



Sustainable Development Report 2014

SAKHALIN ENERGY

Sustainable Development
Report

2014

Sakhalin Energy Investment Company Ltd.

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Dear colleagues and friends,

The document you are holding in your hands is the Sakhalin Energy's 2014 Sustainable Development Report. As with previous reports, it was prepared in compliance with the Global Reporting Initiative (GRI) standards and was made available to the public. While creating it, we strove to take into account the opinions of our stakeholders to the fullest extent possible.

The past year was a memorable one for Sakhalin Energy. Over the 20 years since our company was founded in 1994, we have realised goals that were once just bold dreams. We have been implementing one of the most innovative and large-scale oil and gas projects in compliance with the most advanced industrial, environmental and social standards and have paved the way for Russian offshore developments in a challenging natural environment. Our facility, the only of its kind in Russia for producing liquefied natural gas, propelled Russian LNG onto the world market. Today, we as a company remain ambitious, continuing to grow and setting ourselves new goals.

Sakhalin Energy owes its success to our unique international team of employees who actively promote the company's priorities that underpin our operations: safety, reliability, cargoes, costs and growth.

Safety always was and will remain our first priority. The company has continuously met production goals, while complying with all industrial and environmental safety requirements and adhering to the highest occupational safety standards. We know too well that safety can always be improved and that we should not lapse into a false sense of security; therefore, we will continue to push ourselves to excel in this area.

The economic situation in 2014 was complex. However, Sakhalin Energy continued to operate at a high level of reliability and was able to hit high production levels. We met our 2014 targets for gas and LNG production, and, which is more, reached our oil production goals 45 days ahead of schedule.



In 2014, we shipped 59 cargoes of oil and 164 cargoes of LNG.

As in the past, we continued to work with our LNG and oil customers. In 2014, we focused on building close relationships with Chinese companies. Despite the challenging geopolitical situation combined with falling hydrocarbon prices, this work helped us secure favourable terms for our oil and LNG sales.

We continued to actively develop our production facilities throughout the year. For example, the Sakhalin-3 condensate line was successfully tied in, and gas condensate from the Kirinskoye field began to flow into our pipeline. Reserve wells' capacity was created at the Lunskoye field that exceeded targets, which will provide a reliable resource base for LNG production. We significantly reduced the drilling time and expense without any loss in quality. Looking into the long term, an expert group was created within the company to work on the LNG Plant Train 3 project.

To be able to maintain our high production levels and keep moving forward, we need to ensure our assets' integrity and reliability. In 2014, Sakhalin-2 became the first of the projects with Shell participation whose production facilities complied with Shell standards for third-level operating integrity. The audit of the change management control processes introduced by Sakhalin Energy resulted in high appraisal scores from our English-Dutch shareholder.

The strategy of sustainable development, which is at the core of all our decisions, helps us to meet our business goals while taking into consideration potential environmental impacts, as well as social impacts on both our personnel and local communities. We have always stressed that with such approach each and every operational or technological decision is made on the basis of adequate assessment of its potential impacts.

Sakhalin Energy is recognised in the industry for its responsible approach to environmental safety issues. In December 2014, the company got a top rating among Russian oil and gas companies

for environmental management, minimising environmental impacts, as well as openness and transparency.

One of the most important areas of the company's social responsibility practice is the development of our personnel. Sakhalin Energy's management makes every effort to offer professional growth opportunities. I would like to specifically mention that in 2014 we radically changed our Succession Pool Programme. It is also worth noting that we provide our personnel with very competitive package of social benefits.

In the 20-year period that Sakhalin Energy has been operating on the Sakhalin Island, the company has made a significant contribution to the socio-economic growth of the region. Thanks in no small part to our inputs and industry firsts, Sakhalin is developing into a world energy hub. The island has experienced positive economic trends for many years, helping improve the overall quality of life for the people who live here.

We are proud to have played and continue to play our part in developing the region where we live and work. Just as before, Sakhalin Energy continues to be one of the leaders in corporate social responsibility. Our social programmes continue to receive recognition both at home and abroad.

We will describe all this and more in the Sakhalin Energy's 2014 Sustainable Development Report.

We are making this report available to the public, as in previous years, to increase transparency and openness of Sakhalin Energy. We also hope it will provide you with another instrument of objective evaluation of the company's activities and will help us in our future endeavours.

Roman Dashkov

ABOUT THE REPORT



About **70**
percent

of stakeholders defined subjects of environmental, health, and social impact assessment as well as production results and development projects as the most priority aspects to be included in the 2014 report

2.1. GENERAL

Sakhalin Energy treats sustainable development reporting as a corporate governance tool that systematises its non-financial efforts (environmental, social, and other programmes initiatives) and improves the quality of corporate governance, which leads to increased corporate sustainability as a whole. The voluntary transparent reporting demonstrates the Sakhalin Energy's commitment to the CSR and SD principles and concepts and provides publicly meaningful information about the economic, environmental, social, and ethical aspects of the company's activities and performance.

The CSR and sustainable development reporting benefit the company in a number of ways, including opportunities to:

- Identify the stakeholders' opinions and expectations of the company's activities and clarify the company's CSR and SD strategy;
- Demonstrate that the company is aware of and takes into account the stakeholders' opinions, creating long-term trust as well as transparent and constructive cooperation;
- Serve as an effective tool for detecting, preventing, and mitigating non-financial risks, creating a sustainable reputation (as a responsible employer, partner, etc.);
- Create new opportunities and areas of involvement for the company in production, environmental, and social spheres;
- Identify CSR and sustainable development performance indicators, evaluate and apply them to enhance the quality of managerial decisions at all levels;
- Help to comply with the principle of continuous improvement and stimulate the subsequent improvement of internal and external processes in the company; and
- Increase the company's competitiveness.

This report describes the company's sustainable development performance in 2014 and presents material topics, issues, and indicators of the company's economic, environmental, and social performance, including executives' appraisals of the company's performance in the period under review as well as the stakeholders' areas of attention. The target audience of this report

is both internal and external stakeholders listed in Section 7.2. Stakeholder Engagement Management.

The process of report preparation, review, and approval was based on the procedure and schedule approved by the company's Committee of Executive Directors. A dedicated working group was established to prepare the report. This group includes managers and specialists from a majority of the company's divisions responsible for particular aspects of corporate governance and production as well as for the company's economic, social, and environmental impact. The report was approved by the company's Committee of Executive Directors.

This report has been prepared according to the Global Reporting Initiative (GRI; hereinafter referred to as the Reporting Initiative) G3 Guidelines. In 2014, to improve the reporting process, the company decided to switch gradually to the requirements of the new GRI G4 Guidelines for non-financial reporting (see Section 2.3). The 2015 report will be prepared in accordance with the new GRI Guidelines revision.

This report is posted on the company's website and distributed in Sakhalin communities (through the company's information centres and through district libraries), and among key stakeholders.

The company values opinions, suggestions, and comments from all stakeholders on this report. To share your opinion, 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
- Fill out the Feedback Form at one of the company's information centres (see Appendix 5. Company's Information Centres List).

2.2. PRINCIPLES OF THE REPORT CONTENT AND QUALITY DEFINITION

The company acknowledges and uses the following sustainable development reporting principles presented on the Principles of Report Content and Quality Definition chart.

Principles of report content and quality definition



The information regarding the company's performance is selected to provide the material data on the three main areas of sustainable development – economic, environmental, and

social. The company regularly reviews the key aspects of its business activities to verify they are material both to the company and the stakeholders (see Section 2.3).

2.3. DEFINING MATERIAL SUBJECTS TO BE INCLUDED IN THE REPORT



The first dialogue-meeting with the public of Sakhalin

An important provision of the new GRI G4 Guidelines concerning requirement for the content to include information on the aspects of the company's activities which are most material and priority for the stakeholders.

To meet this requirement, the company has developed and applied a special procedure in addition to the existing mechanisms for defining the content of reports. The company worked in close engagement with the stakeholders to define the most material aspects of the company's activities that would be included in the 2014 report. Overall, about 150 stakeholder representatives took part in the process.

Electronic surveys, personal interviews, as well as questionnaires at various events were used

to involve stakeholder representatives in defining the content of the report. The company used the engagement mechanisms and information exchange channels most preferable for each group of stakeholders taking into account the existing engagement practice. For example, the company used electronic surveys to elicit the opinions of shareholders, lenders, customers, contractors, and suppliers. The representatives of the company's management and personnel filled in questionnaires during an interactive session as part of the traditional 100 Workshop (see Section 7.3). Representatives of NGOs and state authorities were interviewed personally.



The dialogue-meeting with the public of Sakhalin

Two rounds of dialogues-meetings were traditionally held while preparing the report, in correspondence with the AA1000SES international standard. The stakeholder representatives were able to ask questions about the company's activities, receive answers and express their opinions on the materiality of any aspect of Sakhalin Energy's activities in real time.

In defining the content of the report, the company took into account systematic media analyses, annual public opinion surveys, as well as public concerns shared with the company (see Section 7). In addition, recommendations and comments regarding the 2013 Sustainable Development Report were also taken into account as well as

recommendations of the RUIE Non-Financial Reporting Council that conducted the public endorsement of the 2013 report.

The company has also analysed the materiality of the issues presented in the non-financial reports prepared by Russian and foreign companies in accordance with best international practices.

Detailed information on the results of engaging stakeholders while preparing the report, including meetings and consultations, surveys, etc., is presented in the Material Subjects to Be Included in the 2014 Report Based on Stakeholders' Opinions and Most Priority Aspects to Be Included in the 2014 Report Based on Stakeholders' Opinions tables.

Material subjects to be included in the 2014 report based on stakeholders' opinions (all the topics identified by stakeholder groups)

Stakeholders	Production Results	Development Projects	OSR Preparedness	Corporate Governance	Risk Management	Impact Assessment	HSE and SP Management System	Stakeholder Engagement	Economic Impact Management	Environmental Impact Management	Social Impact Management
Shareholders											
Lenders and their consultants											
Customers											
Company's management											
Personnel											
State authorities											
Suppliers and contractors											
Partners under social programmes											
Japanese stakeholders											
Media* (regional, federal, international)											
NPOs and NGOs (regional, federal, international)											
Communities											
Included in the report (corresponding section)	4.2	4.2.2	4.2.5	5	5.6	3.5.2	3.5.1	7	6	8	9

*No comments or suggestions were received from the stakeholder group.

Most priority aspects to be included in the 2014 report based on stakeholders' opinions (based on the majority of answers)

Aspects	Number of answers	Included in the report (corresponding section)
Environmental, health, and social impact assessment of the Sakhalin-2 Project	102	3.5.2
Activity results: assets and development projects	99	4.2
Stakeholder engagement results in 2014	98	7.2-7.10
Oil spill prevention and response preparedness	88	4.2.5
Health, safety, environmental, and social performance management system	88	3.5.1
Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast	88	6.1
Financial benefits to the Russian Federation and the Sakhalin Oblast	86	6.2
Personnel health and safety	82	9.2
General information on Sakhalin Energy and the Sakhalin-2 Project	77	4.1
Russian content, contracting, and procurement management, supplier development programme	77	6.3-6.5
Company's mission, vision, values, and principles	76	5.1
Risk management system	76	5.6
Industrial environmental control	74	8.1
Occupational health	73	9.3

Comments and suggestions of the stakeholders concerning the company on individual aspects, indicators, and/or programmes to be included in the 2014 report as well as corresponding response and commitments of Sakhalin

Energy are provided in Appendix 2. Comments and Suggestions of the Stakeholders on the Company's Individual Aspects, Indicators, and/or Programmes and Company's Response and/or Commitments.

2.4. DEFINITION OF THE REPORT SCOPE

The report contains information on the activities of all structural units and assets of the company in all areas connected with sustainable

development performance, including economic, environmental, and social impact.

2.5. GRI APPLICATION LEVEL AND PUBLIC ENDORSEMENT

This report was prepared in accordance with GRI Application Level B+, version G3.0 (see the GRI Application Level table) incorporating GRI G4 comments and involving consistent stakeholder engagement. The report includes the results of the consultations with stakeholders 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.

This report has passed the procedure of external public endorsement of corporate non-financial reports at the highest professional level in the Russian Federation – independent expert

review (public endorsement) by the RUIE Non-Financial Reporting Council (Public Endorsement Certificate and Conclusion of the RUIE Non-Financial Reporting Council on the Review of the Sakhalin Energy Investment Company Ltd. 2014 Sustainable Development Report for the Purpose of Public Endorsement (see Appendices 7 and 8, respectively)).

The primary focus of public endorsement is the materiality and completeness of the information on the company's performance disclosed in the non-financial report according to the best practices of conducting business.

GRI application level

		2002 In accordance with	C	C+	B	B+	A	A+
Mandatory	Self-Declaration			Public Endorsement	✓	Public Endorsement		Public Endorsement
	Third-Party Check				✓			
Optional	GRI Check							

2.6. LIST OF ACRONYMS AND ABBREVIATIONS

PMD	Pipeline Maintenance Depot
ANPO	Autonomous non-profit organisation
RAIPON and Far East of the RF	Russian Association of Indigenous Peoples of the North, Siberia, and the Far East of the Russian Federation
APR	Asia-Pacific Region
RS	Road safety
IVMS	In-Vehicle Monitoring System
TLU	Tanker Loading Unit
UNGC	United Nations Global Compact
RTA	Road traffic accident
IC	Information Centre
CED	Committee of Executive Directors
SIM	Sakhalin Indigenous Minorities
CSR	Corporate social responsibility
CER	Committee for Emergency Response
OSR	Oil Spill Response
LUN-A	Lunskoye-A platform
IMO	International Maritime Organisation
ISO	International Organisation for Standardisation
MNR	Ministry of Natural Resources
IUCN	International Union for Conservation of Nature and Natural Resources
MHMS	Minimal Health Management Standards
IAS	International Accounting Standard
IFC	International Finance Corporation
EMERCOM	Ministry for Emergency Response
BS-2	Booster Station 2
NPOs	Non-profit organisation

OPF	Onshore Processing Facility
ESHIA	Environmental, Social, and Health Impact Assessment
UN	United Nations
HSE	Health, Safety, and Environment
PA-A	Molikpaq platform (Piltun-Astokhskoye-A)
PA-B	Piltun-Astokhskoye-B platform
MPE	Maximum permissible emission
MPC	Maximum permissible concentration
BAP	Biodiversity Action Plan
Prisco	Primorsk Shipping Corporation
UNDP	United Nations Development Programme
ALARP	As Low As Reasonably Practicable
RAS	Russian Academy of Sciences
RUIE	Russian Union of Industrialists and Entrepreneurs
BoD	Board of Directors
SSI	Sakhalin Salmon Initiative
LNG	Liquefied Natural Gas
IEC and LM	Industrial Environmental Control and Local Monitoring System
PSA	Production Sharing Agreement
OET	Oil Export Terminal
FEC	Fuel and Energy Complex
TEOC	TEO (Feasibility Study) of Construction
GRI	Global Reporting Initiative for Sustainable Development
PERC	Pacific Environment and Natural Resources Centre
WGWAP	Western Gray Whale Advisory Panel
WWF	World Wildlife Fund

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Standards of the UN, ISO, EU, World Bank / IFC, and GRI are the main international standards that Sakhalin Energy applies in the area of corporate social responsibility



3.1. INTRODUCTION

Corporate social responsibility (CSR) is a mechanism for implementing corporate strategy to improve the company's role in society and guide the company's business activities in compliance with the standards of sustainable development and good business ethics. It is an integral part of the Sakhalin Energy's business activities and strategic development plan.

Since Sakhalin Energy was founded, the management and employees of the company have been focused on CSR and sustainable development. Today, a priority of Sakhalin Energy's strategic development is to apply the high standards of corporate social responsibility as the basis for the company's sustainable development. The reason is the company's aspiration for introducing best social and environmental practices as well as the influence of stakeholders.

Corporate governance at Sakhalin Energy has gradually progressed to managing the company as an open system continuously exposed to impacts from the outside business environment, with due allowance for some of the features related to the status of the PSA (see Section 6.2).

3.2. SAKHALIN ENERGY'S CSR SYSTEM

Corporate social responsibility penetrates all activities of Sakhalin Energy. This approach is supported by its mission, vision, and values and a whole range of corporate documents, including the Statement of General Business Principles, the key corporate document, the Code of Conduct, the Sustainable Development Policy, Human Rights Policy, and the Commitments and Policy on HSE and Social Performance (see Section 5. Corporate Governance).

The company applies the requirements and principles defined in these documents to both suppliers and contractors, in accordance with the requirements of the new G4 GRI Guidelines. In addition to special contractual provisions, the company arranges training sessions and workshops to ensure these principles are effectively integrated into the work of its contractors and to oversee their compliance (see Section 6.4. Supply Chain Management).

Also, the company monitors and focuses on detecting and mitigating non-financial risks at all times (see Section 5.6. Risk Management).



Biodiversity panel of experts meeting

At Sakhalin Energy, CSR trends and indicators are regularly evaluated by authorised personnel and senior management within the company's system of internal oversight and audit, as well as by lenders, their advisers, and independent third-party auditors.

Assessments are also done through stakeholder engagements:

- Public consultations;
- Workshops and topical discussions;
- Opinion surveys;
- Consultations at information centres set up by the company all over the Sakhalin Island; and
- Application of a well-developed grievance addressing mechanism, etc.

See Section 7. Stakeholder Engagement Management.

The company regularly provides the general public with reports on sustainable development and fulfilment of commitments.

To define the report content, consultations with all stakeholders are conducted. In 2014, the stakeholder engagement process for defining material issues of the report was considerably extended as part of transition to the G4 version of the GRI Guidelines (see Section 2. About the Report).

Sakhalin Energy's CSR management system



3.3. PERFORMANCE STANDARDS

In non-financial reporting on their activity, Russian companies refer to CSR business, social, and environmental activities defined by legislation, as well as a range of additional programmes and responsibilities with regard to employees and society. Companies take on additional responsibilities beyond the minimum set by legislation based on their strategic and regional priorities and their level of corporate culture. Sakhalin Energy is no exception. It operates in accordance with the best international standards established with regard to CSR.

Many initiatives and standards have been established worldwide in the area of environmental and social responsibility. The leading ones are the UN Global Compact and the CSR centres all over the globe, which bring together commercial and non-commercial entities, the Global Reporting Initiative (GRI), the AA 1000SES, i.e. the Stakeholder Engagement Standard, the International Financial Corporation (IFC) Standards, as well as ISO 26000:2010 Guidance on Social Responsibility approved in March 2013 and many others.

In 2009, Sakhalin Energy joined the UN Global Compact (UNGC) and pledged its commitment to consistently follow the UNGC's principles concerning human rights, labour, environment, and anti-corruption.

In 2011, Sakhalin Energy became the first and (as per beginning of 2014) the only Russian company chosen by the UN to participate in its new Sustainable Corporate Leadership platform – the UN Global Compact LEAD, established in the framework of the UN Global Compact. LEAD companies must perform certain activities in the environmental, social protection, and management spheres and create new CSR standards.

In March 2014, the Russian Union of Industrialists and Entrepreneurs held the Round Table 'Experience in Diagnostics and Self-Assessment for Company Management and Business Systems on the Basis of ISO 26000:2010 (GOST R ISO 26000:2012): Its Potential for Use in Management Practice and Public Reporting System' which included the discussion of potential ways of use of Sakhalin Energy's experience in integrated self-assessment in line with the provisions of ISO 26000 Guidance on Social Responsibility.

Sakhalin Energy presented the company's experience which was the first in the Russian Federation to carry out such work and to use the results for making managerial decisions, and public self-declaration. Special attention was paid to organisation of the diagnostics and self-assessment process with involvement of all key business units and management levels, including top management, as well as to practical importance of this work for the company itself.

The Sakhalin Energy's statement on application of ISO 26000:2010 Guidance on Social Responsibility is posted on the company's website.

The main international standards that Sakhalin Energy applies are as follows:

- ISO standards (environmental management, quality management, safety and health management); and
- European Union and United Nations standards and directives (environment, human rights, indigenous people, etc.); World Bank and International Finance Corporation standards (management systems, risk and impact assessment, biodiversity, public health, cultural heritage, indigenous people, involuntary resettlement, stakeholder engagement, grievance procedure, etc.); GRI and AA1000SES standards (non-financial reporting, stakeholder engagement).

3.4. SUSTAINABLE DEVELOPMENT POLICY

The Sustainable Development Policy has been pursued since the foundation of Sakhalin Energy by incorporating SD principles into the company's business strategies, plans, and processes.

According to the UN definition, sustainable development is about ensuring that 'the needs of the present generation are met without compromising the ability of future generations to meet their own needs.' In its practice, Sakhalin Energy relies upon this definition. Sustainable development presumes and ensures economic effectiveness, environmental safety, social justice, and ethical behaviour of the corporation and its employees, combined with an overall reduction of human impact on the ecosphere. This is implemented via strong, transparent, constructive, and systematic co-operation and two-way communication with all the stakeholder groups.



As a result of the experience it has accumulated, in 2014 Sakhalin Energy consistently implemented its strategic document in the area of CSR, the Sustainable Development Policy, approved as a publicly available document by the Committee of Executive Directors. This document includes the company's principles, directions, and responsibilities in this area.

To comply with these principles, the company encapsulated them in the Sustainable Development Policy:

- 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 Oblast, and the shareholders;

- Sakhalin Energy will contribute to the present and future needs of the society on the Sakhalin Island, while keeping a balance between economic development, environmental protection, and social responsibility, beside taking into account cultural diversity; and
- Sakhalin Energy will work with all stakeholders to identify ways to contribute to the wider, long-term economic, environmental, and social benefits in the Sakhalin Oblast.

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

- Embed SD principles into all the regulatory documents and standards of the company;
- Ensure ongoing compliance with the HSE and Social Performance commitments, as well as regulatory documents and standards stipulated in the Health, Safety, Environmental, and Social Management System and Action Plan (HSE and SP-MS and HSESAP);
- Inform and engage with our stakeholders on our performance and seek feedback;
- Develop and implement social investment and sustainable development programmes related to the company's strategy, applying explicit oversight mechanisms and procedures;
- Develop strategic partnerships with stakeholders to maximise the positive impact of community development programmes;
- Issue annual non-financial reporting in accordance with the international AA1000 standard, as well as the Global Reporting Initiative (GRI) standards and principles;
- Observe and promote the Ten Principles of the UN Global Compact; and
- Participate in the Global Compact LEAD programme of the UN Global Compact, leading the sustainable development efforts of the international community.

3.5. HSE AND SOCIAL PERFORMANCE MANAGEMENT

3.5.1. HSE and Social Performance Management System

The company pursues the goals of not harming people, protecting the environment, and contributing to sustainable development. This attitude is beneficial to the residents of the Sakhalin Island and other key stakeholders. The Russian Federation and the Sakhalin Oblast receive numerous benefits from the Sakhalin-2 Project, including billions of dollars in investments, high local employment, contracts for Russian businesses, etc. (see Section 6.1. Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast). However, due to its scope and complexity, the project can potentially cause environmental and social impacts, and Sakhalin Energy is committed to dealing systematically with these impacts so as to minimise risks and prevent negative consequences. The company uses a preventive approach with a strong focus on risk management and impact assessment (see Section 5.6. Risk Management).

Health, Safety, Environment (HSE), and Social Performance (SP) management is an integral part of the entire corporate governance system. Sakhalin Energy is guided in its HSE and SP activities by the following fundamental policies:

- Sustainable Development Policy;
- Commitments and Policy on Health, Safety, Environment, and Social Performance adopted in 2001 and last updated in 2013;
- Health, Safety, Environment, and Social Performance Management System; and
- HSE and Social Action Plan.

The documents listed above have been approved by the CED, signed by the Sakhalin Energy's CEO, and communicated to all staff and contractors.

This comprehensive approach applied by the company to the HSE and SP management system is designed to ensure continuous improvement in this area. The company's

integrated health, safety, environment, and social performance management system describes the control tools which Sakhalin Energy utilises to manage impacts and risks. The system applies to all assets, projects, and operations, including those undertaken by contractors. Sakhalin Energy sees the management of such risks as critical to its business success. The company will update and optimise this management system.

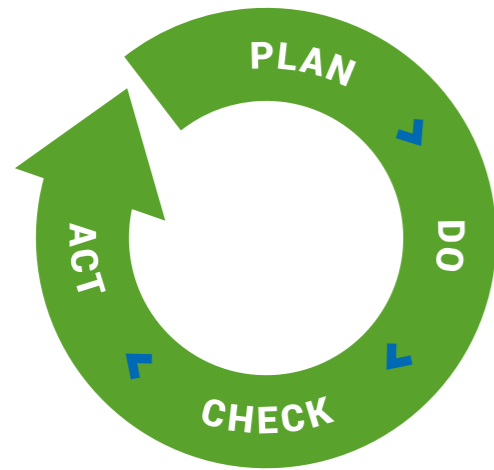
The HSE and SP management system is based on the Plan-Do-Check-Act methodology of ISO 14001 and OHSAS 18001 standards.

The commitments the company made on the basis of the ESHIA that was conducted before Phase 2 construction began are covered by the Health, Safety, Environment, and Social Action Plan (hereinafter referred to as the Plan).

The Plan was developed in compliance with the Russian legislation and international standards including World Bank policies and directives, International Financial Corporation (IFC) standards, and others. The Plan describes the HSE and Social Performance management system, presents complete information on the actions to be taken to minimise potential adverse impacts, the monitoring, the measures to be taken in the area of environmental and social responsibility, as well as on all the internal and external standards regulating the company's HSE and SP activities. The Plan has been approved by the Sakhalin Energy's lenders. In 2014, Plan revision 4 was approved.

The Plan commitments are integrated into the company's policies and standards that are mandatory for all company's employees: to systematically prevent related potential problems, mitigate risks, and prevent adverse impacts. The Plan is publicly available and can be viewed on the company's website (in Russian and English), at the company's information centres, and in the libraries of towns located in the vicinity of the company's production assets. Some of these materials are available in Japanese for Japan-based stakeholders. The implementation of the Plan is monitored on a regular basis by the company, lenders, and their consultants, and the outcomes of this monitoring are posted in the public domain (www.sakhalinenergy.com).

Health, Safety, Environment, and Social Performance management system



This methodology is applied in order to:

- Set objectives and establish procedures required for achieving the desired results in accordance with the company's HSE and SP policy. This includes a definition of legal and other requirements, risk management and problem solving, identification of hazards, risk and impact assessment, determination of controls, and development of objectives and annual improvement plans.
- Introduce procedures, including organisation, awareness, training, and competence processes, contractor management, participation and engagement, change management, and emergency preparedness and response; also, operational control of occupational health, personal safety, asset integrity, and process safety, transportation,

environmental protection, and social performance, including the activities of the indigenous peoples, cultural heritage, land acquisition, resettlement and supplemental assistance, planned public consultations and information disclosure, addressing of grievances, and social investments.

- Monitor and determine process effectiveness in compliance with given tasks as well as legal and other requirements, reporting results, incidents, and non-compliance; take corrective and preventive measures; and conduct HSE audits at the company's assets and functional units.
- Review the management system on a regular basis and take measures for continuous improvement of the company's HSE and SP.

The governance structure of the integrated HSE and SP management system in Sakhalin Energy includes the HSE Management Committee which oversees overall compliance in this sphere. The Committee is chaired by the CEO. The HSE General Manager reports to the CEO and oversees the development, implementation, performance, and monitoring of the management system. HSE teams have been formed in the company's structural and functional units to ensure compliance with industrial safety and HSE standards.

- Avoidance;
- Prevention;
- Minimisation;
- Compensation;
- Lessons learned; and
- Reducing the probability of future impact.

An integral part of any impact assessment conducted by the company is engaging the stakeholders in order to update them on the planned activities, identify any concerns, take into account their opinions, and discuss possible ways to manage the impact.

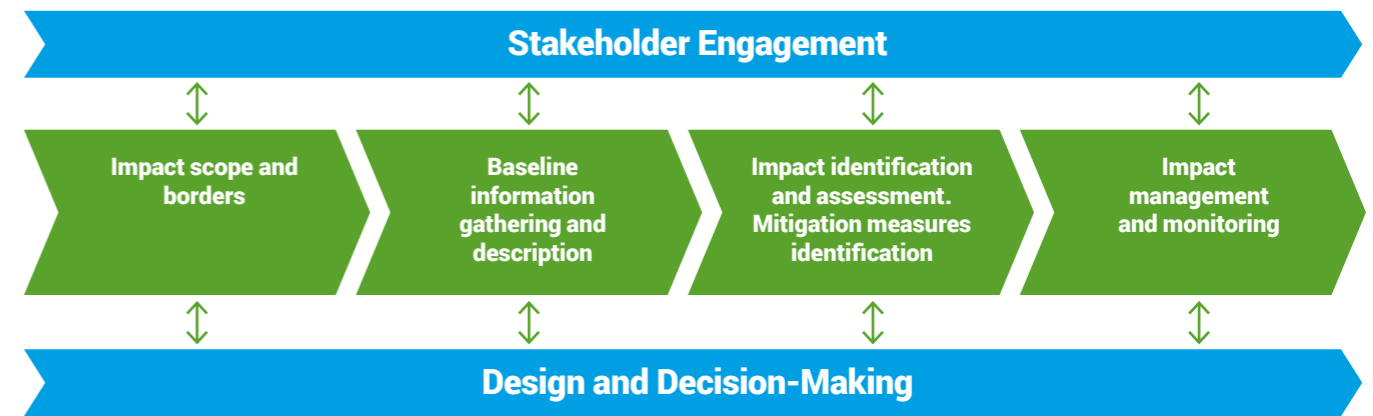
3.5.2. Impact Assessment

The company is committed to making an impact assessment, including a strategic environmental assessment, prior to any new activities or significant changes in existing projects. This is the basis of the due diligence approach and all risk management processes.

Impact management is a process of predicting and managing the future project activities by improving project solutions, taking measures targeted at minimising potential adverse impacts and increasing benefits from the company's activities.

Sakhalin Energy endeavours to avoid impacts, keep impacts to a minimum, or pay compensation for them if they occur. The following measures are taken when any potential negative impact is identified:

Stages of impact assessment



Previous environmental and social impact assessments (including required amendments and special studies) have been taken into consideration in the company's standards, and its current activities are based on relevant plans and programmes. The impact assessment results are posted on the company's website. The accuracy and completeness of the assessments are monitored by both government authorities and the Sakhalin Energy's lenders.

In 2014, Sakhalin Energy (and a contractor) continued a comprehensive assessment of potential impact in regard to the planned OPF Compression Project construction works (see Section 4.2.2.1). The impact assessment activities will continue in accordance with the project schedule. The assessments will be made available to the general public and will be discussed with the stakeholders.

Similar work (with a contractor) was performed in 2014 in regard to planning the sea geophysical research of the north-east continental shelf of the Sakhalin Island (see Section 4.2.2.3). The preliminary assessment has been available to the general public since December 2014, and the corresponding discussions with the stakeholders will be held in January 2015.

3.5.3. Checks and Audits

To monitor the integrated HSE and SP management system, internal and external checks and audits are performed in accordance with approved annual plans. External audits are conducted by the company's shareholders, lenders, external certification agencies, etc. Specially trained

auditors from the company and shareholder companies handle the internal audits. Eight audits of the HSE and SP management system were completed in 2014, including five external and three internal audits (see the Inspections and Audits of the HSE and SP Management System in 2014 table).

Inspections and audits of the HSE and SP management system in 2014

Level of audit	Number of audits	Contents
External	5	Control over the compliance with HSE and SP standards exercised by a lenders' representative – an independent environmental consultant*
		Supervisory audit for compliance with ISO 14001 and OHSAS 18001
		Aviation Operations (Helicopters and Charters) Audit with Shell representatives
		Shell Maritime Business Review
		Monitoring of the implementation of the Sakhalin Indigenous Minorities Development Plan*
Internal	3	Offshore Assets HSE System Audit
		Project Engineering HSE Audit with Shell representatives
		Onshore Assets HSE and SP CF Audit with Shell representatives

*The reports are available on the company's official website (www.sakhalinenergy.com)

ABOUT THE COMPANY

Over 4

percent

of the global liquefied natural gas (LNG) is supplied from Sakhalin Energy's LNG Plant



4.1. SAKHALIN ENERGY

Sakhalin Energy Investment Company Ltd. (Sakhalin Energy or the company) was founded in 1994 to develop the Piltun-Astokhskoye and Lunskeye oil and gas fields in the Sea of Okhotsk on the Sakhalin Island shelf.

Sakhalin Energy is operating under the Sakhalin-2 Production Sharing Agreement (PSA) signed by the company and the Russian Federation represented by the Government of the Russian Federation and the Sakhalin Oblast Administration (currently, the Government of the Sakhalin Oblast).

The following companies hold Sakhalin Energy's shares through their subsidiaries: Gazprom (50% plus one share), Shell (27.5% minus one share), Mitsui (12.5%), and Mitsubishi (10%).

As part of the development of the two fields, the company constructed a large-scale infrastructure for the extraction, transportation, processing, and subsequent sale of hydrocarbons. This infrastructure includes the three fixed offshore platforms, offshore and onshore pipeline systems, the onshore processing facility, two booster stations, the oil export terminal with the tanker loading unit, the plant for the production of liquefied natural gas (LNG), and gas transfer terminals. This is one of the most technically complex projects carried out over the last few decades in the global oil and gas industry.

One of the crucial tasks for the company is to sustain equipment and production asset reliability and performance quality. In order to improve technical integrity, Sakhalin Energy develops lists of reasonable corrective and preventive actions as well as takes measures on their implementation. They are aimed at improving the efficiency of the equipment and processes in order to prevent unwanted incidents or situations that could lead to losses and unscheduled idle periods.

In general, the reliability of oil, gas, and water injection systems in the company is comparable to the global oil and gas industry and is expected to remain at the same level.

Sakhalin Energy is the first and so far the only producer of liquefied natural gas in the Russian Federation. Due to the company, the Russian Federation has become one of the key players at the promising market of the Asia-Pacific Region. Sakhalin Energy's LNG Plant currently provides over 4% of the global LNG supply.

The first

in Russia

LNG plant

6

percent

of the total Asia Pacific LNG supply is produced by Sakhalin Energy

4.2. MAIN PRODUCTION RESULTS IN 2014

4.2.1. Assets

By the end of 2014, the company's assets – the three offshore platforms, the Onshore Processing Facility, and the Prigorodnoye Production Complex demonstrated compliance with the Operating Integrity (OI) Level 3 requirements according to the assessment conducted by a joint team of the Shell Operations Team and Sakhalin Energy's representatives.

The Operating Integrity Level 3, which is a key segment of the Operational Excellence Assessment System developed by Shell, is awarded for matching nine mandatory elements during the execution of daily operations. These elements include: permit to work effectiveness, dynamic risk assessment, competency tracking, etc.

This result is achieved due to the three key factors: visible and active leadership; application of and compliance with all standards, policies, and procedures; control over and prevention of any potential risk.

In June 2014, three subdivisions of the Technical Directorate were presented with a Shell Award for Operational Excellence.

The development team of the Astokhskiye area, of the Piltun-Astokhskiye field, received an award for raising the production levels from 38

thousand to 55 thousand barrels of oil per day during 2013 and at the beginning of 2014. This increase was achieved through the identification and subsequent implementation of the project for drilling side tracks of the existing wells.

The Piltun-Astokhskiye team received an award for their outstanding achievements in Well, Reservoir, and Facilities Management (WRFM). The so-called 'intelligent' wells have been employed at the PA-B platform for several years, allowing improving the general level of field monitoring, optimisation, and management. The significant improvement was confirmed by repeated external audits.

The Lunskiye team was awarded for the innovations in the big-bore gas well cased hole geophysical research in 2013. The results from the cased hole logging helped determine the gas migration routes within the reservoir more accurately, which enabled the subsurface team to develop the field more efficiently. In addition, the logging results indicated possible water- and sand-producing zones as well as down-hole obstructions. Corrective actions were performed in these zones in 2014.

These achievements were made possible thanks to close cooperation between the Field Development, Well Engineering, and Production staff.

4.2.1.1. Molikpaq Platform (PA-A)

In July 2014, the Molikpaq platform celebrated the 15th anniversary from the first oil production. Over the first nine years starting from 1999, the production was running only during the ice-free season; in 2008, the year-round production of hydrocarbons commenced.

In 2014, the operating well stock of the Molikpaq platform included 13 oil-producing wells (two of which were temporarily closed), four water injection wells, and one intake well for re-injecting drill cuttings back into the reservoir. In 2014, the average daily production rate on the platform was 45.23 thousand barrels of oil and 1.22 million cubic metres of associated gas.

The Astokhskiye area activities in 2014 were focused on reservoir pressure maintenance system recovery and stabilisation. Injection wells were repaired through side-tracking as part of this strategy. Two water injection wells PA-122 and PA-126 were successfully handed over to production, which allowed to reinstate the reservoir pressure maintenance system at the southern portion of the area.

The steady performance of the two high-output wells PA-114 and PA-108 allowed exceeding the annual liquid hydrocarbon production targets. Moreover, the wells PA-103 and PA-104 had higher production performance after the successful 2013 repair works. All this, together with the reduction of the non-productive time, gave a significant increase in hydrocarbon production exceeding the targets. This was the reason for the company to prepare, in 2014, the Addendum to the Reservoir Management Plan for the Astokhskiye Area Development of the Piltun-Astokhskiye Field which was positively

reviewed by the Gas Industry Committee of Gazprom and CDC Rosnedra. In 2015, operations in the Astokhskiye area will be carried out in accordance with this Addendum.

In June 2014, during the Shell Asset Managers Conference in Rotterdam, the Molikpaq team received a Shell Production Recognition award in the category 'Make It Work'.

For solving difficulties that has emerged earlier due to the uninterrupted work of the equipment at the Molikpaq platform, the plan to eliminate unreliable elements was developed, and Operational Reliability Improvement Process (ORIP) was activated, i.e. the production process was improved. As early as by the end of 2013, the oil unscheduled deferment indicator was at Top Quartile performance for an asset of this type within the industry.

The water flood system implemented at the platform has been proven effective. It maximises the hydrocarbon recovery from the subsurface and leads to a significant increase in value. Water is injected into the hydrocarbon reservoir, effectively replacing oil and pushing it toward the production wells. During the flood front movement, the water will eventually arrive at the production wells, but the exact timing of the water arrival depends on many factors and is one of the uncertainties in the process of field development. In order to sustain stable output from water-flooded wells and maximise the reserve recovery, gas lift was being implemented at the Molikpaq platform.

The platform successfully underwent a planned preventive maintenance shutdown from 7 October to 7 November 2014.



Piltun-Astokhskiye-B platform



Molikpaq platform

4.2.1.2. Piltun-Astokhkoye-B Platform (PA-B)



PA-B platform north crane



PA-B platform drillers master cabin

In 2014, the PA-B platform had ten production wells, six water injection wells, and two cuttings re-injection wells.

In 2014, the platform's average daily production rate was 27.99 thousand barrels of oil and 1.49 million cubic metres of gas.

In May 2014, the platform team reached the 4 years without a lost time incident indicator.

In 2014, water injection well PB-408 and cuttings re-injection well PB-407 were drilled and put into operation; intake well PB-420 workover was completed. Also, appraisal well PB-313 was drilled, and the drilling of production well PB-317 was started.

Three wells (PB-408, PB-407, and PB-313) were drilled ahead of schedule and have top quartile characteristics of the global rating.



Rig floor on the PA-B platform

Smart well technology deployment at the geologically complex Piltun area continued in 2014. The previous upgrades of the reservoir pressure maintenance system keep showing good results.

In 2014, the company continued to elaborate several sand production control options. As a means of preventing sand production, the following was considered to be implemented in the future: strainers, gravel pack, and Frac and Pack technologies.

The platform underwent a successful planned preventive maintenance shutdown from 16 July to 4 August 2014.

4.2.1.3. Lunskoye-A Platform (LUN-A)

In 2014, the LUN-A platform continued stable performance ensuring uninterrupted gas production from the existing wells.

The platform's average daily production rate was 45.58 million cubic metres.

The Lunskoye field structure is divided into six blocks. Currently, gas is produced from the wells located in blocks III, IV, and V. The planned future wells will be in blocks III and II. Since the platform from which the wells are drilled is situated above block IV, these future wells will be longer and situated farther from the platform but will have the same vertical depths as the existing wells. These wells are classified as extended reach wells.

The longest gas well (6,965 m) located in Fault Block II was drilled in the Lunskoye field and put on production in 2014. The well was recognised as Best in Class by Rushmore company, the world's leader in benchmarking.

Existing gas wells provide planned production targets and full capacity utilisation of the LNG Plant. Oil well LA-554ST2 was producing from January 2013 to March 2014. The well was shut-in due to total water cut. From August to November 2014, the well was side tracked for gas layers. The well has been completed as a gas producer and is undergoing clean-up and bean-up.

The company plans using open hole gravel packs as a sand control measure at the Lunskoye field. In 2016, such gravel packs are planned to install in two wells.

In 2014, we successfully completed the LA-506 water shut-off by installing an isolation valve at 2,160 metres along the hole. Obtained data analysis confirmed that the produced water volume reduced from 64 m³/day to an insignificant volume (6-8 m³/day).



A visit of the company management to the LUN-A platform



Crossing the walkway onto the rig floor on LUN-A platform

To maintain stable production, the company annually performs an annual turnaround campaign that was successfully completed in July 2014.

In 2015, the company plans to conduct the Major Integrated Gas Chain Shutdown for the total duration of 28 days, 7 of which will be designated for a common shutdown at the assets involved in gas chain.

4.2.1.4. Onshore Processing Facility (OPF)



The main purpose of the Onshore Processing Facility (OPF) is the primary processing of gas and condensate from the Lunskeye field before they are pumped into the pipelines for transportation to the Oil Export Terminal and the LNG Plant. The oil and associated gas from the Piltun-Astokhskeye field are also processed at the OPF. Both OPF trains were put on line in late 2008.

In 2014, the OPF daily capacity came to 58 million cubic metres of gas and 195 thousand barrels of oil and condensate.



In September 2014, the Onshore Processing Facility became the first Shell asset in the world that reached the proactive status in Maintenance and Integrity Execution. In 2014, Shell held a technical audit and acknowledged the exceptional performance of the OPF team, under the Russian leadership, who were successfully adopting experience and overcoming all difficulties.

4.2.1.5. Trans-Sakhalin Pipeline System, Booster Stations, and Gas Transfer Terminals

The Trans-Sakhalin Pipeline System comprises about 300 km of offshore pipelines and onshore multiphase pipelines, over 1,600 km of oil and gas pipelines, as well as 105 block valve stations, five Pipeline Maintenance Depots, two Booster Stations (BS), and two Gas Transfer Terminals (North and South).

The main task of Sakhalin Energy and Gazprom Transgaz Tomsk, which is contracted by Sakhalin Energy and in charge of the Trans-Sakhalin Pipeline System maintenance, is to prevent the violation of the component integrity of the system that carries hydrocarbons under pressure.

Sakhalin Energy came up with an HSE case for its pipeline system in which all the potential hazards to the integrity of the assets were identified. They include internal and external surface corrosion, excessive pipe pressure, earthquakes, landslides, soil erosion, seabed gouging, shore scouring, ship traffic, illegal hot taps, and inadvertent and wilful damage. The following measures have been taken to prevent and eliminate these potential hazards:

- To deal with external surface corrosion, the pipeline has a cathodic protection system, which triggers the electrical potential shift, and the pipe surface becomes an anode;
- To monitor internal surface corrosion, experts examine the inputs from the three offshore platforms and the Onshore Processing Facility;
- The onshore pipelines are pigged on a regular basis to remove water and sediments. To confirm the integrity, the pipeline is pigged using intelligent pigs;
- To ensure timely response in case of an earthquake, Sakhalin Energy uses its own seismic monitoring system the elements of which are located along the entire pipeline and the USGS (United States Geological Services) system;

- Seismic fault crossings are monitored every year to assess movements and displacements;
- Prior to the seasonal drops of ambient air temperature, the pipeline is checked for the presence of water in the pipeline trenches so as to avoid freezing and limiting pipe movements;
- The pipeline RoW is periodically monitored during walkabouts and helicopter overflights; and
- Space technologies are used: high-resolution satellite images aid in monitoring the vegetation growing in the RoW.

According to statistics, 70% of pipeline incidents in the world are caused by unintentional damage from human activity. That is why raising community awareness about the pipeline system is important. Local authorities, contractors, and land users are regularly informed about land use limitations within the RoW and are provided with the contact details and telephone numbers of the company. Additionally, special notice boards are located along the RoW with free telephone numbers in case of questions or concerns.

In October 2014, the first gas condensate batch was successfully transferred from the Sakhalin-3 Project Complex Gas Treatment Plant (Kirinskoye field) into the Sakhalin Energy's oil pipeline system as per the agreement between Gazprom Export and Sakhalin Energy. Gas condensate is transported to the Oil Export Terminal (OET) and is sold by Sakhalin Energy to the global market.

4.2.1.6. Prigorodnoye Production Complex



LNG plant trains

In March 2014, Sakhalin Energy achieved an important milestone – the total LNG production amounted to 50 million tonnes.



