



SUSTAINABLE DEVELOPMENT REPORT

2019





TO BE THE PREMIER ENERGY
SOURCE FOR ASIA-PACIFIC

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On the cover:

Natalia Kiryukhina
"Snow-covered Trees"
Cardboard. Oil.
1992

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MESSAGE FROM THE CHAIRMAN OF THE COMMITTEE OF EXECUTIVE DIRECTORS AND CHIEF EXECUTIVE OFFICER

Over 25 years of doing business responsibly, the company has achieved significant success.



Yuri Metelskiy
"Lunskoye-A Platform"
Hardboard. Oil. Crude oil.
2020

MESSAGE FROM THE CHAIRMAN OF THE COMMITTEE OF EXECUTIVE DIRECTORS AND CHIEF EXECUTIVE OFFICER



Dear friends,

It is my pleasure to present you with this Sustainable Development Report (SDR) that summarises our activities over the year in which Sakhalin Energy celebrated its anniversary.

Over 25 years of doing business responsibly, the company has achieved significant success. As in previous years, this SDR complies with Global Reporting Initiative (GRI) standards and is addressed to a wide audience of stakeholders, presenting information aligned with the interests of each group in a balanced way.

The 2019 SDR is focused on culture, an important, multifaceted phenomenon that plays a role in each of our lives. Sakhalin Energy’s corporate culture has been established over the past quarter century

through the convergence of diverse business and management practices from Europe, Japan and Russia, bringing together the unique experiences of our shareholders. The Sakhalin-2 project has melded the best Russian and international practices, creating a historic alloy augmented with our own innovations, with safety undoubtedly being our top priority.

Sakhalin Energy’s commitment to our shareholders puts upon us a certain obligation in establishing a portfolio of cultural values and principles of doing business which for the past 25 years have proven their effectiveness, both internally and through our stakeholder agreement.

In the past year, the company placed extra focus on operational excellence and the use of cutting-edge technology in exploration and

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production. Thanks to process synergies and optimisation, two things that are closely linked to each other, the company managed to achieve good performance and sufficient asset and equipment reliability in its anniversary year. Customer engagement remained an important part of our activities, with special focus on Chinese companies. This resulted in Sakhalin Energy’s first ever direct LNG delivery to China. Despite a challenging geopolitical environment resulting in a softer energy market, the company managed to achieve excellent financial performance. In 2019, Sakhalin Energy produced 55.06 crude oil cargoes and 171.54 LNG cargoes.

Our impressive production performance stems from the good teamwork demonstrated by our personnel, as well as our effective process safety management, which helps us to prevent not only major accidents, but also leaks and incidents of any type. Over the past quarter century, the company has become a significant nexus, gaining a strong reputation by promoting safety culture not only among its employees, but also within

the entire island community. Undoubtedly, this stems from Sakhalin Energy’s Goal Zero Journey. Goal Zero is a quantum leap in safety culture, driving safe behaviours with no harm to people and no damage to assets, not only at our various production sites and in offices, but also in people’s daily lives.

As Russian and European customers’ appetite for natural gas increases, Sakhalin Energy continues to develop the culture of Russian Content as part of the Sakhalin-2 Project. Last year, a joint certification project between Sakhalin Energy and TMK Premium Connection OCTG reached a new milestone. While such connections had previously not been used at international offshore projects, in September 2019, a TMK string was successfully lowered into an oil well at the Piltun-Astokhskoye field. One month earlier, for the first time in history, an ice-breaking supply vessel under the Russian flag, the SCF Endeavour, performed a gravel packing job at the Lunskeye field. The joint cuttings re-injection project implemented by Sakhalin Energy and AKROS, a Russian oilfield services

company, won the national Prioritet import substitution award. Our 2019 SDR presents information on Russian Content development in even greater detail than the previous reports.

Our continuous improvement culture gives Sakhalin Energy a competitive edge, both domestically and internationally. We managed to increase Russian party revenue last year through continuous improvement. In order to maximise our efficiency, we engage every employee in our optimisation drive. Value-generating initiatives are becoming a part of our team's daily routine and offer everyone an opportunity to contribute to the future success of our company. In 2019, the company set yet another record by completing more than 580 such initiatives, a 55% increase over the previous year.

We put special focus on our people, the foundation of Sakhalin Energy's business. The culture of care, education and development remains on the

Over the past quarter century, the company has become a significant nexus, gaining a strong reputation by promoting safety culture not only among its employees, but also within the entire island community.

Transparency Rating of Oil and Gas Companies Operating in Russia for the fourth year in a row, a public recognition of our company's openness, effective management system and the professionalism of its team.

As the company celebrated its 25th anniversary, Sakhalin Energy experienced a major upturn, not limited to its production performance alone. Our corporate social responsibility culture, reflected in our activities in the host region, allows the company to remain a recognised leader in the field. It is symbolic that in 2019, declared the Year of Theatre in the Russian Federation, Sakhalin Energy presented Sakhalin residents with Russia's most important theatre event, the Golden Mask Festival, as part of the cultural programme commemorating Sakhalin Energy's 25th anniversary. Sakhalin islanders and visitors alike were keen to see our country's best theatrical performances and will

list of company priorities. Our people agenda is not limited to offering career development opportunities and a competitive employee value proposition. We apply best Russian and international practices while strengthening cross-functional collaboration and improving the way we manage our company. Our people agenda is driven by line managers at all levels, resulting in a systematic approach to HR management. In 2019 alone, about 1,900 employees were trained. It should be noted that, thanks to our shareholders' support, a Russian employee was appointed to the position of Prigorodnoye Asset Manager for the first time in Sakhalin Energy's history.

Sakhalin Energy operates one of the world's most technically complex integrated oil and gas projects, using a state-of-the-art environmental management system, while promoting a culture of care for the environment and responsible industrial safety practices. This integrated approach propelled Sakhalin Energy to the top of the Environmental

remember this event as a real celebration of art. Marking its birthday, the company presented the local community with another gift, the Fairy Tales in the Russian Art exhibition in Yuzhno-Sakhalinsk, with paintings from the State Russian Museum being brought to the island.

By championing these cultural values, the company contributes to achieving the United Nations Sustainable Development Goals. The company's efforts promoting the SDGs as a strategic priority have been reflected in Sakhalin Energy's being recognised as one of the most active Global Compact LEAD participants for its ongoing commitment to the UN Global Compact and its Ten Principles for Responsible Business.

In 2020, Sakhalin Energy will continue to enhance its Corporate Management System. Our competitive advantage is our proactive,

Our continuous improvement culture gives Sakhalin Energy a competitive edge, both domestically and internationally.

energetic and highly professional team that includes people from 27 countries, which creates and enhances our unique corporate culture and serves as a reliable foundation of our future success.

Dear colleagues, I am confident that in the next 25 years, Sakhalin Energy will continue to expand its responsible business.

Roman Dashkov

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ABOUT THE REPORT

The 2019 Sustainable Development Report is focused on culture, an important, multifaceted phenomenon that plays a role in each of our lives.



Victor Kuzmenko

"Sailboat"
Canvas, Oil,
2019

2.1. GENERAL INFORMATION

In its efforts to implement the Sustainable Development Policy, Sakhalin Energy undertakes to “annually provide non-financial reporting in accordance with the standards and principles of the Global Reporting Initiative (GRI)”. The form of non-financial reporting chosen by the company is a Sustainable Development Report, which serves as a tool for systematising its non-financial activities (environmental, social and other programmes and initiatives) and for improving the quality of corporate governance, which in turn increases the company’s overall sustainability.

An open reporting culture allows Sakhalin Energy to demonstrate its commitment to the principles and concepts of corporate social responsibility (CSR) and sustainable development (SD), and to provide meaningful information about the economic, environmental, social and ethical aspects of its activities to its stakeholders.

CSR and SD reporting benefits Sakhalin Energy in a number of ways, in particular by:

- identifying the stakeholders’ opinions and expectations of the company’s activities and clarifying the company’s CSR and SD strategy;
- demonstrating that the company is aware of and takes into account the stakeholders’ opinions, creating long-term trust as well as transparent and constructive cooperation;
- serving as an effective tool for identifying, preventing, and mitigating non-financial risks, creating a sustainable reputation (as a responsible employer, partner, etc.);
- creating new opportunities and areas of involvement for the company in production, environmental, and social spheres;
- identifying CSR and SD performance indicators, evaluating and applying them to enhance the quality of managerial decisions at all levels;
- helping to comply with the principle of continuous improvement and stimulating the subsequent improvement of internal and external processes in the company;
- increasing the company’s competitiveness.

Sakhalin Energy was declared the winner of the 2019 competition for the best socially oriented company in the oil and gas industry, held by the RF Ministry of Energy, in the Oil and Gas Company Non-Financial Report category.

In 2019, Sakhalin Energy’s Sustainable Development Report for 2018 received the highest award among fuel and energy companies, and became the platinum winner of the Vision Awards, organised by the League of American Communications Professionals (LACP). In the top 100 reports list, the company’s Report ranked 7th, showing the best result among Russian participants in the history of the contest.

The target audience of the Report are both internal and external stakeholders listed in Section 6. Stakeholder Engagement Management.

The Report discloses material topics, issues and indicators of the company’s economic, environmental and social performance, including the stakeholders’ areas of concern and the senior management’s appraisals of the company’s performance in the reporting period (see Section 2.4. Defining Material and Priority Topics to Be Included in the Report).

Over the past five years, each of Sakhalin Energy’s Sustainable Development Reports has been devoted to a specific theme. The 2019 Report is dedicated to culture and reflects the cultural aspects found in all areas of the company’s activities, including production and industrial safety assurance, labour safety and occupational health, personnel

management, continuous improvement, environmental protection, social investment and stakeholder engagement.

In addition, the company continues to disclose its innovative approaches and practices, which was recommended by the Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs following the public endorsement of the 2018 Report (see Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes, and Company’s Response and Commitments).

At Sakhalin Energy, the preparation of the Report is a deliberate systematic process, involving the heads and specialists of most of the company’s units. It is implemented in accordance with a special corporate procedure, which ensures continuity, reliability and process improvement. The procedure includes a description of the standards

and principles for preparing a report on the sustainable development of the company, defines requirements for determining the content of the document, outlines the processes of its preparation, approval and dissemination, the distribution of responsibilities for each group of indicators and each operation, and also indicates time frames.

Each Report is prepared, coordinated and approved in accordance with the procedure and the schedule approved by the Committee of Executive Directors on an annual basis.

The procedure provides for the establishment of a Task Force to prepare the Report. This Task Force includes managers and specialists from the company’s units, responsible for particular aspects of corporate governance, production activities, economic, social and environmental impacts.

The Report is approved by the Committee of Executive Directors and then by Chairman of the Committee of Executive Directors, the Chief Executive Officer.






The approved Report is published on Sakhalin Energy’s website; paper copies are distributed among the towns and villages of the island (through the company’s information centres and district libraries), and sent to the main stakeholders by mail.

All annual Sakhalin Energy Sustainable Development Reports are registered in the National Register of Corporate Non-Financial Reports of the Russian Union of Industrialists and Entrepreneurs (RUIE) (www.rspp.ru). They are also included in the catalogue of the Global Reporting Initiative (www.globalreporting.org) and are available on the UN Global Compact website (www.globalcompact.org).

The company values opinions, suggestions and comments on this Report from all interested parties. To share your opinion, you may:

- fill out the Feedback Form (see Appendix 6. Feedback Form) and send it to the address given there;
- fill out the Feedback Form on the company’s website (www.sakhalinenergy.com);
- fill out the Feedback Form at one of the company’s information centres (see Appendix 5. Company’s Information Centres List).

SDGS TO WHICH SAKHALIN ENERGY CONTRIBUTES MOST SIGNIFICANTLY, BASED ON STAKEHOLDERS’ OPINIONS

SDG	Total points*	Number of answers
	372	111
	373	112
	480	121
	448	116
	361	109
	439	115
	456	114
	481	119
	472	115
	369	111
	473	119
	437	113
	436	114
	509	118
	484	117
	441	115
	433	113

* Respondents indicated the SDGs relevant to the company’s activities, ranking them on a five-point scale: 5—the most significant; 1—the least significant.

2.2. REPORT PREPARATION STANDARDS

Since the preparation of the 2017 Report, Sakhalin Energy has been guided by the GRI Sustainability Reporting Standards, which came into force in July 2018. In addition, the company uses the GRI G4 Sector Disclosures (Oil and Gas) guidelines and the requirements of the United Nations Global Compact in preparing an annual report on adherence to its Ten Principles (UN Global Compact Progress Report).

The company constantly analyses trends and new requirements in the field of non-financial reporting, both international and domestic. In the preparation of this Report, the company was guided by:

- The Public Non-Financial Reporting Concept and the Action Plan, which were approved by a decree of the Government of the Russian Federation in 2017.
- Guidelines of the European Commission on Non-Financial Reporting, prepared in accordance with the Non-Financial Reporting Directive, adopted by the Council of Europe in 2017.
- Guidance on Core Indicators for Entity Reporting on Contribution Towards Implementation of the Sustainable Development

Goals, adopted by the United Nations Conference on Trade and Development (UNCTAD) in 2019.

In addition, when preparing its Sustainable Development Reports, the company:

- uses materials from analytical reviews of corporate non-financial reports prepared by the RUIE Committee for Corporate Social Responsibility and Sustainable Development and the RUIE Corporate Social Responsibility and Non-Financial Reporting Centre;
- analyses its own activities in the field of corporate social responsibility and the corresponding activities of other companies, etc.;
- studies non-financial reports of other Russian and foreign companies.

Beginning with the 2016 Report, Sakhalin Energy has reported on its contribution to achieving Sustainable Development Goals (SDGs). This work was continued in the 2019 Report (see Section 3. Corporate Social Responsibility and Sustainable Development and Appendix 1. GRI Standards Compliance Table).



The Priority SDGs for Sakhalin Energy, Based on Stakeholders' Opinions table lists the material SDGs brought up by stakeholders in a dedicated survey, during dialogues with external stakeholders, and

during discussions with the company's employees, held as part of the preparation of sustainable development reports.

2.3. REPORTING PRINCIPLES FOR DEFINING REPORT CONTENT AND QUALITY

The company acknowledges and uses the following SD reporting principles presented in the Principles of Report Content and Quality Definition chart.

Principles of the Report Content and Quality Definition



2.4. DEFINING MATERIAL AND PRIORITY TOPICS TO BE INCLUDED IN THE REPORT

The material topics of the company's activities, which are disclosed in the 2019 Report, and their order of priority were selected in close cooperation with the company's stakeholders, including its shareholders, lenders,

government authorities, customers, personnel, contractors, community, the media, stakeholders in Japan, international organisations, public and other NPOs, and other interested parties.



- annual public opinion surveys and analysis of the grievances submitted to the company (see Section 6. Stakeholder Engagement Management);
- recommendations and comments regarding the 2018 Sustainable Development Report and recommendations of the RUIE Non-Financial Reporting Council that conducted the public endorsement of the 2018 Report.

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

Detailed information on the results of stakeholder engagement activities conducted in preparation of the Report, including dialogue meetings, surveys, etc., is presented in the Most Material Topics to Be Included in the 2019 Report, Based on Stakeholders’ Opinions table.

Stakeholder comments and suggestions concerning specific company aspects, indicators, and/or programmes to be included in the 2019 Report as well as corresponding responses and commitments of Sakhalin Energy are listed in Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and Company’s Response and Commitments.

2. EVALUATION OF TOPIC MATERIALITY IN TERMS OF IMPACT, BASED ON TWO IMPACT CRITERIA:

- impact on stakeholder assessments and decisions;
- significance of the economic, environmental, and social impact of the company’s activities.

Evaluation results are presented in the Topic Relevance Evaluation Matrix.



To determine material topics for inclusion in the Report, the company used the following procedure:

1. DETERMINING MATERIAL TOPICS TO BE INCLUDED IN THE 2019 REPORT BASED ON EXTERNAL AND INTERNAL STAKEHOLDERS’ OPINIONS

The company used the most preferred engagement mechanisms and information exchange channels for interacting with each group of stakeholders, taking into account the nature of the relationship (see Section 6. Stakeholder Engagement Management). Representatives of stakeholders were involved in defining the Report content by means of:

- electronic surveys and surveys at various events;
- interviews during personal meetings;
- meetings;
- dialogue meetings with external stakeholders;
- discussions with the company’s personnel.

Two rounds of discussions were traditionally held while preparing the Report. The stakeholder representatives had an opportunity to put questions to the company’s representatives and to receive answers, as well as to express their opinions on the materiality of any aspect of Sakhalin Energy’s activities (see Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and Company’s Response and Commitments).

In addition, in defining the Report content, the company took into account the following:

- the results of regular media monitoring;

Rationale for Material Topics

Topic	Rationale	Stakeholders for whom the topic is most material	Pertinent section of the Report
HSE and social performance management system	The company uses a systemic approach to handling HSE and social performance issues, which enables continuous improvement in this area. The comprehensive HSE&SP Management System defines the controls used by Sakhalin Energy to handle hazardous situations and risks	Shareholders, authorities, customers, personnel	3.5
Assessment of environmental, health and social impacts of the Sakhalin-2 project	The company is committed to conducting impact assessment before beginning any new activities or introducing significant changes to existing projects. This is in line with the due diligence approach, which is the basis for all risk management procedures. Sakhalin Energy seeks to avoid or reduce impact to the lowest possible level or to compensate for it by taking appropriate measures	Shareholders, authorities, customers, personnel, contractors, community	3.5.2
General information about Sakhalin Energy and the Sakhalin-2 project Results: assets and development projects Hydrocarbon production and export	Sakhalin Energy aims to be a premier energy source and conducts its business on the basis of efficient, reliable, and safe production, and a responsible attitude toward social and environmental issues	Shareholders, authorities, customers, personnel, contractors, community	4.2
Innovation and continuous improvement	Today, Sakhalin Energy is developing a consolidated digital strategy to support growth strategy implementation and enable joint and consolidated planning of further development through the use of effective digital technologies. The company sees digitalisation as a form of strategic management and a response to the emergence of new technologies, and is focused on creating new digital business opportunities	Shareholders, authorities, personnel, contractors	4.3
Company’s mission, vision, values, and principles	Sakhalin Energy is guided by general business principles. These principles are based on values such as integrity, conscientiousness, respect and care for people, individual responsibility and professionalism, continuous optimisation of operations and teamwork, and are characterised by responsibility to shareholders, the Russian party, company employees, business partners, meaning all those with whom the company maintains business relations, as well as to the community as a whole	Shareholders, authorities, customers, personnel, contractors	5.1
Risk management system	Sakhalin Energy believes that effective risk management plays an important role in achieving the company’s objectives. The risk management system of the company is aimed at maximising opportunities or minimising negative effects of identified risks, including risks of failure to reach established goals, risks of losses, and negative factors affecting such areas as safety, operational excellence, respect for human rights, labour relations, health, safety and environment, anti-bribery and corruption, and others	Shareholders, authorities, customers, personnel, community	5.4
Anti-bribery and corruption	Sakhalin Energy assists its employees, business partners, contractors, and suppliers in fulfilling requirements for counteracting bribery and corruption	Shareholders, authorities, customers, personnel, community	5.7
Stakeholder engagement performance in 2019	The company considers regular and meaningful engagement with stakeholders to be an important component of its successful business operations	Shareholders, authorities, customers, personnel, contractors, community	6
Importance of the Sakhalin-2 project for the Russian Federation and the Sakhalin Oblast Financial benefits to the Russian Federation and the Sakhalin Oblast	The Russian Federation and the Sakhalin Oblast receive numerous benefits from the Sakhalin-2 project implementation, including financial and tax revenues to the budgets of the Russian Federation and the Sakhalin Oblast, new opportunities for developing advanced technologies, experience in managing complex high-tech projects, contracts with Russian companies, facilitation of employment growth, etc.	Shareholders, authorities, customers, personnel, contractors, community	7.1 and 7.2
Russian content, procurement and contracting management	The Sakhalin-2 project is one of the most complex projects undertaken in recent decades in the global oil and gas industry. Effective management of contracting and procurement is key for the project to be successful	Shareholders, authorities, customers, personnel, contractors	7.3 and 7.4

Topic	Rationale	Stakeholders for whom the topic is most material	Pertinent section of the Report
Industrial environmental control Environmental monitoring and biodiversity conservation	Due to its scope and complexity, the project can potentially have an impact on the environment, and Sakhalin Energy is committed to dealing systematically with these potential problems so as to mitigate risks and prevent negative consequences. Arranging and implementing industrial environmental control and monitoring, as well as conserving biodiversity, are essential components of the environmental impact management system	Shareholders, authorities, customers, personnel, contractors, community	8.2 and 8.3
Oil spill prevention and response preparedness	Oil spill prevention and oil spill response preparedness are the top priorities for Sakhalin Energy. The company uses a comprehensive approach to handle this important task	Shareholders, authorities, customers, personnel, community	8.5
Recruiting, hiring and onboarding new employees Occupational health Human rights: principles and management system Social investment and contribution to the sustainable development of the host region	The company and its stakeholders attach special importance to social impact management, such as HR management and development, respect for and the promotion of human rights, occupational safety and health, social investments, and contributing to the sustainable development of the host region	Shareholders, authorities, personnel, community	9.1.3, 9.3, 9.4, 9.5.



The Most Material Topics to Be Included in the 2019 Report, Based on Stakeholders’ Opinions (determined based on the largest total score and the number of responses)

Topics	Total points*	Number of answers	Included in the Report
Assessment of environmental, health and social impacts of the Sakhalin-2 project	583	128	3.5.2
Importance of the Sakhalin-2 project for the Russian Federation and the Sakhalin Oblast	565	123	7.1
Results: assets and development projects	541	124	4.2
Health, safety, environmental and social performance management system	540	124	3.5.1
Financial benefit to the Russian Federation and the Sakhalin Oblast	534	121	7.2
Oil spill prevention and response preparedness	520	117	8.5.1
Occupational health	512	118	9.3
General information about Sakhalin Energy and the Sakhalin-2 project	506	123	4
Stakeholder engagement performance in 2019 (community)	499	121	6
Industrial environmental control	498	116	8.2
Environmental monitoring and biodiversity conservation	498	115	8.3
Russian content	478	111	7.3
Human rights: principles and management system	470	114	9.4.1
Recruiting, hiring and onboarding new employees	467	114	9.1.3
Innovation and continuous improvement	464	115	4.3
Social investment and contribution to the sustainable development of the host region	464	111	9.5.1
Procurement and contracting management	461	115	7.4
Risk management system	458	114	5.4
Company’s mission, vision, values, and principles	457	118	5.1
Anti-bribery and corruption	456	118	5.7
Hydrocarbon production and export	452	107	4.2.3

* Respondents indicated topics, ranking them on a five-point scale: 5—the most significant; 1—the least significant.

3

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Sakhalin Energy is among the leaders of the RUIE's Indices: Sustainable Development Vector and the Responsibility and Transparency Index.



De Son En

"Spring Ice at Molikpaq"
Canvas, Oil, Acrylic,
2020

3.1. INTRODUCTION

4th
year in a row

Sakhalin Energy was among the leaders of the Sustainable Development Vector Index and the Responsibility and Transparency Index

2nd
place

was taken by Sakhalin Energy in social performance rating of the largest Russian oil and gas companies

Corporate culture is essential for the creation and development of the CSR system at Sakhalin Energy, and corporate values serve as guidelines for socially responsible behaviour of the company’s personnel and the improvement of corporate social performance.

Sakhalin Energy’s activities in the area of corporate social responsibility (CSR) are aimed at implementing the corporate strategy to improve the company’s image and role in society, and to carry out its business activities in compliance with the standards of sustainable development and good business ethics. It is an integral part of the Sakhalin Energy production and business activities and strategic development plan.

Due to a high degree of transparency and active stakeholder engagement, corporate governance at Sakhalin Energy has gradually transformed into

the management of the company as an open system (see Section 5. Corporate Governance and Section 6. Stakeholder Engagement Management). Sakhalin Energy has developed a system to take into account and control internal and external production, financial, technological, social, and environmental impacts, which allows the company to mitigate all types of risks in order to enhance its corporate sustainability (see Section 5.4. Risk Management System).

Leader of the Sustainable Development Vector and the Responsibility and Transparency Indices

In 2019, for the fourth year in a row, Sakhalin Energy was among the leaders of the Sustainable Development Vector Index and the Responsibility and Transparency Index, compiled by the RUIE since 2014 for an independent assessment of companies in terms of sustainable development, corporate responsibility and reporting.

In compiling the Responsibility and Transparency Index, the RUIE evaluates the disclosure of information in key areas of activity, analyses 70 indicators characterising responsible business practices, including economic, environmental, and social performance indicators, as well as governance aspects. The Sustainable Development Vector Index shows performance dynamics and therefore makes it possible to identify leaders among the largest companies — leaders in terms of transparency and, at the same time, demonstrating a generally upward trend in the area of sustainable development.



Leader of the Social Performance of the Largest Russian Companies Ranking

In 2019, Sakhalin Energy ranked second among companies with the highest contribution to social development per unit of environmental burden — a social performance rating of the largest Russian oil and gas companies.

The rating assesses the social performance of companies in order to identify the best of them, determines the flagships of the Russian economy, which not only set economic performance goals, but also adopt a pro-active attitude in sustainable development.

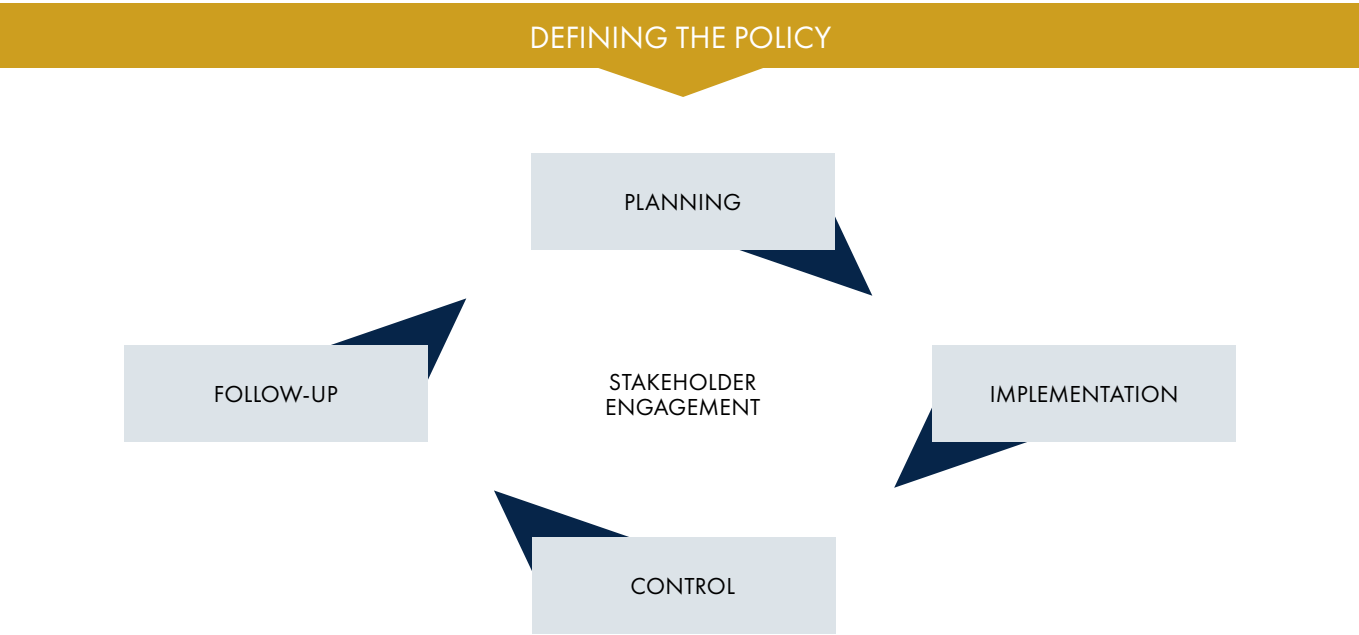
Successfully passing general independent assessments in CSR and sustainable development, the company remains a leader in certain sectors of this area, such as environmental impact management, HR management and personnel development, occupational safety and health, charity, etc. (see Sections 4, 7, 8 and 9).

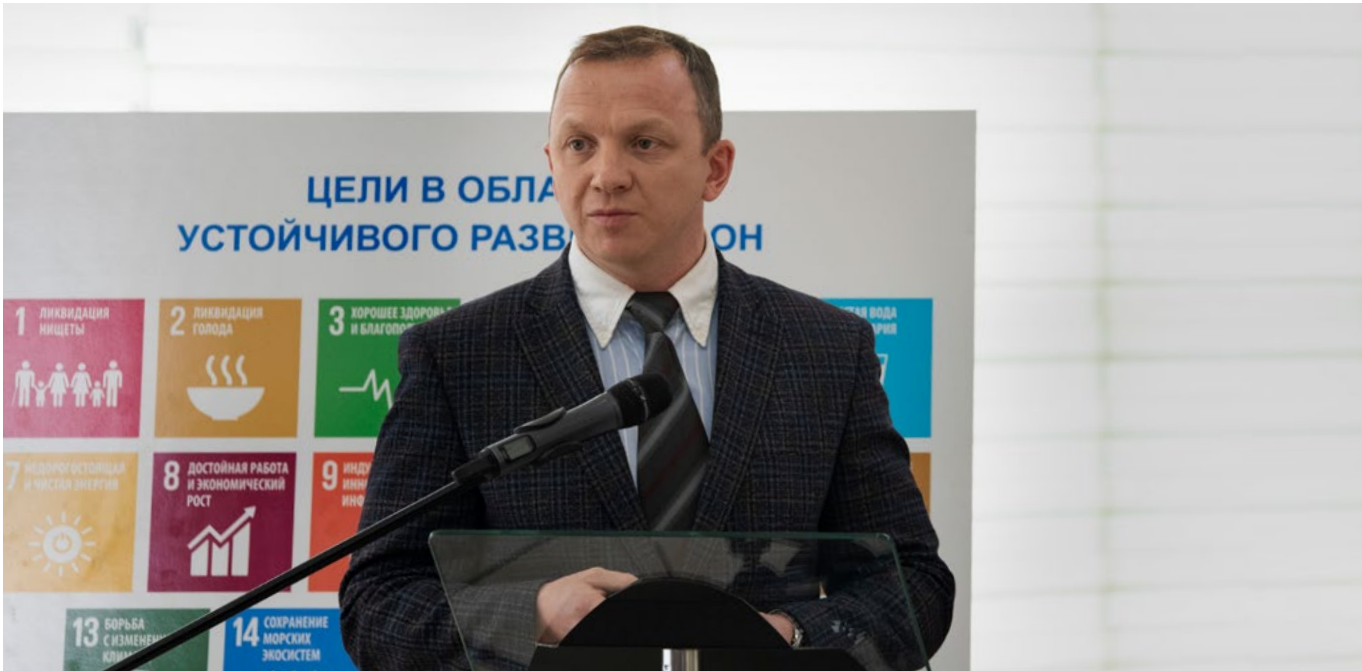
3.2. SAKHALIN ENERGY’S CSR SYSTEM

Corporate social responsibility applies to all activities of Sakhalin Energy. This approach is supported by its mission, vision, and values. The practical application aspects are addressed and approved in a number of corporate documents (see Section 5. Corporate Governance), including:

- Code of Conduct, including the Statement of General Business Principles;
- Sustainable Development Policy;
- Human Rights Policy;
- Commitment and Policy on Health, Safety, Environment and Social Performance.

Sakhalin Energy’s CSR Management System





Sakhalin Energy applies an essential part of the requirements and business principles set out in these documents to its contractors. This is in line with the GRI Standards. In addition to special contractual provisions and specific requirements, including the results of environmental, health and social impact assessments (see Section 3.5.2 Impact Assessment), the company arranges training sessions and workshops to ensure effective integration of business ethics, and social and environmental principles into the work of its contractors, and control over compliance with these principles (see Section 7.4. Supply Chain Management).

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 external certifying authorities. Assessments are also done through various stakeholder engagement activities, including:

- public consultations;
- workshops and topic-related discussions;
- opinion surveys;
- consultations in information centres established by the company in settlements located along the Transsakhlin pipeline and in close proximity to other assets of Sakhalin Energy;
- addressing grievances and appeals, etc.

For detailed information on the mechanisms for interaction with different stakeholders, see Section 6. Stakeholder Engagement Management.

3.3. PERFORMANCE STANDARDS

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. The results are reflected in various non-financial reports on activities. A number of 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 international standards established with regard to CSR.

are the United Nations Global Compact, the Global Reporting Initiative (GRI), the EU Directive as regards disclosure of non-financial and diversity information by certain large organisations and groups, the standards of the International Finance Corporation, ISO standards and several 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, the environment, and anti-corruption.

Many initiatives and standards have been established worldwide in the area of environmental and social responsibility. The leading standards



Sakhalin Energy in the UN Global Compact LEAD

In 2011, Sakhalin Energy became the first Russian company to participate in the Global Compact LEAD created as part of the UN Global Compact. LEAD companies are obliged to carry out certain activities in environmental protection, social performance, and corporate governance, as well as to develop new CSR standards.

Since 2018, the UN Global Compact has been implementing the LEAD Programme using new criteria, and Sakhalin Energy continues to participate in the programme, including in SDG Reporting and Corporate Social Responsibility in the Global Compact LEAD. The company submits an annual Communication on Progress (annual reporting by a member of the UN Global Compact) at an advanced level.

At the UN Global Compact Leaders Summit 2019, held at the UN headquarters in New York in September 2019, companies were announced, including Sakhalin Energy, which had been recognised by the Global Compact LEAD as showing their continued commitment to the UN Global Compact and its Ten Principles. Global Compact LEAD companies (a total of 36 companies in the world) are the most active participants in the UN Global Compact, the world’s largest corporate sustainable development initiative.

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

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

ISO 26000:2010 Guidance on Social Responsibility: Regular Self-Assessment

In 2012, by a decision of the Committee of Executive Directors, the company committed itself to conducting regular self-assessment for the application of ISO 26000:2010 Guidance on Social Responsibility and conducted the first self-assessment (in full). This was the first undertaking of such a study in the Russian Federation.

In 2019, Sakhalin Energy completed yet another self-assessment for the application of the ISO 26000:2010 Guidance on Social Responsibility, focusing on the documents and processes that had gone into effect over recent years. In addition, the company took into account the experience and the results of ISO 26000:2010 guidance, as well as the recommendations developed by the Russian Union of Industrialists and Entrepreneurs.

Self-assessment statements are available on the company’s website.



3.4. SUSTAINABLE DEVELOPMENT POLICY

3.4.1. BASIC PROVISIONS OF THE SUSTAINABLE DEVELOPMENT POLICY



Since its inception, Sakhalin Energy has pursued its Sustainable Development Policy by incorporating corresponding 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 current generation are met without compromising the opportunity for future generations to meet their own needs.” Sakhalin Energy relies upon this definition in its operations. This approach presumes and ensures economic effectiveness, environmental safety, social justice, and the 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 cooperation and two-way communication with all stakeholders.

In 2019, Sakhalin Energy consistently implemented the provisions of the Sustainable Development Policy, a public policy document approved by the Committee of Executive Directors in 2003 (the latest revision of the document of 2016 includes the company’s commitment to the United Nations Sustainable Development Goals; see Section 3.4.2. UN Sustainable Development Goals). The policy declares the principles, directions and obligations of the company in sustainable development.

- The basic provisions of the Sustainable Development Policy are as follows:
- 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 society on Sakhalin Island, keeping a balance between economic development, environmental protection, and social responsibility, and taking into account cultural diversity;
 - 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 these principles, Sakhalin Energy has made the following commitments to sustainable development:
- incorporate SD principles into business plans, procedures, and processes;
 - ensure compliance with the corporate Commitment and Policy on HSE and Social Performance, as well as the standards specified in the Health, Safety, Environmental and Social management systems and Action Plan;
 - inform and engage with our stakeholders on the company’s SD performance and seek feedback;
 - develop and implement social investment and sustainable development programmes and projects that are linked to the company’s strategy and priorities, and have clear procedures and controls;
 - focus on developing strategic partnerships with external stakeholders;
 - provide annual non-financial reporting in accordance with GRI standards and principles, as well as the corporate Sustainable Development Report Development Procedure;
 - participate in the UN Global Compact (UNGC), complying with and promoting its ten principles;
 - be a member of UNGC LEAD, demonstrating sustainability leadership.



3.4.2. UN SUSTAINABLE DEVELOPMENT GOALS

At the 70th session of the UN General Assembly in September 2015, a new global agenda was adopted — Transforming Our World: The 2030 Agenda for Sustainable Development, which includes 17 Sustainable Development Goals (SDGs), which seek to build on the Millennium Development Goals. One of the specific features of the new Goals is the chosen approach to achieve them: the SDGs are addressed not

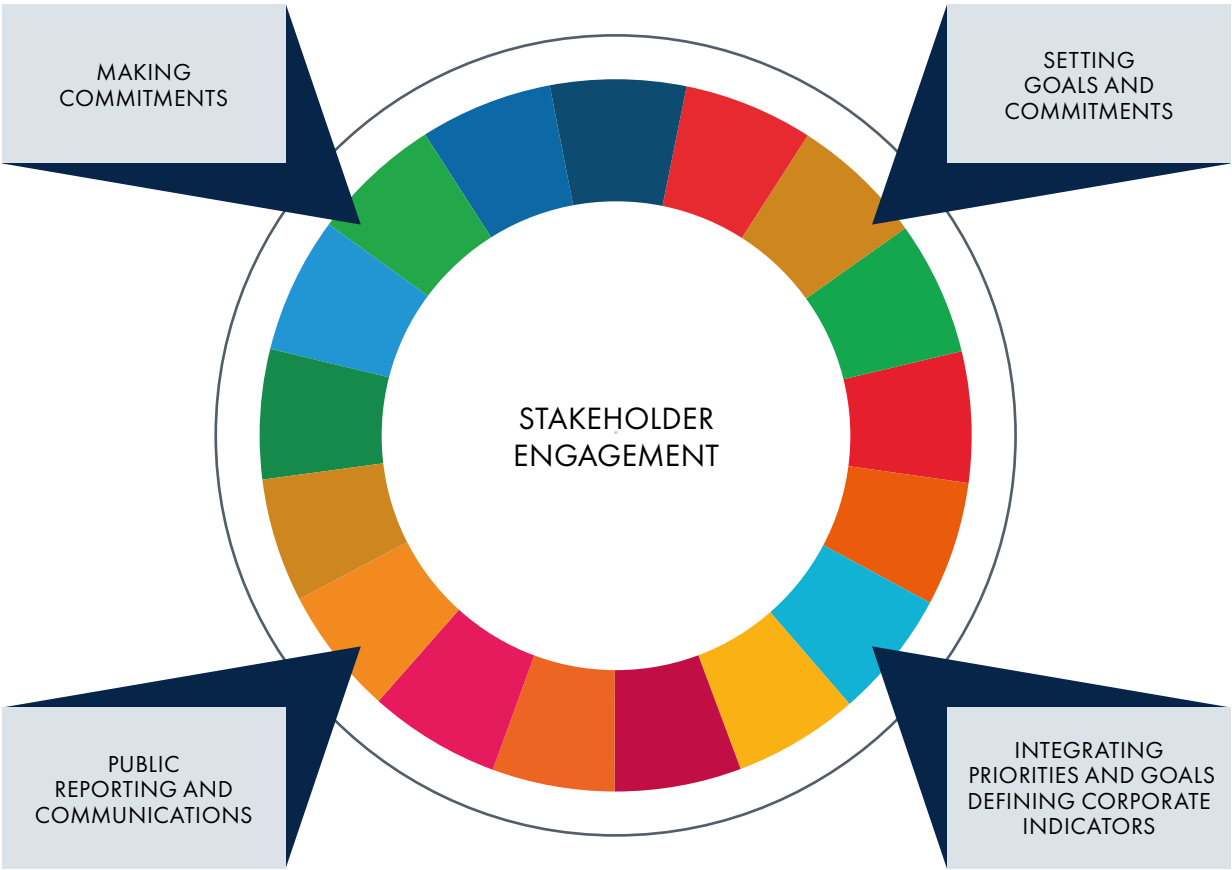
only to governments, but also to other participants in the sustainable development process, in particular businesses, civil society, and all individuals. The universal character of the SDGs allows companies to adopt a set of Goals that best corresponds to their activities and existing CSR programmes.

In its activities for the achievement of the SDGs, Sakhalin Energy primarily focuses on the following international documents:

- SDG Compass for Business, developed by the United Nations Global Compact, the GRI and the World Business Council for Sustainable Development (WBCSD);
- Mapping the Oil and Gas Industry to the Sustainable Development Goals: An Atlas, developed by the International Petroleum Industry Environmental Conservation Association (IPIECA) in partnership with the International Finance Corporation (IFC) and the United Nations Development Programme (UNDP);
- SDG Industry Matrix developed by the UN Global Compact and KPMG;
- a number of Russian and international documents related to corporate SDG reporting (see Section 2.2. Report Preparation Standards).



UN Sustainable Development Goals: Sakhalin Energy’s approach



At the end of 2015, Sakhalin Energy initiated work to study the SDGs and to define the company’s contribution to achieving them, including:

- making a preliminary analysis of the SDGs to align the targets and indicators they set with the priorities, objectives, areas of activity, programmes and projects of the company (2015–2016);
- making a commitment to achieve the SDGs. The company’s commitment to contribute to the achievement of the SDGs is enshrined in the corporate Sustainable Development Policy: Sakhalin Energy strives to be a leader in sustainable development, taking into account the Sustainable Development Goals set out in the 2030 Agenda for Sustainable Development (revised in 2016);
- defining priorities and goals — analysing the company’s priorities and goals and defining the most significant SDGs in terms of their importance to the company’s activities and contribution to their achievement (since 2016, annually). When determining the company’s priorities and goals in relation to the SDGs, a fundamental condition is the engagement of stakeholders in the process of exchanging ideas about possible ways for the company to achieve the SDGs. Since 2016, relevant issues have been put on the agenda of dialogues with external

stakeholders in the preparation of Sustainable Development Reports and discussions with the company’s personnel. In 2017, questions regarding these issues were added to questionnaires for stakeholders to determine the content of the Sustainable Development Report; as a result, in 2019, as in the previous year, the company’s stakeholders named SDGs 3, 4, 7, 8, 9, 11, 14 and 15 to be the most significant for Sakhalin Energy (see Section 2.2. Report Preparation Standards);

- integrating commitments and goals with the processes and practices of the company. An analysis showed that the company’s existing processes, programmes, and practices in the field of sustainable development contribute to the achievement of most of the SDGs (since 2016). In 2017, an analysis was made of each SDG target (169 targets in total) to determine which company processes and practices correspond to them. The analysis showed that not all SDG targets are applicable to the company or relevant to its activities. In 2018, the company analysed the global indicators (232 indicators in total) to identify and systematise corporate indicators that correspond to each target and global indicator. It was important that corporate indicators should demonstrate the efforts the company makes to



achieve the global indicators of the relevant SDGs. In 2019, the company identified additional SDGs-related programmes, projects and indicators. The summary of the analysis results, namely the goals and objectives of the company with examples of areas of activity, projects, programmes or activities that correspond to specific SDGs and their targets, as well as key corporate indicators, is shown in the table below. In addition, Appendix 1. GRI Standards Compliance Table contains SDGs that correspond to specific topics/targets of GRI standards;

- public reporting. The company made a decision to include information on its contribution to SDG achievement in annual Sakhalin Energy Sustainable Development Reports (starting with the 2016 Report and at least until 2030), as well as in its annual reporting as a participant of the UN Global Compact (Communication on Progress).
- All structural units of Sakhalin Energy are involved in the above-mentioned activities with respect to the SDGs.

In 2019, the company continued work under the Reporting on the SDGs Action Platform, which was initiated by the UN Global Compact and the GRI in partnership with the UN Principles for Responsible Investment programme in order to unite the efforts of all stakeholders in developing the framework, principles and recommendations for corporate reporting on SDGs implementation. The initiators of the project are guided primarily by GRI Standards and the UN Global Compact requirements. As a result, companies will be able to integrate reporting on SDGs with existing reporting formats.



Goals and Objectives of Sakhalin Energy with Examples of Areas of Activity, Projects, Programmes or Activities that Correspond to Specific SDGs and Their Targets, as well as key Corporate Indicators

SDGs and their targets	Company goals and objectives	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
<div><div><div>1</div><div>NO POVERTY</div></div><div><div>1.1</div><div>1.2</div><div>1.4</div><div>1.5</div></div></div> <div><div><div>2</div><div>ZERO HUNGER</div></div><div><div>2.3</div><div>2.4</div></div></div> <div><div><div>9</div><div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div></div><div><div>9.1</div><div>9.4</div></div></div> <div><div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div></div><div><div>11.1</div><div>11.2</div><div>11.4</div></div></div> <div><div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div></div><div><div>12.7</div><div>12.8</div></div></div>	<p>Provide an attractive and competitive employee value proposition. 70% Russian Content over the life of the Project (as per the PSA). Contribute to sustainable development of the host region (Sakhalin Oblast). Resolve grievances from stakeholders effectively, paying special attention to vulnerable groups. Conduct effective and timely environmental, social and health impact assessment. Introduce innovative solutions and carry out digital transformation</p>	<p>Remuneration and bonus system. Social guarantees, benefits and compensations. Localisation projects (Sakhalin Energy maintenance and repair facility in the Sakhalin Industrial Park)*. Standards harmonisation project*. Continuous Improvement Programme*. Digitalisation projects*. Supplier management. Vendor Development Programme. Financial benefits to the Russian Federation and the Sakhalin Oblast. Sakhalin Island Infrastructure Improvement. Grievance mechanisms. Environmental and social impact management. Resettlement Action Plan. Sakhalin indigenous minorities (SIM) engagement practices (in accordance with the Human Rights Policy, indigenous peoples are a vulnerable group). Social investment programmes and projects. Cultural heritage protection plans. Projects to preserve indigenous languages. Road safety assurance activities</p>	<p>Ratio of the standard entry level wage and the established minimum wage. Russian and local* content. Significant indirect economic impacts. Intellectual property rights portfolio*. Grievance resolution indicators. Units with significant actual or potential negative impact on local communities. Operations involving involuntary resettlement, the number of households resettled in each case, and how their livelihoods were affected by the resettlement. Total number of infringement cases affecting the rights of indigenous minorities, and actions taken. Operations in areas where indigenous communities are present or affected by activities and where specific engagement strategies are in place. Number and description of significant disputes with local communities and indigenous peoples. Number of road accident victims</p>	<p>4, 6, 7, 9.1, 9.2, 9.4, 9.5, for references, see Appendix 4: — Sakhalin Oblast infrastructure development; — Resettlement: Experience of Sakhalin Energy brochure; — websites of social investment projects and programmes; — Public Consultation and Disclosure Plan; — Archaeological heritage of Sakhalin Island brochure</p>


Note: Since SDGs are complex and indivisible, the goals and objectives of the company, with examples listed, are presented for several SDGs simultaneously.



SDGs and their targets	Company goals and objectives	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
<div><div><div>3</div><div>GOOD HEALTH AND WELL-BEING</div></div><div><div>3.3</div><div>3.5</div><div>3.6</div><div>3.8</div><div>3.9</div></div></div> <div><div><div>4</div><div>QUALITY EDUCATION</div></div><div><div>4.3</div><div>4.4</div><div>4.5</div><div>4.7</div></div></div> <div><div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div></div><div><div>8.1</div><div>8.2</div><div>8.3</div><div>8.5</div><div>8.6</div><div>8.8</div></div></div>	<p>Goal Zero: No Harm. No Leaks. Ensure employee health protection</p> <p>Meet Company skilled labour force requirements to manage ongoing and strategic objectives. 70% Russian Content over the life of the Project (as per the PSA). Contribute to sustainable development of the host region (Sakhalin Oblast)</p>	<p>Occupational safety and health (measures to ensure industrial safety, road safety, etc.). Employee health protection (assessment of health risks, occupational health, organisation of medical examinations, emergency medical response, voluntary health insurance and disease prevention programmes, etc.). Industrial environmental control</p> <p>Staff training and development activities. Localisation projects (Sakhalin Energy maintenance and repair facility in the Sakhalin Industrial Park)*. Standards harmonisation project*. Continuous Improvement Programme*. Supplier management. Supplier Development Programme. Financial benefits to the Russian Federation and the Sakhalin Oblast. Remuneration and bonus system. Social guarantees, benefits and compensation. Measures to ensure occupational safety and health of personnel</p>	<p>Occupational injury rate. Occupational disease rate. Total number of work-related fatalities. Coverage of employees carrying out activities in hazardous, dangerous and arduous working conditions via mandatory periodic medical examinations. Coverage of employees via clinical screening. Greenhouse gas emission indicators. Emissions of ozone-depleting substances. NO_x, SO_x and other significant air pollutant emissions. Total water discharge by quality and destination. Total weight of waste by type and disposal method. Total number and volume of significant spills. Volume of flared and vented hydrocarbon. Number of road accident victims</p> <p>Average hours of training per year per employee by gender and employee category. Proportion of trained personnel by gender and employee category. Staff training costs. Indicators of skill development and education programmes, including for graduates, trainees, etc. Proportion of employees receiving regular performance and career development reviews, by gender and by employee category. Russian and local* content. Ratio of the standard entry level wage and the established minimum wage. Return to work and retention rates after parental leave, by gender. Occupational injury rate. Occupational disease rate. Total number of work-related fatalities. Number of road accident victims</p>	<p>8.2, 8.5, 9.2, 9.3</p> <p>7, 9.1, 9.2, 9.3</p>




* Additional SDG programmes, projects and indicators were identified in 2019.



SDGs and their targets	Company goals and objectives	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
<div> 5.1 5.2 5.4 5.5</div> <div> 10.3</div>	Comply with Russian legislation and international standards for the respecting, protecting and promoting human rights	Assure gender equality and non-discrimination in all aspects of labour relations, including recruitment, selection, hiring, assessment, promotion, training of employees, maintaining discipline, learning and development, compensation, and termination of employment contracts	Total number of discrimination cases and corrective actions taken. Ratio of the basic salary of men and women. Composition of governance bodies and main employee categories by gender and age group. Proportion of employees receiving regular performance reviews, by gender and employee category. Average hours of training per year per employee by gender and employee category. Proportion of trained personnel by gender and employee category. Return to work and retention rates after parental leave, by gender. New employee hires and employee turnover by age group and gender. Ratio of the standard entry level wage and the established minimum wage	9.1
<div> 6.3 6.4 6.6</div> <div> 7.3</div> <div> 8.4</div> <div> 9.5</div> <div> 12.2 12.4 12.5 12.6</div> <div> 13.1</div>	Implement effective and lean manufacturing methods. Introduce innovative solutions and digitalisation of all processes. Comply with legislation on environmental protection, observance of established environmental standards, assurance of the rational use of natural resources, and fulfilment of plans for minimising environmental impact	Operation of gas turbines with a system for reducing nitrogen oxide emissions. Application of enhanced gas turbulence system to ensure sootless flaring. Associated gas evacuation*. Drilling waste disposal via dedicated reinjection wells into deep subsurface horizons with sealing barrier formations. Enhanced operational reliability and failure-free service of equipment. Business Continuity Management System*. Industrial Environmental Control of impact on atmospheric air and bodies of water, waste management. Power saving and enhanced energy performance. Stakeholder engagement practices. Public reporting on sustainable development	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal. Volume and disposal of formation or produced water. Volume of flared and vented hydrocarbon. Rate of associated gas burning*. Total weight of waste by type and disposal method. Total water discharge by quality and destination. NO _x , SO _x and other significant air pollutant emissions. Specific pollutant emissions. Emissions of ozone-depleting substances. Energy indirect greenhouse gas emissions. Direct greenhouse gas emissions. Specific greenhouse gas emission. Energy intensity. Energy consumption within the organisation. Specific power consumption. Total water withdrawal by source. Water sources significantly affected by the organisation's water intake. Specific water use indicators. Total number and volume of significant spills. Operational sites on, or adjacent to protected areas and areas of high biodiversity value outside protected areas. Impacts of activities on biodiversity in protected natural areas and areas of high biodiversity value. Number of species listed in the IUCN Red List and the National List of Protected Species. New environmentally assessed suppliers. Environmental costs and payments for adverse environmental impact, including their structure	2, 4, 6, 8, references in Appendix 4: Public Consultation and Disclosure Plan

* Additional SDG programmes, projects and indicators were identified in 2019.



