Sakhalin Energy

Investment Company Ltd.

SUSTAINABLE DEVELOPMENT POLICY

2012

CONTENT

The objective of Sakhalin Energy is to commercially develop, operate and market the hydrocarbon resources and associated infrastructure governed by the Sakhalin-2 licenses for the sustainable benefit of shareholders, the Russian Federation, the Sakhalin Oblast and the wider community.

Sustainable development and corporate social responsibility (CSR) are essential components of Sakhalin Energy's business way and strategic development. CSR is a tool part of an on-going corporate strategy to increase our prominence in the society and develop our business in sustainable and ethical manner.

PURPOSE

In the Statement of General Business Principles Sakhalin Energy:

• Commits to contribute to sustainable development: "To contribute to sustainable development. This requires balancing short and long term interests, integrating economic, environmental and social considerations into business decision-making".

• Recognises six areas of responsibility including a responsibility to society: "To conduct business as responsible corporate members of society, to observe the laws of the Russian Federation and the other countries in which Sakhalin Energy operates, to support fundamental human rights in line with the legitimate role of business, and to give proper regard to health, safety, security and the environment".

The main purposes of the document are to:

• Outline Sakhalin Energy's approach to sustainable development (SD) and SD principles.

• Describe Sakhalin Energy's policy and commitments to contribute to sustainable development.

Each employee of Sakhalin Energy (including contractor staff) has the responsibility to discharge the requirements of this Policy.

CED reviews and approves the SD Policy. On their behalf it is authorised by the Chief Executive Officer (CEO).

The Policy is communicated to all staff and made available to the public (via internet website).

INTRODUCTION

Sakhalin Energy shares approach along with the principles and provisions of ISO 26000: 2010 standard Guidance on Social Responsibility containing the following definition of social responsibility for any type of organisation, whether commercial company, state organisation or non-profit organisation: "The responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development including health and the welfare of society, takes into account the expectations of stakeholders, is in compliance with applicable law and consistent with international norms of behaviour, and is integrated throughout the organisation and practiced in its relationships".

The concept of SD is about ensuring that "the needs of the present generation are met without compromising the ability of future generations to meet their own needs"[1] . Sakhalin Energy adopts this widely followed definition of SD.

This SD Policy has been pursued throughout the entire duration of the Sakhalin-2 project by incorporating SD principles into the business policies, plans and processes of the Company. In this sense, sustainable development presumes and ensures economic effectiveness, environmental safety, social justice and ethical behaviour, combined with an overall reduction of human impact on the biosphere. That is implemented via strong, transparent, constructive and systematic co-operation and two-way communication with all groups of stakeholders. Such cooperation has proved to be the backbone of our success.

1 Our Common Future; UN World Commission on Environment and Development (The Brundtland Commission), 1987

Measures implemented by Sakhalin Energy in the framework of the SD Policy over the last years resulted in considerable achievements:

- On the basis of the best Russian and international experience with attracting stakeholders to open and honest discussion the detailed system of standards and commitments in health, safety, environmental and social spheres (please see Health, Safety, Environmental and Social Action Plan) was developed.

- SD principles have been embedded into business policies, plans, procedures and processes.

- The processes of regular provision of information to stakeholders and reporting on the CSR performance and fulfilment of the HSESAP commitments have been implemented to ensure openness and transparency.

- Internal and independent external verification and monitoring have been implemented to ensure that the HSESAP commitments are being complied with measures of informing stakeholders and public about the results of the compliance checks have been implemented.

- Efficient engagement with stakeholders with the special focus on project affected communities and vulnerable groups has been ensured. The implementation of the community – Company dialogue process aiming at open transparent relations not only contributes to the efficient Sakhalin-2 project implementation but also is the necessary prerequisite for further development in the region.

- Three-level system of direct communication with communities is a unique mechanism developed and tested by the Company: information exchange with stakeholders happens at each level of organization and between them. The system levels are Company, community liaison organization and information centres based in local libraries in 23 Sakhalin communities.

- The Company has allocated significant amount of social investments in Sakhalin Oblast. These initiatives aimed at solving topical problems have contributed to real increase of life quality; a number of social programmes have been singled out as complying with the best Russian and international SD/CSR practice.

SD PRINCIPLES

The Company endeavours to take a lead on sustainable development taking into account the Rio Declaration[2] principles applicable for business as a member of society.

The starting point of the Policy are the seven *SD principles* that the Company adheres to:

- Respect and promote human rights.
- Identify and mitigate economic, environment and social risks and impacts.
- Use resources efficiently and enhance environmental and biodiversity protection.
- Maximize profitability.
- Develop strategic partnerships to enhance sustainable development of host communities.
- Engage with stakeholders openly and honestly and take their views and concerns into account in Company's decision-making.
- Deliver sustainable value to employees, shareholders, contractors, business partners, and host communities.

SD POLICY AND COMMITMENTS

To fulfill these principles the *SD Policy* is:

- Sakhalin Energy will carry out its business responsibly and efficiently so as to deliver a robust project that will maximise benefits to the Russian Federation, the Sakhalin community and shareholders.
- Sakhalin Energy will contribute to the present and future needs of society on Sakhalin Island while keeping a balance between economic development, environmental protection and social responsibility taking into account cultural diversity.
- Sakhalin Energy will work with stakeholders to identify ways to contribute to the wider, long-term economic, environmental and social benefits in the Sakhalin region.