LNG tanker moored to the jetty

The Prigorodnoye Production Complex, situated in the south of Sakhalin on the shore of Aniva Bay, which stays ice-free nearly year-round, incorporates the LNG Plant with the LNG Jetty and the Oil Export Terminal (OET) with the Tanker Loading Unit (TLU) installed 5 km from the shore. 18 February 2014 marked the fifth anniversary of the opening of the Russian Federation's unique plant for liquefying natural gas. The plant occupies 490 hectares of land and has two trains, each with a design capacity of 4.8 million tonnes of LNG per year. Over the years, the efficiency and reliability enhancement programmes have resulted in a sustained increase in the plant's capacity of 10%.

There were a number of unscheduled shutdowns of the LNG Train 1 for maintenance on the combustion system of the main gas turbine during 2014.

In the summer of 2014, the company completed a planned integrated shutdown of the natural gas production and processing system, during which the planned maintenance of all



Laboratory of the Prigorodnoye Production Complex

the company's gas assets was carried out, including the LUN-A platform, the OPF, and the LNG Plant.

In accordance with the Integrated Shutdown Plan, it is planned to perform the major technical inspection and planned preventive repair of the Prigorodnoye Production Complex Trains 1 and 2 in 2015-2016.

An important event for the Prigorodnoye Production Complex in 2014 was reaching more than 7 million man-hours without a lost time injury (LTI) within six years. The countdown of these six years started in August 2008, which was before the commencement of LNG production.

The Prigorodnoye Production Complex successfully maintains ISO 9001 for its Quality Management System (QMS).

4.2.2. Development Projects

4.2.2.1. OPF Compression Project

The company continued FEED works on the OPF Compression Project, which will help maintain the projected production levels as the wellhead pressure at the Lunskeye field begins to decline. The works on refurbishing the existing construction camp commenced in the second half of 2014.

4.2.2.2. Additional Gas Delivery Points

The company completed the design works for the Tymovsk Gas Delivery Point in 2014. All necessary equipment was ordered. The invitation to tender for construction was issued.

It is planned to start design engineering for Makarov and Dolinsk in 2015.

4.2.2.3. South Piltun Area Development Project

The South Piltun Area Development Concept was elaborated and submitted to the Russian Party for review in 2013. The final decision on developing the South Piltun area will be based on the depletion of the Lunskeye field, construction of LNG Train 3, macroeconomics situation, and situation at the energy market.

However, Sakhalin Energy has started updating the information on the geological structure, geological and recoverable reserves at the Piltun-Astokhskoye field, including the South Piltun area, and is planning to conduct further consultations with the State Reserves Committee (Rosnedra).

4.2.2.4. LNG Train 3 Construction Project

The company has opportunities to develop the project by expanding its gas liquefaction assets with an additional train, Train 3 at the LNG Plant. Such expansion was envisaged and taken into account during the initial design of the Prigorodnoye Production Complex. In 2014, Gazprom and Shell agreed to move to the design phase of the LNG Train 3 project and signed a detailed road map for preparing the design documentation, including the documentation on developing the FEED documents for the LNG Train 3 project.

The company is developing the project's optimal technical concept that meets the business needs. The concept selection is planned for 2015.

4.2.3. Hydrocarbon Production and Export

Gazprom Marketing and Trading (GMT) Company, an affiliate of Gazprom, won Sakhalin Energy's tender for procurement of the 4th LNG tanker for a charter period of 13 years. The Time Charter Party (TCP) was signed on 24 April 2014 in Yuzhno-Sakhalinsk. The LNG vessel Clean Force belongs to the Greek company Dynagas and is chartered by GMT. It will be renamed as Amur River before the TCP is effective in July 2015.

4.2.3.1. LNG

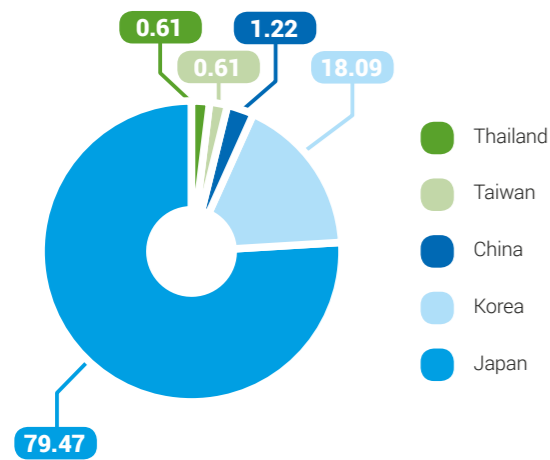
Liquefied natural gas (LNG) is a colourless and odourless liquid half the density of water, consisting mainly (up to 90%) of methane (CH₄), the simplest natural gas in the group of gaseous hydrocarbons. When cooled to approximately -160 °C (-250 °F) at standard atmospheric pressure, natural gas liquefies and contracts to 1/600th of its initial volume, becoming suitable for collection, storage, and sea shipment.

Due to successful debottlenecking and equipment adjustment, the LNG Plant exceeded its design output (9.6 million tonnes per year) by producing 10.8 million tonnes of liquefied natural gas in the reporting year.

Sakhalin LNG is transported by specialised customer ships and by the Grand-series LNG tankers (Grand Elena, Grand Aniva, and Grand Mereya) that were constructed specially for this project and provided to the company under long-term charters by two Russian-Japanese consortiums. It is also transported by ships of Ob River, Fuji LNG and Energy Frontier chartered on a short-term basis.

In 2014, Sakhalin Energy shipped LNG to Japan, Korea, China, Taiwan, and Thailand.

Sakhalin LNG sales market structure in 2014, %



In 2014, Sakhalin's share of LNG in the Asia-Pacific region was 6% and in the global market above 4%.

4.2.3.2. Oil

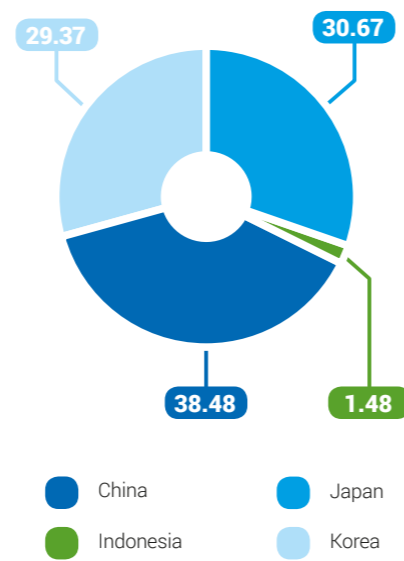
Sakhalin Blend is a new oil grade introduced by Sakhalin Energy to the Asia-Pacific region. It is a light, low-sulphur oil blend.

At the end of 2014, the blend of crude oil and condensate delivered by the company to the Asia-Pacific region was renamed as Sakhalin Blend due to the commencement of Sakhalin-3 condensate intake from the Kirinskoye field. This change did not affect the quality of Sakhalin Blend. The first batches of condensate from the Kirinskoye field were injected in October 2014. According to Gazprom nomination, approximately 1.6 million barrels of condensate will be received and exported from the Sakhalin-3 project in 2015.

In 2014, Sakhalin Energy produced and exported 5.35 million tonnes (41.93 million barrels) of oil from the Prigorodnoye Production Complex terminal.

China remains the largest Sakhalin-2 oil customer (38.48% of total volume). In total, 12 companies from four countries purchased the oil blend in 2014. Sakhalin Blend was delivered through 16 transit and destination ports in Japan, China, and Korea.

Oil blend sales market structure in 2014, %



In 2014, a share of Sakhalin Blend exported by the company in the Asia-Pacific region was 0.4%.

4.2.3.3. Natural Gas

Since 2011, Sakhalin Energy has been supplying natural gas to the Gazprom's gas main line system to pay royalties payable in kind to the Russian Party. The gas is transferred via two terminals in the northern and southern parts of the Sakhalin Island. Since the commencement of natural gas delivery via the Yuzhno-Sakhalinsk Southern Gas Transfer Terminal to the Yuzhno-Sakhalinsk Heat and Power Plant-1 and other Sakhalin infrastructure assets, more than 1.5 billion cubic metres of natural gas have been delivered (including the delivery of 578 million cubic metres in 2014). Since the Yuzhno-Sakhalinsk Heat and Power Plant-1 started using Sakhalin-2 gas, harmful emissions have been reduced by 78%. In 2014, about 926 million cubic metres of natural gas were delivered via the Northern Gas Transfer Terminal to the Sakhalin-Khabarovsk-Vladivostok gas main line for further usage as part of the Far East and Primorye fuel and energy sector development programmes. In total, about 1.505 billion cubic metres of gas were supplied to the Russian Party in 2014.

4.2.4. Sanitary Protection and Safety Zones

To ensure the safety of the population and according to Federal Law No. 52-FZ On the Sanitary and Epidemiological Welfare of the Population dated 30 March 1999, a special-use area, i.e. a sanitary protection zone (SPZ), was established around assets and production sites that may impact the human habitat and health. The size of such a zone mitigates the impact of pollution on the atmosphere, keeping it in line with hygienic standards.

The sanitary protection zone limits confirmed by the Chief State Medical Officer of the Russian Federation for the Prigorodnoye Production Complex, the OPF, and the BS-2 did not undergo any changes in 2014.

The onshore main pipelines run in the same right-of-way and are clearly designated by special signs. A safety zone, whose size for all segments is designated on the signs, is established along the entire pipeline route.

A safety zone was established for the main pipelines to prevent any possible damage to them. This zone is determined by the Rules for Main Pipelines Protection, approved by Ruling No. 9 of Gosgortekhnadzor (currently, Rostekhnadzor, the Federal Service for Environmental, Technological, and Nuclear Supervision) of the Russian Federation, dated 22 April 1992. The safety zone is established along the routes of the pipelines transporting oil and natural gas as a land plot limited by nominal lines running 25 metres from the pipeline axis on each side.

4.2.5. Oil Spill Prevention and Response Preparedness

4.2.5.1. General Information

Oil spill prevention and oil spill response (OSR) preparedness are the top priorities for Sakhalin Energy. The company applies a complex approach to addressing this important mission. Sakhalin Energy has OSR Plans in place for each of the assets that are at risk for oil or petroleum product spills.

The level of oil spill prevention at Sakhalin Energy is evidenced by the following statistics. Since 1999, the company has produced nearly 355 million barrels of oil, while the total oil product spill volume over the last 15 years has amounted to less than one millionth of a percent (about 26.48 barrels or 3.58 tonnes). In 2014, the total oil spill volume was 2 litres. Between 1999 and 2014, no registered oil or petroleum product spill has been registered that could be graded as an emergency.

The company has six off-duty emergency response teams which are always prepared for oil spill response and other emergency response measures at the production assets (Prigorodnoye Production Complex, OPF, BS-2, and PA-A, PA-B, and LUN-A platforms). In 2014, off-duty emergency response teams of the Prigorodnoye Production Complex and the OPF were recertified to respond to emergencies and to perform other contingency activities and received updated relevant certificates. In addition, Sakhalin Energy has concluded contracts for OSR services to be provided by the professional emergency response teams of CREO for the onshore assets and Ecosheff for the offshore assets of the Prigorodnoye Port and standby vessels within the area of the offshore platforms.

To coordinate activities in case of an emergency, the company has organised emergency and crisis management teams that are ready 24 hours a day, including the crisis coordination team, emergency coordination team, and 24-hour duty dispatcher service.

Global practices of providing response to large-scale emergencies has proven that an effective response to major oil spills is possible subject to an integrated application of mechanical and non-mechanical technologies. Namely, using dispersants allows significantly mitigating the environmental damage, reducing the time to be spent on oil spill response, and rescuing unique wildlife species.

Sakhalin Energy and the Central Research Institute for the Sea Fleet (TsNIIMF, St.-Petersburg) have conducted surveys based on the results of which a package of documents was developed and approved by government authorities that allow the company to use dispersants in emergencies.

To substantiate the decision to use dispersants as part of various scenarios of oil spills, Sakhalin Energy conducted a preliminary Net Environmental Benefit Analysis (NEBA) based on the results of which the conditions for using dispersants were determined, taking into account the season, hydro-meteorological conditions, time window, and minimum permissible depths.

In order to increase the personnel's OSR level and improve their practical skills, the company regularly conducts practical and theoretical training sessions, drills and exercises of various levels, including at least two corporate exercises a year.

In 2014, all basic Incident Command members completed Level I and II OSR programme as well as Level I (ICS-100) and II (ICS-200) Incident Command System training. Level I of the programme is basic and is designed for regular rescuers and emergency responders, while Level II is designed for training supervisors, team leaders, and oil spill



Emergency response exercise

responders. In addition, key Incident Command members completed Level III training for Asset Managers, Department Heads, Crisis Managers, and ER Coordinators. More than thirty employees were given Level III Incident Command System (ICS-300) certificates.

In accordance with the 2014 Training Schedule, 325 exercises and drills of various levels and types were conducted at all the company's production assets, including 178 OSR exercises and training sessions.

In 2014, Sakhalin Energy held two corporate exercises:

- At the Lunskeye offshore field, emergency condensate spill response was practiced in ice-bound conditions. In the course of exercises, an updated Oil Spill Response Plan for the Lunskeye field was tested as well as the Oil-in-Ice Guidelines; preparedness and sufficiency of Sakhalin Energy's resources (team and equipment) were checked to provide emergency response in difficult conditions. The representatives of Sakhalin Energy's shareholders (Gazprom, Shell, and Mitsubishi) attended the exercises as observers and were present at all the company's assets that participated in the exercises; the representatives of the Russian Federation Government agencies (the Government of the Sakhalin Oblast, EMERCOM, and RTN) also attended the exercises; and
- At the Prigorodnoye Production Complex exercises were held for responding to a maximum possible oil spill would-be a result of a terrorist act. Oil Spill Response exercises were part of the anti-terrorism drill 'Technology-2014' that was conducted in the Korsakov District (Sakhalin Oblast) by the National Anti-Terrorist Committee of the Russian Federation. The drill was attended by the representatives of the National Anti-Terrorist Committee, the Federal Security Service of the Russian Federation, EMERCOM and the Government of the Sakhalin Oblast.

According to the observers, the company and its contractors demonstrated coordinated and efficient actions in the course of the exercises. The objectives of the exercises were fully accomplished. Based on the results of the exercises, recommendations were developed, and relevant measures were taken to improve OSR activities. The analysis of the conducted drills and exercises confirmed the company's preparedness for oil and petroleum product spill prevention and response at the Sakhalin-2 Project offshore and onshore assets.

The company plans to conduct public consultations with regard to the company's offshore asset OSR plans in 2015 before submitting the OSR plans for the State Environmental Expert Review. Before that, the company plans to perform an environmental impact assessment for the OSR plans with the subsequent development of environmental protection materials and the relevant event list. Technical requirements for the State Environmental Expert Review will be available for public in 2015.

4.2.5.2. Oiled Wildlife Rehabilitation Programme

In keeping with its commitment to biodiversity preservation and in line with the international best practice, Sakhalin Energy is implementing the Oiled Wildlife Rehabilitation Programme.

In 2005, Sakhalin Energy in conjunction with the International Fund for Animal Welfare (IFAW) and the International Bird Rescue Research Centre (IBRRC) developed that programme, taking into account Sakhalin's flora, fauna, and severe climate. Later, the company developed the Oiled Wildlife Rehabilitation Plan aimed at preventing and responding to oiled wildlife, which defined the required resources and procedures for coordination between corporate and external structures.

As part of its integrated Oil Spill Response Plan, the company developed the Wildlife Rehabilitation Site Implementation Manual (hereinafter referred to as the Manual). The Wildlife Rehabilitation Site, which is the only one on Sakhalin and in the Russian Federation, was established at the Prigorodnoye Production Complex in 2011.

The Manual includes general recommendations and guidelines for the deployment and use of equipment, assets, and infrastructure needed to put into operation the wildlife rehabilitation site at the Prigorodnoye Production Complex.

Priority areas for wildlife protection in the event of an oil spill include coastal bays and lagoons temporarily or permanently inhabited by birds and other wildlife species, many of which are protected species, and include spawning rivers and wetlands.

The company purchased specialised equipment that is always ready to be deployed at the OPF in the north of Sakhalin (6 km off Lunskey Bay), Gastello PMD, and the Prigorodnoye Production Complex.



Oiled wildlife rescue training

In summer 2014, planned exercises were held in the hazing, capturing, and stabilisation of wildlife in the field conditions for the OSR contractor staff at Gastello PMD and marine mammal observers who work under the Joint Western Gray Whale Monitoring Programme in Piltun Bay.

The equipment for the hazing, capturing, and rescue of wildlife was deployed and tested in May 2014 and in October 2014 a special two-day training course was held at the Wildlife Rehabilitation Site on the hazing, capturing, and washing of wildlife contaminated with oil and petroleum products on the coast of Aniva Bay.

4.3. OPERATIONAL EXCELLENCE PROGRAMME

In 2014, Sakhalin Energy continued implementing the Operational Excellence Programme. The continuous improvement programme is designed for a long-term period and is part of the production and corporate culture.

The Corporate Operational Excellence Model consists of the company's nine key directions.

Key directions of the Operational Excellence Programme



The aim of the Operational Excellence Programme is to ensure that Sakhalin Energy is one of the world's most efficient energy companies. The Programme's main objectives include the following:

- No harm to people, production assets, or the environment (safety);
- Business process efficiency (lean production without waste);
- Economic efficiency (cost reduction);
- Satisfied customers (reliability of production assets and delivery); and
- Support for the customers and stakeholders.

The 2014 Operational Excellence Plan was successfully implemented in the following areas: improvement of data quality control, implementation of CP operations, recruitment improvement, increase in the employee engagement index (as per annual employee survey results), completion of Phase 1 of the Collaborative Work Environment project, achievement of a world-class level of Maintenance and Integrity Execution, and achievement of Operating Integrity Level 3.

In 2015, it is planned to continue providing the Lean Production training course to employees in order to meet the requirements of the relevant corporate direction.



Asset (OPF) inspection

CORPORATE GOVERNANCE



100
percent

of the company's personnel completed trainings dedicated to the Code of Conduct, Anti-Bribery and Corruption principles, and the Conflict of Interest Procedure

5.1. COMPANY'S MISSION, VISION, VALUES, AND PRINCIPLES

Our corporate goals and strategy are based on the company's vision and mission, which were updated in 2010 after newly constructed assets were put into operation without incidents, which ushered in a new stage of reliable and sustainable production.

Sakhalin Energy is guided by general business principles, with underlying core values of honesty, integrity, respect and care for people, teamwork, and professionalism. These principles are exemplified by the company's responsibilities to its shareholders, the Russian Party, customers, company's employees, and business partners – i.e. all parties that have business relations with the company – as well as to the community.

The general business principles cover, among other areas, economic, competition, business integrity, political activities, health, safety, security, environment, local communities, as well as communication and engagement with stakeholders. The full text of the company's General Business Principles is available on the Sakhalin Energy's website (www.sakhalinenergy.com).

The mission and vision of Sakhalin Energy are as follows:

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

MISSION: Sakhalin Energy is committed to being a premier energy supplier, recognised for its operational excellence, reliability, and safety. We conduct our business in an ethically, socially, and environmentally responsible manner.

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



Company's employees discussing strategies, key performance indicators and related actions

5.2. CORPORATE GOVERNANCE SYSTEM AND STRUCTURE

Corporate governance is a process ensuring due diligence in organisation, management, and oversight within Sakhalin Energy. Corporate governance is accomplished by engaging the Sakhalin Energy's management

with its shareholders and the Russian Party to determine the direction of the company's activities, establish areas of responsibility, and assess performance.

Corporate governance system



The Sakhalin Energy's Business Management System Manual describes the main principles and approach to managing the company.

Leadership and Commitment

Sakhalin Energy's management is fully committed to the Business Management System. Compliance with Management decisions is mandatory for all staff and contractors. Management plays a leading role in constant improvement of business processes through their decisions and actions.

Policy and Strategic Objectives

The company's policies and standards comply with the Russian laws and regulations as well as with the requirements of its shareholders and lenders. Sakhalin Energy's strategic objectives are inspiring and clear to everyone and are consistently incorporated into the policies, standards, processes, and plans adopted by the company.

Risk Management

When establishing objectives, the company identifies, assesses, and considers overall risks related to achieving these goals and identifies ways to manage risks, including decreasing, mitigating, or preventing them. For more details, see Section 5.6. Risk Management.

Organisation, Responsibilities, Resources, and Competency

The organisation and resources are adequate to meet the strategic objectives. Responsibilities at all levels are clearly described, communicated, and understood. The employees are prepared and trained in accordance with training plans coordinated with structured competency assessment systems.

Processes, Assets, and Standards

Processes and assets are defined with clearly assigned responsibilities. Process/asset standards and procedures incorporating controls and means of risk management are in place and understood at the appropriate organisational levels. Process owners ensure the proper implementation of control procedures through regular assurance and compliance activities adopted by the company.

Planning

All approved plans are optimised and fully resourced. Performance targets are set that will ensure progression towards the long-term objectives. The five-year plans, which are annually assessed and adjusted, form the basis of planning. They are established through active and open discussion with the company's staff from all directorates at the annual 100 Workshops (see Section 7.3. Engagement with Personnel). Changes to the plans are documented and appropriately authorised. Contingency and emergency response plans are implemented and regularly evaluated.

The Journey Book, which is published annually, is used to inform all employees of the company about goals, strategy, targets, and measures to achieve them.

Implementation

Performance indicators are established and monitored, and results are reported. Corrective measures are taken as necessary, and policies, organisation, risks, plans, and processes are updated. All incidents with significant potential or actual consequences are thoroughly investigated and reported. Any lessons that are learned are properly disseminated throughout the company.

Assurance

Assurance is in place to ensure the management system is reasonably effective. It includes independent audits of processes and assets. Audits are followed up in a timely manner. The management regularly reviews the suitability and effectiveness of the assurance framework.

Communication

Transparent and open communication is essential to ensure business objectives are met. Line managers engage with their staff, communicating business direction and priorities. The CED receives their feedback for information and possible follow-up. The CEO and other members of the CED reinforce this communication framework with quarterly staff engagement sessions. For more details, see Section 5.4 Corporate Culture and Section 7.3. Engagement with Personnel.

5.3. CORPORATE GOVERNANCE MODEL

Strategic planning is carried out through engaging the Sakhalin Energy's management with the Russian Party (representatives of the federal executive authorities and the Government of the Sakhalin Oblast) and company's shareholders that determine policy directions, establish areas of responsibility, and assess the results achieved, including those in the area of sustainable development. Under the shareholding structure of Sakhalin Energy, which has not changed since 2007, Gazprom holds 50% plus one share, Shell holds 27.5% minus one share, Mitsui holds 12.5%, and Mitsubishi holds 10%. All the shareholders operate through their subsidiaries.

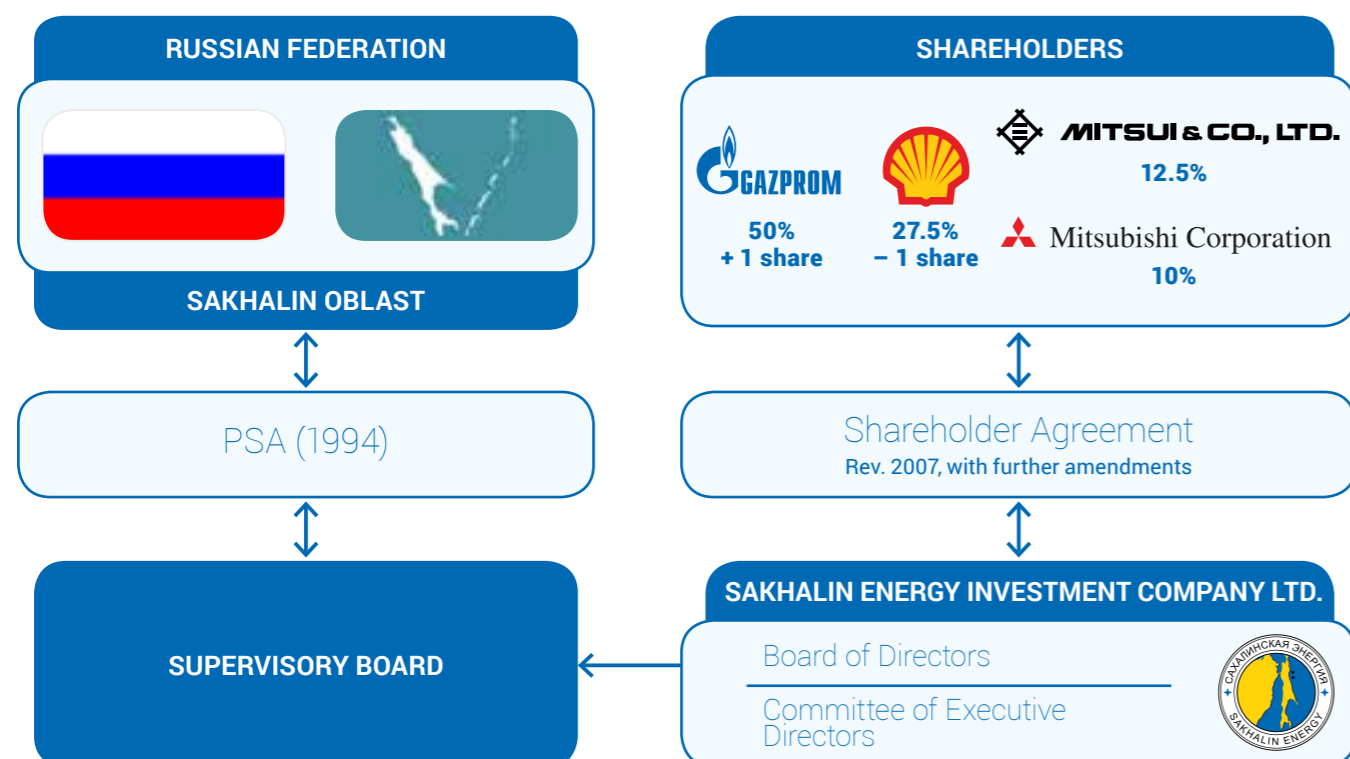
The Supervisory Board is the Sakhalin-2 Project strategic management body established and operating in accordance with the Production Sharing Agreement. The Supervisory Board supervises the fulfilment of the PSA terms and approves the company's long-term development plans and budgets, annual work programmes 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 auditors. The Supervisory Board consists of twelve members: six representatives from the company and six representatives from the Russian Party. Information on members of the Supervisory Board is available on the Sakhalin Energy's website (www.sakhalinenergy.com).

Sakhalin Energy uses a three-stage corporate governance system, in which:

- Certain key decisions are made by shareholders;
- The Board of Directors is responsible for overall company governance; and
- Daily management and operation of the company is the prerogative of the Committee of Executive Directors (CED).

Corporate governance model



Listed below are external committees which play their respective roles in the corporate governance model.

Board of Directors (BoD), a body appointed by the company's shareholders, is responsible for the overall governance of the company and for key decisions regarding economic, environmental, and social activities as well as the strategy and business direction of the company.

The BoD members in 2014 included all the executive (7) and non-executive (8) directors of the company. Olivier Lazare, Vice-President of Russia at Shell, served as the Chairman of the Board in 2014.

The BoD activities are supported by the functions of several committees.

Commercial Committee – chaired by the company's Commercial Director and consisting of the representatives from Sakhalin Energy and its shareholders who meet to discuss commercial issues and related proposals and strategies pertaining to PSA/shareholder issues, PSA amendments, Licence Security proposals, infrastructure sharing/cooperation issues, and business strategies relating to crude oil, LNG and natural gas, and other commercial issues.

Technical Committee – chaired by the company's Technical Director and consisting of the representatives from Sakhalin Energy's Technical and Production Directorates and shareholder companies that meet to discuss technical issues such as value assurance reviews, development proposals, well drilling and completion, development work programmes and related budget proposals, operational activities, contracting plan and strategy, tender board policy, project development schedules, HSE management, and engineering, procurement and construction plans.

Finance Advisory Committee – chaired by the Finance Director and consisting of the representatives from Sakhalin Energy and shareholder companies that meet to discuss financial issues. The standard agenda of a FAC meeting includes the following items: equity/project financing arrangements; assurance framework (including financial business); cost recovery issues; internal/external audits; work/service contracts, agreements and amendments; tax liabilities; insurance; treasury; accounting policy and supply chain management matters.

External Affairs Committee – an advisory committee to the BoD. The Committee is chaired by the Sakhalin Energy's Head of Government and Shareholders, External Affairs Division and consists of representatives from the company and its shareholders that meet to discuss external affairs, such as formulating and coordinating company's positions and communications with shareholders; monitoring and responding to press reports, releases, and inquiries; and coordinating all issues associated with managing the company's reputation.

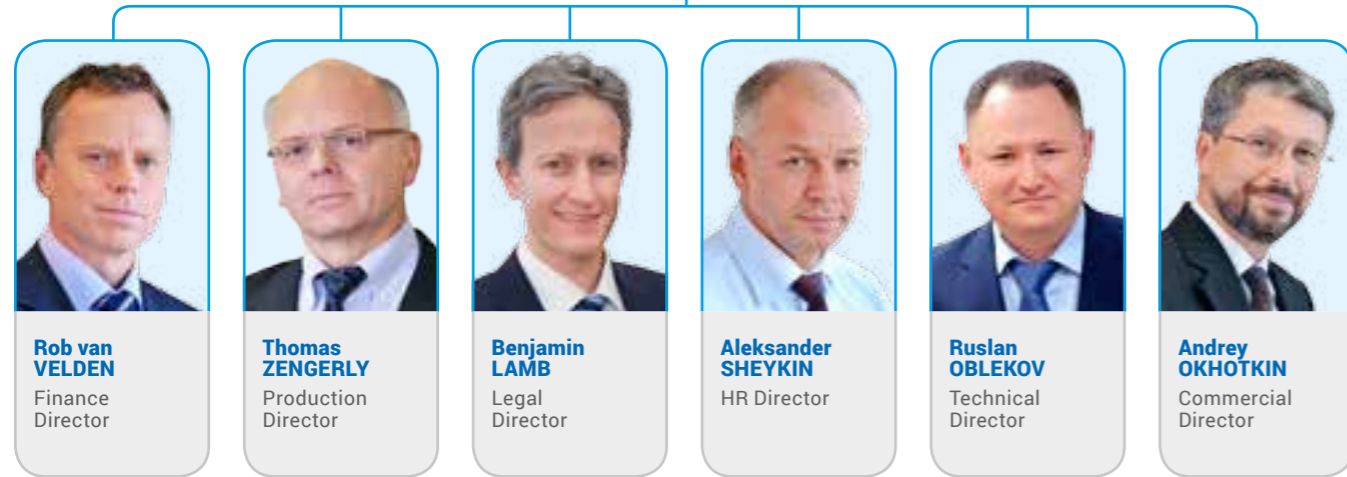
Board Assurance Committee – consists of two representatives from each of the company's shareholders, one of which is a Non-Executive Director. The meetings are attended by the company's Chief Executive Officer, Finance Director, Legal Director, any other executive directors whose directorates are involved in an agenda item of a Committee meeting, the Audit Manager, and other individuals the Committee invites.

Board Remuneration Committee – an advisory committee to the BoD. This Committee reviews and makes recommendations with regard to annual performance against targets by executive directors as well as overall HR policies. The Committee includes two representatives (one of which should be a Non-Executive Director of the company) from each of the shareholders.

Committee of Executive Directors (CED) – headed by the company's CEO. The CED, which consists of all the executive directors of the company, is responsible for the day-to-day management of the company. It designates, directs, and oversees the operations of Sakhalin Energy through business plans and strategies and by deciding how best to implement them.

The CED members as of 31 December 2014 are shown below in the Committee of Executive Directors chart.

Committee of Executive Directors

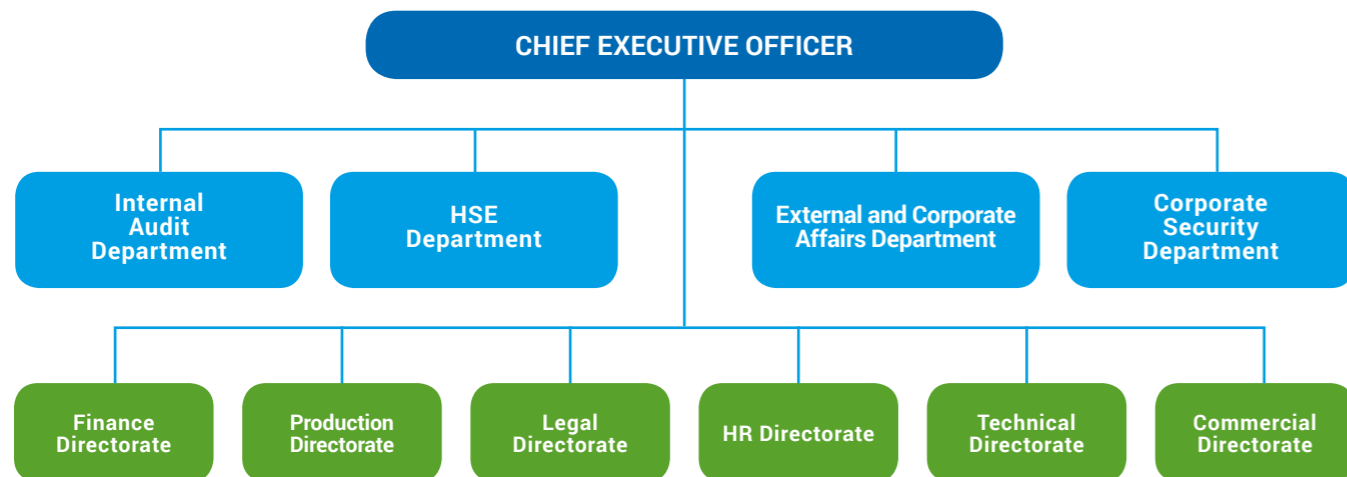


The CED is supported by internal committees, including, but not limited to:

- Tender Committees;
- Management Development Committee;
- Business Integrity Committee;
- Business Assurance Committee;
- Claims Steering Committee;
- HSE Management Committee; and
- Operational Excellence Committee.

The company's organisational structure ensures that functional tasks related to both assets and processes are completed.

Company's organisational structure



5.4. CORPORATE CULTURE

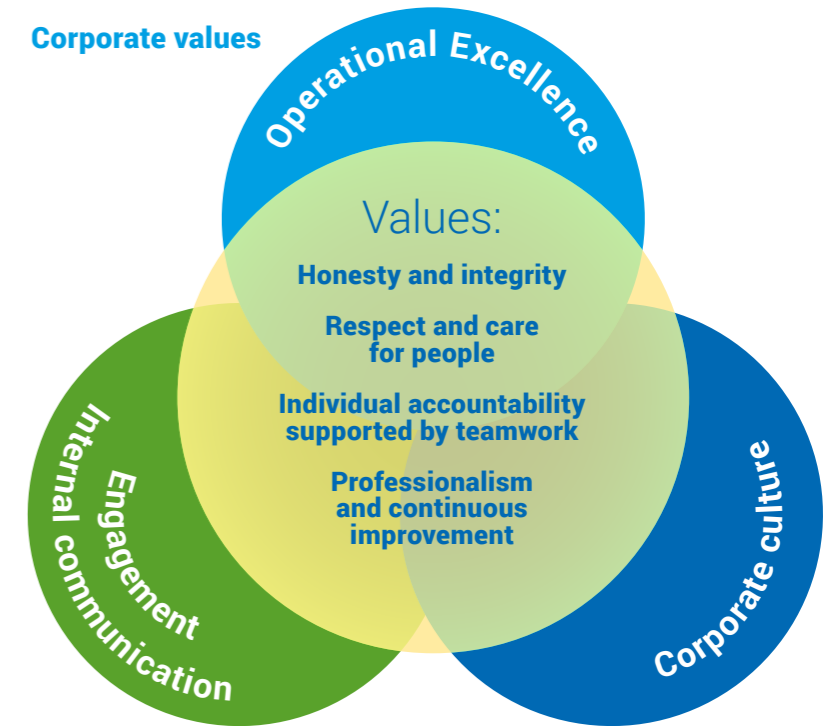
People and corporate culture are of primary importance in achieving the goals of our company. Respect, support, and promotion of human rights are core principles for Sakhalin Energy, and the company's employees are fundamental to its success. The basic qualities each company's employee should strive for are professionalism, responsibility, initiative, integrity, self-development, improved efficiency, and strict observation of ethical principles and standards of conduct. Strengthening and developing corporate culture is an important component of achieving and improving operational excellence.

In order to ensure compliance with professional and business ethical standards, the company's Code of Conduct explains the norms of behaviour which Sakhalin Energy expects from its employees and describes how these norms correlate with the company's business principles and core values (see Section 5.5. Code of Conduct). Sakhalin Energy's employees share the core values of the company, which are:

- Honesty and integrity;
 - Respect and care for people;
 - Individual accountability supported by teamwork; and
 - Professionalism and continuous improvement.
- These values are reflected in Sakhalin Energy's standards, policies and procedures, such as:
- Statement of General Business Principles;
 - Code of Conduct;
 - Sustainable Development Policy;
 - Human Rights Policy;
 - Whistle Blowing/Grievance Procedure;
 - Conflict of Interest Procedure; and
 - Anti-Bribery and 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's General Business Principles. The human rights principles control system requires the company's management to provide employees

Corporate values



with a safe and confidential setting for raising any concerns and reporting non-compliance. Sakhalin Energy's 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 that is in the best interests of the overall business. Leadership, accountability, and teamwork characterise this behaviour.

The company constantly works to reinforce engagement with staff and internal communications, using such methods as direct communication (all-staff communication sessions, internal meetings of all units, etc.), as well as various types of electronic and written communications and feedback (see Section 7.3. Engagement with Personnel).

The company has developed and applies the Conflict of Interest Procedure. Under the procedure, an annual declaration must be completed by all staff. This exercise provides an understanding of the ethical principles of the company and allow the company reviewing potential conflicts and take measures to protect both itself and its personnel from the risk of actual conflict between employees' private activities and their part in the conduct of the company business.

5.5. CODE OF CONDUCT

The Code of Conduct is the primary document that explains the fundamental rules and standards acceptable to the company to ensure compliance with our Statement of General Business Principles. It regulates behaviour and spells out requirements and guidance, expressed as clearly, concisely, and consistently as possible in a single, company-wide document for all our employees. The Code of Conduct includes, but is not limited to, the following main rules:

- Sakhalin Energy endeavours to comply with principles of respect, support, and promotion of human rights in all its activities;
- Sakhalin Energy aims to operate in environmentally and socially responsible ways;
- Sakhalin Energy does not tolerate bribery, insider dealing, market abuse, fraud, or money laundering;
- Sakhalin Energy is committed to free, fair, and ethical enterprise; and



- Intellectual, physical, and financial assets of Sakhalin Energy are valuable and must be preserved, protected, and properly managed.

General Business Principles of the company are communicated to newcomers on the regular onboarding sessions.

All employees biannually complete on-line trainings dedicated to the Code of Conduct, Anti-Bribery and Corruption principles and the Conflict of Interest Procedure.

The process for managing risks at Sakhalin Energy involves identifying and assessing risks, planning and implementing a response, monitoring performance, and reassessing risks on an ongoing basis to ensure that areas for improvement are captured that and such improvements are implemented (see the Risk Management Lifecycle chart). This process is regulated by the corporate Risk Management Procedure. The purpose of this Procedure is to define the process by which risks are identified, assessed, and mitigated (implementation of risk controls) in accordance with the Sakhalin Energy's internal controls framework (see the Controls Framework chart).

The risk assessment matrix is a vital tool for assessing risks which is applied to classify actual and potential consequences, determine risk significance, and guide appropriate risk management. The risks are assessed in terms of their probability and level of impact on the existing goals.

Risk management is the responsibility of those who are accountable for achieving the objectives associated with these risks. All executive directors of the company shall apply

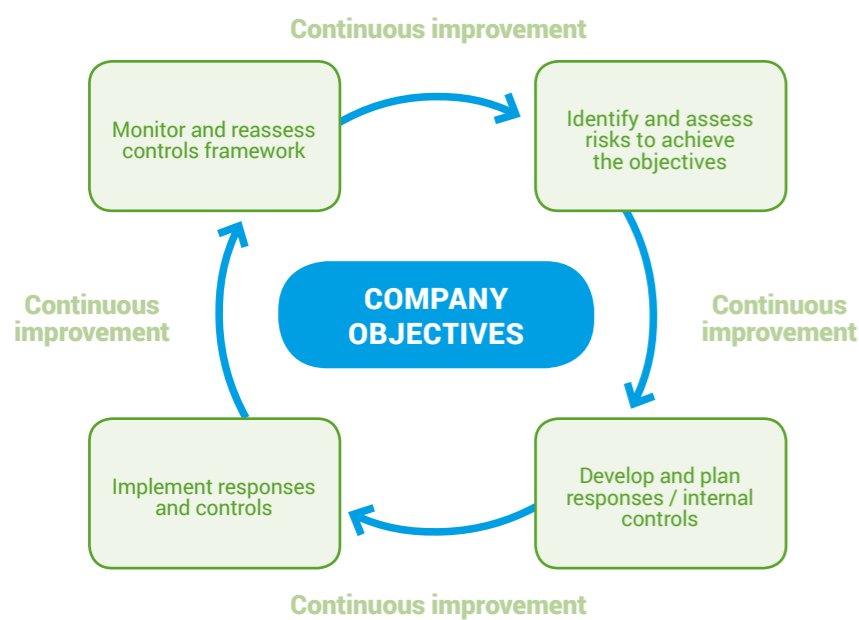
One of the most important components of an efficient risk management process is impact assessment. This process is to be carried out prior to commencement of any operation which may potentially affect various spheres of activity (for more details, see Section 3.5.2. Impact Assessment).

proactive risk management as an integral part of their management activities. Risk control is exercised by the person responsible for the risk (risk coordinator), the company's Business Assurance Committee which includes the company's executive directors, and the Board Assurance Committee (see the Controls Framework chart).



5.6. RISK MANAGEMENT

Risk management lifecycle

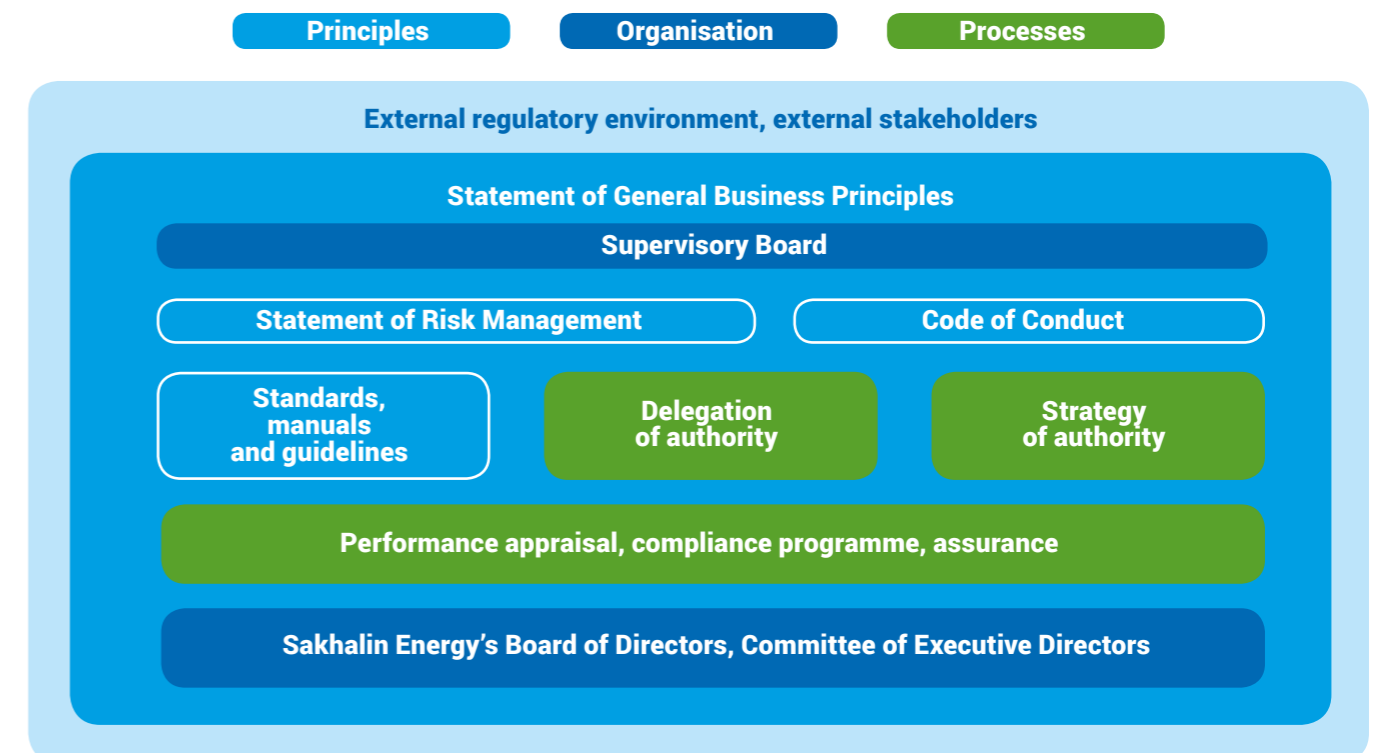


Sakhalin Energy believes that effective risk management plays an important role in achieving the company's objectives.