SDGs and their targets	Company goals and objectives	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
<div> 14.1 14.2 14.3 14.a</div> <div> 15.1 15.2 15.5 15.9</div>	Goal Zero: No Harm. No Leaks. Assess the condition and restoration of the environment in the areas of the company's production assets to identify signs of the current impact, and to develop actions to mitigate it, if necessary. Conduct effective and timely environmental, social and health impact assessment. Mitigate impact, develop and implement actions aimed at the preservation of rare and endangered species, as well as environmentally significant and vulnerable biotopes	Assess environmental risks and impacts. Effective and viable waste management strategy. Implement the environmental compliance action plan. Coordinated programmes for biodiversity conservation and local monitoring. Maintain and improve emergency response and oil spill response mechanisms, rescue oiled animals*	Volume of flared and vented hydrocarbon. NO _x , SO _x and other significant air pollutant emissions. Energy indirect greenhouse gas emissions. Direct greenhouse gas emissions. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. Operational sites on, or adjacent to protected areas and areas of high biodiversity value outside protected areas. Impacts of activities on biodiversity in protected natural areas and areas of high biodiversity value. Recovery of wetlands in disturbed areas of the ROW. Changes in the status of nesting populations, protected plant and animal species and their habitats. Changes in aquatic ecosystems. State of soil*. Overgrowing of the ROW. Number of species listed in the IUCN Red List and the National List of Protected Species. Total amount and volume of significant spills	8, references in Appendix 4: – Biodiversity Action Plan; – Marine Mammal Protection Plan; – Oil Spill Prevention and Response Plans; – Oiled Wildlife Response Plan
<div> 16.1 16.2 16.3 16.5 16.6 16.7 16.10</div>	Comply with all applicable laws and regulations of countries in which the company operates. Effective corporate governance. Corporate culture management. Anti-bribery and corruption enforcement. Provide all stakeholders with safe and confidential ways of expressing concerns and grievances, or reporting non-compliances	Availability of the General Business Principles, values, norms and standards of the Code of Conduct. Anti-bribery and corruption actions. Feedback and grievance mechanisms. Assurance of safety with respect for human rights. Conflict of Interest Policy. Stakeholder engagement practices, including open public consultations and public sustainable development reporting	Total value of political contributions by country and recipient/beneficiary. Total number of incidents related to non-compliance with regulations and voluntary codes, concerning product and service information and labelling. Total number of discrimination cases and corrective actions taken. Confirmed incidents of corruption and actions taken. Communication and training on anti-corruption policies and procedures. Ratio of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations. Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour. Stakeholder engagement indicators, including feedback*. Grievance resolution indicators	2, 5, 6, 9.4; for references, see Appendix 4: – Code of Conduct; – Human Rights: Experience of Sakhalin Energy brochure

* Additional SDG programmes, projects and indicators were identified in 2019.



One of the conditions for achieving the SDGs, which is also highlighted as separate Goal 17, is to join efforts in global, regional or local partnerships, uniting governments, businesses and the community. Sakhalin Energy gives special attention to long-term strategic partnerships engaging external stakeholders. This applies to environmental projects, production localisation and personnel development programmes, social investment, etc. (see Section 7.3. Russian Content, Section 8.3. Environmental Monitoring and Biodiversity Conservation, Section 9.1. Personnel: Management and Development, Section 9.5 Social Investment and Contribution to the Sustainable Development of the Host Region).

- Sakhalin Energy continued promoting the SDGs in the business community. In particular, in 2019:
- Sakhalin Energy was the only Russian company whose experience was included in the compilation of the best practices of the UN Global Compact. In total, the collection contains 34 international examples that demonstrate various approaches to the implementation of the SDGs;
 - Sakhalin Energy presented its experience with the SDGs at events such as the Economic and Social Commission for Asia and the Pacific (ESCAP) Multistakeholder International Forum, dedicated to the achievement of the UN Sustainable Development Goals in North-East Asia, the Sustainable Development Week, the Environmental Responsibility as an Element of Sustainable Business Development Round Table, and the Common Future: Success Factors and Measurement Tools International Sustainable Development Forum (see Section 6.10. International and Regional Cooperation).



3.5. HSE AND SOCIAL PERFORMANCE MANAGEMENT

3.5.1. HSE AND SOCIAL PERFORMANCE MANAGEMENT SYSTEM

The company is committed to preventing potential damage to the community and environment as a result of its operations and contributes to sustainable development to benefit the residents of Sakhalin and other primary stakeholders. Since the beginning of the Sakhalin-2 project implementation, the Russian Federation and the Sakhalin Oblast have received numerous benefits from it, including multi-billion investments, employment growth, contracts with Russian companies, etc. (see Section 7.1. Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast). Understanding that the scope and complexity of the project can have an impact on the environment and social performance, Sakhalin Energy made a commitment to consistently prevent associated potential problems and adverse impacts, and to reduce risks. In its operations, the company adheres to the principle of eliminating hazards and threats, paying special attention to preventive risk management and impact assessment (see Section 5.4. Risk Management).

Health, safety, environment, social performance, and industrial safety management is an integral element of the corporate management system and is regulated by a number of fundamental documents that include:

- Sustainable Development Policy;
- Commitment and Policy on Health, Safety, Environment and Social Performance;
- HSE and SP Management System Manual;
- Health, Safety, Environment and Social Action Plan;
- Flaring Commitment;
- Statement of Industrial Safety Policy;
- Policy on the Industrial Safety Management System;
- Regulation on Industrial Environmental Control;
- Business Continuity Policy;
- Guidance on the Business Continuity Management System.

The above documents were approved by the Committee of Executive Directors, signed by the Sakhalin Energy Chief Executive Officer, and communicated to the personnel and contractors.



The commitments adopted by the company following the results of assessing the impact on the environment, health, and social performance, conducted before the start of the Phase 2 construction work, are included in the Health, Safety, Environment and Social Action Plan (hereinafter — the Plan). The development of the Plan was a mandatory condition for obtaining a loan for Sakhalin-2 Phase 2 implementation.

The Plan was developed in compliance with Russian laws and international standards, including the World Bank’s Policies and Directives, the standards of the International Finance Corporation, and others. The Plan describes the HSE and SP management system, provides detailed information on measures to minimise the adverse environmental impact, monitoring, activities in environmental and social areas, as well as all internal and external standards regulating the company’s HSE and SP activities. The Plan is approved by the project lenders. The fourth edition was approved in 2014 and published in 2015.

The Plan was posted on the company’s website (in Russian and English), as well as in the company’s information centres and libraries of the communities located in the vicinity of the company’s assets. A few materials are available in Japanese for stakeholders in Japan. The implementation of the Plan is regularly monitored by the company, lenders and their consultants; inspection results are published on the company’s website (www.sakhalinenergy.com).



The company applies a systemic approach to handling HSE and social performance issues, which ensures continuous improvement in this area. The comprehensive HSE and SP management system includes controls used by Sakhalin Energy to handle hazardous situations and risks. The system is applied to all Sakhalin Energy assets, projects, and operations, including those conducted by contractors. Sakhalin Energy considers control of risks as a critically important prerequisite for successful performance; therefore, the risk management system is subject to continuous updating, improvement, and optimisation.

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

- The Plan-Do-Check-Act Methodology is applied in order to:
- identify goals and establish procedures necessary to achieve performance indicators in compliance with the Commitment and Policy on Health, Safety, Environment and Social Performance. This includes identifying legal and other requirements, determining problems and risks, assessing impacts, identifying management elements, as well as developing annual performance improvement plans;
 - implement procedures for training and advanced training, contractor performance management, engagement and interaction, change management, emergency response, as well as operational control over hygiene, personal safety, integrity of assets, and industrial safety. The procedures cover the issues of transportation, health, safety,



- environment, and social performance, including those associated with public activities, cultural heritage, land acquisition, relocation and provision of additional assistance, conducting scheduled consultations and sharing information with the community, grievance consideration; with social investments;
- monitor and assess performance in accordance with the set objectives, legal and other requirements; provide reports on findings, incidents, and non-compliances; take corrective and preventive measures; conduct audits of the HSE and social performance management system at the company’s assets and in functions;
 - regularly perform a review of the management system and promote continuous optimisation of HSE and SP performance.

The Sakhalin Energy HSE and SP management structure consists of the HSE Management Committee, which exercises comprehensive control over the area. The Committee is chaired by the company’s Chief Executive Officer (CEO). The HSE General Manager reports to the CEO and oversees the development, introduction, operation, and monitoring of the management system. To ensure the fulfilment of the industrial safety and HSE standards, HSE services were formed in the company’s structural and functional units.

Every 3 years the company has its HSE Management System externally certified against the requirements of the internationally recognised ISO 14001 environmental management standard and OHSAS 18001 occupational health and safety management standard. In the intervening years surveillance audits are carried out. In 2018, the company was certified to the new version of ISO 14001:2015, which provides for an improved systemic approach to environmental management.

The new version of the Standard introduces the requirement for a company to integrate environmental management system requirements into the organisation’s business processes. This new version also takes HSE leadership to the next level: company executives take a more active role in environmental management by acting as guarantors of the corporate environmental management performance. Although these principles have just been made part of the standard, Sakhalin Energy has been implementing them for some time, and they have proved efficient.

With the positive results of the surveillance audit obtained this year, Sakhalin Energy has once again guaranteed to external stakeholders that its environmental impacts are under control, and its environmental management approaches keep improving.

3.5.2. IMPACT ASSESSMENT

The company is committed to making an impact 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 seeks to avoid or reduce the impact to the lowest possible level or to compensate for it by taking appropriate measures. When any potential adverse impact is identified, the following actions are consistently developed and taken:

- avoid;
- prevent;
- mitigate;
- compensate;
- use experience to reduce the probability of occurrence.

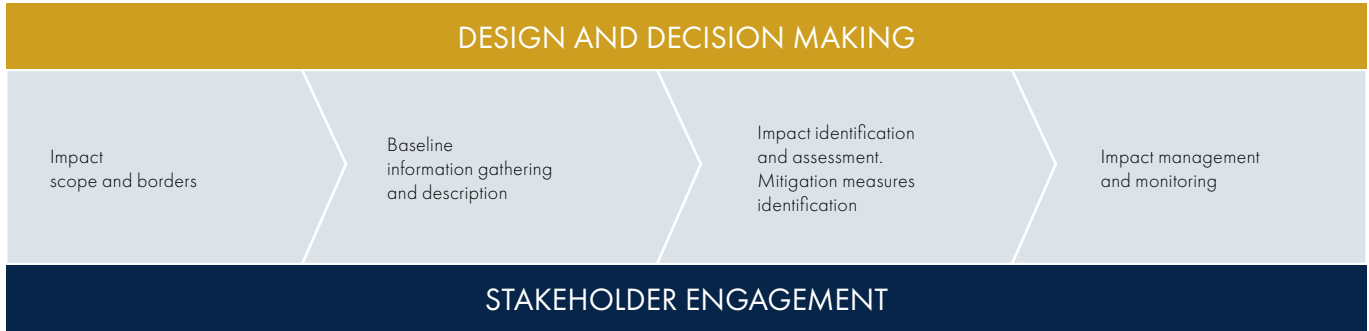
An integral part of any impact assessment carried out by the company are consultations with the stakeholders to inform them about the planned activities, identify concerns, take into account their opinions, and discuss possible measures to manage the impact.

The results of previous environmental and social impact assessments (including the results of comprehensive and strategic environmental assessments as well as the required additional and special studies) are taken into account in the company’s standards, while its ongoing activities are based on relevant plans and programmes. The results of impact assessments are published on the company’s website. The validity and completeness of the assessments are monitored by government authorities and project lenders.

In January 2019, the company held public hearings for project documentation “Production wells PA-131, PA-133, PA-135 with a six-casing design at Astokh section of the Piltun-Astokhskoye oil and gas condensate field (group 9)”. The positive State Environmental Expert Review conclusion was obtained for the project in June 2019.

In October 2019, the company held public hearings for the project “Comprehensive marine engineering survey programme to ensure the installation and operation of the self-elevating floating drilling rig for prospecting and appraisal drilling at the Lunskeye license field”.

Stages of Impact Assessment



3.5.3. INSPECTION AND AUDIT

Since 2005, external and internal inspections and audits have been conducted to ensure control over all the elements of the integrated HSE and SP management system in compliance with approved annual plans. External audits are conducted by representatives of the company’s shareholders and lenders, external certifying authorities, etc. For internal

audits, the company engages specially trained auditors — qualified employees of the company and shareholder specialists.

In 2019, ten HSE and SP management system audits were conducted (see the Inspections and Audits of the HSE and SP Management System in 2019 table).

Inspections and Audits of the HSE and SP Management System in 2019

Audit level	Number of audits	Content
External	10	Surveillance Audit to check compliance with ISO 14001 and OHSAS 18001 Standards HSSE&SP Control Framework Audit of LNG HSSE&SP Control Framework Audit of OPF-C HSSE&SP Control Framework Audit of Air Transport HSSE&SP Control Framework Audit of Diving Operations HSE DROPS Audit Lifting & Hoisting Peer Assist Review Monitoring of compliance with HSE and SP standards by the representative of lenders – by the independent environmental consultant* Monitoring of Sakhalin Indigenous Minorities Development Plan (SIMDP) implementation – by independent expert in SIMDP monitoring** Independent evaluation of the social investment and sustainable development programmes/projects

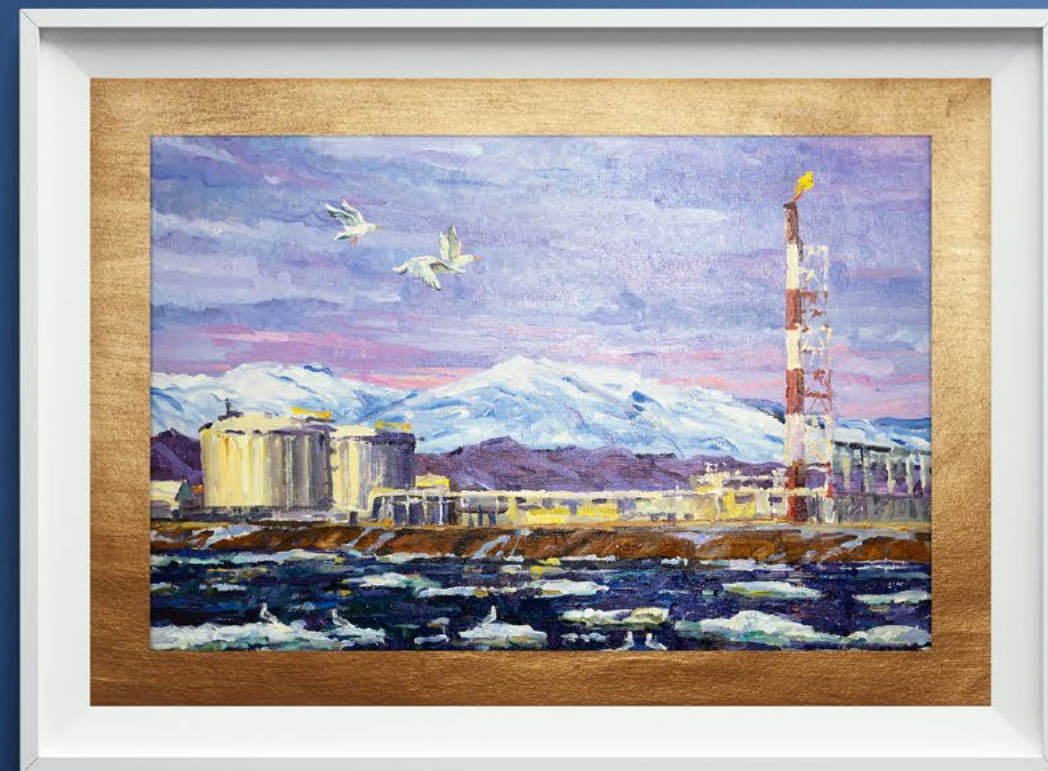
* The report is available on the company’s website (www.sakhalinenergy.com).
** The report is available on the SIMDP website (www.simdp.ru).



4

ABOUT THE COMPANY

In 2019, Sakhalin Energy celebrated the 25th anniversary of its foundation and several anniversaries of production achievements, each of which was a technological breakthrough for Russia.



Oleg Papuzin

"Winter at LNG Plant"
Canvas. Oil.
2020

4.1. SAKHALIN ENERGY

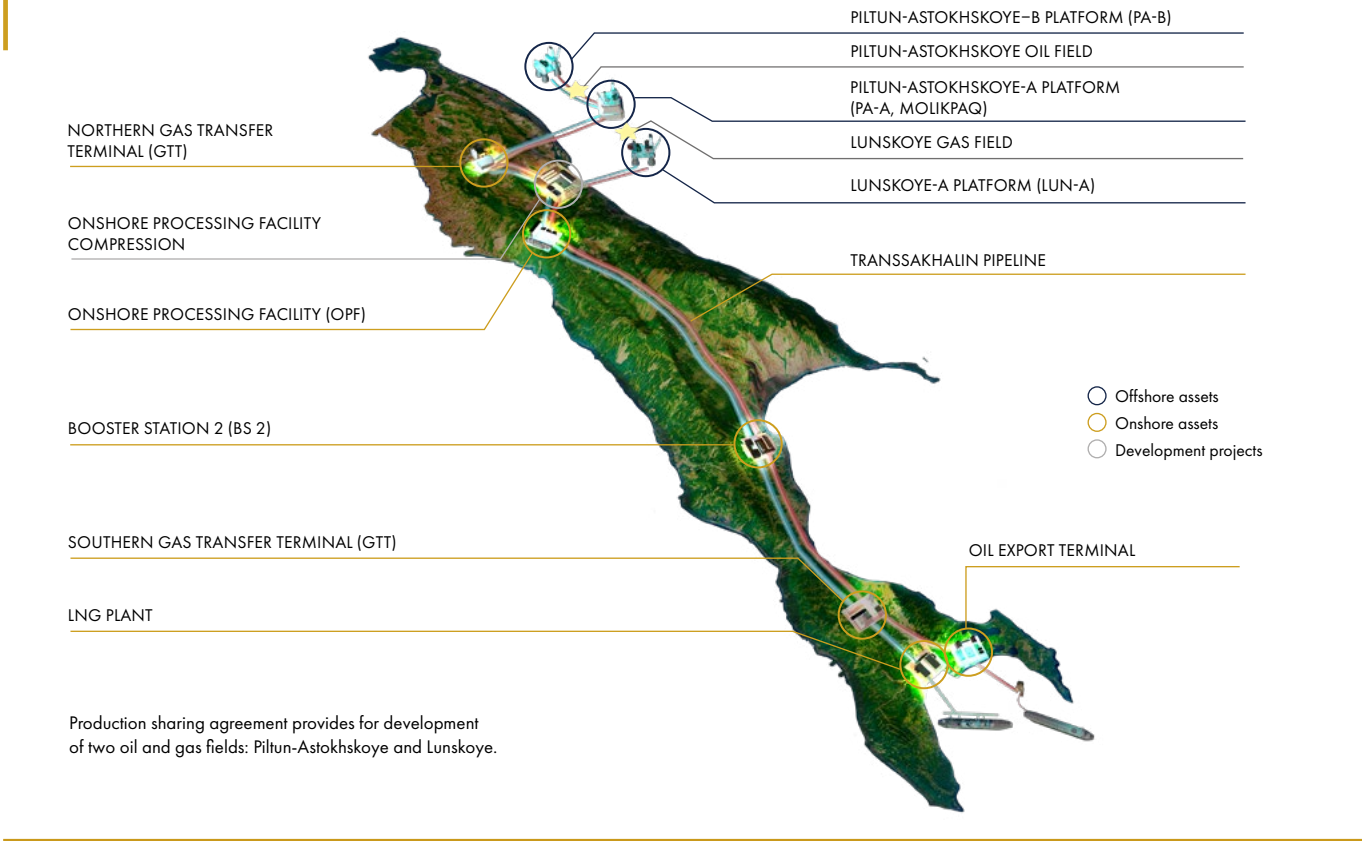
Sakhalin Energy Investment Company Ltd. (hereinafter referred to as Sakhalin Energy or the company) was founded in 1994 to develop the Piltun-Astokhskoye and the Lunskeye oil and gas fields in the Sea of Okhotsk offshore Sakhalin Island.

Sakhalin Energy operates under the Sakhalin-2 project Production Sharing Agreement (PSA) that has been signed by the company and the Russian Federation represented by the Government of the Russian Federation and the Sakhalin Oblast Administration (currently, the Sakhalin Oblast Government).

The following companies hold shares in Sakhalin Energy through their subsidiaries: Gazprom (50% plus one share), Shell, a British-Dutch company (27.5% minus one share), Mitsui (12.5%) and Mitsubishi (10%) Japanese corporate groups.

To develop these two fields, the company has built a large-scale infrastructure for the extraction, transportation, processing and subsequent marketing of hydrocarbons. The infrastructure includes three fixed offshore platforms, offshore and onshore pipeline systems, an onshore processing facility, two booster stations, an oil export terminal with a tanker loading unit, a liquefied natural gas (LNG) plant with an LNG jetty, and gas transfer terminals. Sakhalin-2 has been one of the most technically complex projects implemented in the global oil and gas industry over the last few decades.

THE SAKHALIN-2 PROJECT



In 2019, for the third time, the company won the first place in the All-Russian Labour Productivity: Leaders of Russian Industry competition with labour productivity rate of 180.75 mln roubles per person per annum. Based on the results of the competition, Sakhalin Energy is the leader in labour productivity in the Sakhalin Oblast, the leader of Russian oil and gas industry, and ranks among the top three winners of the competition for the fifth consecutive year.

COMPANY'S ACHIEVEMENTS

In 2019, Sakhalin Energy celebrated the 25th anniversary of its foundation and several anniversaries of production achievements, each of which was a technological breakthrough for Russia:

FEBRUARY

10 years

since the launch of Russia's first LNG plant

FEBRUARY

by 20 %

the design capacity of the plant has increased due to the continuous optimisation of work and processes (over the past 10 years)

MARCH

10 years

since the first export supply of Russian LNG

JUNE

25 years

since the date of signing the first Production Sharing Agreement in Russia (Sakhalin-2 project PSA)

JULY

20 years

since the date when the Piltun-Astokhskoye-A/Molikpaq offshore oil and gas platforms began to produce the first oil on the Russian shelf

SEPTEMBER

20 years

since the date of the first export offloading of the first industrial shipment of oil produced on the Russian shelf

SEPTEMBER

35 years

since the drilling of the first well in the Lunskeye oil, gas and condensate field has been completed*

IN ADDITION, THE SAKHALIN-2 PROJECT IS REMARKABLE FOR:

- Russia's first ice-class offshore oil and gas platforms;
- first foreign investment raised for the implementation of a large-scale project in Russia;
- Russia's first 4D offshore seismic survey.

* The field then went on to become the main supply source for the production of liquefied natural gas under the Sakhalin-2 project.

4.2. MAIN PRODUCTION RESULTS IN 2019

Sakhalin Energy became a finalist of the Platts Global Energy Awards, the most prestigious professional awards in the energy sector, in the Upstream Transformation category. Established in 1999 and often described as 'the Oscars of the energy world', the Platts Global Energy Awards recognises the best companies and their leaders for outstanding excellence and leadership in various categories, spanning the entire energy sector.

4.2.1. ASSETS

February 2019 marked ten years since the first LNG plant in Russia has been officially launched as part of the Sakhalin-2 project. The efforts of Sakhalin Energy largely contributed to Russia becoming one of the key players in the promising Asia-Pacific market.

In July 2019, the Molikpaq oil and gas production platform marked an important anniversary: 20 years since the first oil from Sakhalin shelf has been produced at the Astokh area of the Piltun-Astokhskoye field. For the first time in Russia, the company applied the approach of zero (minimal) flaring of associated gas and zero discharges of drill cuttings into the marine environment on Molikpaq.

Water Slugs Warning System

Using the Agile approach, a team consisting of members of several directorates of the company developed and implemented a Water Slugs Warning System. The System marks detected water slugs in the Plant Information (PI, a software package for monitoring all production processes) application. Having comprehensive information about the whole field, engineers can promptly perform an analysis and make all necessary decisions in a timely manner.

This solution was the first digitalisation project to be implemented in the production system at Sakhalin Energy.

Agile is one of the modern project management methods. It assumes that relying only on a pre-developed detailed plan is not enough for the successful implementation of a project. It is also important to focus on constantly changing conditions of the external and internal environments, and take into account feedback from customers and users. This encourages R&D workers and engineers to experiment and search for new solutions without being limited by rigid boundaries and standards.

4.2.1.1. Piltun-Astokhskoye-A (Molikpaq/PA-A) Platform



more than **40** mln t of oil
has been produced by the PA-A platform since the development commencement

Since the commencement of field development, the PA-A platform has produced more than 40 mln t (over 295 mln bbl) of oil, including 1.95 mln t (14.35 mln bbl) produced in 2019.

In 2019, a production well was drilled in the Astokh area of the Piltun-Astokhskoye field with a pilot hole for the detailed exploration of the reservoirs and the main hole for the production of hydrocarbons.

The appraisal programme in the pilot hole was fully completed using the core sampling and the fluid sampling methods, as well as geophysical studies.

Two other production wells were worked over to maintain the level of production and prevent sand development.

In 2019, the company continued to ensure effective control over the development of the field, the reliable operation of the well stock, the quality of fluid injected for reservoir pressure maintenance (RPM), and the operation of the drill cuttings injection system.

Work continued to increase the oil recovery coefficient through treatment of the bottom-hole zones of wells with scale inhibitor.

The quantitative performance indicators of the Enhanced Oil Recovery Programme (for the company's assets) are presented in the Enhanced Oil Recovery Programme Results for 2015–2019 table.

The Molikpaq platform was built in Japan 35 years ago. It has been the main oil production platform in the company for 20 years already.

Over the first nine years, starting from 1999, Molikpaq operated only during the ice-free season. In 2008, the platform commenced year-round production of hydrocarbons.

As of the end of 2019, the operating well stock of the Molikpaq platform included 17 oil production wells, seven water injection wells, and one cutting re-injection well. The platform's average daily production rate in 2019 was 5.33 thousand t (39.31 thousand bbl) of oil and 0.58 mln m³ of associated gas.

New Crane No. 2 has been successfully commissioned on the Molikpaq platform. In total, there were three cranes on the PA-A platform, and all of them have been replaced: Crane No. 1 in 2006 (currently being upgraded), Crane No. 3 in 2018, and Crane No. 2 in 2019. Crane replacement will significantly increase the reliability of cargo handling and ensure uninterrupted supply of the platform during the entire period of the Sakhalin-2 project implementation.

The 4D seismic data obtained from towed streamers and bottom seismic stations in the Piltun-Astokhskoye field in 2018 have been successfully processed. Most of the data interpretation work has been completed. The results are used in the designing of new wells.

In 2019, the State Commission for Mineral Reserves and the Central Commission for the Development of Mineral Deposits of the Federal Agency on Subsoil Use conducted an expert review of the estimate of

hydrocarbon reserves and the Integrated Reserves Management Plan for the Development of the Piltun-Astokhskoye Oil and Gas Condensate Field, and approved the documents.

The approved changes in the amount of hydrocarbon reserves will be taken into account in the State Register of Mineral Reserves of the Russian Federation as of 01 January 2020.

2015–2019 Enhanced Oil Recovery Programme Results

Indicators	2015	2016	2017	2018	2019
Total ST since the start of development, pc.	6	7	8	8	8
Cumulative oil production from ST, thousand t	1,053	2,136	3,211	4,374	5,368
Total BHT since the start of development, pc.	0	2	4	9	14
Cumulative oil production from BHT, thousand t	0	50	91	162	227

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

The PA-B platform is the largest platform of the Sakhalin-2 project. Since late 2008, the platform has been producing oil and associated gas in the Piltun area of the Piltun-Astokhskoye oil field.

As of the end of 2019, the PA-B platform had 18 production wells, eight water injection wells, and two cutting re-injection wells.

The platform’s average daily production rate in 2019 was 3.99 thousand t (29.41 thousand bbl) of oil and 0.98 mln m³ of gas. Since the commencement of oil field development, the PA-B platform has produced more than 17.5 mln t (over 132 mln bbl) of oil, including 1.46 mln t (10.73 mln bbl) in 2019.

In the reporting year, two best-in-class production wells were drilled in the Piltun area of the Piltun-Astokhskoye field. The fishbone technology used in the construction of the wells ensures high performance indicators, well integrity and increased production potential. Structurally, a fishbone well is a well with additional short lateral open holes branching off the main wellbore in its lower part. The sand screen is installed only in the main borehole, while the lateral ones remain open.

The application of the fishbone well drilling and completion technology in the Piltun area is aimed at increasing the effective length of the wellbore and the coefficient of reservoir development coverage in order to ensure a rational extraction of hydrocarbons.

In addition to the construction of new wells, Sakhalin Energy controlled the development of the field and the operation of the wells, the quality of fluid injected for reservoir pressure maintenance (RPM) and the operation of the drill cuttings injection system. The platform continuously monitored the composition and water cut of the hydrocarbon products from the producing wells, the process of removal of solid/mechanical impurities, and the integrity of the wells.



more than **17.5** mln t of oil
has been produced by the PA-B platform since the commencement of the field development

In 2019, the company developed and successfully implemented integrated and automated systems for monitoring the RPM and well integrity. These systems provide constant monitoring of the RPM and annular pressure parameters, due to which it is possible to quickly respond to changes in injection rates and ensure a safe level of annular pressure in all wells.

The 4D seismic data obtained from towed streamers and bottom seismic stations in the Piltun-Astokhskoye field in 2018 have been successfully processed. Most of the data interpretation work has been completed. The results are used in the designing of new wells.

In 2019, the State Commission for Mineral Reserves and the Central Commission for the Development of Mineral Deposits of the Federal

Agency on Subsoil Use conducted an expert review of the estimate of hydrocarbon reserves and the Reserves Management Plan for the Development of the Piltun-Astokhskoye Oil and Gas Condensate Field, and approved the documents. For the first time, the Reserves Management Plan for the Piltun-Astokhskoye field combines all areas, including the South Piltun uplift.

The approved changes in the amount of hydrocarbon reserves will be taken into account in the State Register of Mineral Reserves of the Russian Federation as of 01 January 2020.

It is the third year in a row that the PA-B platform has received the Shell Award in the Best Drilling Rig of the Year category and took the first place among a hundred drilling rigs around the world.

4.2.1.3. Lunskeye-A (LUN-A) Platform

The LUN-A platform is the first offshore gas production platform in Russia. This is where most of the gas produced under the project comes from. Oil, condensate and gas segregation, including the processing of gas for transportation to the LNG plant, is carried out at the onshore processing facility.

The LUN-A platform was put into operation in December 2008, and gas from the platform has been filling the project’s pipeline system ever since.

In 2019, the LUN-A platform continued to operate in a stable manner, producing an uninterrupted flow of gas from the existing wells. The platform’s average daily gas production rate is 47.42 mln m³.

Since the commencement of the field development, the platform’s gas production has reached around 170 bln m³, including more than 17 bln m³ of gas in 2019.



about **170** bln m³ of gas
has been produced by the LUN-A platform
since the commencement of the field development

In accordance with the strategy for maintaining the current level of hydrocarbon production and with a view to wider reservoir development coverage, the company is drilling an increasing number of wells with a significant horizontal displacement.

Implementing this strategy, the company completed the construction of a gas production well in the Lunskeye field in 2019 — the longest well in the company's history — with a length of 8,391 m, which is almost 100 metres more than last year's record.

During the drilling of the well, a number of industry records were set — not only for Sakhalin Energy, but also for all Shell companies:

- the length of the well is four times more than its depth;
- the longest liner lowered in floating mode.

During the well completion, the technology of gravel placement in the open borehole was applied to prevent gravel loss. The task was accomplished with the participation of a marine vessel. The work was preceded by the upgrade of the SCF Endeavour ice-breaking supply vessel, operating under the national flag of the Russian Federation, which had previously been used in the Sakhalin-2 project to install a sand screen in a large-diameter well with a significant horizontal displacement. It is planned to continue engaging SCF Endeavour in similar work in the future.

By the end of 2019, all wells of the platform had been prepared for operation in the autumn and winter period. This was part of the planned comprehensive well integrity assurance work, geological and technical activities.

In addition to drilling and repair operations, the company conducted geophysical surveys in open wellbores, continuously monitored reservoir pressure, the injection of drill cutting and produced water into the subsoil horizons, carried out core studies and analysis of produced water samples.

In May, the Train 1 and Train 2 of the platform achieved 493 days and 743 days, respectively, without unscheduled production shutdowns.

In August 2019, the Lunskeye-A platform marked an important achievement — 1,000 days of operation without any HSE recordable case.

PA-B and LUN-A Platforms Are Certified as MIE Calculative

The PA-B and LUN-A platforms received official certificates that confirm their successful certification in Integrity Assurance (IA) and Maintenance Execution (ME). The certification commission included experts from Shell and Salym Petroleum Development, and Sakhalin Energy representatives.

4.2.1.4. Onshore Processing Facility (OPF)

The main purpose of the onshore processing facility (OPF) is to carry out initial treatment of gas and condensate supplied from the Lunskeye field before they are transferred through the pipeline to the oil export terminal (OET) and the LNG plant. In addition, the OPF also processes oil and associated gas supplied from the offshore platforms in the Piltun-Astokhskeye field.

In 2019, OPF daily average capacity was 47 mln m³ of gas and 13.1 thousand t (101.7 thousand bbl) of oil and condensate.

A Quality Assurance / Quality Control for maintenance and repair process was developed and is being implemented at the asset to avoid technical failure and human errors in this process.

In 2019, the Leak Prevention Programme was launched, employing systematic approach to analysing and identifying patterns of leak development, learning from incidents, personnel training, prioritisation and leak prevention measures. A hazard-hunting tool kit was developed to prevent leaks. Cathodic protection was installed for pipelines corrosion management.



4.2.1.5. TransSakhalin Pipeline, Booster Station and Gas Transfer Terminals

The Transsakhlin pipeline comprises about 280 km of offshore pipelines, onshore multiphase pipelines, over 1,600 km of oil and gas pipelines, as well as 104 block valve stations, five Pipeline Maintenance Depots, a Booster Station (BS), and two Gas Transfer Terminals (Northern and Southern).

One of the main tasks of Sakhalin Energy and Gazprom Transgaz Tomsk (contracted by Sakhalin Energy to carry out the maintenance of the Transsakhlin pipeline) is to ensure uninterrupted and safe hydrocarbons transportation to the Prigorodnoye production complex.

At Sakhalin Energy, an HSE case is implemented for its pipelines, which identifies all potential hazards to the integrity of the assets. These hazards include internal and external surface corrosion, excessive pipe pressure, earthquakes, landslides, soil erosion, seabed gouging, shore scouring, marine vessel traffic, illegal hot taps, and inadvertent or wilful damage.

The following measures have been taken to prevent and eliminate these potential hazards:

- cathodic protection systems have been installed on the pipelines to deal with external surface corrosion;
- Intelligent Pigs, which can detect internal corrosion, are used in the pipelines to monitor internal surface corrosion;
- the offshore and onshore oil pipelines are pigged on a regular basis to remove water and sediments;
- Sakhalin Energy's own seismic monitoring system with detectors located along the entire pipeline and the United States Geological Services (USGS) system are used to ensure a timely response in case of an earthquake;

- seismic faults are monitored every year to assess movements and displacements;
- prior to seasonal drops in ambient air temperature, the pipeline is checked for water in the pipeline fault crossing trenches so as to avoid freezing and limited pipe movement;
- the pipeline is regularly monitored through helicopter overflights;
- physical checks of all pipeline features, including rivers, fault crossings, swamps, liquefaction areas, road crossings, rail crossings, etc. Also, the entire pipeline RoW is walked over every twelve months;
- air photo data obtained by means of space technologies are used to monitor vegetation on the RoW.

According to statistics, more than 70% of pipeline incidents in the world are caused by unintentional damage from human activity. Sakhalin Energy has been proactively educating the community about the rules of behaviour in the vicinity of the pipeline system. Local authorities, contractors, land users are regularly informed about land use limitations within the RoW and are provided with addresses and telephone numbers to contact the company if necessary. Additionally, special notice boards are located along the RoW with toll-free telephone numbers in case of questions or concerns.

Sakhalin Energy continues to accept gas condensate from the Sakhalin-3 project gas treatment plant (Kirinskoye field) into the Sakhalin Energy oil pipeline system as per the agreement between Gazprom Export and Sakhalin Energy. This gas condensate is transported through the OPF crude oil booster pumps to the Oil Export Terminal (OET) along with Sakhalin Energy's oil.

In 2019, the company celebrated the 10th anniversary of its cooperation with Gazprom Transgaz Tomsk (GTT), which took over the operation and maintenance of the onshore pipelines in 2009. GTT's excellent performance throughout the years and high HSE culture have been reasonable grounds for Sakhalin Energy to extend the term of the cooperation agreement each time it expired.

Currently, more than 500 GTT employees work at Sakhalin Energy assets. They perform the maintenance and operation of the company's main pipeline system, including BS-2, as well as the maintenance of the OPF. Annually, more than 20 subcontracting organisations work under the management of the Sakhalin branch of GTT, providing repair and maintenance services at Sakhalin Energy's assets.

100% of the Sakhalin-2 project pipelines have been operated less than 12 years (as of the end of 2019) and do not exceed the design standard operation life. To verify pipeline system standard operation life, the company carries out regular pigging with a subsequent analysis of results and development of preventive maintenance plans. In

addition, the entire length of the onshore pipelines is equipped with cathodic protection (CP) system to deal with external corrosion. The company performs regular maintenance and monitors the CP system performance.

4.2.1.6. Prigorodnoye Production Complex

The Prigorodnoye production complex is situated in the south of Sakhalin on the shore of Aniva Bay, which stays ice-free nearly year-round. It incorporates the LNG plant with the LNG jetty, the oil export terminal (OET) with the tanker loading unit (TLU) installed 5 km away from the shore. The Prigorodnoye production complex, including the

territory of the port of Prigorodnoye, occupies about 236 ha and has two trains, each with a design capacity of 4.8 mln t of LNG per year. Over the years, the company's efficiency and reliability enhancement programmes have significantly increased the capacity of the plant.

February 2019 marked ten years since the first LNG plant in Russia was officially launched as part of the Sakhalin-2 project. Since the start of operation in 2009, the plant produced over 254 mln m³ (114 mln t) of liquefied natural gas by the end of 2019.

The Goal Zero and Culture of Care programmes were sustained in 2019 to further strengthen the changes in safe working behaviour and culture, which is the foundation of the strong personal safety performance (see Section 9.2.3. Safety Culture).

The Prigorodnoye production complex, just like the company's other assets, also successfully maintains ISO 9001, ISO 14001 and OHSAS 18001 for its overall Quality, Environmental and Occupational Safety Management Systems.

The availability performance over the last years has been very good in comparison to the global LNG sites benchmarking. Overall availability performance is approximately 92% (planned and unplanned downtime) in 2019, which was mainly due to corrective shutdowns). The causes of the shutdowns have been analysed, and a targeted plan has been developed to sustainably fix these reliability issues. There is a programme in place to further enhance the availability of the asset taking learnings from the company's assets and that of other LNG assets, using our



As part of the company's commitment regarding greenhouse gas emissions, the LNG plant produced a comprehensive GHGEMP (Greenhouse Gas Emissions Management Plan) report, comprising current performance assessment and the proposed way forward on future GHG emissions reduction plan. The Prigorodnoye production complex GHG performance remains top quartile relative to the global LNG sites benchmarking.



shareholder expertise with the objective to improve our overall availability performance.

The scheduled and unscheduled Maintenance Turnaround (TA) shutdown events were successfully carried out in 2019, in conjunction with the planned shutdown activities of the Sakhalin-2 project integrated gas chain system. Especially worth noting are the following three milestones: repair of compressor K-1420, failure and repair of 1KT-1440 gas turbine (Frame 7), and bioscopy of turbines on Train 2.

From December 2018 until January 2019, work was carried out to repair the K-1420 compressor on Train 2. All work was carried out safely, efficiently and ahead of schedule.

In May 2019, there was an unscheduled shutdown of Train 1 due to the failure of the 1KT-1440 gas turbine unit (Frame 7). With a total duration of 35 days, it was the longest and most difficult shutdown in the history of the plant and the company. More than 750 people from 23 countries took part in the repairs, more than 350 thousand man-hours were performed during the shutdown. Numerous works were performed using large-scale equipment. 663 flange connections and a large number of complex lifting operations with a weight of more than 40 tonnes were carried out. All works were carried out with high quality, without serious incidence in the field and ahead of schedule.

In October 2019, it was decided to conduct a baroscopic inspection of Train 2 turbines (Frame 7) based on the results of investigations into the failure of Train 1 turbine. For these purposes, it was planned to stop Train 2 for three days, but it took a shorter time to complete these works.

Active work is being carried out under the planned preventive programmes, the purpose of which is the transition from the Firefighting mode to the Preventive mode. In 2019, the Big Hits programme was launched at the company. It is designed to foresee potential incidents that could adversely affect the operation of the LNG plant, and to plan actions to prevent or respond to such incidents. As part of the programme, a list of equipment critical for the safe and stable operation of the Prigorodnoye production complex was made.

For performance improvements and sustainability, the asset embarked on various performance improvement initiatives. The Continuous Improvement programme (CI programme, see Section 4.3.2. Continuous Improvement Programme), launched in 2017, is seeing good traction. In 2019, the asset delivered more than 5% of value improvements against the annual OPEX budget, via small and bottoms up CI tactics from various units. The key driving factor of the CI programme in the asset is the involvement of all staff on the case for change, the benefits that CI can bring to the asset, and the leadership cadence behind it.



4.2.2. DEVELOPMENT PROJECTS

4.2.2.1. OPF Compression Project

The OPF compression facility is designated to support the planned production levels in case of a wellhead pressure drop in the Lunskeye field.

In July 2019, oversized large-capacity equipment for the OPF Compression (OPFC) Project was delivered to the construction site. The equipment was unloaded onto the Beach Landing Facility (BLF), built specifically for this operation. After the completion of work, the BLF was dismantled, and full reinstatement of the area was carried out.

In July 2019, Velesstroy commenced the main construction works at the OPFC.

In October 2019, Sakhalin Energy successfully completed the installation of two inlet separators on the base structures. The separators are designed for the treatment of gas supplied from the Lunskeye-A (LUN-A) offshore platform to two OPF inlet separators.

4.2.2.2. Development of the South Piltun Area

In 2018, based on the latest data on the geological structure and characteristics of the producing reservoirs of the Piltun-Astokhskoye field, obtained during the detailed exploration and development of the field, Sakhalin Energy prepared an estimate of hydrocarbon reserves and an Integrated Reserves Management Plan for the Development of the Piltun-Astokhskoye Oil and Gas Condensate Field, which included design solutions for the development of currently undeveloped reservoirs, including the deposits of the South Piltun area. In late

2018, the deliverables of these works were submitted for review to the State Commission for Mineral Reserves of the Federal Agency on Subsoil Use. The expert review and defence of the documents were completed in the first half of 2019. In the approved Integrated Reserves Management Plan, the South Piltun area has been renamed into Block II of the Piltun uplift based on geological elaboration and reservoir modelling.

4.2.2.3. LNG Train 3 Project

In 2017, Sakhalin Energy developed design documentation for the Sakhalin-2 LNG Train 3 project. The project design documentation was submitted for state expert review by Glavgosexpertisa and received positive conclusion in 2018.

At present, the Russian party is considering monetisation of the raw material base of offshore deposits in the Sakhalin Oblast. For its part, Sakhalin Energy continues to evaluate possible options for the supply of raw gas to fill Train 3, and is currently working on cost optimisation and opportunities to increase the Russian content in the Sakhalin-2 project.

4.2.3. HYDROCARBON PRODUCTION AND EXPORT

4.2.3.1. LNG

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

Due to regular debottlenecking and equipment adjustment, the LNG plant exceeds its design output of 9.6 mln t per year. In 2019, Sakhalin Energy produced 11.15 mln t of LNG.

In 2019, shipments of LNG produced by the company were transported both in gas carriers of buyers and in the Grand series (Grand Elena, Grand Aniva and Grand Mereya), and in the Amur River and the Ob River vessels, chartered on a long-term basis.

The cargo capacity of the chartered gas carriers varies from approximately 146 thousand m³ to 148 thousand m³.

Grand Aniva, Grand Elena and Grand Mereya, built specifically for the Sakhalin-2 project, have a maximum permissible cargo tank filling level of 99%, which was achieved due to technical and managerial solutions.

In 2019, Sakhalin LNG accounted for more than 4% of total LNG demand in the Asia Pacific* and more than 3% of global LNG demand*.

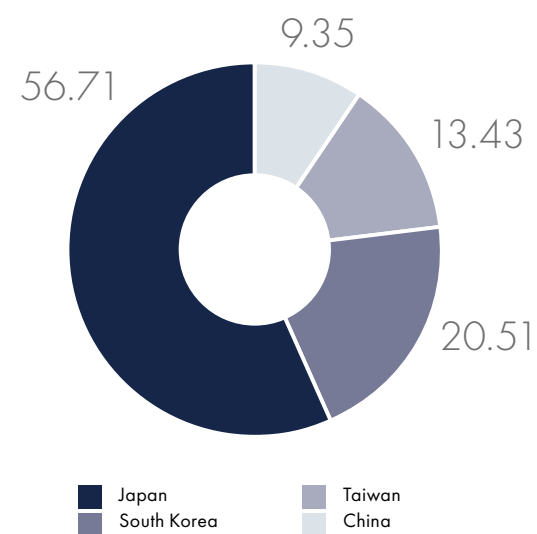
*According to Q4 2019 preliminary assessment of LNG demand in 2019 made by Wood Mackenzie.



11.14 mln t
of LNG

was shipped by the company from
the port of Prigorodnoye in 2019

Sakhalin LNG Sales Market Structure in 2019, %



Safe execution of sea and port operations, reliable uninterrupted supply of hydrocarbons, reduction of operating and transportation costs per unit of transported products are the priority aspects of the company's commercial fleet management.

On 01 January 2020, the International Convention for the Prevention of Pollution from Ships (MARPOL) imposed new limits on the sulphur content in marine fuel — up to 0.5% (mass fraction). This requirement has led to a sharp change in the structure of demand for marine fuel, and has had a significant impact on the oil refining industry worldwide. Operating costs for low sulphur fuel are expected to be higher than for the same fuel with a high sulphur content. Today, shipowners are considering using LNG as a marine fuel. The stocks of high-sulphur marine fuel for the company's commercial fleet were replaced with suitable low-sulphur fuels. The new requirements will mostly affect the purchase of low-sulphur fuel for the oil fleet, since gas carriers can use only stripping gas or a mixture of stripping gas and low-sulphur fuel. Given these technical features, the consumption of low sulphur fuel by gas carriers can be reduced (except for the manoeuvring period of the vessel, when the use of such fuel is mandatory).

Year-round LNG shipments to customers began in March 2009. The company has a solid reputation due to the stability of deliveries, product quality, high safety standards and highly qualified staff. In addition,

In September 2019, the company made the first direct LNG delivery to China — for PetroChina, the largest Chinese customer.

Sakhalin Energy has a number of competitive advantages in the LNG markets in Asia (Japan, South Korea, Taiwan), in particular:

- well-established relationships with potential customers in these countries;
- long-term sales and purchase contracts with all major LNG customers in Japan and South Korea, as well as a framework sales agreement and a medium-term contract with CPC Corporation (Taiwan);
- geographical proximity to the sales markets: the company is the closest source of LNG (the duration of an LNG tanker voyage to Japan is 3–6 days, to South Korea — 4 days, to Taiwan — 5 days).

In 2019, Sakhalin Energy continued to ship LNG to Japan, South Korea, Taiwan, and China. Among the buyers of the company's LNG are gas distributing, power generating and trading affiliate companies with

various volumes of demand. Despite the slowdown in demand for LNG in Taiwan, the share of CPC Corporation (Taiwan) in the company's total supply remains substantial.

In 2019, the company shipped about 11.14 mln t of LNG (171.40 standard LNG shipments) from the port of Prigorodnoye (one standard LNG shipment is 65 thousand t).

Throughout the year, the company continued its active efforts to expand the portfolio of potential buyers in the Asia-Pacific region, and signed five direct framework LNG sales and purchase agreements with Chinese and Japanese companies. In October 2019, the company carried out its first direct sale and delivery of a spot shipment of LNG to China.

4.2.3.2. Oil

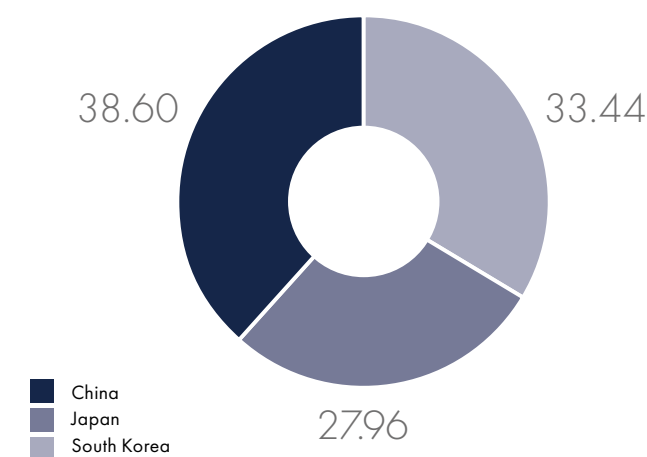
Sakhalin Blend is a special oil grade introduced by Sakhalin Energy to the Asia-Pacific region. It is a light, low-sulphur oil blend, consisting of three components produced offshore Sakhalin:

- crude oil from the Piltun-Astokhskoye field;
- condensate from the Lunsokoye field;
- condensate produced in the Kirinskoye gas and condensate field as part of the Sakhalin-3 project and purchased from Gazprom Export.

The company has been producing and then shipping a mixture of oil and condensate from the tanker loading unit (TLU) of the oil export terminal (OET) at the Prigorodnoye production complex since 2009. In 2014, the company began to use condensate produced in the Kirinskoye field as part of the Sakhalin-3 project (Gazprom).

The condensate produced by the company and the condensate produced under the Sakhalin-3 project are mixed with oil to make a unique grade of light low-sulphur oil with a density of about 42–45° and a sulphur content of about 0.16%. Sakhalin Blend is well known in the Asia-Pacific region. It competes successfully with similar light low-sulphur grades of oil produced in the Middle East, condensates, and heavier Far Eastern blends such as Sokol and ESPO.

Structure of the Oil Blend Sales Market in 2019, %



In 2019, Sakhalin Energy produced 3.40 mln t (25.08 mln bbl) of oil and 1.52 mln t (13.46 mln bbl) of condensate and received 0.12 mln t (0.99 mln bbl) of condensate produced under the Sakhalin-3 project.

In 2019, the company shipped about 39.16 mln bbl of Sakhalin Blend oil from the port of Prigorodnoye, which is 55.94 standard oil shipments (one standard oil shipment is 700 thousand bbl).

The convenient geographical location of the port of Prigorodnoye and the availability of chartered oil fleet (three specialised ice-class Aframax tankers) allow year-round deliveries of Sakhalin Blend oil to the Asia-Pacific ports and vessel-to-vessel (VTV) transshipment in the ports of South Korea, Japan and China for further transportation to other buyers in more distant markets.

In 2019, the charter agreements for the Governor Farkhutdinov and Sakhalin Island oil tankers, which had reached the age of 15 years, expired. The vessels were replaced by new tankers of the same

type — Zaliv Baikal and Zaliv Vostok. The vessels joined Zaliv Aniva, operating under a charter agreement. The chartered oil tankers meet all applicable international requirements and ensure reliable oil supplies to customers. The vessels are equipped with stationary laser rangefinders, which allow them to moor to the tanker loading unit (TLU) in the port of Prigorodnoye with guaranteed accuracy, even in low-visibility conditions. Similar to Zaliv Aniva, the new vessels are chartered until 2024, with two renewal options for one year each.

In 2019, Sakhalin Blend oil was purchased by a total of 10 companies from three countries. Hydrocarbons were delivered through 17 destination and transit ports in Japan, China and South Korea.

Historically, Japan, South Korea and China are the main markets for Sakhalin Blend oil. In 2019, the shares of these three countries in the company’s sales remained as high as in previous years.

The successful sales of Sakhalin Blend oil are ensured by the proximity to the developed oil refining regions in the Asia-Pacific region, the relatively low transportation costs per barrel, the possibility of unloading shipments in several ports, as well as the well-established business relations and experience of cooperation with most major buyers in the region.

The share of oil blend exported by Sakhalin Energy to the Asia-Pacific region is about 0.33% of the total volume of oil consumed in the region.



39.16 mln bbl of oil was shipped by the company from the port of Prigorodnoye in 2019

4.2.3.3. Natural Gas

Since 2011, Sakhalin Energy has been supplying natural gas to the gas main line system of Gazprom to pay royalties payable in kind to the Russian party. The gas is transferred via two terminals in the northern and southern parts of Sakhalin Island.

Since the commencement of natural gas delivery, more than 9,942.39 mln m³ of natural gas has been delivered to the Russian party, including more than 4,886.27 mln m³ of natural gas transported via the Southern Gas Transfer Terminal to Yuzhno-Sakhalinsk Heat and Power Plant-1 and other Sakhalin infrastructure facilities (including 712.86 mln m³ delivered in 2019).

More than 5,056.12 mln m³ of natural gas (including 524.21 mln m³ in 2019) was supplied to the Sakhalin — Khabarovsk — Vladivostok gas pipeline via the Northern Gas Transfer Terminal for further use under the Far East and Primorye fuel and energy sector development programmes.

