Energy changed, but the industrial risk level did not become lower. Sakhalin Energy employees and contractors place high emphasis on HSE communication and awareness, training in work place risk management, compliance with the 10 Life Saving Rules, permit-to-work system and ignition source control. All this is done to create a feeling of ongoing concern which results in a strong safety culture and prevention of careless behaviour.

The HSSE Culture Ladder




### 9.2.4 BEHAVIOURAL SAFETY

Implementation of the HSE Management System by Sakhalin Energy means establishing a strong safety culture which would influence personal behaviour. It means that the staff of the Company and contractors should consciously want to comply with the HSE requirements. The figure shows a model which explains the Company's commitment to build a proactive safety culture.

A change in the employees' behaviour motivation, which transforms safe behaviour into a behavioural standard, whether at a production site, office or home, is an important factor of the employees' pro-active behaviour in the sphere of safety and health.

This model was used in 2010 during the workshops with more than 20 contractors whose performance is HSE-critical, for joint assessment of safety culture and development of contractor's HSE management plan.

One of the most efficient methods of preventing incidents are safety briefings of personnel, which are conducted either before each shift, or, in case of any changes taking place, prior to work start. To improve the quality of safety briefings and maintain the on-going communications across the Sakhalin Energy units, the Company developed an effective work safety control training course, which was launched at all the Company facilities in 2010.

For building a safety culture and recognising the HSE leaders at all levels, Sakhalin Energy continued its practice of the CEO HSE Awards that are issued to the Company employees, units or contractors to commend good safety behaviours that the Company wants to be modelled. In 2010 the Sakhalin Energy CEO issued ten safety awards to the Company employees, four to the Company units and two to the Company contractors.

**Aleksey Tsygankov, Piltun-Astokhskoye-B Control Room Operator, receives his HSE Award from Sakhalin Energy CEO Andrei Galaev**

Risk monitoring and 'Effective Intervention' training of the Company employees and contractors are at the core of the Sakhalin Energy's Safe Behaviour Programme. The so-called Effective Intervention Programme is used to stop a situation where something can go wrong, and track any changes in the safety area (potential violations of safety rules, identification of core violations sources, etc.), as well as apply preventive measures.

## 9.3 Occupational health

Sakhalin Energy has developed and approved an Occupational Health and Hygiene Standard, including the following specifications:

- Health Risk Assessment;
- Medical Emergency Response;
- Medical Evaluations for Fitness to Work;
- Medical Conditions of Contract;
- Management of Alcohol and Drugs at Work, etc.

The Company's compliance with the above standards resulted in continuous improvement of its occupational health performance as reflected in the occupational disease frequency and LTI frequency results for 2010. The occupational health performance and various other related indicators are reviewed on a regular basis, so that the Company could develop and adopt appropriate measures to further improve the employees' working conditions and prevent occupational diseases.

Based on the 2009 assessment, the Company strengthened focus on reduction of serious complications risks in the post-injury and post-disease period. Strict time limits are set for each phase of the medical emergency response. All the required equipment and materials are made strictly available and employees are briefed and trained to coordinate their actions in a medical emergency.
Site clinics are operating at each Sakhalin Energy facility, with the site clinic personnel regularly taking improvement training in medical institutions inside and outside Russia.

The HSE performance comparison between Sakhalin Energy and other oil and gas companies has demonstrated efficiency of using such health standards.

The Company pays much attention to its employees' health. The scope of mandatory pre-employment and regular medical checks was expanded in 2010, based on the world cardiologic knowledge. Risk of developing Acute Coronary Syndrome is being assessed for all employees reaching a certain age.

In addition to the mandatory health and welfare programmes, Sakhalin Energy in 2010 continued its additional efforts to encourage healthier lifestyles and prevent the development of some diseases, including the following measures:

- A wellness and sports programme is part of the Company's health and welfare plans. In 2010, the Company employees took part in various sport competitions, both on the unit and company level, as well as in various open competitions organised by local and regional communities;
- A recreation centre, which includes a gym, a swimming pool, a football pitch and tennis courts is available to all the Company employees and their families living in Yuzhno-Sakhalinsk. In addition, various sports facilities and grounds are available to people working on the Company's remote sites. The Company's employees not living in Yuzhno-Sakhalinsk receive gym membership compensations;
- The Company implements an Alcohol and Drugs at Work Management and Awareness Programme;
- The Company implements an aggressive anti-smoking programme. On 31 May of each year, Sakhalin Energy holds a No-Tobacco Day. On this day in 2010, like in previous years, all team leaders held discussions with their staff to consider the health benefits of giving up tobacco. The smokers are offered free counselling service and treatment. The campaign includes posters, leaflets and incentives to all employees;
- Sakhalin Energy together with Sakhalin Oblast Administration and Sakhalin municipalities implements a programme to manage and control the lifestyle-related health hazards, including HIV/AIDS. On 1 December, on the World AIDS Day, Sakhalin Energy refreshed its annual awareness campaign and held the 'History if HIV in Posters' exhibition.

According to the World Health Organisation, cardio-vascular diseases – including heart attacks and strokes – are the world's largest killer, claiming more than 17 million lives a year. World Heart Day was established to create public awareness of risk factors for heart diseases and strokes promote prevention. In 2010, the World Heart Day was on September 26. On September 21 and 22, Sakhalin Energy together with International SOS Clinic held a health promotion campaign devoted to the World Heart Day. All employees were invited to visit health information stands in Sakhalin Energy offices. The Company employees had an opportunity to consult a doctor, do health testing, including cholesterol test, evaluation of blood pressure, BMI test, and read healthy life style leaflets.

Sakhalin Energy's initiatives in disease prevention and promotion of healthy life styles were commended at the 6th All-Russia Forum 'Healthy Nation – Wealthy Russia' (Moscow, September 2010) by a Healthy Life Style Promotion Award.

## 9.4 Human rights

Respect for human rights is one of the fundamental core values and an important business principle as set forth in the General Business Principles of Sakhalin Energy.

In 2009 Sakhalin Energy joined the UN Global Compact and committed to strictly and consistently abide by its ten principles, including the human rights principles, which the Company shares and supports:

**Principle One.** Businesses should support and respect the protection of internationally proclaimed human rights.

**Principle Two.** Business should make sure that they are not complicit in human rights abuses.

The human rights principles are set forth in the following main documents of the Company, which provide foundation for the human rights compliance in everyday business.

- Sakhalin Energy Statement of General Business Principles;
- Sakhalin Energy Code of Conduct;
- Whistle Blowing/Grievance Procedure;
- Sustainable Development Policy;

Appropriate training and awareness sessions are held at the Company offices and assets to ensure compliance with the human rights principles and procedures as set forth in the above documents.

The human rights principles control system requires that the Company management provide the employees with safe and confidential means of raising any concerns and reporting any non-compliance. On the other hand, all Sakhalin Energy employees are to report to the Company of any identified violations of the General Business Principles.

The Whistle Blowing/Grievance Procedure is a key mechanism to implement that.

Sakhalin Energy was the first company in Sakhalin to receive an Employer Recognition Certificate from Sakhalin Oblast in 2009, which was issued to the Company based on the Company's Declaration of Employees' Rights submitted to the State Labour Inspectorate of Sakhalin Oblast. The Employer Recognition Certificate confirms that the employer complies with the labour code requirements of respect for the employees' rights.

The Procedure gives employees, contractors, suppliers, joint venture partners and members of the community a safe means to raise concerns in connection with the business principles violations which potentially can generate social or environmental impacts for the island.

In November 2010, a workshop called 'Addressing Public Grievances in Sakhalin Oblast: Theory and Practice' was held in Yuzhno-Sakhalinsk. The workshop was organised by the Sakhalin Government. The Company made a presentation on the mechanisms and practices of addressing grievances received by Sakhalin Energy.

The Procedure also encourages suggestions to improve the Company performance.

The Whistle Blowing Procedure is an open and easily available document. Each whistle-blower is guaranteed protection against any risk of persecution or punishment.

**Community Grievance Procedure**

The purpose of the Sakhalin Energy Community Grievance Procedure is to ensure that public grievances are addressed in a timely and effective manner and in accordance with international best practice.

The Procedure supports the long-term goal of building strong and effective relationships with all those impacted by the Sakhalin Energy activities and provides for effective and timely resolution of grievances, reduction or avoidance of a repetition of similar grievances, as well as ensuring careful documentation of grievances and remedial actions to enhance accountability and reduce liability.

The Community Grievance Procedure is:

- Legitimate and incorporated into the Sakhalin Energy corporate system;
- Accessible and trusted;
- Transparent and open;
- Applicable to all phases of the Company activities;
- Applicable to the Company and contractors;
- Based on engagement and dialogue on process and resolution;
- Enforcing strict time frames and the follow-up progress reviews;
- Ensuring confidentiallity;
- Using of continuous learning for preventive and pro-active measusers;

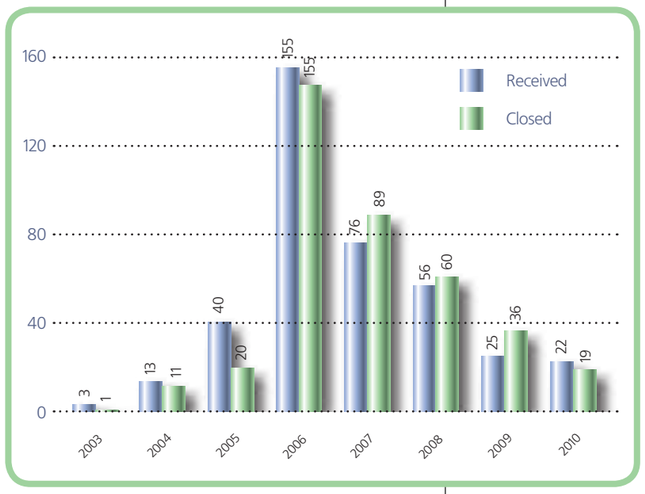
Grievances are accepted via a range of channels to ensure maximum accessibility of the Company for complainants. The Company uses community consultations to see how efficiently the grievance reporting channels work.

For several years, Sakhalin Energy has conducted regular awareness campaigns for its stakeholders regarding the grievance procedure and the channels for grievance or concern reporting.