The goal of risk management is to maximise opportunities or minimise the adverse impact of the identified risks, including the risks of losses or failure to achieve the goals, as well as the risks of adverse factors in various areas such as safety, production effectiveness, environment, social areas, observance of human rights, labour relations, occupational health and safety, counteracting bribery and corruption, etc.

At Sakhalin Energy, a risk is understood to be a potential situation in the future which may impact the achievement of goals. All risks are therefore divided into threats and opportunities. Risks reflect the degree of uncertainty affecting the intended course of action of the business. This uncertainty must be taken into account, monitored, and controlled, i.e. managed.

Controls framework



Listed below are the risks which are believed by the company to be significant, as well as ways to control them.

Risks	Description/Controls	Reference
Operational excellence (opportunity)	Many Sakhalin Energy's processes can be improved to become more effective and/or more efficient, to enable the company to realise its vision of becoming the premier energy source for Asia-Pacific. Controls in place: in 2010, the company developed a strategy to achieve maximum performance indicators, referred to as the Operational Excellence Programme.	For details, see Section 4.3.
Economic risks		
Cost management	The main elements of cost management are making investment decisions that optimise scarce resources and challenging the costs to use resources more effectively. Transparency, awareness, efficiency, cost and contracts are managed with the goal of reducing long-term costs. The Cost Management strategy of the company is supported by the Journey book, Business Plan, and Operational Excellence Programme.	For details about managing contractors and suppliers, see Section 6.4.
Potential sanctions	The US, EU, and other countries have imposed sanctions related to the situation in Ukraine that may affect the company's business. A cross-discipline sanctions working group has been established, which meets regularly to discuss the status and actions to be taken and reports weekly to the CED.	
Oil price impact on the company's cash flow management	Significant and continuous drops in oil prices affect the company's performance. The company monitors the market situation on a continuous basis in order to make the correct decisions on cash flow management and dividends policy, on oil sales under the most favourable conditions on the market, as well as on the level of commitments for future expenditures.	
Rouble devaluation	The rouble devaluation has impacted the company's financial and operational performance. The risk is regularly discussed at the CED. The company monitors and analyses market fluctuations in order to make balanced decisions and provide optimal value propositions to its employees and contractors.	
Social and reputational risks		
Staff retention, competence, and succession plan	There is a risk that the turnover of technical personnel who hold key positions in the production process will increase. It is critically important for the company to retain the necessary level of trained and qualified personnel. Losing professionals and specialists, especially those in technical fields, leaves too few trained personnel in the succession pool to fill critical positions and adversely affects the qualification level of our technical experts. In order to mitigate the risk, the company strives to support the succession process, in particular, at the level of managerial targets and goals. Programmes of managerial and leadership skills development are being implemented, including Assessment and Development Centres, training and coaching. The competitiveness of the employee value proposition is revised on a regular basis. Non-entitlement and traineeship agreements are updated on a regular annual basis in cooperation with shareholders. The Programme for Employing and Training Russian Nationals is being updated.	For details, see Section 9.1.
Risk of occupational diseases	The company applies the following controls to reduce the risk of occupational diseases: personnel health risk assessment at the company's assets, harmful factors production control, workplace attestation, periodic medical and clinical examinations, monitoring the compliance with work instructions during work, monitoring the use of PPE, and education on the prevention of occupational diseases.	For details, see Section 9.3.
Risk of not meeting the utilisation rate of 95% for associated petroleum gas	In order to minimise the flaring of associated petroleum gas, the company is constantly taking steps to enhance the equipment reliability, to increase the operating time, and to minimise the number of unplanned shutdowns.	For details, see Section 8.1.6.

Risks	Description/Controls	Reference
Environmental risks		
Risks with regards to the environment	The company uses the following controls to reduce the risk of negative impact on environment: <ul style="list-style-type: none"> • Risk analyses and environmental impact assessment when implementing a project; • The development of norms of acceptable emissions and discharges, obtaining approvals and disposal limits; • The development and implementation of comprehensive programmes for industrial environmental control, local environmental monitoring and biodiversity conservation at production assets; and • The development and implementation of plans for environmental measures. Risks are managed in accordance with the company's Air Emissions and Energy Management Standard, Water Use Standard, and Waste Management and Biodiversity Standards and Biodiversity Action Plan.	For details, see Section 8.
Safety risks		
Process safety	Process Safety is the management of hazards that can cause major accidents that release potentially dangerous materials or energy such as a fire or explosion or both. Examples of major accident hazards are: hydrocarbon releases from production installations or wells, onshore and offshore assets and pipelines which could result in fire and explosions; loss of structural integrity of offshore installations; marine hazards such as a ship colliding with an installation or another vessel; aviation hazards such as a helicopter crash; major road traffic accidents; contamination of food or water affecting personnel at the assets; loss of power to remote locations during the winter; dropped objects; and the transfer of personnel between offshore installations and vessels. The Process Safety Control System consists of three elements: <ul style="list-style-type: none"> • Design Integrity – designing and building company assets so that risks are as low as reasonably practicable (ALARP); • Technical Integrity – applying technical control measures through effective maintenance, inspection, repair, and quality assurance; and • Operating Integrity – applying technical control measures and managing critical work processes by using work permits, monitoring technical processes manually, overseeing changes in processes, etc. The heart of these elements is Integrity Leadership. It is about a leader's ability to pick up on weak signals and create an atmosphere in which people can halt work that is being done unsafely, and speak up when they feel something is not right. Process Safety risks have been assessed at each company's asset based on the Russian Federation legislation and international practice.	For more details, see Sections 4, 9.2, 9.3.

Risks	Description/Controls	Reference
Personnel safety risks	<p>These risks mainly include personnel safety risks during lifting operations, risks of falling from height or as a result of slipping or tripping, electrical safety risks, and risks related to falling objects.</p> <p>To reduce personnel safety risks during lifting operations to the as low as reasonably practicable level (ALARP), basic controls include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • Performing work only after a work permit is issued; • Risk assessment, and preparing a detailed lifting pattern describing all of the phases and indicating the weight of load, capacity of the lifting device, etc.; • Ensuring qualified personnel handle the lifting operations (crane operator, slinger team); and • Making regular technical inspections and checks of all lifting equipment. <p>To increase the level of personal responsibility for employees, the company adopted the Life Saving Rule: 'I will not stand under a suspended load.'</p> <p>An awareness campaign was held in 2014 at all production assets to explain the rule. The goal was to raise the awareness of the risk of standing under a suspended load and to describe the prevention measures.</p> <p>To reduce personnel safety risks concerning electrical safety issues, basic controls include the following:</p> <ul style="list-style-type: none"> • Performing work only after a work permit is issued; • Assessing risks; • Regularly inspecting electrical systems for damages; • Regularly testing all electrical equipment; • Securing wires, where possible, above ground level; • Protecting high-voltage wires against possible damages, and clearly marking them; • Protecting wires and electric outlets against groundwater, rain, and snow; • Allowing only qualified personnel repairing the electrical equipment; and • Assigning persons to render first-aid in the event of an electrical shock. <p>In order to reduce the risks associated with falling objects, a campaign aimed at preventing falling, tripping, and slipping named 'A Simple Mistake Can Ruin Your Life' was launched in 2014. This campaign explained the nature and causes of incidents related to falling, tripping, and slipping and described the measures employees could take to prevent such incidents.</p> <p>Winter safety was especially emphasised. The Winter Safety Day is held each October to discuss such dangers and remind all personnel about seasonal risks and the ways to avoid them. Anti-slip devices are given to employees free of charge and their use is highly recommended.</p> <p>In order to reduce the risk of injuries caused by falling objects, the company developed a programme to prevent objects from falling. The Dropped Objects Prevention Committee was formed. A group of representatives from all the company's assets received training and is now implementing the programme at their own assets. The Committee reviews all the incidents related to falling objects, identifies objects that fall, and analyses best practices in the field.</p> <p>The Committee implements information campaigns and analyses and tests tools that can prevent falls.</p> <p>The company monitors and reviews incidents related to falling objects. Events are held under the programme to inform employees who are at risk of being hit by falling objects and identify potential falling objects. In 2014, 125 inspections were performed both at company's assets and key contractors' offices, 72 persons were trained to become programme instructors, who, in turn, trained 563 employees at the assets.</p>	For more details, see Section 9.2.
Road traffic safety	<p>Traffic decreased during the operations phase, but the risk levels remain high over the entire service life of the assets. There is still a large volume of traffic, often in difficult conditions. The leading violation among contractors' drivers is speeding. To manage risks and prevent the violations of road traffic rules, the company conducts various activities such as active monitoring of speed limit violations using IVMS and Traffic Safety Team inspectors, training sessions and discussions with drivers, assigning people at all the assets to be responsible for monitoring the implementation of road traffic safety measures, strictly regulated journey management, and the work of the Sakhalin Road Safety Council.</p>	For more details, see Sections 9.2.2 and 9.5.8.

5.7. ANTI-BRIBERY AND CORRUPTION

In order to counteract bribery and corruption, the company:

- Does not tolerate bribery, insider dealing, market abuse, fraud, or money laundering (facilitation payments are considered bribes and are not allowed);
- Complies with all Russian and applicable international laws and regulatory acts; and
- Adheres to the principle of integrity and legality in all company activities.

Sakhalin Energy expects the same behaviour from its employees and all its counterparties.

Sakhalin Energy assists its employees, business partners, contractors, and suppliers in fulfilling requirements for counteracting bribery and corruption. The primary company document regulating the issues of counteracting bribery and corruption is the Anti-Bribery and Corruption Procedure (hereinafter referred to as the Procedure).

Risks associated with non-compliance with this Procedure come from the company's non-fulfilment of the anti-bribery and corruption legal requirements as well as failure to comply with ethical standards of business. These risks may lead to reputational damage, financial losses (through fines), and criminal liability associated with company's employees as well as with the activities of its agents, contractors, and intermediaries. The Procedure includes a list of categories of employees who are considered to be high-risk for violating anti-bribery and corruption laws and must attend individual training on the requirements of this Procedure. Additionally, all newly hired staff must be briefed about the requirements set forth in the Procedure as part of their induction. The Finance Controller in collaboration with the Governance, Risk, and Assurance Manager is required to ensure that Sakhalin Energy's employees are made aware of this Procedure (including through training sessions) and that all employees comply with the Anti-Bribery and Corruption Procedure. Furthermore, the company's Legal Directorate will consult employees on anti-bribery and corruption legal issues and the legal risks associated with non-compliance. The Anti-Bribery and Corruption Procedure establishes an overall set of controls for compliance with the anti-bribery and corruption laws, including:

- Requirements in the area of anti-bribery and corruption;
- Identifying violations;
- Reporting to the Business Assurance Committee;
- Utilising the system of potential risk indicators, or the so-called 'red flags' (e.g. risks associated with demands for payment for services not covered by a contract, lack of transparency in invoice supporting documents, etc.); and
- Utilising pre-contractual due diligence, mandatory contract provisions, etc.

In order to integrate anti-bribery and corruption requirements into the company's supply chain management processes and to implement further controls:

- The Legal Directorate shall monitor any changes in standard contract clauses which specify the company's anti-bribery and corruption requirements; and
- The company's Supply Chain Manager shall ensure that standard company's contracts contain such clauses and controls established by this Procedure that are effectively integrated into the company's supply chain management processes.

The Business Assurance Committee shall review monitoring results for compliance with anti-bribery and corruption requirements.

ECONOMIC IMPACT MANAGEMENT

About US\$ 6.1

billion

Sakhalin Energy paid
to the Russian Federation in 2014

Including

Over US\$ 2.2

billion

to the Sakhalin Oblast
budget



6.1. IMPORTANCE OF THE SAKHALIN-2 PROJECT FOR THE RUSSIAN FEDERATION AND THE SAKHALIN OBLAST

The Russian Federation and the Sakhalin Oblast have gained numerous benefits from the Sakhalin-2 Project, namely:

- Since Sakhalin Energy started its operations, the Russian Federation's proceeds from the Sakhalin-2 Project have totalled over US\$ 13.6 billion, including US\$ 4.3 billion that was received by the Sakhalin Oblast.
- Russian companies have gained access to new technologies and business development opportunities.
- Over US\$ 18 billion worth of contracts have been awarded to Russian companies and organisations.
- The Russian Federation has gained valuable experience in managing complex high-tech projects in remote locations and in subarctic conditions.
- The infrastructure on the Sakhalin Island has been upgraded on a large scale (over US\$ 600 million was invested by the company).
- There has been a notable increase in local employment (both direct and indirect effect) and local workforce quality.
- Salaries and living standards for the local population have risen.
- Many contracts and subcontracts have been awarded to Sakhalin companies that took part in the Sakhalin-2 Project. Their capacity and competitiveness has enhanced dramatically.
- The company has carried out extensive social and public initiatives on the Sakhalin Island.

In 2014, according to the International Accounting Standard (IAS), revenues of Sakhalin Energy amounted to US\$ 8,074 million, and its total net income was US\$ 3,108 million.

6.2. FINANCIAL BENEFITS TO THE RUSSIAN FEDERATION AND THE SAKHALIN OBLAST

In 1994, Sakhalin Energy signed a Production Sharing Agreement (PSA) with the Russian Federation, represented by the Government of the Russian Federation and the Administration of Sakhalin Oblast. A 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.

Production sharing between the company and the state is triggered when the investor recovers all of its costs (the specific shares of each party are not fixed but depend on the profitability of the project). The PSA also stipulates that the company should pay a profit tax, and the profit tax for the company is currently payable at a rate higher than the profit tax rate for non-PSA tax payers.

According to the PSA, the state retains the ownership rights to the field and grants the investor an exclusive right to develop the mineral resources. The investor develops the resources by its own means and at its own risk and invests funds required for the exploration and development of the fields.

Under the PSA, some types of taxes, levies, and duties are replaced with production sharing. This effectively means that instead of some taxes (including mineral extraction tax, property tax, etc.) and levies, Sakhalin Energy is using hydrocarbons as a form of royalty payment, and after product sharing starts, it will use them as the profit share. Financial benefits to the Russian Party include the profit tax paid by the company and a number of mandatory payments, contributions, and levies. In addition, the Russian Party obtains income on R-share dividends (a special preference share providing the right to receive dividends).

In total, for the reporting period, Sakhalin Energy paid almost US\$ 6.1 billion (in kind and in cash) to the Russian Federation, which is US\$ 3.4 billion more than in 2013.

US\$ **13.6**
billion

Sakhalin Energy paid to the Russian Federation for the entire period of the project implementation

Royalties including recalculation for 2008–2014 amounted to:

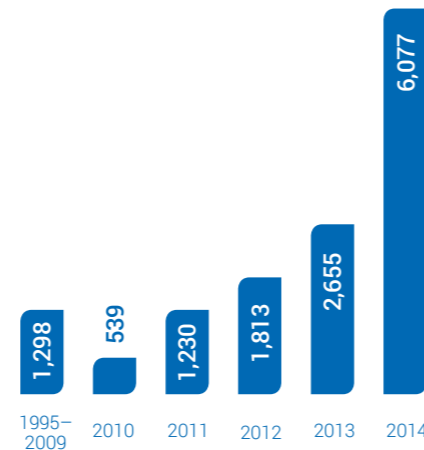
- US\$ 706 million in kind payment; and
- US\$ 101 million in cash.

The Russian Party's production profit share was US\$ 949 million. In addition, the 2013 fiscal year profit tax totalled US\$ 2.1 billion and dividends totalled US\$ 2.1 billion.

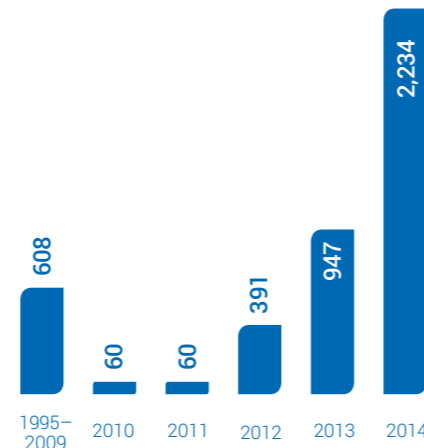
In 2014, the amount of the profit tax, together with the dividends, reached approximately US\$ 4.3 billion (the sum will be paid in 2015).

For the entire period of the project implementation (1995–2014), the Russian Party has received US\$ 13.6 billion from the Sakhalin-2 Project, taking into account the 2014 amounts.

The total amount of payments to the Russian Party from the project, US\$ million



Taxes and other mandatory payments made to the Sakhalin Oblast budget and to local budgets from the Sakhalin-2 Project, US\$ million



The amount of taxes and other mandatory payments made to the Sakhalin Oblast budget and to local budgets totalled US\$ 2.2 billion in 2014 (which is US\$ 1.2 billion more than in 2013).

Revenues from the Sakhalin-2 Project were a significant part of the total fiscal revenues of the Sakhalin Oblast in 2014 (over 50% of the total amount).

6.3. RUSSIAN CONTENT

The Russian Content means the utilisation of Russian labour, equipment, and services. In accordance with the PSA requirements, the Russian Content is measured in labour input (in man-hours) as well as materials and equipment (in weight units) delivered by Russian contractors (both legal entities and individuals). Sakhalin Energy will make its best efforts to achieve a level of Russian Content of 70% over the life of the entire Sakhalin-2 Project. In 2014, the company reached a Russian Content level of 87% man-hours and 83% materials and equipment used.

Sakhalin Energy has identified its key activities and mechanisms for maximising the Russian Content, which are featured in the Russian Content Policy and the Russian Content

Development Strategy. The company's efforts are primarily focused on the long-term planning for Supply Chain Management requirements, identifying opportunities for Russian Content development, providing targeted assistance to Russian companies in order to increase their competitive potential and developing workforce and suppliers.

The total value of contracts awarded to Russian companies since the project was launched through the beginning of 2015 has reached approximately US\$ 22.6 billion. In 2014, the value of new contracts and amendments to existing contracts with Russian companies totalled approximately US\$ 4.2 billion or 86% of the total value of the contracts.

Some of the contracts awarded to Russian enterprises in 2014:

- **SCHLUMBERGER EAST** – various services related to well drilling (providing equipment, drilling, shooting, cementing, logging, etc.);
- **RN BUNKER** – fuel provision for vessel bunkering;
- **WEATHERFORD, SAKHALIN BRANCH** – building well drilling equipment;
- **ORENBURG PROJECT MANAGEMENT** – refurbishment of the OPF shift camp;
- **ROMONA** – providing ROV (remotely operated vehicle) vessels as well as offshore survey and inspection services;

- **SCF SHELF** – providing a supply vessel and standby vessels;
- **REMOTE PROJECT SERVICES GROUP GLOBAL** – catering and utility services;
- **SOGAZ** – various insurance services;
- **GREEN-COAST** – collecting and transporting IV-V classes waste;
- **ETNO** – collecting and transporting I-III classes waste;
- **SMNM-VECO** – maintaining and modifying the major onshore assets; and
- **CAPE INDUSTRIAL SERVICES SAKHALIN** – providing scaffolding, insulation, painting, and fireproofing services.

About
US\$ **4.2**

billion
the value of contracts with Russian companies in 2014

Russian companies involved in the project have unique access to international best practices, global business opportunities, and management skills.

In addition to new jobs as well as personnel and capacity development, Russian companies also benefit from the following:

- Improving the quality of services and materials as well as safety standards;
- Introducing technologies that are new to the Russian Federation and acquiring unique experience;
- Doing business with international partners and setting up joint ventures; and
- Increasing their competitiveness as bidders in other project tenders, both in the Sakhalin Oblast and worldwide.

6.4. SUPPLY CHAIN MANAGEMENT

The company pays close attention to the effectiveness of Supply Chain Management (SCM).

Our fundamental Supply Chain Management document is the Sakhalin Energy's Supply Chain Management Policy (hereinafter referred to as the Policy). This Policy applies to all company employees and contractors but primarily to company's personnel that are directly engaged in supply chain management. The Policy applies to all activities that involve spending company's funds on equipment, materials, resources, services, and works.

The Supply Chain Manager is responsible for ensuring that our model contracts contain the appropriate terms and conditions, for effectively implementing these terms and conditions in the procurement processes and for ensuring control and assurance measures that are specified in the Policy and other Policy-based documents.

Sakhalin Energy adheres to the following SCM principles:

- Safety – causing no harm to people, the environment, or to our property; ensuring the contractors comply with the company safety standards;
- Additional value in SCM – value maximisation, economic efficiency, and long-term commercial benefit;
- Zero tolerance for personal gains, bribery, or corruption – in all SCM operations in accordance with the supply transparency principle;
- Competition – development of open competition in markets;
- Russian Content – maximisation of the Russian Content and development of Russian suppliers and contractors;
- Human rights – ensuring respect for, observance, and promotion of human rights by the counterparties; and
- Sustainable development – ensuring sustainable development in the process of selecting a counterparty and in making supply chain management decisions.

The Policy lists rules and measures that ensure compliance with these principles.

In accordance with the above-listed principles, our contract award and management process follows these steps.

1. Creating a list of qualified vendors (for certain scopes of resources/services or for specific tender scopes):

- Conducting workshops for potential vendors (see Section 6.5. Vendor Development Programme); and
- Implementing potential vendor pre-qualification.

2. Conducting tenders for the purchase of materials/equipment or provision of services:

- Should a sufficient market capacity exist, competitive bidding is preferred;
- Distributing Invitations to Tender (ITTs) and Clarification Bulletins;
- Submission of bids (proposals);
- Conducting technical bid evaluation (including HSE, etc.); and
- Conducting commercial bid evaluation.

3. Contract award:

- Upon completion of all stages of the bidding process, the company awards the contract under the terms and conditions specified in the ITT.

4. Contract management:

- During the performance of the contract, the company monitors contractor activities

by tracking the mutually agreed Key Performance Indicators (KPIs) and by organising meetings to review the contractor performance;

- The company raises awareness and conducts training in order to ensure compliance with its requirements (including those related to HSE and social performance, anti-corruption and bribery, human rights, etc.); and
- The company conducts contract performance audits.



6.5. VENDOR DEVELOPMENT PROGRAMME

The Vendor Development Programme is a long-term programme developed in a workshop format in order to increase the competitiveness of contractors and share the unique experience of implementing international oil and gas project components. The Programme contains a number of training modules.

- HSE;
- Work quality assurance; and
- Tendering skills.

As part of the Vendor Development Programme, in 2014, the company held fifteen workshops for both current and potential Sakhalin Energy's contractors on the Sakhalin Island. Additionally, in July 2014, one workshop was held in Vladivostok. In 2014, these workshops were attended by 120 specialists from 70 Russian companies.



Contractors process safety forum

STAKEHOLDER ENGAGEMENT MANAGEMENT

3,327
people

visited Sakhalin Energy's information centres in 2014



7.1. STRATEGY, PRINCIPLES, MECHANISMS AND ENGAGEMENT TOOLS

Assuming that regular and meaningful engagement with communities and key stakeholders is an important element of 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 or the project it implements, i.e. individuals or entities that are

influenced by the company or themselves influence or can potentially influence the company's operations.

The company has defined the stakeholders to include the following key groups: shareholders, personnel, lenders, government authorities, customers, suppliers and contractors, the community, stakeholders in Japan, international organisations, public organisations and other non-governmental and non-profit organisations, mass media, etc.

Company's stakeholders



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

- Statement of General Business Principles;
- Code of Conduct;
- Sustainable Development Policy;
- HSE and Social Performance Commitments and Policy;
- Social Performance Standard (the Public Consultations and Information Disclosure Section); and
- Public Consultation and Disclosure Plan (updated annually).

These documents define the engagement strategy, principles, process, mechanisms, and tools and are available to the general public.

Stakeholder engagement mechanisms and tools are selected based on the stakeholder engagement goals for the particular stakeholder group (for more details, see the Public Consultations and Disclosure Plan).

Stakeholder engagement process



7.2. STAKEHOLDER ENGAGEMENT PERFORMANCE IN 2014

In 2014, the company continued systematic and consistent engagement with key stakeholders.

In 2014, Sakhalin Energy held a number of events in honour of the 20th anniversary of the company. As part of the celebration, receptions were held in Moscow and Yuzhno-Sakhalinsk. Over 300 representatives of federal and local authorities, shareholder companies, LNG and oil buyers, lenders, contractor organisations, and partners attended the receptions).



Meeting with the public of Sakhalin

The key stakeholder engagement activities in 2014 included the following:

- Engagement with personnel (for more details, see Section 7.3);
- Public, group and individual consultations to update the participants on the latest developments and other aspects of the company's activities and to receive feedback;
- Information sharing through the following tools: Sakhalin Energy's public website, Energy's weekly TV programme broadcast in Sakhalin, Vesti monthly corporate newspaper, information reports and other materials distributed in communities, and mass media (radio, newspapers, and TV);

- Work of the company's information centres set up in local libraries (for more details, see Section 7.4);
- Engagement with the indigenous people in the framework of the Sakhalin Indigenous Minorities Development Plan (for more details, see Section 7.5);
- Engagement with non-governmental and non-profit organisations (for more details, see Section 7.6);
- Engagement with Japanese stakeholders (for more details, see Section 7.7);
- Engagement with customers, suppliers, and contractors (for more details, see Sections 7.8 and 6.4-6.5); and
- Engagement with state authorities and local government authorities (for more details, see Section 7.9).

Key statistics on engagement in 2014:

- **8 public meetings held in communities located near the company's facilities were attended by 82 Sakhalin residents;**
- **3,327 people visited the information centres;**
- **14 public meetings held in areas of traditional residence of the Sakhalin Indigenous Minorities were attended by more than 206 of their representatives; and**
- **2 rounds of consultations with stakeholders under the preparation of the Sustainable Development Report.**

In compliance with the international standards, additional opinion surveys and meetings with stakeholders were held in the preparation of the non-financial report to define the range of topics that would be included in the report (for more details, see Section 2).

7.3. ENGAGEMENT WITH PERSONNEL

Engagement with personnel is an important component of strengthening and developing the Sakhalin Energy's corporate culture (see Section 5.4. Corporate Culture). One way this is carried out is through an internal communication system, which includes the following:

- Regular staff communication meetings to inform employees on the results of meetings of the Committee of Executive Directors, Board of Directors, and Supervisory Board as well as other important developments in Sakhalin Energy;
- Vesti corporate newspaper and various informational and reference materials. Vesti is circulated not only among the company's staff, but also among communities in Sakhalin (the newspaper is regularly distributed through the company's information centres and is on its website);
- Opinion surveys conducted among the personnel. In 2014, a regular survey was conducted to study the opinion of company's employees. The questions concerned personnel engagement, attitude towards the company and the management, responsibilities and labour conditions, teamwork, participation in company held activities, and respect for ethnic and individual differences. Moreover, various short polls were posted on the corporate intranet website, including those aimed at gauging employees' interest in sports and willingness to follow safe practices in winter, etc;
- News releases distributed through the daily news bulletin and e-mail from the company's directors;
- Dissemination of printed informational materials – such as posters, booklets, brochures, etc. – to inform employees about various aspects of safety, operational excellence, HR issues, and major upcoming events;
- Special information billboards in the company's offices for announcements, posters, and other information;
- Workshops and information sessions to explain the company's new procedures and programmes. For example, lunch-and-learn sessions were continued. These sessions inform personnel about the work and achievements of various departments and are very popular among company's personnel; and



Onshore Processing Facility team meeting



100 Workshop – a company-wide staff session to discuss plans and goals

The 100 Workshop

The 100 Workshop was traditionally held in November 2014. This was the sixth annual workshop. It was attended by approximately one hundred employees. Along with the directors, the company's leadership forum members and heads of business units as well as representatives of all directorates took part in the forum. The results of the workshop discussions formed the basis of the Journey Book for 2015-2019, which focuses on the next year's objectives.

- Corporate intranet resources available to all employees where information about the company's activities and documents, including policies, procedures, schedules, etc. is regularly posted and updated.

7.4. LOCAL COMMUNITIES ENGAGEMENT THROUGH THE COMPANY'S INFORMATION CENTRES

In 2014, the information centre network remained the most efficient and popular way for Sakhalin residents to interact with the company.

The information centres are located in district and village libraries in communities along the route of the Trans-Sakhalin Pipeline System and in the vicinity of other company's facilities. They are equipped with information stands, office equipment, and furniture and have Internet access, which both helps meet the company's objectives and enhances the functional capabilities of the libraries.

Visitors to the information centres are assisted and served by library employees during the regular library hours.

Overall, more than 3,327 people visited the Sakhalin Energy's information centres in 2014. Detailed statistics is represented in the Statistics about Inquiries at the Information Centres in 2014 chart.

In order to increase the level of awareness of company activities, in October 2014, the librarians attended a training session and visited one of the company's facilities, the gas transfer terminal.

Information centres' personnel are responsible for:

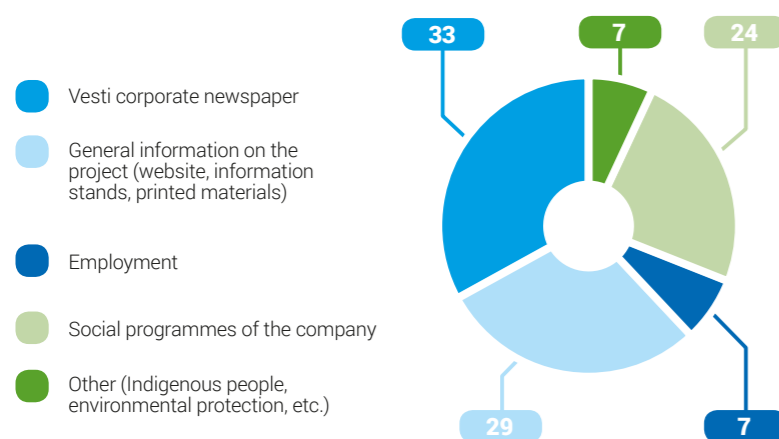
- Regularly updating materials on the company's information stands;
- Providing consultations on searching for information on the company's website;
- Assisting members of the community in preparing and submitting complaints in accordance with the company's Community Grievance Procedure;
- Providing requested company information materials; and
- Providing support for the company's social campaigns (e.g. St. George's Ribbon Campaign).

The Donated Book

In 2014, Sakhalin Energy continued the Donated Book Project, which has already become a tradition. The company donated sets of books on art history to 25 Sakhalin libraries. Fifteen books of the set tell about world-famous paintings and the background of the artists who created them, museum collections, and the histories of cinema and music. This is not a random selection of books, as 2014 was announced the Year of Culture in the Russian Federation.

The project was launched in 2010, when the first set was dedicated to the 65th anniversary of the Great Patriotic War victory. Subsequent book sets were dedicated to the history of space exploration, the 200th anniversary of the victory in the War of 1812, and the 400th anniversary of the Romanov dynasty.

Statistics about inquiries at the information centres in 2014, %



7.5. COOPERATION WITH THE SAKHALIN INDIGENOUS MINORITIES (SIM)

Sakhalin Energy continued to implement the Sakhalin Indigenous Minorities Development Plan (hereinafter referred to as SIMDP or Plan; for more details on Plan implementation, see Section 9.5.10). Following the stakeholders' recommendations obtained during the preparation of the second 2011-2015 Plan, the partners placed special emphasis on informing the population about the programmes to be implemented and new opportunities. For this purpose, the following activities were accomplished in 2014:

- Individual, group, and public meetings with SIM representatives were conducted;
- A quarterly information bulletin and other printed materials (booklets, brochures, etc.) pertaining to the Plan were distributed throughout a wide stakeholder audience;
- The information on eleven special information boards used to publish materials on the Plan, its related programmes and news was regularly updated in all of the communities where the SIM traditionally reside and work; and
- The Plan's website (www.simdp.ru) experienced consistent traffic.

In February, representatives of the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities, Sakhalin Energy, the Sakhalin Oblast Government, and (as recommended by the local community) the members of the Committee of the Traditional Economic Activities Support Programme, as well as members of the Council of the Social Development Fund held public consultations and meetings with the SIM, representatives of the municipal entity administrations, public organisations, and SIM communities in twelve settlements where the SIM traditionally live and work. The participants were briefed on the SIMDP status and the 2013 results, the implemented projects and activities, the Grievance Procedure, etc. Afterwards, they discussed the above topics and other issues related to the management and implementation of the Plan in general as well as its individual programmes. Overall, 206 people took part in these discussions.

Since 2006, the SIMDP has been a key document used by Sakhalin Energy as a basis for relations with the SIM. However, the company also implements other projects related to the indigenous ethnic groups. In 2014, the company:

- Presented the translation of the Universal Declaration of Human Rights into the Nivkh, Nanai, and Evenki languages jointly with the Office of the UN High Commissioner for Human Rights. The translation into Nivkh was done by Vladimir Sangi, a well-known Nivkh writer, into Nanai by Lyubov Zaksor, Cand. Sc. (Linguistics), and into Evenki by Nadezhda Bulatova, Cand. Sc. (Linguistics); and
- Was the general sponsor of the conference 'Traditional Economic Activities of the Sakhalin Indigenous Minorities as a Basis for Preserving Ethnic Groups' that took place in Yuzhno-Sakhalinsk in November 2014. The conference was attended by representatives of 50 communities and clan enterprises. At the conference, the representatives of indigenous ethnic groups received information from the industry-related government authorities, and discussed the problems of traditional economic activities.



The UN Declaration on the Rights of Indigenous People in Nivkh language



Award for participation in the national ranking of corporate social responsibility

The company's dedication to communicating with the SIM was highly acknowledged at the following events:

- In April, the Sakhalin Indigenous Minorities Development Plan was named the best project of 2013 in the Social Projects category at the ConTEXT contest held with the assistance of the Russian Ministry of Energy;
- On 24 November, the round table 'Legislative Regulation of Issues Related to the Interaction between Industrial Companies and the Indigenous Minorities of the North, Siberia, and the Far East of the Russian Federation' was held in Moscow at the



'Social projects' category award at the ConTEXT contest

initiative of RAIPON, jointly with the Ethnic Groups Committee of the Russian State Duma. The representatives of industrial companies, federal and regional authorities, and leaders and members of SIM non-governmental organisations from 28 regions of the Russian Federation discussed ways to improve the legislation, in connection with the intense industrial development of natural resources in the areas of the Indigenous Minorities' traditional residence and economic activities. Gadzhimet Safaraliev, Chairman of the Ethnic Groups Committee of the State Duma, said, in particular, "We must note the positive results of the interactions with oil and gas production companies, for example, the long-term Sakhalin Indigenous Minorities Development Plan"; and

- On 22 December 2014, a workshop entitled 'Building Social Dialogue between Business and the Indigenous Minorities: An Algorithm for Action' was held in Moscow. The event was organised by the UNDP/GEF/RF Ministry of Natural Resources Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations Project, the United Nations Global Compact Network in the Russian Federation, and the Russian Association of Indigenous Peoples of the North. Participants discussed the experience of Russian companies in building full-fledged partnerships with the Indigenous Minorities during the commercial development of the territories of their residence and traditional use of natural resources.

The Sakhalin Indigenous Minorities Development Plan, a partnership project, won the second place in the Best Programme/Project Facilitating the Development of the Infrastructure of Non-Profit Organisations' Activities, Charity, and Volunteering in the Region where the Company is Located category on the Russian Leaders of Corporate Philanthropy list published by Vedomosti, the leading business newspaper, PricewaterhouseCoopers, and the Donors Forum.

7.6. ENGAGEMENT WITH NON-GOVERNMENT AND NON-PROFIT ORGANISATIONS

In 2014, the company continued to cooperate with local, regional, and international NGOs in various ways, including through meetings and written correspondence. Some of the most important avenues of cooperation are as follows:

- Collaboration with Japanese stakeholders: Hokkaido authorities, associations of fishermen and other stakeholders in Hokkaido regarding oil spill response and preservation of biodiversity (for more details, see Section 7.7); and

- Collaboration with the Western Gray Whale Advisory Panel (WGWAP) as part of developing optimal solutions to minimise impacts on whales. A session of the WGWAP was held in 2014, where representatives of Sakhalin Energy met with member scientists of the group as well as the representatives of environmental organisations who participated in WGWAP as observers.

7.7. ENGAGEMENT WITH JAPANESE STAKEHOLDERS

Engagement with Japanese stakeholders is of special importance to Sakhalin Energy, considering the geographical proximity of the Sakhalin Island to Hokkaido Island. Japanese specialists, businessmen, representatives of NGOs, fishermen, and other stakeholders pay close attention to the environmental aspects of the company's activities, for example, oil spill response operations and biodiversity preservation.

The company established a regular, open, and constructive dialogue with the Japanese stakeholders. During 2014, Sakhalin Energy held a number of consultations and meetings with the Japanese stakeholders, including:

- Meetings with representatives of the Hokkaido Government (February, Sapporo, Japan);
- Participation in the 29th International Symposium on the Sea of Okhotsk (seminar on oil spill response—February, Mombetsu, Japan);
- Meeting with representatives of the Hokkaido Fisheries Environmental Centre (February, Sapporo);



Meeting with representatives of the Hokkaido Fisheries Environmental Centre, Sapporo

- Participation in the 10th meeting of stakeholders on safety and prevention of accidents during navigation of tankers as part of Sakhalin projects, organised by the Japan Coast Guard (May, Tokyo); and
- Participation in the Forum on Sakhalin Projects (September, Mombetsu).

7.8. ENGAGEMENT WITH CUSTOMERS

Maintaining constructive and respectful relations with customers helps resolve possible operational challenges that arise in the course of fulfilling oil and LNG contracts, and helps the company enter into new agreements with the best terms and conditions for both parties.

Sakhalin Energy holds annual forums with customers that help foster constructive relationships. The range of discussion topics includes issues of transportation and maintenance, safety and environmental protection, and many others.

In May and August 2014, two such forums were held on Sakhalin that were attended by the representatives of oil and gas-buying companies from Japan, the Republic of Korea, China, and Singapore.

In September 2014, Yuzhno-Sakhalinsk hosted the 9th Annual Shipowners Forum,

which focused on the commercial export of oil and gas under the Sakhalin-2 Project. The Forum discussed the issues related to the prospects and opportunities in the marine shipping market, shipbuilding development, and shipping management improvements. The forum was attended by 28 representatives from the shipowners who provide ships to Sakhalin Energy for short- and long-term charter.

Such forums allow the participants sharing the unique experience they have acquired during the Sakhalin-2 Project.

As part of celebration of the 20th anniversary of the company, in April 2014, a welcome reception was arranged in Moscow and attended by about 30 representatives of oil and LNG-buying companies from Japan, the Republic of Korea, and China.



Participants in the Oil Buyers Forum

7.9. ENGAGEMENT WITH STATE AND LOCAL GOVERNMENT AUTHORITIES

Since the start of the Sakhalin-2 Project, Sakhalin Energy has been engaging with various state authorities of the Russian Federation including legislative and government agencies at the federal, regional and local levels.

In 2014, as in the previous years, there were different forums engaging state authorities, the most important of which was the work of the Sakhalin-2 Project official groups, such as the Supervisory Board (SB) and the SB Working Group. Besides, there was routine interaction at a working level on various issues of the project.

Representatives of state authorities regularly participate in dialogues with stakeholders that the company holds to prepare this report. The results of the 2014 dialogues are available in Appendix 2.



Supervisory Board meeting

7.10. INTERNATIONAL AND REGIONAL COOPERATION

In 2014, Sakhalin Energy continued to vigorously promote its business reputation and image as a socially responsible company both within and outside of the Russian Federation. The company attended a number of important international and regional events, including:

- **Round Table 'Experience in Diagnostics and Self-Assessment for Company Management and Business Systems on the Basis of ISO 26000:2010 (GOST R ISO 26000:2012): Its Potential for Use in Management Practice and Public Reporting Systems',** 4 March, Moscow. The event was organised by the RUIE Committee for Corporate Social

Responsibility and Demographic Policy, the Steering Committee of the United Nations Global Compact Network Russia, and the RUIE Centre for Corporate Social Responsibility and Non-Financial Reporting. Ways to use the experience of Sakhalin Energy in integrated self-assessment per ISO 26000 Guidance on Social Responsibility standard were discussed.



Conference 'Business and human rights: experience and challenges of applying the 'Guiding principles of the entrepreneurship in terms of human rights'



The 18th International Conference Sakhalin Oil and Gas 2014

- **The 1st International Congress 'LNG Congress Russia 2014: Innovative path for developing the Russian gas industry'**, 13-14 March, Moscow. The congress participants discussed strategic issues of development and efficient functioning of LNG industry in the Russian Federation and the world; analysed the dynamics of the development and globalisation of the LNG market, evaluated the prospects for billion-dollar investments, and familiarised themselves with the details of current and future LNG projects in the Russian Federation. The company made a presentation entitled 'Sakhalin-2 Project in the Global LNG Market'.
- **The 4th Annual Conference 'HSE in Oil and Gas. Russia and CIS'**, 18-20 March, Moscow. A leading event dedicated to the issues of industrial and environmental safety in oil and gas projects. Sakhalin Energy described the company's emergency response measures and plans.

- **The 27th International Conference on Natural Gas, Liquefied Natural Gas (LNG), and Liquefied Petroleum Gas (LPG) 'GASTECH 2014'**, 24-27 March, Seoul (Republic of Korea). The company's recruitment team presented a set of slides on the company and vacancies. The participation was aimed at building the awareness of the Sakhalin Energy employer brand with highly skilled foreign and Russian personnel as well as at establishing partnerships with recruitment agencies.
- **The Permanent Forum on Indigenous Issues**, 12-23 May, New York (USA). Sakhalin Energy discussed how the company engages the Indigenous Minorities during a round table arranged by the Russian delegation and described the successful Russian experience in the sustainable development of the Indigenous Minorities.
- **Round Table 'Culture: Business and Society'**, 22 May, Moscow. The event was organised by the United Nations Global Compact Network Russia and Sakhalin Energy. The representatives of the business community, non-governmental organisations, and UN agencies took part in the round table.

- **Meetings of committees as part of the work of the European Business Congress.** The congress deals with the practical aspects of economic cooperation, developing proposals for overcoming obstacles, and creating favourable conditions to operate businesses efficiently and safely. At the annual meeting of EBC members that took place on 29-30 May in Athens, the company's CEO described the company's experience in project financing and the management's role in HSE matters.
- **The 21st International Exhibition and Conference 'Caspian Oil and Gas 2014'**, 3-6 June, Baku (Azerbaijan). The company's recruitment team presented a set of slides on the company and vacancies in order to build the awareness of the Sakhalin Energy employer brand, to seek skilled foreign and Russian personnel, and to establish partnerships with recruitment agencies.

- **The 21st World Petroleum Congress**, 15-19 June, Moscow. The Sakhalin Indigenous Minorities Development Plan presented by Sakhalin Energy was named one of the three finalists selected by the jury in the Social Responsibility category. Besides this, the company was invited by the event organisers to present its experience in engaging the Indigenous Minorities at a special site, Social Responsibility Global Village. In addition, Sakhalin Energy presented materials on the company's activities and the Sakhalin-2 Project.
- **The 18th International Conference 'Sakhalin Oil and Gas - 2014'**, 22-25 September, Yuzhno-Sakhalinsk. The only event dedicated to oil and gas projects of Sakhalin and the Russian Far East. The conference participants discuss the issues of providing energy for the growing economies of the Asia-Pacific region. The Conference included a special session on the activities of Sakhalin Energy and the company's 20-year experience. Company management discussed how operations are proceeding and their future plans. They also answered many questions.



Sakhalin Energy presented its experience in engagement with Sakhalin Indigenous Minorities at the 21st World Petroleum Congress

- **The 5th Annual LNG Seminar**, 2 October, Moscow. Sakhalin Energy presented an overview of commercial and operational issues as well as their personnel exchange programme with Gazprom Marketing and Trading Singapore.
- **The 2nd National Oil and Gas Forum**, 22-24 October, Moscow. A federal-level event organised by the RF Ministry of Energy jointly with the leading industrial associations of the Russian Federation. At the forum, the company covered the principal lessons of the Russian Federation's first Production Sharing Agreement under the Sakhalin-2 Project.
- **The 13th Energy Investment and Regulation Conference of the Energy Regulators Regional Association (ERRA)**, 27-28 October, Baku (Azerbaijan). The company's recruitment team presented a set of slides on the company and vacancies in order to build the awareness of the Sakhalin Energy employer brand, to seek skilled foreign and Russian personnel, and to establish partnerships with recruitment agencies.
- **The 3rd Annual Gas Summit 'Multilateral Cooperation to Connect Gas Markets', GAS ASIA SUMMIT**, 28-30 October, Singapore. The company delivered a report entitled 'Sakhalin Energy: Current and Future Deliveries of Russian LNG to Asian Markets'.
- **Round Table 'Legislative Regulation of Issues of Interaction between Industrial Companies and the Indigenous Minorities of the North, Siberia, and the Far East of the Russian Federation'**, 24 November, Moscow. The event was held at the initiative of RAIPON, jointly with the Ethnic Groups Committee of the Russian State Duma. Representatives of industrial companies, federal and regional authorities, heads and members of SIM non-governmental organisations discussed how to improve legislation in connection with the intense industrial development of natural resources in the areas of the Indigenous Minorities traditional residence and economic activities. Sakhalin Energy held a presentation on its experience in this area.