In total, 1,237.07 bln m³ of the Sakhalin-2 project gas was supplied to the Russian party in 2019.



4.3. INNOVATION AND CONTINUOUS IMPROVEMENT

4.3.1. DIGITAL TRANSFORMATION

Technological advances in the digital age require revolutionary changes in business models and individual business processes. The use and development of digital platforms, the improvement of artificial intelligence during a scrupulous analysis of a huge real-time source database provides high-tech enterprises with undeniable advantages in work and allows them to effectively regulate financial flows.

Today, Sakhalin Energy is developing a unified digital strategy to ensure corporate growth and development. The company sees digitalisation as a form of strategic management and a way to create new business opportunities.

To increase its competitiveness, the company improves the business processes, technologies and products offered by the industry, implements the best global practices, studies and applies promising tools in its work (machine learning, predictive analytics, artificial intelligence) and develops its own solutions, including in the area of information security.

PROCESS AUTOMATION

Sakhalin Energy develops and implements innovative approaches to process control. Automation is implemented at three main levels.

- Basic level. The degree of process control automation at all company’s facilities is 100%. This means that all process parameters that can be controlled automatically are maintained at optimum values by automation tools.

- Advanced process control (APC) systems. The use of control tools makes it possible to maintain process parameters at the required level and, moreover, do this in a most efficient way. For example, automation of the gas condensate stabilisation process at the onshore processing facility (OPF) ensures, along with maintaining the required saturated vapour pressure, maximum energy efficiency and optimal parameters for the uninterrupted operation of weathering gas compressors. For some APC system solutions, a real-time task correction system has been implemented, which helps to adapt to specific conditions. Further development of the APC system is planned through the creation of automated control of the gas treatment and transportation processes. This will help to reduce the load on the Central Control Room (CCR) operators, optimise the operation of the installations, taking into account ongoing changes, and improve the quality of process control parameters.
- Step cycles. The LNG plant has implemented algorithms for automating the offloading of LNG and oil, launching LNG trains and a nitrogen installation. Algorithms for well fitting control have been introduced on the Molikpaq and Piltun-Astokhskiye-B platforms. Now, wells can be launched into operation automatically in the shortest possible time without any sudden changes in reservoir pressure and flow. These systems reduce the work load of the CCR operator and minimise the risk of human error.

ARTIFICIAL INTELLIGENCE

The company aims to reach a new level of critical process equipment maintenance organisation, which is based on a predictive technical diagnostics strategy. This will allow a more detailed monitoring in real time, an analysis of the current state of equipment, and identification of malfunctions much earlier than existing automated process control systems.

A predictive analytics tool is a specialised software that uses individual equipment models and advanced pattern recognition methods, the computer-aided learning technology, and the technology for learning the unique profile of an installation in real load and operational conditions. This tool, among other things, compares historical data on the equipment operation with operational data, and is capable of identifying the preconditions for malfunctions of the process system long before the emergency protection system is triggered. This will give specialists more time to analyse the situation and take preventive measures.

4.3.2. CONTINUOUS IMPROVEMENT PROGRAMME

Sakhalin Energy’s vision and strategy in the field of continuous improvement (CI) aim at creating a certain corporate culture where both managers and employees are motivated to search for effective

ways of fulfilling business tasks with higher economic returns without compromising safety or reliability, and are constantly involved in this process.

“We focus on our employees. We engage each employee in the optimisation process to maximise the use of the company’s reserves. Implementing the Continuous Improvement Programme, we welcome any idea, be it a minor improvement or a significant measure with a tangible economic effect. Such initiatives are becoming common practice in the daily work of our staff. This practice allows everyone to contribute to the future of the entire company”.

Roman Dashkov, Chairman of the Committee of Executive Directors and Chief Executive Officer

The company’s leaders at all levels are committed to building the CI culture and support this process through effective communication. They show their personal examples of behaviour, acting in line with the principles of continuous improvement, support employees in searching for new opportunities and realising those already identified.

The year 2019 saw the development of a new CI management system aimed at expanding the CI programme on the basis of a decentralised model (implemented at the organisational unit level if this is appropriate for the task, or at the interdepartmental level if necessary) with coordination and centralised support by the Central CI Team (Continuous Improvement Section).

- The objective of providing central coordination and support is to ensure:
- CI sustainability in the company;
 - achievement of a high degree of efficiency and effectiveness;
 - alignment of CI activities with corporate goals;

- strengthening the CI culture and CI mindset;
- achieving results in the target areas and in accordance with the CI roadmap, as set out in the company’s Journey Book.

- The target areas of continuous improvement are:
- production and wells optimization and growth;
 - revenue maximization and third party spend reduction / avoidance;
 - process optimization and efficiency;
 - demand and scope management;
 - business partnering and collaboration;
 - sustainability and health.

Continuous Improvement Initiatives Implementation Process



Each individual initiative and project is tested for cost, effectiveness and business benefits. In addition, all initiatives and projects are registered on the unified corporate continuous improvement portal, where any employee can familiarise themselves with the initiative, ask questions, propose solutions, leave comments and receive answers from the project initiator.

The company supports employees in their initiatives and encourages their participation in the corporate CI programme by recognising successes in the area of continuous improvement, praising initiators at all levels in the company and in its individual units, as well as awarding them with a quarterly CI award of the Committee of Executive Directors. Successful initiatives are communicated to personnel and posted in all company’s offices and facilities.

The widespread use of CI techniques, tools and visual control systems and increased number of sessions and seminars resulted in a

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INDUSTRIAL INNOVATION AND INFRASTRUCTURE

12

RESPONSIBLE CONSUMPTION AND PRODUCTION

significant growth of staff involvement in the CI programme, which is assessed through an annual survey of the company's employees.

As of the end of 2019, more than 1,200 initiatives proposed by the company's employees had been registered since the start of the

programme, with a combined effect of more than US\$ 700 mln. In 2019, more than 580 initiatives were implemented with a total economic effect of more than US\$160 mln.

4.3.3. INTELLECTUAL PROPERTY BUSINESS PROCESS

Throughout its history, Sakhalin Energy has been using the best international practices and the latest technical solutions. The unique conditions of the Sakhalin-2 project implementation, however, often require the company and its contractors to search for or develop new advanced approaches and methods, devices and technologies for fulfilling production and commercial tasks. A package of intellectual property rights, which is a valuable asset for the company development, helps to maintain efficient and reliable production.

With regard to this, in 2016, Sakhalin Energy introduced the Intellectual Property business process to implement the processes of intellectual property rights management, consolidation and protection of the company's rights to new technical solutions created as part of the Sakhalin-2 project, and also strengthen the company's competitive advantages. The new business process was designed to develop a unified approach to the management of substantial intellectual property, to ensure its legal protection, and to obtain additional benefits from intangible assets.



The developments included in the company's intellectual portfolio are applied at its facilities, increasing work efficiency and strengthening the company's competitive advantages as a responsible producer of hydrocarbons.

The Intellectual Property process yielded noticeable results: as of the end of 2019, the company held a portfolio of intellectual property rights, which included the following:

- four patents issued in the Russian Federation (two of them protect technical solutions related to the production of liquefied natural gas, the third — a new solution for monitoring the state of an oil and gas field during hydrocarbon production, and the fourth — a solution aimed at simplifying and increasing the efficiency of drilling equipment during offshore hydrocarbon production);
- two patents issued abroad (in the USA and Australia), following the patent for the development of legal protection for the technical solution 'Method for Control of Mixed Refrigerant Composition', obtained in the Russian Federation;
- 37 software programmes registered with Rospatent;
- trademarks: Sakhalin Energy logo, registered in two colour combinations; the image of Senya — the protagonist of the Safety Is Important programme (see the Section 9.5.3. Safety Is Important Programme);

- numerous copyright assets: books, videos, animated cartoons, comics, various manuals and many other publications created as part of the Safety Is Important programme.

Since the start of the business process implementation, 36 Sakhalin Energy employees authored intellectual activity results.

These figures demonstrate the company's desire to improve technical and organisational processes and are proof of the unique feature and high level of technical solutions created by Sakhalin Energy specialists.

In 2020, the company will expand its intellectual property portfolio by patenting and registering unique IT, technical and other solutions in the Russian Federation (and abroad, if necessary), interacting with contractors in order to benefit from the use of new solutions developed under the Sakhalin-2 project.

4.4. BUSINESS CONTINUITY MANAGEMENT

Since 2016, Sakhalin Energy has been implementing the Business Continuity Management System (BCMS) to sustain the confidence of customers, shareholders and stakeholders in the company's capability to safeguard and restore business-critical activities and performance in case of any disruptive event.

To ensure the effective availability of essential functions, Sakhalin Energy has developed a Business Continuity Policy as an overarching commitment to a comprehensive Business Continuity and Recovery Programme based on ISO 22301:2012 Societal Security — Business Continuity Management Systems, ratified by the RF standards organisation (GOST R 22301: 2014 Societal Security — Business Continuity Management Systems).

The purpose of the BCMS is to identify and assess the impact that can be caused by disruptive events, whether unintentional, intentional, or naturally caused (disruption, emergency, crisis or natural disaster) and to develop recovery plans that would enable Sakhalin Energy to resume key business activities as soon as practicable. Thus, the BCMS provides a suitable mechanism by which Sakhalin Energy can systematically prepare for disruptive events and assure BC capability.

BC management has significant interfaces with crisis management and emergency response. The BCMS is designed to ensure that following any emergency/disruptive event, critical business functions will either continue to operate or will resume within a defined time period.

By 2019, Sakhalin Energy had already analysed most of the credible disruptive events that could lead to an interruption in the company's key activities. The company had also tested its readiness to respond effectively and resume business-critical activities after events such as an earthquake, critical IT services failure, a significant technical or HSE incident at a production facility. In 2020, the company plans to test its readiness to continue its key operations in the event of an influenza pandemic.

5

CORPORATE GOVERNANCE

The Code of Conduct is an integral part of Sakhalin Energy's corporate governance and culture, defining essential rules, standards and norms of conduct aimed at achieving Sakhalin Energy's goals in line with its requirements, corporate values and principles.



Yuri Metelskiy

"Onshore Processing Facility"
Paper, Watercolour,
2020

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

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

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

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

The general business principles cover, among other areas, economic features, 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).

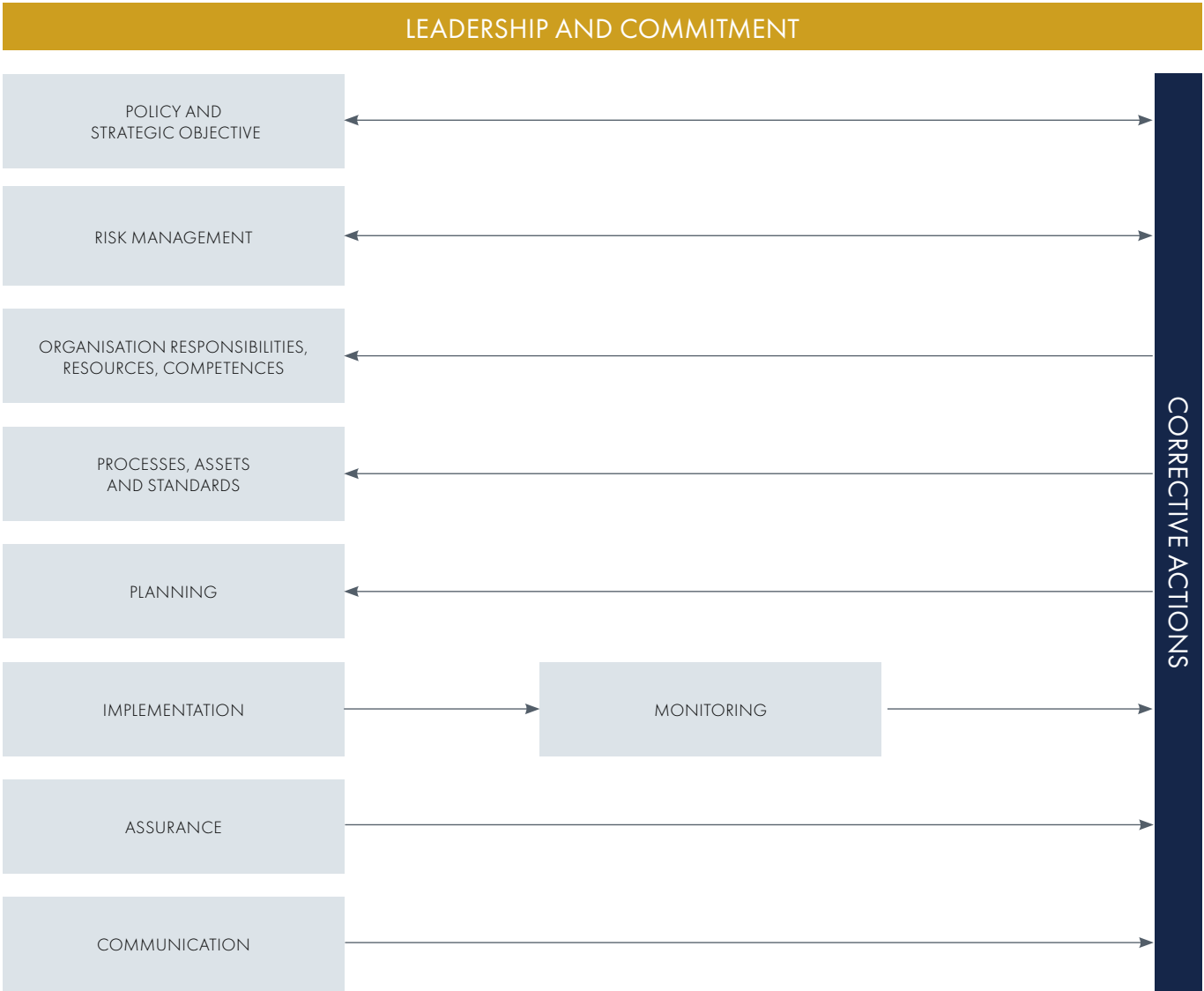
5.2. CORPORATE GOVERNANCE SYSTEM AND STRUCTURE

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 senior management with its shareholders and the Russian party to determine the direction of the company’s activities, establish areas of responsibility, and assess performance.

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



Corporate Governance System



LEADERSHIP AND COMMITMENT

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

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 (see Section 5.4. Risk Management).

POLICY AND STRATEGIC OBJECTIVES

The company’s policies and standards comply with 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.

ORGANISATION, RESPONSIBILITIES, RESOURCES, AND COMPETENCY

The organisation and resources of the company 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 proper implementation of control procedures through regular assurance and compliance activities adopted by the company.

PLANNING

All plans approved are optimised and fully resourced. Performance targets are set that will ensure progression towards the long-term objectives. The five-year plans, that are assessed and adjusted annually, form the basis of planning. They are established through active and open discussions with representatives of all directorates and departments at the special annual event named 100 Workshop (see Section 6.3. Engagement with Personnel).

Contingency and emergency response plans are implemented and regularly evaluated.

The Journey Book, which is published annually, is used to inform all company`s employees about the company`s 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, organisational structure, risks, plans, and processes are updated. All incidents with significant potential or actual consequences are thoroughly investigated and reported. All lessons learned are 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. Management regularly reviews the suitability and effectiveness of the assurance framework.

COMMUNICATION

Transparent and open communication is essential to ensure the company`s business objectives are met. Line managers engage with their staff, communicating business goals 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 regular staff engagement sessions (see Section 5.5. Corporate Culture and Section 6.3. Engagement with Personnel).

5.3. CORPORATE GOVERNANCE MODEL

Strategic planning is carried out through engaging the Sakhalin Energy`s senior management with the Russian party (representatives of the federal executive authorities and the Sakhalin Oblast Government) 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.

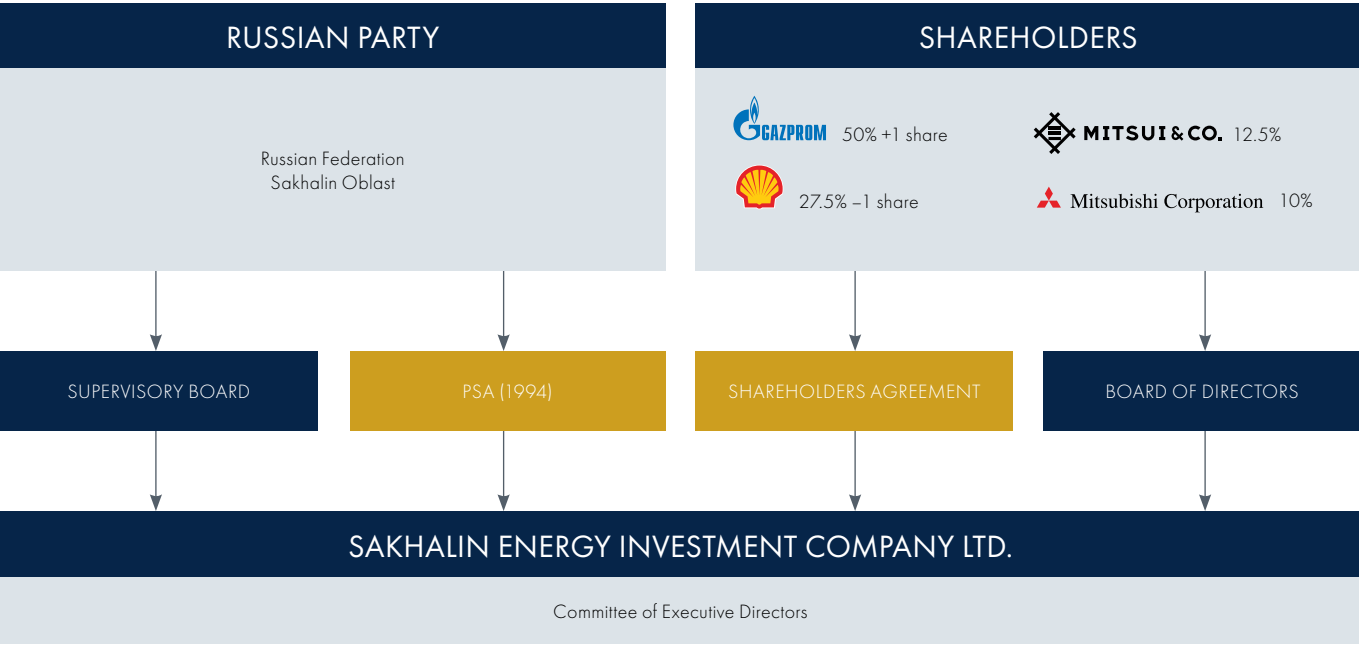
The Supervisory Board is the Sakhalin-2 project strategic management body established and operating in accordance with the Agreement on the Development of the Piltun-Astokhskoye and Lunskeye Oil and Gas Fields on the Basis of Production Sharing (PSA). The Supervisory Board supervises the fulfilment of the PSA terms and approves the company`s long-term development plans and budgets, annual work programme and budget, 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 12 members: six representatives from the company and six representatives from the Russian party. Information on members of the Supervisory Board is available on 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;
- daily management and operation of the company is the prerogative of the Committee of Executive Directors (CED).

Corporate Governance Model



The company`s governing bodies have the following tasks in the governance model.

Board of Directors (BoD) — appointed by the company`s shareholders, it 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 2019 included all the executive (7) and non-executive (8) directors of the company. Cederic Cremers, Shell Country Chair in Russia, served as the Chairman of the Board as of end of 2019.

The BoD is supported by several committees.

Commercial Committee — chaired by the company`s Commercial Director and consisting of 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 on crude oil, LNG and natural gas, and other commercial issues.

Technical Committee — chaired by the company`s Technical Director and consisting of representatives from the Sakhalin Energy`s Technical and Production Directorates and its shareholder companies who 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 plans and strategies, 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 representatives from Sakhalin Energy and shareholder companies who meet to discuss financial issues. The standard agenda of a FAC meeting includes equity/project financing arrangements; assurance framework (including financial business); cost recovery issues; strategic risks, internal/external audits; work/service contracts, agreements and amendments; tax liabilities; insurance; treasury; accounting policy and supply chain management.

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

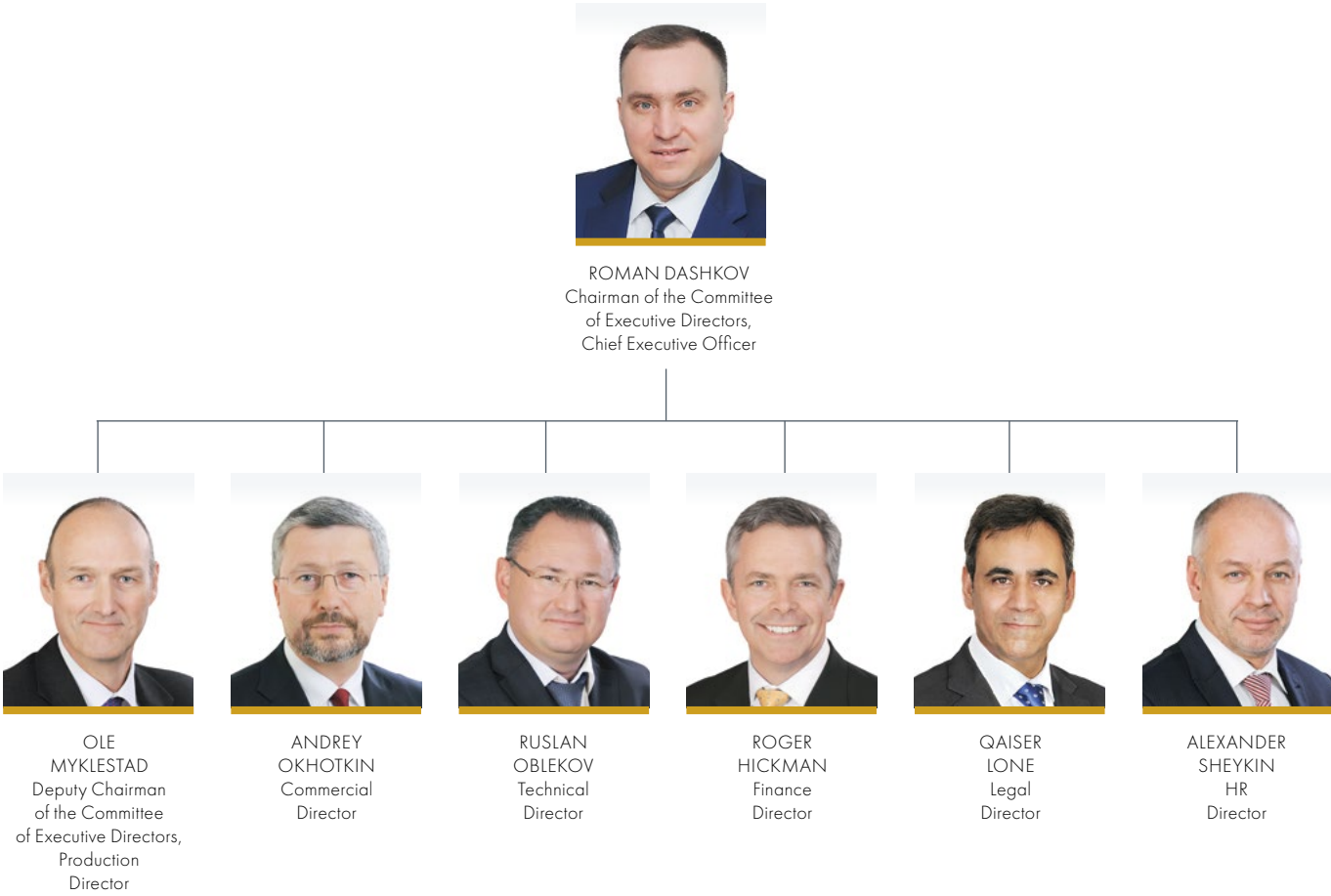
Board Assurance Committee — consists of two representatives from each of the company`s shareholders, one of which is a non-executive director. The meetings are attended by the company`s Chief Executive Officer, Finance Director, Legal Director, any other executive directors responsible for the agenda items of a Committee meeting, the Audit Manager, and other individuals invited by the Committee.

Board Remuneration Committee — an advisory committee to the BoD. This Committee reviews and makes recommendations with regard to annual performance of 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 — headed by the company’s Chief Executive Officer (Chairman) and consists of all the executive directors of the company. CED 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 2019 are shown below in the Committee of Executive Directors organisational chart.

Committee of Executive Directors (as of 31st of December 2019)



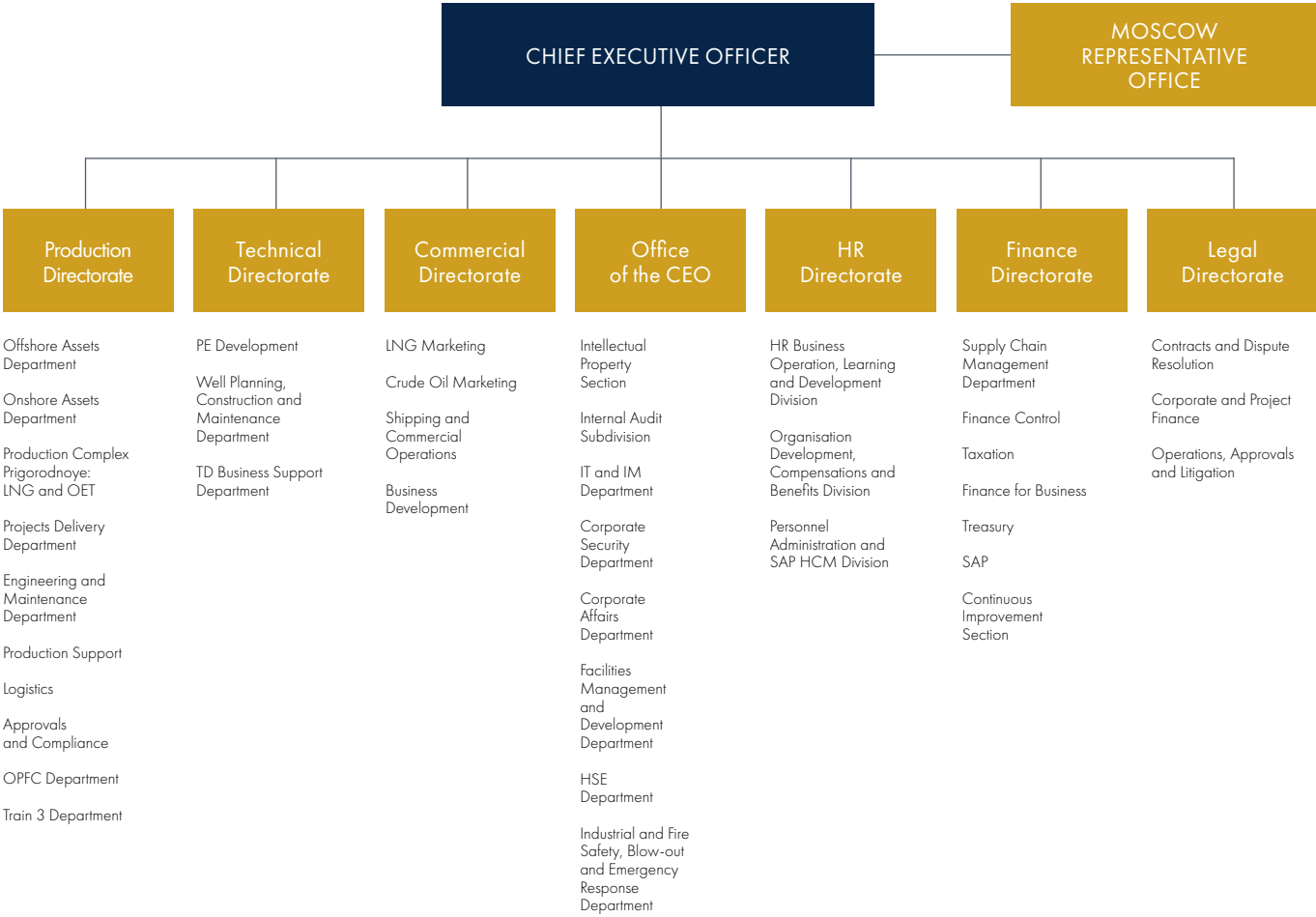
The CED is supported by internal committees, including, but not limited to:

- Management Development Committee;
- Decision Review Board;
- Business Integrity Committee;

- Business Assurance Committee;
- HSES Management Committee.

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

Company’s Organisational Structure (as of 31st of December 2019)



5.4. RISK MANAGEMENT SYSTEM

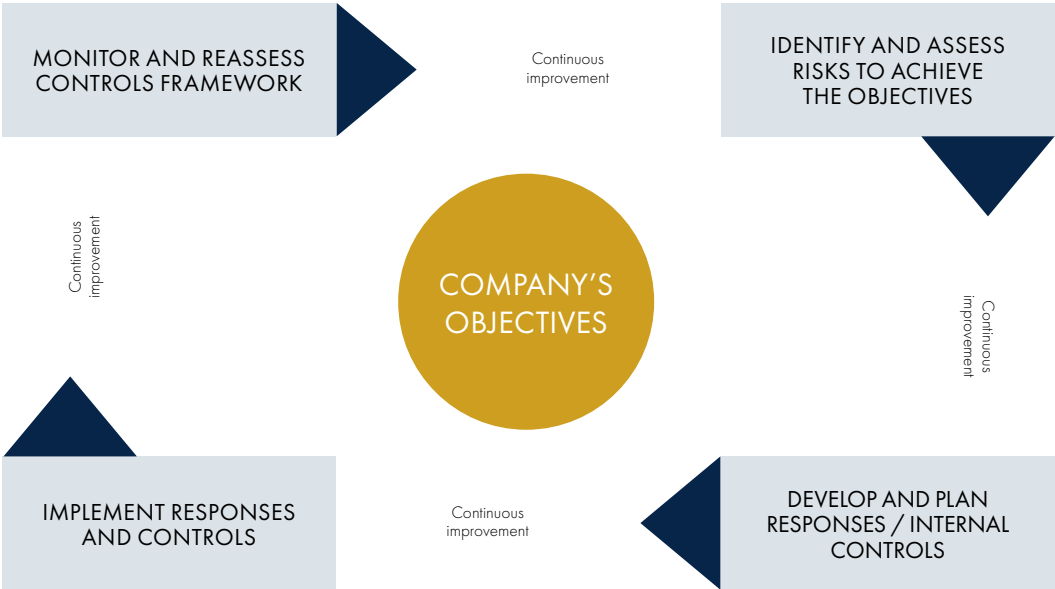
Sakhalin Energy believes that effective risk management is critical to achieving the company's goals.

- The main goals of effective risk management are as follows:
- creating a risk-oriented culture in the company;
 - creating value for key stakeholders by ensuring effective implementation of the corporate strategy;
 - ensuring sound planning by involving senior management in management of key risks;
 - ensuring proper assessment, monitoring and mitigation of risk exposure.

In risk management, the company follows the ISO 31000:2018 Risk Management Standard.

Sakhalin Energy understands risk as a potential situation that can affect the achievement of corporate goals. Accordingly, all risks are divided into threats and opportunities and assessed in terms of impact and probability.

Risk Management Cycle



The risk management process at Sakhalin Energy includes identification and assessment of risks, planning management measures, their implementation, monitoring indicators and reassessment of risks. The cycle is carried out on continuous and dynamic basis in order to ensure the identification of areas that require improvement, as well as the implementation of these improvements (see the Risk Management Cycle chart). This process is governed by the Corporate Risk Management Procedure.

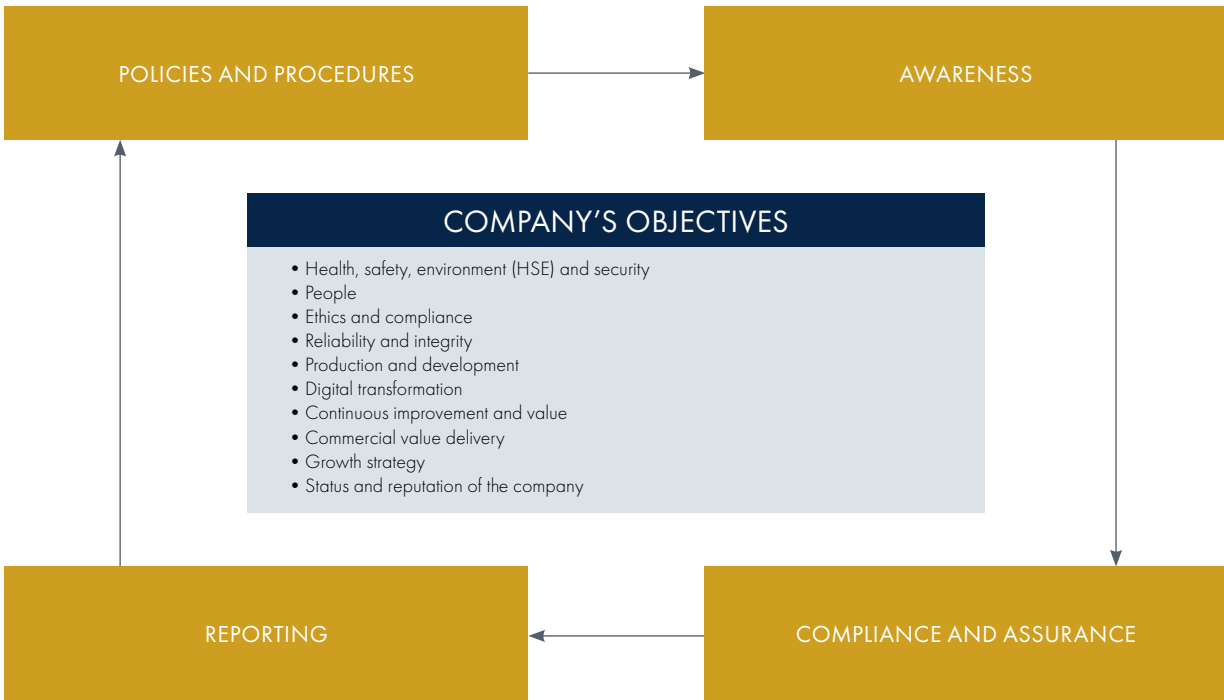
The key tool for assessing the impact and likelihood of risks is the risk assessment matrix, which provides for classification of actual and potential consequences, determination of the severity of risks, and proper management thereof. Risks are assessed by the likelihood of occurrence and the level of impact on the process of goal implementation.

One of the most important components of effective risk management is conducting an impact assessment. This process is carried out before starting any work that could potentially affect various areas (see Section 3.5.2. Impact Assessment).

Risk management lies within the responsibility of those who are responsible for achieving the goals associated with these risks (risk owners and coordinators). All executive directors of the company ensure proactive risk management as part of his/her leadership activities. Monitoring is carried out by the Business Assurance Committee, which includes the company's executive directors, and the Board of Assurance Committee (see the Controls Framework chart).



Controls Framework



Risks that the company assesses as the most significant, and ways to control them

Risks	Description/Controls	Reference
Continuous improvement (opportunity)	Many of the processes and areas of work used by Sakhalin Energy can be improved in order to increase their efficiency and/or productivity, which will allow the company to be the leading supplier of energy resources for the Asia-Pacific region. The company has developed a strategy to achieve maximum production efficiency – the Continuous Improvement Programme, which includes a number of initiatives to reduce costs, increase profitability and improve production efficiency	Details in Section 4.3.2
ECONOMIC RISKS		
Risk of adverse effects of existing and potential sanctions	The United States and several other countries have imposed sanctions that may affect the company's business. The company has formed an interdisciplinary sanction working group responsible for monitoring and developing situation management plans	
SOCIAL AND REPUTATIONAL RISKS		
Staff turnover	It is important for the company to retain the necessary level of trained and qualified personnel. Losing professionals and specialists, especially those in technical fields, can lead to insufficient trained personnel in the skill pool to fill critical positions and can lower the general qualification level of key experts. In order to mitigate the risk, the company strives to support the succession process, including at the level of managerial targets and goals. Programmes of managerial and leadership skills development are being implemented. The competitiveness of the employee value proposition is regularly assessed. The Traineeship Agreement is updated annually in cooperation with the shareholders	Details in Section 9.1
Occupational diseases risk	To reduce the risk of occupational diseases: personnel health risk assessment at the facilities, harmful factors production control, special workplace attestation, periodic medical and clinical examinations, control over compliance with work instructions during work, control over the use of PPE, and education on the prevention of occupational diseases	Details in Section 9.3
ENVIRONMENTAL RISKS		
Risks with regards to negative impact on the environment	The company uses the following controls to reduce the risk of negative impacts on the environment and the risk of contamination in line with the requirements of environmental legislation and international standards: – identifying all environmental aspects and performing an environmental risk and impact assessment when planning business activities and implementing a project; – operating on the basis of permits and licenses obtained, within the limits for emissions and discharges and waste generation volumes specified by the standards; – developing and implementing comprehensive programmes for industrial environmental control, local environmental monitoring and biodiversity conservation in the areas of production assets; – analysing the results of monitoring, assessing the efficiency of controls and developing and implementing environmental protection plans. Risks are managed in accordance with the company's Risk Management Standard and the special Atmospheric Air Protection Standard, Water Use Standard, Waste Management Standard, Soil Use Standard, Marine Environment Protection Standard and Biodiversity Standard	Details in Section 8

Risks	Description/Controls	Reference
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. Potential sources of major accidents are: hydrocarbon releases from production installations or wells, onshore and offshore assets and pipelines which could result in a fire or explosion; 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 transferring personnel between offshore installations and vessels. The Process Safety Control System consists of three elements: – Design Integrity – designing and building the company's 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; – Operating Integrity – applying technical control measures and managing critical work processes by using work permits, monitoring technical processes manually, overseeing changes in processes, etc. Senior management must take a leading role in ensuring process integrity in order for this system to be successful. Leaders should have the ability to pick up on weak signals and create an atmosphere in which people can halt unsafe work and speak up when they feel something is not right. The process safety risks are assessed at each company's asset based on Russian Federation legislation and international practice	Details in Sections 4 and 9.2
Personnel safety risks	These risks mainly include personnel safety risks during lifting operations, risks of falling objects, risks of falling from height or as a result of slipping or tripping, and electrical safety risks. To reduce safety risks, relevant precautionary measures and controls are being implemented	Details in Section 9.2
Road safety	Within the framework of the OPFC project, the traffic intensity on the southern access road has significantly increased. To strengthen road safety control, an additional monitoring group has been assigned to the road. Traffic decreased during the operations phase, but the risk levels remain high over the entire service life of the Sakhalin-2 project. Traffic volumes are still high, often in difficult weather and road conditions. The most common violation among contractor drivers is speeding. To manage risks and prevent violations of road traffic rules, the company monitors speed limit violations using IVMS and, with the help from Traffic Safety Team inspectors, conducts training sessions, holds discussions with drivers, and performs strict journey management. Other precautionary measures and controls are also being implemented	Details in Section 9.2

5.5. CORPORATE CULTURE

“The Reputation of an honest business is a priceless asset for any organisation. Our success in no small measure is contingent on compliance with both legislative requirements and highest possible ethical standards”.

Roman Dashkov, Chairman of the Committee of Executive Directors and Chief Executive Officer

Values, principles, rules, codes, traditions and practices add up to the company’s corporate culture, making it unique and guiding it to the destination that has been set. Sakhalin Energy’s corporate culture, which

rests on trust and our permanent values — honesty, integrity, respect, professionalism, individual responsibility and team work — contributes to our reputation and business success.

Corporate Values



Sakhalin Energy operates in strict compliance with the Russian Federation legislation and corporate General Business Principles, including the following:

- we promote the development and best use of the talents of our employees;
- we conduct business as a responsible corporate member of society, support fundamental human rights and give proper regard to health, safety, security and the environment;
- we contribute to sustainable development, integrating economic, environmental and social considerations into

business decision-making (the principles of environmental and social responsibility);

- we do not tolerate corruption, corporate fraud, embezzlement, money laundering or any other abuse of the company’s assets;
- we seek to work freely and fairly, in compliance with the business ethics standards;
- we seek to maintain mutually beneficial relationships with business partners, contractors and vendors.

The company’s management is actively involved in promotion of the corporate culture which is based on mutual respect and trust: the company trusting its employees, the shareholders trusting the company. This makes negligence and any malpractice unacceptable.

To enhance and further develop our corporate culture aimed to maintain the company’s values, reputation and high international standing, the following sources have been developed:

- Ethics & Compliance internal web-resource. The E&C website covers ethics & compliance information and updates (Stories, Facts and Events section) and offers information on the Ethics & Compliance Programme, encouraging employees to raise their concerns and ask questions to receive advice and recommendations (via Whistle Blowing and Contacts links).
- Ethics & Compliance Programme. The Programme was developed in accordance with the Russian and applicable international legislation, as well as best international practices. Ethics & Compliance Manager coordinates the implementation of the programme in line with its terms and conditions.

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

All employees complete biannually online trainings dedicated to the Code of Conduct, Anti-Bribery and Corruption principles and Conflict of Interest Procedure. In 2019, almost 100% of employees who were required to do these trainings completed them.

To enhance zero tolerance of corruption and fraud, the company has developed face to face training sessions on Ethics and Compliance, which are conducted on a regular basis. This format serves as a platform for discussing changes in the anti-corruption legislation and their impact on the business environment and the company.

5.6. ETHICS AND COMPLIANCE

Basic Elements of Ethics and Compliance

The Code of Conduct is an integral part of Sakhalin Energy’s corporate governance and culture, defining essential rules, standards and norms of conduct aimed at achieving Sakhalin Energy’s goals in line with its requirements, corporate values and principles.

Sakhalin Energy’s Code of Conduct applies directly to each employee and covers various aspects, including respect for human rights, health, safety and environment, anticorruption and antibribery, etc., and includes the principles of management commitment, due diligence and risk assessment, monitoring and reporting, communication and training, etc. (see the Basic Elements of Ethics and Compliance chart).



Each process is described in detail in the respective procedure and policy of the company:

- Code of Conduct, including the Statement of General Business Principles;
- Sustainable Development Policy;
- Human Rights Policy;
- Whistle Blowing / Grievance Procedure;
- Conflict of Interest Procedure;
- Anti-Bribery and Corruption Procedure.

All policies and procedures have been developed in line with the existing laws and regulations, as well as the General Business Principles of the company. The principles’ control system requires the company’s senior management to provide employees with a safe and confidential setting

for raising any concerns and reporting non-compliance. Sakhalin Energy employees are expected to report to the company any incidents of violation with the General Business Principles.

The company continuously works to reinforce its staff engagement and two-way communication framework using such methods as direct communication (general staff communication sessions, meetings with each group/department, etc.), as well as various types of electronic and written communications and feedback (see Section 6.3. Engagement with Personnel), etc.

The company has developed and applies the Conflict of Interest Procedure. Under the procedure, conflict of interest declaration must be filled out by all the employees on an annual basis.

The Procedure allows the company to prevent and assess potential conflicts and describes measures to protect both Sakhalin Energy and its personnel from the risk of actual conflict between the employees’ private and professional interests.

5.7. ANTI-BRIBERY AND CORRUPTION

Effective development of Sakhalin Energy is based on zero tolerance to corruption and fraud, and one and the same code of conduct mandatory for all the company’s employees, irrespective of their position or employment record.

- The company follows Russian and applicable international anti-corruption and anti-fraud regulations, corporate General Business Principles and Code of Conduct, as well as internal policies and procedures.
- Sakhalin Energy does not tolerate corporate fraud, bribery, corruption, embezzlement, money laundering or any other abuse of its assets.
- The company promotes its General Business Principles to business partners, contractors and vendors.

The company has succeeded in its efforts to prevent and combat corruption and keeps making these efforts more efficient. This includes development of the relevant policies and procedures and implementation of business assurance processes to prevent any unlawful activities.

Anti-Bribery and Corruption Procedure (hereinafter referred to as the Procedure) is the primary company’s document dealing with bribery and corruption.

Risks associated with non-compliance with this Procedure include failure to follow anti-bribery and corruption legal requirements and failure to comply with ethical business standards. These risks may lead to reputational damage, financial losses (e.g. fines), and criminal liability of the company’s employees as well as its agents, contractors, and intermediaries. The Procedure lists categories of employees who are likely to violate anti-bribery and corruption laws and must attend individual training on the requirements of this Procedure.

All newly hired staff must be briefed about the requirements set forth in the Procedure as part of their induction. The Finance Controller together with the Ethics and Compliance Manager shall ensure that Sakhalin Energy employees are made aware of Anti-Bribery and Corruption Procedure (including organisation of training sessions) and comply with this Procedure.

The company informs both internal and external parties on channels for reporting violations of anti-bribery and corruption legislation.

For these purposes, various mechanisms have been put in place, including posting relevant information on the company’s internal and external websites, in the company’s offices and at production assets. The company’s website has a digital template for making inquiries on fraud, corruption or embezzlement.

The company’s Legal Directorate shall consult employees on anti-bribery and corruption legal issues and risks associated with non-compliance.

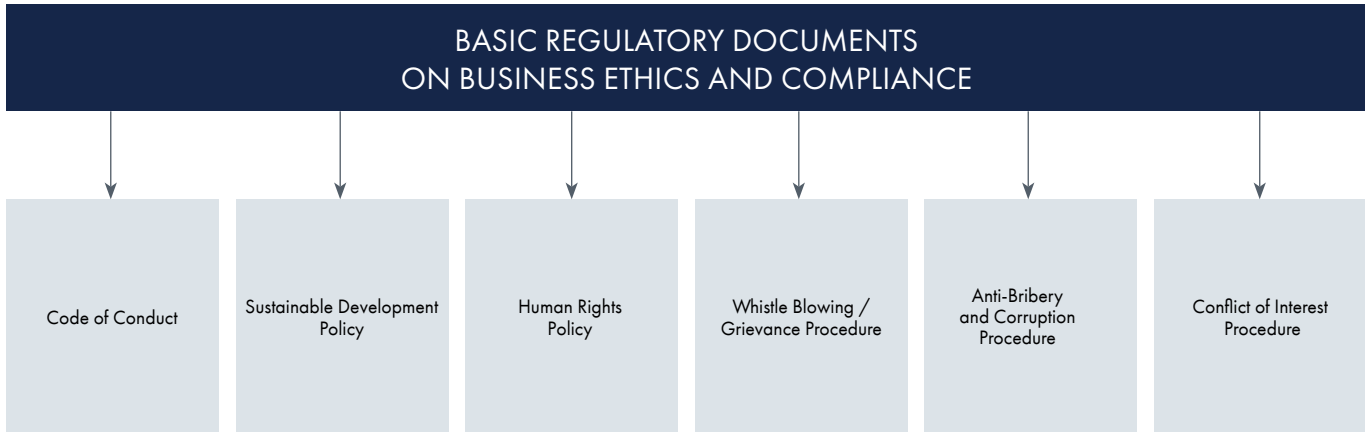
The Anti-Bribery and Corruption Procedure establishes an overall set of controls for compliance with the anti-bribery and corruption laws, including:

- anti-bribery and corruption requirements;
- identifying non-compliance;
- reporting to the Business Assurance Committee;
- applying a set 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.);
- applying pre-contractual due diligence, mandatory contract provisions, etc.

The following is arranged in order to integrate anti-bribery and corruption requirements into the company’s processes of contracted works organization and procurement and to implement further controls:

- The Legal Directorate shall monitor any changes in standard contract clauses that specify the company’s anti-bribery and corruption requirements.
- To provide methodological support of the company’s contracting and procurement process and to observe the due diligence principle related to potential and existing contractors, employees of the Ethics, Corporate Governance and Assurance Subdivision shall assess the compliance of the proposed changes to the standard contract terms with the principles of business ethics, applicable anti-corruption legislation, company’s requirements, and best international practices;
- The Supply Chain Manager shall ensure that standard company’s contracts contain the relevant standard clauses and that controls set forth by this Procedure are effectively integrated into the company’s processes of organization of contracted works and procurement. Special focus shall be placed on ethics and compliance in terms of training seminars organised for manufacturers and suppliers.

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



6

STAKEHOLDER ENGAGEMENT MANAGEMENT

The company considers regular and meaningful stakeholder engagement as well as public disclosure of relevant information as important components of corporate sustainability and successful implementation of the Sakhalin-2 project.



Natalia Kyrkhina

"Sakhalin Native Hunter"
Canvas. Oil.
2017

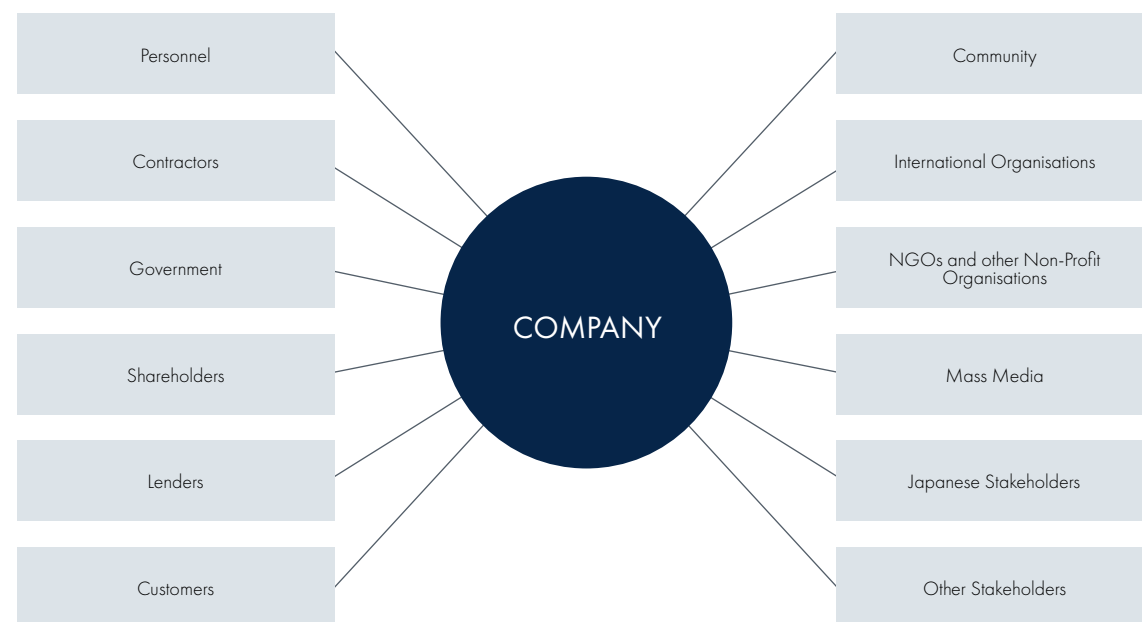
6.1. STRATEGY, PRINCIPLES, MECHANISMS AND ENGAGEMENT TOOLS

Considering that regular and meaningful engagement with the general public 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 project.

Stakeholders are defined as organisations, companies, individuals, or groups that have a vested interest in the company or the project, i.e. individuals or entities that are influenced by the company or can potentially influence the company's operations.

The company interacts with a number of stakeholders including the following key groups: shareholders, personnel, lenders, government authorities, customers, suppliers and contractors, community, Japanese stakeholders, international organisations, public organisations and other non-governmental and non-profit organisations, mass media, and others.

Company's Stakeholders



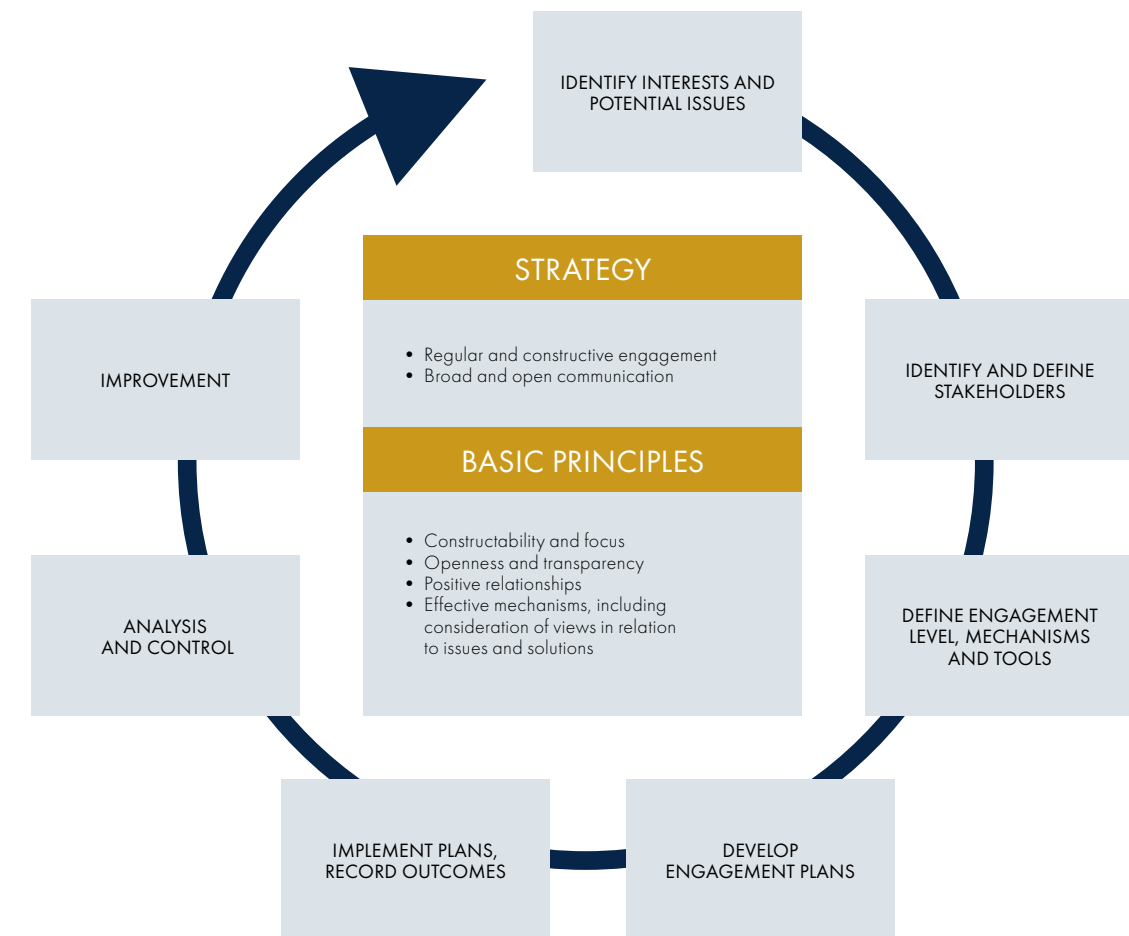
Sakhalin Energy's engagement with stakeholders is based on its commitments as set forth in key corporate documents, including:

- Code of Conduct, including the Statement of General Business Principles;
- Sustainable Development Policy;
- Human Rights Policy;
- Commitment and Policy on Health, Safety, Environment and Social Performance;

- Social Performance Standard (Public Consultation and Disclosure Appendix);
- Public Consultation and Disclosure Plan (updated annually).