Such awareness campaign in 2010 included, but was not limited to the following activities:

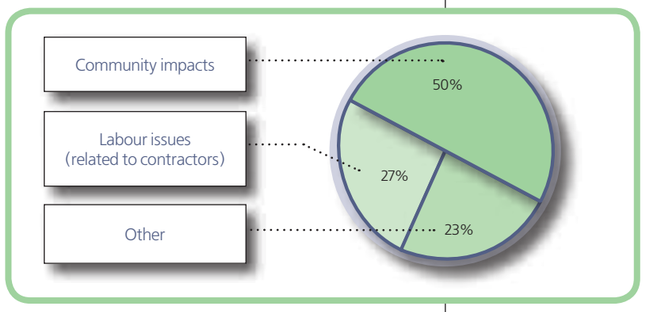
- Placing grievance posters in communities and other areas impacted by the Project, including at the Company's information centres, offices and camps;
- Distribution of the grievance brochure (leaflet) in local communities;
- Advertising the Company's grievance procedure in local newspapers;
- Raising grievance awareness during public consultations and other meetings.

The Company received 22 grievances in 2010. This is 12 percent fewer grievances than in 2009 and only half of the number of grievances received in 2008. One of the reasons for the reduction was a significantly smaller amount of construction work carried out by Sakhalin-2 in 2010, which stopped the inconveniences for local residents. Prompt identification and addressing potential issues also played a significant role. Of all the grievances received in 2010, about 50% were connected with the Project impacts on local communities and 27% with the labour issues (related to contractors).




**19 grievances were closed in 2010, with a statement of satisfaction signed by each complainant**

**Content of Grievances (2010)**




SIMDP Grievance Procedure was developed in 2010 in cooperation between Sakhalin Energy and the Working group preparing the second Sakhalin Indigenous Minorities Development Plan, with all the stakeholders' approvals duly obtained.
As part of the second SIMDP, the SIMDP Grievance Procedure is available on the Sakhalin Energy website, SIMDP website, in hard copy format at places of traditional residence of indigenous people, etc.
There are plans to hold training and awareness sessions and a massive SIMDP Grievance Procedure promotion campaign.
The grievance addressing status and results will be subject to internal and external monitoring, followed by publication of a relevant report.

In 2009, Sakhalin Energy together with four other companies worldwide was chosen to test the so-called Ruggie Principles, set out by Special Representative of the UN Secretary-General for Business and Human Rights, Professor John Ruggie. The Ruggie Principles are expected to become an effective grievance-mechanism guidance for businesses around the world. Sakhalin Energy represents Russian businesses and oil and gas community in the Ruggie Principles testing process.
Prof. Ruggie's mandate representatives visited Sakhalin in 2010 to study and test the Company's Grievance Procedure and issue appropriate recommendations. Sakhalin Energy's Grievance Procedure and its implementation were highly appraised.

## 9.5 Social investment and contribution to sustainable development of the host region

### 9.5.1 SOCIAL INVESTMENT AND SUSTAINABLE DEVELOPMENT - SAKHALIN ENERGY'S PRINCIPLES AND APPROACHES

Sakhalin Energy's operations influence significantly the development of Sakhalin Oblast. Since the Company's foundation in 1994, the Company has paid a lot of attention to the socially significant programmes in Sakhalin. Investments – sizable and consistent – in the social area, as well as a long-term policy focused on addressing social issues, making a difference in Sakhalin have become the Sakhalin Energy's characteristic.

In 2010, the Company made over RUR 61.8 million (over $2.06 million) total investment in community social programmes in Sakhalin Oblast.

As part of the project 'Involvement of Russian Businesses in Sustainable Socio-Economic Development on the Basis of the UN Global Compact Principles', United Nations Development Programme Russia (UNDP) and Sakhalin Energy worked to implement an applied project aimed at further improvement of Sakhalin Energy's sustainable development initiatives.

The purpose of Sakhalin Energy's social investment programme is to contribute to the sustainable development of Sakhalin Island through projects that:

- Result from consultations with the public and meet the needs of the communities impacted by the Company's activities;
- Relate to issues that affect the Company's reputation;
- May not directly connect to the Company's activity, however, contribute to economic, environmental and social development of Sakhalin;
- Contribute to the sustainable economic, environmental and social development of Sakhalin and demonstrate to stakeholders the Company's commitment to this; and
- Meet the expectations of lenders, shareholders and other potential investors.

The Social Investment Strategy is part of the Social Performance Management Standard. This document applies to all social investments and sustainable development activities of Company that aim to contribute to the economic, environmental and social advancement of the community. The Social Investment Strategy provides that Sakhalin Energy should conduct internal monitoring (ongoing) and independent external evaluation (once per two years) of social investment projects in accordance with Social Performance Monitoring and Company internal audit requirements.

The social investment programmes are linked to the long-term objectives of the Company in the region where it operates. Such programmes are coordinated with local authorities and integrated into the general business strategy of the Company. Main focus of the Company's social investment activities is on implementation of flagship long-term partnership projects with external stakeholders. Priority is given to programmes with clearly spelt out objectives, targets and deliverables.


The following social investment targets are Sakhalin Energy's priority:

- Safety;
- Environment and biodiversity;
- Health;
- Education;
- Culture and arts;
- Sakhalin indigenous minorities;
- Infrastructure upgrades;

Social responsibility of a business community is about the social impacts that it generates and the responsibility to those who are impacted, whether directly, or indirectly. Therefore, in choosing its projects and targets, Sakhalin Energy is guided by whether such projects are viable and have a long-term potential and also whether they are really capable of changing the community's life for the better.

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

Sakhalin Energy participated in the 'Best Russian Companies – Dynamics, Efficiency, Responsibility Contest' at the Russian Business Week forum and received a 'Best Social Investments and Projects Award' from the Russian Union of Industrialists and Entrepreneurs for its social projects.

Sakhalin Energy came out a winner in the Russian Festival of Social Programmes 'SoDeistviye', which offers a competing ground for the best national practices and achievements in social responsibility. The Company received awards for its programmes – Sakhalin Indigenous Minorities Development Plan ('Cultural Renaissance' Contest), Sakhalin Salmon Initiative ('Clean World' Contest) and 'What to Do in Emergency Situations' ('Best Creative Programme' Contest).

and unbiased approach. This approach is applied to the process of evaluation of the best local initiatives as part of the Company's grants programmes, as well as to selection of nominees for Sakhalin Energy's scholarships. For some programmes, such as 'Small Grants – Big Deeds', the Company invites third-party experts to evaluate the projects submitted for sponsorship.

The system the Company uses for social investment management is similar to managing its other activities. It involves a clear prioritisation technique and detailed descriptions of the programme implementation plans, decision-making processes and social investment management procedures.

### 9.5.2 HIGHLIGHTS OF SOCIAL PERFORMANCE IN 2010

#### 9.5.2.1 SOCIAL PROGRAMME 'MY VICTORY'


This programme of Sakhalin Energy dedicated to the 65th anniversary of the victory in World War II known in Russia as the Great Patriotic War was planned as an integrated programme comprising the following components:

- Social – providing for sponsorship of various projects, various initiatives and celebratory and congratulatory events involving war veterans;
- Information – special media and information projects; and
- St. George Ribbon campaign.

A special contest within the 'Small Grants – Big Deeds' Programme was held under the motto '65 Good Deeds for the 65th anniversary of Great Victory'. A total of 116 applications were collected in 2010. The expert panel shortlisted 65 projects, which received Sakhalin Energy's sponsorship support. The projects were implemented in 35 communities of 13 Sakhalin municipalities. The Company provided RUR 3.7 million financing for the 65 selected projects. More details on the 'Small Grants – Big Deeds' programme, which has been ongoing since 2003, and on the programme's goals, objectives, target audience, participants and general concept, are provided in the company's **'EA Book. Best Practices',** which can be found at (http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf).

**Sponsorship of the Contest for the Best School Museums and Military and Labour Halls of Fame**

This programme comprises three projects of providing upgrades to the patriotic history school museums that came out winners in a competition of school military halls of fame in Sakhalin (Kholmsk school No. 6, Troitskoye school and Bereznyaki school). The school museums were given new multimedia and display equipment. The project was executed in cooperation with the Sakhalin Council of War Veterans and the Ministry of Education of Sakhalin Oblast.

**Media Project 'My Victory'**

'My Victory' is a multi-component project, in which various media companies in Sakhalin joined their efforts.

The most challenging part of the project was to film the videos about War veterans. This was a joint project with the ASTV media group. Sixty-five veterans of war and war-time veteran workers currently living in Sakhalin were filmed speaking about the Second World War, how they fought for their country and how they celebrated the 1945 Victory Day. Starting from 9 March 2010, the district and regional TV channels in Sakhalin showed 65 videos with the veterans' stories. Each participant got a disk with a full set of the 'My Victory' videos, which became a treasured gift not only for the veterans, but also for their families.

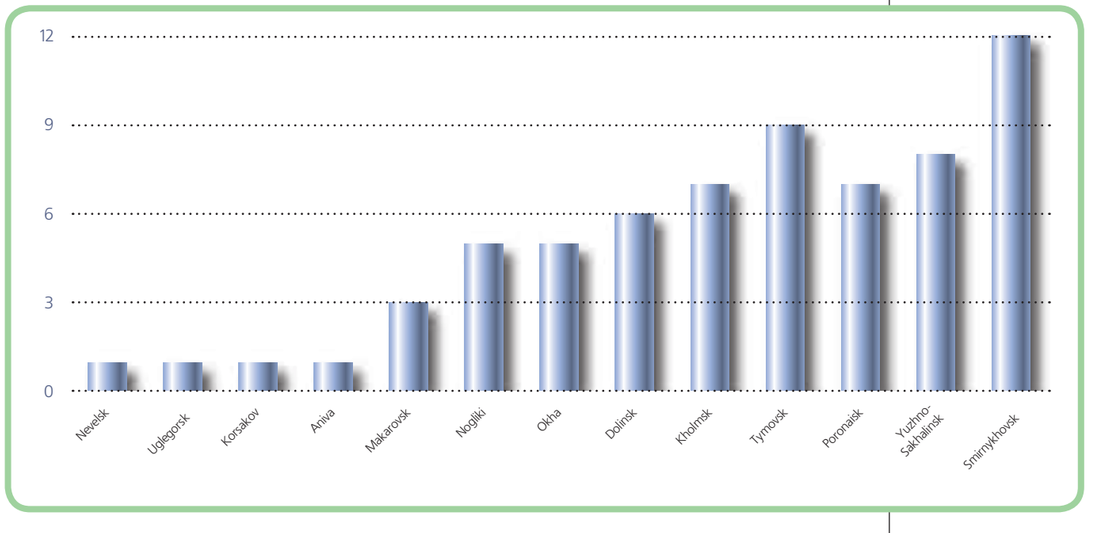
The other part of this media project was a co-product of Sakhalin Energy and Sakh.com website. The visitors of Sakh.com, one of the most popular websites in Sakhalin, were encouraged to publish their private photographs and short stories about the veterans of war and war-time veteran workers. This highlighted the importance of paying tribute to our co-citizens that made the hard-fought Victory happen.

