

Conclusion of the RUIE Council for Non-Financial Reporting on outcomes of Sakhalin Energy's 2009 Sustainable Development Report's review in order of public endorsement

On the Sakhalin Energy Investment Company Ltd.'s (hereinafter "Sakhalin Energy" or Company) initiative the Council for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (hereinafter "Council") that was created in accordance with the decision of RUIE Board of Directors' Bureau (Resolution as of 28.06.2007) has reviewed Company's 2009 Sustainable Development Report (hereinafter "Report"). The Company asked the RUIE to create a public endorsement process that allowed to issue the Council's opinion on the importance and comprehensiveness of information on a Company's performance, based on the Social Charter of Russian Business that includes principles of responsible business practice.

From 12 to 27 July, the Council reviewed the Company's Report and prepared its conclusion, based on Council-approved rules for public endorsement of non-financial reports. The Council members are experts in corporate responsibility, sustainable development, and non-financial reporting. They give their personal opinions, not the opinions of their organisations, in full compliance with the business principles of independent and unbiased judgment.

The Council based its assessment of the relevance and comprehensiveness of the information in the Report using these criteria:

Relevant information that demonstrates a Company's compliance with principles of responsible business practices according to the Social Charter of Russian Business (www.rspp.ru).

Full information means that the Company's report provides integrated information on all main aspects of the Company's activities - the underlying values and strategic goals, management systems and structures, stakeholder engagement process, major achievements and key performance and efficiency indicators.

The public endorsement process takes into consideration the international reporting systems the Company has used. However, the Conclusion does not assess the Company's compliance with these systems.

Sakhalin Energy assumes full responsibility for the information and representations in the Report. The authenticity of the factual data provided in the Report is outside the scope of the public endorsement process.

This Conclusion is issued for Sakhalin Energy. The Company may use this Conclusion for corporate purposes, as well as for its engagements with stakeholders, provided the Conclusion is published as it is, without any changes.

CONCLUSIONS

Based on a review of the Report, public information on the Company's website, and a discussion of its independent review, the Council confirms the following:

Sakhalin Energy's 2009 Sustainable Development Report mostly contains relevant information and covers key areas of responsible business practices according to the Social Charter of Russian Business, providing sufficiently full information on the Company activities in these areas.

Economic freedom and responsibility: The Report provides information on the Sakhalin-2 Project (hereinafter "Project"), which the Company is developing with the Russian Federation based on a production sharing agreement. The Report also details the social and economic significance of the Project for the Russian Federation and the Sakhalin Oblast, including payments into the budgets of all levels of government, and information on hydrocarbons production, investments in the Project development and the Company's Russian Content performance.

The Report shows the Company's activities are grounded in General Principles that apply to all aspects of its operations, based on a range of corporate documents, including Sakhalin Energy's Sustainable Development Policy, Code of Conduct, Statement of General Business Principles, etc. Procedures and controls are in place to ensure that all Company employees, including top management, comply with the principles in these documents. The Company uses a risk management system in its daily activities (economic, social and environmental risk assessment matrices).

The Company's mission, core values, and principles are representative of its focus on strengthening sound business practices and achieving high corporate standards.

Business partnership: The Report describes a range of business partnership practice including engagement with the Federal and Sakhalin government authorities, as well as municipalities, employees, shareholders, Russian and international business partners, customers, and public and civil institutions.

The Report provides information on supplier and contractor relations. The Company has a vendor development programme designed to increase the competitiveness of Russian enterprises in Russian and international markets. The Report describes business partnership practices, including cooperation with Sakhalin-2 shareholders: Gazprom, Shell, Mitsui and Mitsubishi. The Report also covers the Company's engagement with business partners to ensure the Company complies with ethical and environmental standards. The text also gives examples of cooperation with a wide range of partners in handling social and environmental issues in the Project environs.

The Report pays a lot of attention to managing and developing human resources (HR), based on Company policies, regulations, and procedures. Key HR issues include safety ensuring in all its aspects, improving the work environment, safeguarding health, training and motivation, developing talent, and involving employees in Company social programmes.

Human rights: In the Report the Company declares its key underlying principle for sustainable development, respect and protection of the human rights of employees and the local people.

The Company's human rights commitments are listed in the main documents and procedures as listed in the Report, such as compliance with labour rights, providing employee health care, and improving the environment in the areas where the Project operates. According to the Report, Sakhalin Energy is one of five companies worldwide testing the "Ruggie principles" on business and human rights as part of mandate of Special Representative of the UN Secretary-General on Business and Human Rights.

Environmental protection: According to the Report and documents on Company strategy, Company's management priorities are ensuring the safety of the environment and industrial facilities, protecting the natural environment, and wisely using natural resources.

The Report furnishes information on the main elements of the system for managing activities in these areas, called the Company's HSE policy. In 2009, the Company completed ISO 14001: 2004 certification of all its production sites. The Company implements its emissions control efforts, regular internal and external audits of all aspects of impacts from Company activities, and impact monitoring programmes together with its main stakeholders on ecological aspects. The Report discusses issues connected to oil spill response and says the Company has the necessary equipment and plans in place for such a response, including a programme to treat oiled animals. The information shows the Company uses the highest environmental standards as a guideline.