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

Stakeholder Engagement Process



The most effective mechanisms and tools are determined by engagement goals and objectives and depend on a particular stakeholder group (see

the Public Consultation and Disclosure Plan on the company's website www.sakhalinenergy.com).

6.2. STAKEHOLDER ENGAGEMENT IN 2019

Sakhalin Energy continued its systematic and consistent engagement with key stakeholders in 2019.

Key activities included the following:

- engagement with personnel (see Section 6.3. Engagement with Personnel);

- public, group and individual meetings to update the participants on the latest developments and other aspects of the company's activities and to receive feedback;
- providing information to stakeholders through the company's website, the Vesti monthly corporate newsletter, and the media (radio, newspapers, TV); distribution of information reports and printed materials in communities;

Key statistics on stakeholder engagement in 2019:

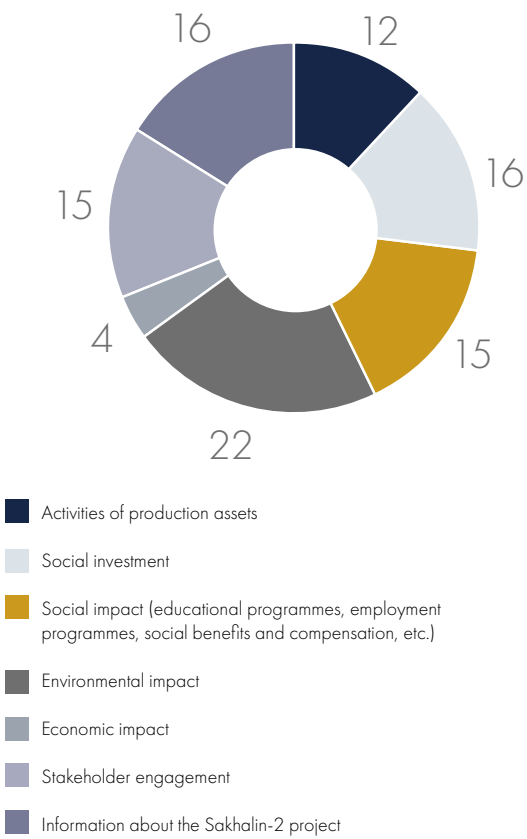
- 18 public meetings held in 15 communities located near the company’s assets (161 participants from among residents of the Sakhalin Oblast). During public meetings, participants had the opportunity to ask specialists about the company’s activities and the Sakhalin-2 project. Questions requiring detailed information were recorded in the minutes of the meeting, and answers were provided in writing or orally at subsequent meetings with the involvement of relevant specialists. Participants in public meetings were invited to fill out a feedback form, express their opinion on the company’s activities and suggest topics for subsequent meetings with company specialists (see the Statistics of Public Meeting Participant Questions in 2019 by Topic chart). The minutes of these public meetings were posted on the company’s website (www.sakhalinenergy.com). Answers to main questions asked by residents of Korsakov were also published in the Korsakov Municipal District newspaper;
- 6,033 visits to information centres;
- 13 public meetings in 12 communities of traditional residence districts of Sakhalin Indigenous Minorities (200 participants — representatives of SIM, non-governmental organisations, tribal enterprises and communities, municipal authorities, and other stakeholders);
- 169 people visited the office of the Community Liaison Officer in Korsakov. Visitation statistics are presented in diagram form (see the Statistics of Questions from Visitors to the Korsakov Office in 2019 by Topic chart);
- 2 rounds of dialogues with stakeholders as part of preparation of the Sustainable Development Report.

- activities of the company’s information centres established in local libraries (see Section 6.4. Local Communities Engagement through Company’s Information Centres);
- engagement with indigenous people under the Sakhalin Indigenous Minorities Development Plan (see Section 6.5. Engagement with the Sakhalin Indigenous Minorities);
- engagement with non-governmental and non-profit organisations (see Section 6.6. Engagement with Non-governmental and Non-profit Organisations);
- engagement with Japanese stakeholders (see Section 6.7. Engagement with Japanese Stakeholders);

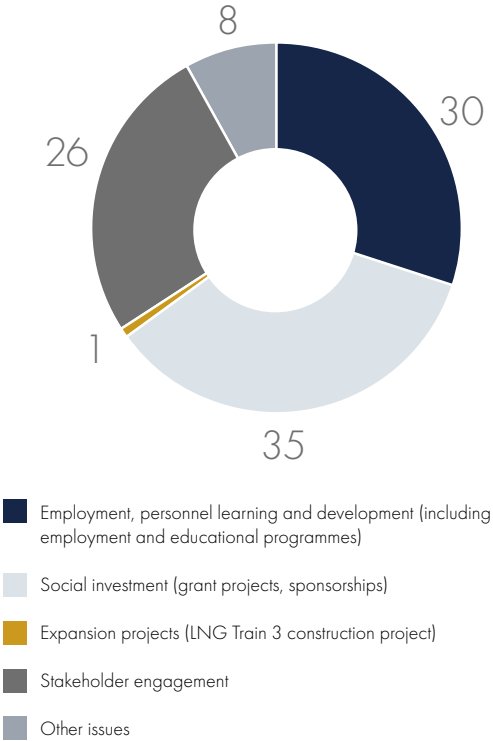
- engagement with customers, suppliers, and contractors (see Sections 6.8. Engagement with Customers, 7.4. Supply Chain Management, and 7.3.4. Vendor Development Programme);
- engagement with state and local government authorities (see Section 6.9. Engagement with State and Local Government Authorities).

Moreover, to prepare non-financial reports in accordance with international standards, additional opinion surveys and meetings with stakeholders were held to determine the range of topics to be included in the Report (see Section 2. About the Report).

Statistics of Public Meeting Participant Questions in 2019 by Topic, %



Statistics of Questions from Visitors to the Korsakov Office in 2019 by Topic, %



6.3. ENGAGEMENT WITH PERSONNEL



Sakhalin Energy makes every effort to maintain an open dialogue with its employees and respect their rights, and pays special attention to the process of addressing grievances and requests from employees.

Engagement with personnel is an important component of strengthening and developing the company's corporate culture (see Section 5.5. Corporate Culture) and is conducted, among other ways, through the internal communication system, which includes the following:

- distribution of the Journey Book among employees — this is the company's key document for planning the work of all directorates and organisational units, which provides information on the medium-term development strategy (next five years), as well as the main targets for the coming year;
- regular staff communication sessions to inform employees about the key results of Sakhalin Energy's activities;

The company holds regular staff communication sessions. Employees may participate in them in person or through video conferencing. The meetings review the main results of the company's activities and plans.

One of the main portions of these meetings is a Q&A session. Each employee can directly ask a question to the members of the company's Committee of Executive Directors, who participate in these meetings. Questions can also be submitted in writing in advance. Answers to all questions are posted on the company's website along with a link to the video of the meeting.

In 2019, employee questions concerned mainly the strategic plans of the company, personnel development programmes, and other HR policy issues.

The 100 Workshop

The annual 100 Workshop was held in November 2019. The event is traditionally attended by more than a hundred employees. In addition to the company's directors, Leadership Forum members and subdivision heads, employees of all the company's organisational units are also invited to participate in the workshop.

The results of these discussions formed the basis of the Journey Book for 2020–2024, with a focus on objectives for the next year.



- annual employee opinion surveys on a number of relevant company issues. In 2019, a regular survey was conducted to evaluate and further improve the team environment and to address issues of special concern;
- issue-related opinion surveys. In 2019, as part of the Goal Zero Programme, a survey was conducted among employees to study their opinion on safety management. Other surveys were conducted to study proposals aimed at improving Vesti — the corporate newsletter of Sakhalin Energy, to identify the range of topics for the Sustainable Development Report, to find out how environmentally friendly the company's employees are, and so on;
- the Vesti monthly corporate newsletter is distributed among Sakhalin Energy's employees, sent to the company's information centres, and posted on the company's website. The English version of the newspaper is available to foreign company employees on the corporate Intranet site;
- a monthly HSE newsletter with a review of incidents both in the company and in the industry as a whole, warnings about hazardous

- production factors and seasonal natural phenomena, assessment of and proposed measures to mitigate risk;
- a business integrity and internal control bulletin which is published twice a year as an appendix to the Vesti newsletter;
- news release distribution through the daily news bulletin and email messages on behalf of the members of the company's Committee of Executive Directors;
- distribution of printed information materials such as posters, leaflets, brochures, etc. to inform employees about various aspects of safety, operational excellence, HR issues, upcoming events, etc.;
- placing announcements, posters and other information (including photo and video materials, presentations) on special stands in the company's offices, as well as on plasma display panels;
- training workshops and information sessions to explain new procedures, relevant topics and company programmes to employees;
- the corporate Intranet site, which contains information about the company and its activities.

6.4. LOCAL COMMUNITY ENGAGEMENT THROUGH COMPANY'S INFORMATION CENTRES

There are 23 information centres in the district and village libraries in the communities along the Transsakhlin pipeline and in close proximity to other company's assets.

The Sakhalin Energy's Information Centres project was awarded a first-degree diploma For the Development of Corporate Social Responsibility at the KonTEKst Competition of PR Projects, Russia's leading competition among fuel and energy companies.

People who visit the Centres can use office equipment, get Internet access and look through materials posted on information stands. This helps meet the company's objectives and increase the functional capacity of the libraries.

During their working hours, librarians provide consultation to information centre visitors on issues related to the company's activities.

The following activities are carried out at the information centres:

- regular updates to company information stand materials;
- assistance in finding information on the company's website;
- community assistance in preparing and submitting complaints in accordance with the Community Grievance Procedure;
- providing company information materials upon request;
- providing information about the company's social programmes;
- assistance in organising and conducting meetings of the company's representatives with the local community and stakeholders.

These tasks require certain knowledge and skills. For this reason, all consultants attend special training sessions every year. They include:

- issue-related lectures on the company's areas of activity, such as environmental protection and biodiversity conservation, protection and promotion of human rights, community grievance procedures;
- workshops that help consultants to develop professional skills in using computer and multimedia equipment, information resources provided by the company, etc.



Book as a Gift Project

The Book as a Gift project has been implemented since 2010. As part of the project, the company annually donates sets of books on a given topic as gifts to libraries in Sakhalin towns and villages. The sets include reference, historical and biographical books for a large audience of readers.

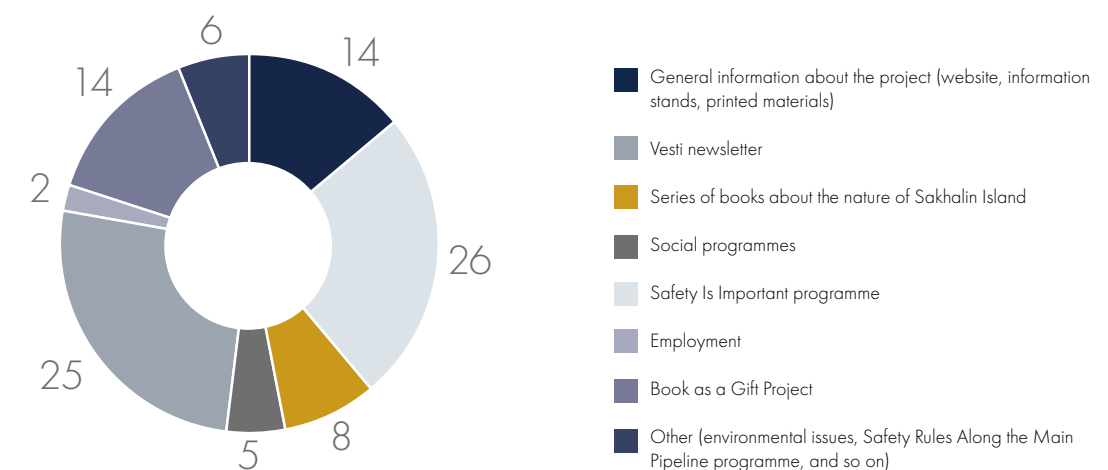
The topic of gift sets is selected either by the company alone, or together with the employees of the libraries that host Sakhalin Energy's information centres. Normally, the topic is a significant historical or social event.

In 2019, the topic of the annual Book as a Gift project was travel. The topical selection for readers of various ages included de luxe editions from the Great Journey series, which are part of the Golden Fund of Russian and world geography science.

During the workshop held in 2019, the participants learned about the implementation status of the OPF Compression project, environmental monitoring around the company's production assets, the contribution of Sakhalin Energy to the achievement of the UN Sustainable Development Goals, etc.

In 2019, Sakhalin Energy's information centres were visited by 6,033 people. The data on the visits are presented in the Statistics of Visits to Information Centres in 2019 chart.

Statistics of Visits to Information Centres in 2019, %



6.5. ENGAGEMENT WITH SAKHALIN INDIGENOUS MINORITIES

The company's activities in the field of engagement with Sakhalin Indigenous Minorities are regulated by the following key documents:

- Human Rights Policy;
- Sustainable Development Policy;
- Social Performance Standard;
- Sakhalin Indigenous Minorities Development Plan (Development Plan) — the company's main programme in engagement with indigenous minorities since 2006 (see below and Section 9.5.6. Sakhalin Indigenous Minorities Development Plan);
- Trilateral Cooperation Agreement between the company, the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities (Regional Council) and the Sakhalin Oblast Government;
- Public Consultation and Disclosure Plan.

Since its foundation, Sakhalin Energy has continuously interacted with Sakhalin Indigenous Minorities. The company considers SIM to be a special group of stakeholders for which the issues of industrial and environmental safety, the preservation of traditional culture and economic activities are of paramount importance. Sakhalin Energy takes this into account in its operations and implementation of social programmes. The long-term partnership social programmes implemented by Sakhalin Energy are examples of the company's activities in support of human rights. The programmes especially cater to the needs of vulnerable groups of the population, in particular, of indigenous minorities.

In 2019, the company continued its regular interaction with representatives of Sakhalin Indigenous Minorities. Taking into account relevant recommendations, Sakhalin Energy pays special attention to raising public awareness about current programmes and opportunities. For this purpose, the company used the following tools:

- public meetings on issues related to the Sakhalin-2 project implementation (see Section 6.2. Stakeholder Engagement in 2019);
- public meetings in traditional residence and economic activity areas of SIM within the framework of the Development Plan (see Section 9.5.6. Sakhalin Indigenous Minorities Development Plan);
- websites of the Development Plan (www.simdp.ru) and the company (www.sakhalinenergy.com);
- printed materials: a newsletter and documents of the Development Plan, a booklet on the Sakhalin-2 project, books and brochures;



The Development Plan is compiled in accordance with international standards on engagement with indigenous minorities and implemented in five-year phases. The second (2011–2015) and third (2016–2020) Plans were developed in accordance with the principle of free, prior and informed consent (FPIC).

The Plan partners have demonstrated that business organisations can effectively interact with indigenous minorities. This has been repeatedly stressed at the Russian and international levels. In particular, over the years, various government bodies have recommended disseminating experience gained during implementation of the Development Plan to the constituent entities of the Russian Federation.

- individual and group meetings, consultations with representatives of the Plan partners and stakeholders during the year;
- individual consultations on applications for financing, for participation in programmes and projects;
- open hours by the Community Liaison Officer for visitors from among SIM population in all traditional SIM residence districts (more than 160 open hours).

In December 2019, representatives of Sakhalin Indigenous Minorities visited the OPFC Compression (OPFC) construction site in the Lunskey Bay area. Specialists of Sakhalin Energy and the OPFC general contractor (Petrofac) told the guests about the structure and the planned operation of the asset, explained in detail various aspects of the construction project development and answered questions regarding production technology and the timeframe of the project. The delegation members were also interested in how catering and leisure activities were organised for the asset's working personnel,



shift schedules, work in the winter period, and the operation of the flare system.

Since 2006, the Sakhalin Indigenous Minorities Development Plan (see Section 9.5.6. under the same title) has been the company’s main programme for interacting with indigenous ethnic groups. It is implemented in accordance with the principle of partnership between business (Sakhalin Energy), society (the Regional Council of Sakhalin Indigenous Peoples’ Authorised Representatives), and government authorities (the Government of the Sakhalin Oblast).

In addition to the Development Plan, the company implements or supports various projects related to SIM, making every effort to preserve and promote the national culture and native languages of SIM as carriers of their intangible cultural heritage. In 2019, the company implemented the following projects:

- activities within the framework of the International Year of Indigenous Languages (see Section 9.5.9. Preservation and Promotion of the Linguistic Heritage of the Sakhalin Indigenous Minorities);

- Children’s Traditional Sports Competition. Teams of children and adolescents aged 10–17 years from six Sakhalin districts of traditional SIM residence showed their sports skills and knowledge of SIM culture, presenting the name of their team and its motto in their native languages;
- partnership for the participation of the Sakhalin delegation in the events of the XIV Treasures of the North: Russian Craftsmen and Artists — 2019 International Exhibition Fair, including the Languages of the Indigenous Peoples of the North of the Russian Far East: Preservation and Development Strategy All-Russian Scientific and Practical Conference (including participation in festivals, contests, presentation of a booth exhibition dedicated to the Year of Indigenous Languages and the 40th anniversary of the Nivkh alphabet, conducting workshops on working with fish skin, birch bark and fur as well as Nivkh embroidery workshops).

The Nivkh Year from A to Z Calendar was declared the winner of the 2019 Best Corporate Media contest held by the Russian Association of Communication Directors and Corporate Publishing (RACP), in the Corporate Calendar category.

6.6. ENGAGEMENT WITH NON-GOVERNMENTAL AND NON-PROFIT ORGANISATIONS

In 2019, the company continued to cooperate with local, regional, and international public organisations in various forms, including meetings and correspondence. Key important areas of engagement include:

- cooperation with Japanese stakeholders — Hokkaido Island authorities, fishery associations and other stakeholder groups in Hokkaido — on issues related to biodiversity conservation and oil spill response preparedness (see Section 6.7. Engagement with Japanese Stakeholders);
- cooperation with the Western Grey Whale Advisory Panel (WGWAP) and the International Union for Conservation of Nature (IUCN) in developing optimal solutions to minimise the company’s impact on whales (see Section 8.3.11. Gray Whale Monitoring and Marine Mammals Protection). Within the framework of the consultations of the Advisory Panel in 2019, there were meetings of Sakhalin Energy representatives with scientist members of the Panel, as well

- as representatives of environmental organisations included in the WGWAP as observers;
- participation in the Working Group on Business and Biodiversity of the RF Ministry of Natural Resources to contribute to the implementation of the Biodiversity Conservation and Ecotourism Development federal project, expansion of cooperation between the company’s representatives, government bodies and concerned members of the public, and their interaction in the development and implementation of corporate programmes (see Section 8.3. Environmental Monitoring and Biodiversity Conservation, Section 8.3.1. General Information);
 - participation in the activities of the Scientific and Technical Council (STC) under Rosprirodnadzor to develop recommendations for the implementation of state policy and legal regulations in respect to environmental protection, to ensure environmental safety and

- to improve environmental supervision (see Section 8.2. Industrial Environmental Control, Section 8.2.1. General Information);
- participation in the Biodiversity Expert Working Group (BEWG) of the Ecological Council under the Sakhalin Oblast Governor (see Section 8.3. Environmental Monitoring and Biodiversity Conservation, Section 8.3.1. General Information). The Working Group includes representatives of federal and regional authorities, the

- scientific community, academic institutions, public organisations, and oil and gas companies operating on Sakhalin;
- cooperation with the World Wildlife Fund (WWF) in Russia in discussing the criteria and methods of the environmental openness rating of Russian oil and gas companies, and in summarising the 2018 rating (see Section 8.1. Environmental Impact Management, Section 8.1. General Information).

6.7. ENGAGEMENT WITH JAPANESE STAKEHOLDERS

Engagement with Japanese stakeholders is of special importance to Sakhalin Energy, considering the geographical proximity of Sakhalin Island to Hokkaido Island. Japanese specialists, businessmen, NGO representatives, fishermen, and other stakeholders are concerned about issues related to the environmental aspects of the company’s activities — for example, oil spill response operations and biodiversity preservation.

- The International Symposium on the Sea of Okhotsk (Oil Spill Response Workshop, February, Mombetsu, Japan);
- meeting with representatives of the Hokkaido Fisheries Environmental Centre and representatives of the Hokkaido Government (September, Rumoi);
- meeting of stakeholders, organized by the Japan Coast Guard, on the safety and prevention of accidents during the navigation of tankers as part of Sakhalin projects (August, Otaru, Japan).

The company has been successful in establishing a regular, open, and constructive dialogue with Japanese stakeholders. In 2019, Sakhalin Energy participated in a number of consultations and meetings with the Japanese stakeholders, including:



6.8. ENGAGEMENT WITH CUSTOMERS

Sakhalin Energy’s LNG and oil customers took part in a gala reception dedicated to the company’s 25th anniversary, which was held in Moscow in April 2019.

The festive events held to celebrate the anniversary of Sakhalin Energy were an important milestone in the history of the company’s relations with oil customers and Japanese LNG customers. The guests had a great opportunity to get to know the culture and history of Russia, which contributed significantly to a deeper mutual understanding.



The company performs its obligations under contracts of the purchase and sale of hydrocarbons and observes the rights and interests of buyers with all due responsibility.

Maintaining and developing constructive, respectful relationships with customers helps the company resolve operational challenges that arise in the course of oil and LNG contract execution and enter into new agreements on the best terms and conditions for the parties involved.

In 2019, the company expanded its portfolio of Sakhalin Blend customers to 13 companies. The new customers are Pacific Commerce (China) and Mercuria Energy Trading.

At the end of 2019, Sakhalin Energy successfully held negotiations and signed five fixed-term contracts for the supply of Sakhalin Blend in 2020 with companies from Japan, South Korea and China, namely Taiyo Oil, Unipac, SK Energy International, Hyundai Oilbank, and Sinochem.

In 2019, the company held two annual international events dedicated to hydrocarbon transportation: the LNG Buyers Forum and the Sakhalin Energy Commercial Fleet Shipowners Forum. Both meetings brought together Sakhalin Energy’s partners, and this cooperation helps the

company to develop effective management of the marine hydrocarbon transportation process, to share experience and best practices in ensuring safe maritime shipping and cargo operations.

For the first time in nine years, the LNG Buyers Forum was attended not only by LNG FOB (free on board) buyers, but also by representatives of Toho Gas — a DES (delivered ex ship) buyer. The company intends to invite representatives and other DES buyers for joint discussions on a wide range of production issues and to exchange unique experiences and best practices. Such constructive discussions contribute to further development of the marine industry and the domestic LNG sector.

It was the fourteenth time the Shipowners Forum had been held. At the round-table meeting, the parties discussed current global trends, including possible options for technical modifications of gas carriers for switching to low-sulphur fuels in order to meet the requirements of the International Maritime Organisation, which entered into force in 2020, and the ability of the chartered commercial fleet to meet new requirements, as well as alternative compliance options that make it possible to take advantage of the technical features of gas carriers and their capability to consume off-gas as marine fuel.

6.9. ENGAGEMENT WITH STATE AND LOCAL GOVERNMENT AUTHORITIES

Sakhalin Energy actively cooperates with state authorities of the Russian Federation, including legislative and executive bodies of the federal, regional, and local levels.

In 2019, as in previous years, engagement with state authorities was carried out in various formats, with the Supervisory Board (SB) and the SB Working Group acting as the key Sakhalin-2 project official supervisory bodies provided for by the PSA. In addition, the company interacted with the government authorities on various aspects of the project implementation on an ongoing basis.

Representatives of state authorities regularly participate in meetings with communities and stakeholders held by the company during the preparation of annual reports. The results of the 2019 dialogues are presented in Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and the Company’s Response and Commitments.



6.10. INTERNATIONAL AND REGIONAL COOPERATION

In 2019, Sakhalin Energy continued to actively promote its business reputation and strengthen its image as a socially responsible company both within and outside the Russian Federation. Sakhalin Energy attended a number of important international and regional events, including:

IMPORT SUBSTITUTION IN THE OIL AND GAS INDUSTRY CONFERENCE, 28 FEBRUARY, ST. PETERSBURG, RUSSIA

The event is held annually with the participation of the RF Ministry of Energy, the RF Ministry of Industry and Trade, the RF Chamber of Commerce and Industry, and the Committee for Energy Policy and Energy Efficiency of the Russian Union of Industrialists and Entrepreneurs (RUIE). Sakhalin Energy participated in discussions of the strategy for scientific and technological development of the industry and measures of state support for the introduction of breakthrough technologies, localisation of production and technological partnerships, international cooperation and transfer of science-to-business technology.

INTERNATIONAL FORUM: YEAR OF THE LANGUAGES OF INDIGENOUS PEOPLES OF RUSSIA, 21–22 MARCH, KHANTY-MANSIYSK, RUSSIA

The forum participants included representatives of indigenous ethnic groups, state authorities, public and international organisations, and

industrial companies. In addition to participants from Russia, the event was attended by guests from Nepal, Finland, the Netherlands, Costa Rica, China and other countries. The forum agenda included six sections devoted to various aspects of the development and promotion of indigenous languages in Russia as part of world cultural heritage. The exhibition booth prepared by Sakhalin Energy demonstrated mechanisms for exercising and expanding the linguistic rights of indigenous ethnic groups on the island.

INTERNATIONAL SUMMIT & EXHIBITION ON LIQUEFIED NATURAL GAS (LNG 2019), 1–5 APRIL, SHANGHAI, CHINA

The summit covered issues of global LNG projects, recent trends in technology, and major changes in key regional markets, including the Asia-Pacific LNG market. Sakhalin Energy representatives participated in discussions of LNG market dynamics and the most attractive LNG projects, market opportunities, recent projects in China, international cooperation, basic technologies and modern equipment, construction, engineering and shipbuilding.



ROUND TABLE ON THE ENVIRONMENTAL RESPONSIBILITY OF BUSINESS, 17 APRIL, MOSCOW, RUSSIA

Representatives of government authorities, the non-profit sector and business, including Sakhalin Energy, discussed mechanisms for the development of environmental awareness in all public sectors, various tools to engage companies in addressing local environmental problems, and successful practices for preserving the environment.

UNITED NATIONS PERMANENT FORUM ON INDIGENOUS PEOPLE, 24 APRIL, NEW YORK, USA

The UN headquarters in New York hosted the Permanent Forum on Indigenous People, during which the Russian Federation delegation held the Preservation and Promotion of the Linguistic Heritage of the Indigenous Minorities of the North event. The Sakhalin delegation presented a trilateral report on the challenges to the preservation of endangered languages, as well as on linguistic revitalisation practices in the island region.

CONFERENCE: CORROSION IN THE OIL AND GAS INDUSTRY, 22–24 MAY, ST. PETERSBURG, RUSSIA

The conference was a landmark event on the international agenda, and was included in the list of official events of the European Corrosion Federation (ECF). Together with the other conference participants, Sakhalin Energy employees discussed the latest technologies in the field of corrosion protection,

the use of innovative materials for the capital construction of infrastructure, different approaches to monitoring corrosion and studying its mechanisms.

ANNUAL GENERAL MEETING OF THE INTERNATIONAL BUSINESS CONGRESS (IBC), 30–31 MAY, BONN, GERMANY

The Presidium of the meeting reviewed the results of the work of the Congress and listened to the reports made by the chairpersons of the working committees. Sakhalin Energy presented a report entitled Residual Equipment Resource Management — an Integrated Smart Backup System.

SUSTAINABLE DEVELOPMENT WEEK, 17–24 JUNE, MOSCOW, RUSSIA

The agenda of the event included a round table entitled Best Corporate Sustainable Development Practices, held with the participation of leading experts in sustainable development and corporate social responsibility. The company's representatives and other participants discussed the approaches and effective tools used by business companies in sustainable development management, the contribution that stakeholders make to organisation agendas, the challenges of promoting Russian business internationally, and relevant experience of domestic companies.

III SOCIAL INNOVATIONS IN THE REGIONS FORUM, 19–21 JUNE, MOSCOW, RUSSIA



The main topic of the forum was the role of national projects on innovation development in the social sector. The experiences on Sakhalin were presented by the Sakhalin Indigenous Minorities Development Plan, a joint programme implemented by the Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities, the Sakhalin Oblast Government, and Sakhalin Energy since 2006.

**V EASTERN ECONOMIC FORUM (EEF),
4–6 SEPTEMBER, VLADIVOSTOK, RUSSIA**

As is customary, the Eastern Economic Forum became the key event of the year. It was attended by the leaders of five countries: Russia, Japan, India, Malaysia and Mongolia. At the forum, Sakhalin Energy signed several important documents and shared its experience in corporate social responsibility during one of the four sections of EEF 2019 business programme New Solutions for Life Quality Improvement. The company also presented its exhibition booth and a 3D model of the Prigorodnoye production complex in the Sakhalin Oblast pavilion. Visitors were informed about the Sakhalin-2 project, the main achievements of Sakhalin Energy, development, cooperation and employment prospects.

**SAKHALIN OIL AND GAS INTERNATIONAL
CONFERENCE, 24–26 SEPTEMBER,
YUZHNO-SAKHALINSK, RUSSIA**

In its anniversary year, Sakhalin Energy was one of the main newsmakers at the conference. The company's representatives presented reports on the project's progress, its performance, marketing activities, development of Russian content, the status of work on the Sakhalin Oil and Gas Industrial Park, corporate social responsibility, and other topics.

During the conference, Sakhalin Energy and PetroGasTech Holding Company signed a Memorandum of Understanding.

**ST. PETERSBURG INTERNATIONAL GAS FORUM,
1–4 OCTOBER, ST. PETERSBURG, RUSSIA**

Government officials, key players of the international and Russian business communities, delegates of research organisations and design institutes discussed global trends and Russia's government policy in the gas industry, priority industry projects, and many other relevant topics. The company presented the Sakhalin Energy: Leading the Way for 25 Years report, and told the audience about the results of its work and new trends in the field of personnel management.

**2019 HYDROCARBON POTENTIAL OF THE FAR
EAST, FIFTH SCIENTIFIC AND PRACTICAL SEMINAR,
1–3 OCTOBER, YUZHNO-SAKHALINSK, RUSSIA**

Seminar participants discussed the problems of offshore field development, geophysical research methods, integrated geological data analysis, and the modelling of oil and gas systems. The company's representatives shared their experience in field development as part of the Sakhalin-2 project.

**ECONOMIC AND SOCIAL COMMISSION FOR
ASIA AND THE PACIFIC (ESCAP) NORTH-EAST
ASIAN MULTISTAKEHOLDER FORUM
ON SUSTAINABLE DEVELOPMENT GOALS,
15–16 OCTOBER, VLADIVOSTOK, RUSSIA**

The multistakeholder ESCAP forum was held as part of the preparations for the 7th Asia-Pacific Forum on Sustainable Development (APFSD, 2020) — one of the regional consultations in the framework of the High-Level Political Forum on Sustainable Development (HLPFSD). The company told forum participants about its practices and experience in achieving the SDGs — Sakhalin Energy has been implementing them since their adoption in 2015, actively involving the community in this work.

**2019 WORLD GAS AND LNG RUSSIA,
4TH INTERNATIONAL CONFERENCE,
29–30 OCTOBER, MOSCOW, RUSSIA**

The conference brought together all stakeholders of the international and Russian gas and LNG sectors to explore the possibilities and demands of the modern market. The Sakhalin delegation shared its valuable knowledge and experience in the implementation of the LNG project and discussed new global trends, financing and investments, construction of infrastructure facilities, project and risk management, supply chains and advanced technologies.

**BUSINESS AND BIODIVERSITY INTERNATIONAL
CONFERENCE, 11 NOVEMBER, MOSCOW, RUSSIA**

Conference participants paid special attention to the discussion of government policy and requirements in biological diversity conservation, and to the requirements for the composition and content of corporate biodiversity conservation programmes. Sakhalin Energy representatives spoke on the ecosystem approach, international best practices, the role and place of the biodiversity action plan in the environmental management systems of organisations, as well as the results of environmental monitoring and protection activities.

**INTERNATIONAL SUSTAINABLE DEVELOPMENT
FORUM: COMMON FUTURE. SUCCESS FACTORS
AND MEASUREMENT TOOLS, 25 NOVEMBER,
MOSCOW, RUSSIA**

The forum's business programme included the Biodiversity Conservation and Sustainable Ecosystem Management panel discussion. The discussion was attended by government officials, public organisations, members of the scientific community, Russian and foreign business organisations. The discussion was focused on the Sustainable Development Goals adopted by the UN General Assembly.

**REGIONAL DIALOGUE: LESSONS LEARNED,
CHALLENGES, INNOVATION — EASTERN EUROPE,
27 NOVEMBER, GENEVA, SWITZERLAND**

The session was held as part of the 8th UN Forum on Business and Human Rights. The company's representatives spoke about the practice of ensuring due diligence in the supply chain, the community grievance procedure, and engagement with Sakhalin Indigenous Minorities.

**DAYS OF THE FAR EAST CONFERENCE AND
FESTIVAL, 12–14 DECEMBER, MOSCOW, RUSSIA**

The Sakhalin Energy delegation took part in the conference and represented the company in the Sakhalin Oblast exhibition booth. They shared detailed information about the Sakhalin-2 project and employment opportunities at the company.



7

ECONOMIC IMPACT MANAGEMENT

The Russian Federation and the Sakhalin Oblast have gained significant benefits from the Sakhalin-2 project.



Yuri Metelskiy

"Kholmsk. Port. Evening"
Paper. Watercolour.
2007

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

The Russian Federation and the Sakhalin Oblast have gained significant benefits from the Sakhalin-2 project.

- Since Sakhalin Energy started its operations, the Russian Federation’s proceeds from Sakhalin Energy’s activity under the Sakhalin-2 project have totalled over US\$ 28.5 bln, including approximately US\$ 10.3 bln received by the Sakhalin Oblast.
- US\$ 26.4 bln worth of contracts have been awarded to Russian companies and organizations.
- The Russian Federation has gained valuable experience in managing complex high-tech projects in remote locations.
- The infrastructure on Sakhalin Island has undergone large-scale upgrades.
- Local employment levels and local workforce quality have increased (both direct and indirect effect).
- Incomes and living standards for the local population have risen.
- Many contracts and subcontracts under the Sakhalin-2 project are being awarded to Sakhalin companies.

– With the company’s support, extensive social and public initiatives are being carried out on Sakhalin Island.

In 2019, according to the International Accounting Standards (IAS), revenues of Sakhalin Energy amounted to US\$ 5,978 mln, and its total net income was US\$ 2,078 mln.



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

In 1994, Sakhalin Energy signed the Agreement on the Development of the Piltun-Astokhskoye and Lunskeye Oil and Gas Fields on the Basis of Production Sharing (PSA) with the Russian Federation, represented by the Government of the Russian Federation and the Sakhalin Oblast Administration. 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.

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

Production sharing between a company and a state is triggered when an 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 taxpayers.



In total, for the reporting period, Sakhalin Energy allocated US\$ 3.3 bln (in kind and in cash) to the Russian Federation.

Royalties (in kind and in cash payment) amounted to US\$ 384 mln.

The amount of the Russian party’s production profit share paid by the company was US\$ 512 mln.

The dividends paid by the company to the R-share amounted to US\$ 707 mln.

(including the mineral extraction tax, property tax, etc.) and levies, Sakhalin Energy uses 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 receives income on R-share dividends (a special preference share providing the right to receive dividends).

In addition, the 2018 fiscal year profit tax totalled approximately US\$ 1.7 bln, which was paid by the company in 2019. Further payments of profit tax to the budget of Russian Federation in the amount of US\$ 17.9 thousand were made.

Based on 2019 financial performance, profit tax amounting to approximately US\$ 1.6 bln will be paid to the budget in 2020.

Over the entire period of project implementation (1995–2018), the Russian party has received US\$ 28.5 bln from Sakhalin Energy under the Sakhalin-2 project, including amounts paid in 2019.

Total amount of payments to the Russian party from Sakhalin Energy under the Sakhalin-2 project in 1995–2019, US\$ mln

1995–2014	2015	2016	2017	2018	2019
13,623	5,188	2,022	1,768	2,528	3,328

Taxes and other mandatory payments made to the Sakhalin Oblast budget and to local budgets from Sakhalin Energy under the Sakhalin-2 project in 1995–2019, US\$ mln

1995–2014	2015	2016	2017	2018	2019
4,300	2,411	1,281	918	639	707



7.3. RUSSIAN CONTENT

7.3.1. STRATEGY AND RESULTS

Russian Content is the use of Russian manpower, materials, equipment, and services at the Sakhalin-2 project. The Sakhalin-2 project PSA requires the Russian Content to be measured in labour input (in man-hours) and materials and equipment (in terms of weight) supplied by Russian legal entities and individuals. Sakhalin Energy is committed to achieving a 70% of Russian Content level over the life of the Sakhalin-2 project. The utilization of Russian Content in 2019 was 91% in man-hours and 84% in materials and equipment.

Sakhalin Energy has identified the main guidelines and tools for increasing Russian Content and set them out in the Russian Content Development Strategy. According to this strategy, the company’s main focus areas are:

- implementation of Standards Harmonization Project (see Section 7.3.2. Standards Harmonization Project);
- establishment of Sakhalin Energy Maintenance and Repair Facility as part of Sakhalin Industrial Park (see Section 7.3.3. Sakhalin Energy Maintenance and Repair Facility in Sakhalin Industrial Park);

Sakhalin Energy is the winner of Priority-2019 Award for achievements in import substitution



The company has been honoured with Priority-FEC Award in the Oil and Gas Industry category.

The project of substituting imported drill cuttings disposal services implemented jointly with the Russian company AKROS was presented for the award.

AKROS became the first domestic company to start injecting drill cuttings on the Russian shelf using the most efficient and safe technologies along with flexible pricing policy. In addition, AKROS is actively developing its personnel. Cross-discipline training helps the employees to expand their skills and maintain and improve their performance.

Cooperation with AKROS has substantially increased the Russian Content share in the Sakhalin-2 project and significantly reduced the company’s expenses for this scope of work.

- progress in the Vendor Development Programme (see Section 7.3.4. Vendor Development Programme);
- improvement of the efficiency of internal Russian Content development activities.

The new Russian Content Development Strategy includes a whole set of internal actions aimed at increasing the number of initiatives and projects in the area of import substitution, namely:

- familiarization sessions for Sakhalin Energy employees, including at remote assets;
- regular publication of articles and information materials about successful Russian Content projects in the Vesti corporate newsletter and on the company’s website;
- roll-out of an incentive programme to reward employees for their contribution to Russian Content Development;
- elaboration of Russian Content Development requirement and its implementation in individual employees’ plans.



Localisation of Oil Country Tubular Goods

A large-scale joint project between Sakhalin Energy and TMK on the qualification and certification of the OCTG with premium connections has been implemented since 2015 with the involvement of Shell technical experts. In Autumn 2018, the first OCTG consignment was delivered to Sakhalin and a 3,200 m string was run from the Molikpaq platform at the Piltun-Astokhskoye field. The second lot of casing was delivered in June 2019, and as early as September 2019, the string was successfully run into the oil production well from the Molikpaq platform.

This was Russia’s first industrial use of Russian-manufactured premium-connection OCTG at offshore projects. Successful international certification not only confirmed the high quality and reliability of TMK’s OCTG, but also made a way for it into international markets. As a result, TMK became one of Shell’s qualified contractors. New Russian tubular goods that meet the highest international standards will drive the competitiveness of domestic products and set the stage for the growth and development of an important industry segment in Russia.

Implementation of these actions will not only raise awareness among Sakhalin Energy employees about Russian Content commitments and successes but will also contribute to a positive image and credibility of national manufacturers and vendors. As a result, it will increase the interest of the company’s employees in RC development.

From the start of the Project to the end of 2019, the total value of awarded contracts and variations of existing contracts with Russian companies was about US\$ 26.4 bln. In 2019, the value of contracts in these categories reached about US\$ 736.05 mln (or 64% of all awarded contracts and variations to existing contracts).

The company reached 59% of Russian Content spend in 2019 (actual cash spend).

6,375 contracts and orders were awarded by the company in 2019. Of those, 4,467 contracts and orders were awarded to Russian companies.

contracts awarded to Russian companies in 2019 included:

- Gazpromavia Aviation Company Ltd., for aviation services;
- AKROS Ltd., for CRI services;
- SOGAZ JSC, for insurance of offshore assets, including risks of damage and loss of property, equipment damage, and additional operator expenses related to drilling operations; for insurance of onshore assets and losses resulting from production shutdown;
- JSC S-Control Expert Organization, for inspections with advanced NDT methods;
- Kuehne and Nagel Sakhalin LLC, for the provision of warehouse operator services;
- Centrgazenergomont LLC, for compressor and gas turbine repair and maintenance.

Sakhalin Energy is actively engaging Sakhalin companies in the project. As part of this work, close cooperation and information exchange has been established with the Sakhalin Oblast Government.

26.4 bln US\$

was the total value of contracts awarded to Russian companies from the start of the Sakhalin-2 project

4,467 contracts and orders

were awarded by Sakhalin Energy to Russian companies in 2019





In September 2019, while at the Eastern Economic Forum, Sakhalin Energy executed a number of Agreements of Intent with Russian (INTRA Services Company LLC and ООО Promsystemy) and British (STATS (UK) LTD. and EthosEnergy Light Turbines Ltd.) vendors.

The signed documents marked the beginning of a long-term Russian-British partnership in the field of unique technologies of remote-controlled shutdown of pipelines and localization of services associated with the repair and maintenance of gas turbine and related rotating equipment.

Assimilation and localization of the pipeline shutdown technology which utilizes remote plugs at the Sakhalin-2 project not only provides the opportunity to acquire unique knowledge and competencies of an international expert in this field – STATS (UK) LTD. – but also to implement such complex and large-scale projects with full adaptation of innovations both under a specific project and in the industry as a whole.

This technology will be widely used by oil and gas operators working on the Russian shelf, as well as pipeline operators in the hard-to-reach areas, being of strategic importance for the development of innovations in the field of the pipeline repair and maintenance ensuring continuous efficient and safe operation of oil and gas facilities in Russia.

Such partnership is especially relevant in the context of the new Sakhalin Energy Russian Content Development Strategy, which includes engagement of existing foreign contractors in Russian personnel expansion and exploration of the opportunities to localize foreign production and services in Sakhalin Oblast through the oil and gas Industrial Park project.

In August 2019, in a world's first,, a supply ice-breaker under the Russian flag, SCF Endeavour, performed a gravel packing job at one of Lunskeye wells. These activities were part of SEIC sand control project. Cooperation with the Russian company not only expanded the job timeframe (from April to November) but also saved significant costs and resources for Sakhalin Energy.

Also, Sakhalin companies regularly attend training workshops for potential Russian vendors. The plan is to include Sakhalin companies in the Prequalification Audit Programme and the new Vendor Development Programme.

In 2019, the share of contracts and orders awarded to companies registered in Sakhalin was about 65% (2,885) of all the contracts awarded to Russian companies.

Largest contracts and orders executed in 2019 with companies registered in Sakhalin Oblast:

- Cape Industrial Services Sakhalin LLC, for the Ethane Tank scaffolding installation and thermal insulation supply and replacement at the LNG plant;

- ООО SakhTekhControl, for the assurance of industrial safety at hazardous production facilities – Piltun-Astokhskoye-A, Piltun-Astokhskoye-B and LUN-A platforms;
- ООО Sakhalin Machinery, for the supply of a distribution board;
- ООО Inter Energy, for the supply of power cables for the variable frequency drive within the PA-A Drilling Rig Upgrade project.

Through engagement in an international project, Russian companies receive unique experience and opportunities to develop competencies of its staff and embed top QA/QC, HSE, industrial and environmental safety standards. This makes them more competitive in the domestic and international markets.

In September 2019, at the Sakhalin Oil and Gas Conference, Sakhalin Energy and PetroGasTech signed a Memorandum of Understanding, whereby the parties will ensure the implementation of cutting-edge Russian and international solutions in the area of hydrographic survey equipment and remotely operated vehicles for the safe and efficient performance of underwater inspections and maintenance of Sakhalin Energy's offshore assets. This cooperation will improve the process of acquiring the information about the condition of the offshore pipelines, platform gravity bases, and related infrastructure.

Under the Instrumentation and Controls section of the Russian Content Development Strategy, a memorandum with Spetspozhtengineering, a Russian company, was signed in October 2019 to conduct pilot testing of gas and fire detectors. The pilot testing of Spetspozhtengineering products will be conducted to check the feasibility of their application at the Sakhalin-2 project. The testing is scheduled to be performed in Q1-Q2 2020 at BS-2.

7.3.2. STANDARDS HARMONIZATION PROJECT

Sakhalin Energy assets are designed to operate with materials and equipment of foreign origin, which are manufactured in accordance with international technical standards. It restricts usage of Russian equipment and materials, as well as limits the Russian content in general. Therefore, in 2014, a decision was made to implement the Standards Harmonization Project aimed at providing better possibilities to purchase materials and equipment for all the company’s onshore assets from Russian manufacturers. It can be done by offering equal conditions for both Russian and foreign companies without reducing safety, reliability and integrity indicators of assets.

The company started with analysing a number of normative technical documents (NTD) on ordering, operating, repairing of equipment and components at Sakhalin Energy onshore assets. It also studied reference documents of several levels. As a result, over 34 thousand NTD required for further harmonization were identified, and a fully-fledged project layout was developed.

Starting from 2017, Sakhalin Energy has been working on the benchmarking of harmonised requirements set by international and national standards related to the company’s business. With the benchmarking results taken into account, technical requirements

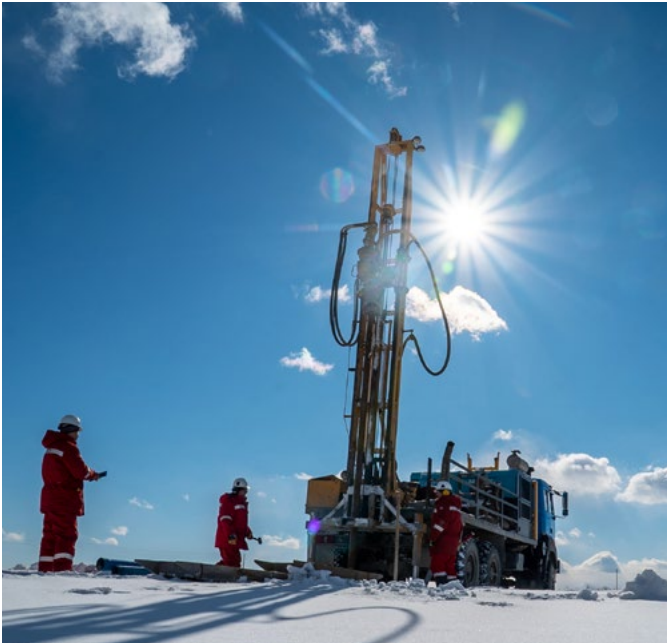
are being developed, which are based on the company’s technical specifications and Shell Design and Engineering Standards.

This project has been implemented together with industry-specific Russian equipment manufacturers, the Russian party.

In 2018, the benchmarking of standards and technical requirements on the Electrical Equipment and Steels and Metalwork disciplines was finished. In 2019, the company continued with the benchmarking of standards and technical requirements on Mechanical Equipment. For 2020 it is planned to develop documents on the following disciplines: Rotating Equipment, Instrumentation and Automation. In early 2019, after the work on the first two disciplines was completed, the company started the next project stage, which was to implement the results into the materials procurement system. In particular:

- the developed technical requirements were forwarded to Design Department contractors to be implemented in new projects on reconstruction and modification of the company’s onshore assets;
- in terms of current repair and maintenance, the company is creating and updating material master in SAP according to the harmonised requirements to materials and equipment, communicating with Russian manufacturers and placing purchase orders.

7.3.3. SAKHALIN ENERGY MAINTENANCE AND REPAIR FACILITY IN SAKHALIN INDUSTRIAL PARK



The idea of establishing a dedicated service park for Sakhalin oil and gas industry originated in 2013. In early 2016, Sakhalin Energy entered the feasibility study phase followed by signing a memorandum of cooperation between Sakhalin Energy, Sakhalin Oblast Government and Gazprombank during the Eastern Economic Forum in September 2018. The Official Ceremony of Capsule Placement in the Foundation of Sakhalin Industrial Park (SIP) was held in December 2018.

It was decided in mid-2019 to launch Phase 1 of the Project on a 4.7 ha land plot allocated for the Maintenance and Repair Facility of Sakhalin Energy, the first anchor resident of Sakhalin Industrial Park. Phase 1 will comprise one facility, including logistic centre with vehicle maintenance shop and archive, and infrastructure sufficient for Launching Stage 1 & 2.

Establishment of the Sakhalin Energy Maintenance and Repair Facility is one of the strategic objectives of the company for the period up to 2023. The facility will allow to improve the reliability and efficiency under the Sakhalin-2 project and significantly reduce production and logistic risks. Considering the international cooperation under the project, the park will also serve as a platform for the transfer of technology and best industrial practices.

Such project, especially deployed in remote locations, away from the existing production assets, is very important. Such parks form local engineering and

technological centres and carry out a city-forming function: one job in the oil industry creates five to six jobs in related industries.

The document package for the Sakhalin Energy Maintenance and Repair Facility was finalised in December 2019. In 2020 it is planned to commence construction and installation works.

7.3.4. VENDOR DEVELOPMENT PROGRAMME

Development of Russian vendors is one of the key activities of Sakhalin Energy, the main purpose of which is to contribute in developing their competences and increasing Russian content in the Sakhalin-2 project.

For over 13 years, Sakhalin Energy has been actively implementing the Vendor Development Programme. The Programme includes two areas: Integrated Vendor Development and Training Workshops.

Integrated Vendor Development is aimed at assisting promising Russian partners so that they can improve their manufacturing processes to meet the Sakhalin Energy requirements and international quality and safety standards. This area includes the following activities:

- working meetings with Sakhalin Energy’s technical experts for presentations and information exchange;
- auditing Russian companies for compliance with the company’s requirements;
- qualification procedures for inclusion in the Sakhalin Energy list of approved vendors.

An important component of the Vendor Development Programme is its training module that provides regular workshops since 2007. The workshops are intended to introduce company’s requirements to the Russian manufactures and suppliers as well as to enhance their awareness of the forthcoming tenders. Programme of each workshop

includes overview of the Sakhalin-2 project and sessions on the key areas:

- HSE and Social Performance management in contracts;
- QA/QC quality assurance and control during materials and equipment procurement;
- preparation and skills of participation in the Sakhalin Energy tender process;
- anti-corruption and ethical business considerations.

As part of the Vendor Development Programme, in 2019, the company held three workshops for potential contractors of Sakhalin Energy, including one workshop in Moscow. The workshops were attended by 39 Russian companies, including 9 Sakhalin ones.

In addition, the company provides special training sessions for nuanced understanding of HSE in Contracts, and individual information sessions (round tables) to inform attendees about terms and conditions of forthcoming tenders for potential Russian vendors. During such sessions, Russian vendors get information about scope of supply and general requirements for equipment and service providers.

Information about Vendor Development Programme is available on the company’s website, including description of the Programme’s components, requirements for participants (including the application process), preliminary schedule with topics indicated, and contact details.

Open Workshop for Potential Vendors of the Sakhalin-2 Project

In November 2019, a regular open workshop for potential vendors of goods and services was held in Moscow. 36 representatives of 24 Russian companies took part in the workshop. Besides the traditional topics, the workshop programme included round table discussions focused on scopes of upcoming tenders for provision of casing accessories, provision of freight forwarding services, purchase of air conditioning systems and implementation of SAP S/4 Hana. The workshop demonstrated high potential at relevant segments of Russian market as well as strong interest of Russian companies in further cooperation.