To comply with the abovementioned principles Sakhalin Energy's *SD commitments* are:

- Continue to embed SD principles into business plans, procedures and processes.
- Continue to ensure compliance with the HSE and Social Performance commitments and policy and standards stipulated in the Health, Safety, Environmental and Social management system and Action Plan (HSE&SP-MS and HSESAP).
- Continue to inform and engage with our stakeholders on company's SD performance and seek feedback.
- Continue to develop and implement social investment/SD programmes that are linked to the Company's strategy, and have clear procedures and controls.

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2 Rio Declaration in Environment and Development adopted by The United Nations Conference on Environment and Development (Rio de Janeiro, 3-14 June 1992)

- Continue to have focus on developing strategic partnerships with external stakeholders to enhance positive impact of community development programmes.

- Issue annual non-financial reporting in accordance with the international AA1000 and Global Reporting Initiative (GRI) standards and principles.

- Be a participant of the UN Global Compact [3] (GC) complying with its ten principles[4] and promoting them.

- Be a member of UN GC LEAD[5] demonstrating sustainability leadership in particular:

  - continuously advance sustainability performance and work towards implementing the GC Blueprint for Corporate Sustainability Leadership[6].

  - share related outcomes and learnings with the broader universe of companies in the Global Compact and broader by participating in global initiatives as well as in Global Compact Local Networks.

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3 Sakhalin Energy joined the UN Global Compact in November 2009.

4 Ten UN Global Compact's universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

5 UN GC LEAD launched in January 2011 is a UN GC initiative with the the primary objective is to support leading UN Global Compact participants in their efforts to achieve higher levels of corporate sustainability performance – as outlined by the Blueprint for Corporate Sustainability Leadership – and give them proper recognition for doing so. Global Compact LEAD is a platform for the implementation of the Blueprint for Corporate Sustainability Leadership that was launched at the Global Compact Leaders Summit in June 2010.

6 The Blueprint is a new model of leadership within the Global Compact, which has been designed to inspire advanced performers to reach the next level of sustainability performance. It identifies criteria for leadership practice in three distinct but overlapping dimensions: (i) integrating the ten principles into strategies and operations; (ii) taking action in support of broader UN goals and issues; and (iii) engaging with the UN Global Compact; as well as cross-cutting components.

TERMINOLOGY

Term	Definition
AA1000 Stakeholder Engagement Standard	The standard form AA 100 series standards that aims to secure the quality of organizations' engagement with their stakeholders in the context of learning, governance and accountability. The AA1000SES can be used as a stand-alone standard or in collaboration with other standards (e.g. AA1000 Assurance Standard, Global Reporting Initiative, ISO).
Corporate Social Responsibility	Integration of economic, social, and environmental issues into corporate governance and business systems and processes using innovative and proactive solutions to address economic, social, and environmental impacts and challenges and involving both internal and external stakeholders to improve CSR performance.
Cultural diversity	A diversity of human societies and cultures in a specific region, or in the world as a whole.
Global Reporting Initiative	Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability. GRI provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world. GRI's sustainability reporting

	framework enables all companies and organizations to measure and report their sustainability performance. Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting.
Health, Safety, Environment and Social Action Plan	The HSE and Social Action Plan (HSESAP) provides a clear statement of the specific commitments of the Company. It identifies Sakhalin Energy's commitments to legal requirements and international standards, management system standards, and Company standards that specify the detailed commitments.
ISO 26000:2010 "Social Responsibility"	This international standard which provides guidance on the underlying principles of social responsibility, recognizing social responsibility and engaging stakeholders, the core subjects and issues pertaining to social responsibility and on ways to integrate socially responsible behaviour into the organization. This international standard emphasizes the importance of results and improvements in performance on social responsibility.

Non-financial reporting	The process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large.
Sakhalin Energy Investment Company Ltd./Sakhalin Energy/ Company	"Sakhalin Energy" or "Company" shall mean Sakhalin Energy Investment Company Ltd.
Social Investment	Social investment is an efficient way of responding to social expectations and needs of communities through implementing and supporting long-term strategic partnership programmes and projects and other voluntary charitable contributions that strengthen the Company's reputation and create conditions for positive change in communities' life.
Stakeholder	A person, group, organization, or system who affects or can be affected by an organization's actions.
Sustainable Development	The starting point definition for sustainable development for purposes of this document and policy development is the widely followed definition of: "Meeting the needs of the present without compromising the ability of future generations to meet their own needs."

Terminology

The United Nations Global Compact	A United Nation's strategic policy initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. Joining to Global Compact businesses commit to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Acronyms and abbreviations

AA1000SES	AA1000 Stakeholder Engagement Standard
CED	Committee of Executive Directors
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
GRI	Global Reporting Initiative
HSE	Health, safety and environment
HSESAP	Health, Safety, Environment and Social Action Plan
ISO	International Standardization Organization
PAP	Project affected population
SD	Sustainable Development
SI	Social Investment
SP	Social performance
UN	The United Nations
GC	Global Compact