- **The 3rd Moscow Forum 'Corporate Volunteering: Business and Society'**, 27 November, Moscow. The forum is a venue for dialogue on the strategy and areas of social responsibility of Russian business, forms and extent of social investment. The company presented its approach to corporate social responsibility, and 'Hurry Up for Good Deeds', a corporate volunteering programme.
- **The 3rd Annual UN Forum on Business and Human Rights**, 1-3 December, Geneva (Switzerland). The company delivered a report entitled 'Corporate Social Responsibility and Human Rights: Practical Tools for Observing, Respecting and Promoting Human Rights Based on the Experience of Sakhalin Energy.'
- **Round Table 'Business and Human Rights: Experience and Challenges when Implementing the UN Guiding Principles on Business and Human Rights'**, 15 December, Moscow. The event was organised by the United Nations Global Compact Network in Russia, the Office of the UN High Commissioner for Human Rights, and Sakhalin Energy.
- **Cultural Forum of Regions of the Russian Federation 'Culture: A Strategic Resource of Regional Development'**, 23 December, Moscow. It was organised by the Russian Federation Ministry of Culture and the RF Presidential Council for Culture and Art.



Sakhalin Energy among the finalists in the category 'Social responsibility', 21st World Petroleum Congress

Sakhalin Energy delivered a report on the role of public-private partnership in developing the region's cultural capacity and on the experience in preserving and developing the cultures of the Indigenous Minorities.

Participating in high-level international forums allows the company to get acquainted with and apply global experience along with the best sustainable development and CSR practices that are required for the company to maintain leadership in its sphere.



Sakhalin Energy's special session at the 18th International Conference 'Sakhalin Oil and Gas-2014'

ENVIRONMENTAL IMPACT MANAGEMENT



Sakhalin Energy was ranked second in the Russian first Environmental Responsibility Rating of Oil and Gas Companies

1st
prize

awarded at the VII People Investor International Forum

The environmental policy of the company has been a part of the company's General Business Principles, Sustainable Development Policy, and HSE and SP Policy and Commitments.

The environmental management system is described in Section 3.5 on HSE and Social Performance Management.

In its environmental protection activities, the company follows the Russian Federation legislation on environmental protection, taking into account the international standards and best international practices of the oil and gas industry.

The company's environmental management system is focused on organising and implementing industrial environmental control, environmental monitoring, and biodiversity conservation.



Awarding diploma of the Environmental Responsibility Rating of Oil and Gas Companies

In 2014, Sakhalin Energy was ranked second in the Russian Federation's first Environmental Responsibility Rating of Oil and Gas Companies. The company was recognised as the winner in two categories of the rating out of three: environmental management and information disclosure/transparency.

The rating was launched by the World Wildlife Fund (WWF) of the Russian Federation and CREON Energy, the provider of advisory services to the fuel and energy industries, with the participation of the National Rating Agency. The rating is aimed at promoting the efficient use of hydrocarbon

resources, environmental protection, and socially responsible business administration.

In total, 19 companies with leading positions in terms of the oil and natural gas production volume (over 1.5 million tonnes per year) took part in the Rating.

According to Alexey Knizhnikov, the Head of the Environmental Policy Programme of the WWF Fuel and Energy Complex, the Environmental Rating of Oil and Gas Companies creates a new country mechanism of information and feedback exchange between the industry and the society.

8.1. INDUSTRIAL ENVIRONMENTAL CONTROL

Sakhalin Energy exercises industrial environmental control of its assets to ensure the compliance with legislation on environmental protection, to observe established environmental regulations, and to provide the rational use of natural resources and fulfilment of the plans for minimising the environmental impact.

The company exercises industrial environmental control in the following areas:

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

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

8.1.1. Air Emissions Control

Sakhalin Energy seeks to minimise environmental impact from air emissions.

In order to reduce its 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 the gas flaring in a soot-free mode.

The company uses diesel fuel tanks equipped with fuel vapour recirculation system nozzles connecting the tank with the tanker.

This leads to the reduction of volatile hydrocarbon emissions by 90% during the refuelling operations. In 2014, the total gross emissions decreased by 8% compared to 2013. This is primarily due to decreased volume of gas flared at the LNG Plant flare units and optimised use of HVAC systems at pipeline assets.

Air emissions in 2011-2014, thousand tonnes

Pollutant	2011	2012	2013	2014
Carbon oxide	4.51	4.0	4.3	4.2
NOx (in NO ₂ equivalent)	4.56	4.7	4.8	4.1
Methane	0.86	0.86	1.08	1.1
Sulphur dioxide	0.05	0.06	0.07	0.05
Other pollutants	1.08	1.08	1.15	1.15
Total	11.06	10.7	11.5	10.6

8.1.2. Water Use and Discharge Control

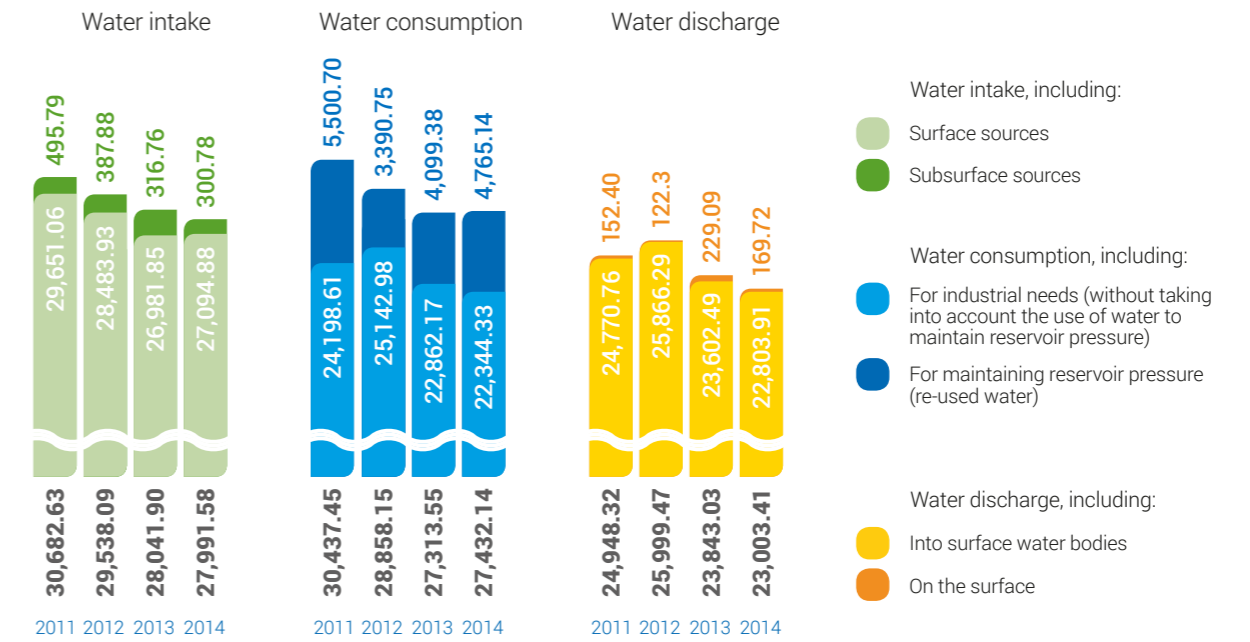
The company strives to reduce water consumption for production purposes and to minimise the environmental impact from wastewater discharge.

In 2014, the total water intake level remained the same as in the previous year.

The 2014 water intake limits were not exceeded by any of the units.

In general, water disposal has reduced by 4%, mainly by the reduced utilisation of cooling water for equipment on the offshore platforms and decreased rainwater runoffs at the OPF during autumn. Environmental monitoring conducted in 2014 in the locations of Sakhalin Energy's production assets revealed no negative impact on water bodies.

Consolidated figures of water use in 2011-2014, thousand cubic metres



8.1.3. Waste Management Control

Efficient waste management begins with preventing environmental contamination. Prevention involves avoiding, changing, or reducing such operating practices that release pollutants into the soil, air, or water. This should be a basic principle when designing and operating the company's assets and in business planning as well.

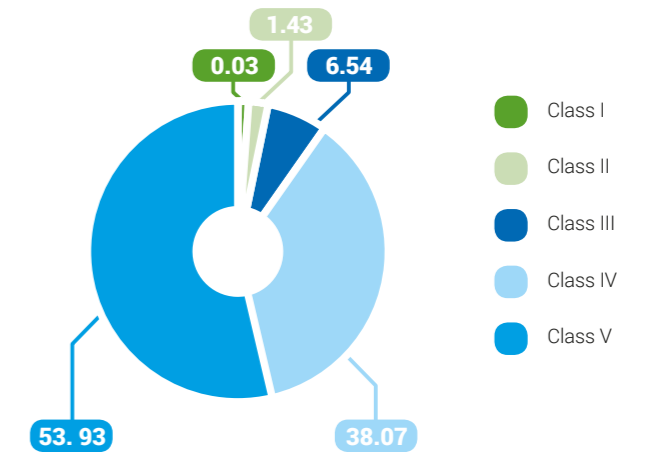
The company's main volume of waste is low-risk hazardous (hazard classes IV and V). Mainly, it consists of drilling waste and solid domestic waste.

If it is technically impossible to avoid waste generation, Sakhalin Energy considers options to minimise the volume of generated waste. Responsible waste management may be accomplished through the hierarchical application of the following methods: waste reduction, reuse, recycling, neutralisation, and disposal.

In waste management, Sakhalin Energy is guided by the following principles:

- Reducing the volume of generated waste and minimise the adverse environmental impact caused by waste;
- Transferring hazard classes I-III waste to specialised organisations for recycling, reuse, and neutralisation;
- Disposing of hazard classes IV-V waste at municipal landfills arranged in accordance with the RF legislation and international provisions; and
- Seeking economically efficient methods of recycling hazard classes IV-V waste in order to reduce the share of waste disposed of at municipal landfills.

Company waste generated in 2014 by hazard class (without drilling waste), %



The total volume of waste generated has decreased by 37% mainly due to the reduced volume of drilling waste. The reduced volume of drilling waste re-injection was caused by the reduced volume of re-injected produced water due to high water cut well shutoff as well as by the optimisation of slurry treatment for re-injection into deeper domains.

In 2014, the volume of waste transferred for recycling or reuse decreased by 13% as compared to 2013 because there was a reduction in hazard classes I-III waste generation. The volume of waste disposed at the landfills decreased by 25%. As of the end of 2014, there was no accumulated waste.

92
percent
of waste is designated as low hazard wastes (class IV-V)

Waste management (including drilling waste) in 2011-2014, thousand tonnes

	2011	2012	2013	2014
Amount of waste at the beginning of the year (for all hazard classes)	0.02	0.000097	0	0
Waste generated in the reporting year (for all hazard classes)	73.83	105.37	154.07	95.87
Waste used in the company's production	0.13	0.04	0.04	0.01
Waste transferred to other organisations for use and disposal	4.26	6.86	2.72	2.37
Transferred to other organisations for burial at landfills, including:	2.90	4.05	3.60	2.67
Within the Sakhalin Oblast	2.90	3.22	3.46	2.52
Outside the Sakhalin Oblast	–	0.83	0.14	0.15
Waste disposed at own assets (burial)	66.57	94.42	147.71	90.82
Amount of waste at the end of the year (for all hazard classes)	<0.01	0	0	0

8.1.4. Energy

Sakhalin Energy is committed to using materials and energy efficiently in providing products and services. To fulfil its commitment, the company implements the methods of efficient and lean production.

The company's assets were built based on modern technologies and state-of-the-art oil and gas industry solutions. All the production assets have their own autonomous power supply sources. Process equipment, boiler units, and power plants run on gas. Diesel fuel is used only for assets standby power supply. Fuel with low sulphur content is preferred. The Yuzhno-Sakhalinsk and Korsakov infrastructure assets are power-supplied from the municipal electrical networks but generate their own energy for heat supply.

In 2014, the company produced 864.92 million GJ of direct energy by hydrocarbon production and sold 807.7 million GJ, including 53.6 million GJ, which were provided to the Russian Party.

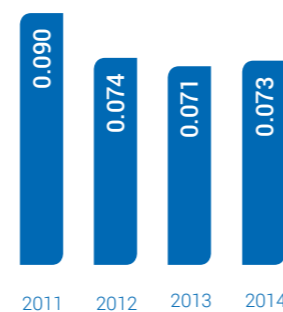
The total energy consumption by Sakhalin Energy's assets amounted to 58.45 million GJ, of which 56.59 million GJ were generated from produced

natural gas and 1.86 million GJ from purchased diesel fuel.

0.12 million GJ of electric power were purchased.

Specific energy consumption slightly increased in 2014.

Specific energy consumption in 2011-2014, million GJ of consumed energy vs. million GJ of sold energy



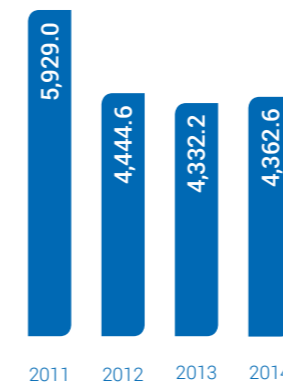
8.1.5. Greenhouse Gas and Ozone-Depleting Substance Emissions

In the Russian Federation, the tendency of attentive attitude towards climate change continues to be observed, and therefore regulations are being actively developed to control GHG/ODS emissions. An order of the President of the Russian Federation on GHG emission reduction was signed in September 2013. In 2014, a decree of the Government of the Russian Federation on measures for the state regulation of consumption and circulation of ozone depleters was issued. Sakhalin Energy shares the global concern about climate change, routinely performing accounting and exercising control over greenhouse gas emissions in compliance with the Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions of the American Petroleum Institute. Gross greenhouse gas emissions include the following substances: carbon dioxide, methane, nitrogen oxide, and hydrofluorocarbons.

Proportion of GHG emissions in 2011-2014, tonnes of CO₂ equivalent

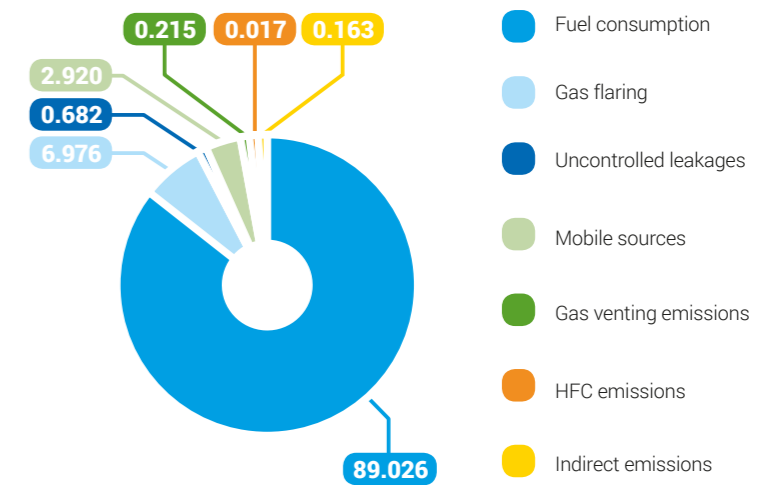
GHG emissions	2011	2012	2013	2014
Fuel consumption	2,920,229.8	2,994,142.2	3,106,242.1	3,137,149.5
Gas flaring	358,045.3	343,015.7	256,935.6	245,838.5
Uncontrolled leakages	11,598.7	9,984.2	19,946.3	24,046.9
Mobile sources	108,356.9	107,719.9	112,843.5	102,910.5
Gas venting emissions	1,790.5	1,793.1	6,015.0	7,574.9
Emissions of hydrofluorocarbons (HFC)			130.0	603.2
Indirect emissions	7,361.4	5,806.8	6,163.5	5,727.1
Total	3,407,382.5	3,462,461.8	3,508,276.0	3,523,850.6

Specific emissions of GHG emissions in 2011-2014, tonnes of CO₂ equivalent/million GJ of sold/exported energy



In 2014, the total amount of GHG emissions released by the company's assets remained at the level of 2013.

Structure of GHG emission sources in 2014, %



In 2014, the company started implementing an action plan aimed at the gradual cessation of using ODS by 2020 in accordance with the Montreal Protocol requirements.

8.1.6. Utilisation of Associated Gas in Production

The company strives to reduce associated gas flaring volumes to the absolute minimum. Associated gas produced at PA-A, PA-B, and LUN-A platforms is transported via offshore pipelines to the shore. PA-A and PA-B gas is transported to the Northern Gas Transfer Terminal, and excess gas goes to the OPF, where it is mixed with LUN-A gas for further transportation to the LNG Plant and the Southern Gas Transfer Terminal. A part of the associated gas is used as fuel for production assets.

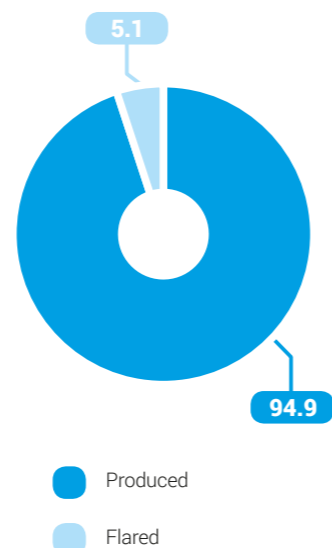
Currently, the company does not re-inject associated gas into the reservoir.

The company has included targets for associated gas utilisation in the Reservoir Management Plans for the PA-A, PA-B, and LUN-A platforms. The actual associated gas utilisation in 2014 was 94.9%.

In order to minimise the gas flaring volumes, the company is constantly taking steps to minimise the consequences of unplanned shutdowns of production equipment.

The company continues using all economically feasible measures to reduce flaring and, correspondingly, increase the level of utilisation of associated gas.

Utilisation of associated gas during production in 2014, %



8.1.7. Environmental Protection Costs and Environmental Pollution Payments

For compliance with the requirements of the international and RF legislation, Sakhalin Energy performs environmental activities. Operating expenses for the environmental activities performed in 2014 amounted to RUB 4,440,886 thousand.

Sakhalin Energy's environmental activities are overseen by the federal and regional authorities, including:

- The Ministry of Natural Resources and Environment of the Russian Federation;
- The Federal Service for Supervision of Consumer Rights Protection and Human Welfare;
- The Federal Agency for the Use of Subsoil Resources;

- The Federal Service for the Supervision of Nature Use (Rosprirodnadzor);
- The Federal Water Resources Agency;
- The Amur Basin Water Directorate of the Federal Water Resources Agency (Amur BVU); and
- The Ministry of Natural Resources and Environmental Protection for the Sakhalin Oblast.

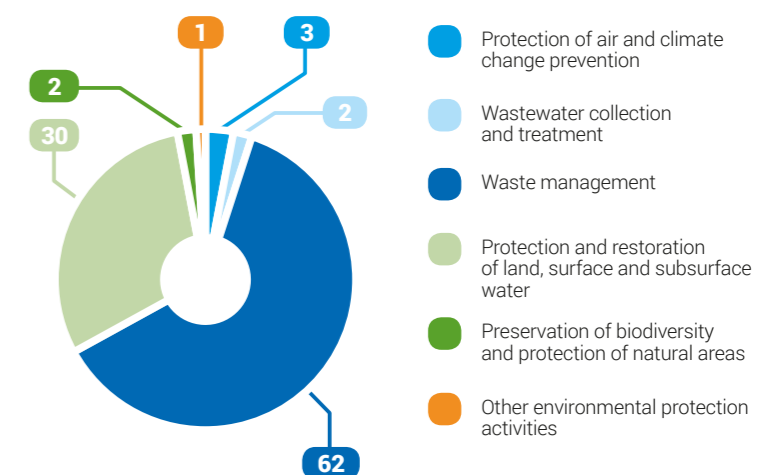
In 2014, the regional offices of federal supervisory agencies conducted audits and identified violations related to waste disposal and permits.

No significant violations of the environmental legislation resulting in a negative impact on the environment were identified in 2014.

Environmental pollution payments in 2011-2014, RUB thousand

	2011	2012	2013	2014
Air emissions	1,442.0	4,664.7	3,498.8	11,516.884
Discharge into water bodies	191.6	242.5	127.1	166.208
Waste disposal	2,251.1	850.2	886.7	684.210
Total	3,884.7	5,757.4	4,512.6	12,367.302

Environmental operating expenses breakdown in 2014, %



8.2. ENVIRONMENTAL MONITORING AND PRESERVING BIODIVERSITY

In order to effectively manage the risks associated with environmental impact, the company runs a number of local environmental monitoring programmes and biodiversity preservation programmes at production assets. The data obtained from this monitoring is used as a basis for environmental assessment, development of mitigation measures, if needed, and adjustment of future monitoring scopes.

In 2014, environmental monitoring programmes developed in compliance with the company's Biodiversity Standard were improved based on the past results, and agreed with the lenders.

Two main principles underlie the study rationale for surveys under the Environmental Monitoring and Biodiversity Preservation Programme:

- Risk management; and
- Compliance with RF legislation requirements and promotion of international best practices.

The local environmental monitoring results showed the following:

- **Implementation of the environmental protection management system, including risk assessment and timely introduction of measures for their prevention and mitigation enables the company to minimise the adverse environmental impact caused by production activities; and**
- **The results of local environmental monitoring and biodiversity preservation programmes testify to a stable state of the ecosystems, communities, and populations of protected species of flora and fauna in the areas where the Sakhalin-2 Project production assets are located during the operations phase.**

8.2.1. Local Environmental Monitoring

In 2014, environmental monitoring included the following:

- Flora and vegetation monitoring in the area of impact from the onshore pipelines, the OPF, and the Prigorodnoye Production Complex;
- Soil monitoring in the area of impact from the onshore pipelines and the Prigorodnoye Production Complex;
- Protected bird species monitoring in the area of impact from the onshore pipelines, the OPF, as well as in the area of the Chaivo Spit;
- River ecosystem monitoring in the area of impact from the onshore pipelines, the OPF, and the Prigorodnoye Production Complex;
- Offshore monitoring in the area of impact from the offshore platforms and marine assets at the Prigorodnoye Production Complex; and
- Monitoring of small mammals in the area of impact from the Prigorodnoye Production Complex and the OPF.

Sakhalin Energy is focused on protecting the environment. The local environmental monitoring results showed the following:

- **Construction phase measures aimed at mitigating the environmental impact appeared to be effective; and**
- **No significant environmental impact was identified around the production assets at the operation phase.**



Protected species - Pygmy water-lily

8.2.1.1. Flora and Vegetation Monitoring

Vegetation is a key biota component which determines the scenery and plays a significant part in the life of nature. Vegetation prevents river banks and hill-side scouring as well as soil erosion; it has an effect on the atmosphere, water courses, lakes and swamps, underground water, and wildlife. Plants are sensitive to changes that take place in the environment due to natural phenomena and man-induced impacts. Adverse impacts can also lead to the extinction of some plant species and emergence of new ones, which can ultimately result in a partial or complete change of the existing vegetation community.

Sakhalin Energy implements the Environmental Monitoring Programme for vegetation cover, which allows assessing the current vegetation condition and timely respond to any adverse environmental impacts from the operating assets.

The Monitoring Programme includes the following objectives:

- To control the condition of vegetation on the premises adjacent to the company's assets;
- To evaluate and forecast natural and man-induced changes/successions in the plant communities;
- To control the state of rare and protected species of plants, lichens, and mushrooms; and
- To control the restoration of vegetation within the rights-of-way and generate recommendations for additional works required in some areas.

In 2014, the company monitored the state of the environment in the vicinity of the Prigorodnoye Production Complex on the shore of Aniva Bay, along the right-of-way of the onshore pipelines which run from the north to the south of the island, and in the vicinity of the OPF, at a point which is 6 km from Lunsky Bay. At the sample sites around the production assets, 162 species of vascular plants were identified.

The results of the 2014 Monitoring Programme indicate that the tree layer in the vicinity of the Prigorodnoye Production Complex and the OPF assets does not show any decrease in the number of individual tree species. Insignificant variations in the population of shrubs and herbs at some sample sites are due to natural reasons associated with the specifics of their biology.

About 570 species of vascular plants were identified along the right-of-way of the onshore pipelines, which is approximately one third of Sakhalin's flora. Insignificant changes in the plant communities are mostly due to natural causes. Man-induced impacts on vegetation are identified only at the boundary of the ROW passing through dark coniferous forests due to stronger wind and light factors. To improve the microclimatic conditions, the company developed and recommended a range of actions designed to protect the young undergrowth along the forest edge in those identified areas.

Lichen monitoring indicated that some epiphytic lichens had experienced a certain impact initially associated with the change in the microclimatic conditions (stronger light and wind, dusting caused by soil denudation) occurred during the construction of the company's assets. On the other hand, almost all of the sample sites showed rudiment young thalluses alongside with the older thalluses, which indicates the restoration of the lichen cover.

The 2014 monitoring survey of the habitats of seven protected plant species indicated their good condition and the absence of any disturbance to these sites.

In 2014, the assessment of the degree and nature of the right-of-way regrowth showed a good growth of vegetation over more than 80% of the surveyed sample sites on the right-of-way. Herewith, more than 60 percent of the sample sites are covered by a dense grass canopy and 30% have a projective cover of at least 50-60%. Lightly overgrown areas are located mostly on steep slopes and in the northern parts of the island, which is explained by insufficient soil fertility in sandy and clayey land plots. However, even in these areas there are changes for the better. The monitoring results were used to develop and propose activities to improve the regrowth process within certain pipeline right-of-way areas.

8.2.1.2. Soil Monitoring

The system of regular soil monitoring allows identifying negative tendencies in changing soil characteristics over time.

The objective of soil monitoring is the assessment of impact caused by the operation of the company's production assets on the components of the ecosystems of the adjacent areas. The tasks of soil monitoring are as follows:

- Assessment of soil on the route of the onshore pipelines, including infrastructure assets, and within the areas around the Prigorodnoye Production Complex and the OPF; and



- Identification and assessment of the soil degradation process, including mechanical disturbance, compaction, development of soil erosion, bogging, and oil contamination.

In 2014, soil monitoring was carried out at 148 test sites. According to the survey results, the soil characteristics around the company's assets were close to the baseline indicators of the relevant soil types.

The soils of the ecosystems adjacent to the BS-2 and the Prigorodnoye Production Complex are in normal condition and are characterised with: increased content of organic material for black bog soils, relatively low content for raised bog soils, and low content for brown forest soils. In 2014, no incidents were recorded related to soil damage or degradation caused by the operation of the company's assets.

The concentration of benzopyrene which is the key indicator of potential contamination was negligible in layer 0–25 cm at the monitoring sites around the BS-2 and the Prigorodnoye Production Complex (<0.005 mg/kg at average) and was at the lower limit of detection as per the method applied in accordance with GOST (conventional standard value for topsoil level being 0.02 mg/kg).

Reclaimed areas gradually recover in biological, geological, and chemical cycles of plant mineral nutrition elements, which positively affects the rate of vegetation growth. According to survey results for the soils on the RoW passing through farmlands in the Tymovsk, Poronaysk, and Korsakov Districts, vegetation is represented with sown plants, and their yielding capacity in a range of areas exceeds the yielding capacity of such plants beyond the RoW boundaries. The high content of nitrate nitrogen (>2 mg/kg), potassium (132 mg/kg), and medium content of phosphorus (62 mg/kg) on the RoW characterises favourable conditions for the development of grass canopy.

In 2014, a particular focus was made on surveys of the right-of-way in the north of the island. Based on the obtained results, specialists developed recommendations on improving vegetation in certain areas.

The soils of the test sites in the vicinity of the RoW do not differ in their characteristics from the soils in baseline areas located beyond the pipeline potential impact zone.

In 2014, no works causing land disturbance were performed; 0.18 ha were reclaimed. By the beginning of 2015, the area of disturbed lands amounted to 6.4 ha. These lands were disturbed in 2013 during cutting operations as part of the OPF Compression Project (for details on the project, see Section 4.2.2.1).

Further monitoring of the soils of the key areas within the potential impact zone of the company's assets allows assessing their current condition and developing corrective actions as required.



Great grey owl

8.2.1.3. Monitoring of Protected Bird Species

About 40 bird species included in the Endangered Species List of Sakhalin can be found within the potential impact zone of Sakhalin Energy's production assets. In 2014, protected bird species were monitored in the territory covering up to 4 km around the OPF and within the 1-km corridor of 5 pipeline sections. Additionally, monitoring took place in the Chaivo Spit wetlands inhabited by colonies of endangered migratory bird species (the Sakhalin Dunlin and the Aleutian Tern).

In 2014, the OPF surveys focused on two key monitoring objects – the Siberian Grouse and the Long-Billed Murrelet. At the same time, the faunal composition, biological status, and abundance of other protected bird species were studied in detail, and the environmental situation was assessed.

The analysis of visual observation data and the signs of the Siberian Grouse presence in the OPF area in 2014 showed that the spatial distribution of birds had been generally similar to the structure discovered during previous seasons. The areas located at larger distances from the OPF boundaries demonstrate stable abundance, while in the areas adjacent to the boundaries it is less stable. In the current season, the abundance of the Siberian Grouse has reduced compared to 2013; however, it remains within the average range of the previous years.

The Long-Billed Murrelet is a globally rare and poorly studied species on Sakhalin. In 2014, some increase in the number of migrating individuals and their spatial re-distribution were observed, which was possibly caused by the third-party pipeline construction. Further monitoring is required to evaluate the stability of the bird population monitoring areas the area adjacent to the OPF.

In 2014, the list of protected birds observed in the onshore pipeline corridor did not change and includes 41 species. These birds represent the group of species most vulnerable and highly sensitive to environmental changes and, therefore, they are among the priorities of any expert review and serve as indicator species for monitoring. In the current season, 560 individuals of 15 protected species were registered at five monitoring sites; 14 of such species might be nesting near the onshore pipeline. The number of detected nesting sites of these species in all monitoring areas was approximately 443.

88 species of birds, 13 of which are rare and protected species, were registered around Chaivo. The preferred habitats of birds on

the Chaivo Spit are wetlands, which belong to the most sensitive terrestrial ecosystems. Annually, the protected species such as the Sakhalin Dunlin and the Aleutian Tern nest on a large scale in some areas of the spit. Despite the cold and rainy summer, which had a negative impact on the nesting success of many birds (nests were flooded), the population of the Sakhalin Dunlin as a whole remains relatively stable. Over the years of monitoring, it has been discovered that this species is highly conservative in terms of nesting; therefore, the successful preservation of the Sakhalin subspecies of the Dunlin generally depends on the preservation of its main habitats on the Chaivo Spit.

Another protected species around Chaivo is the Aleutian Tern that changes the locations of its colonies and the number of nests in them every year. In 2014, the birds formed small, diffuse colonies in the central part of the spit, and their preferred nesting sites coincided with the most important nesting sites of the Sakhalin Dunlin. The current season proved to be another year of low abundance for this species after the peak in 2012.

Beside the key monitored species, the Steller's Sea Eagle, White-Tailed Eagle, Long-Billed Murrelet, Far-Eastern Curlew, Japanese Snipe, Oyster Catcher, and Black-Tailed Godwit were observed in the vicinity of Chaivo; all these species are highly protected and included in the IUCN Red List.

In 2014, it was the second season in a row when the abundance of ducks and other aquatic and semi-aquatic birds was very low at many monitoring sites, especially on the lakes of the Chaivo Spit. The incidence of the Goldeneye, Long-Tailed Duck, nesting Slavonian and Red-Necked Grebe, Water Rail, and Black-Throated Diver has significantly decreased. Such changes have possibly been caused by the fact that, along with the continued predation by foxes, this area was regularly visited by the local population to collect eggs.

The state of the bird communities of forest habitats in the north of the Chaivo Spit and on the western coast of Chaivo Bay did not worsen in 2014, and the dominant core and essential species composition remained the same. The abundance and biodiversity of birds demonstrated the usual seasonal trend.

8.2.1.4. River Ecosystems Monitoring

The monitoring of surface water bodies is a critical type of research during the operation of production and process assets that may have a man-made impact on the environment. As soon as the operations phase started, the company developed special monitoring programs for water bodies and their ecosystems.

The quality of river ecosystems monitoring primarily reflects the nature and specific features of possible impact on water bodies during the operation of the pipeline and infrastructure assets. On the other hand, it helps identify possible impacts of aquatic ecosystems on the project infrastructure assets.

As a part of the monitoring programs, the following issues are tackled:

- Hydrological characteristics of waterways;
- Hydrochemical characteristics of water;
- Condition of the bottom sediments in river beds;
- Hydromorphological changes characteristics (river bed and bank erosion within the areas of pipeline route cross-sections, displacement of meanders, sediments movement velocity, etc.);
- Benthic composition and abundance;
- Area and quality of potential Pacific Salmon spawning grounds; and
- Ichthyologic community in model waterways.



Pugachevka river bank protection



Sakhalin sculpin

In 2014, the monitoring of surface water quality was carried out in 29 water bodies. The monitoring was performed at two phases of the hydrological regime: during the spring flood period, when the most intensive input of allochthonous material was observed; and during the summer low water period, when the concentration of pollutants in bottom sediments was maximum. Sampling was carried out at two cross-sections — the upstream baseline (with no impact from the company's infrastructure assets) and downstream monitoring sections.

On the most river-crossing sites investigated (from the upstream to the downstream cross-sections) no significant horizontal or vertical deformations of river beds were identified. The crossings are in satisfactory condition, and no destruction of utility lines was found. On the sites where bed deformation was discovered, engineering surveys were carried out to develop design documentation for repair works.

The analysis of the physical and chemical composition of surface waters showed the following results:

- Physical properties of surface waters in the explored waterways met the regulatory criteria in the monitoring periods;
- The content of biogenic substances was normal in all monitoring periods;
- Seasonal fluctuations concentration of suspended matters was within the natural value;
- The waterways were clean in terms of the content of highly oxidising matter specified by BOD5 value;

- Of all studied metals, concentrations of iron and copper had the highest variability. In the most of waterways, the content of these metals exceeded relevant MPC standards. Increased concentrations of iron and copper are typical for the natural surface waters of Sakhalin due to its geochemical specificity;
- During the monitoring, no contamination of surface water with oil products, phenols, and anionic surfactants was revealed;
- The content of oil products in bottom sediments changed just slightly in different seasons. Concentrations in the monitoring cross-sections corresponded to the concentrations measured in the baseline cross-sections; and
- The particle size distribution of bottom sediments in almost all of the waterways was homogeneous in all seasons.

Also, the benthos monitoring studies continued in 2014. The analysis of the structural parameters of macrozoobenthos along with the analysis of environment parameters (biotope, channel type, flow rate, type of bottom ground, and depth) showed that the composition, status, and structure of benthic communities on the baseline site (upstream of pipeline water crossing) differed from those on the monitoring site (downstream of the crossing) due to the natural variability of environmental conditions.

In 2014, a two-year series of studies on the ichthyic fauna in the Lazovaya River and its tributaries was completed. The Lazovaya River is one of the freshwater waterways of the south-eastern and southern parts of Sakhalin. The ichthyic fauna of this region is mainly represented by Arctic freshwater community and boreal piedmont community.

Over the period of studies in 2013-2014, 16 species of fishes and pisciforms from seven families were registered in the Lazovaya River and studied tributaries. The two-year studies have shown a fairly stable structure of species composition. Seasonal changes in fish species composition, abundance, and biomass during the studies in the Lazovaya River were associated with the spawning run of Pacific Salmon and other species as well as feeding migrations of fishes.

In 2014, the monitoring of Pacific Salmon in the Goluboy Stream continued. This waterway was chosen since it partially flows through the territory of the Prigorodnoye Port, the LNG Plant and the OET. According to the studies, the period of the spawning migration of Pink Salmon spawners in 2014 was close to average for the rivers of Tonino-Aniva Peninsula. The occupancy rate of spawning grounds was slightly above average; the average for the sites ranged from 0.2 to 40 individuals per 100 m². The estimated number of Pink Salmon spawners that entered the waterway in 2014 was 4.7 thousand individuals. According to the study results, the occupancy rate in September was 117.5%.

The reproduction parameters of Pink Salmon registered in 2014 in the Goluboy Stream were at a high level. The number of post-spawned fish and eggs survival rate in survival structures gives the reason to suggest (given the same survival rates) the possibility of abundant recruit stock which should migrate in the spring of 2015.

In general, the results of the water bodies monitoring did not reveal any impact of the production assets on the surface water quality, flora, and fauna.

8.2.1.5. Offshore Environment and Biota Monitoring

In 2014, Sakhalin Energy continued the Marine Environmental Monitoring Program, with a view to analyse the hydrological, hydrochemical and hydrobiological characteristics of the marine environment and biota condition within the area of potential impact from its offshore production assets.

This type of monitoring is done to assess the spatial distribution of quantitative and qualitative characteristics of marine biota and its habitat within the local areas of ecosystems being surveyed, and to trace any potential variations of representative environmental parameters in the cross-section area and outside its boundaries, to obtain comparative data for ecological influence assessment and prevention; and also to manage environmental risks at the operational phase.

The following vessel-based surveys were conducted in 2014:

- Monitoring of the areas potentially affected by the LNG Loading Jetty and the Oil Export Terminal in Aniva Bay;
- Post-construction environmental monitoring of offshore pipelines (Aniva Bay, along Piltun-Astokhskoye and Lunsokoye pipeline routes);
- Environmental monitoring of the operational activities in the area of the offshore pipelines from PA-A, PA-B and LUN-A; and
- Monitoring of wellheads of appraisal wells.

As regards the environmental impact assessment of offshore ecosystem local areas, the following main conclusions were made based on the results of 2014:

- Hydrochemical characteristics in the area of the offshore assets complied with the baseline values and standards established for the fishery water bodies;
- Concentrations of oil hydrocarbons and heavy metals in bottom sediments had lower values, which could result in biological effects;
- The content of phenols and detergents in sea soil was within background values;
- The survey regions exhibited rich species diversity of benthos and plankton communities, with high values of their quantitative characteristics to indicate that environmental conditions in the habitats are favourable; and
- Oil hydrocarbons and methane do not accumulate within the area of the appraisal well heads.

8.2.1.6. Monitoring of Small Mammals

Due to the inherent biological characteristics of small mammals, such as high fertility, abundance, short life span, they are rather sensitive to environmental changes and widely used as bioindicators of environmental condition. Natural and anthropogenic factors can vary in impact level and duration. Various resources are crucial for various species. Knowledge of biological features of species allows assessment of both intra-population changes and changes in the structure of communities of small mammals.

In 2014, four species of rodents (Red-Backed Vole and Grey-Sided Vole, Korean Field Mouse, and Long-Tailed Birch Mouse) and five species of shrews (Long-Clawed Shrew, Laxmann's Shrew, Slender Shrew, Large-Toothed Shrew, and Least Shrew) were registered near the LNG/OET. All species demonstrated a natural increase in

number compared to the decline in 2013 and proportional abundance of populations within the test zones (within 400-700 m from the plant) and control zones (within 5-6 km from the plant).

At the same time, some differences were observed in the reproduction rates of the Grey-Sided Vole (indicator species): higher percentage of the mature young of the year, a greater number of softlings per female and larger testes in males were observed in the test zone. On the one hand, it demonstrates their higher sensitivity to environmental changes (both natural and man-made) compared to the morphometric indices. On the other hand, it requires more focused research of natural intra-population variations of individual (mainly abundant) species to identify factors, which define the structure and abundance of rodents.

In the OPF area, the same four species of rodents as in the LNG/OET area and four species of shrews (except the Large-Toothed Shrew) were registered. In 2014, a minimum abundance or reducing phase was observed for Long-Clawed Shrew, Laxmann's Shrew, Northern Red-Backed Vole and Grey-Sided Vole, and a peak abundance phase for Slender Shrew.

Red-Backed Vole is the only abundant species of mouse-like rodents in the OPF area. For the population of this species, some signs pointing to an increased intensity of reproduction of individuals have been observed in the test zone (within 600-700 m from the asset) compared to the control zone (within 3-4 km), as well as higher rates of total reproduction compared to 2013, which indicates further growth in population. The analysis of the morphological parameters of voles and shrews did not reveal any trends of body size and weight reduction in the individuals within the test zone, which is the evidence of the fairly prosperous condition of small mammal populations within the monitoring area.



Northern red-backed vole

8.2.2. Conservation of Biodiversity

Sakhalin Energy fulfils its commitments with regard to biodiversity and environmental impact in the course of operating the assets as a part of the Biodiversity Actions Plan (BAP) developed and being implemented in line with international best practice.

In 2014, as per the priorities specified in the BAP, monitoring of Gray Whale, Steller's Sea Eagle, wetlands, and migratory birds at Chaivo spit was continued and a programme on ballast waters and Aniva Bay littoral zone monitoring was implemented.

In 2014, the Biodiversity Working Expert Group of the Ecological Council under the Sakhalin Oblast Governor established in 2008 by the initiative of Sakhalin Energy continued its activities. Taking into account good previous results of this group, Environmental Council under the Sakhalin Oblast Governor recommended representatives of Gazprom Company Group joining Biodiversity Working Expert Group after Exxon Neftegas Limited and OOO RN-Sakhalinmorneftegaz.

At the meeting of the Biodiversity Working Expert Group, the results of environmental birds monitoring performed by Sakhalin Energy and Exxon Neftegas Limited, outcomes of the International Conference Migrating Birds of Northern Pacific: Transit Areas and Reproduction in Changing Earth (3-7 September 2013) were discussed in May 2014. Experts were informed on the results of the round table on Issues of Normative and Legal Regulations to Ensure the Conservation and Reinstatement of Biodiversity in the Course of Economic Activity held in the Federal Council of Federal Assembly of the Russian Federation and discussed the prospects for developing regional normative regulations.

In 2014, Sakhalin Energy continued its collaboration with the UN Development Programme/Global Environment Facility (UNDP/GEF) under the guidance of the Ministry of Natural Resources of the Russian Federation while implementing the project Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations. The project started in 2013 with the Sakhalin Oblast included as a demonstration area alongside with the other seven regions of the Russian Federation. The development of the Conceptual Plan for the Conservation of Biodiversity in the Sakhalin Oblast started in spring 2014 in the project implementation.

In 2014, Sakhalin Energy got award of VII International Annual Forum People Investor 2014: Companies investing in people carried out by Association of Managers for identification and presentation of the best corporate practices. Company presented the Biodiversity Action Plan in the Environmental Efficiency category.

The joint workshop of UNDP/GEF, the Ministry of Natural Resources and Biodiversity Expert Work Group Regional Aspects of Biodiversity Preservation When Implementing Power Projects took place in Yuzhno-Sakhalinsk in November 2014. As part of the workshop, scientists, experts, representatives of government agencies, NGOs, and oil and gas companies discussed best practices for preserving biodiversity in oil and gas industry. The first revision of the Collection of Best Innovation Initiatives on Biodiversity Conservation for Oil Production Sector was presented under the UNDP/GEF-MNR project implementation. The Collection includes best practices for conservation and reinstatement of biodiversity at various stages of oil and gas project implementation and shows state-of-the-art approaches of oil companies to environment and social reporting system.



Biodiversity workshop

A project of setting regional standards for acceptable levels of oil and its byproducts in the Sakhalin Oblast soil was presented and approved. Scientific substantiation of the project was made under the guidance of Sakhalin Energy, Exxon Neftegas Limited and OOO RN-Sakhalinmorneftegaz.

The Working Expert Group approved Sakhalin Energy participation in the implementation of the UNDP/GEF — the RF Ministry of Natural Resources project on Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations and recommended other oil and gas companies to sign a partnership agreement on conservation of biodiversity within the sustainable development of the oil and gas complex in the Sakhalin Oblast.



Gray whale photo-ID from shore

8.2.2.1. Monitoring of Gray Whales

Over the years, Sakhalin Energy has devoted a great deal of attention to monitoring and mitigation of risk to the population of Western Gray Whales (GW). Presently, Sakhalin Energy allocates considerable resources to the monitoring programme, far more than required by standard procedures included in the company's area of liability. The company has long been committed to the principles of sustainable development, and has always believed that risks to marine mammals arising from industrial activities must be considered and mitigated in a timely manner; not only for endangered species, but for all marine inhabitants.

In 2014, as in previous years, Sakhalin Energy (in close cooperation with Sakhalin-1 operator, Exxon Neftegas Limited) continued the Integrated Monitoring Programme near the North-Eastern coast of the Sakhalin Island. The Programme consists of scientific study and research of whale distribution, food resources, subsea acoustics, photographic identification of individual whales, and assessment of their nutritional status, and gathering biopsy samples for genetic analysis.

As in the previous years, in 2014, all marine components of the GW Monitoring Programme have been conducted on-board Sakhalin Energy's vessels. This helped find quick solutions when assessing the impact of Sakhalin Energy on GW and led to further development and improvement of Environmental Management System.



Gray whale near Sakhalin shores

Moreover, for the first time from implementation of the programme, the photos of GW were taken from the shoreline. Use of mobile equipment and special optics allowed extending survey duration significantly up to beginning of December and getting extra data which allowed clarifying both the total number of identified whales and cow-calf pairs. In 2014, in total, our scientists observed and photographed 12 new calves and two adult whales not previously seen in the Sakhalin waters. They have been recorded in the GW photo catalogue, which includes 242 entries in its list of species. As in the previous years, our scientists were able to observe Gray Whales in both feeding areas, Piltun (coastal) and Morskoy (offshore). Same common factors as in the previous years were noted in regards

to their distribution. A full scope of acoustic monitoring, survey of structure and variety of benthic community as well as biopsy sampling was performed.