7.4. 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’s employees and contractors, but primarily to the company’s personnel that are directly engaged in supply chain management. The Policy is applicable to all activities that involve spending the 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 effective implementation of these terms and conditions in the procurement processes and for ensuring that control and assurance measures specified in the Policy and other Policy-based documents are in place.

Sakhalin Energy adheres to the following principles in Supply Chain Management:

- safety — causing no harm to people, the environment, or to our property; ensuring that contractors comply with the company’s safety standards;
- additional value in SCM — value maximization, cost effectiveness, and long-term commercial profit;
- zero tolerance for personal profit, bribery, or corruption — in all SCM operations in accordance with the supply transparency principle;
- competition — development of open competition in markets;
- Russian content — maximization of the Russian content and development of Russian suppliers and contractors;
- human rights — ensuring respect for, observance, and promotion of human rights by contractors;
- sustainable development — ensuring sustainable development in the process of selecting a contractor and in making supply chain management decisions;
- Sakhalin-2 project growth plans — investing into the major projects, including those offering opportunities for increase in Russian Content.

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

In accordance with the principles listed above, our sourcing and award and contract management processes are set up as follows.

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

- conducting workshops for potential vendors (see Section 7.3.4. Vendor Development Programme);
- pre-qualifying potential vendors.

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

- competitive bidding is preferred when sufficient market capacity exists;
- distributing Invitations to Tender (ITTs) and Clarification Bulletins;
- receiving bids (proposals);
- conducting technical bid evaluation (including HSE, etc.);
- conducting commercial bid evaluation.

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.

Contract management:

- during performance of the contract, the company monitors contractor activities by tracking the mutually agreed Key Performance Indicators (KPIs) and by organising meetings to review contractor performance;
- the company raises awareness of, and conducts trainings for contractors in order to ensure compliance with its requirements (including those related to HSE and social performance, anti-corruption and bribery principles, human rights, etc.);
- the company conducts contract performance audits.

SAKHALIN ENERGY’S REQUIREMENTS FOR CONTRACTORS AND SUPPLIERS

Sakhalin Energy attaches great importance to the fulfilment of the company’s requirements by contractors and suppliers. These requirements include the following.

HEALTH, SAFETY AND ENVIRONMENTAL AND SOCIAL PERFORMANCE (HSE&SP) REQUIREMENTS

Contractors must:

- include compliance with HSE&SP principles to the performance assessment;
- perform checks and investigate any breaches of the HSE&SP rules to ensure the company’s HSE policy is properly followed;
- independently certify the HSE&SP management system for compliance with generally recognised standards;
- verify that they comply with HSE&SP standards.



REQUIREMENTS FOR THE QUALITY OF MATERIALS, EQUIPMENT AND SERVICES SUPPLIED

Contractors must:

- develop and comply with quality assurance policy;
- specify (develop) and comply with the quality control process and its procedures;
- specify (develop) and comply with quality assurance procedures.

RUSSIAN CONTENT REQUIREMENTS

Sakhalin Energy’s Russian content requirements have arisen from the Production Sharing Agreement concluded with the Russian party. The parameters used to measure the Russian content are weight of material and equipment, number of man-hours and their cost equivalent.

REQUIREMENTS FOR A TENDER PROPOSAL

A tender proposal shall clearly demonstrate and confirm the following:

- a tenderer is a financially stable and solvent company/organisation;
- a tenderer has the relevant experience in the subject scope;
- high quality and reliability of the provided services/performed works/ supplied materials;
- HSE&SP management systems and procedures are in place;
- a quality assurance system and procedure are in place;
- availability of resources to meet the work/supply schedule.

8

ENVIRONMENTAL IMPACT MANAGEMENT

In 2019, Sakhalin Energy was ranked first (for the fourth consecutive time) in the annual Environmental Responsibility Rating of Russian Oil and Gas Companies.



Yuri Metelskiy

"Friends Having a Rest"
Hardboard. Oil.
2014

8.1. GENERAL INFORMATION

Sakhalin Energy conducts environmental management based on the environmental protection laws and regulations of the Russian Federation and in line with international standards and best oil and gas industry practices.

Sakhalin Energy’s environmental policy has been integrated into the corporate Business Principles, Sustainable Development Policy and HSE&SP Policy. Relevant commitments are included in the HSE&SP Plan, standards and procedures, as well as other corporate documents.

The HSE&SP management system is described in Section 3.5. above. It has been certified according to ISO 14001 and OHSAS 18001 international standards.

For continuous improvement of operational efficiency, the system follows a repeating cycle: planning — implementation — evaluation — review. External and internal audits are held to monitor and evaluate the system’s efficiency. The company’s assets are audited on a regular basis

for compliance with environmental laws and regulations and corporate standards and procedures.

Sakhalin Energy also promotes the development of vendors and suppliers through a “one team” approach, experience sharing and contractor compliance monitoring.

The company places special focus on proactive risk management and environmental impact assessment. The company has developed and implemented a risk management system (see Section 5.4. Risk Management System) to reduce environmental impacts and pollution risks.

The company is implementing an administrative and technical action plan to gradually reduce negative environmental impacts and to develop the competencies of the company and contractor personnel, as well as to develop and implement programmes for industrial environmental control and monitoring the natural environment and biodiversity.

Sakhalin Energy — the Environmental Responsibility Rating Leader



In 2019, Sakhalin Energy was ranked first (for the fourth consecutive time) in the annual Environmental Responsibility Rating of Russian Oil and Gas Companies (OGERR), conducted by the World Wildlife Fund (WWF) Russia and CREON Energy, a provider of advisory services, in partnership with the National Rating Agency and the UN Environmental Programme (UNEP).

A total of twenty companies were selected by OGERR based on their annual production of liquid hydrocarbons (at least 1.5 mln t per year).

Alexey Knizhnikov, Head of Environmental Policy Programme at WWF Russia, emphasised the very high level of environmental risk assessment and minimisation of adverse environmental impact, as well as the transparency of monitoring results provided in the Sustainable Development Report. The longstanding leadership of Sakhalin Energy in the oil and gas sector on Russian Federation territory has been a good example for encouraging further development.



8.2. INDUSTRIAL ENVIRONMENTAL CONTROL

8.2.1. GENERAL INFORMATION

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

The company exercises industrial environmental control in the following areas:

- air emissions;
- water use and impact on water bodies;
- waste management.

The company tracks and controls emissions and discharges, greenhouse gases and ozone-depleting substances from hydrocarbon production and transportation assets, and the LNG asset it operates; special attention is given to waste management, energy consumption and associated petroleum gas utilisation issues.

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

8.2.2. IMPACT ON ATMOSPHERIC AIR

Sakhalin Energy seeks to minimise environmental impact, including by reducing air emissions.

In order to reduce emissions, the company uses gas turbines equipped with low-NOx burners. A system that increases gas turbulence is used on flaring units, which facilitates soot-free gas flaring.

To reduce atmospheric pollutant emissions, Sakhalin Energy implements measures to improve the operational reliability and accident-free operation of equipment and monitors compliance with the operational regime of the gas turbines. To ensure the timely elimination of potential gas leaks at the company’s assets, the company performs equipment inspections and diagnostics using fixed and portable gas analysers and infra-red cameras, and carries out any required repair and maintenance. To assess the impact of greenhouse gases and ozone-depleting substances on the atmosphere, the company keeps track of their emission sources and consumption (see Section 8.2.6. Greenhouse Gas and Ozone-Depleting Substance Emissions).

The company conducts monitoring of fixed sources for compliance with established standards for maximum allowable emissions. Air quality monitoring is carried out at the boundaries of sanitary protection zones around the company’s production assets.

In 2019, the company took measures to improve equipment reliability and to shorten shutdowns, which has contributed to less flared gas, and also introduced a programme for improving leak prevention. The implemented measures have resulted in an 18% drop in total gross emissions compared to the previous year.

Air quality monitoring at the boundaries of the sanitary protection zones of the Prigorodnoye production complex, OPF, and BS-2 showed neither non-compliance with established standards, nor any increase in pollutant concentrations.



Gross Air Emissions in 2016–2019, thousand tonnes

Pollutant	2016	2017	2018	2019
Carbon oxide	4.4	4.1	4.2	3.4
Nitrogen oxide (in NO ₂ equivalent)	4.3	4.3	4.3	3.9
Methane	1.1	1.2	1.1	0.7
Sulphur dioxide	0.03	0.04	0.03	0.03
Other pollutants	0.97	0.8	0.7	0.5
Total	10.8	10.4	10.3	8.5

Specific Air Emissions in 2016–2019, by Areas of Activity

Activity	2016	2017	2018	2019
Hydrocarbon production (kg/toe)	0.19	0.18	0.19	0.14
Hydrocarbon transportation (kg/thousand t-km)	0.08	0.06	0.08	0.06
LNG production (kg/toe)	0.25	0.23	0.20	0.20

The efforts made to improve the operational reliability and accident-free operation of equipment, as well as the monitoring to ensure its

proper operational regime, made it possible to keep specific emission values at the same level as in the previous years.

8.2.3. IMPACT ON WATER BODIES

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

The intake of water from surface and groundwater bodies for domestic, drinking and industrial purposes is carried out on the basis of water use permits and licenses for subsoil use. To ensure compliance with the established standards for the maximum allowable discharges of pollutants to water bodies and rational use of water resources, the company monitors the efficiency of sewage treatment plants and carries out quality control of sewage, surface and groundwater, as well as monitors compliance with the established water use and water discharge limits. Water intake and treatment facilities are maintained in good order; monitoring of water protection zones of water bodies is

carried out on a regular basis. Groundwater monitoring is performed to identify areas of possible changes in groundwater levels or areas of possible contamination caused by the operation of the company’s production assets.

In 2019, the water use figures remained the same as in the previous year. An insignificant increase in water intake from surface water bodies was linked to the consumption of water to maintain the necessary reservoir pressure to increase oil production at the PA-A and PA-B platforms.

Reduced water disposal direct to the ground was due to the completion of works to move the flow of stormwater into a water body at the OPF.



Consolidated Figures of Water Use in 2016–2019, thousand m³

Parameter	2016	2017	2018	2019
Water intake, including:	30,160.90	30,050.94	28,290.83	29,263.78
from surface sources	29,260.99	29,228.98	27,507.64	28,558.22
from underground sources	329.32	326.27	347.43	348.46
Water consumption, including:	29,631.45	29,593.53	27,893.77	28,939.95
for production needs (not including consumption for reservoir pressure maintenance needs)	22,750.15	22,520.46	21,458.08	21,188.04
for reservoir pressure maintenance needs	6,505.06	6,689.23	6,077.11	7,379.29
Water discharge, including:	23,439.71	23,163.00	22,062.96	21,724.05
into surface water bodies	23,317.13	23,047.10	21,944.30	21,582.89
on the surface	92.43	86.54	88.13	75.19

Environmental monitoring did not reveal any adverse impact on the water bodies located in the area of the company’s production assets.

Specific Water Use in 2016–2019, by Areas of Activity

Activity	Water consumption for in-house needs				Disposal of polluted water into surface water bodies			
	2016	2017	2018	2019	2016	2017	2018	2019
Hydrocarbon production (m³/toe)	1.1	1.0	1.0	1.0	0.005	0.004	0.004	0.005
Hydrocarbon transportation (m³/thousand t-km)	0.001	0.001	0.001	0.001	–	–	–	–
LNG production (m³/toe)	0.01	0.01	0.01	0.004	0.005	0.006	0.006	0.001

Water disposal in hydrocarbon production saw a slight increase due to scheduled maintenance of the PA-B and LUN-A platforms’ water treatment plants and them subsequently reaching target volumes of water treatment.

Water consumption during LNG production, and accordingly polluted water disposal, declined due to a decreased requirement of water for

production needs and the optimisation of the Prigorodnoye production complex water treatment facilities.

Only 1% of the wastewater was insufficiently treated, 2% of the wastewater was treated to minimum standards, and the other 97% met minimum standards without treatment.



8.2.4. WASTE MANAGEMENT

In 2019, the company’s waste management activities were aimed at meeting Russian and international requirements and optimising waste management processes in order to reduce adverse environmental impact.

Most of the company’s waste is classified as low-hazard (Hazard Class IV and V). It is mainly drilling waste and municipal solid waste.

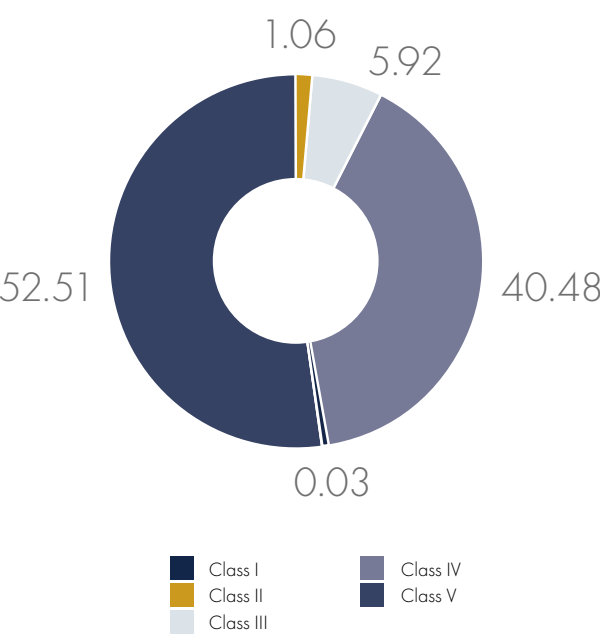
To prevent an adverse environmental impact, the company continued injecting drilling waste through special disposal wells into deep underground horizons with necessary insulating formations to ensure their full containment and safe disposal. This is one of the best available technologies for the disposal of waste associated with oil and gas production (ITS-17, 2016).

During 2019, the company continuously monitored the injection process and took all reasonable measures to reduce the volume of drilling waste. To confirm no adverse environmental impact, the company continued monitoring of the sea water condition in the bottom layer, sediment and benthic communities. Based on the monitoring results for the previous three years, Rosprirodnadzor confirmed that the disposal of drilling waste has caused no adverse impact on the environment.

At the production assets, waste is collected separately for subsequent disposal and treatment in order to reduce the amount of waste disposed at landfills; waste is removed in a timely manner; the company conducts inspections of waste storage sites.

All Hazard Class I-III waste is transferred to licensed contractors for disposal or treatment. All Hazard Class IV–V waste is sent to specially equipped landfills. The company is actively searching for cost-effective methods of management of Hazard Class IV-V wastes in order to reduce the proportion of waste disposed at landfills, including increased reuse and recycling of materials.

Waste Breakdown by Hazard Class in 2019 (not including drilling waste), %



As of the beginning of the reporting year, there was no waste in the temporary waste accumulation area. The total amount of waste increased by 13% compared to the previous year, mainly due to an increase in drilling waste generation caused by wells construction.

Waste Management Indicators (including drilling waste) in 2016–2019, thousand tonnes

Parameter	2016	2017	2018	2019
Waste generated in the reporting year (all Hazard Classes)	36.86	36.58	27.13	30.74
Waste disposed during internal production	0	0	0	0
Transferred to other organisations for disposal and treatment	2.73	3.47	2.89	4.49
Transferred to other organisations for burial at landfills, including:	1.63	1.66	1.89	2.01
in the Sakhalin Oblast (with MSW*)	0	0.21	0.45	1.70
outside the Sakhalin Oblast	1.63	1.45	1.45	0.31
Waste disposed at own assets (burial of drilling waste)	32.52	31.41	22.50	24.24

* Municipal solid waste

An increase in the volume of waste transferred for disposal was associated with the formation of stabilised sludge as a result of preventive maintenance at the sewage treatment plants of infrastructure facilities and industrial soil with less than 15% oil content at the Prigorodnoye production complex.

The amount of waste transferred for burial at landfills remained the same as the year before. The municipal solid waste transferred to the

regional operator was disposed on the territory of the Sakhalin Oblast in accordance with the territorial waste management scheme, which resulted in an increased volume of Low Hazard Class IV–V waste disposed in the region. Accordingly, the amount of waste buried by the company at landfills outside the region was reduced.

8.2.5. ENERGY PRODUCTION AND CONSUMPTION

The company is striving to use energy resources efficiently, and this is stated in its policies, standards, and commitments on gas flaring and energy management.

The company’s assets have been designed in line with international best practices, and new depletion compression facilities under construction incorporate the latest technological advances. All production assets use independent power supplies.

Energy saving and efficiency improvement efforts are organized under the company’s Continuous Improvement Programme (see Section

4.3.2. Continuous Improvement Programme) and in accordance with the principles of process optimisation. Greenhouse Gas and Energy Management Plans are implemented for the offshore platforms, the OPF and LNG plant.

Natural gas has the biggest share in the energy mix of the company. Diesel fuel is used for backup, and low sulphur diesel is preferred. The power supply for the company’s infrastructure in Yuzhno-Sakhalinsk and Korsakov comes from the public electrical grid, while the energy for heating is generated independently at the assets. The energy consumption balance is shown in the table below.

Energy Generated* and Consumed in 2016–2019, million GJ

Parameter	2016	2017	2018	2019
Primary energy generated	868.06	910.28	895.63	857.10
Primary energy sold, including:	80792	858.07	839.04	801.72
provided to Russian party	39.12	39.83	39.99	44.04
Primary energy consumed, including:	58.74	59.29	59.08	57.47
direct energy consumed (natural gas)	56.95	57.49	57.19	55.61
primary energy purchased (diesel fuel)	1.79	1.80	1.89	1.86
Indirect energy purchased/consumed (electricity)	0.12	0.12	0.13	0.13

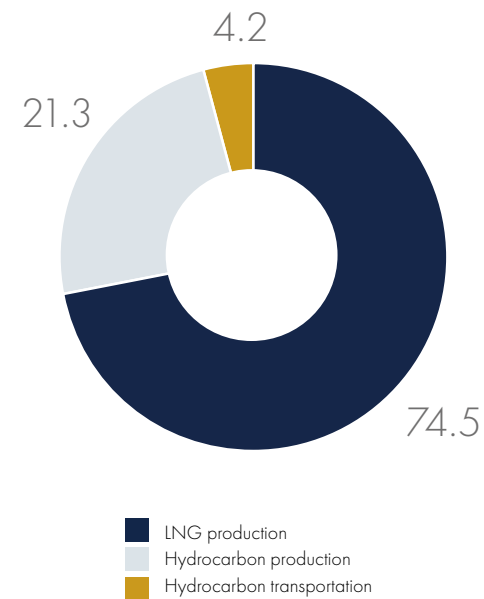
2019 energy consumption breakdown by activity is shown in the Energy Intensity in 2016–2019, by Areas of Activity diagram. In 2019, total energy consumption and energy intensity was virtually unchanged compared with the previous year’s data.

* The company does not produce energy from renewable sources of energy and currently has no plans to do so. Sakhalin Energy is the operator of the Sakhalin-2 project under a Production Sharing Agreement and builds its action plan based on its programme of works, oil and gas field development plans and cost estimates approved by shareholders, Russian party and Supervisory Board on an annual basis (see Sections 4.1. Sakhalin Energy, 5.3. Corporate Governance Model).

Energy Intensity in 2016–2019, by Areas of Activity

Activity	2016	2017	2018	2019
Hydrocarbon production, GJ/t hydrocarbons produced	0.68	0.64	0.63	0.66
Hydrocarbon transportation, GJ/Kt-km	0.16	0.15	0.15	0.15
LNG production, GJ/t LNG produced	4.00	3.85	3.88	3.84

Energy Consumption in 2019, by Areas of Activity, %



Sakhalin Energy's assets have high energy efficiency compliant with relevant international standards. E.g. in 2018–2019, energy intensity of the company's assets was at 0.63–0.66 GJ/t hydrocarbons produced. The data from the International Association of Oil & Gas Producers indicate that the average 2017 energy intensity among international oil & gas companies was 1.5 GJ/t hydrocarbons produced.

Sakhalin Energy's LNG plant is the largest energy consumer in the company; however, it remains a world leader in energy efficiency and demonstrating reduction in energy consumption per unit of LNG produced.

8.2.6. GREENHOUSE GAS AND OZONE-DEPLETING SUBSTANCE EMISSIONS

Russia signed the Paris Agreement in 2016. According to this agreement, each party defines its own contribution to global climate change prevention and takes internal measures to adapt to the changes and achieve the goals.

The company shares the concern about the global climate change problem and annually measures and controls GHG emissions. Emissions from both production and non-production assets of the company are taken into account, both direct and indirect emissions

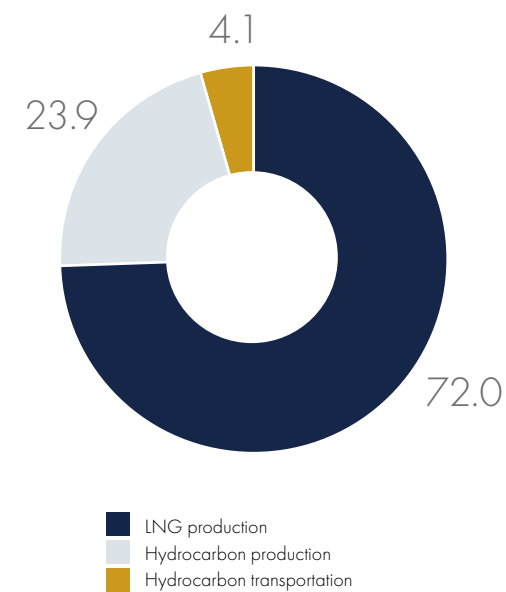
associated with the purchase of electric energy. Greenhouse gases include the following substances: carbon dioxide, methane, dinitrogen monoxide, and hydrofluorocarbons (HFC).

In 2019, total and specific greenhouse gas emissions decreased compared with the previous years' data mainly as a result of increased equipment reliability and a decrease in the volume of gas flared during the maintenance and repair of the company's assets.

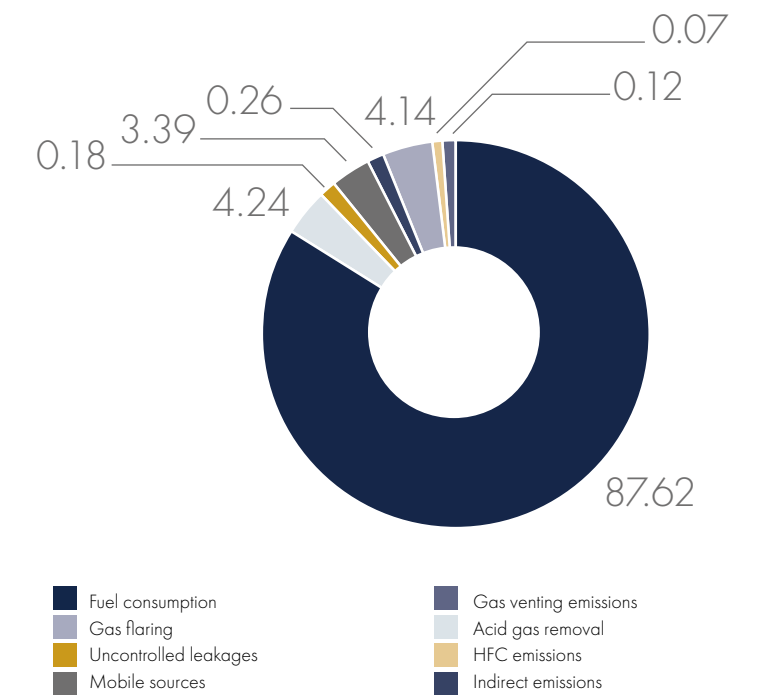
GHG Emissions in 2016–2019, million t of CO₂ equivalent

Parameter	2016	2017	2018	2019
Direct emissions (scope 1)	3.708	3.740	3.768	3.529
Indirect emissions (scope 2)	0.008	0.008	0.009	0.009
Total	3.716	3.748	3.777	3.538

GHG Emissions in 2019, by Areas of Activity, %



Structure of GHG Emission Sources in 2019, %



Specific Emissions of GHG in 2015–2018, by Areas of Activity

Parameter	2016	2017	2018	2019
Hydrocarbon production, t CO ₂ eq./t of hydrocarbons produced	0.050	0.048	0.052	0.046
Hydrocarbon transportation, t CO ₂ eq./thousand t-km	0.010	0.009	0.009	0.009
LNG production, t CO ₂ eq./t of LNG produced	0.242	0.231	0.230	0.228

Company assets use equipment (air conditioners, refrigerating equipment) containing ozone-depleting substances controlled by the Montreal Protocol. In 2019, the company continued to implement an action plan aimed at the gradual replacement of this equipment with

new and the cessation of using ozone-depleting substances (ODS) as required by the Protocol.

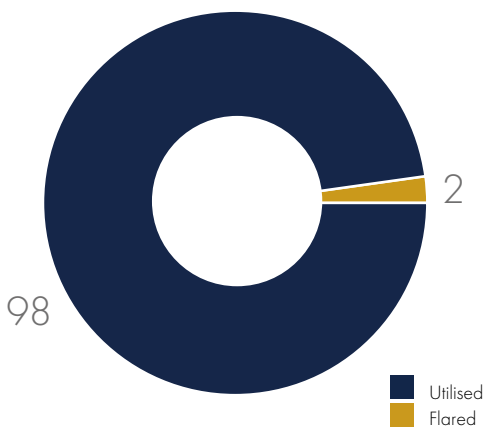
8.2.7. UTILISATION OF ASSOCIATED GAS IN PRODUCTION

The company strives to minimise associated gas flaring. Associated gas produced at the PA-A and PA-B platforms is transported via offshore pipelines to the shore, and then goes through the onshore pipelines to the OPF, where it is mixed with LUN-A gas for further transportation. Some 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 2019 was 98%.

Utilisation of Associated Gas in Production in 2019, %



8.2.8. ENVIRONMENTAL PROTECTION COSTS AND PAYMENTS FOR NEGATIVE IMPACT

To comply with the international and Russian legislation requirements, Sakhalin Energy implements environmental conservation measures. The cost of implementation in 2019 was 3,044 mln roubles.

- Sakhalin Energy environmental conservation activities are controlled by the supervisory authorities at the federal and regional levels, including:
- Ministry of Natural Resources and Environment of the Russian Federation;
 - Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor);
 - Federal Subsoil Resources Management Agency (Rosnedra);
 - Federal Service for the Supervision of Natural Resources (Rosprirodnadzor);

- Amur Water Basin Committee of the Federal Water Resources Agency;
- Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast.

In the reporting year, federal supervisory authorities conducted four inspections, one of which identified non-compliances related to environmental safety training, exceeded concentrations of pollutants in wastewater, and documentation for waste disposal assets construction. The company took actions to remedy all identified non-compliances.

Payments for Adverse Environmental Impact in 2016–2019, thousand roubles

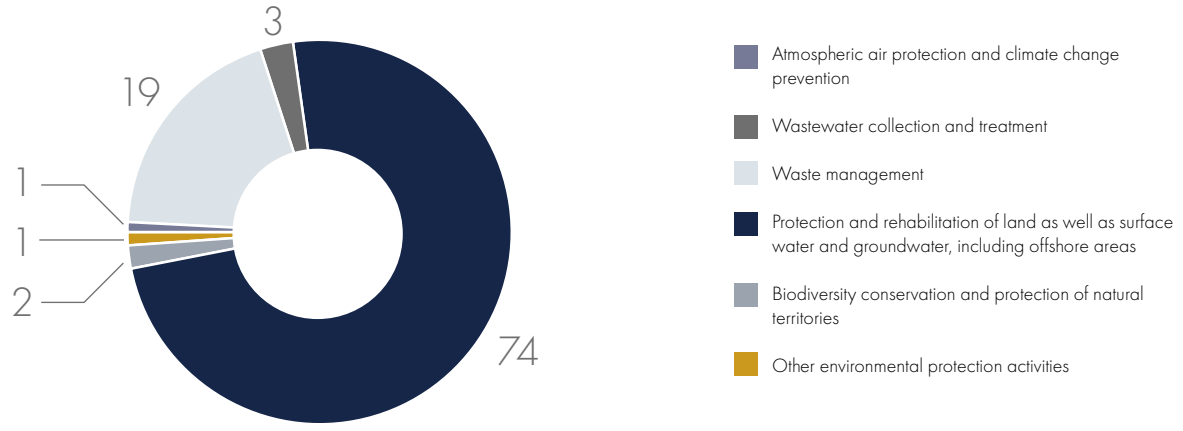
Parameter	2016	2017	2018	2019
Air emissions	987.595	898.409	806.52	595.77
Discharges into water bodies	29.045	72.008	157.21	127.92
Waste disposal	1,475.297	180.882	680.15	631.89
Total	2,491.937	1,151.299	1,643.88	1,355.58

The reduction in the total payments in 2019 is due to a drop in the total gross emissions of pollutants, a decrease in the above-limit payment for waste disposal and discharge of pollutants. This is the result of a change in the procedure for setting limits depending on the category of adverse impact objects and the execution of permits.

The share of above-limit payments in the total amount of payments for adverse impact was 44.9%, mainly due to the absence of limits for the disposal of Low Hazard and Virtually Non-Hazardous Class IV–V waste at landfills.



Current Environmental Costs in 2019, %



8.3. ENVIRONMENTAL MONITORING AND BIODIVERSITY CONSERVATION

8.3.1. GENERAL INFORMATION

The implementation of environmental monitoring in potential impact zones during the operations phase ensures Sakhalin Energy’s compliance with the requirements of the State Environmental Expertise for in-process environmental monitoring and local monitoring.

The environmental monitoring programmes are carried out to assess the condition and restoration of the environment in the areas of the company’s production assets, to identify current impact signs, and to develop actions to mitigate it, if necessary.

The implementation of the corporate Biodiversity Action Plan (BAP) fulfils the company’s obligations with respect to impact mitigation, development and implementation of measures aimed at protecting both rare and endangered species and environmentally significant and vulnerable habitats.

In 2019, environmental monitoring and biodiversity preservation activities (involving specialised organisations), carried out in the following areas:

In 2019, the activities of the Biodiversity Expert Working Group of the Sakhalin Oblast Interagency Ecological Council dealt with the implementation of measures in accordance with the Sakhalin Oblast Biological Diversity Conservation Strategy for the Period Until 2025. During the spring meeting of the Expert Working Group, special attention was paid to the research and conservation of protected bird species and during the autumn meeting, to the results of the protection of wildlife and animal habitats in the Sakhalin Oblast. During both meetings, members discussed a number of issues related to the conservation of marine mammals in the coastal waters of the Sea of Okhotsk.





- soil cover;
- river ecosystems;
- flora and vegetation;
- wetlands;
- protected species of birds, including the Steller’s sea eagle;
- marine environment and biota in the waters of oil and gas fields;
- marine environment and biota in the area of Prigorodnoye port and ballast water control;

- gray whales and marine mammal protection.

The results of the environmental monitoring and biodiversity conservation measures have confirmed that the company is minimising the impact of its production activities on the environment through its environmental protection management system, which includes risk assessment and prevention, and prompt mitigation of identified risks.

8.3.2. SOIL MONITORING

A system of regular soil monitoring allows for the identification of impetus for possible changes. The company assesses the soil condition along the onshore pipeline routes, at the infrastructure assets, and within the areas around the Prigorodnoye production complex and the OPF at intervals of time prescribed in the monitoring programme.

- In 2019, soil landscape monitoring included:
- obtaining data on the physicochemical and agrochemical characteristics of soils;
 - analysing the content of pollutants in soils in the territory of the Prigorodnoye production complex and the OPF.

The territory of the Prigorodnoye production complex is characterised by man-made gley soil with heavy and dense particle-size distribution and basic rubble, while the turf layer is fairly developed. The floodplain of the Goluboy Stream has preserved its natural meadow-bog soils. In general, the amounts of petroleum hydrocarbons, heavy metals and detergents in the soils in the territory of the Prigorodnoye production complex were within the baseline soils range, significantly lower than permitted levels, or below the detection limits using standard test methods. In 2019, the total content of petroleum products as the main ecotoxics in the soils (in the 0-25 cm layer) was 15-289 mg/kg, which is significantly lower than the maximum permissible level (1,000 mg/kg).

The content of organic substances in the soils beyond the territory of the Prigorodnoye production complex (in the 4 km potential impact zone) varies significantly, from increased (in black bog soils) to relatively low (in raised bog soils) and low (in brown forest soils). In 2019, no disturbance to the soil layer or instances of soil degradation associated with the Prigorodnoye production complex activities were identified and no petroleum products or benzo(a)pyrene were detected in the soils at any of the monitoring sites. In 2019, the average content of petroleum products in the 0-25 cm layer fluctuated between 32-235 mg/kg, which is also significantly lower than the permissible level (1,000 mg/kg). The average content of benzo(a)pyrene in the 0-25 cm layer was below the detection threshold.

A soil and environmental study of the OPF territory showed that the man-made soil layer consists of loose gravel, coarse sand and gley soil with heavy particle-size distribution. The formation of a turf layer in most parts of the territory is slow, with the exception of runoff hollows.

In general, the values of petroleum hydrocarbons, heavy metals, ethylene glycol and active forms of nitrogen (NO_3 , NO_2 , NH_4) are within the baseline soils range, significantly lower than permitted levels, or below the detection limits using standard test methods. In 2019, the total content of petroleum products as the main controlled ecotoxics in soils (0-25 cm layer) was 9-152 mg/kg with the maximum permissible level of 1,000 mg/kg, and ethylene glycol was below the detection limit (<0.5 mg/kg).

In the areas adjacent to the OPF, bog soils, characterised by an acidic and strongly acidic reaction, a low content of nutrients, and high ash content of organogenic horizons, are predominant in the soil cover. To the south and in individual areas to the north of the OPF, there are brown forest soils, characterised by low humus reserves and a very acidic reaction. In general, the established values of soil indicators are consistent with the processes of soil formation in these areas. In 2019, the average content of petroleum products in the 0-25 cm layer in bog soils in the area potentially affected by the OPF was 663 mg/kg and in mineral soils — 211 mg/kg, which is below the maximum permissible level (1,000 mg/kg). The average content of benzo(a)pyrene in the 0-25 cm layer was below the detection limit.

Monitoring in 2019 did not reveal any land contaminated with oil or petroleum products as a result of infrastructure operation and work execution on the territories of the company’s assets.

In 2019, no work leading to land disturbance was carried out. As of the end of the year, the area of disturbed land covered 79.15 hectares, which was unchanged from the previous year.



8.3.3. RIVER ECOSYSTEMS MONITORING

The onshore pipeline system, covering virtually the whole territory of Sakhalin Island, crosses more than a thousand water bodies (rivers, streams, lakes and canals) from Chaivo Bay in the north to Aniva Bay in the south. During the design stage and construction, the company conducted baseline studies and operational monitoring of all crossings of water bodies. For the operations stage, a comprehensive observation programme was developed to monitor environmentally significant and hydrographically complex watercourses, which allows the company to monitor any changes, to identify critical areas, to develop and take timely corrective measures.

River ecosystem monitoring comprises several areas: the monitoring of the quality of surface waters, bottom sediments, and benthos. The quality of river ecosystems primarily indicates the nature and specifics of potential impact on the aquatic ecosystems during the operation of pipeline and infrastructure facilities. The other objective of monitoring is to identify any potential adverse impacts from natural factors on the Sakhalin-2 project infrastructure.

- The monitoring of river ecosystems includes:
- determination of hydrological and hydrochemical characteristics of watercourses;
 - assessment of bottom sediment condition in river beds;
 - identification of hydromorphological changes (river bed and bank erosion in the areas of pipeline route crossings);
 - assessment of benthic community and abundance (ground species);
 - assessment of the area and quality of potential spawning areas for Pacific salmon.

In 2019, the monitoring of hydrological and hydrochemical characteristics and condition of bottom sediments was implemented in the following water bodies:

- 21 watercourses crossed by the pipelines,
- the Val and Tym Rivers, whose under-river crossings were performed using horizontal directional drilling (HDD);
- the Vatung River in the area of potential impact from the OPF;
- the Mereya River and the Goluboy Stream in the area of the Prigorodnoye production complex.

Monitoring was performed during three hydrological seasons: summer low water, autumn high water and winter low water. 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 most investigated river-crossing sites (from the upstream to the downstream cross sections) no significant horizontal or vertical deformations of river beds were found. The crossings are in satisfactory condition, and no damage to utility lines was found.

The physicochemical properties of surface water met the regulatory criteria in all observation seasons. The properties of the surface water at the upstream and downstream cross sections of each watercourse changed equally and had similar quantitative and qualitative characteristics.

The oxygen regime of surface water was normal during all observation periods. The exception was the Zamyslovataya River during the autumn floods. Insignificant seasonal variations in concentrations were observed for suspended substances. Of all the biogenic substances analysed (ammonium ions, nitrites, nitrates, and phosphates), the content of nitrates varied most significantly. In general, the nitrate concentrations during the summer low-water season varied from less than 0.044 to 1.65 mg/dm³, and during the autumn floods — in the range from less than 0.044 to 2.50 mg/dm³ (with MACf being 40 mg/dm³). All measured parameters of



biogenic substances met the concentration requirements for the quality of fishery water bodies (MACf).

None of the monitored watercourses contained readily oxidizable organic matter specified by the BOD5 index.

Of all the studied metals, concentrations of iron and copper showed the highest variability. In most of the watercourses, the content of these metals exceeded the corresponding MAC standards. Elevated concentrations of iron and copper is a natural phenomenon, characteristic of the surface waters in Sakhalin.

The monitoring did not reveal surface water contamination from oil products. All measured values were nonsignificant and in line with MACf standards. The content of petroleum products in bottom sediments did not significantly change from season to season. The measurements of their concentrations made at the upper sections were the same as those made at the lower ones.

The particle size distribution of bottom sediments in all of the watercourses was heterogeneous in all seasons and was mainly dominated by particles with a diameter of 10 mm and more. The share of these particles in the summer and autumn periods was more than 50% of the total mass.

Benthos monitoring studies in streams continued in 2019. The analysis of habitat conditions (such as bed type, current speed, sediment type, depth), quantitative and qualitative indices of macrozoobenthos showed that the variability of the composition, state and structure of bed communities between the baseline and control sections of the watercourses under study is due to natural variability, in particular the heterogeneity of biotopes and hydrologic-hydrochemical indicators at monitoring stations.

More than 48 thousand humpbacked-salmon fry are estimated to have migrated in the Goluboy Stream in 2019.



90 %
of egg survival was reached during the autumn period

The timing of the spawning migration of humpbacked salmon spawners in the Goluboy Stream in 2019 was close to the average timing for the rivers of the Tonino-Anivsky Peninsula. The figure for use of the spawning grounds in the Goluboy Stream was significantly lower than the long-term average, while the number of spawners that entered the area in 2019 was estimated at 150. Around 80% of the total number of fish that entered the area actually spawned in the stream, while the rest were killed by poachers. The majority of salmon failed to get further than the bridge across the federal road. Most humpbacked salmon spawning grounds were recorded within the protected area of the LNG plant and in the area from the LNG plant to the federal road.

Average egg planting was calculated at 85 eggs per 1 m². The egg survival rate reached 90% during the autumn period.

Overall, the outcomes of river ecosystems monitoring in 2019 can be attributed to natural fluctuations of parameters; no impact from Sakhalin Energy’s production assets on the quality of surface waters or their flora and fauna was detected.

8.3.4. FLORA AND VEGETATION MONITORING



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

- The Monitoring Programme includes the following objectives:
- to monitor the condition of vegetation in the areas adjacent to the company’s assets;
 - to evaluate and forecast natural and man-induced changes/successions in the plant communities;
 - to monitor the state of rare and protected species of plants and lichens;
 - to monitor the restoration of vegetation within the rights-of-way and generate recommendations for additional work required in some areas.

In 2019, flora and vegetation monitoring, including protected species, was conducted in the area of the Prigorodnoye production complex and around the OPF, including the territory of the OPFC project. Studies were completed on the right-of-way within the onshore pipeline area.

The vegetation cover around the Prigorodnoye production complex mainly features dark coniferous and dark coniferous larch forests. The structure and species composition of vegetation communities in sampling sites remain unchanged. No reduction in the number of trees that was recorded in previous years in certain sites due to windfalls has been identified. The species composition of subordinate layers in all sampling sites surveyed has not changed. The habitats of 11 protected species of vascular plants have not been violated.

The vegetation cover around the OPF features boggy larch forests and dark coniferous larch forests. Wetlands spread to the north of the OPF. Standing timber in woodlands is not impacted by OPF activities. Identified insignificant variations in the number of trees are due to natural processes in phytocenoses, such as undergrowth ageing and natural death of old trees. The species composition of layers in all sampling sites surveyed has not changed. The natural habitats of the only protected species of vascular plants, Sakhalin Ephippianthus, located south-west of the OPF, have not been violated. As of today, these habitats, identified in the course of monitoring, are the northernmost on Sakhalin.

Some epiphytic lichens in the area of potential impact by the company’s assets are still affected to a certain degree by the change in the microclimatic conditions (stronger lighting and wind, decreased air humidity at the boundaries of open and forested areas). On the other hand, thalli of these species of lichens continue to sprout, which suggests the preservation of the species composition and the general restoration of lichen cover.

An excellent degree of grass cover reinstatement was recorded for more than 85% of the right-of-way; many sites are characterised by a developed dense grass canopy. Individual undergrown areas still persist on steep slopes and in some areas in the northern districts of the island, which is due to the lack of fertility of sandy and clay soils. Despite this, even these areas show a positive trend: vegetation is gradually being restored on the right-of-way.

8.3.5. WETLANDS MONITORING

Wetlands are especially important and vulnerable ecosystems of Sakhalin Island. Their importance is due to their water protecting and water regulating features. The Sakhalin-2 pipelines cross about 200 boggy areas (including peat bogs), almost half of which feature sparse birch and larch, as well as alder and larch woodlands. Sakhalin Energy regularly monitors the restoration of natural bog vegetation on the right-of-way and in the pipeline potential impact zone. This approach is due to the risks of possible violations of the hydrological regime, draining or swamping of the territory, irreversible transformation of the bog lands, and reduced water inflow to rivers and streams.

- The objectives of the Wetlands Recovery Monitoring Programme implemented by the company include:
- to monitor wetlands recovery processes after the construction of the right-of-way;
 - to monitor the condition of vegetation cover in the adjacent areas;
 - to assess all potential adverse impacts on wetlands resulting from onshore pipeline operations;
 - to develop impact mitigation measures, if necessary.

In 2019, 25 wetland areas were surveyed along the entire pipeline route. The surveyed areas belong to the category of acid bogs characterised by poor mineral nourishment of peat soils, an acidic environment, and a unique plant species composition. Particular attention is given to the

species composition of the vegetation so that it will be possible to timely identify cases of invasive species on the right-of-way.

It was noted that the degree of grass cover reinstatement is good. The grass cover in all areas is above 75%, with the average being 80–90%. Recovery of the grass-shrub layer can be observed on the right-of-way in 22 wetland areas, which account for 88% of the surveyed territory. In three areas vegetation is further reinstated with species typical for the vegetation cover of adjacent wetlands, as well as species not typical of these ecosystems. This process is characteristic of the initial stages of disturbed vegetation recovery and for areas where soil has been mixed due to technological reclamation. Positive recovery trends of moss, lichen, and shrub layers has been observed. For some parts of the right-of-way, measures were developed and implemented to normalise the hydrological regime of adjacent wetland ecosystems.

The only natural habitat of the Pogonia Japonica (a protected plant species from the orchid family), identified on Sakhalin Island during wetlands monitoring, has not been violated, and the plants are in good condition. The 2019 monitoring season did not identify any aggressive invasive species on the right-of-way at the crossings of wetland ecosystems.

Generally, monitoring of the wetlands in the right-of-way shows that their recovery is moving at a slow but sustainable pace.



8.3.6. MONITORING OF PROTECTED BIRD SPECIES

During the Sakhalin-2 project planning stage, extensive and in-depth studies of avifauna were conducted along the entire onshore pipeline route and in the waters of the offshore fields and Prigorodnoye port in the Sea of Okhotsk. The results helped establish species composition and the number of birds, and identify important nesting, migration and feeding areas. Avifauna studies were primarily focused on a number of protected bird species that are especially sensitive to human-induced impact; these species became the target of subsequent observation as part of the Environmental Monitoring and Biodiversity Conversation Programme during the operational phase of the project.

In 2019, rare bird species monitoring was carried out around the OPF and Prigorodnoye production complex within 4 km of the production facilities’ boundaries. During the field season, the following protected species were spotted in the vicinity of the Prigorodnoye production complex: whooper swan, Chinese spot-billed duck, Japanese cormorant, white-tailed eagle, long-billed murrelet, Japanese snipe, Far Eastern curlew, red-necked northern phalarope, long-toed stint, sharp-tailed sandpiper, green sandpiper and reed bunting. Out of these, the Japanese snipe, Japanese robin and reed bunting have been observed nesting in the area, while white-tailed eagle and long-billed murrelet are believed to have been nesting there.

Japanese snipe was chosen as a basic ornithological monitoring object for the whole duration of observations in the vicinity of the Prigorodnoye production complex. Following 2019 observations, the numbers of Japanese snipe were estimated at 111-117 breeding pairs. Studies show that the steady increase in Japanese snipe numbers in meadow areas (including the reclaimed areas suitable for nesting) that had been observed before has now stopped, and the numbers have stabilised. As the meadows started to become overgrown with shrubs and tree undergrowth, the breeding pairs were naturally redistributed across the existing habitats.



Rare bird species monitoring in the OPF area was carried out alongside OPFC construction activities. A total of 12 bird species listed in the Red Data Books of the Russian Federation and the Sakhalin Oblast were registered: long-billed murrelet, long-toed stint, sharp-tailed sandpiper, dunlin, Japanese snipe, hobby falcon, Steller’s sea eagle, Far Eastern curlew, red-necked northern phalarope, glaucous-winged gull, Aleutian tern and great grey owl. Of these, the sharp-tailed sandpiper has been registered for the first time, being a rare transient species. Moreover, the Japanese snipe has been shown to nest in this northern area for the first time. This is due to the general process of the species’ resettlement to the north of the island and the favourable breeding conditions that have arisen as vegetation cover has re-established itself along the pipeline right-of-way.

Monitoring of the long-billed murrelet — another protected species — shows no noticeable trend in its population dynamics; however, the numbers vary greatly from year to year, which is mainly due to redistribution of the birds across a larger territory. The most important nesting areas lie to the west and southwest of the OPF. The 2019 studies prove the earlier assumption that, despite the annual changes in the general direction, the main flyway of the long-billed murrelet bypasses the OPF.

Consolidated information from background and field observations in the offshore area of the Piltun-Astokhskoye and Lunskoye fields conducted in 2019 showed the presence of 135 bird species, with 73 seabirds and 62 land birds that migrate over the sea in these areas. The most abundant group is made up of gulls and shearwaters of various species. Of the rare protected species, the long-billed murrelet, Aleutian tern, red-legged kittiwake and red-necked northern phalarope were observed in the summer and autumn periods.

The studied areas are important for the breeding and migration of protected bird species, including those on the IUCN (International Union of Conservation of Nature) Red List. Multi-year monitoring has shown no negative population trends resulting from industrial operations.

8.3.7. STELLER’S SEA EAGLE MONITORING

Steller’s sea eagle is the world’s largest fish-eating bird of prey. This species is listed in the IUCN (International Union of Conservation of Nature) Red List (Category VU, Vulnerable), in CITES (the Convention of International Trade in Endangered Species) Appendix II, in the Bonn Convention, in bilateral agreements on the protection of migratory birds between Russia and the USA, Japan, and South Korea, in the Red Book of Russia (Category III, Rare), and in the Red Book of the Sakhalin Oblast (Category II, Rare).

Pursuant to Federal Law On Wildlife Protection No. 52 dated 24 April 1995 (Articles 22 and 24), the protection regime for rare species includes a number of restrictive measures for users who perform business activities in these species’ habitats. Legal entities and individuals who perform business activities within the onshore and offshore habitats of animals listed in the Red Books are responsible for the preservation and conservation of these animals in accordance with the laws of the Russian Federation and its constituent entities.

As early as the project feasibility study stage, Sakhalin Energy used the results of baseline studies to develop measures to protect the nesting areas of Steller’s sea eagle located within the production assets potential impact area, in line with the requirements of Russian legislation and international best practices.

The company monitors Steller’s sea eagles and has implemented impact mitigation measures for Steller’s sea eagle and white-tailed eagle during asset construction, modification and operation under the Sakhalin-2 project.

Monitoring is conducted in the Nogliki District within a 2 km corridor along the onshore pipeline routes, within a 3 km zone around OPF boundaries, and in the control zone at a distance of up to 2 km from the northern part of the Lunsky Bay shoreline.

During the field study of 2019, 170 nests were inspected and their status was verified; one white-tailed eagle and 174 individual Steller’s sea eagles were identified.

In 2019, 76 eagle nesting areas were inspected within the pipeline impact area. It was found that along the onshore pipeline route, 10 nests had been abandoned, 19 nests were not occupied, 19 nests were visited on a rare basis, nine nests were occupied by birds, and 13 nests were used by birds for breeding. 6 nests were recorded to have disappeared. In one nest there were two chicks, and in 10 nests, 1 chick per nest. Two nests had been destroyed by a bear, and at least two chicks had been killed. In total, 12 chicks flew the nests in the area near the infrastructure facilities. This indicates the effectiveness of the measures taken by the company to mitigate negative impacts and suggests that the species can adapt to living in proximity to man.

In the control zone located in the northern part of Lunsky Bay, 88 nesting areas were inspected. There were found to be 17 active nests, 14 occupied nests, 32 nests visited by birds, 12 vacant nests and four abandoned nests. Nine nests in the control zone were recorded to have disappeared. Of the 17 active nests, one nest had been destroyed by a bear, and at least one chick died. In one nest, out of two chicks, one was alive, and one was dead



(likely killed by the other chick). It was reliably established that in seven nests there were two chicks in each nest, in nine nests there was one chick per nest, and in one nest a chick had been eaten by a bear. In total, 23 chicks flew from their nests located in the control zone in 2019.

The average size of the brood in the pipeline impact area was 1.09 chicks, and in the control zone, 1.44 chicks.

The impact of bears on the eagle population (i.e. the predator pressure) in 2019 may be characterised as significant. Two nests were destroyed in the pipeline potential impact area, and one in the control zone.

In the OPF potential impact area, six nesting areas were inspected in 2019. There were two visited nests, one vacant nest and three abandoned nests.

The 2019 monitoring showed that there remains an increased anthropogenic impact on the sea shore near the OPF and the north-eastern coast of the Lunskey Bay, which had been observed in recent years.

8.3.8. SMALL MAMMALS MONITORING



The future health of Steller’s sea eagle population depends on its young, so the number of birds in this group is an indirect indicator of its condition. In stable eagle populations, the percentage of young birds should be 25-30% of the total. In 2019, young immature birds accounted for 4% of all birds, which is 3 times lower than in 2018 (the lowest number over the whole monitoring period).

The condition of the nesting pool in the potential impact area, as well as in the control zone, can be characterised as favourable. Within the pipeline potential impact area, 67% of all nests are in good or satisfactory condition, with the corresponding figure for the control zone near Lunskey Bay being 77%.

The analysis of variations in nesting site occupancy in the control zone (northern part of Lunskey Bay) and the pipeline impact area in 2004–2019 indicates a continuing downward trend in the number of nesting (breeding) eagle pairs, which is probably typical of the whole population of eagles inhabiting the north-eastern coast of Sakhalin, and is not a specific feature of the territory under consideration.

Shrews and mouse-like rodents play an important role in natural ecosystems. Their high numbers and fertility, short lifespan and fast population turnover make them great indicators of the state of the environment. Human-induced impact decreases the total number of species, changes species composition and the structure of small mammal communities. Animal mortality increases, which in turn results in intensified breeding. The breeding rate rises due to increased fertility and accelerated maturation of young-of-the-year. Decrease in the quality and quantity of forage resources impacts the values of exterior parameters. Individuals from reference areas are often larger than those from contaminated areas. In 2019, small mammal monitoring was performed in the vicinity of the OPFC construction area. Studies were carried out on three test sites in the area of potential impact of the production facility, and on three corresponding reference sites located in similar plant communities more than 3 km away from the asset. The structure of small mammal communities, species diversity, the abundance of rodents and shrews, as well as the morphometric and demographic parameters of the indicator species were assessed.

The results have shown that Laxmann’s and slender shrews were the most abundant shrew species, and the Northern red-backed vole was the dominant species among the rodents. The long-clawed shrew and grey red-backed vole were less abundant. Naturally low abundance of the least shrew, large-toothed shrew, wood lemming and Korean field mouse was registered. The total number of shrews amounted to 14.5 ind./100 cone-days, and of rodents, 30.8 ind./100 trap-days.

Shrew communities were single-dominant with the Laxmann’s shrew being the dominant species (65.0%) in the test sites, double-dominant in the reference sites, with the slender shrew being subdominant (34.1%). Rodent communities demonstrated a stable single-dominant structure in all monitored sites with the Northern red-backed vole being the dominant species (86.2–99.0%).