Another component of the media project was executed together with Gubernskiye Vedomosti newspaper which published photographs and stories about the veterans of war and war-time veteran workers, told by themselves or their family.

**St George Ribbon Campaign**

Sakhalin Energy has supported the All-Russia St George Ribbon campaign in Sakhalin since 2008. The campaign that

**Projects implemented in Sakhalin municipalities in 2010 with a support from Sakhalin Energy within 'Small Grants – Big Deeds' programme**



is very much loved by Russian people has two main objectives – to preserve and pass on to new generations the memories of Russian people who paid an enormous price to achieve the victory in World War II, and also to flag up the current problems of the war veterans in Russia. Sakhalin Energy distributed 45 thousand ribbons in 2010. The Company also organised a dedicated auto rally running through all the cities, towns and villages along the length of the Sakhalin Energy pipeline route. Ribbons were also handed out in all the information centres of the Company.

In May 2010, the Company received a diploma at the annual social advertisement competition 'New Russian Horizon' for 2009 – 2010. Sakhalin Energy received this award for the series of 'Safety is Important' cartoons in the nomination 'Contributing to Emercom: Emergency Phone 01'.

### 9.5.2.2 'WHAT TO DO IN EMERGENCY SITUATIONS' PROGRAMME

'What to Do in Emergency Situations' is a complex corporate programme aimed at setting up a system of providing safety essentials traning to school children. The Programme is implemented in partnership with the Sakhalin EMERCOM and Sakhalin Ministry of Education.

In 2010, Sakhalin Energy continued to support the shooting of new cartoons for children illustrating what they should do in emergency situations. A new DVD was made, containing a series of cartoons demonstrating safe behavior in various types of emergencies. Senya, the safety cartoon character, continues to teach safe behavior to Sakhalin children, while the closing slogan of each cartoon episode – 'Safety is Important!' – has become a rule for more young residents of Sakhalin and Russia.

The 'Take a Hike with Senya' contest and a grant project 'Safety Route' were held for children in 2010. The contests reviewed more than 500 artistic and literary works submitted by children, including various drawings, cartoons, posters, rhymes, poems and fairy tales.

For more details about the programme, its concept, goals, objectives, target audience and participants, see the Company's **'EA Book. Best Practices'** at http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf.

The programme 'What to Do in Emergency Situations?' and Safety Day creative project carried out by Sakhalin Energy in cooperation with the Sakhalin EMERCOM received awards in the 'Best PR Action in Safety Culture' nomination.
A Safety Day regional-level festival was held in Yuzhno-Sakhalinsk on 13 October 2010. This was the third time the Safety Day holiday was celebrated on Sakhalin Energy's initiative on the International Day for Natural Disaster Reduction. This day was established by the UN General Assembly in 1989, on the second Wednesday of October. In 2010 the Safety Day was carried out as part of the All-Russia Festival 'Constellation of Courage' organised by the Federal EMERCOM under the motto 'We Choose a Safe Life'. Sakhalin Energy became a partner in the festival.

### 9.5.2.3 CHEKHOV AND SAKHALIN

The 150-th anniversary of Anton Chekhov, a famous Russian writer, was celebrated in 2010. It was also an anniversary of Chekhov's visit to Sakhalin Island. These two dates were commemorated by the project which the Company started to finance and implement back in 2009. The preparation of the electronic full-text 'Chekhov and Sakhalin' database was part of the integrated project intended to issue an exegetical edition of Chekhov's book 'Sakhalin Island'.

A new exegetical edition of Chekhov's 'Sakhalin Island' was published to celebrate the 150-th anniversary of the writer's birth. The work scope involved digitalisation of all the papers which the great Russian writer used whilst getting ready for his journey to Sakhalin and writing 'Sakhalin Island' book. Those documents (about 100), are of great historic and ethnographic value, were made available in the public domain in an electronic form. The documents were posted at the 'Chekhov and Sakhalin' website (www.chekhov-sakhalin.ru), developed and launched as part of the project. The website has become a sort of virtual guide on all the locations related to Chekhov's journey to Sakhalin.

### 9.5.2.4 SAKHALIN SALMON INITIATIVE

The Sakhalin Salmon Initiative was jointly launched by Sakhalin Energy, the international NGO Wild Salmon Centre (USA) and the Sakhalin Oblast Government to support conservation and sustainable use of the wild salmon and ecosystems, on which it depends.

A number of activities implemented in 2010 included the following:

- International environmental salmon camp in Sakhalin in August;
- The 8-th Sakhalin Salmon Festival traditionally held under the aegis of Artek summer camp and attended by 17 teams of young ecologists;
- Sustainable fishing industry

The project 'Climbing Chekhov Peak with Senya', initiated by Sakhalin Energy, was successfully completed in 2010. The Yuzhno-Sakhalinsk Children's Tourism Centre took part in the project. Thanks to the Company's financial support, the Children's' Tourism Centre was able to buy new hiking equipment and gear.
The regional natural landmark Chekhov Peak Highlands is one of the most frequented recreation areas in Yuzhno-Sakhalinsk. The project organisers feel certain that the project will contribute to higher hiking safety and less rescuer help needed.


certification workshops;
- Teachers workshop for implementation of 'Droplet' and 'Salmon Watch' education and awareness programmes (Note: these programmes have been incorporated in curricula of more than 40 local schools);
- Children's art contest 'Salmon, Live!' and an exhibition of the winning art works in the Sakhalin regional art museum;
- Nine projects were implemented within the framework of the competitive grant scheme, etc.

More detailed information on the programme: purpose, objectives, target group, participants and concepts, can be found in the company's **'EA Book. Best Practices'** at website http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf.

**9.5.2.5 'HURRY UP FOR GOOD DEEDS!' – COMPANY STAFF CHARITY**

The 'Hurry Up for Good Deeds!' programme to support philanthropic charity initiatives of the Company employees has been implemented since 2003.

International practices indicate that, with the evolution of corporate social responsibility, companies begin to focus more and more on corporate volunteer programmes and on participation of their workers in issues of public importance in their host regions. Over 90% of companies, found on the Fortune 500 worldwide leaders list, are implementing various corporate volunteer programmes.

The Company has developed 'Regulations on the Support of Charitable Initiatives of the Company Employees', intended to regulate the procedure for collecting charitable donations, which specifies the purpose of the donations and how the Company matches them. The fact that the Company doubles individual contributions of its workers is an important evidence that the Company shares moral values of its staff.

The following initiatives were implemented in 2010:
- 'Hand-made Holiday' – a colourful New Year celebration arranged for children from the Juveniles Rehabilitation Centre (Yuzhno-Sakhalinsk) and from Pravda orphanage in the Olympia Park sport complex. The children had a chance to watch a play with their favourite fairy-tale characters and kind wizards who were played by the Company volunteers. Children also took part in sports events and art contests which were held by the Company employees.
- 'Theatre for Children': over 100 children from various social rehabilitation centres watched the play 'There Was Once a Russule', one of the best shows of the regional drama theatre.
- One more New Year surprise was the sweet gifts that were presented by Sakhalin Energy employees to the children from Preodolenie Rehabilitation Centre for children with disabilities. Besides handsets, the Company volunteers also presented materials and tools for arts classes.

More detailed information on the programme: purpose, objectives, target group, participants and concepts, can be found in the company's **'EA Book. Best Practices'** at website: http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf.

**9.5.2.6 SAKHALIN ENERGY AWARD SKI RACE**

The 6-th regional ski race was held in Nogliki in April 2010 in partnership with the Nogliki Municipal Administration and Nogliki Children's Sports School. Traditional annual ski races are held for students of children's and youth sports schools and groups. Besides individual trophies for race winners, the Sakhalin Energy presented sports equipment to the Nogliki ski school. For the first time in the ski race history field judges used an electronic start/finish system which was purchased specially for this race.

**9.5.2.7 CELEBRATION OF THE OIL AND GAS WORKER'S DAY**

Prior to the development of the oil and gas fields offshore Sakhalin under the Sakhalin-2 Project, the core industry of Sakhalin Island was traditionally fishing. The Sakhalin-2 Project implementation resulted in the development of an extensive oil and gas infrastructure in


the region. Construction of the facilities and oil and gas production of Sakhalin Energy covered 9 region's districts out of 15, where about 63.5% of the region's population reside. Oil industry has become the driver of the Island's economic development. Until recently, the traditionally cautious attitude to oil and gas industry as a whole was alive in the Sakhalin Region.

To build a more favourable environment for the Company operations, it was necessary to change the attitude of

The main result of the holiday celebration during the first three years (2008 – 2010) was that this idea, put forward and implemented by the Company, continued its existence on its own. Other oil and gas companies joined the celebrations. The experience of Sakhalin Energy was also appreciated by governmental agencies. Heads of the Region take an active part in various media and holiday activities. Celebration of the professional holiday also contributed to a significant consolidation of the corporate relationships.
The analysis of the professional holiday celebration and of the associated sentiments indicated that this Company's initiative largely promoted among the population of the south of the Island, where the celebrations took place, a new emotional environment for operations of the oil and gas industry.

the local communities towards the oil and gas industry. To reshape the relationship of the local community with the petroleum industry as a whole, and with Sakhalin Energy in particular, it was necessary to enhance among the residents of the Island the understanding that the future of the region lies with the offshore oil and gas developments and that Sakhalin has become a new hub of oil and gas industry.

To achieve this goal, it was decided to introduce a tradition of a wide celebration of the Oil and Gas Worker's Day which is observed in Russia on the first Sunday of September.

Celebration of the Worker's Day in Sakhalin is becoming a welcomed tradition. The celebration programme includes both corporate and public activities:

- Photographic art contest among Company employees;
- A celebration event held on the eve of the holiday (first Friday of September) for the Company employees and major project stakeholders. The best employees of the Company were awarded with honorary diploma and certificates of merit from the RF Ministry of Energy, Sakhalin Region Government, Gazprom and Sakhalin Energy;
- The final of the celebration event was a concert given by Company employees;
- The next day, Saturday, workers and their families traditionally spent outdoors;
- On Sunday, the Oil and Gas Workers' Day, the Company held various celebration functions for Yuzhno-Sakhalinsk residents and city guests: free-of-charge amusement rides for children and a concert programme in the local recreation and leisure park.