In 2014, the Moscow State University specialists conducted an integrated analysis of condition of GW during the feeding season in the North-Eastern water area of the Sakhalin Island for the ten-year period (beginning from 2002) of implementation of a joint with ENL complex programme. The main factor affecting number and distribution of GW is the condition of food resources. It shall be noted that oil and gas projects has not caused negative impact on GW. It proves efficiency of mitigation measures developed and implemented for marine mammals.



Plankton sampling in the Prigorodnoye port

8.2.2.2. Ballast Water Control

Every year, more than 200 oil and gas tankers from various worldwide ports arrive at the Prigorodnoye Port. International experience shows that the ballast water taken in these ports for the purpose of vessel stability may contain dangerous invasive species, which, if discharged in the Prigorodnoye Port, may bring irreparable damage to the ecosystem existing in Aniva Bay. The company takes a whole range of actions to preserve the unique ecosystem of Aniva Bay.

Today, the most effective way to prevent such a danger is to comply with the International Convention for the Control and Management of Ship's Ballast Water and Sediment (IMO-International Maritime Organisation), in particular, exchange ballast water in open ocean. This convention served as a basis for internal corporate ballast water management policy back in 2009. In March 2012, the Russian Federation joined this International Convention.

In order to monitor compliance with this policy, each vessel is inspected for a number of physicochemical parameters, and discharge is allowed only after it is confirmed that the ballast water was replaced in the open sea.

The efficiency of these control measures is checked by biological analysis of ballast waters in the tankers and by flora and fauna monitoring in Aniva Bay. Samples of phyto- and zooplankton are taken from each vessel, when technically possible (from April to November) and are analysed by specialists for various

characteristics including presence of potentially hazardous invasive species. As in previous years, sample analysis has not shown any hazardous species of phyto- or zooplankton in the ballast water of tankers, demonstrating that the company has fulfilled its requirements and, therefore, the requirements of the International Convention.

Aniva Bay monitoring has been conducted since 2007 on a grid of stations, which covers berthing assets for gas carriers and oil tankers in the Prigorodnoye Port. The main purpose of the monitoring is to evaluate the condition of coastal flora and fauna in Aniva Bay in terms of ballast water impact. The experienced contractor's specialists take and analyse samples of phyto- and zooplankton, ichthyoplankton, samples of benthos and marine growth of berthing assets, as well as explore species seasonal abundance, biomass, bio- and geographic characteristics, spacial distribution of those in the water area of study, and reveal variation regularities.

Over six-years observations, a significant amount of new data on Aniva Bay flora and fauna has been obtained. Scientists discovered new rare species of plants and animals that had not been identified earlier, and that are local by their characteristics. Results of the monitoring have proven that changes in the quality and quantity of the flora and fauna occur due to natural processes.

The company intends to continue paying close attention to protecting Aniva Bay ecosystems.

8.2.2.3. Steller's Sea Eagles Monitoring



The Steller's Sea Eagle

Steller's Sea Eagle is one of the largest birds of prey in the world. It is endemic to the Russian Far East and listed in various Red Books (IUCN, the Russian Federation; Asia and Khabarovsk Krai), which determines the needs to develop and implement special protection measures during the Sakhalin-2 Project implementation.

Sea Eagles are top trophic level predators and are highly responsive to all changes in aquatic and semi-aquatic trophic chains. Because of their large size and high degree of specialisation, these species can exist in a relatively narrow range of environmental conditions, which makes them extremely vulnerable.

The North-Eastern Sakhalin Sea Eagle Population Monitoring Programme was developed by the company in 2004, and is still effective. The main objective of the Monitoring Programme is to obtain reliable data on long-term variations in the main parameters of indicator species (Steller's Sea Eagle and White-Tailed Eagle) in the control zone and in the impact zone. Impact assessment is carried out based on comparative analysis results these data for the extent of the man-made impact on the population and effectiveness of developing mitigation measures.

The monitoring is conducted within the 1-km corridor on each side of the pipeline and 3-km zone around the OPF. An area of 2 km from the coastline adjacent to Lunskey Bay is studied as a control zone.

The 2014 breeding season was unfavourable for the Steller's Sea Eagles within the area monitored. The reasons for that are adverse weather and foraging conditions. During field studies 119 sea eagles were identified. In 2014, the Sea Eagles bred up 6 younglings in the area of potential impact, and 7 more were successfully bred up in the control zone as well.

The condition of Steller's Sea Eagles nesting pool within the impact zone and the control zone can be considered to be good. It has not changed significantly over the past ten years.

8.2.2.4. Wetlands Recovery Monitoring



Round-leaved sundew

Wetlands are structurally complicated and are among the most vulnerable ecosystems. They accumulate and store freshwater, regulate the surface and subsurface water drainage, sustain the ground water level, provide water treatment and retain pollutants, stabilise climatic conditions and retain soil erosion, serve as habitats of many plant and animal species including protected bird species and as a nesting area of many of them.

Sakhalin Energy carries out the long-term Wetlands Monitoring Programme within RoW, including:

- Control of wetland recovery processes within RoW and in the adjacent areas;
- Assessment of all potential impact on wetlands resulting from onshore pipeline construction and operation activities; and
- Development of impact mitigation measures.

In 2014, surveys of 25 wetland areas were carried out along the onshore pipeline route running from the North down to the South. The surveyed areas belong to the category of acid or oligotrophic bogs characterised by poor mineral nourishment of peat soils, acid environment and a peculiar plant species composition.

It was noted that the degree of grass cover reinstatement on the RoW was good in all the areas. In 17 of 25 wetland areas (68%) recovery of natural wetland ecosystems can be seen on the RoW. In those areas the soil cover was damaged insignificantly during the construction period which created favourable conditions for vegetation of typical wetland plant species. In the other wetland areas, the portion of exuberant species of the RoW vegetation cover is still high (more than 50%). They invade damaged areas in short time but do not create stable communities, which is typical for the initial stages of vegetation recovery. These species are later replaced by typical wetland plants.

A longer period is required for development of shrubs as well as mosses and lichens in the severe environment of Sakhalin, therefore, recovery of the mentioned above on the RoW is in its earliest phase. None of the surveyed areas demonstrated under-flooding as a result of violation of hydrological regime.

The condition of the protected plant species *Pogonia japonica* and moss *Dicranum drummondii* found on the areas near RoW is good. The 2014 monitoring season did not identify aggressive invasive species at the crossings of wetland ecosystems.

In general, monitoring of wetlands in the RoW shows that recovery goes with the expected speed.

8.3. PIPELINE RIGHT-OF-WAY MAINTENANCE

Currently, regular monitoring and geotechnical surveys are in place on the RoW. Their results are recorded in order to have relevant actions taken.

The list of RoW monitoring actions for 2014 included:

- Helicopter fly-overs, video- and photoshooting;
- River crossing surveys;
- River surveys based on geomatics principles;
- Monitoring of river hydrological characteristics;
- Surveys of geological hazards, cover thickness;
- Plant growth and soil local monitoring;
- Groundwater surveys;
- Satellite surveys of the pipeline RoW; and
- Boggy areas surveys.

Based on outcomes of RoW monitoring, a RoW maintenance plan has been developed.

Repair and maintenance of the RoW were completed in December 2014, as planned.

Work was performed at 24 plots and included eliminating the consequences of natural erosion as well as repairing existing anti-erosion structures.

As for four water courses and two landslides which became active, a special subcontractor completed bank protection repair and right-of-way stabilisation. Several landslides were observed during the 2014 monitoring. Design engineers completed required surveying and started elimination of landslides impacts project development.

SOCIAL
IMPACT
MANAGEMENT



86

percent

of the company's personnel attended workshops and advanced training courses (with some trainees completed more than one course)

3rd

prize

in the Russian ranking of Leaders in Corporate Philanthropy project

9.1. PERSONNEL: MANAGEMENT AND DEVELOPMENT

9.1.1. HR Management and Policy

The HR Directorate meets the company's manpower needs via development and retention of the existing staff and attraction of qualified individuals from the shareholders companies and external labour market, using the following HR strategies:

- Attract, employ, and retain the best talent that is available in the global energy market;
- Invest in professional and personal development of Russian specialists to ensure retention and succession to leadership and technical expert roles in the company;
- Deliver an attractive and competitive employee value proposition (EVP);
- Deliver clear and simple HR processes to meet the company's needs supported by LEAN/OE methodology and high quality HR information systems;
- Develop collaborative work environments in the company's offices and facilities.

The company believes all employees should feel engaged in its activities, be assured of the company's support and respect, and have the opportunity to give their best qualities and talents towards the company's success.

9.1.2. General Information

As of 31 December 2014, the total number of the company's employees was 2,198, of which 87% (or 1,921 individuals) were Russian nationals. The number of employees working in the Sakhalin Oblast was 2,170, and in the Moscow office 28. The company is committed to employing as many Russian nationals as possible for the Sakhalin-2 Project, especially residents of Sakhalin Oblast. This approach is a result of HR policy of the company and conforms to PSA terms for the project. As of 31 December 2014, 1,194 employees, i.e., 54% of the personnel, were residents of Sakhalin Oblast.

87

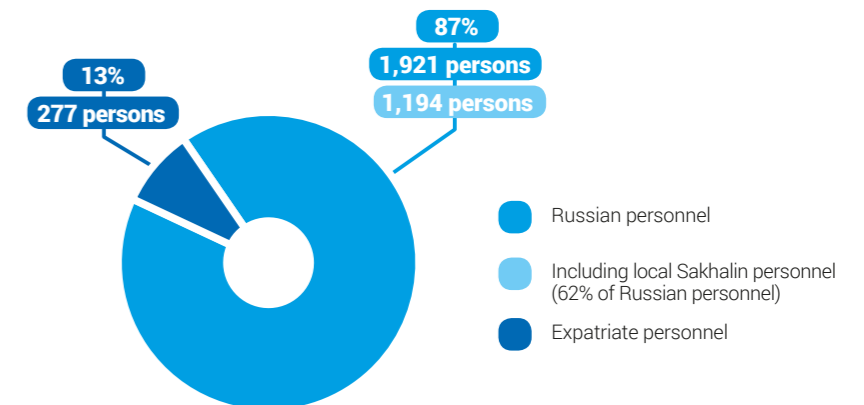
percent

of the company's employees are Russian nationals

Sakhalin Energy implements its HR strategy through its HR policy. This policy governs the company's relations with its employees. The HR Director leads the process of developing the company's HR policy and agrees developments and changes, with the Committee of Executive Directors. Maximum use is made of SAP HCM.

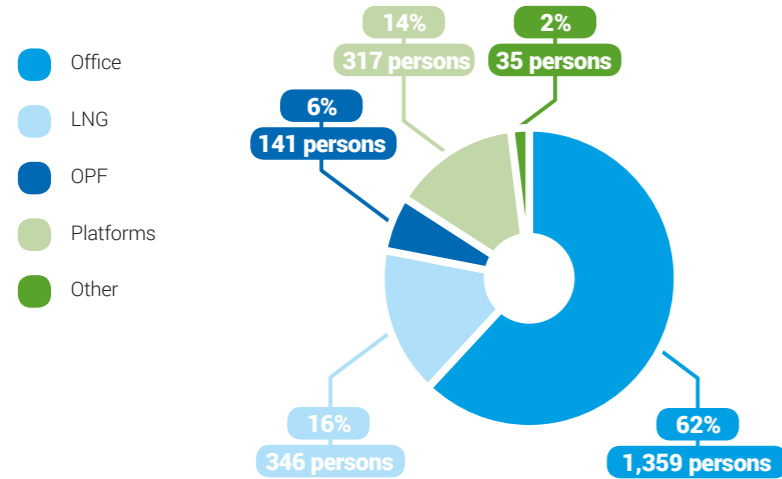
Underpinning of these activities is a documented HR management system, aligned with international standards.

Personnel structure



The structure of the personnel is determined by the nature of the company's activities: 85% are managers, specialists and clerks; about 62% of employees work in the company's offices, and the rest work at the project assets.

Personnel structure per asset

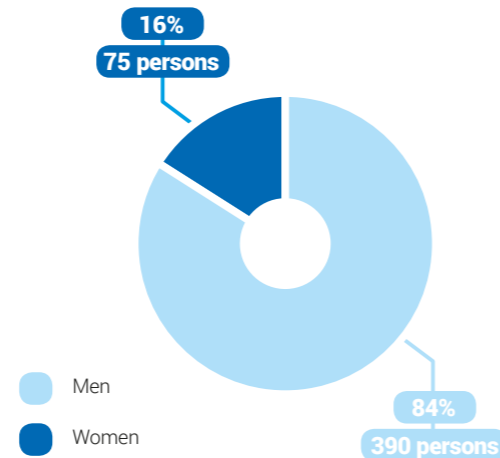


As of 31 December 2014, 26% of the company's employees worked on a rotational basis and were provided with housing accommodation. They were accommodated in shared housing facilities, such as hotels and shift camps, established in accordance with the Russian legislation and best international practices.

From among of Russian national staff, managerial positions were held by 366 employees, 199 of them were the residents of Sakhalin Oblast (see the Managerial Personnel Structure chart). To increase the percentage of Russian managerial personnel, the company, in addition to professional training, development and promotion of the existing Russian personnel, actively engages new skilled Russian specialists. Constant inflow of junior technical staff is ensured by employment of trainees (see Sections 9.1.7.3. The Traineeship Programme, and 9.1.7.4. Successors Pool Planning and Development).

Women account for around 28% of the company's personnel (612 women as of 31 December 2014). Of these, 75 employees are managers, making up 16% of all managerial staff (see the Managerial Personnel Structure chart).

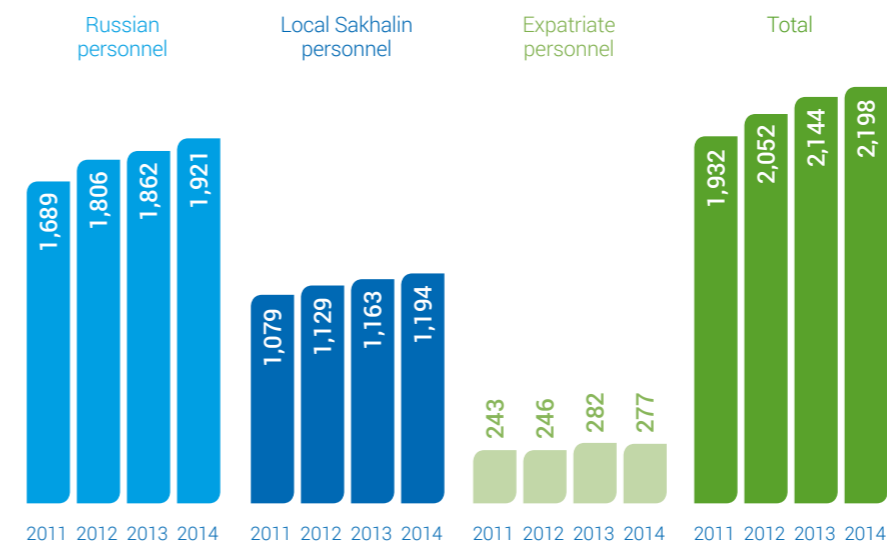
Managerial personnel structure



Over the past three years, personnel numbers have been increasing according to the plan. This was associated with the implementation of booster station construction and offshore assets upgrade projects.

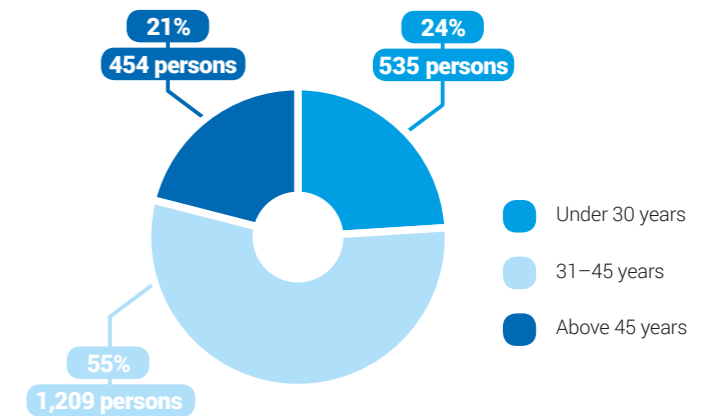
However, due to the on-going Russianisation process, Sakhalin Energy is always looking for Russian specialists, including technical personnel. In 2014, voluntary attrition rate of technical critical staff was 5.19%.

Personnel dynamics in 2011-2014, persons



As of 31 December 2014, the average age of the company's employees was 38 years. Employees aged under 45 accounted for more than 79%.

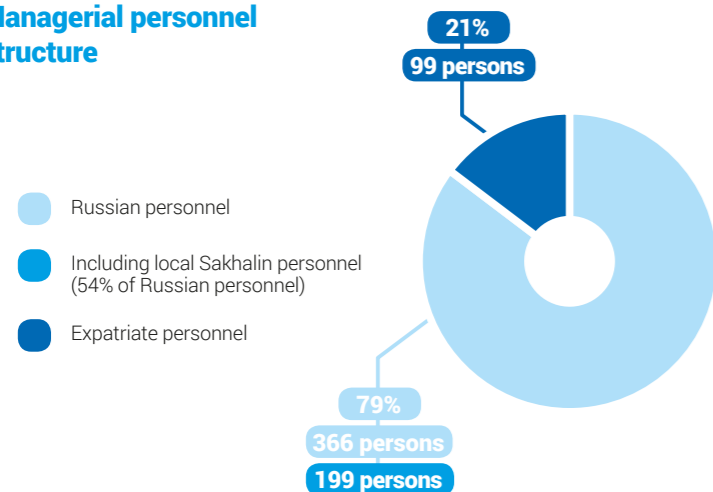
Personnel structure per age



Over 79 percent

of the company's employees are under 45 y.o.

Managerial personnel structure



9.1.3. Personnel Recruitment and Adaptation of New Employees

At Sakhalin Energy, recruitment of new personnel is based on the staff schedule and a recruitment plan which is developed and approved annually. To advertise new vacancies and attract potential candidates, the HR Directorate uses various mechanisms taking into account the host region and the positions' special requirements (to maximise the share of local residents in the company's personnel), as well as following methods:

- Posting all vacancies on Sakhalin Energy's official website, including an application form (for candidates' convenience);
- Submitting information to the Yuzhno-Sakhalinsk Labour Centre (on a monthly basis);

- Cooperating with recruitment agencies;
- Participating in job fairs;
- Posting vacancies on external Internet resources and placing vacancies in print media;
- Using social networks to search for candidates;
- Implementing the employee referral programme; under this programme Sakhalin Energy's employees can recommend candidates and are paid bonuses if the said candidates are employed by the company; and
- Attracting qualified employees from shareholder companies.

In 2014, Sakhalin Energy took part in three job fairs in Yuzhno-Sakhalinsk, and in similar events held in Moscow, Tomsk, Ufa, Kazan as well as in Azerbaijan and the Republic of Korea. Based on the results of job fairs, more than 600 applications for vacancies were received.

In 2014, 267 new employees were recruited by the company, of whom 208 were Russian nationals (including 97 Sakhalin residents).

The key indicator of the activity is the dynamics of filling in critical technical positions: 84.5% in 2013, and 93.8% at the end of 2014. The recruitment strategy for attraction and retention of experienced and talented employees envisages the indicator of filling in critical technical positions being at 86% at the end of 2015.

In 2014, Sakhalin Energy continued its adaptation programme aimed at helping new employees get off to a good start.

The revision of template and materials for onboarding process for new hires was done in 2014. At present, the slide packs give full outlook on unique features and peculiarities of the company, specifics of its production activities and processes, links between the company's divisions and stakeholders. The company's employees from all subdivisions present the materials on a bi-monthly basis.

9.1.4. Remuneration and Bonus System

Sakhalin Energy's main principles of remuneration are to pay its employees competitive salaries that are not lower than the average wage in the Russian oil and gas industry, and to use a transparent bonus system for all staff categories.

The remuneration system used by the company is based on grades and establishes remuneration depending on the employees' skills and position. This encourages efficient work and provides motivation for excellent performance.

Remuneration of Sakhalin Energy's employees includes:

- Base salary, hourly rate as per the labour agreement;
- Compensating or incentive allowances and uplifts to the base salaries and hourly rates payable as per the Regulations on Labour Remuneration, Bonuses and Social Benefits, RF Labour Code and other regulatory acts; and
- Bonuses payable as per the Regulations on Labour Remuneration, Bonuses and Social Benefits and other local regulations.

Sakhalin Energy's remuneration policy, practices and methods are designed to recognise and encourage excellent personal and production performance.

The existing incentive system uses a single unified, standard approach to motivating

employees in all the company's subdivisions. This is achieved through the following types of bonuses as per the Regulations on Labour Remuneration, Bonuses and Social Benefits:

- Annual Performance Bonus;
- Special Recognition Award (SRA);
- Long Service Award (10 years or more);
- Employee Referral Reward;
- One-off bonus for award;
- Bonus for participation in a research-to-practice conference held by the company on a regular basis; and
- Committee of Executive Directors Award to employees who achieved special success in teamwork.

To make sure that its salaries are competitive, Sakhalin Energy regularly monitors the financial segment of the job market and annually adjusts salaries to account for the employees' individual performance (see Section 9.1.6. Company's Employees' Performance Appraisal).

In 2014, the minimum salary at Sakhalin Energy was 4.7 times higher than the minimum wage established by Russian legislation. Sakhalin Energy's labour remuneration expenses totalled RUB 11,005.8 million for the reporting year, with award/bonus payments totalling RUB 2,314.7 million.

9.1.5. Social Guarantees, Benefits and Compensations

The company makes every effort to provide a competitive compensation and benefits package to attract highly skilled workforce. The compensations and benefits provided to Sakhalin Energy's personnel ensure the well-being and social security of employees and their families.

Programmes for company's employees' children

Wonder Island children's recreation and development centre

At Wonder Island Children's Recreation and Development Centre located at Zima residential complex there are educational groups for children who do not attend kindergarten, artistic clubs and studios, as well as afternoon childcare groups that have been operating since 2012.

Happy Holidays programme for schoolchildren

In summer, the Happy Holidays recreation programme is held for children of company's employees at the sports and cultural facilities of Zima residential complex. The programme is designed for school-age children up to 16 and has been running in this format for four years. Every year a new theme is developed for the programme, and each of the five summer sessions is unique.

In 2014, the programme was devoted to the Year of Culture in Russia: all activities were aimed at promoting Russia's cultural and historical heritage and developing children's interests in various areas of art.

In 2014 the programme was opened for the first time to older preschool children (age 6).

In 2014, kids from 12 to 14 were invited to attend the Leader sub-programme to help them develop leadership skills. Teens ages 14-16 participated in the SMI.ru initiative where involved in professional journalism atmosphere.

The number of programme participants grows every year. In 2014, 620 children attended the five sessions.



Programmes for children of the Company's employees

Miscellaneous

Employees and their families can use the company's shuttle buses running according to a schedule and stopping at the city's educational institutions.

Consultations with a psychologist are organised to the company's employees and their children to address issues related to school education.

In addition to the guarantees and benefits provided by Russian labour law, Sakhalin Energy provides its employees with a social benefits package that includes:

- Voluntary medical insurance for employees and their families;
- Health benefits;
- Accident and sickness insurance;
- Travel insurance;
- Free meals at the company's assets and free meals in the company's offices;
- Housing for employees and their families for the duration of their employment (for those employed on terms of relocation from other Russian regions and CIS countries, as well as from the Far North and equivalent localities), or payments for housing rent for such employees;
- Mortgage programme;
- Annual payment of round-trip travel expenses to the employees' chosen place of vacation within the RF territory; this applies to employees and non-working members of their families (spouses and children up to the age of 18 years) living in Far North regions and equivalent localities;
- Corporate pension plan;
- Lump cash allowances in case of difficult personal circumstances, and upon the birth or adoption of a child;
- Recreation and sport facilities and events (see also Section 9.3. Occupational Health);
- Additional benefits for female employees on maternity leave; and
- Programmes for the company's employees' children.

Housing for employees (and their families)

Presently, most of the company-owned housing is located at Zima residential complex. There are also sports and entertainment facilities within the territory of Zima residential complex, in particular:

- Oasis recreation and sports complex;
- Hub leisure centre;
- RecCentre Zima-1 sports centre; and
- RecCentre Zima-3 sports and entertainment centre.

The company also has leased residential premises in Strawberry Hills complex.



Zima Highlands housing estate

Voluntary Insurance

In 2013, the company prolonged contractual relations with SOGAZ insurance group until the end of 2016.

Under the voluntary medical insurance programme, over 70 institutions, 6 of which are located in the Sakhalin Oblast, were added to the list of medical institutions in the regions of Russian Federation in 2014. The issue of health care under the VMI programme was resolved in Korsakov. Under the VMI programme, contracts were concluded with pharmacies in Okha and Nogliki in the Sakhalin Oblast.

During the four years of working with SOGAZ, 91 employees of the company has received insurance payouts totalling more than RUB 93 million under the contract of accident and sickness insurance against accidents and diseases.

All children participating in the Summer Recreation Programme for Employees' Kids at Zima residential complex had accident insurance for the entire camp session.

Mortgage Programme

The mortgage programme is governed by the Regulations on Payments to Employees to Compensate Part of Mortgage Interest for purchase (construction) of dwelling premises. Since the beginning of the mortgage programme, 126 Russian employees (6.6% of total staff) have participated in it.

Under this programme the company reimburses 40% of interest payments actually paid by an employee during the reference period, not exceeding the amount set by the company.

Corporate Pension Plan

As of the end of 2014, 38% of the company's Russian employees are enrolled in the corporate pension plan.

The company contributed a total of RUB 113.84 million to Gazfond from 2011 to 2014.

9.1.6. Company's Employees' Performance Appraisal

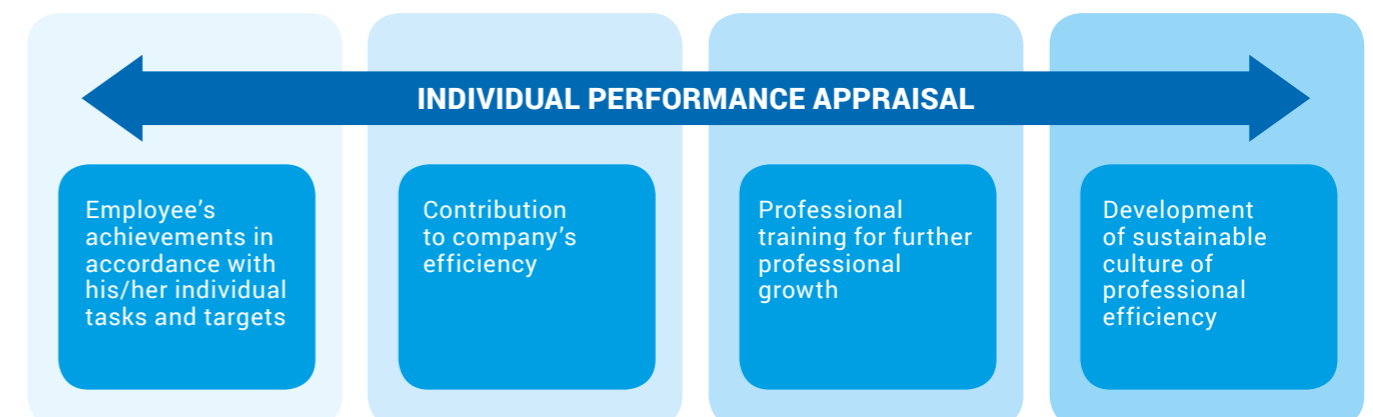
The Individual Performance Appraisal is one of the main tools used to achieve the company's strategic goals of building a performance culture.

All employees undergo annual performance appraisals. An employee's labour efficiency is evaluated based on the degree to which he/she

reaches production and individual goals set at the beginning of the year.

This evaluation shows whether professional training is required for the employee to continue to grow professionally and improve the company's efficiency in general.

Individual performance appraisal



9.1.7. Staff Learning and Development

Staff development at all levels is a key element of creating and maintaining a high degree of employee professionalism and motivation at Sakhalin Energy. To ensure the best performance, the company strives to maximise the potential of its employees, taking into account their personal diversity and individual characteristics.

The company uses a comprehensive approach to staff development, in particular:

- Personnel training planning and implementation;
- Annual competence assessment;
- Career planning and development;
- Recruitment and development of the talent pool;
- Development of young professionals;
- Development of scientific potential;
- Retention of knowledge;
- Educational grant programme; and
- Traineeship and pre-graduation internship programme.

The company uses a competence-based approach to personnel management: a profile of the functional, leadership and personal competences has been developed for each job. Competence assessment is used to decide whether employees require further development and training, as well as for other personnel decisions. A competence profile is a standard list of qualifications established by the company for a certain job position. Competence profiles and personal profiles of employees are stored in and checked through the SAP HCM automated management system.

Conducting competence assessment is a year-round process that gives a clear understanding of professional and behavioural requirements for employees depending on their specialisation, position, tasks performed and the level of managerial position. Identifying an employee's competence level in his/her functional area and then developing this competence is key to achieving the employee's performance targets. Employees can assess their competence and approve it with their manager using the Employee/Manager Self Service Portal ESS/MSS (a SAP HCM system module).

The company finalised competence profiles development in 2014. Ninety-eight percent of the competence profiles for personnel (clerks, specialists and managers) were updated in SAP HCM. Seventy-eight percent of the staff underwent a full competence assessment. A new type of report on staff competence across structural units or specialities was developed in 2014 and can well demonstrate competence gaps. The report is essential for planning further personnel training and competences development.

Staff development



9.1.7.1. Staff Assessment

The company uses a variety of tools to assess the leadership potential and capacity of the staff, including:

Current Estimated Potential (CEP) Ranking Exercise – the current estimate of the highest job that an individual will be able to perform in his or her future career within the company. CEP ranking is run every two years with respect to the company employees JG 5 and above. The estimation is done based on the criteria known as CAR: Capacity, Achievements and Relationships.

In 2014, CEP was carried out for 993 employees. CEP Ranking results are used in Manpower and Succession planning, in planning employees' individual and career development as well as when working out instruments to retain staff.

Assessment Centre – a technology of integrated expert evaluation of the employees' leadership competency, it has been widely used in the company since 2009. This method incorporates such components as business games, structured interviews and feedback with detailed analysis of the employee's strengths and areas for further development.

The target audience for the Assessment Centre is high-potential employees included in the successors pool for senior managerial positions. In 2014, 45 employees of this category passed the Assessment Centre.

Since 2009, the company has assessed the leadership competency of 332 employees using the Assessment Centre.

360 Degree – an additional tool to assess leadership competency and personal effectiveness of employees. It was developed and implemented in the company at the end of 2014.

The 360 Degree assessment is carried out by surveying the employee's business environment. To do this, the employee, his supervisor, subordinates and peers fill in an online questionnaire designed on the basis of the company's model of leadership competences. The final results are presented as average ratings of each rate group and are accompanied by key findings about the employee's strengths and weaknesses, as well as recommendations for employees development.

9.1.7.2. Personnel Training

The company prepares annual plans for personnel training and professional development based on new production targets, career development plans and personnel competence assessment.

Personnel training options include on-the-job training, e-learning, conventional training courses, workshops, and case studies. In 2014, 1,897 people attended workshops, class training, and advanced training courses (including e-learning), with some trainees having attended more than one course. The company provides training for every single personnel category. The average duration of training was 11 man-days per employee (excluding on-the-job training). In 2014, Sakhalin Energy invested more than RUB 346 million in personnel training.

Employee training in 2014 (by personnel category)

	Number of personnel	Number of trained personnel	Percentage of trained personnel
Managers	465	405	87
Specialists	1,395	1,164	83
Clerks	19	9	47
Workers	319	319	100
TOTAL	2,198	1,897	86

Sakhalin Energy's unique training resources cover the potential of both Russian and foreign training service providers. The training plans implementation is controlled by employees, line managers, the HR Directorate and senior management of the company.

The top-priority disciplines at Sakhalin Energy are as follows:

- Health, Safety and Environment (HSE);
- Tailored professional courses in technical and other areas (finance, business, HR, etc.);
- Further education;
- Original equipment manufacturer training (vendor training);

- Management and business administration;
- Managerial and leadership skills development for managers of all levels according to the leadership competences model;
- PC skills, Internet and Intranet training and other IT courses;
- Long-term training programmes of internationally recognised professional certification (CIMA, ACCA, CIPS, NEBOSH, etc.); and
- Language proficiency.

Vendor Training

At least half of the formal training sessions for production assets staff are vendor-provided. These are trainings for improving skills for operating the equipment installed at the company's assets, with the assistance of the manufacturer or its representatives. Key training areas include repair and maintenance of equipment, troubleshooting, and operation of equipment. Good operations knowledge, timely repair and spare parts replacement,

best maintenance practices improve the performance of the equipment and installations and reduce related operational costs. When the equipment is properly maintained, its availability rate increases, unexpected breakdowns are minimised, idle periods are reduced, and repeated maintenance of the same equipment is eliminated.

Training personnel to work with a new type of device for shaft alignment of rotating equipment

manufactured by Pruftechnik in 2014 is an example of continuous development. The new devices are smaller and more accurate and have a friendlier interface, which makes it easier to use them and reduces the possibility of operational errors. The ability to use the devices correctly significantly reduces the probability of failure, idle periods and time-consuming repair.



Commercial Academy programme participants

2014 Projects

Commercial Academy

In 2012, the HR Directorate jointly with the Commercial Directorate developed a modular programme, the Commercial Academy, aimed at the Sakhalin Energy's talent pool. For three years the Commercial Academy transformed into a cyclic programme. The curriculum takes into account the needs of the target audience. Specialists, shareholder representatives and external trainers (some of them working online) are invited as trainers. Students of the Academy defend their projects as a final step. First graduates gave specific examples of how to apply the knowledge they had acquired.

E-learning

E-learning is becoming increasingly important as a means to teach employees the necessary operational knowledge. Additional courses developed by specialists of the company are added to the SAP HCM Employee and Manager Portal. In 2014, Sakhalin Energy began using its intranet site to inform employees about the mandatory standards in industrial safety, business principles and ethics. Courses such as Principles for Countering Bribery and Corruption, Conflict of Interest, Introduction to Production Management and others were developed and the training implemented. Building on this trend, the company is saving money, involving more employees in training programmes, and providing employees with necessary information in modern electronic formats.

9.1.7.3. The Traineeship Programme

Most Traineeship Programme participants are graduates of the Sakhalin Fuel and Energy Technical School with specialisations that are valuable to the company, and with the strong motivation to develop and apply their knowledge.

The key component of the traineeship is gaining hands-on production experience and practical on-the-job skills. During training, the trainees are actively involved in:

- Preparing projects;
- Preparing and making independent presentations;
- Simulating various production scenarios and then demonstrating them; and
- Other kinds of practical training.

Since 2003, 202 people have completed training under this Programme. The trainees admitted in 2011 graduated in 2014. Of these, 24 were hired by the company. Currently 50 trainees in other groups continue training. The Programme graduates currently work at the LNG Plant, the OPF and the offshore assets.



Trainees of the technical training programme

9.1.7.4. Successors Pool Planning and Development

Successors pool planning and development is a high priority activity for further development of personnel capacity of the company. The key stages of the process are as follows:

- identification of potential candidates from among Russian staff to fill positions occupied by Expatriate staff and key and managerial positions occupied by Russian Nationals;
- assessment of the potential successors' readiness to succeed the positions according to the succession plan; and
- the potential successors' development in accordance with the job requirements for the positions planned for succession.

During the succession planning process for 2014-2018, potential successors were identified for the short and long term for 456 positions (83% of the total number of all positions planned for succession). For all employees included into the successors' pool, Individual Development Plans were developed incorporating training and development events to be taken under the company's learning and development framework (professional training, development of leadership and management skills, traineeship, coaching, overseeing of projects, etc.).

9.1.7.5. Leadership Development Programmes

The company requires highly qualified leaders to achieve its strategic and operational goals. The leadership skills of the company staff are enhanced by developmental classroom and online training courses, on-the-job training, as well as learning methods based on relationships such as coaching and mentoring.

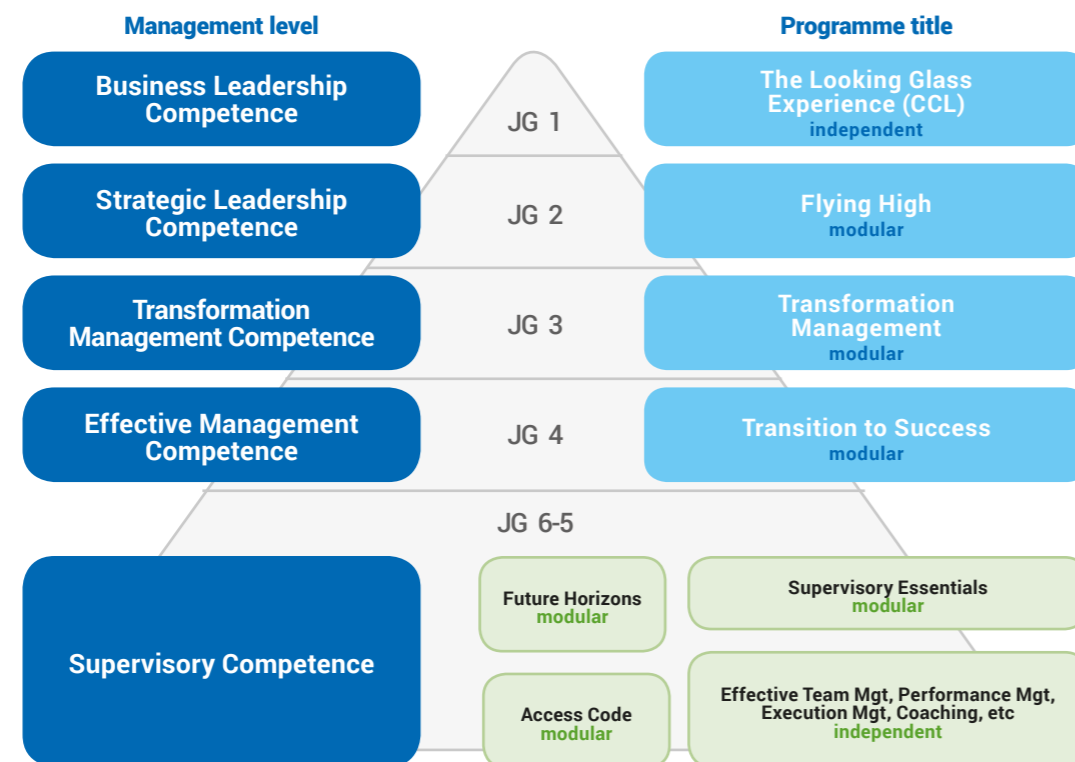
Leadership development programmes have been developed for all management levels based on the Nine Planets leadership competency framework.

238 Russian employees occupying managerial positions of various levels completed training under the leadership development programmes in 2014.

The company implements two formats of the mentoring programme:

- Individual mentorship — set up as pairing of employees of different levels of responsibility in order to encourage professional and personal development of the employee with the lower level of responsibility. In 2014, 77 employees participated in the programme as Mentees and 40 employees as Mentors;
- Group mentorship — a series of sharing knowledge sessions under the Journey to 9 Planets project. The company leaders share their experience in building a career and managing projects and people as they relate to leadership competences. The audience includes high potential employees in managerial and supervisory positions and potential successors to leadership roles. 11 sessions were conducted in 2014.

Portfolio of leadership development programmes



9.1.7.6. Graduate Development Programme

Since 2010, the company has been implementing the Graduate Development Programme aimed to meet Sakhalin Energy's needs for talented staff.

The company organises regular work with young professionals in accordance with the 3-year development programme (see the Stages of the Graduate Development Programme chart).

Stages of the Graduate Development Programme

Me and my company

Input assessment of professional competence and personal skills of a graduate to work out the optimum conditions for adaptation and development

Preparing and approval of personal development plan, which includes individual and common activities for all graduates

Me and my profession

Development and strengthening of professional skills

Development of motivation for further professional growth

Implementation of individual development plan

Me and my career

Further professional growth of a graduate

Evaluation of perspectives for career in the company

Professional competence assessment

Assessment of professional and personal skills using the Assessment Centre technology

In 2014, the company hired 16 graduates under this programme. 82 employees have participated in the Programme since 2010.



'Young Energy' club participants meeting

Since 2012, the Young Energy Graduates Club has been functioning in the company to help young professionals to adapt faster and develop their business and leadership skills. In 2014, the Club held a number of events, including: a meeting of young professionals with the HR Director, an awareness session on the structure, goals, objectives, and functions of SCM Department; and meeting with various senior managers of the company where career-building strategies were presented.

The Future Horizons Programme

In order to improve competency of graduates and provide them with basic management skills, the Future Horizons modular programme was developed in 2014. The main objectives of the Programme are to realise the potential of young professionals, develop skills needed for effective team collaboration and for understanding tasks and manager's role as well as to create conditions to identify their own strengths and areas for development. 17 young professionals participated in the programme in 2014.

9.1.7.7. Personnel Development Assignments

Arrangement of personnel development assignments is an integral part of the HR strategy of Sakhalin Energy to attract, retain and develop staff.

Participation in the development assignments allows employees to gain extensive experience in project work and get additional opportunities for personal and professional development.

In 2014, development assignments at the shareholders companies were agreed for 14 Sakhalin Energy's employees.



Participants of the Scientific and Practical Conference of Young Professionals

9.1.7.8. Developing Scientific Potential

Sakhalin Energy pays great attention to development of scientific potential of employees. As part of development of joint technical projects the company cooperates with universities and research institutes. The company's specialists are involved in activities of student scientific societies, in lecturing, etc.

The company holds scientific and practical conferences for young professionals annually. Sakhalin Energy's employees under 35 with work experience in the company over 12 months are invited to participate in the conference.

The 6th Scientific and Practical Conference of Young Professionals was held in October 2014. The participants presented 18 research papers in the following areas: Information Technology and Automation of Production Processes, Supply Chain Management, Production and Maintenance, Industrial Safety, Engineering, Geology and Field Development.

The Conference Panel included highly qualified experts from the Production, Technical and Finance Directorates of the company, as well as representatives of the Gubkin Russian State University of Oil and Gas and Sakhalin State University.

9.1.7.9. Internship Programme

In order to form an external successors pool for Young Specialist category positions, the company has been implementing the Internship Programme since 2000. Working side by side with highly qualified professionals and engineers of the company, students of Russian higher education and vocational education institutions become familiar with the latest production technologies and best international and domestic business practices, as well as gain unique hands-on experience.

In 2014, 80 students of higher education institutions and 25 students of vocational education institutions completed internships with the company. About 70% of the 2014 interns were Sakhalin residents.



Signing an agreement with Gazprom Marketing and Trading Singapore

9.1.7.10. Scholarship Programme

The Scholarship Programme was launched by Sakhalin Energy in 2003.

The Programme focuses on Sakhalin high school and college graduates who are interested in obtaining an industry-specific education and building a career with the company.

The company awards its educational grants in the form of a scholarship to the contest winners who have been admitted to state-funded university programmes, or as reimbursement of tuition costs to the contest winners who have been admitted to fee-based university programmes.

In 2014, 10 Sakhalin high school graduates became the contest winners.

As of the end of 2014, 38 Sakhalin participants of the Scholarship Programme studied at Russian higher education institutions with the support of the company.



Finalists of the scholarship programme contest in 2014

9.2. LABOUR SAFETY AND PROTECTION

9.2.1. General Information

Successful implementation and operation of large projects require special attention to health and safety. Sakhalin Energy's main priority is industrial safety and no harm to people.

Over **3** years

without road traffic incidents with injuries

At the end of 2012, the Health, Safety, Environment, and Social Performance (HSE and SP) Steering Committee decided to revise the existing Life Saving Rules to adapt them to the company's changed Risk Profile. In March 2013, eight mandatory Life-Saving Rules were adopted and are currently used by the company. These are rules relating to the company's highest risk areas.

Life Saving Rules

- I will not work under the influence of drugs or alcohol;
- I will not smoke, or carry or use ignition sources in the presence of hydrocarbons;
- I will not stand under a suspended load;
- I will follow the requirements of the work permit;
- I will fasten a seat belt when travelling in a car;
- I will drive a company vehicle with a valid defensive driving certificate and a permit for the trip;
- I will not exceed the speed limit; and
- I will not use handheld communication devices while driving.

Sakhalin Energy's Life Saving Rules



The company uses an integrated approach when handling HSE issues (see Section 3.5. HSE and Social Performance Management). This approach provides both compliance with legal regulations and risk management to ensure continuous improvement in this area. The company also requires contractors to manage HSE issues in compliance with this approach and the international standards adopted by the company. The company's main fields of activity in the area of safety remain:

- Labour protection;
- Industrial safety; and
- Road safety.

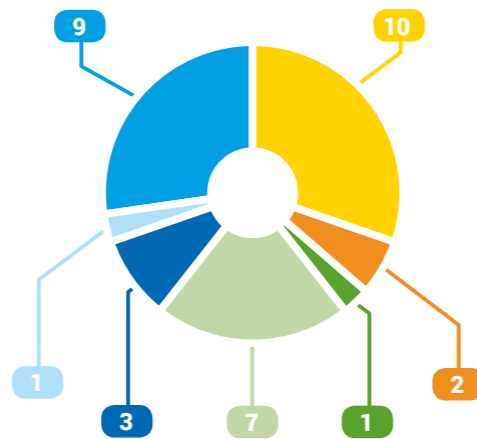
Over
1,100
employees

of Sakhalin Energy and contractors completed trainings on a safe behaviour culture

Data on violations of the Life-Saving Rules by employees of the company and contractors in 2014.