Mostly qualitative indicators are used to describe the Company's environmental safety achievements. As for the quantitative indicators, these can be presented on a larger scale, including how they change with time.

Contribution in developing the local community: The Company says implementing social programmes in the Sakhalin Oblast is one of its social priorities. The Report provides information on the Company's social investments made through sponsorship and philanthropy programmes in education and healthcare, local entrepreneurship, public infrastructure upgrades including modernising social facilities, and biodiversity protection.

A special section in the Report describes how the Company works with Sakhalin Indigenous Minorities under a long-term Sakhalin Indigenous Minorities Development Plan. The plan is a tripartite programme implemented by the Company, the government of Sakhalin Oblast and the Regional Council for Authorised Representatives of Sakhalin Indigenous Minorities. The Report also details partnership projects with non-commercial organisations, corporate competitions, educational grants, and a programme supporting the charitable projects of employees. We note that the Company's partnership projects figure among the best Russian practices for social investment in local communities. Company's financing in these projects was unaffected by the economic crisis.

For engaging external stakeholders, the Company uses special mechanisms. Community liaison teams work with local communities across Sakhalin, information centres operate in the areas where the Company has infrastructure and production facilities, a corporate grievance procedure is in place for collecting and mandatorily addressing the local residents' grievances, and a Public Consultation and Disclosure Plan is implemented and updated annually.

Overall, the information shows the Company is continually introducing the principles of sustainable development and corporate social responsibility into its business practices. Practical implementation of these principles is supported by corporate regulations and associated compliance procedures, while the Committee of Executive Directors is focused on these issues.

The Report has information on the Company's performance in achieving corporate social responsibility goals, sustainable development principles, and strategic objectives, according to three underlying principles of operation, and information on its non-financial risk management system and ongoing stakeholder engagement. The Report provides a considerable amount of social, economic, and environmental performance indicators, mostly on the Company-wide level. The international reporting and stakeholder engagement tools, GRI and AA1000SES, used in the Report add value by allowing comparisons to be drawn between Sakhalin Energy and companies in the industry.

While noting the merits of the Report, the Council would like to draw the Company's attention to several items related to the relevance and comprehensiveness of information which we recommend to be included in future reports, which are essential for stakeholders.

The information on the Company's medium- and long-term development strategy is important to better understand the Company's activity in the context of sustainable development. It would be helpful to include this information on a larger scale. This information is of additional interest to stakeholders due to the special status of Sakhalin-2 Project, which the Company is developing. We also advise extending the list of comparative data showing the important role the Company plays in the oil and gas industry and in the Russian economy more broadly. Qualitative indicators, while predominant, would be more useful if the Company tried using a wider range of them.

To identify the boundaries of the Report means providing a detailed description of the time period and scope, including to what extent Company production facilities are covered. These should be presented more precisely. We also recommend expanding per-asset production results, which are of great interest outside the Company, to be presented next to the summary data on the entire Company. This applies especially to information on industrial and environmental safety, safeguarding health, and managing human resources, etc.

We also recommend adding information on how decision-making on corporate responsibility and sustainable development is integrated with corporate management. A mere description of the Company's management structure, without information on the roles and responsibilities for upper management and line management, fails to give a clear picture of the efficiency of the system of internal controls.

The Company's experience in non-financial risk management and its compliance with international reporting requirements for socially responsible project merits greater detail. We recommend the Company provide more information in its next report, to enhance the Company's image as a responsible and open project operator, and to share its experiences, which will be useful for other Russian companies.

Due to the importance of involving stakeholders in selecting those Company activities that are significant for public discussion and to be included in the Report, and to promote greater transparency in the Company's dialogs, we advise including information on the principles followed for short-listing participants of dialog process organised by the Company for preparing the report. This information would be an important supplement to the Public Consultation and Disclosure Plan posted on the Company website, and the dialogs may become part of this plan.

A lot of information is presented in the section on the Company's 2010 plan. The information is mainly descriptive. To make it more credible and assess the results achieved over the reporting period, it would be useful to include measurable targets and indicators.

The section on environmental protection and environmental and industrial safety provides the most comprehensive and convincing information on the conservation of biodiversity, terrestrial, river and marine ecosystems. However, we believe the information on the Company's health, safety, and environment (HSE) policy should be more detailed and comprehensive. The information is less valuable without comparisons with previous years on parameters such as production waste, air emissions, and wastewater. We recommend paying more attention to these parameters in future reports, in volume and number of indicators, including a per-asset breakdown. We also think it is necessary to expand the list of quantitative indicators that reflect the results of reinstatement activities, especially where considerable damage was caused. To make better comparisons of Sakhalin Energy's reporting with other companies, we recommend supplementing the indicators published in absolute values with per-unit indicators.

The Council recommends holding open public hearings at federal level when preparing the Report to present and promote the corporate experience, which would be useful for a broad spectrum of stakeholders.

Judging by the Report and information from public sources, the Council gives a successful assessment to the Company's implementation of the declared principles of corporate social responsibility and sustainable development.

By issuing a positive opinion on the Report and supporting the Company's adherence to responsible business practice, and by considering the achievements the Company has successfully demonstrated, the RUIE Council for Non-Financial Reporting confirms the 2009 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has successfully passed the public endorsement procedure.

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