According to unofficial figures, about 15,000 residents and guests of the Sakhalin Region participated in the 2010 Oil and Gas Worker's Day celebrations.

More detailed information on the programme – purpose, objectives, target group, participants and concepts – can be found in the company's **'EA Book. Best Practices'** at the Company's website http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf.

### 9.5.3 SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN

The Sakhalin Indigenous Minorities Development Plan (SIMDP) is a tripartite programme that is jointly implemented by the three parties: Sakhalin Energy, the Government of Sakhalin Oblast and the Regional Council of the Authorised Representatives of Indigenous Minorities of Sakhalin oblast.

#### 9.5.3.1 THE FIRST SIMDP

The first SIMDP (2006–2010) was signed by the partners on 25 May 2006 and it started the history of a whole series of such plans to be developed and implemented over the Sakhalin-2 Project lifetime. The first SIMDP included financing of various programmes in the amount of $300,000 annually over the period of five years.

Indigenous people of Sakhalin themselves defined the first SIMDP strategy and implementation methods, constituting the majority in the management bodies of this programme.

The following three programmes were implemented under the SIMDP:

- Social development programme;
- Traditional Economic Activities Support Programme (TEASP);
- 'Save Traditions' mini-grant contests programme.

**SIMDP Social Development Programme**

The SIMDP Social Development Programme included funds for the purchase of equipment for medical and obstetrics centres in remote districts. A mobile dentist office was set up under the SIMDP and multi-discipline teams of doctors from Yuzhno-Sakhlainsk conducted field medical checkups in areas densely populated by indigenous minorities in order to detect and treat diseases as early as possible. The SIMDP funds were also used to pay additional scholarships and tuition fees for young indigenous people. Significant attention was focused on the development of local communities and organisations: potential and respective workshops were held.

**SIMDP Mini-Grant Fund**

One of the SIMDP objectives was to create lasting conditions in which indigenous peoples could ultimately manage the SIMDP or any other similar subsequent programmes independently.

Therefore, 10% of the SIMDP resources were allocated to the Mini-Grant Fund. The purpose of annual mini-grant contests, which were invariably very popular, was to encourage and support the initiatives and proposals put forward by local indigenous people. Notably, all the decisions regarding mini-grant financing were taken by the council comprising solely indigenous people representing the indigenous communities.

The Mini-Grant Fund was in its own way a model of the SIMDP management structure. In future, decision making, implementation of programmes and associated control activities will be the exclusive right of the Sakhalin indigenous peoples.

**SIMDP Traditional Economic Activities**

The SIMDP implementation generated interest among Russian governmental agencies, Russian and international community. Of greatest significance was the support received from the Russian Association of Indigenous Peoples of the North, Siberia and the Far East. They recommended the SIMDP as a model for engagement between indigenous people and industrial corporations in other regions of the country, particularly where foreign investment projects are carried out.

According to the sociological survey among the Sakhalin indigenous minorities held in July 2010, the SIMDP was considered to be a project beneficial for the local indigenous population in several ways. The greatest benefit to the local indigenous minorities came from implementation of projects in the field of education, health care and culture. Moreover, the SIMDP implementation induced other favourable social tendencies and boosted social interaction, helping local indigenous communities to move to a new level of engagement with the authorities.

Public opinion polls show that in local indigenous communities the positive attitude towards SIMDP prevails over the negative attitude. Approximately 45% of the respondents spoke of the SIMDP approvingly or highly approvingly, and only 5% of the respondents had critical comments of the Plan. Some observers from the local indigenous communities noted that the most significant benefit of the first SIMDP for the local communities had been not material, but rather consisted in the encouragement that the Plan gave to indigenous people for more active involvement in the public life.

**Support Programme (TEASP)**

Projects to revive the traditional economic activities of the indigenous population of the Island are extremely important for preserving traditions as well. Such programmes include a revival of Nivkhi dog breeding, support of the Uilta reindeer herders, as well as of clan enterprises and indigenous communities.

Over 300 SIMDP projects worth over 40 million roubles were implemented in 2006-2010.

On the one hand, the Traditional Economic Activities Support Programme assisted indigenous entrepreneurs in the development of their businesses for the benefit of the indigenous communities. On the other hand, this Programme is designed to steadily enhance competitiveness of the local indigenous businesses.

**SIMDP Monitoring**

SIMDP implementation included periodic internal and external monitoring. Every six months Doctor of Anthropology Gregory E. Guldin, an international indigenous people expert, visited Sakhalin to evaluate SIMDP progress, to hold consultations with all stakeholders and to travel to the parts of the island traditionally inhabited by indigenous minorities. Independent monitoring reports are available on Sakhalin Energy website, as well as issued to the Sakhalin Region districts, stakeholders and to the general public.

### 9.5.3.2 THE SECOND SIMDP

Throughout 2010, the partners were preparing the second SIMDP, which was to be based on the lessons learnt by all the parties of the first SIMDP. To address the opinions of the local indigenous population, the preparation of the second SIMDP was conjoined with two rounds of open and extensive consultations, which were held in the traditional inhabitancies of indigenous people (see Section 7.4 regarding consultations and engagement with the local indigenous people during SIMDP preparation).

The key objectives of the second SIMDP are:

- Improving the lives and livelihoods of the Indigenous Minorities of Sakhalin Oblast through support for the delivery of benefits (social development programmes) in a culturally appropriate and sustainable manner.
- Enhancing the capacity of indigenous communities and individuals to actively participate in the management of the SIMDP and, by extension, similar socio-cultural and economic intervention strategies.
- Assisting Sakhalin's Indigenous Minorities to prepare for the eventual establishment of an independent Indigenous Minorities development fund.
- Avoiding or mitigating in an environmentally sustainable manner any potential negative effects caused by the operation of oil and natural gas pipelines and associated Sakhalin-2 Project facilities.

During implementation of the second SIMDP decisions regarding specific support measures will be taken by the committees which will supervise the activities of two programmes included in the second SIMDP, i.e. Social Development Fund and TEASP. These two programmes were approved for incorporation in the second SIMDP by the working group of the Indigenous Minorities, Company and the Government of Sakhalin Oblast following extensive consultations with the indigenous population and discipline experts.

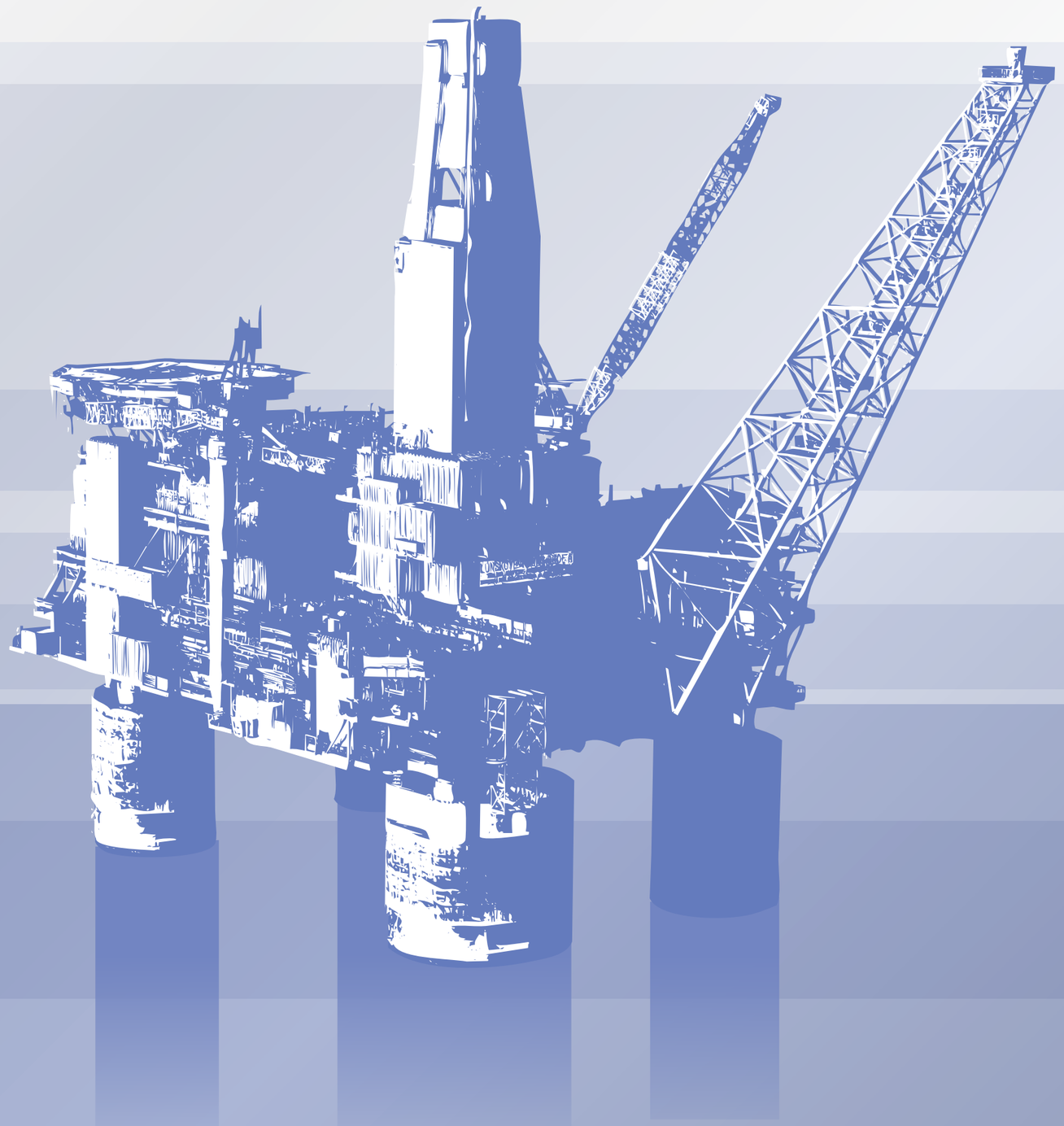
The SIMDP will be implemented through an active participation of the indigenous population under the guidance of the Management Committee supported by the Executive Committee, TEASP Committee and Social Development Fund Council.

More detailed information on the second SIMDP can be found at website: http://www.simdp.ru/.