Statistics of Sakhalin Energy's Life Saving Rules violations in 2014

- Alcohol/drugs intoxication
- Smoking/carrying ignition sources in the presence of hydrocarbons
- Standing under a suspended load
- Non-compliance with the requirements of the work permit
- Seat belt unfasten
- Driving without a valid defensive driving certificate and a permit for the trip
- Speed limit exceeding



Life Saving Rules violation inevitably leads to serious consequences, and in some cases, dismissal.

Sakhalin Energy's expenditures on HSE activities in 2014

Event	USD
Fire safety and emergency prevention and response	5,601,252
Technical improvement of production; introduction of new equipment, monitoring devices, automatic and computerised equipment that improve industrial, fire and radiation safety, and improvement of employee working conditions and labour protection	547,055
Providing employees with personal protective equipment, improving sanitary conditions and installing health-care equipment	4,742,404
Bringing workplaces into compliance with regulations based on certification results	–
Improving the legal and organisational support of industrial and fire safety and labour protection; bringing regulatory documents into compliance with international standards	208,403
Improving the quality of education, training and professional development of employees in the field of industrial safety and labour protection	1,713,549
Total	12,812,664

Injury rates in the company's and contractors' organisations

	2013	2014
Total number of people injured in accidents at work, persons	12	6
Including fatalities	0	0
The number of accidents involving contractors at the company's assets	9	4
Including fatalities, total	0	0
Total number of reported accidents per 1 million man-hours	0.89	0.46
Number of injured persons in road accidents per 1 million man-hours	0	0

9.2.2. Road Safety

The company's vehicles drive almost 10 million km per year. In November 2014, Sakhalin Energy reached an important safety performance milestone: three years without road traffic incidents with injuries. This achievement is particularly significant considering the difficult situation on the roads in the Sakhalin Oblast.

An important objective of the road safety programme is to spread high corporate road safety standards beyond the company and its contractors, especially to Sakhalin settlements where the company operates. This is implemented via the Sakhalin Road Safety Council, which was established back in 2005 as per the company's initiative (see Section 9.5.7. Sakhalin Road Safety Council).

To sustain and improve its road safety performance, the company continues to implement the following activities:

- Monthly meetings of the Road Safety Steering Committee, chaired by the company's CEO;
- IVMS report analysis. IVMS enables monitoring of drivers' behaviour to detect any non-compliance and prevent traffic incidents. In the past year, IVMS reports demonstrated an improvement in driving. The entire monitoring system covers more than 1,600 drivers and 640 vehicles;

- Defensive driving training. Sakhalin Energy continues defensive driving training of all professional and non-professional drivers. In 2014, courses were held for more than 1,200 drivers of various categories of vehicles. In addition, the company provides safe driving courses to all employees who are interested;

- Vehicle compliance monitoring. All of the company and contractor/subcontractor vehicles that are used for the company's operational activities pass technical inspections; the company and contractor/subcontractor drivers are expected to strictly comply with the traffic regulations, transport legislation of the Russian Federation, and company's requirements to comply with Road Transport HSE Management Standard. Three Road Safety Monitoring teams are working in different districts of the region to ensure standard compliance;
- In 2014, the company's vehicles were equipped with monitoring devices (tachographs) to comply with drivers work-and-rest schedule;
- In 2014, all the company's vehicles were equipped with in cab-video recorders;
- Interaction with other organisations. The company initiated collaboration with Gazprom Dobycha Shelf (working on the Kirinskoye field development) to jointly solve road safety issues at the south access road running to Lunskoye Bay. The Road Safety Monitoring team patrols the Southern Access Road in conjunction with the Road Traffic Police;
- The company takes an active part in various forums on road safety in collaboration with TNK-BP, Shell and Salym Petroleum;
- The Safe Journey Management at the company's assets. Each Sakhalin Energy's assets has a Gatekeeper. These people continually monitor operation of all vehicles at the asset; manage journeys and inspect vehicles and cargoes for technical compliance;
- In 2014, awareness-raising campaigns were conducted for drivers on the following subjects: driving in winter conditions, pedestrians, driving in the evenings, children's car seats, railroad crossings, and timber transportation lumber.

The Sakhalin Energy Road Safety Programme has received a Special Merit in the 2014 Shell's Executive Officer's HSSE and SP Awards in the category Improving Performance in a Global HSSE and SP Risk Area.

9.2.3. Industrial Safety

Sakhalin Energy has a policy and manual on Industrial Safety in compliance with RF requirements and international best practices. Our main objective in the field of Industrial Safety is to ensure protection of the vital interests of the employees and society from potential emergency situations, accidents and consequences at hazardous production assets. Sakhalin Energy applies a risk-based approach to the management of Industrial Safety hazards, and improvement controls and remedial actions to bring those risks to a level that is as low as reasonably practicable.

Successful operation is ensured by using the latest technologies and systems. Risk analysis and controls are regularly reviewed and updated. This allows continuous improvement by using the HSE management, which includes various audit levels, incident investigation, health and safety training, analysis of industrial hazards, emergency response procedures, work safety systems, and many other instruments to manage safety at all assets.

9.2.4. Labour Safety Culture

One of Sakhalin Energy's priorities is to develop a Goal Zero culture, in which the accident rate is reduced as much as possible and proactive HSE behaviour is promoted both in the company and in contractor organisations.

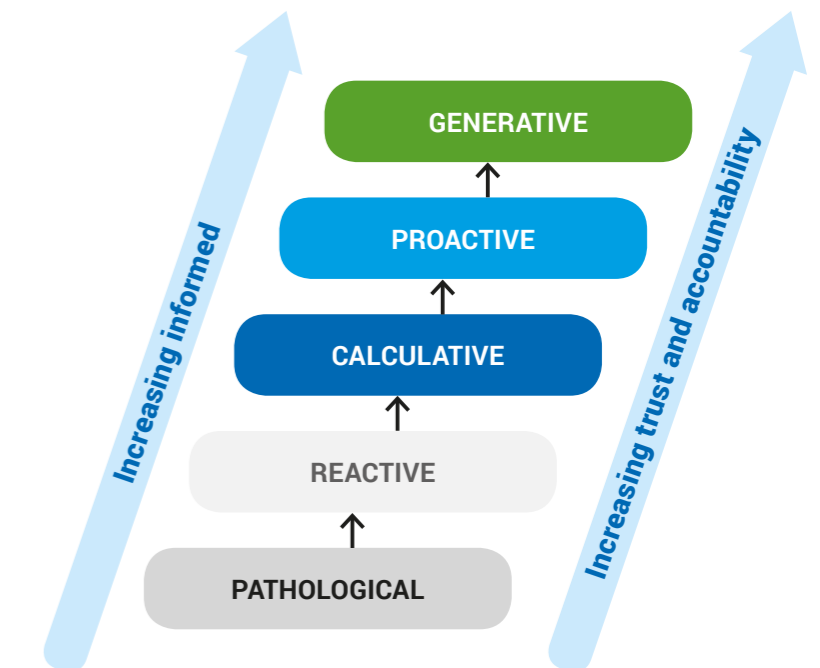
Safety is Sakhalin Energy's main priority. It is the foundation of the company's daily work, whether in the offices or at the production assets. In April 2008, the CEO Award was established to promote safe behaviour and HSE achievements. The company's and contractor's employees receive monthly awards for contributing to the development of the safety culture through their excellent and safe work, timely response and prevention of hazardous situations.

In 2014, the company received a total of 32 applications for this award. Eight employees of the company received this reward. In addition, the award was given twice to Sakhalin Energy's subdivisions, and once to an employee of Cronyx, a contractor organisation.

The Safety Culture Evolution Ladder reflects the evolution of a safety culture towards a Generative level. At this level, the company's employees have sufficient trust in their managers to share information necessary to prevent accidents. Achieving this level of corporate culture is the primary target of all the behavioural programmes implemented by the company in the area of labour safety.

This shift in employees' behavioural motivation, where safe behaviour becomes the norm at production sites, in offices and at home, is a tremendous step toward achieving the highest (Generative) level of HSE culture.

Safety culture evolution ladder



The key factor of success in developing a safety culture is the commitment of the company's senior management to the HSE culture. In 2014, leaders at various levels (directors, contract holders, asset managers) made 188 visits to the company's production assets. In doing this, they personally showed the company's employees and contractors their commitment to a culture of safety. This serves as an important element of employee motivation and an overall improved safety culture.

In 2014, a comprehensive HSE leadership programme for line managers was developed. The purpose of the programme is to achieve a common understanding of the current HSE situation, motivate employees to seek continuous HSE improvement, communicate to them the company's goal of being a leader in practical implementation of HSE, define principal behaviour models for managers, and ensure results are achieved and then monitored.

In 2014, 65 line managers, HSE professionals, and holders of HSE-critical contracts received training under the programme.

The company continues to maintain the **Effective Observation and Intervention Programme**. The programme's objective is to prevent serious incidents by responding in a timely manner to potential risks.

During the implementation of this programme, the company, as well as contractors and subcontractors, form and improve the safety culture.

In the Commitments and Policies on HSE and Social Performance, each employee is assigned the right and the duty to intervene in a potentially dangerous situation.

The programme is being successfully implemented at all the company's assets. In 2014, for instance, 34,450 interventions by the company and contractor employees were registered at all assets.

Now observation and intervention cards can also be filled in when an employee identifies positive examples of safety compliance or cases of applying best practices at the workplace. In 2014, at least 26,550 cards were filled in with demonstrative safety culture examples.

The company also applies the **HAZID Programme**. The purpose of the programme is to identify and remedy potentially dangerous situations related to the breakdown of equipment and systems. When an employee discovers a hazard, he/she fills in the hazard identification card, reporting dangerous conditions, factors or technical malfunctions that he/she cannot eliminate by his/her own efforts. These cards are immediately submitted to the appropriate manager or HSE professionals, thus preventing serious accidents.

Training based on programmes for developing a safe behaviour culture was continued at all the company's production assets. In 2014, over

1,100 employees of Sakhalin Energy's and contractors' organisations were appropriately trained.

The International Minimum Industry Safety Training (IMIST) interactive online course is designed for use by operating companies and their contractors, and discusses the basic safety issues in the oil and gas industry and describes potential hazards and control measures for all personnel. The course helps reduce the number of injuries and accidents, providing all personnel with necessary knowledge of safety and the basic skills needed to recognise and minimise risks. In 2013, Sakhalin Energy concluded a contract with Atlas, an international organisation, to use the course, and in 2013-2014, more than 270 employees received training.

To gain the skills required to carry out their professional duties in the field of industrial safety and environmental protection, Sakhalin Energy's employees have the opportunity to study and receive the NEBOSH (the National Examination Board of Occupational Safety and Health in the UK) international certificate. NEBOSH training is based on the best international HSE practices and respective national laws and government standards. NEBOSH is a leading international authority for training, testing, and certifying labour safety experts. In 2014, 77 persons were trained for NEBOSH certificates. Of this number, 39 people received international certificates in industrial safety, labour and environment protection; 30 people got international technical certifications in operational safety in the oil and gas industry; and 8 company's employees received certificates in environmental protection.

9.3. OCCUPATIONAL HEALTH

The company applies a structured approach to protecting the health of its personnel. Sakhalin Energy has developed and approved internal standards for occupational health and hygiene, including the following sections:

- Assessment of health risks;
- Medical emergency response;
- Medical examinations;
- Medical requirements for contractors;
- Prohibition of alcohol and drugs in the workplace;
- Chronic fatigue management; and
- Others.

The company's Occupational Health and Hygiene Standard was updated in 2014 to include specifications for food hygiene and risk management for raw food material quality. In accordance with changes to the legislation of the Russian Federation, the procedure for banning the use of alcohol and drugs in the workplace was updated. In addition, a specification for controlling ionising radiation in the workplace was developed. The specification for monitoring employees' health status was amended to include basic conditions for clinical examination of staff. The company continues to focus on preventing chronic fatigue among personnel. To do this, additional measures were developed and implemented for risk assessment. The company's employees have access to online information on managing risks associated with chronic fatigue.

All the company's assets have health risks assessment and harmful occupational factors monitoring systems implemented. Cause-effect analysis between indicators recorded while measuring occupational environment factors (vibrations, noise, microclimate, ionising radiation etc.) and data on personnel's health is being performed. The results of the analysis are used to assess the risks of employee exposure to health hazards at production assets. Corrective measures are being developed to reduce such risks at the company. This task is being monitored using the Fountain electronic database. In 2014, the rate of occupational diseases reported remained at a relatively low level (see the Rates of Recordable Occupational Illness Frequency table).

Rates of recordable occupational illness frequency

Total recordable occupational illness frequency (TROIF)	2010	2011	2012	2013	2014	2014 target
TROIF (the company only)	5.9	0.6	0	0.56	0.61	5.0
TROIF (the company and contractors)	3.8	0.6	0.8	0.5	0.39	5.0
TROIF with temporary disability (the company only)	1.6	0	0	0.28	0.36	–
With temporary disability (the company and contractors)	0.1	0.2	0.1	0.07	0.23	–

Performance indicators are constantly reviewed in order to develop and implement measures to improve the working conditions, prevent illness and promote a healthy lifestyle.

A comparative analysis of occupational health and hygiene data from other oil and gas companies confirms the effectiveness of the health and hygiene management at Sakhalin Energy.

In 2014, an increasing number of contractors applied the company's approach to assess risk of cardiovascular disease and the body mass index. This makes it possible to effectively control the risk of acute coronary syndrome. The company widely uses software that screens employee profiles for health risks before sending them to remote assets.

Besides mandatory health programmes, in 2014 the company continued its policy of encouraging staff to maintain physical fitness and prevent diseases.

For this purpose, additional measures were taken, including:

- Campaigns to prevent acute respiratory diseases and influenza, including distributing health information and vaccinations;
- Implementing a programme for promoting sports and healthy lifestyle. The company's initiative group of employees developed a schedule of activities aimed at improving general health and promoting fitness and sports. According to this schedule, employees participated in sports events and competitions, both within their subdivisions and at the corporate level, as well as in open local and regional championships in various sports;
- Arranging access for employees and their families to the corporate sports and fitness centre in Yuzhno-Sakhalinsk (gym, swimming pool, soccer field, and tennis courts). In addition, there are various gyms and athletic fields available at the company's remote assets. Employees residing outside of Yuzhno-Sakhalinsk receive financial compensation to pay for sport centre memberships;
- Implementing an alcoholism and drug addiction prevention programme that raises awareness of the dangers of alcohol and drugs;
- An active campaign against smoking. Each year on 31 May, Sakhalin Energy celebrates the World No-Tobacco Day, when employees gather to discuss the problem of tobacco addiction. Smokers were offered free medical consultations and supportive medical treatment. There is also a strong campaign with posters and leaflets. In November 2014, the company organised meetings of ex-smokers with colleagues suffering from tobacco addiction to discuss ways to give up smoking; and
- An annual information campaign is organised on 1 December, the World AIDS Day.

The company continues to implement high standards of medical emergency response. In 2014, 370 the company's and contractor's employees completed first-aid training.

Employees of the company and the contractors at remote assets of the Sakhalin-2, as well as company employees on foreign business trips, are provided with medical support, the quality of which is guaranteed by AEA International (Sakhalin). The company's employees also receive medical services in other health care institutions listed by SOGAZ insurance company under the VMI (voluntary medical insurance).

The company holds training and information sessions to familiarise personnel with Sakhalin Energy's human rights principles.

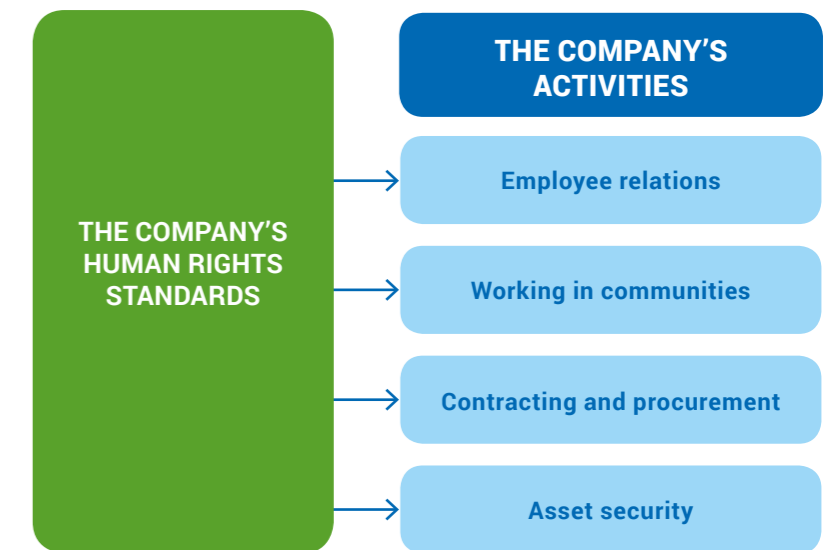
The company's management provides a safe and confidential setting for employees to express concerns, including raising issues and reporting non-compliance with these principles. Sakhalin Energy's employees, in turn, are expected to report to the company any incidents of non-compliance with the General Business Principles. The Whistle Blowing/ Grievance Procedure is a key mechanism to implement that.

100
percent

of grievances were resolved within the time stipulated by the Grievance Procedure

In 2014, the company released a brochure entitled Human Rights: Experience of Sakhalin Energy. It summarises the company's experience in complying with human rights standards; provides an overview of the company's key policies, procedures and programmes in this area; and reports on specific examples of the use of these documents in daily business practices. In addition, the brochure lists the relevant provisions of the Guiding Principles on Business and Human Rights and describes how they are applied in the company. It also contains information about Sakhalin Energy's contribution to promoting human rights standards in the Russian Federation and abroad.

The main areas of human rights standards application at the company



"Human Rights: Experience of Sakhalin Energy" brochure

9.4. HUMAN RIGHTS

9.4.1. Human Rights: Principles and Management System

One of Sakhalin Energy's key business principles is to run the business in a socially responsible manner, which includes observing the laws of the Russian Federation, as well as supporting fundamental human rights within the legal business framework.

These principles are set forth in the following main documents of the company, which provide foundation for the human rights compliance in everyday business:

- Statement of General Business Principles;
- Human Rights Policy;
- Code of Conduct;
- Contracting and Procurement Policy;
- Whistle Blowing Procedure/Community Grievance Procedure; and
- Sustainable Development Policy.

Sakhalin Energy introduced human rights standards in all areas with potential risks of infringement of these rights, in particular:

- Employee relations;
- Working in communities;
- Contracting and procurement; and
- Asset security.

9.4.2. Community Grievance Procedure

The Grievance Procedure (hereinafter 'The Procedure') 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, and supports the long-term goal of building strong and effective relationships with all those impacted by the Sakhalin Energy's activities.

The key principles of the Sakhalin Energy's Grievance Procedure are the following.

- Legitimacy and incorporation into management systems** (Grievance Procedure comprises elements and mechanisms that ensure trust by stakeholders and affected groups targeted by this procedure) Assessment of grievances and their resolution process are controlled by an independent unit of the company. The status and progress of each case is controlled by the company's top management. The grievance resolution process is subjected to both internal and external audit. The process is documented and tracked via an automated incident reporting system.
- Accessibility** (ensuring awareness of all targeted stakeholders) There are several ways for initiators to file grievances, which ensures the company remains as accessible as possible. Among those channels are the company's information centres set up in 23 Sakhalin communities, Community Liaison Organisation, dedicated hotline, email, etc. Information about the Procedure is always available at the company website and at its informational centres. Detailed information about the Grievance Procedure is published annually in the local newspapers. All the company's information centres and construction projects are provided with posters and booklets about the Procedure. Relevant training is conducted for contractors/subcontractors, and explanatory talks are given to certain vulnerable groups about the Procedure and filing a grievance.

- Transparency and openness** The company regularly informs stakeholders about the status and progress of grievance handling. Besides, information on grievance review is included in the Sustainable Development Report and Public Consultation and Disclosure Report.
- Engaging stakeholders and ensuring dialogue** during grievance handling Sakhalin Energy conducts regular consultations with stakeholders on the effectiveness of the grievance handling process. Such consultations are part of community engagement and meetings with stakeholder groups, as well as of internal social performance monitoring.
- Application of established time limits and provision of concerted actions for the resolution of complaints** (predictability is ensured by establishing a clear and straightforward procedure, with set time limits for each stage) The Procedure sets clear time limits for grievance handling and communication with the complainants throughout the process of its resolution.
- Confidentiality** All grievance-related issues are addressed confidentially. Information on complainants is not disclosed without their written consent.
- Applicability for both the company and contractors** The company's Grievance Procedure is mandatory for all the company's subdivisions, as well as for contractors and subcontractors.
- Using the experience gained for preventive and proactive actions and continuous improvement** All grievances filed with Sakhalin Energy are tracked and trends are analysed. Based on this analysis, recommendations are made to the company's relevant subdivisions and contractors/subcontractors to mitigate the potential negative impact.

In 2014, at the suggestion of the Foreign Ministry of the Russian Federation, Sakhalin Energy took part in the 3rd International Forum of the United Nations on Business and Human Rights held in Geneva. The Forum was established by the UN Human Rights Council in 2012 to provide a place for

stakeholders (representatives and practitioners of civil society, the business community, governments, international organisations and others) to evaluate and discuss the challenges of implementing the Guiding Principles on Business and Human Rights, which are a

combat the risk of business activities negatively impacting human rights.

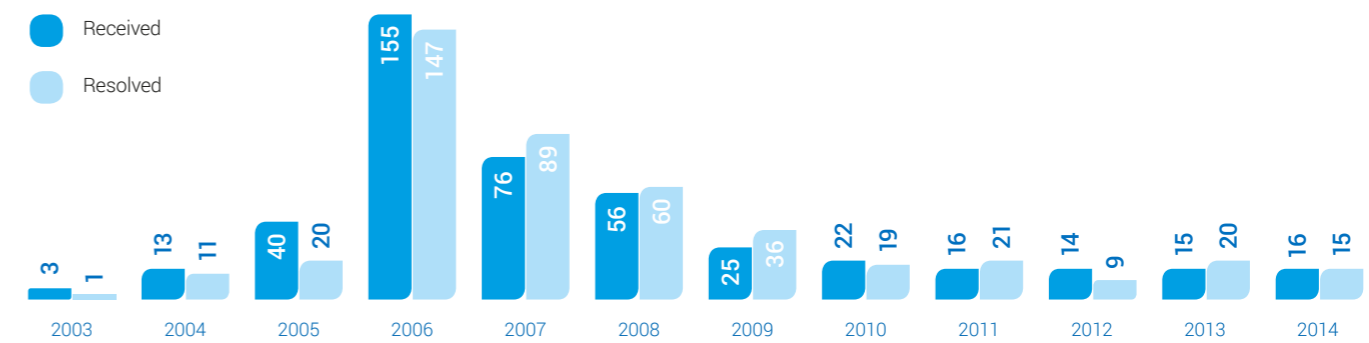
At one of the sessions of the Forum the company shared its experience and practical tools in the area of compliance, respect and promotion of human rights.

9.4.3. Grievance Handling in 2014

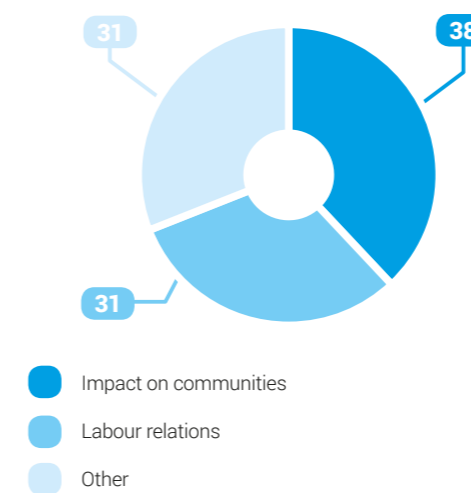
In 2014, the company received 16 grievances, 38% of them concerned the project's impact on the local community (for instance, road condition, impact on the local infrastructure), 31% concerned labour disputes (contractor

organisations), 31% were related to other issues (implementation of the Sakhalin Indigenous Minorities Development Plan, Code of Conduct). More details are presented in the chart.

Grievance handling activities in 2003-2014



Categories of grievances in 2014, %



As of the end of 2014, 13 grievances out of 16 received were resolved. In addition, the company resolved two grievances that were received in late 2013. All 15 grievances were resolved within the time provided for by the Grievance Procedure (less than 45 working days).

Eight grievances were resolved, and their initiators signed statements of satisfaction. In respect of the other seven grievances, the company made every reasonable effort to resolve them, but the initiators either did not agree to express their opinions concerning the efforts made by the company (six cases), or did not accept the explanations provided (one case). These grievances were closed by decision of the Business Integrity Committee, in accordance with the Grievance Procedure.

By the end of 2014, three grievances remained unresolved (one was received in late November, and two in December 2014). The resolution status of these complaints will be presented in the next company's sustainable development report.

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

Since its establishment in 1994, the company has paid close attention to implementation of socially significant programmes on the Sakhalin Island. Sizeable and consistent investments in social sphere, as well as a long-term policy focused on addressing social issues, are the core of Sakhalin Energy's commitment to sustainable development principles. Sakhalin Energy's policy in this area is based on the shared contribution model and is beneficial for all stakeholders.

In 2014, the company invested over RUB 41.68 million in various external social programmes in the Sakhalin Oblast.

The Social Investment Strategy is a part of the Social Performance Management Standard. In accordance with the Social Investment Strategy and the company's internal audit

requirements, Sakhalin Energy conducts continuous internal monitoring and a biennial independent external evaluation of social investment projects.

The social investment management system used by the company is similar to its management of other business activities. It involves prioritisation and detailed descriptions of the programme implementation plans, decision-making processes, and social investment management procedures.

Sakhalin Energy's social investment programmes are aligned with the company's long-term goals in its host region, Sakhalin. The strategic programmes of the company are coordinated with partners and integrated into the overall strategy of the company's operations.

Sakhalin Energy's social investment programmes support projects that:

- Result from consultations with the public and meet the identified needs of the communities impacted by the company's activities;
- Relate to issues that affect the company's reputation;
- May not directly relate to the company's activity, while contributing to economic, environmental and social development of the Sakhalin island; and
- Contribute to the sustainable economic, environmental and social development of Sakhalin and demonstrate to stakeholders the company's commitment to sustainable development.

Sakhalin Energy took first place in the "For Contributing to Solving Social Problems of the Territories category in the Best Russian Enterprises: Dynamics, Efficiency, Responsibility all-Russia" contest. The competition is organised by the Russian Union of Industrialists and Entrepreneurs.

In the area of social investment, Sakhalin Energy focuses on implementing strategic long-term partnership projects with external stakeholders, and using various tools and techniques to implement social programmes, including competitive funding.

Focus on strategic long-term partnership projects

 <p>SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN</p> <p>PARTNERS: Company, Sakhalin Oblast Government and Regional Council of Authorised Representative of Sakhalin Indigenous Minorities</p>	 <p>WHAT TO DO IN EMERGENCY SITUATIONS</p> <p>PARTNERS: Company, Sakhalin EMERCOM, Sakhalin Ministry of Education</p>	 <p>KORSAKOV SUSTAINABLE DEVELOPMENT PARTNERSHIP COUNCIL</p> <p>PARTNERS: Company, Korsakov Administration, Public</p>	 <p>SAKHALIN SALMON</p> <p>PARTNERS: Company, Sakhalin NGO Boomerang Club, Institute for Educational Development of Sakhalin Oblast, Sakhalin Puppet Theater</p>	 <p>ROAD SAFETY PARTNERSHIP</p> <p>PARTNERS: Company, Sakhalin Oblast Government, State Traffic Safety Inspection, Public</p>
<p>FPIC (Free, Prior and Informed Consent). SIMDP case has been included into the Stakeholder Engagement Handbook, issued by the International Finance Corporation. The plan was recommended at the parliamentary hearings in the Russian Council of Federation as an example for Russian regions</p>	<p>A complex educational programme, targeted on schoolchildren and aimed at teaching system development in the sphere of life safety</p>	<p>Initiated by the company in one of the most critical and malcontent communities on the island. Now the partnership of the public, business and authorities contributes a lot to local sustainable development and moving to a new level of interaction with UNDP expertise</p>	<p>Salmon is one of the symbols of Sakhalin and has great importance for life and culture of Sakhalinians. The initiative aims to raise the educational level of the population through the development and enlargement of educational programs aimed at the preservation of salmon and their ecosystems</p>	<p>The first partnership of such kind established in the territory of the Russian Federation with support of Global Road Safety Partnership. Later on this successful example was replicated in other regions</p>

The priority areas for the company's social programmes were determined in consultation with the public. They are:

- Education;
- Safety;
- Environmental protection and biodiversity;
- Health;
- Arts and culture; and
- Contributing to the development of the Sakhalin Indigenous Minorities.

Over the 20 years of the social investment programme, Sakhalin Energy has developed its own model for managing external social programmes that is based on the company's policies and best international charity practices. The company not only seeks to adapt and apply the best international practices, but it is also becoming a leader in corporate philanthropy.

Sakhalin Energy was among the winners of the Leaders in Corporate Philanthropy project, it was awarded the third prize in the Russian ranking. Leaders in Corporate Philanthropy is a joint project of the Donors Forum, PricewaterhouseCoopers and Vedomosti business newspaper and is aimed at supporting, developing, and promoting corporate philanthropy.

9.5.2. Five Centuries of Russian Art Exhibition



At the Exhibition Five Centuries of the Russian Art

Five Centuries of Russian Art is an exhibition of icons and paintings from the State Russian Museum in St.-Petersburg. It is a joint project of Sakhalin Energy, the State Russian Museum and Sakhalin Regional Art Museum. The exhibition was organised in conjunction with Sakhalin Energy's 20th anniversary as a gift to all residents of Sakhalin Oblast.

Five Centuries of Russian Art was of great interest to Sakhalin residents and visitors to the island. During the 36 days of the exhibition, about 12,000 people visited the museum. The museum staff and 18 volunteers organised and conducted 258 tours of the exhibition. More than 250 people wrote comments and reviews in which they expressed their gratitude to the project organisers for the opportunity to see these Russian masterpieces.

Among the 44 exhibits were icons dating back to the 16th and 17th centuries, paintings by Ilya Repin, Karl Brullov, Ivan Shishkin, Arkhip Kuindzhi, Alexander Benois, Hovhannes Aivazovsky, Alexey Savrasov, Pyotr Konchalovsky, and Zinaida Serebryakova. The exhibition presented the history of Russian art through highly artistic paintings, and acquainted the visitors with the major stylistic movements, the evolution of genres, and the work of masters of the Russian school of art.

Under the project, the company provided financial assistance to Sakhalin Regional Art Museum to modernise its main exhibition hall. The fire alarm system and display stands were upgraded, and an additional lighting system was installed, which made it possible to expand the exhibition area. The new dehumidifier maintained an optimal climate during the exhibition. Training sessions were organised for volunteer guides at Sakhalin Regional Art Museum for the first time. People who successfully completed the sessions subsequently conducted tours of the exhibition. A series of thematic events were held. The highlight of the exhibition was Five Centuries of Russian Art: Painting, Poetry, Music, a literary and musical concert dedicated to the history of Russian art.

9.5.3. Energy Social Initiatives Fund

The fund provides grants on a competitive basis for relevant, socially significant projects with potential for long-term positive impact that are developed by non-profit organisations and institutions.

In 2014, the Energy social initiatives fund was a winner in the Best Social Projects of Russia national programme in the corporate projects category, and was included in the best practices book.



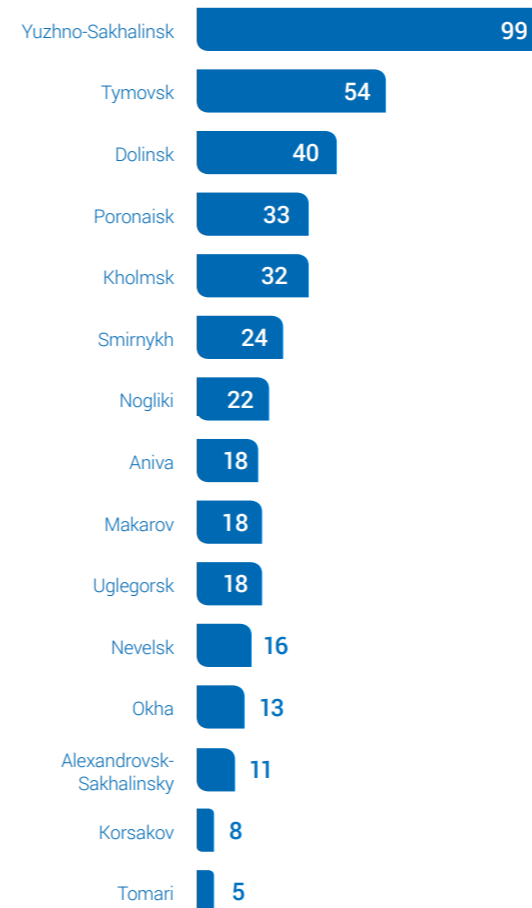
Due to the competitive nature of the financing, equal opportunities are created for potential participants and the most relevant and promising projects are identified. The expert council that evaluates and selects projects for funding is formed based on the principles

of volunteerism and public influence in the Sakhalin Oblast, as well as the principle of equality between the government, business, and NGO sectors of society. The council members are experts in social projects. All information about applying for a grant and the selection criteria is publicly available on the fund's website (www.fondenergy.ru). The site was presented on 30 January 2014 at the Best Projects 2013 awarding ceremony. Announcing and awarding the five best projects of the year has become a tradition for the fund.

In 2014, financial support was provided for a total of 25 projects selected from 82 applications. These are socially significant projects in the fields of art, culture, education, sports, public health, and environmental protection. As 2014 was declared the Year of Culture in Russia, priority was given to cultural projects.

Since 2003, the Energy social initiatives fund has provided financial support to about 240 organisations and institutions; 411 projects have been implemented in 63 communities on the island. The company's investments amounted to more than RUB 33 million for this period.

The number of projects that received funding in 2013-2014



Below are some of the projects implemented in 2014.

- Legends of the Island Museums. The project of the Association of Museums of Sakhalin Oblast combined 50 items from 20 state, municipal, educational and private museums of Sakhalin Oblast together in a travelling exhibition that opened in Yuzhno-Sakhalinsk, and then moved on to Okha, Nogliki, Poronaïsk, Alexandrovsk-Sakhalinsky and Korsakov. Stories about the mysteries of the museum treasures were included in a catalogue published specially for the exhibition;
- Environmental Fairy Tale. The project was developed by School No. 1 of Yuzhno-Sakhalinsk and implemented by the Student Parliament. The best of 107 writings on environmental themes written by students in the Sakhalin Oblast were published in the final collection. The contest had several categories: Protecting the Environment from Pollution, Rational Use of Natural Resources;

- Protecting Endangered Species of Plants and Animals of Sakhalin Oblast;
- Ice Fantasy. The project was developed by the House of Culture of Pobedino, Smirnykh District to promote a healthy lifestyle and ice sports. Outdoor equipment was provided to arrange winter sports events for public. The equipment purchased under the project now allows the skating rink remaining open in the evenings. The rink began to offer free skate rentals;
- Pathfinders of Sakhalin Land. The project of the Brigantine non-commercial partnership of Nevelsk encouraged young city dwellers to study local history and to commemorate the pioneers of the Sakhalin Island. As part of the project, an exhibition dedicated to the researchers, scientists and pioneers travelled to the villages of the district. Book exhibitions and exhibitions about the history of the development of Nevelsk District and the Sakhalin Island were arranged in the libraries and the museum; and
- We Honour This Memory. This is a joint initiative of the Yuzhno-Sakhalinsk Children's (Youth) Creativity Palace and Sakhalin Regional Council of Veterans. Expositions dedicated to WWII veterans and the events of the war years were set up in the room of Glory established at the Creativity Palace. Students who attended museum guide classes were the guides for the exhibition.



We Honour This Memory project

9.5.4. What to Do In Emergency Situations Programme



'Water Safety in Summer' comic book presentation

The What to Do in Emergency Situations Programme is being implemented in partnership with Sakhalin EMERCOM and the Sakhalin Ministry of Education since 2005. The programme is being developed in several areas, one of the most important of which is creating animated educational videos on safe behaviour in different situations.

In 2014, four new videos were released that addressed safety in the home; pedestrian safety in the evenings, at low temperatures, and in cold weather; as well as summer hygiene issues. The videos were presented in Life Safety resource classrooms created as part of the programme in Nogliki, Voskresenovka



Cartoon 'Flickers' presentation in the Cadet School of Yuzhno-Sakhalinsk

village in Tymovsk District, and the Cadet School in Yuzhno-Sakhalinsk. All videos and other materials created under the programme were posted at www.senya-spasatel.ru.

A comic book was published based on the Water Safety in Summer cartoon. It tells about boating and scooter safety, and what to do when someone is drowning.

In October 2014, on the eve of the International Day for Disaster Reduction, the fifth annual Safety Day holiday for children took place on the Sakhalin Island as part of the programme. The event was attended by 15 teams of 11 and 12-year-olds children from 15 Sakhalin districts. The participants demonstrated knowledge of safety rules for water activities, hiking, the home, and during natural disasters. They provided first aid to victims and answered questions about traffic rules and fire safety. Their knowledge was assessed by experts: rescuers, fire-fighters, medics, and inspectors of the State Small Vessels Inspection and the State Traffic Safety Inspectorate. A collection of the best entries from the Safety Is Important creative contest held in late 2013 was posted and is accessible to the public on the programme website. The subjects of the children's creative works are diverse, and cover rules of safe behaviour on the roads, during an earthquake, and in avalanches and fires.

The company continued to implement a project titled Warning from Senya: awareness billboards in tsunami-prone and avalanche-prone areas of Sakhalin Oblast. During the year, 32 awareness billboards were set up in Poronaisk, Smirnykh and Ulegorsk districts.

In 2014, a new component of the Programme appeared — the Senya is Teaching project. In this project high school students that participated in the regional Safety School developed lessons for younger students on the topics of the Life Safety course. One of the requirements was to use cartoons, comic books and leaflets from the What to Do in Emergency Situations Programme to develop lessons. The project brought together nine teams from eight districts on Sakhalin. The main results were that the high school students demonstrated willingness and ability to share knowledge with younger children, and the Senya Volunteer School started.

9.5.5. Hurry Up for Good Deeds



Volunteers' eco-events



The company actively integrates corporate volunteering into its social policy by involving employees in its charitable programmes and providing support to employee-initiated volunteer activities.

The Hurry Up for Good Deeds Programme was launched in 2003.

In 2014, the Programme was carried out in three main areas:

- Initiating and implementing charitable initiatives;
- Participating in volunteer days that involve voluntary work for the benefit of a social institution of Sakhalin; and
- Corporate fundraising campaigns: participants either make financial donations or volunteer to help organise and conduct an event.

As part of corporate campaigns in 2014, the Preodoleniye (Overcoming) Rehabilitation Centre for Children with Disabilities received assistance from the company. The company's employees raised over RUB 1.6 million with two fundraising campaigns timed to Sakhalin Energy's Birthday and the Oil and Gas Workers' Day celebrations. In accordance with the terms of the programme, the amount was doubled by the company and RUB 3.2 million was spent on the purchase of new equipment and special simulators for the rehabilitation of children and teenagers with musculoskeletal disorders.

Two volunteer days were organised in 2014: in June, over 50 employees and their families helped landscape the park of the Yuzhno-Sakhalinsk home for the elderly and disabled; in October, more than 80 people made the territory of the Yuzhno-Sakhalinsk Mayachok (Beacon Light) Social Rehabilitation Centre for Children more suitable for relaxation. The pupils and friends of the Centre participated in the volunteer labour mission alongside the company's employees.



Presentation of the equipment for children's rehabilitation in the Preodoleniye centre



Company employees – participants of the 'New Year Miracles' project

The Christmas Miracles annual charity project is dedicated to raising funds for children with disabilities, single elderly people and children who find themselves in difficult situations. In 2014:

- Employees organised a holiday for children with disabilities from low-income families and gave them the Christmas gifts that the children asked for in their letters to Santa Claus. Santa Claus and Snow Maiden teams consisting of the company's employees delivered presents to the children who were not able to come to the event;
- Just before the holiday season, employees of the Centre of Community Social Support of Sakhalin Oblast presented 150 lonely elderly people with Christmas gifts purchased with funds donated by the company's employees; and
- Fifty children from the Yuzhno-Sakhalinsk Mayachok (Beacon Light) Social Rehabilitation Centre for Minors were able to attend the New Year's performance at Sakhalin Puppet Theatre. The tickets for the play were purchased with funds raised by the company's employees for the Theatre for Children project.

Several charity events were initiated by the company's employees throughout the year. With the contribution of the staff of the Prigorodnoye Production Complex, sets of sports equipment were purchased for rural day-care centres in Korsakov District (Novikovo, Ozerskoye, Chapayevo and Solovyovka villages). As part of the charity project developed by the Wellness Committee, the Department of Adaptive Physical Education of the Specialised Mountain Skiing Sports School for Children and Youth of the Olympic Reserve received three sets of customised Bluetooth headsets for visually impaired children. Patients of the nursing department of Sinegorsk Local Hospital were beneficiaries of another the company's employee charity project. The Magic Island Children's Centre attended by children of the company's employees organised a charity fair. The proceeds were used to purchase educational games for Orphanage No. 7 in Uglegorsk.



Performance as part of the 'New Year Miracles' project, Preodoleniye centre

9.5.6. Korsakov Sustainable Development Partnership Council

Mindful that one of the company's main sustainable development goals is to ensure that the needs of the present generation are met without compromising the ability of future generations to meet their own needs, Sakhalin Energy launched a Sustainable Development and Social Investment Programme in Korsakov Municipal District (MD) of Sakhalin Oblast. As part of the programme, the company's finances social projects, including the Korsakov Initiatives Grant Programme.

The Programme is managed by the Korsakov Sustainable Development Partnership Council. It consists of nine members, three from Sakhalin Energy, the authorities of Korsakov Municipal District and the public of Korsakov.

In addition to being a stakeholder engagement tool and expert council to review social projects, the Korsakov Council also plays a role in monitoring social development in the district.

2014 marked the anniversary of the Korsakov Sustainable Development Partnership Council. During the year, several events were held to celebrate the 10th anniversary of the partnership. A travelling photo exhibition that presented key events and projects was shown in six communities of Korsakov District (Novikovo, Ozerskoye, Chapayevo, Razdolnoye and Solovyovka villages, and Korsakov) from March to July. In July, the anniversary meeting of the Korsakov Sustainable Development Partnership Council was held, and was attended by all former and current members of the Council.

In November, the Festival of Projects, a public presentation summing up the 10 years the Korsakov Partnership has been active, took place at the Ocean Cultural and Recreational Centre. The best projects were named in a festive atmosphere.

During the year, support was given to seven projects. All in all, 149 projects have been supported since the Korsakov Partnership started. Large projects implemented in 2014 include the following ones.



Festival of projects – presentation of Korsakov Partnership' 10th years results

- Sports Are the Foundation of Our Life. The project developed by the Children and Youth Sports School allows for more opportunities for training in gymnastics and acrobatics. Safety equipment enhances the effectiveness of training;
- The Russian Chamber. The project developed by the Comprehensive Secondary School of Solovyovka village acquaints the villagers and all guests of the school museum with the basics of folk culture, folk traditions and the history of their native land. The museum guides, wearing traditional Russian costumes purchased with grant money, acquaint visitors with new exhibitions, such as folk art on display in the new exhibition cases. Fairs and ritual celebrations are held for the villagers.

Public consultations were held in the communities of Korsakov District on the activities of the Korsakov Sustainable Development Partnership Council. Residents were informed about the work of the Partnership Council, its achievements, completed projects, and plans for the future.

All materials on the activities of the Council are available at www.korsakovsovet.ru.

9.5.7. Victory Day Project

In April 2014 in Nogliki (the north of Sakhalin) and in Troitskoye village (the south of Sakhalin) a relay of celebrations began dedicated to the Great Patriotic War veterans and home front workers. Ceremonial meetings with veterans, with the participation of children and teenagers, were held in Sakhalin Energy's information centres in 22 communities of Sakhalin Oblast. The campaign concluded with a festive concert for veterans in Yuzhno-Sakhalinsk, at which, following the previous years' tradition, the company donated RUB 300,000 to Sakhalin Veterans Council.

Volunteers distributed St. George ribbons during every festive event. The company has been a partner of the St. George Ribbon Campaign on Sakhalin since 2008. Over the five years, almost 300,000 ribbons have been distributed with the company's assistance as part of the campaign. In 2014, distribution sites were organised at Sakhalin Regional Museum and Sakhalin Regional Art Museum, as well as at the company's information centres.

9.5.8. Sakhalin Road Safety Council



Demonstration of a road traffic incident emergency response

This initiative was implemented through a partnership comprised of Government of the Sakhalin Oblast, Sakhalin Oblast Department of the RF Ministry of Internal Affairs, and Sakhalin Energy.

The Council develops and implements special projects in three key areas that help reduce the number of traffic accidents and traffic accident injuries.