Most of the monitored morphometric and demographic parameters of the indicator species were within the natural range, both in the test and in the reference sites. However, some exterior parameters of the Laxmann’s shrew, Northern red-backed vole and grey red-backed vole showed a significant difference between the test and the reference sites. Moreover, a

higher breeding intensity of the Northern red-backed vole was registered in the test sites in the vicinity of the production facility. These differences can be caused both by a potential minimal impact of human-induced activities in the production facility area and by natural causes, which needs to be explained during subsequent monitoring.

8.3.9. MONITORING OF MARINE BIOTA AND ITS ENVIRONMENT

Environmental monitoring of the potential impact of offshore production assets is carried out to timely identify any impacts and forecast the development processes affecting the quality of seawater, bottom sediments, and the condition of biological communities.

As part of the 2019 Industrial Environmental Monitoring (IEM) Programme, the company continued to monitor the state of the marine environment and marine biota near the northeastern coast of Sakhalin Island and in Aniva Bay. Field studies in the northern area where the PA-A, PA-B and LUN-A platforms and the subsurface assets for drilling waste are located, were conducted during the autumn using the Gennadiy Nevelskoy modern platform supply vessel; the southern area covering the OET and LNG jetty area in Prigorodnoye port in Aniva Bay was studied using company tug boats.

Based on the comparative analysis of the 2019 survey results and taking into consideration the spatial and temporal variability of the parameters from previous monitoring years, the following conclusions were made:

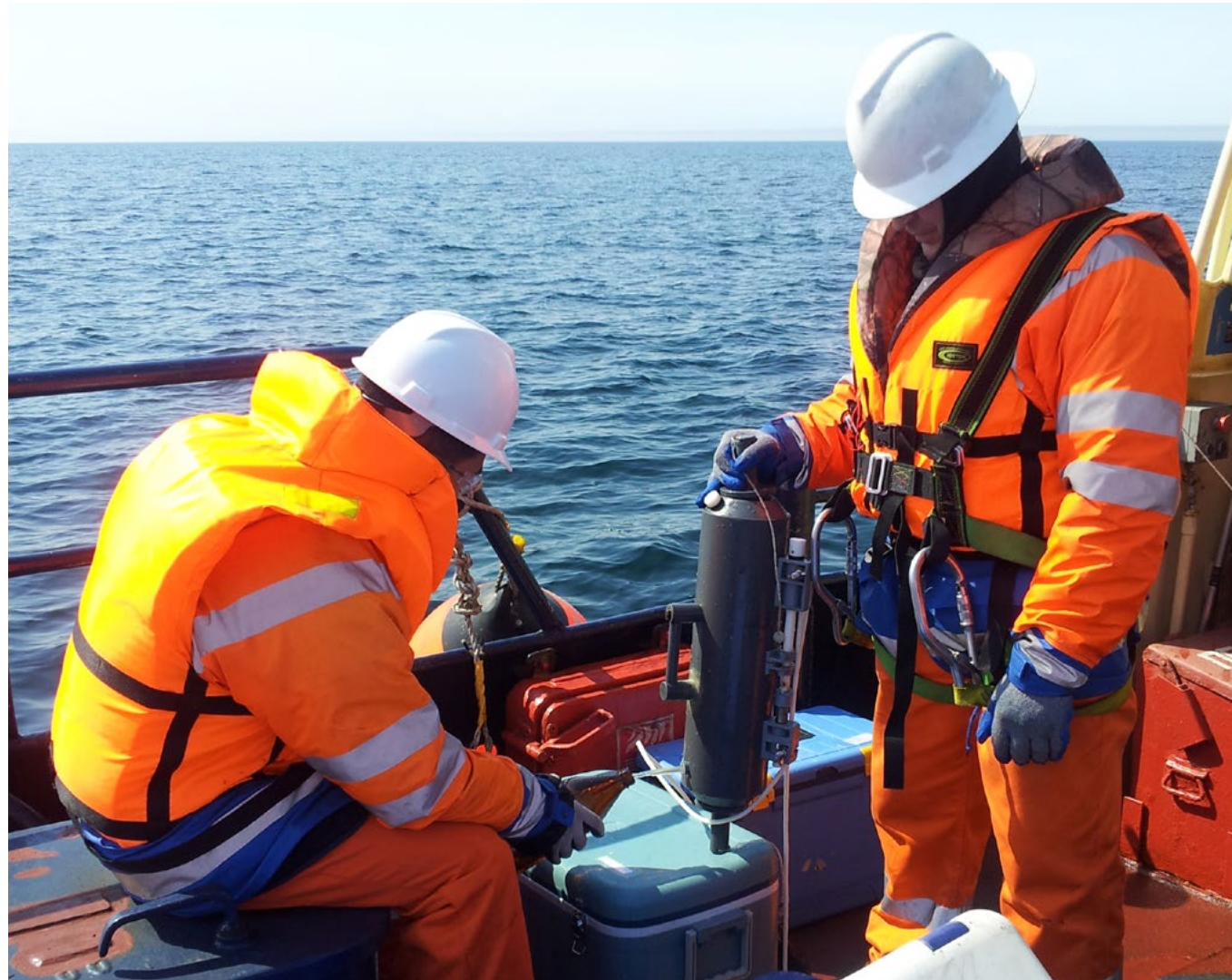
- Hydrochemical characteristics of the water near offshore production assets, including pollutants such as total petroleum hydrocarbons (TPH), phenols and detergents, were within the baseline value range for these sea areas and met the standards established for water bodies extensively used for commercial fishery (maximum permissible concentration or MPCf).
- Concentrations of chemicals (phenols, detergents, TPH) in bottom sediments were distributed unevenly due to the specific geological features of the region and the distribution of different sediment types. Overall, concentrations of pollutants in bottom sediments around platforms varied within baseline ranges (average content of TPH 1.54-2.2 mkg/g, phenols 0.06 mkg/g, detergents 0.98-1.1 mkg/g), typical for these offshore areas and were mainly lower than the values causing initial biological effects at the organism and marine ecosystem community levels.
- Baseline concentrations of TPH in the near-bottom water layer and bottom sediments at the areas of drilling waste disposal facilities did not exceed the baseline value. The maximum recorded concentration of TPH in seawater was 0.039 mg/dm³, which is 1.3 times less than the MPCf. The maximum concentration of TPH in seabed sediment was 0.011 mg/g, which is 7.7 times lower than baseline concentrations typical for this area.
- Depending on the depth and type of seabed sediments, areas around offshore platforms are inhabited by several bottom-dwelling benthic communities. The benthic communities identified in the course of monitoring are typical for the water areas of the Sea of Okhotsk and are characterised by rich species diversity with high qualitative indicators comparable to background values. The main factors

affecting the benthic communities’ structure are changes in the grain size composition of bottom sediments.

- The biomass of benthic communities is mainly formed by sea urchins, actinias, bivalves, gastropods, polychaetes, and crustaceans, with the latter two being the most abundant. Amphipods and polychaete worms are the most abundant species, bivalves and gastropods are characterized by high species diversity. No trend towards a decrease in abundance was identified for this area.

In general, the results of long-term research show the stability of indicators for local marine ecosystems in the areas of offshore production assets during the operations phase and the absence of any impact from production activities on the quality of seawater, bottom sediments, and the condition of marine biota in the water areas of the Piltun-Astokhskoye and Lunskeye fields of the north-eastern shelf of Sakhalin Island and Prigorodnoye port in Aniva Bay. This indicates that environmental standards are observed at the company’s production assets.





8.3.10. BALLAST WATER CONTROL

Every year, over 200 standard hydrocarbon cargoes are loaded onto oil tankers and LNG carriers arriving to the Prigorodnoye production complex, mainly from ports of Asia Pacific Region.

Ballast water taken on by a vessel at the port of departure may contain invasive (alien to the local environment) marine organisms, which, under favourable conditions, can adapt to the local environment, disturb the balance of the ecosystem of Aniva Bay and cause harm to human health.

Sakhalin Energy has developed a package of preventive measures to manage ballast water risks based on international regulations and best industry practices. Currently one of the most effective measures

to prevent the introduction of alien species is ballast water exchange on the high seas (D-1 regulation). This method is in accordance with the International Convention for the Control and Management of Ships' Ballast Water and Sediments (the Convention), adopted by the International Maritime Organisation in 2004. The company included this requirement in the corporate Ballast Water Management Policy in 2009 prior to the start of large-scale hydrocarbons transportation. Since September 2017, ballast water and sediment management requirements have become mandatory for all countries that have joined the Convention, including the Russian Federation, which ratified it in 2012.

The ballast water monitoring and control of each tanker and LNG carrier to be loaded in Prigorodnoye port includes:

- check of vessels' logbooks for the confirmation of ballast water exchange in deep waters of the Pacific Ocean and the Sea of Japan;
- express analysis of physicochemical characteristics of ballast water directly at the port;
- planktonic organisms sampling for subsequent analysis in the laboratory to identify dangerous species.

A vessel is only allowed to commence discharging ballast water in Prigorodnoye port waters when an exchange of ballast water in deep waters is confirmed.

The results of phyto- and zooplankton species analysis in the vessels' ballast waters in 2019 detected no invasive species of zooplankton in ballast water samples. However, potentially dangerous planktonic algae species that are not typical for Aniva Bay were found in some ballast water samples. Since these microalgae were detected only occasionally

and in small quantities, the risk of their significant growth and adaptation in the waters of Aniva Bay is extremely low. The results of the 2019 environmental monitoring in the waters of Prigorodnoye port confirmed the absence of an adverse impact of ballast water on Aniva Bay. Nevertheless, ballast water monitoring on vessels and in the waters of Aniva Bay will be continued.

As a result of the long-term monitoring of Aniva Bay marine flora and fauna, over 750 species of phytoplankton, over 100 forms of zooplankton, about 40 species of ichthyoplankton and 170 species of benthos have been identified. In addition to this, new species of seaweed and planktonic animals which had never before been recorded in Aniva Bay, but are local inhabitants in view of biogeographic and environmental characteristics, were registered.

No protected species of flora and fauna have been observed during the environmental monitoring of Prigorodnoye port waters.

In accordance with the Convention requirements, vessels of all countries that have ratified it must switch from the exchange of ballast water on the high seas to a ballast water treatment system installed on board each vessel (D-2 regulation) by September 2024. Such systems treat ballast water using physicochemical methods to destroy living organisms prior to ballast water discharge in the waters of the port of arrival. In 2019, the company first took ballast water samples from a vessel that had used a ballast water treatment system prior to discharging ballast water in Prigorodnoye port. The results of the biological and bacteriological analysis confirmed its effectiveness. Sakhalin Energy will continue to monitor the effectiveness of ballast water treatment systems in 2020.

8.3.11. GRAY WHALE MONITORING AND MARINE MAMMAL PROTECTION

23 species of marine mammals, including 17 species of cetaceans (whales, dolphins, porpoises) and six species of pinnipeds (seals), can be found in the area of the Sakhalin-2 project in the coastal waters of the Sea of Okhotsk. Of these, 7 species are listed in the Red Book of the Russian Federation — the gray whale, the bowhead whale, the North Pacific right whale, the fin whale, the Cuvier's beaked whale, the harbour porpoise, as well as pinnipeds such as the Steller sea lion. The Okhotsk-Korean (Western) gray whale subpopulation, which also has a high conservation status in the Red Book of the Russian Federation and on the Red List of the International Union for Conservation of Nature (IUCN), feeds near Sakhalin Energy's offshore production assets during the ice-free period. The company therefore pays close attention to the monitoring and conservation of gray whales, as well as other mammal species.

The corporate Marine Mammal Protection Plan (MMPP) makes it possible to take into account all the risks associated with production activities, and to take timely measures to reduce any negative impact.

This includes establishing special corridors for vessels to bypass the main feeding areas of gray whales, imposing speed restrictions for vessels, prescribing specific minimum distances between vessels and marine mammals to ensure their safety. Another key component of the MMPP is the presence of marine mammal observers while conducting vessel operations in the areas where whale encounters are more likely, which has been run as a separate observation programme since 2003. According to the long-term data, the most common species in the waters of the northeastern coast of Sakhalin are cetaceans such as the harbour and Dall's porpoises, the minke whale, the gray whale; and pinnipeds such as the largha or spotted seal, the northern fur seal, and the Steller sea lion. Individual specimens of other rare species, including the Cuvier's beaked whale, the short-finned pilot whale, the northern right whale dolphin, and the North Pacific right whale have been observed over the years of monitoring.

In 2017–2018, Sakhalin Energy renewed its fleet of offshore support vessels that operate around the platforms. Measurements taken in 2019 confirmed that these more modern vessels operate with a lower acoustic footprint than the previous vessels, further reducing potential noise impact on marine mammals.



As in previous years, Sakhalin Energy, in close cooperation with the Sakhalin-1 and Sakhalin-3 operators, continued implementing the Integrated Monitoring Programme near the northeastern coast of Sakhalin Island.

During the 2019 field season, 193 individual whales were preliminarily identified, including 22 calves and two new adult whales. Updates have

been made to the Sakhalin photo catalogue, which, as a result, now includes 321 animals. So far, this is the highest number of new calves identified over the monitoring period.

In addition to field studies, considerable efforts are focused on making an interdisciplinary analysis of the data collected over the past years, and on preparing research results for publication in peer-reviewed scientific

Number of gray whales registered in the Sakhalin Photo Catalogue in 2016–2019, individuals

Year	2016	2017	2018	2019
Gray whales	274	283	297	321

journals. During the monitoring programme implementation, more than 80 scientific papers based on the research results were published in leading Russian and international publications.

The results of the long-term monitoring indicate the well-being of the gray whale feeding aggregation that comes near to the company’s offshore production assets. According to experts from the Western

Gray Whale Advisory Panel (WGWAP), the number of individuals in the subpopulation has seen an annual increase of 2–5%.

Not a single incident negatively impacting marine mammals has been registered since the start of Sakhalin Energy’s operations on the northeastern shelf of the island. All of this supports the efficacy of the management of the environmental aspects of the company’s activities and the measures applied to minimise their impact.

In 2019, the company developed a conceptual solution for automatic recognition of gray whale images, based on machine learning of a neural network using the existing photo catalogue. The initial results showed that further digitalisation of the process will reduce the time needed for the processing and analysis of photographs and will make it possible to carry out preliminary automatic identification of gray whales in the field.

8.4. PIPELINE RIGHT-OF-WAY MAINTENANCE

Currently, regular monitoring and geotechnical surveys are in place on RoW. Their results are logged and used in the implementation of necessary measures.

The list of RoW monitoring actions for 2019 included:

- helicopter fly-overs and photography;
- river crossing surveys;
- river surveys based on geomatic 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;
- boggy areas surveys.

Based on the outcomes of RoW monitoring, a RoW maintenance plan has been developed. Repair and maintenance of the RoW were completed in December 2019, as planned. Work was performed at 5 plots and included eliminating the consequences of natural erosion as well as repairing existing anti-erosion structures.

In 2019, landslide mitigation activities, which started in 2018, as well as the repair of one existing bank protection site were completed.

No pipeline damage occurred in 2019.



8.5. OIL SPILL PREVENTION AND RESPONSE PREPAREDNESS

8.5.1. 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.

The company has established a Crisis Management Team, an Emergency Coordination Team, and a Duty Dispatcher Service that are on duty 24/7 to coordinate the response in emergency situations.

The company has developed OSR Plans for all onshore and offshore assets; all necessary approvals and expert review conclusions have been obtained from the relevant state agencies.

The company has concluded contracts for OSR services to be provided by the Professional Emergency Response Teams (PERTs) of CREO, Ecoshef, and the Sakhalin branch of the Rosmorrechflot Offshore Rescue Service for offshore assets.

Furthermore, the company's own certified Non-Professional Emergency Response Teams (NERTs) have been established at Sakhalin Energy production assets.

OSR vessels with appropriate equipment are continuously on standby near SEIC offshore platforms and in Prigorodnoye port.

The number and volume of oil spills have decreased significantly in recent years, with only 32 emergency oil spills totalling 133 litres reported between 2010 and 2019 versus 21 emergency spills releasing 3,504.46 litres of oil in 2008–2009.

In 2019, there were three spills of petroleum products at the company's assets during operations at fuel tanks totalling 14.3 litres.

Over 21 years (1999–2019), over 577 MMbbl of crude oil have been produced while the total volume of hydrocarbon spills was 26.6 bbl, which is less than 0.0000046%.



Global practices of providing response to large-scale emergencies have proven that an effective response to major oil spills is only possible with the integrated application of mechanical and non-mechanical technologies. In particular, using dispersants and in-situ burning can significantly mitigate environmental damage, reduce the response time, and rescue unique wildlife species. Sakhalin Energy has conducted a Net Environmental Benefit Analysis (NEBA) that confirmed the effectiveness of combining mechanical recovery methods with non-mechanical — use of dispersants and in-situ burning — in response to large-scale emergencies.

Emergency Coordination Team members receive Level I and II OSR programme training, as well as Level I (ICS-100), Level II (ICS-200) and Level III (ICS-300) Incident Command System training. Level I of the programme is basic and is designed for ordinary rescuers and emergency responders, while Level II is designed for training supervisors, leaders of oil spill response teams and groups. Level III training is intended for Asset Managers, Department Heads, and Emergency Response Coordinators. In order to increase the OSR preparedness of personnel and improve their practical skills, the company conducts monthly practical and theoretical training sessions of various levels at all its assets.

Since the start of operations, there have been no crude oil and/or petroleum product spills at Company assets that could be classified as an emergency situation.

In March 2019, a large-scale corporate gas spill response exercise took place at the onshore pipeline system. In May 2019, OSR drills were conducted at the Lunskeye field, and in September 2019 — at the Piltun-Astokhskeye field.

According to observers, the Company and contractors acted in a well-coordinated and effective manner during the exercise. The objectives of the exercise were fully met. As a follow-up to the exercise, recommendations were developed and measures were taken to improve the OSR systems. The analysis of the drills and exercises conducted by the Company confirmed its readiness to respond in the event of an emergency spill of oil or petroleum products at any offshore or onshore Sakhalin-2 project asset.



8.5.2. OILED WILDLIFE REHABILITATION



Oil spills can cause serious harm to coastal and marine fauna. Coastal bays and lagoons temporarily or permanently inhabited by birds and other wildlife species, many of which are protected species, as well as rivers and wetlands, are especially vulnerable to oil spills. Animals affected by the impact of crude oil and petroleum products need prompt and proper rescue actions, including capturing, rehabilitation, and subsequent release into the wild. This task can only be carried out by properly trained staff.

In keeping with its commitments to environmental protection and biodiversity preservation and in line with international best practices, Sakhalin Energy has been training personnel under the Oiled Wildlife Rehabilitation Programme since 2005.

The programme was developed in cooperation with the International Fund for Animal Welfare (IFAW) and the International Bird Rescue Research Centre (IBRRC), taking into account Sakhalin’s ornithologic fauna and severe climate. The programme provides opportunity for the

participation of all company and contractor employees engaged in oil spill response.

In addition to oil spill response plans, a number of corporate documents were developed as part of the programme, the main one being the Oiled Wildlife Response Plan, which identifies the necessary resources and procedures for coordinating actions between corporate units and external entities.

Since 2011, Sakhalin’s rehabilitation centre for oiled wild animals has been operating in the territory of the Prigorodnoye production complex. This is the first such centre in Russia and the only one in the Pacific Region.

To implement the programme, the company installed specialised equipment in the central and northern parts of the island, at the OPF near Lunsky Bay, and at the pipeline maintenance depot (PMD) in Gastello.

Every year, the company conducts training workshops on oiled wildlife response actions. The curriculum includes two response modules: theoretical training in the classroom and the development of practical skills directly in the field, on the coast of Aniva Bay. The practical training includes repelling, capturing and transportation of birds, and cleaning and stabilisation of birds at the rehabilitation centre for oiled wild animals. In 2019, a comprehensive course was attended by 33 people from 8 oil and gas companies and 5 state institutions.

In 2019, as part of the company’s scheduled OSR training, exercises were conducted on the coastal strip and the adjacent waters of Piltun Bay. During the practical training course, participants practised the skills of repelling animals from the sites of oil spills, catching polluted animals from small boats and transporting them to the shore, and consolidated their theoretical knowledge of preventing injury to birds and maintaining their welfare during transportation.

More than 500 people from 30 organisations, mainly operating on Sakhalin Island, including representatives of government bodies, oil and gas companies and veterinarians, have been trained through the Oiled Animals Rescue Programme over the years. Training in repelling, capturing and rehabilitating oiled animals has also become an integral part of the company’s corporate culture. In 2019, comprehensive training also became an integral part of the annual Action Plan of the Working Group on Entrepreneurship and Biodiversity Conservation, organised by the Ministry of Natural Resources of Russia for the implementation of the federal Biodiversity Conservation and the Development of Ecotourism project as part of the Ecology National Project. Sakhalin Energy shared its knowledge and skills with other oil and gas companies to optimise cooperation on Sakhalin and to spread the experience of organising a rehabilitation centre and implementing the programme in other regions of Russia.

8.6. SANITARY PROTECTION AND SAFETY ZONES

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

The sanitary protection zone boundaries confirmed by the Chief State Medical Officer of the Russian Federation for the Prigorodnoye production complex, OPF, and BS-2 were not changed in 2019.

The onshore main pipelines run in the same right-of-way and are clearly designated with special signs. A safety zone is established along the entire pipeline route, and its boundaries are clearly marked with signs. A safety zone was established for the main pipelines to prevent any possible damage to them.

This zone is mandated by the Rules for Main Pipelines Protection, approved by Ruling No. 9 of Gosortekhnadzor (currently, Rostekhnadzor, the Federal Service for Environmental, Technological, and Nuclear Supervision) of the Russian Federation, dated 22 April

1992. The safety zone along the pipelines transporting oil and natural gas is a strip of land extending 25 m on either side of the pipeline.



9

SOCIAL IMPACT MANAGEMENT

Sakhalin Energy's key business principles include running its business in a socially responsible manner, compliance with the laws of the Russian Federation, and respect for fundamental human rights.



Yuri Metelskiy

"At the Gorny. Snowing"
Hardboard. Acrylic.
2004

9.1. PERSONNEL: MANAGEMENT AND DEVELOPMENT

Due to its comprehensive and effective approach to the assurance of decent working conditions, in 2019, Sakhalin Energy won the following competitions:

- Leaders of Russian Business: Dynamics, Responsibility, Sustainability — 2018, held by the Russian Union of Industrialists and Entrepreneurs (RUIE), in the category “For Progress in Human Resources Development”;
- competition for the best socially oriented company in the oil and gas industry, held by the RF Ministry of Energy, in the category "Development of Labor and Personal Potential".

Personnel is the main asset of the company. As in previous years, one of the most important tasks set by the company is to ensure that the rights of its employees are respected and supported. Sakhalin Energy is committed to upholding the human rights of its employees, as stipulated in the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work, including non-discrimination, the prohibition of the use of child and forced labour, the right to associate, to form trade unions and to join them, collective bargaining and the awarding of contracts and agreements, as well as the creation of safe and favourable working conditions for company’s employees, as well as contractors, subcontractors, and agency personnel.

Strictly adhering to the principles of business ethics and corporate culture, the company provides equal opportunities for all job applicants and employees in accordance with well-defined and established recruitment rules and labour standards, and prevents any discrimination.

Based on the principles of a culture of openness and business partnership, Sakhalin Energy undertakes to develop and comply with regulations pertaining to all aspects of personnel work in all aspects of employment relations including recruitment, selection, hiring, assessment, promotion, training, maintaining discipline, professional development, compensation, and termination of employment contracts.

Multiplying Opportunities

To promote corporate culture and increase staff engagement, as well as in honour of the 25th anniversary of Sakhalin Energy, the HR Directorate commissioned a film about the company’s personnel as its greatest value. Sakhalin Energy employees — workers, specialists, managers, most of whom have been working in the company for many years, and some since its foundation — are the main characters of the film. This is a story about professionals who operate unique complex production facilities in the harsh Sea of Okhotsk and on Sakhalin Island, about their daily work, long-term careers, and corporate values. Outside of working hours, these remarkable enthusiastic people raise children, take care of their loved ones, engage in arts and sports, and make ambitious plans for the future. This is a film about the opportunities provided by the company and multiplied by its employees.

The film is available on the company’s website (www.sakhalinenergy.com) and YouTube channel.

9.1.1. APPROACHES TO HR MANAGEMENT AND HR POLICY

The HR Directorate meets the company’s manpower needs, which includes preparing organisational changes for upcoming large-scale projects, staff training and retention, and attracting skilled employees from shareholder companies and the external labour market. The Directorate is guided by the following strategic priorities:

- attract, hire, and retain the most talented employees in the global energy market by relying on our internal talent pool, the expertise of shareholder companies, and other sources;
- invest in the professional and personal development of Russian specialists to ensure staff retention and the formation of a successors pool for key managerial and engineering positions;
- offer an attractive and competitive Employee Value Proposition;
- promote simple and clear HR processes using lean manufacturing methodologies and high-quality HR information systems;

- develop an effective collaborative work environment that unites those employees working in the offices with those at the assets of the company.

The company’s senior management believes that all employees should feel engaged in their work, be confident that the company supports and respects them, and be given the opportunity to contribute to the growth of the company using their knowledge, skills, and abilities. Employee engagement is measured annually via employee opinion surveys and is viewed as one of the most important indicators of employee work satisfaction at the company.

According to the employee opinion survey conducted in 2019, the level of staff engagement was 86%. This figure reflects the leading position of Sakhalin Energy in the industry in terms of staff engagement and exceeds the results of other Russian companies. Employees continue to note the company’s high degree of responsibility in the field of safe and quality work performance, occupational safety and environmental protection, equipment reliability and process safety, and are ready to recommend the company as a good employer.

In 2019, the company held a regular HR Week with the participation of representatives of shareholder companies and Sakhalin Energy senior management. The goals of the event were to enhance the professional competence of the HR Directorate personnel, to familiarise them with new trends in personnel management, and to exchange experience with shareholder companies.



HR Management Continuous Improvement Project

The company’s corporate culture has been enriched by a new, very important component — continuous improvement of all processes (see Section 4.3.2. Continuous Improvement Programme). Sakhalin Energy has created a unique environment where all employees engage in a continuous search for more efficient working methods without compromising performance and reliability. Moreover, this is now a generally accepted practice.

The Human Resources Directorate is one of the drivers of this strategy. The directorate initiated the HR Management Continuous Improvement project, which is aimed at further full-scale development of the Sakhalin Energy HR strategy and its continuous improvement, in order to demonstrate through its example why personnel processes need to be improved and how exactly this can be done.

The company’s HR specialists have developed a roadmap which is part of the company’s general strategy. The roadmap consists of projects that make up a consolidated programme designed to be implemented over several years. The roadmap for the continuous improvement of HR management processes envisages that along with maintaining daily operational activities, all HR functions will be managed through a set of projects.

In 2019, the HR Management Continuous Improvement project was included in the short list of the People Investor competition in the Human Resources Management category.

To pursue these goals and objectives, Sakhalin Energy implements its HR strategy through its HR policy.

- Successors Pool Planning and Development Policy;
- Regulations on Labour Remuneration, Bonuses and Social Benefits.

The HR policy is an integral and strategic set of methods, tools, and documents that governs the company’s relations with its employees and helps it to promptly respond to changing conditions in the global oil and gas market as well as the market of qualified professionals. All required notifications regarding changes in employment conditions are communicated to the employees in accordance with labour legislation of the Russian Federation.

The HR Director and the Committee of Executive Directors oversee the development, modification, and approval of the company’s HR policy. These processes are based on a set of documents regulating HR management processes which meets the requirements of international standards. The key Sakhalin Energy documents on the HR policy include:

- Code of Conduct;
- Human Rights Policy;
- Programme of Employment and Training of Russian Nationals
- Manpower Plan;
- Internal Working Rules;
- Learning and Development Standard;



The Use of the HCM SAP Automated System

The company’s HR Directorate makes maximum use of human capital management software, namely HCM SAP, in the implementation of the HR Policy. This allows the company to significantly save time and to optimise many processes in the HR Directorate and other units of the company. In particular, the system modules used by the company automate the preparation of HR documents and reports, as well as aid in managing important processes such as personnel training and development, succession planning, competence assessment, and recruitment.



9.1.2. GENERAL INFORMATION

As of 31 December 2019, the total number of people employed by the company was 2,235, including 2,118 Russian employees. Sakhalin Energy operates mostly in the territory of the Sakhalin Oblast, Russian Federation. At the end of 2019, there were 2,213 employees working in the Sakhalin branch and 22 employees in the company’s Moscow office.

Implementing the approach set forth in the company’s HR policy and outlined by the PSA agreement, the company has made a point of hiring Russian citizens, mostly Sakhalin residents, to work on the Sakhalin-2 project. At the end of 2019, the number of Sakhalin Oblast residents working at the company was 1,238 people, which is 55.4% of the total personnel.

55.4 %
of the personnel are Sakhalin Oblast residents

Personnel Structure in 2019

	Total, persons	including, persons		Total, %	including, %	
		female	male		female	male
Russian personnel	2,118	609	1,509	95	99	93
including Sakhalin Oblast residents	1,238	481	757	58*	79*	50*
Foreign personnel	117	5	112	5	1	7
Total	2,235	614	1,621	100	100	100

The personnel structure is mandated by the specific nature of the company`s operations: 86% are managers, specialists, and salaried workers, approximately 62% are office employees, and the remaining work at the production assets of the project.

Personnel Structure in 2019 by Assets

	Persons	%
Office	1,384	62
Prigorodnoye production complex	340	15
OPF	186	8
Platforms	288	13
Other	37	2
Total	2,235	100

At the end of 2019, 27% of the company`s employees were working on a rotational basis and living in hotels and rotational camps built and equipped in accordance with Russian legislation and best international practices.

460 Russian employees held managerial positions (see the Managerial Personnel Structure in 2019 table), 231 of which are residents of the Sakhalin Oblast. In order to increase the share of Russian executive

personnel, the company is training, developing, and promoting existing Russian staff, and actively recruiting new qualified Russian specialists.

The implementation of the Traineeship Programme, as well as the formation and development of a successors pool make it possible to meet the company`s needs for junior technical staff through the recruitment of trainees (see Section 9.1.7.4. Traineeship Programme and Section 9.1.7.5. Successors Pool Planning and Development).

Managerial Personnel Structure in 2019

	Total, persons	including, persons		Total, %	including, %	
		female	male		female	male
Russian personnel	460	91	369	89	98	87
including Sakhalin Oblast residents	231	71	160	50*	78*	43*
Foreign personnel	58	2	56	11	2	13
Total	518	93	425	100	100	100

* % of the number of Russian personnel

In 2019, 107 employees were granted child care leave. Of these, two fathers used this right. During the same period, 35 employees (all women) resumed their job duties at the end of their child care leave. All of them continued their employment with the company.

There are 614 women among Sakhalin Energy employees (more than 27% of the staff). Of these, 93 occupy executive positions, making up 18% of the company`s management team (see the Managerial Personnel Structure in 2019 table).

Change in the Number of Employees in Managerial Positions in 2016–2019 (as of year end), persons

	2016			2017			2018			2019		
	Total	including		Total	including		Total	including		Total	including	
		female	male		female	male		female	male		female	male
Russian personnel	399	82	317	413	88	325	438	89	349	460	91	369
including Sakhalin Oblast residents	215	60	155	216	66	150	223	68	155	231	71	160
Foreign personnel	86	5	81	83	4	79	69	1	68	58	2	56

In the past two years, the number of employees has slightly decreased, which is explained by current production needs and the company`s development strategy. The activities of the company do not require hiring personnel for seasonal work, as, for example, in the tourism or agricultural sectors.

Change in the Number of Employees in 2016–2019 (as of the year end), persons

	2016	2017	2018	2019
Russian personnel	2,071	2,105	2,134	2,118
including Sakhalin Oblast residents	1,240	1,247	1,243	1,238
Foreign personnel	236	204	164	117
Total	2,307	2,309	2,298	2,235

During 2019, 318 employees left the company, of which 226 were men and 92 were women, including 43 foreign and 275 Russian employees (of which 154 were residents of the Sakhalin Oblast). In 2019, the staff turnover rate was 3.5%, in 2018 — 4.3%, in 2017 — 3.75%, in 2016 — 4.07%. The statistics of personnel who left the company in 2019, broken down by age group and gender, are shown in the Structure of Personnel Who Left the Company in 2019 table.

Structure of Personnel Who Left the Company in 2019

Age, years	Total, persons	including, persons		Total, %	including, %	
		female	male		female	male
Below 35	177	56	121	56	61	54
36–50	95	31	64	30	34	28
Above 50	46	5	41	14	5	18
Total	318	92	226	100	100	100

At the end of 2019, the average age of employees was 39.7 years. Employees aged under 50 accounted for more than 87%.

Personnel Age and Gender Structure in 2019

Age, years	Total, persons	including, persons		Total, %	including, %	
		female	male		female	male
Below 35	780	270	510	35	44	31
36–50	1,169	317	852	52	52	53
Above 50	286	27	259	13	4	16
Total	2,235	614	1,621	100	100	100

The working hours are established in the company’s Internal Working Rules:

- five-day working week with two days-off;
- cumulative hours worked (rotation-based work);
- shift work;
- individual work schedule.

The working schedules used at the company’s assets are shown in the Company’s Employee Working Schedules by Asset table.

Company’s Employee Working Schedules by Asset

	Working schedule
Offices	five-day working week
Prigorodnoye production complex	five-day working week; cumulative hours worked (rotation-based work)
OPF	cumulative hours worked (rotation-based work)
Platforms	cumulative hours worked (rotation-based work)
Other	five-day working week; cumulative hours worked (rotation-based work); shift work; individual work schedule

9.1.3. RECRUITING, HIRING AND ONBOARDING NEW EMPLOYEES

The recruitment of specialists is one of the most important components of the company’s personnel strategy and is based primarily on a culture of openness, business partnership and development.

Openness in the selection of personnel implies consideration of candidates for vacant positions from all possible sources in order to hire the best professionals in their fields.

The main sources for finding potential job candidates and spreading information about vacancies are as follows:

- advertising through the Sakhalin Energy’s website. For the applicants’ convenience, there is an automated service for submitting CVs online. The website offers guidelines for uploading CVs; applicants can edit their CVs in their personal accounts;

- providing information on vacancies to the Yuzhno-Sakhalinsk Labour Centre (on a monthly basis);
- cooperation with leading recruitment agencies;
- participation in local and regional specialised job fairs;
- publishing vacancy lists in online resources and in print media;
- promoting the company’s Employee Referral Programme, per which Sakhalin Energy employees who recommend candidates are given a bonus if these candidates are hired to work at the company;
- attracting skilled employees from shareholder companies.

At the same time, the company also uses entirely new ways to attract candidates. In 2019, Sakhalin Energy first published information about the career opportunities it offers in the Careerist Guide — a popular project of the Vedomosti newspaper, the first professional career publication for students and young professionals in Russia, which writes



about labour market trends and helps users fulfil themselves in their professional activities. The Careerist Guide is distributed in universities at career events for students.

Adhering to the principle of openness, the company regularly interacts with academic institutions with the aim of attracting talented university graduates. In 2019, Sakhalin Energy took part in a number of job fairs and career days at the following educational institutions:

- Sakhalin State University (SSU), Yuzhno-Sakhalinsk;
- Far Eastern Federal University (FEFU), Vladivostok;
- Gubkin Russian State Oil and Gas University, Moscow;
- Ufa State Petroleum Technological University, Ufa;
- Bauman Moscow State Technical University, Moscow.

Developing a culture of business partnership, the company is constantly in search of new contacts in order to attract the best specialists to work on the project. The start of a partnership with Kazan National Research Technological University (KNRTU) is one of the results of such efforts. In August 2019, Sakhalin Energy welcomed a group of KNRTU students, who had been among the winners of the competition for the best student association at the Oil and Gas – 2019 International Youth Scientific Conference. The company prepared a three-day programme for the guests, which was a great opportunity for them not only to learn about the Sakhalin-2 project and participate in the daily activities of the company, but also to get to know the unique features of the island region.

The company has a special partnership relationship with its long-standing strategic partner — Sakhalin State University. Cooperating with this university, Sakhalin Energy not only aims to attract its graduates to work at the company, but also actively seeks to share

accumulated knowledge and experience to develop local specialists. To this end, Sakhalin Energy continuously organises various activities for students and teachers. In 2019, the company and SSU jointly held a number of events, including:

- Sakhalin Energy Business Day at SSU;
- the regional round table on issues and prospects of higher education in social studies, economics and law at SSU (Institute of Law, Economics and Management) with the company’s presentation;
- the first meeting of the English Club at SSU with presentations about the company’s activities;
- a job fair for SSU students;
- lectures on the Sakhalin-2 project for SSU students as part of the Energy in Volume exhibition, dedicated to the 25th anniversary of Sakhalin Energy;
- participation in the Time to Talk programme on Sakhalin television, dedicated to the problems and prospects of higher education and training of specialists at SSU.

From 12 to 14 December 2019, the annual Days of the Far East Conference and Festival were held in Moscow. It was the second time that Sakhalin Energy had taken part in the event. Representatives of the company told the audience, which included high school students, graduates of secondary vocational and higher educational institutions, about the Sakhalin-2 project, career and professional development prospects in the company. Participation in such events allows Sakhalin Energy to attract students to do a traineeship at the company, and to offer promising graduates excellent employment opportunities.

In addition to developing an external skill pool, the company is committed to developing the local talent reserve through active work

with students from Sakhalin universities. For the second year in a row, Sakhalin Energy specialists acted as speakers at a business breakfast for representatives of the Sakhalin HR community, organised by Coleman, where they shared the company’s best practices in the field of personnel management with their industry colleagues. In particular, they told the participants of the conference about current labour market trends and the company’s response to market demands, as well as about the methods used by the company to maintain leadership in the industry.

Sakhalin Energy representatives told the audience about regular information sessions for new staff, held in Russian and English, with a complete overview of the specific features of work in the company’s structural units, various processes, interaction within the company and with its external stakeholders. Such sessions facilitate interaction and the exchange of information.

In 2019, the company hired 269 people (206 men and 63 women). 19 of the personnel hired were foreign employees, and 250 were Russian nationals (including 133 residents of the Sakhalin Oblast).

The statistics of employees hired in 2019, broken down by age group and gender, are presented in the Personnel Recruitment Structure in 2019 table.



In April 2019, Far Eastern Federal University (FEFU) held the first Sakhalin Energy Days in its history. University students and professors had meetings with company’s representatives, where they learnt about job and traineeship opportunities. After a series of questions and answers, the students were divided into two groups. One group took part in a business game, and the other attended a lecture delivered by the Head of the Sakhalin Energy Corporate Environmental Division, a PhD in biology and FEFU alumnus.

Personnel Recruitment Structure in 2019

Age, years	Total, persons	including, persons		Total, %	including, %	
		female	male		female	male
Below 35	213	52	161	79	82	78
36–50	47	10	37	18	16	18
Above 50	9	1	8	3	2	4
Total	269	63	206	100	100	100

In November, Sakhalin Energy held yet another — fourth — Sakhalin Energy Business Day at Sakhalin State University (SSU). The event was attended not only by technical students, but also those studying the Humanities. In the year of its 25th anniversary, the company prepared an interesting programme and unique gifts for SSU students. The Deputy Production Director — the Prigorodnoye Asset Manager and the Lead Engineer of the Molikpaq Platform Modernisation Section of the Projects Department highlighted the main successes and achievements of the company over the 25-year period, and told the students about its current tasks using the example of the Molikpaq platform modernisation project. At the end of the lecture portion, the students were divided into three groups: some were invited to test their knowledge of the oil and gas industry, others built the highest, most stable and profitable rig in a simulation game, and the third group took part in the company’s experiment — blitz interviews.

The company presented a special gift to SSU students — an invitation to visit the Technical Directorate and to personally communicate with specialists of various disciplines — geologists, seismic specialists and field development engineers. In addition to the theoretical part, future professionals analysed well logging and built well correlations, practised geosteering and determining points for drilling production and injection wells.

9.1.4. REMUNERATION AND BONUS SYSTEM

The company applies a time-based remuneration system, which also provides for additional payments based on the employee’s 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 employment agreement;
 - compensatory 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 normative acts;
 - bonuses payable as per the Regulations on Labour Remuneration, Bonuses and Social Benefits and other local normative acts.

Sakhalin Energy’s remuneration policy, practices and methods are designed to recognise and encourage excellent personal and production performance. The company uses the same remuneration system for both male and female employees.

- The existing incentive system uses a single unified, standard approach to incentivising 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 payment to employees that have received awards;
 - bonus for participation in a research-to-practice conference held by the company on a regular basis;
 - Committee of Executive Directors Award to employees who achieve special success in teamwork;
 - bonus to awardees of the Merit Pin for Outstanding Performance and Contribution to the Company.

Employees may be awarded certificates of honour and Honorary Letters on Oil and Gas Workers Day and on the company’s anniversaries.

The main principles of remuneration adhered to by Sakhalin Energy are to pay competitive salaries that are equal to or exceed the average salary in the Russian oil and gas industry, and to use a transparent bonus system for all personnel categories.

Employees may also be awarded to celebrate professional anniversaries (at 50 years and then every five years).

To ensure that its salaries are competitive, Sakhalin Energy regularly monitors the financial segment of the job market and annually adjusts salaries to account for individual employee performance (see Section 9.1.6. Individual Performance Review).

In 2019, the minimum salary in the company was three times higher than the minimum wage established by Russian legislation. Sakhalin Energy's labour remuneration expenses totalled 13.15 bln roubles in the reporting year, with award/bonus payments totalling 3.04 bln roubles.



9.1.5. SOCIAL BENEFITS AND COMPENSATIONS

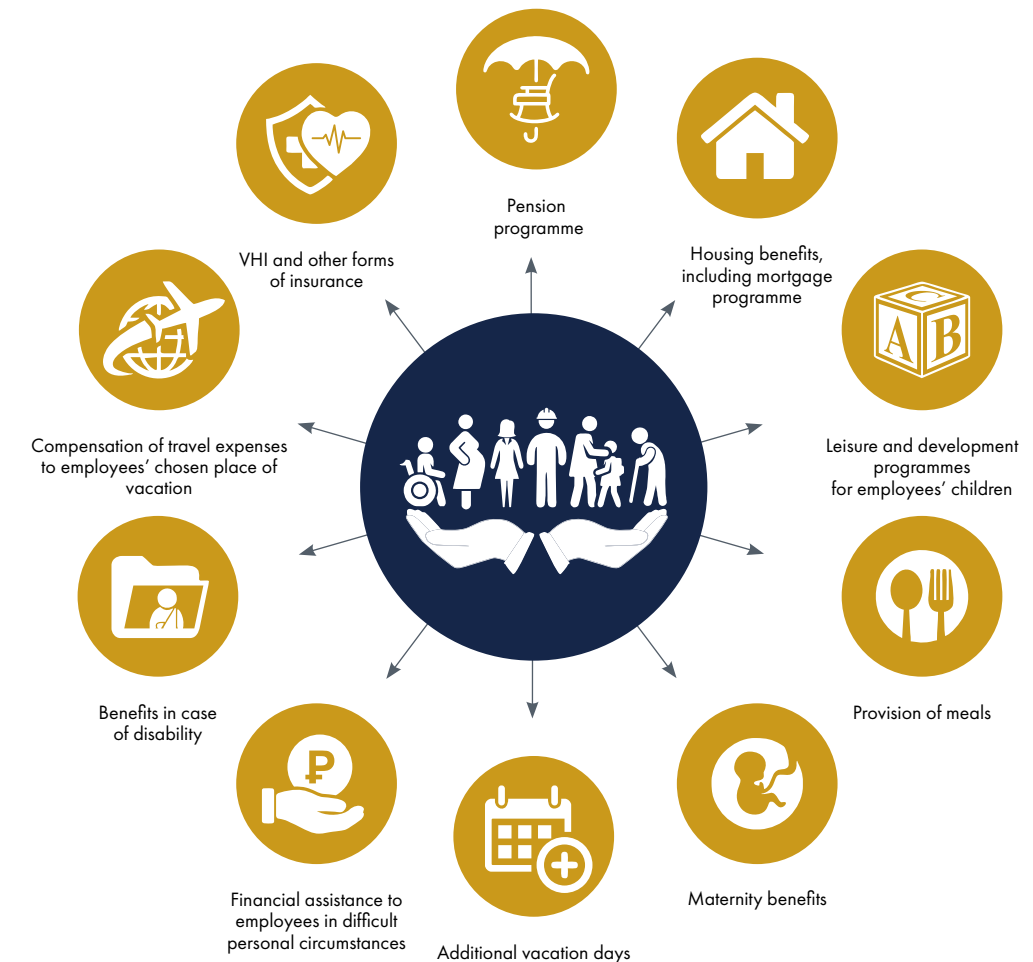
The company does everything possible to ensure the attractiveness and competitiveness of its compensation and benefits package in order to attract and retain skilled and high-potential personnel. The compensations and benefits provided to Sakhalin Energy's personnel ensure the well-being and social security of employees and their families.

In addition to the guarantees and benefits provided for by Russian labour laws, Sakhalin Energy provides its employees with:

- voluntary medical insurance, including for family members;
- accident and sickness insurance;
- travel insurance, including for family members;
- temporary disability benefits;
- free meals at the company's production assets and in the company's offices;
- benefits related to the provision of housing for employees and their families for the duration of their employment (for those employed on terms of relocation from other regions);

- mortgage programme;
- compensation of portion of round-trip travel expenses to employees' chosen place of vacation within Russia (this applies to employees and non-working members of their families (spouses and children up to the age of 18 years), living in the Far North and equivalent areas);
- corporate pension programme;
- financial assistance upon the birth (or adoption) of a child and in difficult personal circumstances;
- maternity benefits;
- additional paid vacation days;
- leisure and development programmes for children of company's employees;
- sport and recreation facilities (see also Section 9.3. Occupational Health).

Social Benefits and Compensation at Sakhalin Energy



HOUSING BENEFITS

The company provides benefits related to the provision of housing for employees and their families who are hired on terms of relocation from other regions of the Russian Federation, the CIS member states, as well as from the Far North and equivalent areas. The benefits are provided in the form of housing from the housing stock of the company, or payments for rent of accommodation. Housing is provided mainly from the company-owned housing located at the Zima residential complex.

The company runs a mortgage programme, which provides for compensating a portion of the mortgage interest for the purchase (construction) of dwelling premises in the Sakhalin Oblast. Under the programme, the company reimburses 40% of interest payments actually paid by an employee during the accounting period, not exceeding the amount set by the company.

Since the beginning of the programme, 280 Russian employees (more than 13% of total staff) have participated in it.

MEDICAL INSURANCE

The company provides employees and their families with medical insurance benefits under insurance contracts with SOGAZ concluded as part of voluntary medical, accident and illness, and travel insurance programmes.

In accordance with Russian legislation, the company provides foreign employees with required medical assistance under voluntary medical insurance contracts in the territory of the Russian Federation. The company also helps employees to acquire voluntary medical insurance policies for family members on favourable terms.

CORPORATE PENSION PLAN

The company offers a corporate non-state pension plan, under which employees and the company pay contributions towards occupational pension schemes.

Participation in the corporate pension plan is voluntary and allows each employee to independently pay into their retirement pension.

At the end of 2019, 24% of the company’s Russian employees were enrolled in the corporate pension plan.

PROGRAMMES FOR THE CHILDREN OF COMPANY’S EMPLOYEES

The company implements leisure and development programmes for preschool and school children. Development groups, creative associations and hobby groups for children of company employees have been operating at the sports and leisure facilities of the Zima residential complex since 2012.

In summer, children of company’s employees have an opportunity to attend the Happy Holidays Leisure and Recreation Programme. The programme is designed for children of preschool and school age up to 16 years old. Every year, a different theme is developed for the programme, and each summer session features a unique scenario.

In 2019, three general and six specialised summer sessions were organised for teenage children. As part of the programme, a series of workshops was conducted with a focus on the development of 21st century skills in children and adolescents.

24 %

of the company’s Russian employees are enrolled in the corporate pension plan

From 2010 to 2019, the company contributed a total of 364.9 mln roubles to Gazfond.

In all, 44 summer sessions have been held since the launch of the programme. They have been attended by a total of about 4.5 thousand children, who took part in 330 excursions and more than 500 workshops.

In line with the company’s HSE principles and priorities, various activities are held for personnel involved in the Happy Holidays Leisure and Recreation Programme implementation in order to improve the culture of safe behaviour and to develop personal responsibility for their safety and the safety of other Programme participants.

Each summer session under the Happy Holidays Leisure and Recreation Programme includes activities aimed at building a culture of safe behaviour among children.

OTHER

Employees and their families can use the company’s shuttle buses, which run along approved routes across the city to the company’s offices, and include stops at educational institutions in Yuzhno-Sakhalinsk.



9.1.6. INDIVIDUAL PERFORMANCE REVIEW

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

All employees undergo annual performance reviews. An employee’s performance is assessed based on the degree to which he/she reaches business and individual goals set at the beginning of the year.

This assessment shows whether the employee needs to engage in professional development activities to ensure his/her further professional growth contribution to the improvement of the company’s efficiency in general.

As of the end of 2019, 2,119 employees (95% of the company’s personnel) completed the Individual Performance Review (see the Individual Performance Review in 2019 table).

Individual Performance Review in 2019



Individual Performance Review in 2019

Personnel Category		Number of employees, persons	Number of employees who underwent the Individual Performance Review, persons	Percent of employees who underwent the Individual Performance Review
Managers		518	510	98
including	male	425	421	99
	female	93	89	96
Specialists		1,401	1,342	96
including	male	898	890	99
	female	503	452	90
Salaried workers		13	11	85
including	male	–	–	–
	female	13	11	85
Workers		303	256	84
including	male	298	252	85
	female	5	4	80
Total		2,235	2,119	95
including	male	1,621	1,563	96
	female	614	556	91

9.1.7. PERSONNEL TRAINING AND DEVELOPMENT

9.1.7.1. General Information

Sakhalin Energy's learning and development system is designed to meet the needs of the company for highly qualified personnel, necessary to achieve its short-term and long-term production goals.

Training and development of company's personnel is based on the following principles (see the Personnel Training and Development Principles chart):

- compliance: the training content is formed based on the needs of personnel and business; the results of training contribute to achieving production goals and implementing the company's overall strategy;
- competency-based approach: the training and development process is based on an analysis of staff competence;
- centralisation: the training and development subdivisions are responsible for all training processes in the company as well as for the training budget planning and disbursement;
- cost effectiveness: achieving the maximum level of efficiency through the application of learning and development criteria coordinated with the business needs of the company, as well as the choice of educational service providers without compromising production safety and reliability;
- equal opportunity: continuous, systematic and consistent improvement of the professional qualifications of employees, development of their potential throughout their career in the company;
- reasonable balance: the ratio of on-the-job training, distance learning, internal and external training in accordance with the 70/20/10 model;
- partnerships: maintaining partnerships with international and Russian educational institutions, expanding cooperation with universities in the framework of partnership agreements, cooperation with organisations and shareholder company training centres.

Personnel Training and Development Principles



9.1.7.2. Staff Assessment

99%

of competence profiles for staff were posted in HCM SAP

The company applies a competence-based development approach for HR management. A profile of functional, leadership and general business competences has been developed for each position. Competence assessment is used as the basis for recommendations regarding further development and training of the employee occupying this position, as well as for other HR decisions. The job competency profile is a standard list of competences set for the company for every job.

Competence assessment gives a clear understanding of professional and behavioural qualities against established requirements, depending on their qualifications, positions, and tasks performed.

There are various tools that can be used by managers in the process of competence assessment, in particular:

- observation of the employee in the course of work;
- studying competence evidence provided by the employee;
- conducting competence-based structured interviews;
- knowledge testing;
- detailed recording of the employee's performance results;
- analysing the quality of the product delivered by the employee;
- the 360 Degree assessment;
- solving business cases;
- Assessment Centre (for leadership competences only).

By the end of 2019, 99% of competence profiles for staff (specialists and managers) had been posted in HCM SAP.

To assess the leadership potential and managerial qualities of personnel, the company uses modern tools such as:

- Current Estimated Potential (CEP) Ranking Exercise — a current estimate of the highest position that the employee can occupy at the peak of his/her career during his/her work at the company. The assessment is based on the criteria abbreviated as CAR: capacity, achievements and relationship;
- Assessment Centre — a technology for integrated expert assessment of employees' leadership competence against their current job profiles, which has been widely used in the company since 2009. This method incorporates such components as business cases, business games, structured interviews, and feedback with a detailed analysis of the employee's strengths and areas for further development. The target audience of the Assessment Centre is employees included in the successor pool for senior positions. In 2019, 84 employees of this category passed the Assessment Centre, among them 7 women and 77 men. Since 2009, the Assessment Centre has been used to assess

- the leadership competence of 752 company employees, including 131 women and 621 men;
- 360 Degrees — an additional tool used to assess leadership competency and personal efficiency of employees, which was developed and implemented in the company in late 2014. As of the end of 2019, this type of assessment has been organised for 167 people. 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 group of raters and are accompanied by the key findings regarding the employee's strengths and weaknesses as well as recommendations for employee development.