The SIMDP funds were put to good use from the viewpoint of Sakhalin indigenous people, district and region state authorities, and last, but not least, Sakhalin Energy. The main objective – to build up the local indigenous community's potential, was in a great measure achieved. A few shortcomings, such as underperformance of the internal monitoring mechanisms of the Traditional Economic Activities Support Programme, were inevitable, but they by no means diminish the overall success of SIMDP.

# 10.

# 2011 PLANS AND DEVELOPMENT STRATEGY UP TO 2015



# 10. 2011 PLANS AND DEVELOPMENT STRATEGY UP TO 2015

The 2011 objectives of our Company are determined by its priorities. They are safety, reliability, cargoes and costs. As before, the corner-stone of our business is safety. The Company will have to maintain a consistently high level of hydrocarbons and LNG production, optimise drilling on all the offshore platforms, define the South-Piltun development concept, improve contractor management and focus on personnel training and development.

In 2010, the Company developed a strategy to reflect the Company's mission, and committed itself to the maximum operational excellence and to becoming an oil and gas producer in the top quartile internationally, focusing on the areas which require improvement.


**Five key directions to improve our business**

Operational Excellence can be implemented in many different ways, but in our context, the Operational Excellence means:

- Delivering sustainable top quartile performance, whether it is in technical areas or non-technical such as Human Resources, Financial, Commercial and Contracting, External Affairs.
- Being recognised as 'best in class' in comparison to our competitors.
- Above all, Operational Excellence in terms of safety and all aspects of production activities, as well as cost and profitability.

Operational Excellence cannot be achieved in a single year. It is also a moving target, because just like us, our competitors will also be seeking improvements so the bar keeps getting raised. It is therefore a journey in which we have attempted to map out the first five years. Each year we will review the progress, consult and then re-affirm or reset the targets for the following years.

The Company has developed Sakhalin Energy Operational Excellence Journey for the period of 2010-2012. The implementation of this strategy will be observed by the Operational Excellence Steering Committee which commenced its activities in October 2010.

The Operational Excellence Journey implies a strong focus of all efforts on most business-critical lines of activity. The Operational Excellence Journey is based on five key directions to improve our business which are based on world's best operational experience.

Each direction includes certain business improvement initiatives that in total will lead us to delivering sustainable top quartile performance.

## APPENDIX 1: GRI Guidelines Compliance Table (Rev. 3.0)

| GRI index | Aspect | Disclosure | Report section | Page | Comments and references to other sources |
|---|---|---|---|---|---|
| **1. Strategy and Analysis** | | | | | |
| 1.1 | Statement from the most senior decision-maker of the organisation | Full | Chief Executive Officer statement | 5 | |
| 1.2 | Description of key impacts, risks, and opportunities | Full | Chief Executive Officer statement<br>Introduction<br>HSE and Social Performance<br>Economic impact management<br>Environmental impact management<br>Social impact management<br>Company 2011 plans and development strategy up to 2015 | 5<br>14-15<br>31-33<br>36-39<br>54-71<br>74-103<br>106 | |
| **2. Organisational Profile** | | | | | |
| 2.1 | Name of the organisation | Full | About Sakhalin Energy | 18 | |
| 2.2 | Primary brands, products and/or services | Full | About Sakhalin Energy | 22-23 | |
| 2.3 | Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures | Full | About Sakhalin Energy | 28-30 | |
| 2.4 | Location of organisation's headquarters | Full | On the outside rear cover<br>http://www.sakhalinenergy.ru/ru/contactus.asp | | |
| 2.5 | Number of countries where the Company operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report | Full | About Sakhalin Energy | 18<br>22-23 | |
| 2.6 | Nature of ownership and legal form | Full | Corporate management | 28 | |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries) | Full | About Sakhalin Energy | 18<br>21-22 | |
| 2.8 | Scale of the reporting organisation | Full | About Sakhalin Energy<br>Economic impact management<br>Personnel: management and development | 21-22<br>36-39<br>75<br>79 | |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership | Full | | | No significant changes of Company size, structure of ownership form occurred in 2010 |
| 2.10 | Awards received in the reporting period | Full | Statement by Chief Executive Officer<br>Environmental impact management<br>Social impact management | 5<br>43<br>58<br>77<br>85<br>89<br>93<br>94<br>96 | |
| **3. Report parameters** | | | | | |
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided | Full | About the Report | 8 | |
| 3.2 | Date of most recent previous report (if any) | Full | About the Report | 8 | |
| 3.3 | Reporting cycle (annual, biannual, etc.). | Full | About the Report | | Annual |
| 3.4 | Contact point for questions regarding the Report or its contents | Full | About the Report<br>Appendix 5-6 | 8<br>123-124 | |
| 3.5 | Process for defining report content | Full | About the Report | 8-10 | |
| 3.6 | Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance | Full | About the Report | 10 | |
| 3.7 | State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope) | Full | About the Report | 9-10 | |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations | Full | About the Report | 9-10 | |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols | Full | About the Report | 9-10 | |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/acquisitions, change of base years/periods, nature of business, measurement methods) | Full | About the Report | 9-10 | |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report | Full | About the Report | 9-10 | |

| GRI index | Aspect | Disclosure | Report section | Page | Comments and references to other sources |
|---|---|---|---|---|---|
| **3.12** | Table identifying the location of the Standard Disclosures in the Report | Full | Appendix 1 | 108-115 | |
| **3.13** | Policy and current practice with regard to seeking external assurance for the Report. | Full | About the Report | 11 | |
| | **4. Governance, Commitments, and Engagement** | | | | |
| **4.1** | Governance structure of the organisation, including main committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight | Full | Sakhalin Energy Governance Model | 28-30 | |
| **4.2** | Indicate whether the Chair of the highest governance body is also an executive officer | Full | | | The Chair of the highest governance body is not an executive officer |
| **4.3** | For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members | Full | Sakhalin Energy Governance Model | 28-29 | |
| **4.4** | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body | Full | Corporate governance system and structure<br>Corporate culture<br>Personnel engagement | 26-27<br>30<br>49 | |
| **4.5** | Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements) and the organisation's performance (including social and environmental performance) | Full | | | There is a unified compensation system in place in the Company base on performance evaluation (including social and environmental performance) |
| **4.6** | Processes in place for the highest governance body to ensure conflicts of interest are avoided | Full | | | Avoiding any conflict of interests with regulative authorities/committees have been stipulated in the shareholders agreement<br>All Company employees must comply with the Conflict of Interest Regulation Procedure |
| **4.7** | Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisations's strategy on economic, environmental and social sustainable development issues | Full | | | One single system of competence evaluation acting in the Company |
| **4.8** | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation | Full | Company's mission, core values and business principles<br>Corporate culture<br>HSE and Social Performance Management System | 26<br>30<br>31-33 | |
| **4.9** | Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles | Full | Sakhalin Energy Corporate Management System and Structure<br>HSE and Social Performance | 26-27<br>31-33 | |
| **4.10** | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance | Full | | | Performance evaluation by the highest governance body takes into consideration economic, environmental, and social performance achieved against the planned performance indicators |
| **4.11** | Explanation of whether and how the precautionary approach or principles is addressed by the organisation | Full | About Sakhalin Energy<br>HSE and Social Performance | 22-23<br>33 | |
| **4.12** | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or endorses | Full | | | Company supports principles of UN Global Compact. The Company complies with international environmental, safety and social standards.<br>These standards are captured in the HSESAP.<br>In preparation of the sustainable development report, the Company complies with the Sustainable Development Reporting Guidelines (Global Reporting Initiative – GRI, G3).<br>Report generation includes a dialogue with stakeholders as per AA1000SES international standard.<br>HSESAP is public document and available on Company's website |
| **4.13** | Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation:<br>• Has positions in governance bodies;<br>• Participates in projects or committees;<br>• Provides substantive funding beyond routine membership dues; or<br>• Views membership as strategic | Full | | | In November 2009 the Company joined UN Global Compact.<br>The Company is a member of UN Global Compact in Russia |
| **4.14** | List of stakeholder groups engaged by the organisation | Full | About the Report<br>Stakeholder engagement management | 9<br>46-51 | |
| **4.15** | Basis for identification and selection of stakeholders with whom to engage | Full | Stakeholder engagement management | 46-51 | |
| **4.16** | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | Full | Stakeholder engagement management | 46-51 | |
| **4.17** | Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting | Full | Stakeholder engagement management | 46-51 | |

| GRI index | Aspect | Disclosure | Report section | Page | Comments and references to other sources |
|---|---|---|---|---|---|
| **5. Management Approach and Performance Indicators** | | | | | |
| **Сведения о подходах в области менеджмента** | | | | | |
| **DMA EC** | Disclosure on management approach – economic | Full | About Sakhalin Energy<br>Corporate government model | 18<br>28-29 | |
| **DMA EN** | Disclosure on management approach – environmental | Full | HSE and Social Performance<br>Environmental impact management | 31-33<br>54 | |
| **DMA LA** | Disclosure on management approach – labor practices and decent work | Full | HR management and policy | 74-75 | |
| **DMA HR** | Disclosure on management approach – human rights | Full | Human rights | 89-90 | |
| **DMA SO** | Disclosure on management approach – social | Full | Stakeholder Engagement: strategy, principles, mechanisms and tools<br>Social Investment and Sustainable Development - Sakhalin Energy's Principles and Approaches | 42<br>92-94 | |
| **DMA PR** | Disclosure on management approach – product responsibility | Full | Russian content | 37-39 | |
| **Economic performance** | | | | | |
| **EC1** | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payment to capital providers and governments | Full | About Sakhalin Energy<br>Economic impact management<br>Remuneration and Bonus System<br>Social Investment and Sustainable Development - Sakhalin Energy's Principles and Approaches | 22<br>36-39<br>79<br>92 | |
| **EC3** | Coverage of the organisation's defined benefit/pension plan obligations | Full | Social Guarantees, Benefits and Compensations | 78-80 | |
| **EC4** | Significant financial assistance received from government | Full | | | In 2010, the Company received no financial assistance from government |
| **EC5** | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation | Full | Remuneration and Bonus System | 79 | |
| **EC6** | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation | Full | Russian content | 37-39 | |
| **EC7** | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation | Full | General Personnel Recruitment and Adaptation of New Employees | 75-76<br>76-77 | |