In the Education and Enlightenment area, a campaign entitled It Is More Serious than It Seems was conducted in order to promote road safety among motorcycle owners. The main goal of the campaign is to draw attention to road safety, and increase adults' level of responsibility for their own safety and for the safety of children. It was also the subject of television commercials and billboards, radio contests, newspaper and online publications, and eye-catching public campaigns that offered young people alternatives to racing in the streets. Unusual art installations appeared on the streets to remind adults that mopeds and scooters are dangerous gifts. The creative concept of the campaign was developed by Citysakh Media Holding, which was also a partner in the project. During the campaign, there were three accidents involving motorcycles, in which three people were injured. During the same period in 2013, there were 14 accidents, in which 18 people received injuries. The fact that the number of accidents and injuries was considerably reduced shows that such campaigns are relevant and effective.

As part of the Contributing to the Development of a Road Accident Emergency Response System, the following projects were implemented:



Poster of the information campaign 'More serious than it seems'

- **Effective Response in Case of an Accident.** The project was initiated and implemented by Sakhalin's Polyakov Search and Rescue Team. It included training seminars for the personnel of the Federal Fire Service and Emergency Rescue Teams of the Chief Directorate of the EMERCOM of Russian Federation for the Sakhalin Oblast of the five districts in Sakhalin (Makarov, Poronaisk, Smirnykh, Tymovsk, and Uglegorsk). A demonstration lesson was organised on joint response to an accident by the police, ambulance and rescue services. A competition on aiding road accident victims was held for the rescue teams. The situation was modelled as close as possible to an actual traffic accident in order for the teams to practise responding to accidents by rescuing victims from damaged vehicles and giving first aid. The competition was attended by 13 teams from 11 districts of Sakhalin Oblast; and
- **First Aid.** The project was implemented by Sakhalin Basic Medical College. A training course in giving first aid in case of an accident was organised for school bus drivers. Sixty-four people, including 53 drivers and 11 attendants from 15 districts of Sakhalin Oblast, took the course.

As part of the Improvement of Road Infrastructure development area, more pedestrian crossings were equipped with modern traffic means. This helps motorists have a better view of pedestrians at crosswalks and see the crosswalk traffic signs more quickly. The effectiveness of this project, which began in 2013, was confirmed by statistics announced by the State Traffic Safety Inspectorate of the Department of the RF Ministry of Internal Affairs in the Sakhalin Oblast.

The accident rate at the specially equipped pedestrian crossings decreased by several times. In December 2014, an agreement was signed to equip another pedestrian crossing in Yuzhno-Sakhalinsk with special warning lights.

In 2014, road safety classes continued activity. RS classes are conducted at six educational institutions of Sakhalin Oblast (the Children's (Youth) Creativity Palace, Comprehensive Secondary Schools No. 31 and 32 in Yuzhno-Sakhalinsk, Comprehensive Secondary School No. 1 in Korsakov, Comprehensive Secondary School No. 6 in Kholmok and Comprehensive Secondary School No. 7 in Okha). The classrooms are equipped with modern interactive equipment and software that allow hosting classes and activities for all age groups.

During the year, road safety classrooms were used for teaching schoolchildren and preschool children, holding inter-school and district competitions and contests, holding training seminars on using interactive equipment to promote safe behaviour on the roads for teachers of the region's education institutions, and for holding open houses on road safety issues. Many of the events were carried out in cooperation with traffic police.

In 2014, the Sakhalin Road Safety Council website was introduced (www.sakhalinroadsafety.ru).

9.5.9. Sakhalin Salmon

The Save the Salmon Together project continued their work to preserve the salmon and their habitat. This project was launched as part of the Sakhalin Salmon Initiative and aimed at developing and introducing new ways to educate the public. With the company's support, this project is being implemented by the Boomerang Club, a Sakhalin Oblast non-governmental organisation.

In 2013, there was a presentation of the video version of Sakhalin Puppet Theatre's performance of How Ivan Saved the Wonder Fish. The fairy tale was added to the repertoire of the theatre. In 2014, a video version was created especially for students from remote areas of Sakhalin. DVD recordings of the performance were distributed to all the schools of the island.

The experience and the educational materials developed under the project were presented

at the Interactive Methods of Studying the Sakhalin Salmon regional workshop. The two-day forum was attended by school teachers, supplementary and pre-school educators, volunteers and museum staff.



A DVD version of the theatre performance 'How Ivan Saved the Wonder Fish'

Sakhalin Salmon: Environmental Education and Enlightenment won a special prize in the Ecological Culture of Social Initiatives category from the Vernadsky Ecological Culture, Peace and Harmony Project, an international non-governmental environmental fund.

Sakhalin Salmon: Environmental Education and Enlightenment was named the best project in the Environmental Projects and Initiatives category and was in the top 20 of Russia's Best Social Projects.

9.5.10. Sakhalin Indigenous Minorities Development Plan



Awarding scholarship certificates to students representing Sakhalin Indigenous Minorities, students of higher and high occupational education institutions

9.5.10.1. SIMDP Objectives and Structure

The Sakhalin Indigenous Minorities Development Plan (hereinafter SIMDP or Plan) is a partnership programme implemented jointly by Sakhalin Energy, the Regional Council of the Authorised Representatives of Indigenous Minorities of the Sakhalin Oblast and the Sakhalin Oblast Government since 2006.

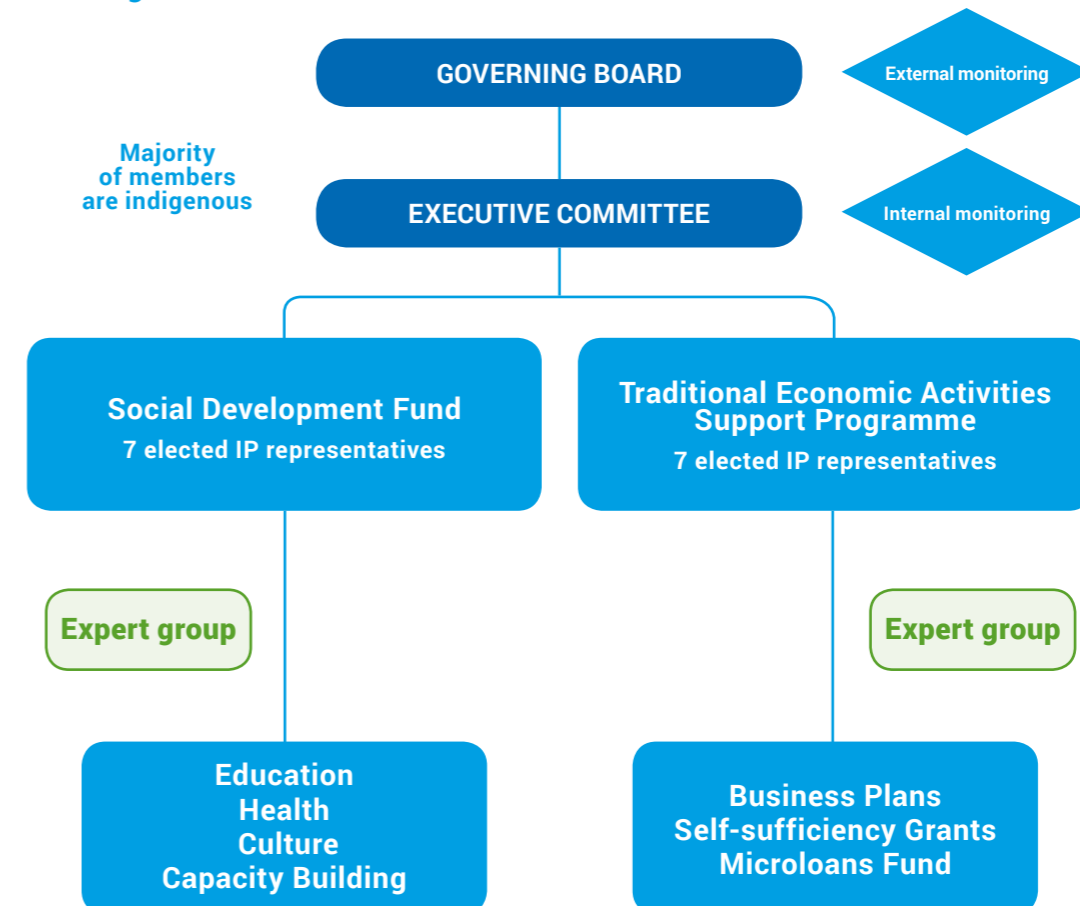
The Plan is based on the international standards concerning indigenous peoples and is implemented in accordance with them. The procedures and management structure of the second Plan (2011–2015) reflect the requirements of new international standards. The second Plan was developed in accordance with the 'free, prior and informed consent' (FPIC) principle contained in the United Nations Declaration on the Rights of Indigenous Peoples (2007).

The key objectives of SIMDP are:

- Improving the lives and livelihoods of the Sakhalin Indigenous Minorities through 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 programmes;
- Assisting Sakhalin Indigenous Minorities to prepare for the eventual establishment of an independent indigenous minorities development fund; and
- Avoiding or mitigating the potential adverse impacts of the Sakhalin-2 Project on the indigenous peoples.

SIMDP is implemented under the Governing Board's supervision. The Board is supplemented by the Executive Committee, Committee of the Traditional Economic Activities Support Programme (TEASP) and Council of the Social Development Fund (SDF). Distribution of funds allocated for implementation of projects is carried out by representatives of indigenous minorities elected from each district to work in the SDF Council and TEASP Committee, which has become an important distinguishing feature of the second Plan. The budget is divided between the two programmes equally (50/50 percent). In 2014, RUB 5,138,640 were allocated to the TEASP, and the same amount to the SDF.

SIMDP governance structure



The SIMDP is independently monitored annually. This provides regular objective assessments of the SIMDP programmes' implementation, their results and impact, and allows the Plan's partners and SIM to identify issues that require corrective measures in a timely manner. Monitoring is conducted by Gregory E. Guldin, an expert on social issues with extensive international experience in Indigenous Minorities project development and implementation. In June 2014, G. Guldin visited 14 communities of Sakhalin indigenous peoples' traditional residence and economic activities in order to evaluate the implementation of the SIMDP, and to hold consultations with all stakeholders. In November, a report was published on the implementation of the Plan during the period from June 2013 to June 2014. The report on the independent assessment of the programme can be found on the Plan website www.simdp.ru.

The SIMDP is internally monitored by a team of representatives of each of the three partners of the Plan. In November 2014, the internal monitoring of the implementation of 54 projects and individual consultations were carried out in all the communities of SIM traditional residence and economic activities.

9.5.10.2. SIMDP TEAS Programme

The Traditional Economic Activities Support Programme (TEASP) was designed to address issues of indigenous minorities' employment and business development. Representatives of the Sakhalin Indigenous Minorities emphasise the importance of the traditional use of natural resources (reindeer herding, fishing, gathering, artistic crafts) for preservation of their cultural heritage.

Resources of the programme are distributed in the following areas:

- Business planning;
- Self-sufficiency grants; and
- Microloans.

A total of 72 applications were received in 2014 under the first two areas. The Programme Committee selected 15 projects in four districts

of SIM traditional residence and economic activities. The projects were developed to support clan and family enterprises, obschinas and other SIM associations, and to provide assistance for SIM representatives. Boat engines, fishing tackles and nets, snowmobiles, consumables and certain types of electrical appliances used for traditional economic activities were purchased under the Programme.

The Microloans Programme has been set up with the aim of developing traditional economic activities of the Sakhalin Indigenous Minorities and improving access of communities to financing sources. It is implemented by the Batani International Development Fund for Indigenous Peoples of the North, Siberia and the Far East of the Russian Federation. Seven loan applications with requested loan amounts ranging from RUB 250,000 to RUB 400,000 were received under the programme in 2014. The Fund signed the applicable contracts and transferred funds to three SIM organisations.

9.5.10.3. SIMDP Social Development Fund

These funds are distributed among the following areas:

- Education, health care, indigenous peoples' capacity building; and
- The Continuity competitive programme.

In 2014 the Social Development Fund Council supported 27 projects. The partner organisation for implementation of many projects of the Fund was the Kykh-Kykh (Swan) Centre for SIM Traditional Culture Preservation and Development Okha local non-governmental organisation. The projects were developed and selected by representatives of the indigenous peoples (programmes in the area of education, health, preservation and studying languages of the indigenous peoples). As part of the educational component, 48 vocational school and college/university students received financial support. Detailed information about the projects implemented under this programme is available at www.simdp.ru.

The first International Symposium on the languages of Indigenous Minorities of the Russian Far East took place in Yuzhno-Sakhalinsk. The symposium was conducted at the initiative of the Regional Council of Sakhalin Indigenous Minorities, Sakhalin Regional Museum, the Association of Museums, the SIM Department of the Governor's Office and Government of the Sakhalin Oblast. Financial support was provided by Sakhalin Energy as part of the Sakhalin Indigenous Minorities Development Plan. The Symposium was attended by scholars and scientists from St.-Petersburg, Novosibirsk, Russia, Japan, Poland and representatives of the indigenous peoples of Sakhalin, Khabarovsk, and Primorye territories.



The first International Symposium on the languages of the Indigenous Minorities of the Russian Far East

2015 PLANS AND DEVELOPMENT STRATEGY UP TO 2019



The priorities of Sakhalin Energy for 2015 remain the same: safety, reliability, uninterrupted supply, cost efficiency, and integrity-based production development.

Safety remains a priority for Sakhalin Energy. The company is focused on:

- Ensuring compliance with Russian and international HSE requirements;
- Increasing the commitment of the company's leadership and employees to a positive HSE culture;
- Increasing the awareness of HSE within the company and caring for the health of the company's personnel;
- Ensuring the technical integrity of the company's assets and process safety; and
- Handling transport safety issues and job hazards.

In 2015, the company will continue its health, safety, and environmental (HSE) protection projects and initiatives strictly adhering to its HSE and social performance commitments and standards.

The main production projects for 2015 involve:

- Intensive operations at the three offshore platforms, including drilling optimisation projects and work to maintain oil, gas and LNG production at consistently high levels; and
- The development of the OPF Compression Project and construction projects for additional GTTs (gas transfer terminals) in Makarov and Dolinsk districts, as well as the LNG Train 3 project according to the roadmap (concept selection and work scope to be completed for launching the design documentation stage).

In 2015, the company will be developing the Piltun-Astokhskoye field in compliance with the Addendum to Reservoir Management Plan for Piltun Area of the Piltun-Astokhskoye Gas-Condensate-Oil Field, which has received positive conclusions from the Gazprom Gas Industry Commission and the Central Development Committee of the Federal Subsoil Resources Management Agency (Rosnedra).



Onshore Processing Facility

Main long-term production plans provide for:

- Optimising the production of oil, LNG and domestic gas, as well as improving the operation of the company assets;
- Increasing production capacity; and
- Expanding project development opportunities.



Piltun-Astokhskoye-B platform



Lunskeye-A platform

In its social investment and sustainable development programmes, Sakhalin Energy will continue to give priority to partnerships with external stakeholders and to long-term social programmes.

In the context of the challenging economic environment and falling oil prices, the company in 2015 will reconsider its cost structure in order to cope with external difficulties and make sure it can operate stably. Our cost saving measures will not affect the safety, integrity or reliability of our assets.

Sakhalin Energy will continue to conduct its business in compliance with the adopted General Business Principles, Sustainable Development Policy, and corporate social responsibility standards. Sakhalin Energy will endeavour to make further improvements in sustainable development.

HR management strategy for 2015 and subsequent years includes:

- Attracting, hiring, and retaining the best talent in the industry that is available on the global market, according to the business needs;
- Investing in professional and personal training and development of Russian specialists capable of holding managerial and technical advisor positions within the company;
- Delivering an attractive and competitive Employee Value Proposition (EVP);
- Delivering simple and clear HR processes to meet the business needs supported by LEAN/OE methodology and high-quality HR information systems; and
- Implementing Collaborative Work Environment (CWE) in the offices and at the company's assets.

As part of the recruitment strategy for attracting and retaining experienced and capable specialists, we set a goal of filling 86% of the critical technical vacancies by the end of 2015. Also, the key performance indicators for HR management in 2015 will be keeping the voluntary turnover within 8% and making sure that 73% or more of the key positions are filled with the company employees.

Regular and meaningful engagement with stakeholders remains an important component of Sakhalin Energy's successful performance. The strategy and plans for engaging the general public for 2015 are included in the Public Consultation and Disclosure Plan (published on the company's website). The key indicator in this area is the number of grievances resolved within the specified period (85% in 2015, gradually increasing up to 90% in 2019).



Grand Aniva LNG carrier at the LNG jetty, the Prigorodnoye Production Complex



APPENDIX 1. GRI GUIDELINES COMPLIANCE TABLE (REV. 3.0)

GRI index	Element/indicator	Disclosure of the element/indicator	Report Section	Page in the report	Comments and references to other sources
1.	Strategy and Analysis				
1.1	Statement from the most senior decision-maker of the organisation	Full	Message from the Chief Executive Officer	6-7	
1.2	Description of key impacts, risks, and opportunities	Full	Message from the Chief Executive Officer Risk Management HSE and Social Performance Management Economic Impact Management Environmental Impact Management Social Impact Management 2015 Plans and Development Strategy up to 2019	6-7 46-49 19-21 53-57 73-91 93-131 133-135	
2.	Organisational Profile				
2.1	Name of the organisation	Full	About the Company	23	
2.2	Primary brands, products, and/or services	Full	About the Company	31-32	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	Full	About the Company Corporate Governance	23 44	
2.4	Location of organisation's headquarters	Full	On the outside rear cover http://www.sakhalinenergy.com/en/feedback/feedback.wbp		
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 the Company	23	
2.6	Nature of ownership and legal form	Full	Corporate Governance	42	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Full	About the Company	23	
2.8	Scale of the reporting organisation	Full	About the Company Economic Impact Management Personnel: Management and Development	23-32 53-57 93-95	
2.9	Significant changes during the reporting period regarding size, structure, or ownership	Full			No significant changes of the company size, structure, or ownership form occurred in 2014
2.10	Awards received in the reporting period	Full	About the Company Stakeholder Engagement Management Environmental Impact Management Social Impact Management	24-27 64, 71 73, 87 110-128	

GRI index	Element/indicator	Disclosure of the element/indicator	Report Section	Page in the report	Comments and references to other sources
3.	Report Parameters				
3.1	Reporting period (e.g. fiscal/calendar year) for information provided	Full	About the Report	9	
3.2	Date of most recent previous report (if any)	Full			April 2014
3.3	Reporting cycle (annual, biannual, etc.)	Full	About the Report	9	Annual
3.4	Contact point for questions regarding the report or its contents	Full	About the Report Appendices 5–6	9 162-163	
3.5	Process for defining report content	Full	About the Report	10-12	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	Full	About the Report	12	
3.7	State any specific limitations on the scope or boundary of the report	Full	About the Report	9-12	
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	9-12	
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	Full	About the Report	9-12	
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such re-statement	Full	About the Report	9-12	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	Full	About the Report	9-12	
3.12	Table identifying the location of the Standard Aspects in the report	Full	Appendix 1	137-143	
3.13	Policy and current practice with regard to seeking external assurance for the report	Full	About the Report	12	
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	Corporate Governance Model	42-43	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Full			The chairperson 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	Corporate Governance Model	43	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Full	Corporate Governance System and Structure Corporate Culture Engagement with Personnel	41 45 61	
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 incentive system in place in the company base on performance evaluation (including social and environmental performance)

GRI index	Element/indicator	Disclosure of the element/indicator	Report Section	Page in the report	Comments and references to other sources
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Full			Avoiding any conflict of interests with regulatory authorities/committees have been stipulated in the shareholder agreement All company employees must comply with the Conflict of Interest Procedure
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social sustainable development issues	Full			One single system of qualification and 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	Sakhalin Energy's CSR System Sustainable Development Policy Company Mission, Vision, Values and Principles Corporate Culture HSE and Social Performance Management System	15-16 18 39 45 19-20	
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	Corporate Governance System and Structure Risk Management HSE and Social Performance Management System	40-41 46-50 19-20	
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	Sakhalin Energy's CSR System Sustainable Development Policy Risk Management Impact Assessment	15-16 18 46-50 20-21	
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or endorses	Full	Performance Standards	17	
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic	Full	International and Regional Cooperation	67-71	In November 2009, the company joined the UN Global Compact. In 2014, the company is a member of: • Global Compact LEAD; • Working Group on Human Rights of the UN Global Compact; and • European Business Congress (EBC).
4.14	List of stakeholder groups engaged by the organisation	Full	About the Report Stakeholder Engagement Management	10-12 60	
4.15	Basis for identification and selection of stakeholders with whom to engage	Full	Stakeholder Engagement Management	59-67	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Full	Stakeholder Engagement Management	59-71	
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	About the Report Stakeholder Engagement Management Appendix 2	11-13 59-67 144-157	

GRI index	Element/indicator	Disclosure of the element/indicator	Report Section	Page in the report	Comments and references to other sources
5.	Management Approach and Performance Indicators				
Management Approach					
DMA EC	Disclosure on management approach—economic	Full	About the Company Corporate Governance Model Economic Impact Management	23 42 53-57	
DMA EN	Disclosure on management approach—environmental	Full	HSE and Social Performance Management System Environmental Impact Management	19-20 73-91	
DMA LA	Disclosure on management approach—labour practices and decent work	Full	HR Management and Policy Labour Safety and Protection Occupational Health	93 107-112 113-114	
DMA HR	Disclosure on management approach—human rights	Full	Human Rights: Principles and Management System	114	
DMA SO	Disclosure on management approach—social	Full	Stakeholder Engagement: Strategy, Principles, Mechanisms and Engagement Tools Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	59 118-119	
DMA PR	Disclosure on management approach—product responsibility	Full	About the Company Engagement with Customers	31-32 66	
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 the Company Economic Impact Management Remuneration and Bonus System Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	31-32 53-55 96 118	
EC3	Coverage of the organisation's defined benefit/pension plan obligations	Full	Social Guarantees, Benefits and Compensations	97-99	
EC4	Significant financial assistance received from government	Full			In 2014, the company received no financial assistance from the 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	96	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Full	Russian Content	55	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Full	General Information Personnel Recruitment and Adaptation of New Employees	93-94 95-96	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Full	Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	53 118	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Full	Economic Impact Management	53	

GRI index	Element/indicator	Disclosure of the element/indicator	Report Section	Page in the report	Comments and references to other sources
Environmental Performance					
EN3	Direct energy consumption by primary energy source	Full	Energy Consumption	76	
EN4	Indirect energy consumption by primary energy source	Full	Energy Consumption	76	
EN8	Total water withdrawal by source	Full	Water Use and Water Discharge Management	74-75	
EN9	Water sources significantly affected by withdrawal of water	Full	Water Use and Water Discharge Management	74-75	No water sources are materially affected by the company's withdrawal of water
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 Preserving Biodiversity	79-91	
EN13	Habitats protected or restored	Full	Environmental Monitoring and Preserving Biodiversity	79-91	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Full	Environmental Monitoring and Preserving Biodiversity	79-91	
EN16	Total direct and indirect greenhouse gas emissions by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	77	
EN17	Other relevant indirect greenhouse gas emissions by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	77	
EN19	Emissions of ozone-depleting substances by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	77	
EN20	NOX, SOX, and other significant air emissions by type and weight	Full	Air Emissions Control	74	
EN21	Total water discharge by quality and destination	Full	Water Use and Water Discharge Management	74-75	
EN22	Total weight of waste by type and disposal method	Full	Waste Management	75-76	
EN23	Total amount and volume of significant oil spills	Full	Oil Spill Prevention and Response Preparedness	33	No considerable oil spills were recorded
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation	Full	Environmental Monitoring and Preserving Biodiversity	79-91	The company evaluates environmental impacts and develops impact mitigation measures. The results are presented in impact assessment reports and in the HSE and Social Action Plan, which are publicly available on the company's official website
EN28	Amount of significant 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	78-79	There were no significant fines or non-financial sanctions imposed for failure to comply with environmental laws and regulations
EN30	Total of environmental protection expenditures and investments by type	Full	Environment Protection Costs and Environmental Pollution Payments	78-79	

GRI index	Element/indicator	Disclosure of the element/indicator	Report Section	Page in the report	Comments and references to other sources
Labour Practices and Decent Work					
LA1	Total workforce by employment type, employment contract, and region	Full	General Information	93-94	
LA2	Total number and rate of employee turnover by age group, gender, and region	Full	General Information	93-94	
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	Full			In accordance with the effective Labour Code of the Russian Federation, federal laws, and other regulatory legal acts containing norms of labour law, agreements and employment contracts
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	Full	Labour Safety and Protection Occupational Health	109 113	
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	113-114	
LA10	Average hours of training per year per employee by employee category	Full	Personnel Training	101	
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Full	Staff Learning and Development	100-107	
LA12	Percentage of employees receiving regular performance and career development reviews	Full	Company's Employees' Performance Appraisal		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 Information	94	
LA14	Ratio of basic salary of men to women by employee category	Full			Basic salaries of men and women of all personnel categories do not differ
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	Full			100%
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 taken to contribute to the elimination of forced or compulsory labour	Full			No operations risk of involving 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 Peoples

GRI index	Element/indicator	Disclosure of the element/indicator	Report Section	Page in the report	Comments and references to other sources
Society					
S01	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	Full	Impact Assessment Social Investment and Contribution to Sustainable Development of the Host Region	20-21 118-131	
S03	Percentage of employees trained in the organisation's anti-corruption policies and procedures	Full			100%
S04	Actions taken in response to incidents of corruption	Full			No cases of corruption were registered in the reporting period
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Full			As per the company's Statement of General Business Principles and Code of Conduct, Sakhalin Energy does not support any political parties or their representatives financially and does not participate in political activities
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 products and services are assessed according to Russian legislation requirements and the company's standards

APPENDIX 2. COMMENTS AND SUGGESTIONS OF STAKEHOLDERS ON INDIVIDUAL ASPECTS, INDICATORS AND/OR PROGRAMMES, AND COMPANY'S RESPONSE AND COMMITMENTS

Detailed information on the results of the stakeholder engagement process that was completed to develop this report, including dialogue meetings, questionnaires, etc., is available in the Material subjects to be included in the 2014 report based on stakeholders' opinions and Most Priority Aspects to be Included in the 2014 Report based on the Stakeholders' Opinions tables found in Section 2 of this report.

Besides identifying the subjects, stakeholders also made comments and suggestions on individual aspects, indicators and/or programmes of the company for inclusion in the 2014 report.

In December 2014, Sakhalin Energy held the first dialogue, as part of the 2014 report preparation, during which the company provided stakeholders with information on its activities and achievements for the reporting period. The second dialogue took place in February 2015, and the company responded to the comments, suggestions and questions that were received at the first dialogue (see list of participants in Appendix 3). During this

dialogue, participants expressed additional comments and suggestions, and asked questions that were answered at the meeting. Apart from the dialogues, the company sent out electronic questionnaires, met and interviewed stakeholders, and gave out questionnaires during various events (see Section 2.3).

Stakeholders' comments and suggestions, and the response and/or commitments of Sakhalin Energy, are listed in the table below.

The left column contains the questions, comments or critical remarks made during the events listed above. If the comments or suggestions were expressed at the dialogues meeting, the participant's name, position and organisation are indicated. In other cases, the format in which the stakeholders' opinion was collected (electronic questionnaire, interviewing, etc.) is specified.

The right column contains the response that the company provided either at the events or after a period of time (in case a question required additional time to research and/or prepare the answer).

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Dialogues: Open Statements	
Ekaterina Alekseyevna Koroleva, Head of Division for Sakhalin Indigenous Minorities, Sakhalin Oblast Governor and Government Office	
<p>This is not the first time I am participating in such meetings. As the indigenous representative, I have already participated in presenting the report three times (The public presentation of the report for 2013 and previous years was held in Moscow. – <i>Note of Sakhalin Energy</i>), and during the event, you feel pride, since 20 years of success is a huge amount of work, it is the contribution of everyone who works for Sakhalin Energy.</p> <p>It is very important, and the reports show, that the work is conducted in a dialogue format. The same applies to the private-public partnership with the Sakhalin indigenous community.</p>	<p>The company appreciates the feedback regarding our cooperation, and hopes it will continue.</p>
<p>There are many more stakeholder representatives this time compared with the previous dialogues, apart from the company representatives in the hall. Today, this also applies to representatives from Sakhalin indigenous ethnic groups. This is a great achievement, and the company listens to the suggestions in order to share its results and its views on sustainable development, to attract support, because it understands that no success will be achieved without that.</p>	<p>The company appreciates the feedback. We will continue inviting stakeholder representatives to the dialogue held to prepare the sustainable development report, and will make every effort to make the meetings useful for everyone.</p>
<p>In my opinion, you should add a numerical analysis to the first section, Environmental Impact Management, in order make a comparison – that would be more convincing. This is important for the indigenous community because the company works in the areas where the indigenous ethnic groups traditionally resided, in their original habitat.</p>	<p>The information has been included in Section 8. Besides, key information on environmental impact management was included in the company's presentation at the second dialogue with stakeholders, which took place on 6 February 2015.</p>
<p>Could you specify how the Sakhalin indigenous community is involved in the dialogue for preparing the report that is delivered in Moscow? (She means the public presentation of the report. – <i>Note of Sakhalin Energy</i>).</p> <p>Concerning coverage of the private-public partnership: our interaction with the company is continuing, growing and expanding. We have considerable opportunities in the area of sustainable development because today we are entering a new stage, together with the indigenous community and the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities. We should prepare a completely new Development Plan, think over a new governance structure, and consider ways the indigenous community can be more involved in SIMDP. We have great challenges, and we will solve them together.</p>	<p>The company constantly improves the way it prepares the report, and tries to involve more stakeholders in discussing its content. Meetings were held on Sakhalin, in Moscow and Japan to develop the 2014 report. Representatives of the indigenous community; the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities; the Russian Association of Indigenous Peoples of the North, Siberia and the Far East; and others were invited to the meetings.</p> <p>The company makes a real effort to effectively engage the stakeholders. Besides the dialogue meetings, while compiling the report we hold public meetings and specialists have open hours at the information centres.</p> <p>Concerning the direct engagement with the Sakhalin Indigenous Minorities, we hold consultations annually. The comments made by the public at these meetings are considered when the report is developed.</p> <p>The Plan partners internally monitor the results of the projects implemented under the SIMDP annually. The programme is also independently evaluated annually. The reports are public and available on the website of the Plan, www.simdp.ru.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Elena Nikolayevna Feoktistova, Head of the RUIE Centre of Corporate Social Responsibility and Non-Financial Reporting, and Moderator of the dialogue	
<p>Ekaterina Alekseyevna, I have a question for you, and a suggestion for the company.</p> <p>We have repeatedly discussed how the company implements the plans. The company tells us a lot about what is being done. The question is, what is the result? What have the first and the second plans given us? How does it influence material processes, and what happens because of this Plan?</p> <p>It seems to me that the report does not yet contain any results or a retrospective analysis. If you could help the company to evaluate the contribution of these plans to the sustainability of the lives of Indigenous Minorities, to the extent this life is changing, to the positive things taking place in it, and the risks avoided owing to implementation of these measures (both for the people affected by the plans and for the company).</p>	<p>The company appreciates the feedback. Part of the internal and external monitoring is to analyse the effectiveness of the SIMDP. A deeper retrospective analysis is provided when the final evaluation of each SIMDP is prepared. The final evaluation of the first Plan took place in 2010. The report is available on the website. The final evaluation of the second Plan is planned for 2015.</p>
<p>When we speak about corporate responsibility, we don't mean just social responsibility, it also refers to any type of activity because social activities are only one of the elements of corporate responsibility. This is related to strategy. The company should show why it does something, how it mitigates and manages its risks, also when implementing social programmes, and risks for those it works with.</p> <p>It seems to me there are growth areas for a more complete analysis here.</p>	<p>This report contains data on the company's sustainable development efforts in 2014, and presents the material subjects, issues and indicators of the economic, environmental and social impacts of the company's activities. The assessment of company management of the performance over the reporting period and the stakeholders' attention areas are taken into account. The company's voluntary transparent reporting demonstrates its commitment to the CSR principles and concepts as well as sustainable development, and provides information significant to the public about the economic, environmental, social, and ethical aspects of the company's activities and performance.</p> <p>Among other things, CSR and sustainable development reporting helps the company to clarify our CSR and sustainable development strategy, and also serves as an efficient tool for identifying, preventing, and mitigating risks.</p> <p>Sakhalin Energy believes that effective risk management plays an important role in achieving company goals. The goal of risk management is to maximise the use of opportunities or minimise the adverse impact of the identified risks, including the risks of losses or failure to achieve the goals, as well as the risks of adverse factors in various areas such as safety, production effectiveness, environment, social areas, observance of human rights, labour relations, occupational health and safety, anti-bribery and counteracting corruption, etc. Information on the risk management process, as well as on the most significant risks and their control measures is included in Section 5.6.</p>
Ekaterina Alekseyevna Koroleva, Head of Division for Sakhalin Indigenous Minorities, Sakhalin Oblast Governor and Government Office	
<p>The company prepares the reports on the basis of the dialogue, and then the reports will be presented in Moscow. It is important for the company to involve the indigenous community and public organisations in the dialogue also beyond SIMDP. Answers would be received to all questions: concerning their evaluation of the Plan, changes in the quality of life of Sakhalin indigenous ethnic groups, and their role and participation in implementing SIMDP. It is important that the company complies with international standards as related to the indigenous community, and works with the indigenous community according to the principle of 'free, prior and informed consent'. This is the main thing, and a real fact.</p>	<p>The company appreciates the feedback. Representatives of the Sakhalin Indigenous Minorities are invited to dialogues for preparing the sustainable development report, to public meetings, and other company events.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Evgeny Valerievich Plotnikov, Deputy Chairman of Yuzhno-Sakhalinsk Duma	
<p>I would like to thank Sakhalin Energy for the work they have been doing, especially with veterans and the youth. This work contributes, among other things, to patriotic education. I would like that deputies of Yuzhno-Sakhalinsk Duma actively work together with the company.</p>	<p>The company appreciates the feedback regarding our cooperation, and hopes it will continue.</p>
Valery Nikolaevich Efanov, Ph.D. (Biology), Professor, Academician of the Russian Academy of Natural Sciences, Deputy Director for Science at the Institute of Natural Sciences and Technosphere Security, Head of the Chair of Ecology and Nature Management, Sakhalin State University	
<p>I am leading a wetlands research project at Sakhalin State University to do environmental and biodiversity assessments. The project involves both graduate students and postgraduates, as well as students. I don't know how we will continue this project. I regret to say that our proposal to continue this work was turned down. The award went to another company.</p> <p>I can say that the company carries out environmental research rather well.</p> <p>There are certain aspects I would like to note. This includes research of water meso-level ecosystems and their condition, ways to improve these water meso-level ecosystems by changing the approach to the condition of vegetation in the affected territory, and transition from grass to shrub vegetation.</p> <p>I think we will reach an agreement with the company on implementing this project, because it is only this project that allows minimising the impact on water meso-level ecosystems which, much to my regret, is still made.</p> <p>Now, two suggestions:</p> <p>1) The company does a lot to publicise its achievements, however, I feel this is not quite sufficient. To publicise its achievements globally, I believe the company should create a journal with many sections: business, social aspect, environment, etc. The journal should be scientific, and it should be available at Web of Science or at least on Scopus, then the whole world would learn about the company's activities. It should contain scientific papers that would objectively reflect all the achievements or shortcomings of the company's activities.</p> <p>2) A law has been adopted on environmental education and attitudes in the Sakhalin Oblast (I am one of the co-authors). The law is aimed at raising the level of education and attitudes of people in the Sakhalin Oblast. I request that Sakhalin Energy support the idea of publishing a textbook on general ecology. Professor Eremin and I have prepared such a textbook. In many aspects, it concerns the Sakhalin Oblast. Publishing this classical textbook would be useful to scientists, community workers and schoolchildren both here, on Sakhalin, and in Russia as a whole.</p>	<p>The company appreciates the feedback.</p> <p>The company is currently studying the point.</p> <p>Due to a comment received from V.N. Efanov during one of the dialogues, a project for publishing a series of books on the wildlife of Sakhalin and the company's approaches to biodiversity preservation was conceived.</p> <p>As far as the suggestions are concerned, the company is ready to examine the projects that are proposed in applications to the social investment programmes. Project requirements are available on the social programme websites.</p>
Alexander Vasilievich Buryka, Director of Sakhalin Regional Art Museum, a state-owned cultural institution.	
<p>Thank you for the invitation and a chance to make some positive comments about the joint project that was successfully presented here – Five Centuries of Russian Art – an exhibition of paintings from the Russian Museum.</p> <p>It's no secret that it is always difficult to bring an exhibition from a region, even a Far Eastern one, not to mention one from the central and leading art museums.</p> <p>Working with them is complicated, in particular with the Russian Museum, but, after beginning work on the project more than a year and a half ago, we overcame all the difficulties together with the company. This financially intensive project has been implemented.</p> <p>The result was that more than 11,000 people visited the museum during the exhibition (the annual average is 45,000 visitors).</p> <p>This isn't the first year we have worked together, and we hope for further fruitful cooperation. Thank you very much on behalf of our spectators and visitors.</p>	<p>The company appreciates the feedback.</p> <p>As for Five Centuries of Russian Art exhibition, which was jointly implemented by the company, Sakhalin Regional Art Museum, and the Russian Museum to celebrate the 20th anniversary of the company, it is safe to say that this is one of the most significant events in the cultural life of Sakhalin.</p> <p>We are pleased to acknowledge that this project was not just an exhibition of paintings of great artists but also contributed to educating Sakhalin residents in the history of Russian art. An important part was also played by the videos created with students from Sakhalin Art College, and by the school of volunteer guides, and the considerable number of tours that accompanied the exhibition, especially for educational institutions.</p> <p>We hope that our further cooperation, in particular, within those projects that are just starting, will also be successful.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Elena Nikolayevna Lisitsina, Head of Sustainable Development Chair of Sakhalin State University	
<p>Thanks to the company, a course on sustainable development has been offered at the university for several years. We make use of the information that the company provides in its non-financial report.</p> <p>One of the reports says that the company is a member of the UN Global Compact. This is very important because only two organisations in the Sakhalin Oblast are members of the Global Compact: Sakhalin Energy and Sakhalin Shelf. Unfortunately, there are no others. I think that this aspect should be reflected and emphasised in the company's report. In fact, only 50 companies in Russia are committed to the principles of the Global Compact, and this is a very small number for such a big country.</p>	<p>The company appreciates the feedback.</p> <p>The company is making efforts to spread its successful experience across the Russian Federation, and internationally. See details in Section 7.10.</p>
Elena Nikolayevna Feoktistova, Head of the RUIE Centre of Corporate Social Responsibility and Non-Financial Reporting, and Moderator of the dialogue	
<p>I agree. This information really should be included in the report. Moreover, when we discussed the report at the hearings the company organises in Moscow, and at the meeting of the RUIE Non-Financial Reporting Council, each time we stressed that the company had entered the international arena, presented its activities well, and took part in many international initiatives that became the basis for developing international standards, including those for business. In particular, we can recall the UN standard on business and human rights. The company was one of five in the world to participate in testing this standard, and actively promotes it. Certainly, it is necessary to tell about the company's efforts to implement these approaches, and the benefits of that for the company, its external partners, and stakeholders.</p>	<p>The company appreciates the feedback.</p> <p>The company is making efforts to spread its successful experience across the Russian Federation, and internationally. See details in Section 7.10.</p>
<p>Responsibility of the supply chain is another important subject. Companies are not only responsible for complying with high standards in their own activities, they should be responsible for their partners, contractors, and suppliers, for having them comply with these norms, too.</p> <p>This refers to the companies entering global markets. This essential requirement becomes an element of competitiveness. This subject should be noted, since Sakhalin Energy also went through this experience: communication, attitudes, and extending business standards to suppliers. This experience should be communicated, and it is important to show that in the report.</p>	<p>The company appreciates the feedback.</p> <p>The company is making efforts to spread its successful experience across the Russian Federation, and internationally. See details in Section 7.10. Information on procurement and contracting management as well as on supplier development has been included in Sections 6.4 and 6.5.</p>
Svetlana Ivanovna Rudenko, Head of Department, Regional Centre for Extracurricular Education, a state educational institution for children's extracurricular education	
<p>Today, the issue of effectiveness of our work has been raised. I wish to express my gratitude to Sakhalin Energy for giving each of us an envelope containing the reports, the comments, and our discussions following the dialogues and discussion of the 2013 results. Everyone could see his/her role in these discussions. This is very good.</p> <p>It is important that the company pays special attention to working with veterans and Indigenous Peoples, but, most significantly, that the company works with the younger generation.</p> <p>Many of the projects presented are aimed at working with children, and the most strategic areas have been selected for this, including the health and safety of children. With the help of Sakhalin Energy we are teaching children how to independently act safely in any situation.</p> <p>And when children write a poem or a newspaper article, participate in project activities or contest programmes, they get a meaningful, rather than imposed, understanding of the rules.</p> <p>The circle of people involved in this process is constantly growing. Parents and grandparents come on board. They do the homework along with the children, and get ready for the contests.</p> <p>Therefore, the events we hold jointly with Sakhalin Energy are very important.</p>	<p>The company appreciates the feedback regarding our cooperation, and hopes it will continue.</p> <p>Joint programmes in the area of children's safety and road safety are primarily educational and informational programmes. Children are one of the key target audiences of these programmes. They are not only beneficiaries of our joint activities with our partners, but also active participants.</p> <p>We think it is important to involve them in the activities and events. We are sure that we are doing necessary and important work, watching out for the safety of Sakhalin children.</p> <p>2015 is the anniversary year for both safety programmes. And we hope that, by our joint efforts, we will make the activities even more effective.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Elena Dmitrievna Nevenchina, Head of Environmental Protection Department, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast	
<p>Our ministry has been working with the company for a long time, as a party to the Production Sharing Agreement. If we talk about the 2014 Sustainable Development Report, and company's performance during last year, I can say that the company has done a good job. Can the company work better? Yes, it can. What are the areas for improvement? I think, they are environmental education and awareness. hope our Ministry will provide to the company several suggestions in this area after we align them with the Sakhalin Ministry of Education.</p> <p>Secondly, there is a need to do surveys in the disturbed lands and to prevent invasion of species.</p> <p>We successfully monitor flora, fauna and ballast water in the Aniva Bay, but disturbed lands have been neglected. If any alien plants grow there, are they noxious?</p> <p>The company has done a great deal of work on shore protection and restoration of watercourse crossings. But the company should not be complacent. The river banks are damaged during each high water period.</p> <p>What kind of work is still there to do for the company? The oil spill response legislation has changed, and OSR plans for offshore installations must undergo state environmental reviews, preceded by public discussions. The company knows what public discussions are. This is a lengthy process, and local communities should be prepared in advance.</p> <p>The company has much to do in terms of biodiversity. Biodiversity is life. Oil companies share their experience in the Sakhalin Biodiversity Preservation Expert Working Group and contribute to drafting the Sakhalin Oblast Biodiversity Preservation Action Plan. And I wish that enterprises in other economy sectors adopt the experience of oil companies, in particular, the coal mining industry.</p>	<p>The company appreciates the feedback.</p> <p>For many years, the company has been working in all the areas listed. Information on specific issues has been added to the Sustainable Development Report.</p>
Natalia Semenovna Dunav, Head of Department, Preodoleniye (Overcoming) Rehabilitation Centre for Physically and Mentally Challenged Children and Teenagers, a state institution	
<p>We have been interacting with the company for a long time, we are a grateful stakeholder, meaning that we started with a modest request to participate in a grant project and, in response, received a considerable sum for purchasing the rehabilitation equipment we needed, and the equipment for working according to the Montessori system.</p> <p>Over all those years, our relationship has been based on setting high standards, goodwill, and self-examination. I would like to mention, with great appreciation, the work of the External Affairs Department, in particular, the work of Anna Lygina, Elena Alyokhina, and Olga Shpagina, and I wish to thank all the company employees very much.</p> <p>The job they have done is beyond words. Hurry up for Good Deeds, and Letter to Father Frost are very humanitarian campaigns. The results for our institution, where over 500 people are served annually (disabled and physically challenged children under 18) have been very notable. It is difficult to evaluate the results – they are positive emotions, believing in goodness, and the visible and tangible results of rehabilitation.</p> <p>The company employees, by participating in these events, teach us to act in the same way.</p>	<p>The company appreciates the feedback regarding our cooperation, and hopes it will continue. We thank the centre for your responses and for supporting our initiatives. We started with small grant projects. Today, the centre participates in several social programmes of the company, and is an active partner of the charity campaigns held by Sakhalin Energy employees.</p>
Evgeny Valerievich Plotnikov, Deputy Chairman of Yuzhno-Sakhalinsk Duma	
<p>I would like to thank the company for the work they have been doing in the Sakhalin Oblast and in Yuzhno-Sakhalinsk. The presentation has demonstrated the company's financial performance which without doubt, influences the replenishment of budgets and employment rates; the company's also presented the results of environmental work. I would like to note that the company contributes to patriotic education of the youth. It is engaged in an open dialogue.</p> <p>I would like deputies of Yuzhno-Sakhalinsk Duma to be involved in such dialogues more often.</p>	<p>The company appreciates the feedback.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Andrei Sergeevich Palkin, Chief Specialist of Department, Sakhalin Branch of the Russian Federation Ministry of Emergency Situations	
<p>I would like to thank the company for its contribution to children's safety in various emergency situations, and for the events held by the company such as Safety Day, and Road Safety Day, jointly with the State Traffic Safety Inspectorate.</p> <p>I would like to mention participation of the company in Safety School. The section that the company leads has caught the interest of children. Older children developed a special lesson on safe behaviour in various emergency situations for younger children. Prizes were awarded to the best teams. This section is included as one of the contests in the plans for Safety School 2015.</p>	<p>We thank the Sakhalin Administration of the Russian Ministry of Emergency Situations, and the Ministry of Education of the Sakhalin Oblast which are the company's long-standing partners in the What to Do in Emergency Situations Programme that will be 10 years old in November 2015. The company appreciates the feedback regarding our cooperation, and hopes it will continue..</p>
Svetlana Yurievna Vasilieva, Deputy Minister of Education of the Sakhalin Oblast	
<p>I would like to mention the huge amount of work the company does for our children. This is extremely important, and we value this.</p> <p>One aspect I would like to mention is that this is a very interesting and productive format for a report, presenting the information on the activities of the company.</p> <p>By way of criticism: there are very few people who hear about this. In my opinion, more people should hear this.</p> <p>As a suggestion, I invite you to the board of ministers on the 19th of February. In the context of social projects, this would be interesting to my colleagues.</p>	<p>The company appreciates the feedback and the suggestion regarding our joint work, and hopes for further cooperation.</p>
Natalia Stanislavovna Gustova, Vice Mayor of Korsakov City District, member of Korsakov Sustainable Development Council	
<p>It has been very nice to hear everything that has been said here today. The company's operations have had a considerable positive impact on Korsakov District. At the meetings of Korsakov Sustainable Development Partnership Council we do indeed select the best social projects for implementation.</p> <p>The company's contribution to encouraging the public and non-governmental organisations to be socially active is hard to overestimate. This year due to our interaction with Sakhalin Energy in the field of social projects, another organisation, the Rotary Club, was prompted to support our grant project for providing medical equipment to first-aid rooms in educational institutions. We have received RUB 2 million from the Rotary Club for this project.</p> <p>I would like to ask you two questions:</p> <p>1) Sakhalin Energy has always been actively involved in events dedicated to socially important dates. This year we will celebrate the 70th anniversary of the victory in the Great Patriotic War. How will the company contribute to the celebration, and will Sakhalin Energy support the social initiatives concerning the celebration of this event?</p> <p>2) This year has been declared the Year of Literature. Does the company have any plans to support related activities?</p>	<p>The company appreciates the feedback.</p> <p>The company finances projects on a competitive basis. Our grant programmes, including those under the Korsakov Sustainable Development Partnership Council and the Energy Social Initiatives Fund, will give priority to projects devoted to the 70th anniversary of the victory in the Great Patriotic War while considering applications from non-profit organisations and municipal institutions.</p> <p>Regarding the second question: The company has been implementing the Book as a Gift project for several years already. Under this project, the company presents sets of books to the libraries housing the company information centres.</p> <p>In 2015, the project is dedicated to the Year of Literature. The company's gift will be a set of encyclopaedias and audio books of Russian writers who were Nobel laureates in literature.</p> <p>Also there will be another important event – the celebration of Vladimir Sangi's 80th birthday. We are preparing a series of events that will be implemented jointly with the Government of the Sakhalin Oblast.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Igor Georgiyevich Minervin, Rector of Sakhalin State University	
<p>I would like to thank the company for its work in sustainable development, for promoting projects in education and science.</p> <p>Indeed, much has been done. A share of the work was done by Sakhalin State University, and this is what I would like to talk about in terms of criticism.</p> <p>In our reports and publications we always write about our work with Sakhalin Energy and point out that the company promotes the advancement of science.</p> <p>And in return, we help the company. For instance, SSU deals with all of the issues related to wetlands and biodiversity conservation programmes.</p> <p>However, the university is rarely mentioned in the company reports; for example, in this report there is not a single line about SSU. This is too bad, as there must be reciprocity in our collaboration, and I think this should be rectified. We already discussed this issue last year.</p> <p>We had extensive experience resulting from the work of the Sustainable Development Department, which was funded by the company. We took up this idea and for two years financed the work of the department ourselves as part of the</p> <p>University Development Strategy grant programme. To our regret, the grant funds have been used up. However, it is essential that we continue work in this area, as it also promotes the image of Sakhalin Energy at the international level. University reports are not publicly available. We cannot publish the results, but we could use them to share our experience and knowledge with students and schoolchildren, as it has been extensive, serious work. Unfortunately, we cannot find any solution to this problem. Why can't we publish them openly and give them to the libraries so that these reports can be available to everyone, as they contain not secret, but only useful material?</p>	<p>Thank you for your comments and suggestions. Unfortunately, it is not possible to mention all of the contractors and subcontractors in the report. For example, at least seven or eight organisations work on the gray whales monitoring programme alone. Not only SSU, but two other academic research institutes collaborate with the company – the Institute of Marine Biology and the Pacific Institute of Oceanology. The role of SSU is significant, but it is not the only contractor involved in the work. We are grateful to all our contractors for quality work.</p> <p>As for publications, according to the company's procedure, research organisations have the right to publish the results of research. To do this, you must submit a request and prepare a draft publication. It will be reviewed, and then it may be published, provided that it does not contain any contradictory or untrue data.</p> <p>For example, in the gray whales monitoring programme we have an incentive programme to promote publications. In accordance with the programme, financial incentives are provided for preparing and publishing materials in international periodicals.</p> <p>Regarding the Sustainable Development Department, the company adheres to certain approaches in supporting socially significant initiatives and projects. Thus, the Energy Social Initiatives Fund grant contest funds various projects, including those in the field of education. All information about participating in the contest can be found on the website of the Fund. The company is closely monitoring the growth of the university, especially the two new laboratories – the genetics and oceanology and hydrobiology laboratories – and is looking forward to further cooperation.</p>
Svetlana Khon, Senior Inspector for Raising Public Awareness of the Department of the State Traffic Safety Inspectorate at the Ministry of Internal Affairs for the Sakhalin Oblast (STSI)	
<p>Thank you for the projects that were implemented in 2014 and earlier in cooperation with the Sakhalin Road Safety Council.</p> <p>Over the years (by the way, 2015 is an anniversary year for us, too), the company has enabled us to implement projects in a new, creative way, as we have never done before. For example, flash mobs were organised with the participation of trendy dance groups as part of awareness-raising campaigns in 2013; in 2014 the opening of the art facilities took place. This made it possible for us to attract the attention of young people, which is of vital importance. Although we had found an approach to children, teenagers remained uninvolved. These projects have enabled us to make a difference. We look forward to further cooperation.</p>	<p>The company appreciates the feedback. 2015 is the year of the 10th anniversary of our partnership in road safety. We hope to develop cooperation within its framework.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Alexander Petrovich Antonenko, Senior Consultant of the Public Safety Department of the Public Safety and Control Department at the Governor's Office and the Government of the Sakhalin Oblast	
<p>I am a representative of the Executive Committee of the Sakhalin Road Safety Council. Road safety is an important issue for the Sakhalin Oblast. 2014 was a difficult year as the number of fatalities in road accidents increased. The analysis of the accidents shows that most road accidents occurred through the fault of drivers. There were cases related to the condition of the roadways. This problem is being worked on by the municipalities and the Government of the Sakhalin Oblast.</p> <p>Sakhalin Road Safety Council helps to implement and finance the projects. Regional and federal programmes aimed at improving road safety are also being implemented in the Sakhalin Oblast. Every year we send applications to the federal programme. According to the federal programme, funding for regional programmes is provided on co-financing terms. Sakhalin Road Safety Council is included in the requests submitted under the federal programme as a separate section. This allows the Sakhalin Oblast to attract additional funding from the federal budget. Thus, in 2014 we received RUB 2.6 million from these requests. These funds were used to purchase and deliver five interactive children's mini-towns to day care centres. Now children will have the opportunity to learn proper behaviour on the roads and in life situations.</p> <p>Summing up the results of our joint activities with the Sakhalin Road Safety Council, I would like to point out that in addition to awareness-raising campaigns, which included flash mobs, 15 pedestrian crossings were equipped with signals. Additionally, in 2014 three pedestrian crossings were equipped using the latest technologies; another one will be completed in 2015. We continue work in this area.</p> <p>What have we achieved by doing this? Eighteen pedestrian crossings with deplorable accident statistics in the past can now boast of no accidents.</p> <p>Due to the activities of the Council we are promoting safe road behaviour together, including children's correct behaviour on the roads.</p> <p>Road accidents are caused by a poor driving culture, so we would like to have more projects aimed at solving these problems. I would like to thank you for our joint work and hope to continue further cooperation.</p>	<p>The company appreciates the feedback and hopes it will continue.</p>
Larisa Viktorovna Golubeva, Chief of Staff of the Public Chamber of the Sakhalin Oblast	
<p>Is Sakhalin Energy planning to cut the social projects budget for 2015 and 2016 in the light of the latest trends in the global economy?</p>	<p>In 2015, social projects will be implemented according to the plan. The budget will not be reduced in 2015.</p> <p>As concerns the plans for 2016, we will be able to announce them in the second half of the year, at the next dialogue meeting held to prepare the report for 2015.</p>
Other activities (electronic questionnaires, personal interviews, etc.)	
<p>Suggestion: To include the performance results of each facility in the report.</p>	<p>The information has been included in Section 4.2.1.</p>
<p>Is Sakhalin Energy ready to hold public discussions on its oil spill response plans?</p>	<p>The company intends to hold a public consultation on the OSR plans for the company offshore facilities in 2015 before submitting the plans for the State Environmental Expert Review. Until that time, the company plans to carry out the Environmental Impact Assessment (EIA) for the OSR plans and then develop materials and a list of measures to protect the environment.</p> <p>The information has been included in Section 4.2.5.1.</p>
<p>What projects aimed to expand and increase production will be implemented by the company in 2015?</p>	<p>The projects aimed to expand and increase production that the company is working on now are the front end compression project for the OPF and the LNG Train 3 construction project. Information about them has been included in Section 4.2.2.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
<p>What position does the company occupy in the oil and gas industry and in the Asia-Pacific market?</p>	<p>Sakhalin-2 is the first Russian project to export LNG. Thanks to Sakhalin Energy, Russia has become one of the key players in the promising market in the Asia-Pacific region. The LNG Plant is now providing more than 4 % of the world's supply of liquefied natural gas.</p>
<p>Suggestion: To include information about the achievements, some of the new technical solutions applied by the company.</p>	<p>The information has been included in Section 4.2.1.</p>
<p>Suggestion: To include information on corporate values.</p>	<p>The information has been included in Section 5.4.</p>
<p>What risks are there in relation to the SIM? (SIM are the Sakhalin Indigenous Minorities. – Note of Sakhalin Energy).</p>	<p>Sakhalin Energy's primary responsibility to the people of Sakhalin and to the Indigenous Peoples in particular is to prevent or minimise any adverse effects that Sakhalin-2 could have on the environment and on areas with resources traditionally used by the SIM. Using the Mitigation Matrix designed for the Sakhalin Indigenous Minorities Development Plan (hereinafter, the Development Plan) helps to identify challenges and risks. The Mitigation Matrix is discussed with representatives from the Indigenous Peoples. In addition, information on implementing the actions contained in the Matrix is regularly reviewed at meetings of the Development Plan Council. In the course of external monitoring of the Development Plan implementation in 2014, representatives of Indigenous Peoples did not express any concerns about negative risks or impact in connection with the implementation of the Sakhalin-2 Project.</p> <p>Information on the implementation of the Development Plan has been included in Section 9.5.10. Details of the Development Plan and its external monitoring are available on the website of the Development Plan at www.simdp.com.</p>
<p>Anti-bribery and corruption control measures.</p>	<p>The information has been included in Section 5.7.</p>
<p>Conflict of interest.</p>	<p>The information has been included in Section 5.4.</p>
<p>Engagement principles and mechanisms.</p>	<p>The information has been included in Section 7.1.</p>
<p>Support of educational institutions and programmes; collaboration with Sakhalin State University and local scientific institutions.</p>	<p>The company is ready to consider applications for projects submitted for participation in social investment programmes. Project requirements are available on the websites of the programmes.</p> <p>Information about training and development programmes for 2014 has been included in Section 9.1.7.</p>
<p>Publishing Sakhalin Energy Bulletin, a scientific journal.</p>	<p>The company is ready to consider applications for projects submitted for participation in social investment programmes. Project requirements are available on the websites of the programmes.</p>
<p>Engagement with personnel.</p>	<p>The information has been included in Section 7.3.</p>
<p>Work of the information centres.</p>	<p>The information has been included in Section 7.4.</p>
<p>The main engagement results of the in 2014.</p>	<p>The information has been included in Section 7.2.</p>
<p>What are the plans for project implementation up to 2040?</p>	<p>The licence agreement for Sakhalin-2 provides for it to operate until 2041. The company together with the Russian party and the shareholders will consider how the infrastructure built under the project can be used after that.</p>
<p>Benefits for the Russian Federation and the Sakhalin Oblast.</p>	<p>The information has been included in Section 6.</p>
<p>Financial revenues of the Russian Federation and the Sakhalin Oblast in 2014, and for the entire period of the Sakhalin-2 Project.</p>	<p>The information has been included in Section 6.2.</p>
<p>Russian scientific participation; personnel development and training programmes.</p>	<p>The information has been included in Sections 6.3 and 9.1.7.</p>
<p>The Industrial Environmental Monitoring section does not contain any information about an important area – the protection of land and soil. Suggest: To add this information.</p>	<p>The information has been included in Sections 8.2.1.2 and 8.3.</p>
<p>Section I (Environmental Impact) lacks a numerical analysis.</p>	<p>The information has been included in Section 8.</p>
<p>Protecting the shorelines of water bodies.</p>	<p>The information has been included in Sections 8.2.1.4 and 8.3.</p>
<p>Invasive species in disturbed lands.</p>	<p>The information has been included in Section 8.2.1.1.</p>