84 employees

passed a comprehensive assessment using Assessment Center technology in 2019

A structured interview is a highly recommended method for assessing professional competences. This is an interview during which the competence of a job candidate or employee is determined by applying the appropriate methodology. The Professional Training Subdivision organised information sessions on the structured interview methodology, during which videos were shown that gave examples of proper and improper behaviour of managers during a competence assessment. The materials are available on the HR Directorate web page. 27 managers took part in information sessions in 2019.

To assess employees' general business competences, it is recommended to use tests with specifically designed tasks and questions that help the manager assess the level of each functional competence of his/her subordinate. In 2019, 129 people used this tool. Upon completion of testing, both the employee and the manager receive an automatically generated report, which includes recommendations for development.

THE COMPETENCE ASSURANCE PROGRAMME FOR TECHNICIANS

The Programme was designed to encourage safe and trouble-free operations at production facilities. The Programme is a system to examine the knowledge and skills of technicians involved in technical processes and repair and maintenance of production equipment. During the assessment, employees demonstrate professional knowledge acquired through training and professional development, as well as the skills and abilities developed in the course of their work. In addition, when assessing employee competences, focus is made on the rules and

standards of labour behaviour in the team and the attitude of employees towards their work, which is an important component of operating hazardous production facilities.

Competence assessment results are used later to recommend areas for employee development, prepare individual development plans, and make decisions to promote and transfer to other units and areas of work within the production facility.

In 2017, the Competence Assurance Programme was introduced into HCM SAP (with the transfer of all active competence profiles of employees), which made it possible to automate the planning and reporting processes under the Programme. In 2019, 99.7% of the company’s employees successfully passed their competence assessment, of which 98.3% demonstrated a competence rating of 100%.

99.7%
of the company’s technicians passed
competence assessment in 2019



9.1.7.3. Personnel Training

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

In 2019, 1,954 employees attended workshops and training courses, including distance learning (one or more courses per individual). The company provides training for personnel of all categories without exception (see the Employee Training in 2019 table). The average duration of training was 8.09 man-days, or 65 hours per employee (excluding on-the-job training).

In 2019, Sakhalin Energy invested 290 mln roubles in employee training.

In 2019, the company continued to implement cost optimisation programmes, including those aimed to optimise learning and development costs. However, it affected neither employee opportunities for training and development, nor the number of recommended programmes and their providers. The company continued to use various forms of training — distance learning, including on-line, group learning on Sakhalin instead of individual learning with on-site visits, and to engage internal resources. These methods make it possible to maintain a high level of competence of the company’s personnel.

Employee Training in 2019

Personnel Category		Number of employees, persons	Number of employees who completed training, persons	Percentage of trained personnel	Average duration of training, hours/person
Managers		518	449	87	53
including	male	425	374	88	56
	female	93	75	81	39
Specialists		1,401	1,217	87	62
including	male	898	872	97	69
	female	503	345	69	45
Salaried workers		13	10	77	65
including	male	–	–	–	–
	female	13	10	77	65
Technicians		303	278	92	95
including	male	298	274	92	96
	female	5	4	80	42
Total		2,235	1,954	87	65
including	male	1,621	1,520	94	70
	female	614	434	71	45

Sakhalin Energy’s unique training resources include Russian and foreign training service providers. Employees themselves, their line managers, the HR Directorate, and the company’s senior management monitor the implementation of training plans.

The company determines the types of personnel training, resources for the training, competence examination, certification, and professional development of employees in the following areas:

1. MANDATORY HSE TRAINING IN ACCORDANCE WITH THE REQUIREMENTS OF RUSSIAN LAWS AND INTERNAL COMPANY’S STANDARDS

The company’s activities are an example of compliance with the requirements of Russian laws and the internal standards of the company in terms of HSE competence assurance and HSE training provision. Timely provision of mandatory training is an integral part of the Goal Zero Programme implementation.

The main objective in this field of training is to organise training, certification, and testing of the knowledge of managers, specialists and technicians in the field of labour, industrial and process safety, special types of work, etc. As a result of effective and timely mandatory training,

employees receive relevant certifications, necessary knowledge and required work permits, which ensures safe work performance, safety of other employees, the environment and assets of the company, meeting the requirements of Russian laws, HSE standards of the company, requirements of international standards and certification bodies.

Mandatory HSE training is implemented with the involvement of both the internal company’s resources and external licensed educational organisations, including the OPITO (the Offshore Petroleum Industry Training Organisation — an international organisation for training personnel engaged in oil and gas production on the continental shelf), accredited educational institutions capable of providing training in accordance with approved offshore oil and gas asset personnel safety programmes.

2. PROFESSIONAL TRAINING

The main goal in this area is to increase professional competence in order to achieve the safe, reliable, and efficient operation of all structural units and production facilities of the company by ensuring that the qualifications of each employee correspond to the level of complexity of the work performed. The company’s employees are designated for professional training in accordance with the qualification requirements for

the position occupied to fill gaps in functional competences, and in the case of production necessity.

- Professional personnel training is divided into the following areas:
- advanced training of managers and specialists, including advanced training courses, participation in workshops, conferences, and round tables dedicated to professional issues;
 - professional training and requalification in technical and non-technical areas;
 - further training of technicians, obtaining a second/related profession;
 - obtaining international professional qualifications (IWCF, CIMA, CIPS, ACCA, NEBOSH);
 - vendor training (training in technical support and maintenance of equipment, organised by the manufacturer).

In 2019, work was finished to develop a professional portfolio by discipline in order to provide targeted training and knowledge management. Every month, about 100 Sakhalin Energy employees use this tool to plan their training and development competently, in accordance with company’s recommendations.

In 2019, the company switched to on-line testing and examinations for employees in order to meet the new certification requirements, established by the Chartered Institute of Procurement & Supply (CIPS). Having experience managing the Pearson VUE International Test Centre, the company’s learning and development specialists successfully completed the transition and ensured the continuity of the international professional qualification process in the area of procurement.

3. IN-HOUSE TECHNICAL TRAINING

The growth of the company and the use of advanced technologies in constructing and operating production facilities require technicians to have a particular level of knowledge and skills within the framework of their technical competences and the ability to safely and efficiently perform work tasks of any complexity.

The development of the technical competences of technicians is carried out through the in-house technical training system. Discipline-specific in-house technical trainers and lead trainers, selected from among experienced production personnel, were united in the Technical Training Centre, which successfully functions at the company. The Centre ensures continuous technical training for technicians employed at the company’s production facilities and for contractor staff. The In-house Technical Training Portfolio includes more than 180 courses.

- The Technical Training Centre implements the following training programmes and courses:
- by discipline (LNG process technology, operation, repair, and maintenance of production equipment);
 - on-the-job and off-the-job technical training for all disciplines;
 - in developing practical process control skills utilising the existing Operations Training Simulators and training equipment;
 - in targeted modules aimed at developing specific technical competencies and customised to the specifications of production facilities;
 - in safe production facility operations, developed in accordance with the best international practices, as well as based on the findings of audits and investigations of industrial accidents;

Integration of Modern Technology with the Mandatory Training Monitoring System

In 2019, the company completed implementing a project to automate the HSE training courses portfolio on the HCM SAP e-system platform in order to ensure compliance with HSE training requirements, as well as timely planning of mandatory training. During the implementation of the project, 107 requirements were automated, mandatory certification profiles were created with an accessible interface for managers and employees. The profile is convenient to use for self-registration for a training course, and also provides the opportunity to take mandatory training in an online format. Specially developed automatic HCM SAP notifications remind employees about the upcoming training; notifications for new employees contain complete lists of required training courses applicable to their positions and roles. Employees and managers of the company have acknowledged a positive effect from the implementation of this project. In 2019, the availability of the tool for monitoring and planning mandatory training helped to increase compliance with the HSE training requirements.

Partnership with Gazprom Training Simulator Computer Centre

In 2019, Sakhalin Energy continued to develop closer links with the training units of shareholder companies. The company actively cooperates with the Gazprom Training Simulator Computer Centre (TSCC) in the preparation of electronic training modules for the development of a base for targeted technical training of production personnel and HSE training. Nine courses have been successfully developed; eight courses are planned to be converted to e-learning format. Work is under way to determine the possibilities of transferring technical training courses from classroom to distance learning. The development of new e-learning courses will make it possible to preserve the information about advanced technologies/ practices applied by Sakhalin Energy, and to provide unique technical expertise for training Russian specialists and contractor personnel at any asset, no matter how remote it may be.

Particular attention is paid to the standardisation of educational materials for target courses included in the portfolios of in-house technical training courses, taking into account the experience of the Gazprom Training Simulator Computer Centre.

- in technical areas developed by equipment vendors;
- in target areas for the main contractors whose personnel work at the company’s production facilities;
- in developing technical competences in accordance with the approved technician progression scheme and with regard to the competency assessment results of technicians.

Training is conducted at the company’s own training facilities.

The systematic development of training programmes ensures uniform implementation of competence standards at production facilities. The programmes reflect the specific features of the assets related to work flow, material handling, and operation of equipment.

Further, the training programmes cover the requirements and practices in the field of HSE process and personal safety, which allows their use as guidelines in the performance of any work tasks and implementation of initiatives at production facilities.

The company has made it a priority to study the best practices of in-house technical training, the integration of Russian and international approaches, the use of modern technologies in the educational process, as well as further development of training portfolios and training facilities.

A purposeful and mutually beneficial interaction with shareholders in the field of professional training of personnel provides a solid basis for managing unique knowledge. In September, representatives of Gazprom and Shell attended the events of HR Week, held at Sakhalin Energy. In turn, managers and specialists of the company regularly participate in the activities of the Educational and Methodological Council of Gazprom training centres.

4. TRAINING IN THE DEVELOPMENT OF LEADERSHIP, BUSINESS, AND PERSONAL EFFECTIVENESS SKILLS

The development of general business skills is carried out within the framework of the internal training system, taking into account the existing competences, internal assessment, and using electronic resources. The company recommends that its employees engage in self-education to develop these skills.

The leadership qualities development framework is specified in Section 9.1.7.6. Leadership and Management Development Programmes.

Computer Training Systems

Since 2008, the company has been actively using various technical and digital training tools, including computer training systems, which accurately simulate the technological processes of offshore oil and gas production facilities and the LNG plant, and allow developing and strengthening employee work skills, not only during normal operation, but also in the event of emergency situations.

In particular, in 2019, 20 employees successfully completed the Emergency Response Training Course for Control Panel Operators of Offshore Oil and Gas Production Platforms. They included currently operating control panel operators, as well as candidates for the position, currently working as oil and gas production operators.

9.1.7.4. Traineeship Programme

To ensure that there is a sufficient number of qualified technicians, the company continues to implement the Traineeship Programme. Since 2003, 304 people have taken part in the Programme, including 45 people continuing their instruction as company trainees at the end of 2019.

The Programme focuses on professional development and further employment for young residents of the Sakhalin Oblast having vocations relevant to the company’s needs. Programme participants are mainly graduates of the Polytechnic College of Sakhalin State University.

The key components of trainee technical instruction are the development of practical skills and acquisition of work experience. The practical part of the Programme ensures that trainees develop their skills and learn the material so that they reach the required competence level.

- The list of training methods includes::
- having trainees prepare projects;
 - having trainees independently develop and deliver presentations;
 - simulating various production scenarios followed by analysis.

At all stages of the Traineeship Programme, emphasis is made on industrial and personal safety in the performance of various types of work, and on safety culture.

Graduates of the Programme are in demand at all production facilities. When working at the assets, they demonstrate a high level of knowledge and skills acquired during the Programme, steady motivation for further professional development, and commitment to the principles of industrial safety culture.



- The first part of the Programme lasts 14 months and includes:
- English language module — an intensive training course with elements of general and technical English;
 - general technical training modules (9 months), including theoretical and practical training in technical disciplines, SAP and ISSOW

training, process simulator training, work with educational equipment in classrooms and workshops, etc.

The second part of the Programme lasts 18 months, and includes on-the-job training as part of a shift, or in an allocated work area.

Traineeship Programme

LATE JULY–AUGUST	OCTOBER	5 MONTHS	9 MONTHS	18 MONTHS	JUNE
SELECTION/ RECRUITMENT of candidates for the Traineeship Programme	EMPLOYMENT Registration of labour relations (conclusion of a fixed-term employment contract)	ENGLISH LANGUAGE MODULE Intensive training course with elements of general and technical English	TECHNICAL TRAINING MODULES Theoretical and practical training in technical disciplines, SAP and ISSOW training, process simulator training, work with educational equipment in classrooms and workshops, etc.	ON-THE-JOB TRAINING as part of a shift or in an allocated work area	TRANSFER TO A VACANT POSITION

9.1.7.5. Successor Pool Planning and Development

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

- identification of potential candidates from among Russian personnel to fill positions occupied by foreign specialists, as well as key and managerial positions occupied by Russian employees;
- assessment of a potential successor’s readiness to succeed a position according to the Successor Matrix;
- a potential successor’s development in accordance with the job requirements for the positions planned for succession.

During the succession planning process for 2018–2022, potential successors (in the short- and long-term) were identified for 624 of

the 669 positions within the succession planning scope (93%). For all employees included in the successor pool, Individual Development Plans were developed, incorporating trainings and development activities to be taken under the company’s learning and development framework (professional training, leadership and management skill development, developmental assignments, coaching, project management, etc.).

In 2019, 110 vacant positions out of the 125 included in the Successor Matrix were filled by internal candidates from among Russian personnel (88%), including 11 out of 11 positions previously held by foreign specialists (100%).

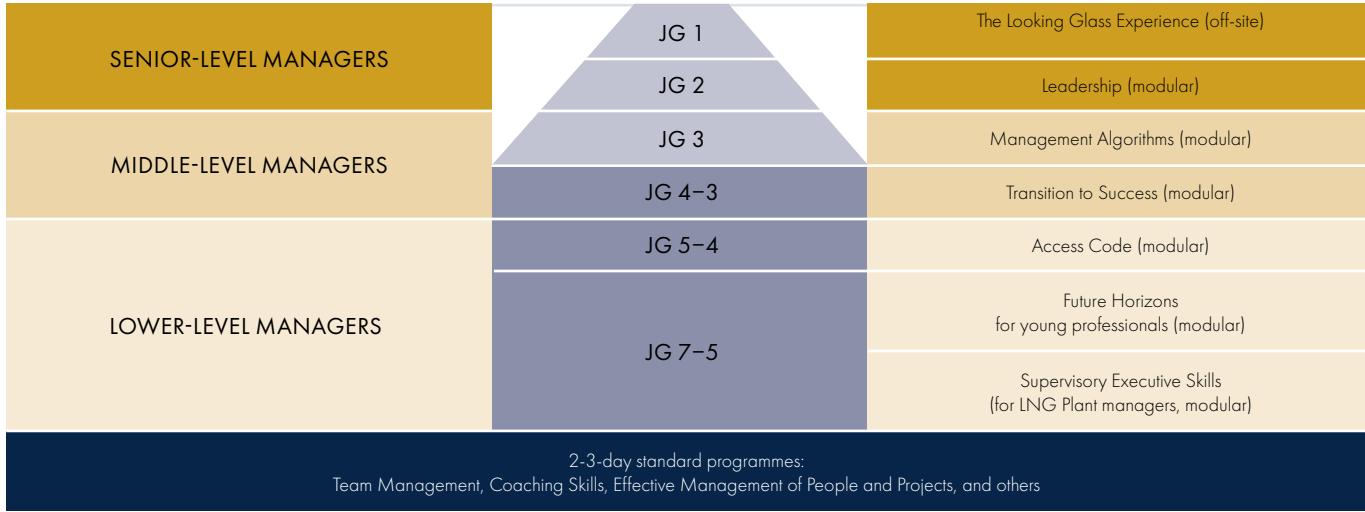


9.1.7.6. Leadership and Management Development Programmes

The formation and development of employees’ management and leadership skills through developmental classroom and online training courses and on-the-job training (coaching and mentoring) is an important component of training highly skilled leaders and strong managers at all management levels of the company.

For managers of all Job Groups (JG), there are leadership and management development programmes, prepared on the basis of the Nine Planets Leadership Competency Model (see the Leadership and Management Development Programmes chart).

Leadership and Management Development Programmes



As of the end of December 2019, 271 Russian employees of the company (86 women and 185 men) holding leadership positions at various levels had completed training programmes in the field of leadership and management skills development, including using Skillsoft (e-learning portal).

The company also develops its leaders through the implementation of the Mentoring Programme, which includes:

- individual mentorship — a relationship, during which an experienced manager (Mentor) shares his/her knowledge, experience and skills with an employee (Mentee) to facilitate the personal and career

advancement of the latter. As of the end of December 2019, more than 100 company’s employees were engaged in individual mentorship under the Mentoring Programme;

- group mentorship — a series of knowledge-sharing sessions held as part of the Journey to 9 Planets project, organised for JG 2 employees, during which leaders of the company share their experience in career building, managing projects and staff with a focus on leadership competencies. In 2019, 48 managers holding JG 2 and JG 4-3 positions participated in the Journey to 9 Planets project to develop their leadership and management skills.

9.1.7.7. Graduate Development Programme

13 graduates
were hired in 2019

In 2019, the company hired 13 graduates under the Programme. Since 2010, 150 young specialists, including 39 residents of the Sakhalin Oblast, have participated in the Programme. At the end of 2019, there were 42 Programme participants, including 11 residents of Sakhalin.

Young Energy Graduates Club

Since 2010, the company has been implementing the Graduate Development Programme aimed to meet Sakhalin Energy’s needs for talented staff. Pursuant to the Memorandum on Cooperation in Personnel Management, signed by Gazprom and Shell, representatives of shareholder companies have been involved in the Programme since 2016.

The company organises systematic work with graduates in accordance with the three-year development programme (see the Stages of the Graduate Development Programme chart).

The Young Energy Graduates Club has been functioning in the company since 2012. Its purpose is to facilitate the quick adaptation of graduates and to develop their business and leadership skills. In 2019, the club members organised a Lecture Club to conduct information sessions on industrial and technical topics for programme participants and trainees, in which young specialists themselves were to act as speakers. As part of the Lecture Club, several thematic events were also held: a discussion of continuous improvement issues, a meeting with the Prigorodnoye Asset Manager under the slogan “Components of Success: Transition from a Young Specialist to a Top Manager”, a session to sum up the results of the year, and a business game.

Stages of the Graduate Development Programme

ME AND MY COMPANY	ME AND MY PROFESSION	ME AND MY CAREER
Professional competency and leadership skills preliminary assessment	Professional skills development and consolidation	Further professional development
Individual development plan preparation and approval	Building motivation for professional growth	Career prospects assessment
Assignment of a Mentor and a Coach	Professional competency and leadership skills assessment and development	Professional competency assessment
		Rotation to company production assets and participation in cross disciplinary projects

9.1.7.8. Personnel Development Assignments

Having company employees complete personnel development assignments at shareholder enterprises is an integral part of Sakhalin Energy’s HR strategy. Personnel development assignments are organised on the basis of relevant agreements signed between Sakhalin Energy and the shareholders. This form of cooperation allows trainees to study the practical aspects and specific features of work in corresponding units of the host company and to organise more effective interaction in the implementation of joint projects.

While participating in development assignments, employees gain extensive experience in project work and receive additional opportunities to use their knowledge and skills in various organisational environments, as well as to acquire new skills and experience in solving challenging tasks.

In 2016-2019, personnel development assignments at shareholder companies were organised for 18 employees of Sakhalin Energy. In turn, 15 employees of shareholders completed their personnel development assignments at Sakhalin Energy.



9.1.7.9. Developing Scientific Potential

Sakhalin Energy makes every effort to promote the development of the scientific potential of its employees. The company cooperates with universities and research institutes in the development of joint technical projects. The company’s specialists are involved in the work of scientific student societies, in the preparation and delivering of lectures, and other activities.

Once every two years, the company holds a scientific and practical conference of young specialists. The next one — the XI Sakhalin Energy

Young Professionals Scientific and Practical Conference — is scheduled for October 2020.

In 2019, the winners of the X Sakhalin Energy Young Professionals Scientific and Practical Conference, which was held in 2018, made presentations at conferences of young specialists organised by Gazprom Dobycha Nadym, Gazprom Transgaz Tomsk, as well as at the conference of young scientists and specialists at the Gubkin Russian State Oil and Gas University.

9.1.7.10. Internship Programme



production technologies and the best international and domestic business practices, as well as gain unique practical experience.

In 2019, 86 university students and 27 students of vocational schools underwent on-the-job training and pre-graduation internships at the company. In 2019, 58% of the trainees were residents of the Sakhalin Oblast.

In order to form an external successors pool for “Graduate” positions, the company has been implementing the Internship Programme since 2000.

Working alongside highly qualified professionals, students of Russian universities and vocational schools get acquainted with advanced

The company has a successful partnership with the Polytechnic College of Sakhalin State University in the area of vocational education, annually accepting 20 to 30 third- and fourth-year students studying in fields relevant to Sakhalin Energy’s operations to receive on-the-job training and pre-graduation internships at the Prigorodnoye production complex.

9.1.7.11. Scholarship Programme

The Scholarship Programme was launched by Sakhalin Energy in 2003.

The Programme focuses on talented graduates of secondary schools and vocational schools of the Sakhalin Oblast who are interested in obtaining industry-specific higher education and building a career with the company.

The educational grants offered by Sakhalin Energy are awarded in the form of a scholarship (for those receiving state funds to study at a university) or reimbursement of tuition costs (for those admitted to the fee-based slots for a full-time study at university).

In 2019, six graduates of Sakhalin schools won the contest.

As of the end of 2019, 22 participants of the Scholarship Programme were studying at Russian universities with the financial support of the company.



9.2. LABOUR SAFETY AND PROTECTION

9.2.1. GENERAL INFORMATION

In order to successfully implement major projects and operate production assets, the main focus must be on health and safety. Sakhalin Energy is committed to industrial safety and preventing harm to people's health.

At present, there are ten mandatory Life Saving Rules applied by the company. These rules are associated with high-risk activities.



Do not appear at work under the influence of **ALCOHOL** or **DRUGS**

DO NOT SMOKE outside of designated smoking areas. Do not carry or use unauthorised **IGNITION SOURCES** in hazardous areas

Do not walk under a **SUSPENDED LOAD**

While driving, do not use **COMMUNICATION DEVICES** and do not exceed the **SPEED LIMIT**

Work with a valid **WORK PERMIT** when required

Verify **INSULATION** before work begins

Obtain authorisation before entering a **CONFINED SPACE**

Protect yourself against a fall when **WORKING AT HEIGHT**

Wear your **SEATBELT**

Follow the prescribed **JOURNEY MANAGEMENT PLAN** and have a valid **DEFENSIVE DRIVING CERTIFICATE**

Statistics on violations of Sakhalin Energy’s Life Saving Rules by the company and contractor staff in 2019 are presented in the Violations of Sakhalin Energy’s Life Saving Rules table.

Violations of Sakhalin Energy’s Life Saving Rules in 2019, number of cases

Alcohol or drug abuse	12
Smoking or use of ignition sources in hazardous areas	4
Standing under suspended load	1
Failure to follow the requirements of a work permit	3
Failure to ensure equipment insulation	2
Obtaining authorisation before entering a confined space	1
Taking protective measures against a fall when working at height	7
Failure to use a seatbelt	2
Failure to follow the Journey Management Plan or invalid Defensive Driving Certificate	4
Using a communication device or exceeding the speed limit when driving	4

Any violation of the Life Saving Rules leads to serious consequences, including potential dismissal.

The company uses a consistent approach when handling HSE issues (see Section 3.5 HSE and Social Performance Management). This approach complies with both legal requirements and risk management so as to ensure continuous improvement in this area. The company also requires contractors to manage HSE issues in compliance with this approach and international standards adopted by the company.

The company’s main fields of activity in the area of safety are:

– leadership and commitment at all levels of the company;

– industrial safety;

– road safety;

– preventive work with contractor organisations;

– learning from incidents in the industry and awareness-raising campaigns.

Injury Rates for the Company and Contractor Organisations in 2016–2019

Parameter	2016	2017	2018	2019
Number of people injured in workplace accidents, total people	9	4	4	8
including fatalities	0	0	0	0
Number of accidents for contractor organisations at company assets, total people	9	4	4	5
including fatalities	0	0	0	0
Total registered incidents (per 1 mln man-hours)	0.64	0.26	0.23	0.46
Number of people injured in road traffic accidents (per 1 mln man-hours)	0	0	0	0

9.2.2. INDUSTRIAL SAFETY

The company’s industrial safety goal is to ensure individuals and society are protected from accidents at hazardous production facilities, and to mitigate their effects.

The company’s leadership team is strongly committed to this goal and promotes actions aimed at achieving it. The industrial safety requirements are defined by the senior management as fundamental for the further dynamic development of the company.

To achieve the industrial safety goal and do so in line with international best practices, the company has implemented an Industrial Safety Policy. Its main principles are the recognition and assurance of the life and health of employees as a priority over the results of the company’s production activities.

Each employee of the company has the right and is obliged to intervene if they identify unsafe conditions or actions, or when activities are being carried out in violation of the Industrial Safety Policy.

Pursuant to legal requirements of the Russian Federation, the company has an Industrial Safety Management System (hereinafter the ISMS). Monitoring compliance with industrial safety requirements is an integral part of the ISMS and is implemented at all hazardous production

facilities. This is done through a set of measures designed to ensure the safe functioning of all the hazardous production facilities of the company, to prevent accidents at these facilities, and to ensure that we are fully prepared to respond to accidents and incidents effectively and professionally.

All elements and aspects of industrial safety compliance are regularly inspected by the company’s experts within the framework of the ISMS. These inspections are planned in advance and carried out to ensure effective monitoring of the activities of all organisational units related to hazardous production facilities industrial safety.

The company submits production control data to Rostekhnadzor annually as required by law.

- The company operates hazardous production facilities with the following hazards:
- reception, use, processing, generation, storage, and transportation of hazardous substances listed in Appendix 1 to Federal Law No. 116 of 21 July 1997 On the Industrial Safety of Hazardous Production Facilities;
 - use of equipment operated under excess pressure (over 0.07 MPa);
 - use of permanently installed hoisting equipment.



As required by law, 10 hazardous production facilities have been registered in the state register, and hazard classes were assigned.

For Hazard Class I and II facilities, it is mandatory to develop industrial safety declarations. The company has developed such declarations for all hazardous production facilities.

These facilities are staffed with qualified personnel trained and certified in the field of industrial safety, who do not have medical contraindications [to the work within their scope of responsibility]. Sakhalin Energy has created all necessary conditions for the continuous improvement and professional development of its staff.

The company conducts industrial safety training and certification for employees working at the company’s hazardous production facilities in compliance with law and the ISMS. The procedure for industrial safety training, examination, and certification is in compliance with current legislation. Managers and specialists undergo industrial safety certification, and hazardous production facility workers have to pass an annual knowledge examination in accordance with the approved schedule of meetings of the Industrial Safety Knowledge Examination / Certification Committees.

Information on Industrial Safety Certification of Sakhalin Energy Managers and Specialists in 2019

Number of meetings of the Industrial Safety Certification Committee	Managers and specialists certified in industrial safety, total, persons	Employees certified by type of supervision, persons					
		Supervision over oil and gas production facilities	Supervision over main pipeline transport facilities	Surveying control and safety supervision over subsoil use	Supervision over pressurised equipment	Supervision over hoisting facilities	Production supervision at the place of use, storage, application of explosive materials
117	502	345	10	6	91	46	12

The company has taken measures to ensure the preparedness of the hazardous production facilities for containment and response in the event of possible accidents at the facilities; warning, communication and support systems have been arranged to be used in case of an emergency; there are non-professional emergency response teams at the company's assets; emergency response training sessions and exercises are regularly held with staff; the company has a reserve of funds and material resources necessary for the containment of, and response to possible accidents.

Following the decision of the company's senior management, safety justifications were developed and implemented at seven of Sakhalin Energy's hazardous production facilities. As required by the legislation of the Russian Federation, the safety justifications passed an industrial safety expert review.

By using the latest technologies and regularly assessing and managing industrial safety risks, the company achieves high performance and observes all applicable industrial safety regulations.

The company takes a number of measures to improve its performance, in particular:

- setting up and operating the company's Industrial Safety Management System as required by law;

- conducting audits at different levels and regularly reviewing the ISMS;
- having an efficient and unbiased procedure for accident and incident investigation at the assets; preparing reports as required by law;
- using a 5-step system of industrial control over compliance with industrial safety requirements established by federal laws, and local and other regulations;
- operation of equipment, instruments, control and management systems, technical devices, buildings and structures at hazardous production facilities of the company within the set targets and with the required resources, in strict accordance with the guidelines for their maintenance, repair and operation;
- developing preventive measures and organising accident and incident prevention work at all hazardous production facilities of the company;
- offering industrial safety training and a certification system for the company's employees as required by law.

All the above measures implemented by the company along with a number of best practice tools guarantee that the company complies with industrial safety regulations at all stages of production, starting from designing each new well up to the moment hydrocarbons are loaded at the Prigorodnoye production complex.

9.2.3. SAFETY CULTURE

Occupational health and safety is one of the company's core values. Sakhalin Energy sets high standards and expects all employees of the company, contractor and subcontractor organisations to comply with them.

Continuous improvement of the corporate safety culture aimed at achieving Goal Zero is one of the priority tasks of Sakhalin Energy.

The company supports leader development at all levels to ensure the creation of safety culture and continuous improvement. Safety culture is a system of values, beliefs, and ideologies adopted in an organisation. It depends on many factors, in particular:

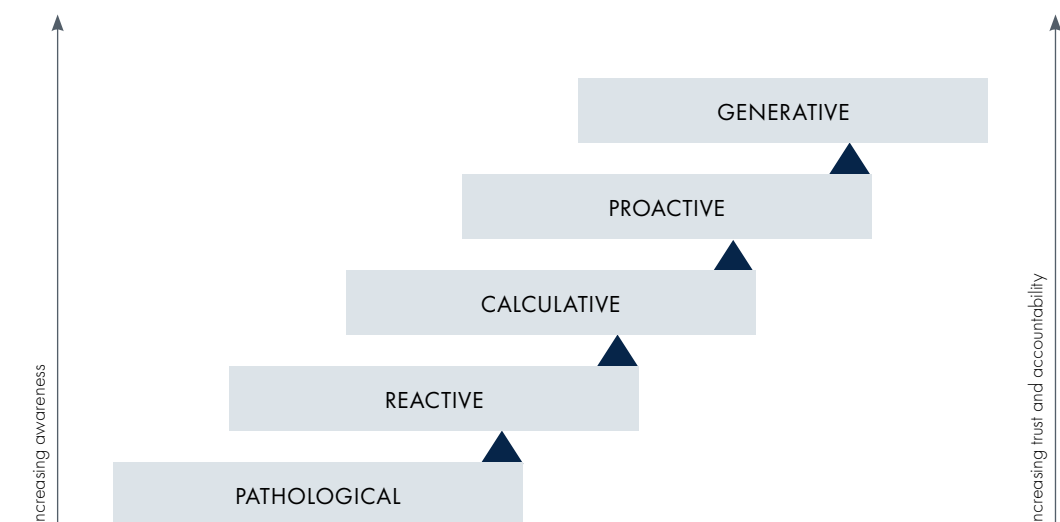
- commitment of top managers to HSE principles;
- company priorities;
- company policies, procedures, and standards;
- employee engagement and motivation;
- availability of feedback, information exchange;
- safety awareness among employees, their behaviour;
- employee competency.



The commitment of the company's senior managers to the safety culture is of vital importance, since it strongly influences the prevailing attitude towards HSE issues and safe behaviour patterns in the company. The HSE Leadership Site Visit Programme is one of the company's tools to achieve visible HSE leadership. In 2019 managers at all levels (directors,

asset managers, and heads of subdivisions) visited the company's and contractors' production facilities 101 times.

Safety Culture Evolution Ladder



Sakhalin Energy pays great attention to the HSE leadership development of all company employees and contractors. In 2019, 53 personnel underwent the HSE Leadership for Mid-level Managers training course, including line managers, HSE specialists, and HSE critical contract holders.

The aim of the training programme is to ensure a common understanding of current HSE practices, to motivate employees and contractors to seek continuous HSE improvement and to develop their leadership skills.

Implementation of the Goal Zero Programme has been an integral part of developing the safety culture in the company.

Goal Zero is a mindset that actively promotes no leaks, spills, harm or injury, both at work and in daily life. Employees' personal responsibility for compliance with HSE rules and intervention in unsafe situations (as

one of the elements of the safety culture) help the company to reach its safety targets as well as production goals.

Key objectives of the Goal Zero Programme are shown in the Goal Zero Programme Objectives chart.

Goal Zero Programme Objectives



In 2019, the Goal Zero Programme was awarded a first degree diploma in the Russian KonTEKst Competition of PR Projects held with the support of the Russian Ministry of Energy.

Sakhalin Energy promotes its HSE good practices accumulated over the 25 years of the Sakhalin-2 project, not only within the company, but also among contracting organisations and other external stakeholders. For example, the company has held joint safety workshops with Gornyy Vozdukh Sports and Tourist Complex and supported off-site events such as children's summer camps and seminars for teachers.

The company continues to promote the Effective Observation and Intervention Programme. The Programme aims to implement a systematic approach to the identification, assessment, and prevention of unsafe practices and conditions in the workplace, as well as to continuously improve the safety culture and safe behaviour.

All company and contractor organisation employees can take a training course in Effective Observation and Intervention. In 2019, this course was taken by more than 900 company and contractor employees. The purpose of this course is to build a conscious attitude towards safety among

employees through observation, communication, and specific actions, as well to teach them effective intervention methods.

Effective observation and intervention by both company staff and contractors is encouraged by a CED award that recognizes and promotes exceptional HSE behaviours, achievements or initiatives.

The company has been holding Summer and Winter Safety Days for the past twelve years. All company and contractor organisation employees gather to discuss the ever-topical safety issues: how people's actions and behaviour influence the safety of others, and how to improve work safety. They also discuss following safety rules both at the workplace and outside working hours.

Safety Days topics in 2019 included care for people, decision-making dilemmas, risk normalisation and preparation for winter conditions.

The results of the staff survey conducted as part of the programme in 2019 demonstrated a high level of commitment to Goal Zero. Encouragingly positive responses were given to the following key questions:

- 97% responded "I am aware of my role in ensuring occupational safety";
- 95% responded "I'm not afraid and do not hesitate to report problems related to occupational safety that I have identified";
- 91% responded "I always consistently adhere to the principles of the Goal Zero Programme while at home or outside the workplace".

9.2.4. ROAD SAFETY

Road safety is of particular importance for Sakhalin Energy.

More than 650 vehicles with a combined annual mileage over 10 mln km are engaged in project activities. Sakhalin Energy's management and the Road Safety Steering Committee emphasise strict adherence to the norms of Russian transport legislation and compliance with the requirements of the company's Road Safety Management Standard.

To maintain and improve its road safety performance, the company continues to implement the following actions:

- Meetings of the Road Safety Steering Committee chaired by the Chief Executive Officer of the company;
- Analysis of IVMS reports. IVMS monitors driver behaviour, identifies non-compliance, and allows the company to take steps to prevent situations that may lead to road accidents. The entire monitoring system covers about 1,700 drivers and 650 vehicles;
- Defensive driving training. All professional drivers, and also non-professional drivers required to drive on the company's business, take defensive driving courses. In 2019, courses were conducted for more than 1,700 drivers of various categories. Moreover, the company allowed any employee to attend the defensive driving training;
- Vehicle compliance control. All company and (sub-)contractor vehicles used in production activities are inspected, and company



about **1,700** drivers
are covered by the In-Vehicle
Monitoring System

and (sub-)contractor drivers are monitored to see that they comply with road safety rules and the company's Road Safety Management Standard. Four Road Safety Monitoring teams perform oversight in different regions;

- Interaction with other organisations. The company initiated cooperation with Gazprom Dobysha Shelf, which develops the Kirinskoye Field, in order to jointly solve road safety issues at the south access road to Linsky Bay. The Road Safety Monitoring team and the State Traffic Safety Inspectorate keep watch over the south access road;
- Active participation in various forums, where the company shares its experience in ensuring road safety under the project. In 2019, the company held an Annual Road Safety Conference for Contract Holders, and contractors. Sakhalin Oblast Traffic Police representatives also joined the conference;
- Implementation of the Safe Journey Management Programme at the company's assets. Each of Sakhalin Energy's production assets has appointed persons responsible for road safety who monitor the daily operation of all vehicles within the asset, including journey



management and inspections of the technical state of vehicles and transported cargoes;

- Cargo Securing and Vehicle Transportation training course. Sakhalin Energy's operations involve the transportation of materials and heavy equipment using the roads of the island. Statistics show that improperly secured cargoes are one of the main reasons behind a significant number of road traffic accidents. It became apparent that a training course had to be introduced when it was discovered that non-compliant cargo transportation had risen under the project and that there were no clear recommendations in the regulations of the Russian Federation on proper securing of cargo. A Cargo

Securing Standard, consistent with the best international practices, was developed in 2018. All oversize and heavy cargoes within the project are transported under the control of the company's Road Safety Department.

Under the Road Safety Programme the company has committed to promote and disseminate robust corporate safety standards outside of its and contractors' area of responsibility, especially in those communities and locations in Sakhalin where Sakhalin Energy has its operations. This is done through cooperation with the Sakhalin Oblast Government, Yuzhno-Sakhalinsk Administration and Traffic Police.

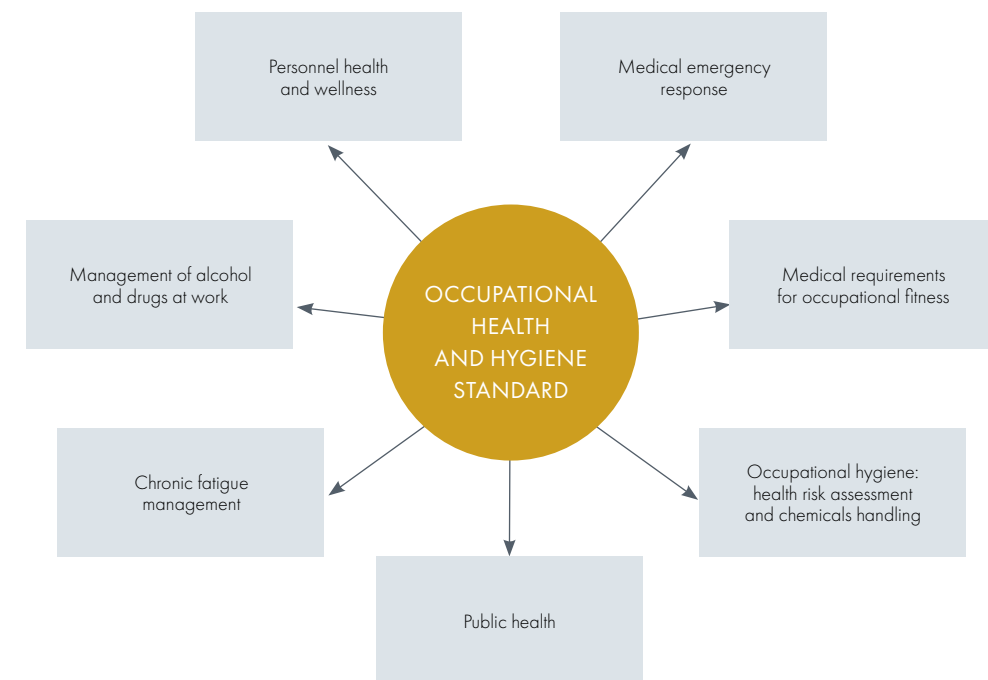
9.3. OCCUPATIONAL HEALTH

The company uses a systematic approach in protecting the health of its personnel. Sakhalin Energy has developed and approved a corporate occupational health and hygiene standard, which includes the following sections:

- medical emergency response;
- medical requirements for occupational fitness;

- occupational hygiene: health risk assessment and chemicals handling;
- personnel health and wellness;
- chronic fatigue management;
- management of alcohol and drugs at work;
- public health.

Sakhalin Energy's Occupational Health and Hygiene Standard



As required by the corporate occupational health and hygiene standard, an assessment was made of the health status of the company’s employees working in hazardous and/or arduous conditions. In 2019, 99.9% of the company’s employees engaged in work under these conditions underwent a mandatory periodic health examination. More than 77% of the office personnel were also covered by a clinical screening.

The company continues to focus on preventing employee fatigue. The company has issued fatigue management guidelines and has developed fatigue management plans to assess and control the risk of employee fatigue. The company’s employees also have access to an interactive online programme that provides awareness on how to manage risks associated with fatigue.

Health risks are assessed at all company’s assets. A system for monitoring harmful occupational factors is employed within the asset industrial monitoring programmes. The results are fed into a single database to increase the visibility of information on harmful factors.

An analysis of cause-and-effect relationships between indicators obtained by measuring various factors in the working environment (air, vibration, noise, microclimate, ionising radiation, etc.) and data on the health status of personnel is carried out on a regular basis. Corrective measures are subsequently developed to minimise any risks, and the Fountain electronic database is used to make sure the measures are put into place. In 2019, the rate of reported occupational diseases remained at a relatively low level (see the Reportable Occupational Illness Frequency for 2015–2019 table).

Occupational illness frequency indicators are analysed on a regular basis in order to develop and implement measures to improve working conditions, prevent illness, and promote a healthy lifestyle.

In 2019, the use of best practices in calculating body mass index and assessing cardiovascular disease risks allowed us to effectively monitor personnel with the highest risk of developing acute coronary syndrome.

In 2019, Sakhalin Energy was announced the winner of the competition for the best socially oriented company in the oil and gas industry, held by the Russian Ministry of Energy, in the Organisation of Medical Care at Production Facilities. Implementation of Measures to Develop Industrial Medicine category.

The company uses software to ensure that only employees who meet the prescribed fitness to work criteria are admitted to work at remote assets.

In addition to implementing mandatory health programmes, in 2019, the company continued to encourage employees to take care of their own health and fitness and take personal actions for the prevention of diseases.

- To this end, additional measures were taken such as:
- activities to prevent acute respiratory viral infections and influenza, including health education and vaccination campaigns;
 - implementation of a programme promoting a healthy lifestyle and engaging in sports; employees of the company participate in department and corporate sports events and competitions, as well as in open local and regional championships in various sports (e.g. football, ice-hockey, volleyball, tennis, swimming);
 - providing access to the corporate sports and fitness centre in Yuzhno-Sakhalinsk (gym, swimming pool, football pitch, tennis courts, ice rink) for the company’s employees and their families. Gyms and sports grounds are also provided for employees at the company’s remote assets;
 - installing “David Spine Concept” equipment in the Yuzhno-Sakhalinsk gym for the evaluation and treatment of chronic back and neck pain;



- annual anti-smoking campaign. On 31 May, World No Tobacco Day, Sakhalin Energy traditionally holds employee meetings to discuss tobacco addiction. Employees who smoke are offered free medical consultations and smoking cessation therapy. An extensive information campaign with the use of posters and leaflets is carried out on an ongoing basis;
- continuing to implement high standards for medical emergency response. In 2019, 433 employees of Sakhalin Energy and its contractors received first-aid training.

The company’s and contractor’s employees at remote assets of the Sakhalin-2 project, as well as the company’s employees on business trips abroad are provided with high-quality medical support guaranteed by AEA International (Sakhalin). The company’s employees also receive medical services from other healthcare facilities included in the list of the SOGAZ Insurance Company under the voluntary medical insurance programme (see Section 9.1.5. Social Benefits and Compensations).

Reportable Occupational Illness Frequency for 2015–2019

Total reportable occupational illness frequency (TROIF)	2015	2016	2017	2018	2019
Company only	3.33	0	0	0	0.27
Company and contractors	1.15	0.21	0.2	0.4	0.5
With temporary disability (company only)	0.67	0	0	0	0.27
With temporary disability (company and contractors)	0.15	0.07	0.1	0.4	0.5

9.4. HUMAN RIGHTS

9.4.1. HUMAN RIGHTS: PRINCIPLES AND MANAGEMENT SYSTEM

Sakhalin Energy’s key business principles include running its business in a socially responsible manner, compliance with the laws of the Russian Federation, and also respect for fundamental human rights within the legal business framework.

- This comprehensive approach to human rights has several interconnected components, in particular:
- Human Rights Policy commitment;
 - incorporation of commitments into the company’s strategy;
 - human rights risks and impact assessment;
 - stakeholder engagement in connection with human rights issues;
 - efficient grievance mechanism;
 - training of company and contractor personnel;
 - human rights monitoring and reporting.

The company’s human rights standards are laid out in corporate documents to ensure they are implemented on a day-to-day basis. These include:

- Human Rights Policy;
- Code of Conduct, including the Statement of General Business Principles;

- Business Management System;
- Commitment and Policy on Health, Safety, Environment, and Social Performance;
- Security Policy;
- Contracting & Procurement Policy;
- Whistle Blowing / Grievance Procedure;
- Sustainable Development Policy.

The Human Rights Policy (available on the company’s website) sets forth the human rights commitments and discusses managing risks associated with potential or actual violations of human rights resulting from the company’s activities.

Sakhalin Energy has adopted standards for observing human rights in all situations in which there is a potential for violating these rights, namely:

- employee relations;
- working in communities;
- contracting and procurement;
- asset security.

Company Human Rights Activities



The company holds training courses and information sessions on human rights (see Section 9.4.4. Human Rights Training). Security contractors in particular are informed about the company’s human rights standards.

9.4.2. GRIEVANCE MECHANISMS

The company’s stakeholder engagement strategy is focused on minimising impacts on human rights. It is obvious, however, that it is impossible to eliminate all adverse impacts of a project as large as Sakhalin-2. This is why the company adopted a grievance mechanism at the start of construction to effectively address grievances raised in connection with the project. The mechanism includes the following:

- Whistle Blowing Procedure to address violations of the Statement of General Business Principles, Code of Conduct, or other company’s procedures (related to conflict of interest, bribery, corruption, etc.);
- Human Resources Inquiries Procedure, which concerns labour and employment issues raised by personnel (violation of the labour laws of the Russian Federation and other regulatory legal acts of the Russian Federation containing labour law, local regulations of the employer related to employee labour activities, as well as violation of the terms of employment contracts concluded with employees);

- Community Grievance Procedure to address grievances from the public and contractor/subcontractor employees in connection with the Sakhalin-2 project. In addition to the Community Grievance Procedure, the company established a separate procedure for addressing grievances related to the Sakhalin Indigenous Minorities Development Plan in 2011 (see Section 9.5. Social Investment and Contribution to the Sustainable Development of the Host Region).

These mechanisms can help resolve grievances quickly and efficiently; they thoroughly document grievances and corrective measures, and reduce the likelihood that similar situations will reoccur, thereby contributing to building strong, long-term relationships with everyone that the company’s activities have an impact upon.

To ensure maximum efficiency of the community grievances procedure, the company relies on a number of principles to conduct these activities, including:

- legitimacy, and incorporation into the corporate system;
- accessibility;
- transparency and openness;
- stakeholder engagement and ensuring dialogue during the grievance process;
- setting target dates and taking concerted actions to address grievances;
- confidentiality;
- applicability for both the company and contractors;
- using accumulated experience in taking preventive measures and proactive steps.

9.4.3. GRIEVANCE HANDLING IN 2019

In 2019, 81 grievances and requests were received from the company’s personnel and external stakeholders via various corporate grievance mechanisms, including:

- 39 grievances under the Whistle Blowing Procedure;
- 9 grievances from the company’s employees under the Human Resources Inquiries Procedure;
- 33 grievances from the public and employees of contractor and subcontractor organisations.

Grievances related to violations of the General Business Principles, the Code of Conduct, or other company’s procedures were handled under the Whistle Blowing Procedure. These grievances concerned material and services procurement, conflicts of interest, and unethical behaviour.

By the end of 2019, 29 grievances received under the Whistle Blowing Procedure had been handled and resolved within the time frame established. The remaining 10 grievances are being handled by the Internal Audit Subdivision and the Corporate Security Department.

Employee requests regarding matters related to their work in the company and the application of local regulations of the employer were examined in strict accordance with the Human Resources Inquiries Procedure. All complaints received in 2019 were resolved within the established time frame.

The grievances from communities and employees of contractor and subcontractor organisations were addressed in compliance with the Community Grievance Procedure. These grievances were related to labour relations (in contractor and subcontractor organisations), impacts on settlements, construction camp management, compliance with the Code of Conduct, and the implementation of the Sakhalin Indigenous Minorities Development Plan.

By the end of 2019, 24 out of 33 grievances received from the public and employees of contractor and subcontractor organisations had been resolved. In addition, 11 grievances received at the end of 2018 had been resolved. All 24 grievances were resolved within the time frame established in the Grievance Procedure (less than 45 business days). By the end of 2019, nine grievances remained unresolved. Information on the status of these grievances will be presented in the 2020 Sustainable Development Report.

Categories of Public Grievances in 2019

Grievance category	Number of registered grievances	%
Labour relations / labour safety	16	49
Construction camp management	7	21
Code of Conduct	4	12
SIMDP implementation	5	15
Impact on communities	1	3
Total	33	100

9.4.4. HUMAN RIGHTS TRAINING

A certain level of employee awareness is required to incorporate human rights standards into the daily operations of the company and its contractors. Therefore, the company offers systematic training and awareness sessions for Sakhalin Energy personnel, contractors, and other stakeholders.

The company’s requirements in the area of human rights are included in a number of educational briefings and courses that all the company’s employees and contractors are required to take.

Examples of this training are:

- general induction;
- Code of Conduct training;
- health, safety, environmental, and social performance training.

The company conducts specialised courses for specific personnel that have a higher risk of violating human rights. The process of appropriate training selection is shown in the Appropriate Training Selection chart.

Appropriate Training Selection

RISK ASSESSMENT	IDENTIFICATION OF RISK GROUPS	RELATED TRAINING/ AWARENESS SESSION
<ul style="list-style-type: none">Asset securityHazardous working conditionsGrievance resolution	<ul style="list-style-type: none">ContractorsContract holdersSecurity staff (and related contractor services)Reception staff	<ul style="list-style-type: none">Corporate social responsibilityGrievance ProcedureOccupational safety and healthRespect for human rights by safety contractor

The Community Grievance Procedure training course is offered to employees whose scope of work includes receiving or resolving grievances from the population (e.g. subdivision heads, reception desk employees, and the company’s representatives who directly supervise the work of contractor organisations).

9.4.5. MONITORING HUMAN RIGHTS

Monitoring is important for ensuring human rights are observed. Both the monitoring and reporting of human rights are done not only internally, but also externally.

- Such monitoring includes:
- visiting communities;
 - surveying the personnel of the company and external stakeholders;
 - meeting with internal and external stakeholders, including the local community and representatives of contractor organisations, to receive feedback;
 - reviewing contracts to make sure they contain human rights provisions.

Internal monitoring is done at the subdivision level as well as by the Internal Monitoring Department. External monitoring includes regular audits by lenders, shareholders, and independent experts.

The Business Integrity Committee, which includes the Chief Executive Officer and a number of other directors, oversees compliance with the established Grievance Procedure.

Conclusions on the application of human rights standards are included in regular internal reports for the senior management and shareholders of Sakhalin Energy, as well as in the company’s annual Sustainable Development Reports.



9.5. SOCIAL INVESTMENT AND CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT OF THE HOST REGION

In 2019, Sakhalin Energy won the following competitions:

- Leaders of Russian Business: Dynamics, Responsibility, Sustainability—2018, held by the Russian Union of Industrialists and Entrepreneurs, in the category “For input into the social development of the territory”;
- competition for the best socially oriented company in the oil and gas industry, held by the Russian Ministry of Energy, in the Corporate Charitable Activities category.

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 social programmes in the territory of the Sakhalin Oblast. Significant and consistent investments in the social sphere, as well as the long-term policy focused on addressing topical social issues are in line with the principles of sustainable development that the company is committed to. Sakhalin Energy pursues a policy of mutual investments of resources and mutual benefit of all stakeholders.

In 2019, the company invested about 90 mln roubles implementing external social programmes in the Sakhalin Oblast.

- In accordance with the company’s Social Investments Strategy, Sakhalin Energy is implementing 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 activities, but contribute to the economic, environmental, and social development of Sakhalin Island;
 - contribute to the sustainable social, economic, and environmental development of Sakhalin and demonstrate to stakeholders the company’s commitment to sustainable development.

Sakhalin Energy’s social investment programmes are aligned with the company’s long-term goals in its host region, Sakhalin.

The company is focused on implementing strategic long-term partnership projects with the engagement of external stakeholders, company and partner resources, and on using various tools and

techniques to implement social programmes, including competitive funding distribution. Governing bodies and expert councils have been established to make decisions under key programmes. These are collegial coordinative and advisory bodies that involve the company’s representatives, government authorities, partners, and members of non-governmental organisations in the territory where the company operates.