| GRI index | Aspect | Disclosure | Report section | Page | Comments and references to other sources |
|---|---|---|---|---|---|
| **EC8** | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement | Full | Benefits from Sakhalin-2 for the Russian Federation and Sakhalin Oblast.<br>Social investment and contribution to sustainable development of the host region | 36-37<br>92-94 | |
| **EC9** | Understanding and describing significant indirect economic impacts, including the extent of impacts | Full | Benefits from Sakhalin-2 for the Russian Federation and Sakhalin Oblast | 36-37 | |
| **Environmental performance** | | | | | |
| **EN3** | Direct energy consumption by primary energy source | Full | Energy Consumption | 58 | |
| **EN4** | Indirect energy consumption by primary source | Full | Energy Consumption | 58 | |
| **EN8** | Total water withdrawal by source | Full | Water Use and Water Discharge Management | 55 | |
| **EN9** | Water sources significantly affected by withdrawal of water | Full | | | Water consumption and water area impacts control |
| **EN12** | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | Full | Environmental monitoring and biodiversity conservation | 59-69 | |
| **EN13** | Habitats protected or restored | Full | Environmental monitoring and biodiversity conservation | 59-69 | |
| **EN14** | Strategies, current actions, and future plans for managing impacts on biodiversity | Full | Environmental monitoring and biodiversity conservation | 59-69 | |
| **EN16** | Total direct and indirect greenhouse gas emissions by weight | Full | Greenhouse Gas and ODS Emiss ion | 58 | |
| **EN17** | Other relevant indirect greenhouse gas emissions by weight | Full | Greenhouse Gas and ODS Emiss ion | 58 | |
| **EN19** | Emissions of ozone-depleting substances by weight | Full | Greenhouse Gas and ODS Emiss ion | 58 | |
| **EN20** | NOX, SOX and other significant air emissions by type and weight. | Full | Air Emiss ions Control | 55 | |
| **EN21** | Total water discharge by quality and destination | Full | Water Use and Water Discharge Management | 55 | |
| **EN22** | Total weight of waste by type and disposal method | Full | Waste Management Control | 56-57 | |

| GRI index | Aspect | Disclosure | Report section | Page | Comments and references to other sources |
|---|---|---|---|---|---|
| **EN26** | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation | Full | Environmental monitoring and biodiversity conservation | 54-71 | The Company evaluates environmental impacts and develops impact mitigation measures. The results are presented in impact assessment reports and in the Environmental and Social Action Plan, which are publicly available on the Company's website |
| **EN28** | Amount of significant of pecuniary penalties and total of non-monetary penalties imposed for failure to comply with environmental laws and regulations | Full | Environment Protection costs and Environmental Pollution Payments | 59 | |
| **EN30** | Total of environmental protection expenditures and investments by type | Full | Environment Protection costs and Environmental Pollution Payments | 59 | |
| | **Labour practices and decent work** | | | | |
| **LA1** | Total workforce by employment type, employment contract, and region | Full | General | 75-76 | |
| **LA2** | Total number and rate of employee turnover by age group, gender, and region | Full | General | 76 | |
| **LA5** | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements | Full | | | As per RF Labour Code (at least two months) |
| **LA7** | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region | Full | Labour safety and protection | 84<br>87 | |
| **LA8** | Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases | Full | Occupational health | 87-89 | |
| **LA10** | Average hours of training per year per employee, by employee category | Partly | Personnel training | 81 | Number of trained staff |
| **LA11** | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | Full | Personnel training | 81-82 | |
| **LA12** | Percentage of employees receiving regular performance and career development reviews | Full | Company employees goals and performance appraisal | 80-81 | 100% |
| **LA13** | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity | Full | General | 76 | |
| **LA14** | Ratio of basic salary of men to women by employee category | Full | | | Basic salaries of men and women do not differ |

| GRI index | Aspect | Disclosure | Report section | Page | Comments and references to other sources |
|---|---|---|---|---|---|
| | **Human rights** | | | | |
| **HR3** | Total hours of employees training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained | Partly | | | 100% of employees are trained on General Business Principles |
| **HR4** | Total number of incidents of discrimination and actions taken | Full | | | No registered cases of discrimination during the reporting period |
| **HR5** | Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and action taken to support these rights | Full | | | No operations in which the right to exercise freedom of association and collective bargaining may be at significant risk |
| **HR6** | Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour | Full | | | No operations risk of involving child labour |
| **HR7** | Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour | Full | | | No operations involving risk of forced or compulsory labour |
| **HR9** | Total number of incidents of violations involving rights of indigenous people and actions taken | Full | | | No registered cases of violation of rights of indigenous people |
| | **Society** | | | | |
| **SO1** | Nature, scope, and effectiveness of any programmes and practices that asses and manage the impacts of operations on communities, including entering, operating and exiting | Full | Social investment and contribution to sustainable development of the host region | 92-103 | |
| **SO3** | Percentage of employees trained in the organisation's anti-corruption policies and procedures | Full | | | 100% |
| **SO4** | Actions taken in response to incidents of corruption | Full | | | Prevention of corruption is one of the basic components of Company's Code of Conduct. In 2010 the Company reinforced preventive measures against bribery and corruption and adopted the Anti-bribery and Corruption Procedure |
| **SO6** | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country | Full | | | This indicator is not relevant for the Company. The Company does not support any political parties nor any individual politicians |
| | **Product responsibility** | | | | |
| **PR1** | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures | Full | | | Impact on health and safety of production and services are evaluated according to Russian legislation requirements and the Company's standarts. |

## APPENDIX 2: Sakhalin Energy's answers and commitments as part of its dialogue with stakeholders for development of the 2010 Sustainable Development Report

While developing sustainable development reports, the Company undertook a commitment to regularly conduct rounds of dialogue with the stakeholder, where they could share their views of the Company's operations, including opinions of such issues as environmental protection, social initiatives, stakeholders engagement, employees development, etc. and to voice their comments and suggestions for the development of the Company's production, environmental and social responsibility.

In November 2010 and February 2011 the Company held two rounds of dialogue:

- November 2010 – the first round during which the Company introduced the stakeholders to the information about the Company and its achievements during the reporting 2010 year.
- February 2011 – the second round of the dialogue during which the Company responded to the comments, proposals and questions raised by the stakeholders in the first round of sessions.

The outcome of the two rounds of dialogue is included in the 2011 Sustainable Development Report and presented in the table below.

The questions, comments or criticism voiced during the two dialogues with the stakeholders are placed in the left-hand side of the table. The answers to the question, given during the dialogues, and those which required additional investigation, are placed in the right-hand side of the table.

| Comment, question or pointed remark | Company reply |
|---|---|
| **Elena Chernyavskaya, Sakhalin Oblast Ministry of Agriculture, Fishery and Food Products**<br>What is the most frequent complaint about the Company? | Information about the nature of complaints received by the Company in 2010 is presented in Section 9.4.<br>In addition, information about complaints and their resolution is published regularly in a special report on public consultations and awareness (available on the Company's website http://www.sakhalinenergy.com/) |
| **An employee of the Regional Art Museum (gave no name)**<br>The Regional Art Museum takes part in the grant programmes, and in various functions implemented by the Company. We would also like to be partners of Sakhalin Energy in 2011-2012 to jointly implement the Sakhalin Indigenous Minorities Development Plan. | The Sakhalin Indigenous Minorities Development Plan is implemented on the basis of a trilateral agreement between Sakhalin Energy, Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities and the Sakhalin Oblast Government which are partners in the Plan implementation. Other organisations may apply for partnership in accordance with the SIMDP provisions. |
| **Sergei K. Kurmanguzhinov, Chairman of Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities**<br>Speaking about the Company activities as a whole, I must say that we have established a straightforward and open relationship. The trilateral agreement is truly fully valid. I hope that we will be able to maintain our cooperation in the future and it will do a lot of good in the future. | The Company will continue to pursue its commitments under the trilateral agreement and the Sakhalin Indigenous Minorities Development Plan |
| The Chair was created by the Company. I suggest that the Company describes the Chair work in more detail than in the 2009 Report since we have a lot to share and to discuss. | The Sustainable Development Report, prepared as per key GRI and A1000 standards and indicators, reflects major strategic partnership programmes of the Company. The Report format does not allow to describe in detail all the projects supported by the Company and all the activities under those projects. On the other hand, the Company supported in 2010 development of the Chair by financing, by information support by covering the Chair activities in its corporate publications and TV programmes. In 2010, the Company also implemented a joint project with the UN Development Programme in Russia and its experts issued their recommendations regarding further development of the Chair. |
| **Elena N. Lisitsyna, Head of Sustainable Development Chair, Sakhalin State University**<br>The Report is very explicit, it presents a minimum of production statistics (which is good, in my opinion) and correctly reflects key environmental and social activities, with references to all the stakeholders. The Report provides an adequate account of all the stakeholders (employees, public, and government). | The Company appreciates this favorable comment. |
| Due to the Chair activities, I participated in a workshop, organised by the St.Petersburg State University on education for sustainable development. There I familiarised myself with very good experience of the Baltic Universities Association: they organised a wide volunteer campaign to engage students and young people in general in ecological disaster response operations (oiled birds, oil spill recovery, etc.).<br>I think we must use this experience and our University can play a leading role in that. | In November 2010, a meeting of the working expert panel under the Sakhalin Region Environmental Council took place. The Company made a presentation on the oiled wildlife rehabilitation measures. The Company regularly holds respective exercises and drills using its special-purpose equipment. Deputy Chairman of the Expert Working Panel is V.N. Efanov, the Dean of the Science Faculty, Sakhalin State University. Mr Efanov had a discussion with the Company presenter regarding a possibility to lectures on that topic. The Sakhalin University is prepared to propose a programme to engage studies in oil spill response operations. Relevant consultations are ongoing. |
| **Valentina A. Malysheva, Director of Regional Scientific Library.**<br>It has been said here already that 20 information centres operate as housed by public libraries. We do certain work, which produces results, in my opinion. But I think it would be good if every company published such reports. We are criticizing Sakhalin Energy, but our criticism is fair, we should not be afraid of criticism. The openness of this Company to criticism appeals to me. Of course, this is related to the fear of environmental disasters since man-made disasters occur ever more frequently and this causes our concern.<br>It would be good if all the companies did it in the situation when human activities cause so many troubles. We could learn from the company how to interact with the public, local residents, how to discus all the problems and honor criticism.<br>However, I believe the Company should somehow expand its activities (promotion of their ideas, propagation of information about the Company among local residents),i.e., for example, to use for this purpose not only the Report we are discussing today, but also the presentations. I would be glad to be able to demonstrate these presentation materials in our library. We have activities related to regional studies, and you can imagine how much we would appreciate such materials. We could invite Company specialists for the meetings we have, or (in case it is not possible) we could ourselves present some information, provide hand-outs. This is necessary because some people on the island still think that it is some American company and they do not really understand what the Company is doing. Such meetings could build mutual understanding between the local population on the whole and the Company.<br>I am grateful for the invitation to this meeting and I hope that such functions will be also included in the work plans for the next year. | The Company periodically provides all its public information materials to all 23 information centres in various parts of the island, as well as to the Sakhalin Regional Scientific Library.<br>In addition, all information, including annual overviews, press releases, publications, project reports are made publicly available on the company website: www.sakhalinenergy.com<br><br>Additional information can be received upon request from External Affairs of Sakhalin Energy at the address: external-affairs@sakhalinenergy.ru. The Company is willing to share its experience by taking part in relevant Russian and international activities, as well as under the UN Global Compact Russia which it joined in 2009. |
| **Mikhail L. Petrukhin, Deputy Chairman of the Sakhalin Regional Council of Veterans of the War, Labour, Army and Law Reinforcement Authorities**<br>We would like to know about the prospects of production expansion. | The issues related to expansion of production are decided by the Company shareholders and the State. |