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Development of the Conservation of Water Mesoecosystems project.	Currently the Monitoring Programme includes assessment of the state of the river ecosystem components in the crossings area. The information has been included in Section 8.2.1.4.
Publishing the General Ecology textbook.	The company is ready to consider applications for projects submitted for participation in social investment programmes. Project requirements are available on the websites of the programmes.
System of benefits and guarantees for personnel.	The information has been included in Section 9.1.5.
Performance results in the area of labour safety and protection.	The information has been included in Section 9.2.
Development of socially-oriented projects to improve the health of the nation. Promotion of a healthy lifestyle.	The company is ready to consider applications for projects submitted for participation in social investment programmes. Project requirements are available on the websites of the programmes. The company carries out activities aimed at promoting a healthy lifestyle. The information has been included in Section 9.3.
Human rights management system.	The information has been included in Section 9.4.1.
The results of grievance handling in 2014.	The information has been included in Section 9.4.3.
The company's principles in the field of social investment.	The information has been included in Section 9.5.1.
Cooperation with Sakhalin State University in providing professional training for young people to work in the oil and gas industry.	Sakhalin Energy and Sakhalin State University signed an Agreement on Long-Term and Mutually Beneficial Cooperation. Under the agreement, in 2014 the parties worked in the following areas: <ul style="list-style-type: none"> • financial support for students under the Educational Grants Programme; • bringing in company specialists to give advice on the curriculum of student training programmes; • teaching students technical skills that meet the company's qualification requirements; • organising and conducting practical, on-the-job and pre-graduation training for students; • organising and holding scientific and practical conferences for the company's young professionals and the best graduate students; • offering company employees further vocational education and professional training programmes; and • conducting job fairs, meetings with students in order to explore the possibility of participating in the company Traineeship Programme, etc.
Charitable initiatives of employees as part of the Hurry Up for Good Deeds programme, such as the Letter to Father Frost and other corporate charitable campaigns.	The information has been included in Section 9.5.5.
HSE management system.	The information has been included in Section 3.5.

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
The results of impact assessments (including impact on Indigenous Peoples).	The company conducts impact assessment of the planned projects in accordance with Russian legislation and international standards. Consulting with stakeholders, including representatives of Indigenous Peoples, aimed at raising the awareness of planned activities, identifying concerns, taking into account the views of stakeholders and discussing possible impact management measures is an integral part of impact assessment carried out by the company. The information has been included in Section 3.5.2. The results of impact assessments are posted on the company's website.
Suggestion: To include information about the asset reliability performance.	The information has been included in Section 4.1.
Suggestion: To include information on the construction of LNG Train 3.	The information has been included in Section 4.2.2.4.
Compliance with technical and other legislation of the Russian Federation.	The information has been included in Sections 4, 5, 8, and others.
Core values.	The information has been included in Section 5.4.
The subject of anti-bribery and corruption is not in the report for 2014.	The information has been included in Section 5.7.
What are the plans for engagement with stakeholders up to 2040?	The company has developed and implemented a strategy of interaction with stakeholders that is described in the Holding Public Consultations and Raising Public Awareness specification of the Social Performance Management Standard. This strategy is designed for the whole period of the Sakhalin-2 Project and shall be updated if necessary. The basic principles and strategies of engagement with stakeholders are listed in the company's key document – the Statement of General Business Principles. In order to implement the strategy, the company annually develops and implements the Public Consultation and Disclosure Plan. Both documents are public and available on the website of the company, they are also distributed to key stakeholders.
The total value of the Sakhalin-2 Project and the rules of profit sharing under the PSA.	The information has been included in Sections 4.1 and 6.
A focus on involving more Russian companies.	The information has been included in Section 6.
Safety measures during ice season.	The information has been included in Section 9.2.
Collection, use, treatment, transportation and disposal of hazard class I–IV waste.	The information has been included in Section 8.1.3.
Disposal of food waste.	The information has been included in Section 8.1.3.
Energy Consumption / greenhouse gas emissions during the Sakhalin-2 Project construction phase.	Information on greenhouse gas emissions for the whole company, from the production of hydrocarbons at the offshore facilities to LNG production, has been included in Section 8.1.5 of the report. It is not planned to include the information on the assessment of greenhouse gas emissions in the LNG life cycle for each production facility of the company separately.
It is clear that the company is making certain efforts, bears the costs of environmental protection and makes payments for negative impact. It would be interesting to know whether some of these funds were used to compensate for environmental damage. Perhaps the company has its own compensation projects— what are they, and can you explain their effectiveness?	The company makes payments for its negative impact on the environment in accordance with the legislation of the Russian Federation. The company is not authorised to use these funds. The company's main programmes and projects aimed at reducing the negative impact on the environment are described in Section 8.
Suggestion: To include information about environmental compliance performance. .	The information has been included in Section 8.
HSE, industrial safety and personnel safety costs.	The information has been included in Sections 8.1.7 and 9.2.
Water pollution, land pollution, land disturbance.	The information has been included in Sections 8.2.1.2 and 8.3.
The impact of oil and gas facilities on the environment and human health (sanitary protection zone, calculation of emissions, protection of water bodies).	The information has been included in Sections 4.2.4 and 8.

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
The company's contribution to road safety (raising awareness of the population, schoolchildren in particular).	The information has been included in Sections 9.2.1 and 9.5.8.
Oil spill prevention and oil spill response preparedness in terms of harming marine mammals and birds.	The information has been included in Section 4.2.5.
How will the environment be restored to the state it was in before the Sakhalin Energy project?	Appropriate measures can be taken at the decommissioning stage.
Monitoring the state of the marine mammal populations; measures to ensure their protection from possible harmful effects of current and future projects.	The information has been included in Section 8.2.2.1.
Cooperation with conservation organisations to protect the environment; annual evaluation of the results; proposals for joint projects in the future.	The information has been included in Section 8.2.2.
Acoustic monitoring; control over the noise impact of oil and gas projects and the impact of sea vessel traffic on the gray whale population in the Sea of Okhotsk.	The information has been included in Section 8.2.2.1.
The effectiveness of project activities under social investments.	The information has been included in Section 9.5.
Suggestion: To release information on organising tours to the LNG Plant and the tours themselves.	As in previous years, Sakhalin Energy has continued to interact with the public of Korsakov District. Trips to the outer perimeter of the Prigorodnoye Production Complex are organised annually for residents of the district. In 2014, these trips were organised on 11 October, and 41 people took part in them. You can find advertisements about planned trips in the local media.
Suggestion: To add statistics reflecting the results of social programmes, and quotes from comments.	Quantitative indicators are presented in Section 9.5. The comments can be found in this table.
Focus of next year's activities: What will remain? What is planned?	The information has been included in Section 10.
Community road safety initiatives (saving lives).	The information has been included in Section 9.5.8.
Work with Indigenous Peoples in the project area.	The information has been included in Sections 7.5 and 9.5.10.
The company's practices of providing grants to the best graduates to get a professional education in leading Russian universities.	The information has been included in Section 9.1.7.10.
Recommendations of the RUIE Non-Financial Reporting Board on the results of their review of the 2013 Sakhalin Energy Investment Company Ltd. Sustainable Development Report regarding public endorsement	
The report provides a wide range of indicators, most of which are given in dynamics; KPIs are given for a number of performance indicators, allowing a comparison of actual results with the objectives. At the same time the report describes the plans for the coming year and the medium term; however, they are given not in quantitative terms, but in qualitative categories. It is recommended that measurable targets for the upcoming planning period be included in subsequent reports, which would make it possible in the future to fully evaluate the achievements and progress towards the set goals in comparison with the targets.	Sakhalin Energy operates under the Sakhalin-2 Production Sharing Agreement (PSA) signed by the company and the Russian Federation, represented by the Government of the Russian Federation and the Administration of Sakhalin Oblast (at present, the Government of Sakhalin Oblast). The Supervisory Board is the Sakhalin-2 strategic management body that was established and operates in accordance with the Production Sharing Agreement. The Supervisory Board oversees compliance with 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 auditors.

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
It is recommended to strengthen the analysis of the economic aspects of the activity and impacts in this area by expanding the view of the industry, taking into account the goal of developing the oil and gas industry and the energy sector, which is relevant to the country's economy, as well as global problems.	Sakhalin Energy operates under the Sakhalin-2 Production Sharing Agreement (PSA) signed by the company and the Russian Federation, represented by Government of the Russian Federation and the Administration of Sakhalin Oblast (at present, the Government of Sakhalin Oblast). The Supervisory Board is the Sakhalin-2 strategic management body that was established and operates in accordance with the Production Sharing Agreement. The Supervisory Board oversees compliance with 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. Information on the results of the company's operations and economic aspects is presented in Sections 4 and 6.
In order to more uniformly present the relationships with all the groups identified by the company as being key, it is recommended to expand the information on the main themes and subject issues of engagement with shareholders and customers, as well as to present interaction with government authorities in a more systematic format. It is also recommended to include information on how channels of feedback from stakeholders are used to address their concerns and improve the company's performance, and to give specific examples of decisions that were made based on stakeholders' suggestions, including those received in the course of the dialogues held under the preparation of the reports.	The report includes information about the engagement with stakeholders, namely the shareholders, government and local authorities, customers, personnel, contractors, communities, Indigenous Peoples, non-governmental and non-profit organisations and Japanese stakeholders. The results of stakeholder engagement are presented in Sections 5.3, 6.4, 6.5 and 7 of the report.
To ensure the information on energy efficiency is clear and complete, it is recommended to expand the section on energy consumption, give more detailed information about the components of consumed energy, clarify the values of the indicators and the assessment of the company's achievements in this field.	The information about energy efficiency has been expanded, see Section 8.1.4.
In the next reporting cycle it would be useful to better highlight the major themes, emphasise and substantiate the priorities and essential aspects covered in the reports more clearly.	In 2014, in addition to the existing mechanisms of defining the report's content, the company developed and applied a special procedure in order to meet the new GRI G4 Guidelines for the content of the report and to include information on the aspects of Sakhalin Energy's activities that are most material and priority to stakeholders. We identified the aspects of the company's activities that were most important to stakeholders and that should be reflected in the report for 2014 in close engagement with stakeholders. In total, about 150 stakeholder representatives participated in the process. Information on how the material and priority subjects and aspects were defined has been included in Section 2.
It is recommended to provide more information on diagnostics and self-assessment conducted in the company based on ISO 26000:2010 Guidance on Social Responsibility. Given the importance of this information for a wide range of stakeholders, it would be useful to reflect in the report how diagnostics and self-assessment helped improve the company's operations, including the reporting process.	The information has been included in Section 3.3.

APPENDIX 3. THE LIST OF PARTICIPANTS OF DIALOGUES WITH STAKEHOLDERS FOR PREPARATION OF THE 2014 SUSTAINABLE DEVELOPMENT REPORT

1. Korsakov Municipal Administration, N.S. Gustova, Deputy Head of Korsakov Municipal Administration, Head of Social Development Department.
2. Yuzhno-Sakhalinsk Municipal Administration, Territorial and Environmental Monitoring Department, N.E. Samarina, Head of Natural Resources Department.
3. Yuzhno-Sakhalinsk Municipal Administration, Local Self-Government Department, N.V. Belyaeva, Category 1 Chief Specialist.
4. Airline Aurora K.P. Sukhobrik, CEO. Chairman of regional employers' branch of RUIE (Russian Union of Industrialists and Entrepreneurs).
5. Sakhalin Regional Museum of Art, A.V. Buryka, Director.
6. Sakhalin Regional Museum of Art, I.G. Malkova, Deputy Director.
7. Sakhalin Regional Folk Arts and Crafts Centre, G.A. Samenko, Head of IP Traditional Culture Department.
8. Sakhalin Regional Folk Arts and Crafts Centre, O.Yu. Khur'yun, senior specialist of IP Traditional Culture Department.
9. Regional Centre of Extracurricular Education, S. I. Rudenko, Head of Department.
10. Preodoleniye Center, N.S. Dunav, Department Head, Rehabilitation Center for Children and Teenagers with Disabilities.
11. Yuzhno-Sakhalinsk Duma, E.V. Plotnikov, Deputy Chairman.
12. Sakhalin Department of the RF Ministry of Emergency Situations, A.S. Pal'kin, Lead Specialist, Civil Defence Management Department.
13. Administrative Office of the Public Chamber of the Sakhalin Oblast, L. V. Golubeva, Director.
14. Sakhalin Oblast Government, Ministry of healthcare, A.A. Kucherenko, Senior Advisor, the specialised Medical Care organisation Department.
15. Sakhalin Oblast Government, Ministry of healthcare, K.V. Sakharova, press secretary.
16. Sakhalin Oblast Government, Ministry of Education, S.Yu. Vasil'eva, Deputy Minister.
17. Sakhalin Oblast Government, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, E.D. Nevenchina, Head of Environmental Protection Department.
18. Sakhalin Oblast Government, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, N.V. Starodubtseva, Senior Advisor.
19. Sakhalin Oblast Government, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, O.S. Rozhkova, Advisor Environmental Protection Department.
20. Sakhalin Oblast Government, A.P. Antonenko, Senior Advisor of Public Safety Department.
21. Sakhalin Oblast Government, E.A. Koroleva, Head of Sakhalin Indigenous Minorities Division.
22. Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities, F.C. Mygun, Chairman.
23. Sakhalin Regional Council of Veterans of War, Labour, Military Forces and Law Enforcement Authorities, A.A. Shabelnikov, Chairman.
24. Sakhalin State University, V. N. Yefanov, Dean of Natural Science Department.
25. Sakhalin State University, I.G. Minervin, Rector.
26. Sakhalin State University, B.R. Misikov, president.
27. Sakhalin State University, E.N. Lisitsina, Head of Sustainable Development chair.
28. Sakhalin State University, To Ken Sik.
29. Indigenous Minorities Council of the Yuzhno-Sakhalinsk Municipal Administration, A.Ya. Nachetkina.
30. Indigenous Minorities Council of the Yuzhno-Sakhalinsk Municipal Administration, M.V. Kragina.
31. Sakhalin Road Traffic Police Department of the RF Ministry of Internal Affairs, S.E. Khon, Inspector.
32. Sakhalin Research Institute of Fishery Industry and Oceanography, Federal State Unitary Enterprise, A.A. Zhivoglyadov, Deputy Head of Department.
33. People of Ykh-Mif ("People of Sakhalin") Ethnocultural Centre, Yuzhno-Sakhalinsk Local NGO of Sakhalin Indigenous Minorities, E.S. Nitkuk.

APPENDIX 4. USEFUL LINKS

Company public website	http://www.sakhalinenergy.com
Sustainable development	http://www.sakhalinenergy.com (section Social Performance)
About the company	http://www.sakhalinenergy.com (section About the Company)
Contracting with us	http://www.sakhalinenergy.com (section Contracting with Us)
Job and career	http://www.sakhalinenergy.com (section Job and Career)
Media centre	http://www.sakhalinenergy.com (section Media Center)
Vesti corporate newspaper	http://www.sakhalinenergy.com (section Media Center)
Energy TV programme	http://www.sakhalinenergy.com (section Media Center)
Whistle blowing procedure	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Company documents and material referred to in the Report	
Statement of General Business Principles;	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Sustainable Development Policy	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Human Rights Policy	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Code of Conduct	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Sakhalin Energy Commitment and Policy on Health, Safety, Environment and Social Performance	http://www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Health Safety Environmental and Social Action Plan, Policies and Standards on Health, Safety, Environment and Social Performance (note: complex of documents)	http://www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Lenders' Independent Environmental Consultant Reports on Conducted Monitoring	http://www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Company social performance management standard	http://www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Contracting and Procurement Policy	http://www.sakhalinenergy.com (section Contracting with Us)
Public Consultations and Information Disclosure Plan (updated annually)	Public Consultations and Information Disclosure Plan (updated annually)
Public Consultations and Disclosure Reports	http://www.sakhalinenergy.com (section Social Performance – Community Awareness)
Biodiversity Action Plan	http://www.sakhalinenergy.com (section Media Center – Library – Environmental Documents)
Statement on application of ISO 26000:2010 Guidance on Social Responsibility	http://www.sakhalinenergy.com (section Social Performance – Sustainable Development Principles)
Sustainable Development Reports	http://www.sakhalinenergy.com (section Media Center)
Projects and Programmes websites	
Korsakov Partnership Council for Sustainable Development	http://www.korsakovsovet.ru
Sakhalin Indigenous Minority Development Plan	http://www.simdp.ru
'What to Do in Emergency Situations' Programme	http://senya-spasatel.ru
Energy Social Initiatives Fund	http://www.fondenergy.ru
The Save the Salmon Together project	http://salmon-friend.ru

Printed Materials	
ABC-book of the Uilta language	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
The Universal Declaration of Human Rights in the Nivkh language	http://simdp.ru (section Multimedia – Other Materials)
The Universal Declaration of Human Rights in the Uilta language	http://simdp.ru (section Multimedia – Other Materials)
The Universal Declaration of Human Rights into the Nanai Language	http://simdp.ru (section Multimedia – Other Materials)
The UN Declaration on the Rights of Indigenous People in Uilta language	http://simdp.ru (section Multimedia – Other Materials)
Comics	http://senya-spasatel.ru
Resettlement: experience of Sakhalin Energy	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Human Rights: Experience of Sakhalin Energy	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Birds of Sakhalin Island (photo album)	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
EA. Best Practices Book. Vol.1	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
EA. Best Practices Book. Vol.2	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Schoolbook 'Life safety fundamentals'	http://senya-spasatel.ru
Gray Whales. The Sakhalin Story	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Liquefied natural gas (collection of interesting facts)	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Photo album 'The World through a lens'	Photo album 'The World through a lens'
Poisonous Plants and Fungi	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Rivers of Sakhalin Island	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Sakhalin Birds (photo album)	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Sakhalin-2 Encyclopedia	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Steller's Sea Eagle	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Nivkh Myths and Fairy Tales	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
Reference Material and Other	
Global Compact LEAD	http://www.unglobalcompact.org
UN Global Compact Network Russia	http://www.undp.ru
Global Initiative Sustainability Reporting Guidelines	http://www.unglobalcompact.org (section How to participate – Global Compact LEAD)
UN Global Compact	http://www.globalreporting.org
UN Global Compact in Russia	http://www.undp.ru/index.php?iso=RU&lid=1
UNGC Network, Russia. Corporate Social Responsibility Practices	http://www.undp.ru/index.php?iso=RU&lid=1&pid=160
Western Gray Whale Advisory Panel (WGWAP)	http://www.iucn.org/wgwap/wgwap

APPENDIX 5. COMPANY'S INFORMATION CENTRES LIST

District	Community	Organisation	Address
Aniva	Troitskoye	Rural library, Branch No.7, Sub-division of the Municipal Institution Aniva Municipal Centralised Library System	13, Sovetskaya St.
Dolinsk	Vzmorye	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	127a, Tsentralnaya St.
	Dolinsk	Dolinsk Central City Library, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	31, Lenina St.
	Sokol	Rural library, Branch No.5, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	14, Shirokay 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 Library, 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	11a-7, Tsentralnaya St.
Poronaysk	Poronaysk	Poronaysk Central Library, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	45, Gagarina 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, Gagarina St.
Smirnykh	Onor	Rural library, Branch No.3, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	21, 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, Lenina 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	13, 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, Titova 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 District Central Library, Sub-division of the Municipal Institution of Culture Nogliki Centralised Library System	5a, Pogranichnaya St.
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 the 2014 Sakhalin Energy's 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 the report, do you have a better idea and understanding of Sakhalin Energy's 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 unbiasedness 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's 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's 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 2015 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 to?

- Company's employee
 Investor
 Shareholder
 Customer (Buyer)
 Partner (Contractor)
 Representative of authorities
 Representative of public organisation
 Mass media
 Other group of persons concerned

Please indicate your contact information below:

Name: _____

Job title: _____

Telephone: _____

Organisation: _____

Fax: _____

Address: _____

E-mail: _____

What type of communication is preferable?

- By mail
 By E-Mail

Please return the completed Form on the 2014 Sustainable Development Report to:

35 Dzerzhinskogo St., 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.

APPENDIX 7. CERTIFICATE OF PUBLIC ENDORSEMENT



Russian Union of Industrialists and Entrepreneurs Certificate of Public Endorsement of Corporate Non-Financial Report Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has passed public endorsement at the RUIE Council for Non-Financial Reporting.

The detailed RUIE Council conclusion regarding public endorsement of 2014 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has been provided to the Company, which may publish it without any amendments and use it for in-house purposes as well as in engagements with stakeholders. Registration No. 066.01.004.01.14 RUIE President A. Shokhin.

APPENDIX 8. CONCLUSION ON THE REVIEW OF SAKHALIN ENERGY'S 2014 SUSTAINABLE DEVELOPMENT REPORT BY THE RUIE COUNCIL FOR NON-FINANCIAL REPORTING FOR THE PURPOSE OF PUBLIC ENDORSEMENT

The Non-Financial Reporting Council (the Council) of the RUIE (Russian Union of Industrialists and Entrepreneurs), established by the Bureau of the Board (Resolution dated 28 June 2007), has reviewed the 2014 Sustainable Development Report (the report) at the request of Sakhalin Energy Investment Company Ltd. (Sakhalin Energy, or the company).

The company asked the RUIE to arrange for a public endorsement process by the Council for Non-Financial Reporting, which issues its opinion on the relevance and completeness of information provided in company's non-financial report on the context of the Social Charter of Russian Business that promotes responsible business principles.

During the period from 25 February to 10 March 2014, the Council's members reviewed the company's report and prepared this Conclusion based on the Council-approved Rules for Public Endorsement of Non-Financial Reports. The Council members possess the required competencies in areas of corporate responsibility, sustainable development and non-financial reporting; they abide by ethical requirements for making independent and objective assessments; and they express their personal opinions as experts, but not the opinions of their respective organisations.

The relevance and completeness of the report were assessed based on the following criteria.

Information is relevant since it demonstrates the company's compliance with responsible business practices as set forth in the Social Charter of Russian Business (www.rspp.ru).

Complete 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 processes, major achievements and key performance and effectiveness indicators.

The Council notes that progress has been made in this report in terms of information disclosure as compared to the previous one.

The fact that the company has applied international reporting principles is taken into account as part of the public endorsement process. However, it is outside the scope of this conclusion to assess the extent of the compliance with international reporting principles.

Sakhalin Energy bears all responsibility for the information and announcements 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 internal purposes, as well as for its engagements with stakeholders, provided the conclusion is published as is, without any changes.

FINAL OPINION

Based on the report's review and the public information published on the company's website, and following a discussion of the independent review of the report by the RUIE Council for Non-Financial Reporting, the Council confirms the following.

The 2014 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. contains material information and covers key areas of responsible business practices in accordance with the Social Charter of Russian Business. It provides sufficiently detailed information on the company's activities in these areas.

The 2014 report addresses the RUIE Council's recommendations for the 2013 Sakhalin Energy Sustainable Development Report. Information has been included on the procedure for defining material subjects to be disclosed in the Report. The analysis of the economic aspects with regard to the interrelation of the company's strategy and operations and the development of oil and gas industry and of the overall economy has been enhanced, and the information on energy consumption has been expanded.

The company's 2014 report contains material information regarding the following aspects of responsible business practices.

Economic Freedom and Responsibility:

The report contains fully-fledged details of the significant events and successful production and economic results for 2014 that are demonstrated in the context of sustainable development objectives; details of achievements made while implementing the Operational Excellence Programme, as well as details describing the aggregate contribution to the economy of Russia and of the region that the Sakhalin-2 Project has made over its lifetime. It provides information on the introduction of state-of-the-art technologies and the measures taken to improve safety and production efficiency. The report highlights the key business factors affected by the macroeconomic situation that the company views through the prism of economic risks, and addresses the company's control measures and responses to external challenges. The report shows that the principles of corporate responsibility and sustainable development have been integrated into every process and management level. The company's organisational structure and the model and key elements of the corporate governance system, including the governing bodies' objectives for and the functions of the committees formed under the Board of Directors, are described in the report. The comprehensive risk management system is presented in great detail. The report

covers the key elements of corporate culture that are based upon its values, as well as the mechanisms and the procedures that have been designed for the company's employees to implement and maintain these values. It notes efforts aimed at preventing bribery, including introduction of new specialised training courses for the employees.

Business Partnership: The report covers the diversified practice of business partnerships and addresses the company's systematic approach to engagement with stakeholders that underlies the company's activities in every area of sustainable development. It describes the strategies, the principles, the wide range of tools of engagement, and the key areas of work. Special attention is paid to personnel with an emphasis on 2014 projects carried out in the area of personnel management. The system of internal communications is described in great detail. The report contains information about the measures the company takes in its relationships with business partners to promote standards and principles of responsible business practice in accordance with the company's regulations, including the Statement of General Business Principles, the Sustainable Development Policy, and the Code of Conduct. The report also informs about forums that the company holds annually with oil and gas customers and ship owners. It includes information on the long-standing vendor development programme that has been implemented with a view to improve the competitiveness of the contractors and is based on the experience of participating in the Sakhalin-2 international oil and gas project that is being realised by Sakhalin Energy. The report provides details on the company's engagement with environmental organisations, non-profit organisations, international organisations, as well as with governmental agencies and local authorities in the host region. Also included are the results of the efforts aimed at engagement with stakeholders as part of the reporting process, including the dialogues that focused on defining the material subjects. The results of this engagement are summarised in the report. The report informs about material subjects and aspects that stakeholders recommended to include in the 2014 report, including those on the company's individual aspects, indicators and programmes.

Human Rights: Support of fundamental human rights in a business setting is recognised as one of Sakhalin Energy's key principles. The report covers management practices in this area and informs about the company's Human Rights Policy as well as on the procedures that have been designed to implement it. Areas of activity that are associated with potential risks of human rights infringement as well as means to prevent such violations, including grievance

procedures, are listed in the report. The data on the grievances handling of is also included. It is reported that the company provides the focused training for its employees. The report provides information about the company's broad activity to promote international standards in the area of human rights (such as publications, translating the United Nations Declaration on the Rights of Indigenous Peoples into the indigenous people languages, etc.). The report describes the long-term partnership programme of contribution in the social development of, and support for the traditional economic activities of indigenous minorities of the North that is being managed by indigenous minorities representatives. The participation of the company's representatives in international and Russian events dedicated to human rights is also reported.

Environmental Preservation: The company indicates in the report that it regards environmental and industrial safety ensuring, environmental protection, biodiversity preservation and the rational use of natural resources as critical elements of its sustainable development strategy. The report provides information on the key elements of the management system in this area. These elements are based on ISO 14001 and OHSAS 18001 international standards. The report contains information about an industrial environmental control and regular environmental monitoring. In 2014, eight audits of the management system in this area were conducted. Information on equipment reliability improvements and the efforts to prevent and eliminate oil spills at the Sakhalin-2 Project offshore and onshore assets is included. Environmental impact statistics (pollutant emissions, greenhouse gas, waste management) are given for the last four years. The report describes engagement with Russian and foreign research and environmental organisations in preserving biodiversity. The report also informs about the public recognition of the company's successes in environmental protection.

Local Community Development: The report provides information about the company's active participation in social and economic development of Sakhalin and gives an overview of the company's systematic approach to social performance activities in the hosted region. The report contains information about the principles of corporate policy and associated management mechanisms, the social investment priorities, and the key programmes that have been identified in the course of public consultations. As the report states, the principal objective of Sakhalin Energy's social investment programme is to contribute to sustainable development of Sakhalin by implementing social, environmental and cultural projects. There is an overview of long-term strategic partnership projects involving

stakeholders and specific cases of such projects and programmes. Special attention is paid to the events and the results of the projects implemented in the anniversary reporting year. The report provides evidence of the recognition the company received for its charitable activities and the company's contribution to addressing social issues in the hosted region.

Concluding Statements

Overall, the report provides sufficient information on integrating sustainable development principles into the strategy and current activities of Sakhalin Energy. It elaborates the company's position on corporate social responsibility based on the way it interprets these concepts, which is in compliance with the key international documents in this area. It demonstrates a well-designed, comprehensive model for implementing the principles of responsible business into the company's management system and practice.

The 2014 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. is its sixth annual report of this kind, which demonstrates the sustainable reporting process and the company's adherence to transparency and openness principles. The report provides a considerable amount of data on economic, environmental and social performance.

The report was developed on the basis of recommendations applied in Russian and international reporting practices, resulting in the provision of. By this means information continuity and comparability across reporting cycles, as well as ensuring comparability with other companies' reports.

The report states that the company's plans to gradually transit to the new version of the GRI Sustainability Reporting Guidelines, G4, and applying them in preparing the 2015 report. As a first step, the company implemented a procedure for defining material subjects to be included in the report taking the stakeholders' opinion into account. The results of this work are demonstrated in the report.

RECOMMENDATIONS

Recognising the merits of the Sakhalin Energy 2014 Sustainable Development Report, the Council would like to bring to the company's attention a number of aspects related to the informational value and completeness of disclosure that are essential for the stakeholders. We recommend the company consider this advice in subsequent reporting cycles.

The Council's recommendations on the results of its analysis of the company's previous non-financial reports remain relevant, in particular, for the company to provide balanced coverage of not only its achievements, but also Sakhalin Energy's operational challenges and the approaches to address them.

Although the report contains a considerable amount of information on various aspects of sustainable development, it should be noted that the informational value would be higher if the data in the tables were shown with comments explaining the dynamics of the data, especially in case of significant changes. It is also important to expand, if possible, the comparisons of the company's indicators with Russian, industry-specific and international indicators, particularly in terms of energy efficiency, biodiversity restoration, etc.

The company has amassed a considerable amount of information on implementing long-term partnership projects that would enable it to give a comprehensive assessment of its long-standing social investments. This relates, in particular, to the Sakhalin Indigenous Minorities Development Plan. It would be useful to analyse the Plan's impact on Sakhalin indigenous minorities living conditions and quality of life and include this in the next report. It is recommended that the effectiveness of the company's social investments be covered in greater detail in the future.

Considering the current importance of supply chain responsibility topic and the company's experience in responsible engagement with suppliers and contractors, it is recommended that in the future, information be expanded on these matters. The company's environmental and social requirements for its partners should be covered to a greater extent, showing the results achieved. This is even more important considering

the company is planning to apply GRI G4 Sustainability Reporting Guidelines in preparing its reports, which focus on this topic.

The report offers considerable details on the consultations that were conducted with various stakeholder groups to define the material subjects that are covered in the report. The procedures are described and a multitude of different opinions are presented. We recommend that the company continue this work and give more attention to the way in which the material subjects covered in the reports are define. It is important to tell not only about the opinions of stakeholders, but also about the results of materiality analysis based on these opinions, and substantiate the choice of the subjects and priority aspects of the report. This is the approach recommended by G4 guidelines, and should be kept in mind when the company applies them to a greater extent in the future.

It would be useful to supplement the information in the report concerning the use of state-of-the-art technologies for extracting hydrocarbons that improve production efficiency with information on any related environmental impacts and the measures taken to prevent (reduce) adverse effects, if these can occur. This information is material for stakeholders and deserves special attention in the future. In particular, this concerns information on the water injection techniques used on the Molikpaq platform.

In the future when transitioning to GRI G4 Sustainability Reporting Guidelines, it is recommended that the company also apply an industry-specific application and include the relevant indicators in its reports, as well as extend the number of corporate governance indicators, in order to meet the new requirements of these Guidelines.

The RUIE Council for Non-Financial Reporting expresses a positive opinion of the report, and, supporting the company in its adherence to the principles of corporate social responsibility and noting the consistency of the reporting process development, confirms that the 2014 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has received public endorsement.

Chairman of the RUIE Council

F.T. Prokopov

Deputy Chairman of the RUIE Council

E.N. Feoktistova



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