| Comment, question or pointed remark | Company reply |
|---|---|
| What are the plans for pubic organisations engagement? | Throughout the years of its existence the Company has been in close contact with public organisations. We regularly hold joint activities together with the Sakhalin Regional Veterans Council. |
| **No name given; Regional Library**<br>Will you accept out requests for grants to publish Sakhalin literature?<br>There some books which we would like to publish. But they will have to be translated first. It is possible? | The Company is open for discussion of projects, including provision of grants. There are contests for financing of various initiatives to which you can apply. You can get more information at the Company's website. |
| **Valentina A. Malysheva, Director, Regional Library**<br>'Where can we find your publishing programme (what has been and what will be published)?<br>Sakhalin Energy's Vesti is a very good newspaper. According to the law on mandatory local copy of a document, we ought to receive this newspaper, but we don't. It's an interesting newspaper and we would like to have it during exhibitions, etc. Can it be arranged for us to receive it? | All printed matter is posted on the Company's official web-site www.sakahlinenergy.ru<br>As of January 2011, the Company has been sending copies of the corporate newspaper to the Sakhalin Regional Universal Research Library. |
| **Alla Ivanovna Gafner, SNT Stroitel Chairperson**<br>'It was back in 2005 that the Chief Sanitary Officer of the Russian Federation gave us the following answer: The final decision as regards the area of the sanitary protection zone will be made based on the results of the industrial environment control of the ambient air quality and the noise level on the border of the sanitary protection zone established for the facility operation, and the field study of changes. The decision is to be implemented within a year in accordance with a special programme approved by the federal oversight authorities for consumer protection. A year has passed, the operation period has started. There have been no studies whatsoever. | The Prigorodnoye facilities' impact on the environment is limited by the area of the sanitary protection zone (SPZ) established the aforesaid facilities by Russian law. In accordance with SanPin 2.2.1/2.1.1.1200-03 (item 2.14) Sanitary Protection Zones and Sanitary Classification of Enterprises, Installations, and Other Facilities, the width of the SPZ for facilities not included in the sanitary classification, as well as for facilities that use state-of-the-art technologies never applied in Russia before, shall be determined independently for each individual case by the Chief Sanitary Officer of the Russian Federation or his deputy. For the LNG plant and Oil Export Terminal (hereinafter, OET) in Prigorodnoye, a 1,000– m SPZ from the sources of emission was established by Deputy Chief Sanitary Officer S.I. Ivanov (letter dated 16 July 2002).<br>The legitimacy of establishing a 1000-m SPZ limit for LNG/OET has been many times checked by the Sakhalin Interregional Environmental Prosecutor's Office. No violations of the current legislation were found. It is noteworthy that in 2009, based on the instruction from the Federal Service for Consumer Rights and Human Welfare Protection (Rospotrebnadzor), Sysin Research Institute conducted a hygiene expert review of the Inventory Report and the MPE from the LNG/OET sources (Prigorodnoye, Korsakov District, Sakhalin Oblast) and re-issued Expert Conclusion No. 5/EKZ-2/09 to confirm the 1000-m SPZ established in 2002.<br>As of 2009, the Company has been performing environmental monitoring of the top vegetative and soil cover around LNG/OET, aimed at assessing the LNG/OET impact on flora, vegetation and soil and the adjacent eco systems. The research is conducted by scientists from Vladivostok and Moscow and covers areas around the plant at a distance of 1-3 km. The monitoring results reveal that on the whole the structure and species composition of the great majority of vegetation communities around LNG/OET remain unchanged and there are no changes or contamination of soil. |



| Comment, question or pointed remark | Company reply |
|---|---|
| Earlier they used to say that the climate is to blame for our poor harvest, but this year's summer was very different. Still, no harvest. Only air is being monitored, nothing else (neither the ground, nor the plants – nothing was subject to research). | At the request of the gardening land plots owners, since 2005 the Company has been continually monitoring the ambient air and the noise level on the territory of the Stroitel non-commercial gardening community during the summer season from May through October. During the observation period, not a single case of pollutant levels exceeding the maximum permissible concentration was registered in the air. The monitoring is performed by a licensed organisation ANO Sakhalin Meteoagency, in accordance with the RF rules and standards.<br>The Company's studies of soils, agricultural and gardening production conducted in 2006-2007 by the Sakhalin Research and Development Institute for Agriculture did not reveal any impact on the crops or soil, or any deviations from the specified standards.<br>In the course of the inventory of emission sources and MPE development substances are determined that may be potentially present in the facility emissions.<br>The emission volume of all identified substances is controlled by calculation for compliance with the standards approved by the Sakhalin Department of the Federal Service for Environmental, Technologic and Atomic Supervision. The air monitoring programme is focussed on the substances with maximum contribution to the pollution and carcinogenic ones. All calculations and assessments for identifying a list of substances present in the LNG plant emissions are carried out in accordance with the current regulatory documents and methodological guidelines. |
| 'This year bears have become very active (in addition to foxes, chipmunks, etc., who have gnawed everything in our gardens). Since July I have been reporting this to EmerCom, militia and forest service. People came, found bear's footprints, killed the bear that had damaged all our dachas; in October there was another bear (300 kilos, it was also killed), now two more have come and completely destroyed 7 dachas, arranging their resting places at two of them. How are we to go back in spring? This only means that the ecology has been impacted. Bears are coming to people. | An increased number of bears does not mean that the ecosystem has been disrupted. The bear population in the south of Sakhalin grows most likely due to a great number of fish coming to spawn (fish years) and high recreation activity of the people. Thus, the increased number of bears is partially caused by people, too. |
| **Alexander Petrovich Gusto, Head of Kholmsk Urban District Municipal Administration**<br>The Report is very interesting, makes a positive impression, the information presentation makes it easy to follow. The most interesting section is on social and economic importance of the Project. I would suggest inviting other organisations involved in the Project to our subsequent dialogues. | The Company appreciates such a feedback. While preparing its 2010 Report, the Company extended the list of participants in the dialogue, including the organisations involved in the Project. |
| **Tatyana Lyakhovskaya, Senior Consultant, Expert Association representative for Corporate Social Responsibility (CSR) issues.**<br>'The Company 2009 report is good and substantial. An interesting report like that should be distributed. I would recommend including into the 2010 Report more development target indicators and more information on the challenges, of which there might be more than enough. It is necessary that the Company should improve its investment in the region for the purpose of sustainability, so that the Sakhalin Energy's support will not be needed in the future. | This Report contains more development target indicators than in 2009, including economic, ecological and social ones. Besides, like the previous report, it reflects challenges and problems the Company is facing. In 2010, the Company continued its social investment programmes (see Section 20). |

| Comment, question or pointed remark | Company reply |
|---|---|
| **Valery Nikolaevich Yefanov, Dean of the Science Faculty, Sakhalin State University**<br>As regards the discussion between the cooperative and the Company, I can say the following: even if a soil sample is taken for testing by all research institutes, they would not be able to change the general standard indicator. There are indicators of heavy metal and oil-hydrocarbon content. As for the studies required by the cooperative members, there are no standards. The monthly air monitoring is done correctly. There is a turnover of contaminants in the air, and air is a good indicator of environmental situation. There is industrial environmental control, and therefore additional costs are required for more frequent monitoring.<br>About the provided Company report. I highly appreciate its activity. A lot of environmental research is being done. Time has come to bring together all the studies for people to be aware of the profound nature of the studies.<br>Environmental problems: they do exist. The biodiversity research needs to be expanded and put on a different foundation. This issue was presented to the Governor. I believe, Sakhalin Energy will continue this research, i.e., find out whether the Company facilities are factors that ruin the biodiversity, and if so, how can this be dealt with. | In December 2007, the Sakhalin Oblast Environmental Council, on the Company's recommendation and with its support, set up a Biodiversity Group. The Group mandate requires expert recommendations and development of a regional plan for conservation of biodiversity, which is an important basis for economic activity on the whole.<br>The Biodiversity Group is an important forum for Sakhalin Oblast executive authorities, regional research institutions, technical and ecological experts, interested state and international organisations and the Company (as a business representative). Until recently, the Group was oriented in its activity exclusively at Sakhalin Energy. Its further task will be expanding its interface to cover other industries, organisations involved in agriculture, forest sector and fishing industry, etc., thus improving coordination of the national strategy on the regional level. |
| **Laura Williams, Director, Western Pacific Program, Wild Salmon Centre**<br>The Report contains comprehensive information on the Company measures for environmental protection and monitoring of the environmental impact of its operation.<br>We welcome the Company's investments in environmental projects and social programmes, as well as its commitment to become a world leader in corporate social responsibility.<br>With respect to reliability and objectivity of the information provided in the 2009 Report: in order to give a critical assessment, it would be necessary to analyse its conclusions on the Project's environmental impact (or absence of adverse impact) as compared with the true baseline survey data obtained prior to the start of the Project. It is not quite clear what the impact level is compared to and what are the objectives. On the whole, the document demonstrates positive results achieved in environmental protection and social sphere, yet, it is difficult to verify these conclusions without the empirical baseline data support.<br>I would like to recommend improving the long-term sustainable financing of environmental projects and studying the investment possibilities in biodiversity conservation (reservation of funds and their investment in environmental actions on the territories free of development operations, as compensation for inevitable losses of biodiversity on other territories).<br>We would like to see in the next report an objective assessment of the biodiversity status given the Company's operation impact (ecosystem before and after the start of operation), and if such negative impact is identified, description of mitigation measures. | The Report provides information on the studies undertaken in 2010, it describes their goals and objectives, gives a brief survey of the obtained results. Where possible, these results are compared with those of previous years monitoring. On the whole, the monitoring results show there have been no negative changes in the ecosystems under survey. In order to understand the nature of the Company facilities' impact on the ecosystems and develop adequate measures, a long-term monitoring is conducted, which makes it possible to reveal the negative impact at an early stage and develop a system of mitigation measures before the changes become irrevocable. |



## APPENDIX 3: List of stakeholders who participated in dialogues for development of the 2010 sustainable Development Report

1. N.Ye. Samarina, Head of Natural Resources Management, Department of Environmental Monitoring of Municipality Yuzhno-Sakhalinsk Urban District, Municipal Administration Yuzhno-Sakhalinsk Urban District
2. A.P. Gusto, Head of Kholmsk Urban District Municipal Administration
3. N.V. Kizimova, Manager of Sakhalin Salmon Initiative educational project
4. S.Yu. Didenko, Executive Director, Sakhalin Salmon Initiative
5. V.A. Malysheva, Director of the Regional Scientific Library
6. V.G. Borisova, Chief Accountant, Regional Scientific Library
7. T.B. Khlusovich, Head of Section, Sakhalin Regional Scientific Library
8. V.G. Egupova, Leading Librarian, Sakhalin Regional Scientific Library
9. N. A. Pavlovskaya, Head of Division, Sakhalin Regional Scientific Library
10. Yu. M. Lysich, Leading Coordinator, Sakhalin Regional Scientific Library
11. N.A. Vorobyev, Liaison Specialist, Sakhalin Environmental Watch NGO
12. A. I. Chonka, Senior Inspector of Traffic Control, Division of the State Inspectoration for Road Safety, Yuzhno-Sakhalinsk Department of Internal Affairs
13. E.A. Koroleva, Head of Division for Sakhalin Indigenous Minorities, the Govenment pf Sakhalin oblast
14. E.D. Nevenchina, Leading Advisor, the Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast Administration, the Government of Sakhalin Oblast
15. E.G. Chernyavskaya, Chief Specialist of Grade 1, Division for Fauna Protection and Special Protected Natural Areas, the Sakhalin Oblast Ministry of Agriculture, Fisheries and Food-staff, the Government of Sakhalin Oblast
16. E.G. Manoilenko, Projects Manager, Kidsave NGO representative office
17. M.V. Ermakova, Head of Kidsave NGO representative office
18. S.K. Kurmanguzhinov, Chairman of the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities
19. Yu. P. Maltsev, Chief Advisor, the Sakhalin Oblast Duma
20. E. N. Lisitsina, Head of Department for Sustainable Development, Sakhalin State University
21. A.V. Buryka, Director, Sakhalin Regional State Museum of Art
22. I.G. Malkova, Deputy Director, Sakhalin Regional State Museum of Art
23. T.P. Roon, Director, Sakhalin Regional Museum of Local Lore
24. M.L. Petrukhin, Vice Chairman, Sakhalin Regional Council of Veterans of War, Labour, Armed Forces and Law Enforcement Agencies
25. V.N. Efanov, Professor/Chairman of the Sakhalin Biodiversity Partnership, Sakhalin State University
26. A.I. Gafner, Chairman of the Management Committee, Stroitel cooperative
27. A.Ya. Nachetkina, Member of the Yuzhno-Sakhalinsk Council of the Sakhalin Indigenous Minorities
28. L.V. Kirillova, Acting Head of Division, Sakhalin Oblast Department of the Federal Service for Supervision of Natural Resources Use
29. O.D. Kostenko, Deputy Head of Division, Sakhalin Oblast Department of the Federal Service for Supervision of Natural Resources Use
30. E. N. Terekhova, Acting Deputy Head of Division, Sakhalin Oblast Department of the Federal Service for Supervision of Natural Resources Use
31. A.D. Samatov, First Deputy Director for Research, FGUP Sakhalin Research Institute of Fishery and Oceanography

## APPENDIX 4: Useful links

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|---|---|
| Company public website | http://www.sakhalinenergy.com/, http://www.sakhalinenergy.ru/ |
| Information on the Company | http://www.sakhalinenergy.com/ru/aboutus.asp?p=aboutsakhalin |
| On the Sakhalin-2 Project | http://www.sakhalinenergy.com/ru/project.asp?p=explore_phase2 |
| Statement of General Business Principles | http://www.sakhalinenergy.com/ru/aboutus.asp?p=business_principles |
| Sustainable development | http://www.sakhalinenergy.ru/ru/default.asp?p=channel_home&c=2 |
| Media centre | http://www.sakhalinenergy.ru/ru/mediacentre.asp |
| Information for contractors | http://www.sakhalinenergy.ru/ru/aboutus.asp?p=contracting_with_us |
| Information about vacancies | http://www.sakhalinenergy.ru/ru/aboutus.asp?p=working_with_us_home |
| Vesti corporate newspaper | http://www.sakhalinenergy.ru/ru/media4.asp?p=home&yr=2010 |
| Energiya TV programme | http://www.sakhalinenergy.ru/ru/media6.asp?p=home&yr=2010 |
| Interesting facts | http://www.sakhalinenergy.ru/ru/mediacentre/facts.asp |
| Whistle blowing procedure | http://www.sakhalinenergy.com/ru/aboutus.asp?p=whistleblowing |
| **Company documents and material referred to in the Report** | |
| Annual Reports | http://www.sakhalinenergy.ru/ru/aboutus.asp?p=annual_reports |
| HSESAP | http://www.sakhalinenergy.com/en/library.asp?p=lib_actions_shelf&l=lib_social_plan2010rev3 |
| Lenders' Independent Environmental Consultant Report on Conducted Monitoring | http://www.sakhalinenergy.ru/ru/library.asp?p=lib_3rdparty_shelf&l=lib_3rdparty_lendersreport |
| Company social performance management standard | http://www.sakhalinenergy.com/en/documents/61_Social_Performance_Standard_Overview_E.pdf |
| Public Consultations and Information Disclosure Plan (updated annually) | http://www.sakhalinenergy.com/ru/library.asp. |
| Public Consultations and Disclosure Report for 2010 | http://www.sakhalinenergy.ru/ru/library.asp?p=lib_social_shelf<br>http://www.sakhalinenergy.com/en/documents/PCD_Report_2010_Eng_FINAL_clean.pdf |
| Biodiversity Action Plan | http://www.sakhalinenergy.ru/ru/documents/Biodiversity_Action_Plan_rus.pdf |
| Environmental protection at Prigorodnoye production facilities | http://www.sakhalinenergy.ru/ru/documents/Environment_brochure_ru.pdf |
| Public Relations. Best Practices Collection | http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf |
| My Victory video | http://www.sakhalinenergy.com/ru/default.asp?p=channel&c=4&n=300 |
| **Projects and Programmes websites** | |
| Sakhalin Salmon Initiative | http://sakhsalmoninitiative.org/ |
| Sakhalin Indigenous Minorities Development Plan | http://www.simdp.ru/. |
| Korsakov Partnership Council for Sustainable Development | http://www.korsakovsovet.ru/ |
| IUCN Western Gray Whale Advisory Panel (WGWAP) | http://www.iucn.org/wgwap/wgwap/ |
| The Project dedicated to the 150th jubilee of A.P. Chekhov – Chekhov and Sakhalin | http://www.chekhov-sakhalin.ru |
| **Reference Material and Other** | |
| UN Global Compact | http://www.unglobalcompact.org |
| Global Reporting Initiative | http://www.globalreporting.org/<br>http://www.globalreporting.org/Home/LanguageBar/RussianLanguagePage.htm (на русском) |
| UN Global Compact in Russia | http://www.undp.ru/index.php?iso=RU&lid=2&pid=73 |
| Corporate Social Responsibility Practices (UN Global Compact in Russia) | http://www.undp.ru/documents/GC_in_Russia-rus.pdf |

## APPENDIX 5: Company information centres

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

## APPENDIX 6: Feedback form

### DEAR READERS,

You have just read 2010 Sakhalin Energy Sustainable Development Report (hereinafter – 'Report').
Your opinion on this Report is very important to us and we would really appreciate if you help us improve the quality of reporting by answering questions stated in this Form.

**1. After reading Report, do you have a better idea and understanding of Sakhalin Energy activities in sustainable development?**

☐ Yes ☐ Mostly Yes ☐ Equal ☐ Mostly No ☐ Unsure

Please provide comments in support of your answer

**2. What is your impression on information contained in this Report?**

☐ Very interesting ☐ Mostly interesting ☐ Equal ☐ Mostly uninteresting ☐ Greatly uninteresting ☐ Unsure

**3. How do you rate this Report in terms of credibility and unbiassness of information provided?**

☐ Very favourable ☐ Mostly favourable ☐ Equal ☐ Mostly unfavourable ☐ Very unfavourable ☐ Unsure

Please provide comments in support of your answer

**4. How do you rate the Report in terms of how easy it to find required information?**

☐ Very easy ☐ Mostly easy ☐ Equal ☐ Mostly uneasy ☐ Very uneasy ☐ Unsure

Please provide comments in support of your answer

**5. What Section of the Report was most interesting and valuable to you?**

**6. What aspects of Sakhalin Energy activity, in your opinion, are to be improved in order to enhance its social responsibility?**

**7. What other information would you like to have in the next Sakhalin Energy Sustainable Development Reports?**

**8. Please provide general comments on the Report:**

**9. Are you or your organisation interested in participating in dialogues about preparation of 2010 Sustainable Development Report?**

Yes (please provide your contact information) | ☐ No

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

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

☐ Company's employee ☐ Customer (Buyer) ☐ Representative of public organisation ☐ Investor ☐ Partner (Contractor)

☐ Shareholder ☐ Representative of authorities ☐ Mass media ☐ Other group of persons concerned

**Please indicate your contact information below:**

| | |
|---|---|
| Name: | |
| Job title: | Telephone: |
| Organisation: | Fax: |
| Address: | E-mail: |

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

☐ By mail ☐ By E-Mail

**Please return the completed Form on the 2010 Sustainable Development Report to:**
35 Dzerzhinskogo Str., Yuzhno-Sakhalinsk, Sakhalin Region, Russian Federation, 693020
You may also send this Form by e-mail: Ask-sakhalinenergy@sakhalinenergy.ru
or leave it at the Company's Information Centre
List and addresses of information centres are given in Appendix 5 to the Report.

**THANK YOU FOR YOUR FEEDBACK!**


**Sakhalin Energy Investment Company Ltd.**

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