Striving to achieve lasting social changes in the region, the company is implementing a number of projects within priority areas defined through public consultations. These are:

- environmental protection and biodiversity conservation;
- safety;
- education;
- culture and art;
- healthcare;
- promoting the development of Sakhalin indigenous minorities.

The company’s approach to the development of the host region is a targeted policy of community involvement. This includes support for initiatives aimed at the development of the region (funds for this activity are allocated by shareholders), as well as the involvement of the company’s employees in corporate social programmes, development of charity and volunteer activities in the region, and company participation in discussing issues that are vital to the territory where it operates.

During the years that it has been developing the Social Investment Programme, Sakhalin Energy has built its own model for managing external social programmes which is based on the company’s policies and

Sakhalin Energy finished second out of 39 Russian and international companies in the Leaders of Corporate Philanthropy Leader 2019 Ranking.

The organisers of the ranking — the Vedomosti business newspaper, Pricewaterhouse Coopers global audit and consulting network of firms and the Donors Forum — aim to identify the best examples of charity programmes and to disseminate information about corporate charitable practices in the business community and society as a whole. The victory of Sakhalin Energy in this competition is an indicator of the high effectiveness of the company’s social programmes and efforts to support sustainable development projects. The company has been participating in the annual study since 2008 and has steadily maintained leading positions in corporate philanthropy in Russia for many years already.

the best international charity practices. Not only does the company seek to adapt and use the best international practices, but it has itself become an example of corporate philanthropy.

The company performs its social investment activities in line with a number of documents, which identify the objects and principles of given charity activities and social investments, and outline how to manage these issues, e.g. planning, decision making, and financing procedures. These documents include the Social Investment Strategy as a part of the Social Performance Management Standard. Pursuant to the Strategy and in accordance with the company’s internal audit requirements, Sakhalin Energy conducts continuous internal monitoring and a biennial independent external evaluation of its social investment projects. The

results of the evaluation conducted in 2019 show the effectiveness of social investments and their significance for the region. Respondents note that the company’s social programmes “are aimed at solving important problems”, “supplement rather than duplicate the budget programmes”, “make it possible to support people’s initiatives and involve those people in resolving important issues”, “are long-term, that is, designed for an extensive period into the future, and aimed at addressing existing problems”, “the company does not just give out resources, but invests in obtaining social outcomes”, “does not just give out money, but stimulates the professional development of the social sector”.

As in previous years, the social activities of the company are carried out at a high professional level, in accordance with international standards and Sustainable Development Goals. The company’s programmes, especially those supporting local social initiatives of residents, have a significant impact on the development of the local community in the host region. Among other things, they promote citizen activism, the creation of non-profit organisations, the introduction of innovative approaches in the activities of social institutions, and the improvement of the quality of social services.

From the report on the external evaluation of social programmes, carried out in 2019



9.5.2. THE ENERGY SOCIAL INITIATIVES FUND

The Energy Social Initiatives Fund is the winner of the VII Best Social Projects of Russia Annual Programme and Forum in the Charity category.

The Energy Social Initiatives Fund is one of Sakhalin Energy’s charity programmes that demonstrate the company’s integrated and consistent approach to social transformation in the host region, and its commitment to addressing topical issues of local communities. Launched in 2003, the grant programme allows the company to support the most interesting and effective solutions to community problems, proposed by local non-profit organisations and institutions. Such targeted efforts can make a serious contribution to the resolution of problems which are small in scale, but relevant for certain target groups, and boost the confidence of active citizens and organisations in their ability to make a difference. When selecting projects, the company is guided by the

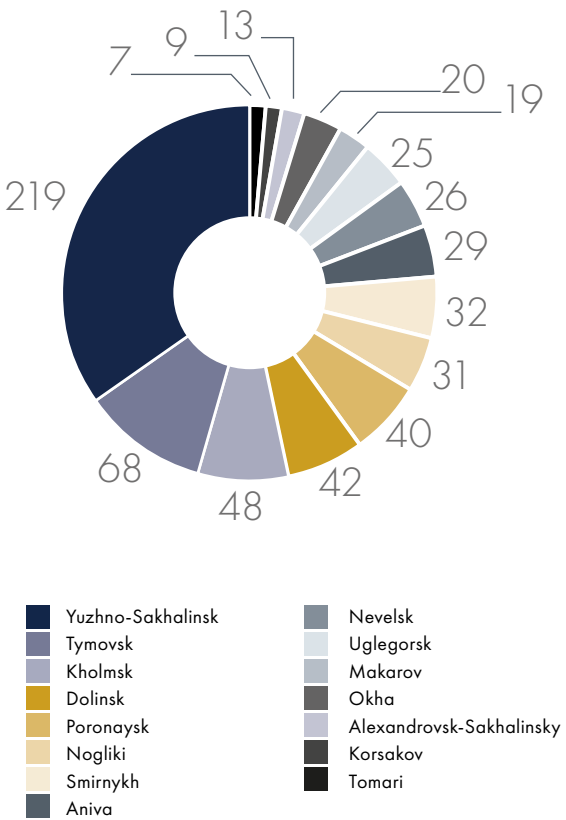
principle of openness and transparency. The Expert Council, consisting of representatives of the company, NGOs and government authorities, evaluates proposals and selects the winning projects. Information on the terms and conditions for participation in the competitions, as well as the selection criteria is available on the Energy Social Initiatives Fund website (www.fondenergy.ru).

Financing is provided for projects in several focal areas, including education, environmental protection, art, culture, social support, sports, and healthy lifestyle promotion.

Since 2003, more than 318 non-profit organisations and social institutions in 64 settlements on Sakhalin have received financial support as part of the Energy Social Initiatives Fund. In total, 628 projects have been implemented in the years of the programme.



Number of Projects that Received Funding in 2003–2019 (by districts)



In 2019, funding was granted to 34 projects. In particular:

- as part of the Underwater Research and Robotics project, an experimental group under the same name, consisting of two technical and one natural science subgroups, was formed in the Children (Youth) Creativity Centre (Yuzhno-Sakhalinsk). The Special Design Bureau for Marine Research Automation Tools of the Far Eastern Branch of the Russian Academy of Sciences and the Sakhalin State University Laboratory of Physical and Chemical Studies acted as project partners. Project participants learned to assemble and control underwater robots, to conduct water studies using a portable laboratory. The project output consisted in the development of programmes for introducing underwater robotics and water studies into the educational process. As a result, the first Underwater Robotics Association for 7–11 Form students was opened on Sakhalin in September 2019;
- under the Tangible World of Sakhalin project, employees of the Sakhalin Regional Special Library for the Blind, together with volunteers, created a three-dimensional physical map of Sakhalin and Braille-type tactile and voiced publications on local history for blind people. The local history corner has been turned into a comfortable space in which visually impaired people can independently work with documents on the history of Sakhalin, using special equipment for the blind and visually impaired, available in the library (a tiflo-flash player, a portable magnifier, a reading machine) if necessary;
- thanks to the Small Tretyakov Art Gallery project, the Teremok kindergarten in Kholmsk now has a professionally designed exhibition with reproductions of paintings by famous artists from the collection of the State Tretyakov Gallery. A special place in the gallery is reserved for children’s creative undertakings: the wall space is equipped with moisture-proof drywall screens with a special coating for drawing with coloured felt-tip pens; roll-down paper rolls are attached above the screens for drawing with watercolour and gouache paints. Thus, every little artist who visits the gallery can create his or her own masterpiece. In addition to drawing lessons, the gallery hosts guided tours, art discussions and other activities.

An evaluation study showed that the completed projects were successful in two respects: not only did the grantee organisations achieve the set goals — they also saw an obvious positive effect of the projects on their activities: the status of the organisations in the professional environment had noticeably increased and the quality of services provided to target groups had significantly improved. The comparative data, obtained during the external audits of 2015 and 2019, in most cases demonstrate the growing impact of Sakhalin Energy’s grant-giving activities in the host territory. This is due, among other things, to the introduction of new services (pointed out by 76% of the respondents in 2015 and by 90% in 2019). The geography of grantee organisations is expanding: this was noted by 65% of the grant recipients in 2015 and 71% in 2019.

From the report on the external evaluation of programmes, carried out in 2019

9.5.3. SAFETY IS IMPORTANT PROGRAMME

Safety is Important is an example of a systemic programme built on the principles of intersectoral collaboration, which is consistent with the interests of Sakhalin Energy. Representatives of other regions have shown great interest in the technology for creating and implementing the programme. According to all respondents, the programme has already made a significant impact and has great potential for development, since the topic is still relevant, which means that the programme is in demand.

From the report on the external evaluation of programmes, carried out in 2019

Information about the programme, as well as its materials are available on the website (www.senya-spasatel.ru, available in Russian only) and on Instagram @senya_spasatel



Safety is one of Sakhalin Energy’s top priorities. In 2005, the company initiated the Safety Is Important programme, and has been implementing it in partnership with the Sakhalin Oblast Emercom and the Sakhalin Oblast Ministry of Education ever since.

Projects under the programme are implemented with the participation of public organisations and state institutions such as the Sakhalin Search and Rescue Team named after V. A. Polyakov, the Department of the State Road Safety Inspectorate of the Russian Ministry of Internal Affairs for the Sakhalin Oblast, the Sakhalin Branch of the All-Russian Voluntary Fire Organisation, the Rossoyuzspas Sakhalin Regional Public Organisation, the Regional Extracurricular Educational Centre, and others. The Sakhalin Regional Branch of the School of Safety All-Russian Children and Youth Public Movement, launched in 2019, also joined in the programme and became an active participant.

The programme is developing in several key areas, one of which is the creation of educational cartoons about safe behaviour in various situations. Senya — the main character of the cartoons and a constant participant in all programme events — has become the symbol of the programme. Comic books based on the cartoons are also being produced and distributed among Sakhalin children. The collection of educational videos totals 39 episodes, each of which is devoted to a relevant topic in the field of safety.

As part of the programme, the 10th Safety Festival was held in October 2019, bringing together school teams from 15 districts across the island. At all competitive stages, particular emphasis was placed on practical tasks. The business partners of the company — MTS, Russian Railways and Aurora Airlines — were engaged in preparing and running the events. The winning teams received certificates for the purchase of equipment that will be used to study Life Safety Basics and to develop practical skills.

In 2019, with the support and active participation of the company, open Health and Safety lessons, dedicated to the International Day for Protection of Children and the Day of Knowledge, were conducted at Kosmos Stadium in Yuzhno-Sakhalinsk on 1 June and 2 September, respectively. These events were an excellent opportunity for about 1,000 young Sakhalin residents to test their knowledge of health and safety rules at various interactive educational sites.

In 2019, the Young Watermen competition was held on Sakhalin within the framework of the Safety Is Important programme. The event was attended by schoolchildren aged 14-16 years from four districts of the island.

The target audience of the programme also includes adults — teachers and parents. Engagement with these stakeholders is carried out by organising competitions for Life Safety Basics teachers and supporting the activities of dedicated Life Safety classrooms at schools and preschool institutions across the region. The results of last year’s annual regional competition among Health and Safety teachers were announced in Yuzhno-Sakhalin in December. The organisers had prepared in-person and distance tests for the participants. In the first stage (distance), the contestants were given

several tasks, which included developing a guidance for organising an extra-curricular event, in which they used materials from the Safety Is Important partnership programme.

A new additional teaching aid — the Safety at Home board game — was developed and manufactured for educational institutions to teach children the rules of safe conduct. The presentation of the game was held in Yuzhno-Sakhalinsk, Nogliki, Poronaysk and Korsakov. The game was also presented to teachers from different districts of Sakhalin during the education course for teachers at the Sakhalin Oblast Institute for Educational Development.

During the skiing season, Senya was an active participant in the events held at the Gorny Vozdukh Sports and Tourist Complex. The opening of the new 2019/2020 season was also held with the participation of the main character of The Safety Is Important programme.

Creating and distributing various educational materials by programme partners and participants, holding activities for different target groups not only improves the quality of teaching Health and Safety, but also develops a culture of safe behaviour.



9.5.4. HURRY UP FOR GOOD DEEDS PROGRAMME (SUPPORT FOR CHARITY INITIATIVES OF EMPLOYEES)

Corporate volunteering is one of the forms of CSR implementation, which expands the scope and range of the company’s charitable programmes and unites its personnel, thereby strengthening the corporate culture.

The company creates favourable conditions and expands opportunities for active employee participation in charitable activities, and also supports volunteer initiatives. The programme was launched in 2003 as a grant competition to support employee charitable initiatives, and has undergone a number of changes since.



Currently, the programme offers employees various opportunities:

- participate as a volunteer in the preparation and running of corporate campaigns designed to raise funds for social institutions selected by employees during a survey via the Intranet;
- participate in Volunteer Days — Voluntary Community Work Days;
- initiate and implement their own charitable projects with the participation of colleagues;
- provide professional assistance (pro bono) on their own initiative, or participate in the company projects aimed at developing the potential of the company’s charitable programmes participants (NGOs and state-funded institutions).

The various formats of participation in the programme make it possible to involve in volunteering those who are ready to act as initiators and organisers, as well as those who are willing to join them during a charity event. According to the evaluation of the social programmes, almost 30% of the company’s employees participate in the programme. Employees can also invite members of their families, including children, to join in the charity activities under the programme.

In 2019, Sakhalin Energy organised a Voluntary Community Work Day in the territory of the Mayachok Social Rehabilitation Centre for Children and Teenagers in Yuzhno-Sakhalinsk, which brought together more than 130 company’s employees along with their family members and friends, as well as teachers and children of the Centre. A corporate fund-raising campaign was held to support institutions providing art education to children. As in the previous years, the company conducted the annual New Year Miracles charity campaign: on the eve of the most popular winter holiday, the company’s employees granted the wishes of 175 young Sakhalin residents with disabilities or in difficult family circumstances from 21 localities across Sakhalin. These are boys and girls attending the four social rehabilitation centres for children and patients of the Preodoleniye Rehabilitation Centre for Children and Teenagers with Disabilities in Yuzhno-Sakhalinsk. Employees donated about 2.4 mln roubles during the year, and, according to the Hurry Up for Good Deeds programme rules, this amount was doubled by the company.

The company’s employees increasingly use their professional knowledge and skills to contribute to the development of partner organisations. In 2019, they organised and held a seminar on safety issues for volunteers of the Gorny Vozdukh Sports and Tourist Complex, conducted Safety Days for school and preschool children, delivered lectures for students of secondary schools and other educational institutions, worked as members of exam boards at the local universities, and developed vocational guidance games in schools and at Sakhalin State University.



9.5.5. KORSKOV SUSTAINABLE DEVELOPMENT PARTNERSHIP COUNCIL

The Social Investment and Sustainable Development Programme implemented in the Korsakov Municipal District of the Sakhalin Oblast was initiated by Sakhalin Energy in 2003. As part of this programme, the company renders financial assistance to social projects. In February 2019, Sakhalin Energy and the administration of the Korsakov Municipal District of the Sakhalin Oblast signed a collaboration agreement to implement the new phase (2019–2021) of the Sakhalin

Energy Sustainable Development and Social Investment Programme in the municipal district.

The programme is managed by the Korsakov Sustainable Development Partnership Council. The Council consists of 9 members, three representatives of each party: Sakhalin Energy, the government authorities, and the community of the Korsakov Municipal District.



In 2019, an Expert Council began to work as part of the programme: its members — representatives of the community and Sakhalin Energy — evaluate projects submitted for the competition according to specially set criteria. The final decision on project financing is made by the members of the Korsakov Sustainable Development Partnership Council, taking into account the preliminary rating of the project, determined as the sum of the points assigned by the competition experts. In addition to being a stakeholder engagement tool and an independent structure to review projects for social investments, the Korsakov Partnership Council also plays a role in monitoring the population's social activity in the district.

In 2019, public consultations on the Korsakov Sustainable Development Partnership Council activities were held in 10 settlements of the Korsakov District. 45 residents were provided with information on the results of the work of the Partnership Council, its achievements, implemented projects, and plans for the future.

During public consultations, an assessment is made of the Korsakov Municipal District residents' attitude towards the work of the Korsakov Sustainable Development Partnership Council and their awareness about the projects implemented in the municipal district with the support of Sakhalin Energy. In addition, proposals are collected regarding further development of the programme.

The Korsakov Sustainable Development Partnership Council has headed the call for project proposals selection process since 2004. In 2019, the Council supported 7 projects proposed by local non-profit organisations. One of those projects — Making Cartoons About Local History, implemented in the Dachnoye school, helped the Magic of Animation with a Camera creative association to become a real animation studio, complete with all necessary professional equipment.

The idea of creating an animated series on local history was aimed at getting teenagers interested in studying the history of their homeland. During the sessions in the studio, young animators try on the roles of film director, cameraman and editor, and also master the art of sound recording. When the quality of the cartoons had improved, the authors applied for participation in the first Play of Light film festival in August 2019 — the film festival of the future held on Sakhalin. Four cartoons created in the small rural school were included in the contest programme of the film festival and competed with the works of young film-makers from Yuzhno-Sakhalinsk, Moscow, St. Petersburg, Nizhny Novgorod, Kaliningrad, Kazan, as well as from Canada, India, Great Britain, China, the USA, Bulgaria and France.

In 2019, the Korsakov Sustainable Development Partnership Council celebrated its 15th anniversary with a festive event, held as part of the celebration of the 166th anniversary of Korsakov. Sakhalin Energy had prepared an interactive zone for residents of the town, where everyone had a chance to take a “tour” of the projects funded by Sakhalin Energy in the framework of the Korsakov Sustainable Development Partnership Council. The participants revealed their talents as artists and wool felting craftsmen, played chess, passed the rope test in full kit, and had their blood pressure taken at the medical station. The interactive zone was visited by both adults and children, each leaving the area with new knowledge and skills. A quiz organised by the company introduced the participants to the history of the partnership and acquainted them with the winning projects. Activities in the interactive zones lasted four hours, after which a ceremony was held to award the most active participants in the grant programme.

Materials on the activities of the Council are available on the website www.korsakovsovet.ru (available in Russian only).



9.5.6. SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN

9.5.6.1. General Information

The Sakhalin Indigenous Minorities Development Plan (hereinafter referred to as SIMDP or the Plan) is a partnership programme that has been jointly implemented by Sakhalin Energy, the Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities (SIM), and the Sakhalin Oblast Government since 2006. The programme has been divided into five-year phases, with the period of 2016–2020 being SIMDP 3.

Every year, consultations are held as part of the Plan in all traditional SIM residence areas. In 2019, 13 public meetings, attended by 200 people, were held in 12 communities. The main objectives of the consultations were to inform the public about the results of the 2018 Plan and the competitive programmes for 2019, as well as to discuss issues related to the management and implementation of the Plan as a whole and its individual programmes.

Decisions on the allocation of funds under SIMDP are made by programme committees that consist exclusively of SIM representatives specially elected at meetings in the districts. The programme committees are supported in their work by Expert Groups and District Committees.

Independent monitoring of the Development Plan is conducted on an annual basis. This gives the SIMDP partners and Sakhalin indigenous minorities an opportunity to get an independent assessment of the Plan and the results of its programmes, and also to identify the problems to promptly develop appropriate corrective measures. The monitoring is conducted by a social work specialist with extensive international experience in the development and monitoring of indigenous minorities projects. In 2019, monitoring was conducted in 10 settlements of traditional SIM residence; more than 70 meetings were held with participants in the SIMDP programmes.

9.5.6.2. Traditional Economic Activities Support Programme of SIMDP

The funds of the Traditional Economic Activities Support Programme were distributed among its component elements such as business planning, self-sufficiency, and capacity building.

In 2019, the Programme Committee approved 41 projects designed to support clan and family enterprises, communities and other associations of the Sakhalin indigenous minorities, to provide aid

to SIM representatives, and to conduct professional skills upgrade training courses. The funds allocated under the programme were used to purchase fishing net and tackle materials, vehicles, consumables, certain types of household appliances necessary for traditional economic activities and improving the living conditions of SIM population.

9.5.6.3. Social Development Fund Programme of SIMDP

With the support of the company, the Nogliki Centralised Library System Municipal State-funded Institution of Culture prepared for publishing the Revelation of the Soul—a book of poems by Angela Muvchik. The poems included in the book are sincere and heartfelt. They are about nature, life and issues of concern for the aspiring poet. Several of the poems are written in the Uilta language; therefore, the collection is interesting not only to lovers of poetry, but also to representatives of the Uilta people who wish to read literature in their native language or those who study it.

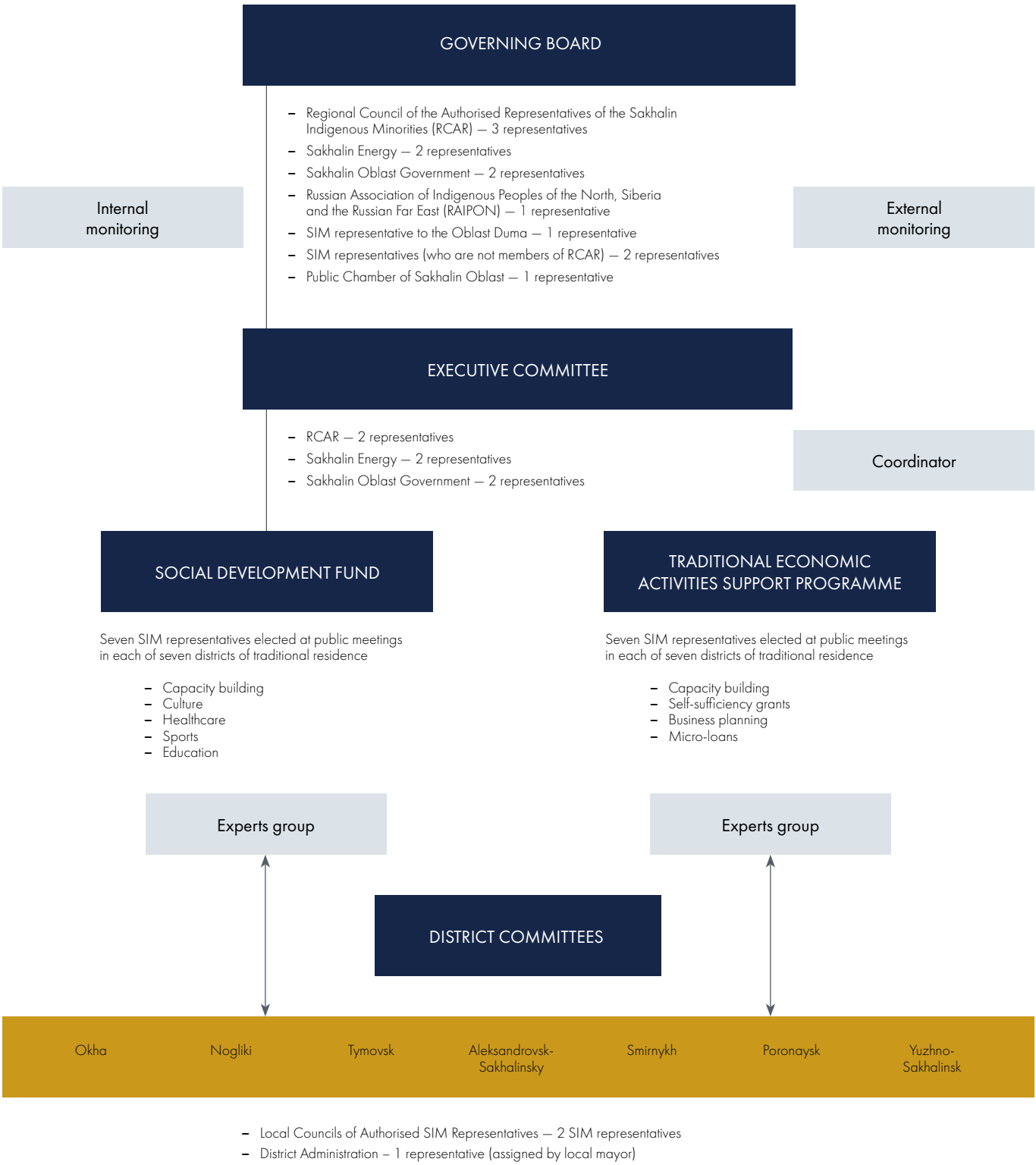
The resources of the Social Development Fund were distributed among its component elements, namely Education, Healthcare, Capacity Building, Culture, and Sports. In 2019, support was provided to 25 projects. The Nivkh (‘Man’) Territorial-Neighbourhood Community of the Indigenous Minorities of the North participated in the implementation of SDF projects as a partner organisation. As part of

educational projects, 47 students of specialised secondary and higher educational institutions received financial support, and 6 people were given medical aid.

Detailed information on the implemented projects is available on the Development Plan website (www.simdp.ru).



Governance Structure (2016–2020)



In September, the Sakhalin Regional Folk Arts and Crafts Centre, with the support of the company, organised the Paleo-Asian Peoples III International Scientific Conference. The forum brought together ethnographers, linguists, representatives of indigenous peoples, as well as specialists in national culture from various state and public organisations, and became a platform for a fruitful exchange of experience and research results. What is especially important is that ancient, sparsely spoken, but still living Paleo-Asian languages were used in a number of reports, as well as in dance and song compositions performed by national artistic ensembles.



9.5.7. SPECIAL PROJECTS FOR CAPACITY BUILDING OF THE SAKHALIN OBLAST NON-PROFIT SECTOR AND DEVELOPING VOLUNTEERING IN THE REGION

9.5.7.1. My Contribution to the Development of the Island Project

During the Eastern Economic Forum held in September 2018, Sakhalin Energy and the Sakhalin Oblast Government signed a Memorandum of Intent, which serves as a basis for partnership in the field of socio-economic development of the region within the framework of the Gorny Vozdukh Sports and Tourist Complex project. The document provides for cooperation in the development and support of the My Contribution to the Development of the Island volunteer movement project and the improvement of safety culture at the Gorny Vozdukh Sports and Tourist Complex. The Memorandum was signed to continue cooperation after the pilot phase of the project launched in late 2017 aimed at the development of volunteerism.

The company provided financial support to the sports complex to equip the volunteer team, fund a special training programme for volunteers, as well as guide and render organisational assistance. Sakhalin Energy specialists helped volunteers, most of whom were high school students, to prepare and conduct special activities. The company's HSE specialists held workshops devoted to safety culture issues. The team consisted of more than 100 active participants. Last autumn, the composition of the team was updated. The effectiveness of investments in this project is proved by a number of indicators, one of them being the fact that the 'Volunteers of the Mountain' were accepted to the volunteer team that worked at the Children of Asia 2019 international competition, and were entrusted to oversee the most difficult and critical areas of activities.





Being one of the fastest growing ski resorts in the Far East and the island’s signature attraction, the Gorny Vozdukh Sports and Tourist Complex was the main venue for the Children of Asia 2019 international competition.

Involving young people in social activism through the development of volunteerism creates a solid foundation for the personal self-fulfilment of young people, and is a significant contribution to the future of Sakhalin.

9.5.7.2. #I'MAVOLUNTEER Media Project

Sakhalin Energy continued its partnership with the Third Sector Social Cinema Laboratory.

July 2019 saw the start of a filmshoot about school volunteering. Once again, a Sakhalin story became part of the film The Volunteers of the Future. This story is about the Doctor Clown project, implemented by schoolchildren from the Altair Club in Yuzhno-Sakhalinsk (one of the winners of the grant competition held as part of the Energy Social Initiatives Fund, which was supported by the company in 2015 and continues to develop).

In December, the première of the film took place in all Russian regions; screenings of The Volunteers of the Future were organised in schools, clubs and libraries as part of the Goodwill Day campaign. On Sakhalin, the film was shown at more than 55 venues.



9.5.7.3. Social Project Manager School: Capacity Development of Non-Profit Organisations

In developing grantees and partners within the framework of various social programmes, Sakhalin Energy by no means limits its support to awarding grants. The organisation and running of seminars on topics relevant to non-profit organisations and institutions is one of the areas of activities implemented for this purpose. The Garant Centre of Social Technologies — a charity organisation in Arkhangelsk, which engages representatives of leading Russian NPOs in conducting training and development events, is the company’s partner in these endeavours.

As part of the project, seminars were held on topics such as evaluation of projects and programmes, informational support of projects, social advertising and information campaigns, organisation and conduct of

interesting and notable events, useful tips on accounting and financial accounting in NPOs, and working with volunteers.

The seminars and training workshops held in 2019 were devoted to the following topics: Grant Competition from A to Z, Effective Management of a Non-Profit Organisation, Topical Fundraising: How to Attract Resources. The training events enabled more than 70 representatives of NPOs and grant-giving organisations to develop their competencies. Today, the project participants, as well as representatives of all NPOs and state-funded institutions have access to the Entertaining Project Management series of books, which has been updated with a new book on raising funds.

9.5.8. SPECIAL CULTURAL PROJECTS DEDICATED TO THE 25TH ANNIVERSARY OF SAKHALIN ENERGY

In the year of its 25th anniversary, the company organised two special projects as part of the celebration programme which were meant as a gift to all residents and guests of the Sakhalin Oblast: the Fairy Tales in Works of Russian Artists exhibition project and the Golden Mask on Sakhalin theatre festival.

9.5.8.1. Fairy Tales in Works of Russian Artists Exhibition Project with Paintings from the Collection of the State Russian Museum

The project, jointly organised by Sakhalin Energy, the State Russian Museum and the Sakhalin Regional Art Museum, continued acquainting Sakhalin residents with the best works from the collection of the State Russian Museum — a process that began with the Five Centuries of Russian Art project in 2014.

As part of its anniversary celebrations, Sakhalin Energy presented residents and guests of the island with a unique opportunity to see the original paintings of Russian artists who portrayed fairy-tale characters in different periods of their creative work. These are masterpieces by Roerich, Korovin, Stelletsy, Bilibin, Benoit, Polenov and other famous painters, whose names make the history of Russian art. Another section of the exhibition presented landscapes by the famous Russian artists Savrasov, Shishkin, Bogaevsky, Kuindzhi, Zhukovsky, and others.



Before this major artistic event, the exhibition hall of the museum had been modernised to ensure appropriate conditions for displaying the valuable collection: the lighting equipment had been upgraded, new exhibition cases had been purchased and installed.

The exhibition programme included guided tours, lectures, workshops, film screenings, theatre performances, virtual tours of the State Russian Museum, and online Olympiad contests. A number of cultural institutions, artists and musicians of Sakhalin joined in the implementation of the project. In all, more than 100 guided tours were conducted both for individual visitors and for organised groups. In addition, the exhibition programme included the Paint a Fairy Tale — Bring the Picture to the Museum contest of fairy-tale illustrations. 126 young Sakhalin residents took part in the arts contest.

The exhibition was visited by a total of more than 8,000 people. Admission was free.

9.5.8.2. Golden Mask on Sakhalin Festival

The company’s anniversary coincided with the Year of Theatre in Russia. Sakhalin Energy acted as title partner of the Golden Mask on Sakhalin festival.

The company supported one of Russia’s most significant theatre projects, which also celebrated its 25th anniversary in 2019. The country’s best theatres staged performances of the Chekhov Centre, in particular, the Pyotr Fomenko Workshop, which performed Wolves and Sheep, the Moscow Pushkin Drama Theatre with the Promise at Dawn, the Russian State Academic Youth Theatre (RAMT) with the Fairy Tales Just in Case, and the Mayakovsky Theatre with the Russian Romance.

Sakhalin Energy invited representatives of partner organisations and grant recipients from Yuzhno-Sakhalinsk, and the Korsakov, Kholmsk, Dolinsk and Aniva Districts to see the theatrical performances.

One of the shows of the RAMT’s Fairy Tales Just in Case play was a benefit performance: about 300 children with disabilities and children from disenfranchised families from ten social rehabilitation centres were invited by the company to see the play.



9.5.9. PRESERVATION AND PROMOTION OF THE LINGUISTIC HERITAGE OF SAKHALIN INDIGENOUS MINORITIES

For Sakhalin Energy, the preservation and promotion of the native languages of Sakhalin indigenous minorities has always been an important part of engagement with indigenous ethnic groups.

The year 2019 was marked by two important events related to SIM languages. One of them was the proclamation of the year 2019 the International Year of Indigenous Languages by the UN General Assembly. The other was the 40th anniversary of the creation and adoption of the modern Nivkh alphabet, developed on the basis of the Cyrillic alphabet by Vladimir Sangi for the two main dialects of the Nivkh language.

In this regard, the company organised and supported a series of events designed to contribute to the preservation, development and promotion of the linguistic rights of Sakhalin indigenous minorities. These activities were implemented through the joint efforts of the company, the community and the government authorities.

In 2019, the company published the Sakhalin Fairy Tales — a collection of ten folklore fairy-tale stories of the Nivkhs, the Uilta, the Evenks and the Nanai — the indigenous peoples of the North living in the Sakhalin Oblast, as well as bookmarks for the fairy tales in all four SIM languages. Copies of the book were presented as a gift to all schools and kindergartens on the island.

Sakhalin Energy provided support and actively participated in publishing the collection of lyric verses under the title We Will Set Out at the Crack of Dawn by Vladimir Sangi and the Nivkh Year from A to Z Calendar, dedicated to the Nivkh alphabet. The company contributed to organising and holding a number of events at the regional, federal and international levels, in particular, the Mother Tongue Children and Youth Conference in the Languages of Sakhalin Indigenous Minorities, the International Symposium in the Languages of the Indigenous Peoples of the Russian Far East, the Nivkh Alphabet literary and art competition, the Languages and Culture of the Indigenous Minorities of the North, Siberia and the Far East of the Russian Federation: Preservation and Development Strategy Scientific and Practical Conference.

Detailed information about the project is available on the company’s website www.sakhalinenergy.com (Social Performance/International Year of Indigenous Languages section).



With the support of the company, the Sakhalin Regional Folk Arts and Crafts Centre organised an artistic tour of Russia’s only indigenous theatre — the Gulun SIM State Theatre of the Republic of Sakha (Yakutia) — in all the traditional residence districts of the Sakhalin indigenous ethnic groups. On Sakhalin, the unique indigenous theatre troupe performed two plays — The Cursed Camping Grounds, based on the Dolgan legend of Olga Falkova, and What Are You Singing About at Night, White She-Wolf? in the Yukagir language. The artists had also prepared a concert programme, during which they sang songs in the Evenki language and played traditional musical instruments.



10

THE COMPANY'S PLANS FOR 2020. DEVELOPMENT STRATEGY UP TO 2024

The company's development in 2020 and subsequent years will be based on a growth strategy, and Sakhalin Energy will pursue activities in three key areas:

- reserve base expansion;
- operational excellence;
- good corporate governance.



Nadezhda Troegubova

"Silver Winter"
Canvas, Oil,
2020

In 2019, Sakhalin Energy celebrated its 25th anniversary. Over these 25 years, the company has not only emerged as a world leading oil and gas producer, but has also become one of the key energy sources for the Asia-Pacific region. Sakhalin Energy will continue to strengthen its position in accordance with its mission and vision.

The company’s development in 2020 and subsequent years will be based on a growth strategy, and Sakhalin Energy will pursue activities in three key areas:

- reserve base expansion;
- operational excellence;
- good corporate governance.

The company’s priorities for the coming years are the same as before — health, safety and environment (HSE), as well as Goal Zero commitments.

As part of the HSE strategy, the company has adopted and included the following main objectives in the 2020–2024 plans:

LEAD AND ENGAGE:

- work safely, not because we are forced to, but because we want to. Safety is a lifestyle, a deeply held value of the company;
- support development of leaders at all levels to make the right decisions, particularly in challenging circumstances, and to build safety and continuous improvement culture;
- work as one team within our company and with our customers, suppliers, contractors and subcontractors;
- demonstrate leadership and commitment to HSE, and develop trusted relationships at all levels;
- inspire and support our people to be proactive; recognise personal examples of effective intervention and responsibility;
- sustain a culture of conscientious accountability and fairness to employees.



MANPOWER:

- inspire and support a healthy, active lifestyle among our people for their well-being;
- assure the HSE and industrial safety competence of our people to support safe implementation of major projects, execution of contracts and operation of facilities.

MAJOR HAZARDS MANAGEMENT:

- bring significant risks down to As Low As Reasonably Practicable, following the principle of ‘our assets are safe, and we know it’.

HSE HAZARDS AND CONTROLS:

- give priority to control methods that help to save lives, prevent harm to health and protect the environment;
- pay special attention to hazards associated with transport operations and workplaces in the framework of large projects and in the operation of facilities;
- apply a systematic approach to HSE management to ensure compliance with the regulatory and international requirements, and promote industry best practices.

IN 2020 AND SUBSEQUENT YEARS, SAKHALIN ENERGY’S MAIN PRODUCTION ACTIVITIES WILL BE:

- optimise production levels of oil and LNG and improve performance from existing assets;
- enhance production potential;
- develop and implement key critical projects;
- support further development of the Sakhalin Industrial Park.

One of the priority areas for the development of Sakhalin Energy in 2020 and subsequent years will be the development and implementation of a digital transformation strategy.

TO ENSURE ITS LEADING POSITION ON THE MARKET, THE STRATEGY OF THE COMPANY INCLUDES THE FOLLOWING OBJECTIVES:

- ensure safe and cost optimised LNG and crude oil cargoes deliveries;
- maximise revenue through selling oil and gas cargoes at the best prices possible;
- expand LNG and Sakhalin Blend customers pool to increase competition;
- secure sufficient shipping capacity to support marketing efforts;
- explore and develop growth opportunities in monetising Sakhalin hydrocarbon resources via Sakhalin Energy.

SAKHALIN ENERGY PLANS TO FOCUS MORE ON ETHICS AND COMPLIANCE WITH LEGAL NORMS AND REQUIREMENTS IN TERMS OF BUSINESS INTEGRITY. IN THIS AREA, THE COMPANY IS PURSUING THE FOLLOWING STRATEGIC OBJECTIVES:

- further enhance and improve organisational culture by making ethics and compliance integral to business strategy, and augment our ethics and compliance programme to integrate with business operations;
- enhance ethics and compliance culture in a way similar to safety culture, using experience gained while establishing it, as well as efficient approaches;
- have Members of the Committee of Executive Directors and line managers focused on the promotion and enhancement of organisational culture, values and models of conduct by their taking responsibility for ethics and compliance performance.

AS PART OF THE HR MANAGEMENT STRATEGY IMPLEMENTATION, IN 2020 AND SUBSEQUENT YEARS, SAKHALIN ENERGY WILL CONTINUE TO:

- recruit and develop the best qualified specialists, including residents of the Sakhalin Oblast;
- meet the company’s needs for personnel of key occupations from among the internal skill pool and personnel reserve of shareholder companies;





- implement the succession plan by investing in the professional training and development of Russian personnel in order to prepare them for the appointment to the positions of Technical Authorities and heads of organisational units of the company;
 - deliver an attractive and competitive employee value proposition (EVP);
 - introduce digital HR technologies and deliver cost-effective HR processes in the environment of continuous improvement;
 - preserve the unique corporate culture and strengthen the image of the company as the most attractive employer.
- Regular and meaningful stakeholder engagement remains an important component of Sakhalin Energy’s successful performance. The strategy and plans for engaging the public for 2020 have been included in the Public Consultation and Disclosure Plan (see the company’s website www.sakhalinenergy.com).
- 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.
- identifying and supporting new partnership initiatives and developing existing partnerships;
 - maintaining and furthering the dialogue with stakeholders aimed at the creation of a sustainable social basis for the company’s initiatives;
 - improving social programme efficiency by:
 - involving the stakeholders in the development and implementation of external social programmes;
 - expanding collaboration with state authorities, business partners, expert and public organisations while implementing social projects;
 - replicating effective models of social programmes in the region and at the federal level;
 - managing knowledge in the field of corporate social responsibility (CSR), developing an advanced training system to improve the skills of employees engaged in social investment programmes;
 - ensuring high-level information transparency.

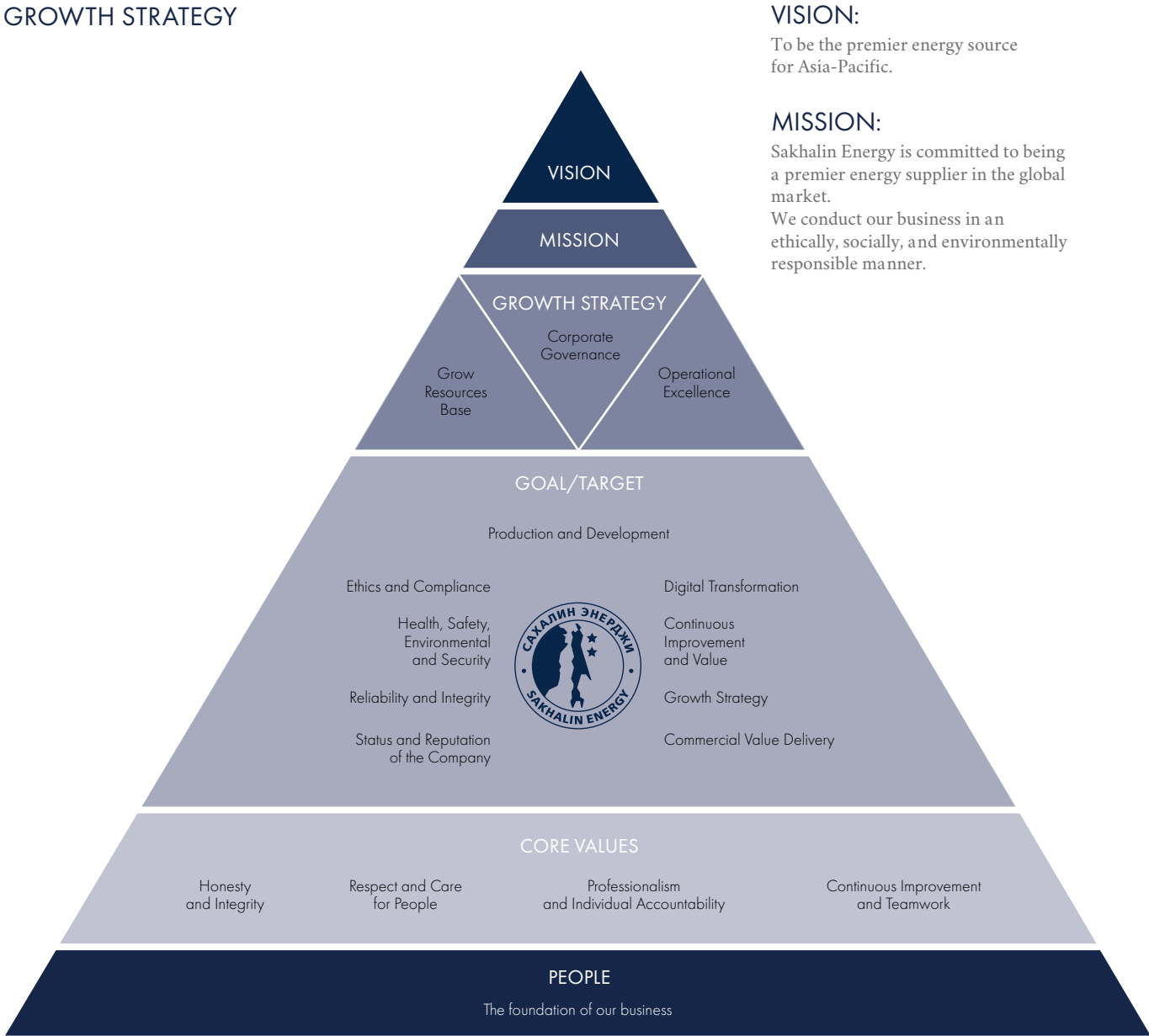
COMPANY OBJECTIVES IN SOCIAL INVESTMENTS FOR 2020 INCLUDE:

- developing and implementing programmes to support the company’s development strategy and to enhance the effectiveness of its contribution to solving regional tasks;

Sakhalin Energy will continue to conduct its business in compliance with the adopted General Business Principles, Code of Conduct, Sustainable Development Policy, and corporate social responsibility standards.

Sakhalin Energy will make every effort to further improve its work and conduct its business on the basis of efficient, reliable and safe production, digital transformation, and a responsible attitude towards social and environmental issues, thereby contributing to the implementation of the UN Sustainable Development Goals.

GROWTH STRATEGY



VISION:

To be the premier energy source for Asia-Pacific.

MISSION:

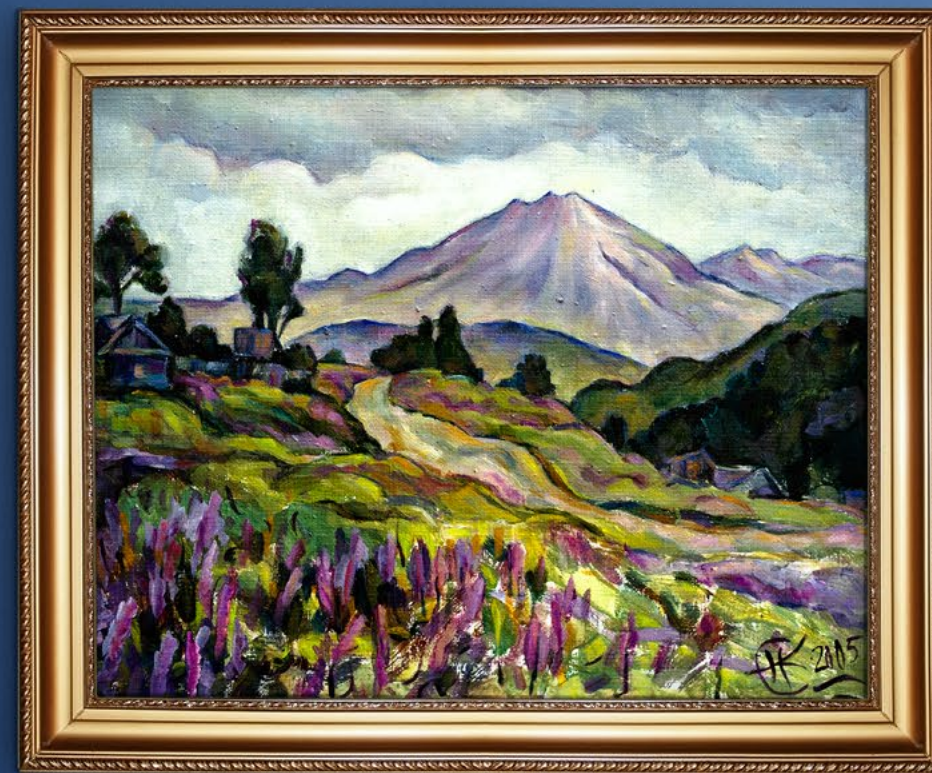
Sakhalin Energy is committed to being a premier energy supplier in the global market.

We conduct our business in an ethically, socially, and environmentally responsible manner.

Sakhalin Energy personnel, whilst living core values and delivering targets, drive the company strategy to achieve mission and vision.

11

APPENDIX



Natalia Kiryukhina

"Time of Lupines"
Canvas, Oil
2005

APPENDIX 1
GRI Standards Compliance Table

For explanation of the material topics and their boundaries, see Section 2.4.
Defining Material and Priority Topics to Be Included in the Report.

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
General Standard Disclosures				
1. Organisational Profile				
102-1	Name of the organisation	About the Company	42	
102-2	Primary brands, products, and services	About the Company	53-56	
102-3	Location of organisation's headquarters	<i>http://www.sakhalinenergy.ru/ru/contactus.asp</i>		
102-4	Number of countries where the organization operates, and the names of countries where it has significant operations and/or that are relevant to the topics covered in the report	About the Company	42 53-56	
102-5	Nature of ownership and legal form	Corporate Governance	66-67	
102-6	Markets where the organisation operates	About the Company	53-56	
102-7	Scale of the organisation	About the Company Economic Impact Management Personnel: Management and Development	42-53 100-101 145	
102-8	Total number of employees by employment type, gender, employment contract and region	General Information	145-148	8
102-9	Organisation's supply chain	Supply Chain Management	108-109	8 12
102-10	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	<i>No significant changes in 2019</i>		
102-11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Sakhalin Energy's CSR System Sustainable Development Policy Risk Management System Impact Assessment	25-26 28 70 38-39	3 6-8 11-16
102-12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	Performance Standards	26-27	3 6-8 11-16

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
102-13	Memberships in associations (such as industry associations) and national or international advocacy organisations	Performance Standards International and Regional Cooperation <i>In November 2009, the company joined the UN Global Compact. In 2019, the company is a member of:</i> – <i>Global Compact LEAD;</i> – <i>International Business Congress;</i> – <i>RUIE;</i> – <i>Donors Forum;</i> – <i>Association of Managers;</i> – <i>"Association of organisations performing engineering surveys in the gas and oil industry "Engineer-Surveyor"" Association;</i> – <i>"Interregional Association of Builders" Self-regulatory organisation;</i> – <i>"Association of organizations performing design work in the gas and oil industry "Design Engineer"" Self-regulatory organisation;</i>	26-27 94-97	
2. Strategy				
102-14	Statement from the most senior decision-maker of the organisation	Message from the Chairman of the Committee of Executive Directors and Chief Executive Officer	7-9	
102-15	Description of key impacts, risks, and opportunities	Message from the Chairman of the Committee of Executive Directors and Chief Executive Officer Risk Management System HSE and Social Performance Management Economic Impact Management Environmental Impact Management Social Impact Management 2020 Plans and Development Strategy up to 2024	7-9 70-73 36-39 100-103 112-139 100-197 200-203	1-16
3. Ethics and Integrity				
102-16	Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Corporate Social Responsibility and Sustainable Development Corporate Governance	24-28 74-77	16
102-17	Internal and external mechanisms for advice and concerns about ethics and matters related to lack of integrity in the organisation	Corporate Governance System and Structure Corporate Culture Stakeholder Engagement Management Human Rights	64-66 74 80-81 180-181	16
4. Governance				
102-18	Governance structure of the organisation, including committees of the highest governance body	Corporate Governance Model	66-68	
102-20	Executive-level position or positions with responsibility for economic, environmental and social topics	Corporate Governance Model	66-68	
102-21	Consulting stakeholders on economic, environmental, and social topics	Impact Assessment Sakhalin Energy's CSR System Stakeholder Engagement Management <i>Use the link specified in Appendix 4. Public Consultation and Disclosure Report in 2019</i>	38-39 25 80-81	16
102-22	Composition of the highest governance body and its committees	Corporate Governance Model	66-68	5 16

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
102-23	Whether the Chair of the highest governance body is also an executive officer	<i>The chairperson of the highest governance body is not an executive officer</i>		16
102-26	Highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	Corporate Social Responsibility and Sustainable Development Corporate Governance	24-26 66-68	
102-30	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	Risk Management System	70-71	
102-32	Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material aspects are covered	About the Report	13	
5. Stakeholder Engagement				
102-40	List of stakeholder groups engaged	About the Report Stakeholder Engagement Management	15 80	12 16
102-42	Basis for identification and selection of stakeholders who to engage with	Stakeholder Engagement Management	80-81	12 16
102-43	Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the Report preparation process	About the Report Stakeholder Engagement Management	15-16 80-81	12 16
102-44	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. Stakeholder groups that raised each of the key topics and concerns	About the Report Stakeholder Engagement Management Grievance Handling in 2019 Appendix 2 <i>Use the link specified in Appendix 4. Public Consultation and Disclosure Report in 2019</i>	15-18 80-93 180-181 216-219	12 16
6. Reporting Practice				
102-45	Entities included in the organisation's consolidated financial statements or equivalent documents	About the Report Economic Impact Management	21 100	12 16
102-46	Process for defining the Report content and the Aspect Boundaries. Reporting Principles for Defining Report Content	About the Report	15-16	12 16
102-47	List of all the material Aspects identified in the process for defining the Report content	About the Report	17-20	12 16
103-1	Material topic and its boundary	About the Report	17-20	12 16

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
102-48	Restatements of information provided in previous reports, and the reasons for such restatements	<i>No restatements of information</i>		12 16
102-49	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	<i>No significant changes in the scope or aspect boundaries</i>		12 16
102-50	Reporting period (such as fiscal or calendar year) for information provided	<i>2019</i>		12 16
102-51	Date of most recent previous report (if any)	<i>April 2019</i>		12 16
102-52	Reporting cycle (such as annual, biennial)	About the Report <i>Annual</i>	13	12 16
102-53	Contact point for questions regarding the Report or its contents	Appendices 5–6	225-226	12 16
102-54	Claims of reporting in accordance with the GRI Standards	About the Report	14	12 16
102-55	GRI Content Index. Reference to the External Assurance Report	This Appendix Appendices 7–8	206-215 228-231	12 16
102-56	Organisation's policy and current practice with regard to seeking external assurance for the Report	About the Report	21	12 16

Specific Standard Disclosures

Category: Economic				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of management approach	About the Company Economic Impact Management Remuneration and Bonus System Grievance Handling in 2019 Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	42 100-109 151-152 181 183	1 16
GRI 201 Economic Performance (2016)				
201-1	Direct economic value generated and distributed	About the Company Economic Impact Management Remuneration and Bonus System	42 100-105 151-152	2 5 8 9 13
201-3	Coverage of the organisation's defined benefit plan obligations and other retirement plans	Social Guarantees, Benefits and Compensations	154	
201-4	Financial assistance received from government	<i>The company received no financial assistance from the government in 2019</i>		
GRI 202 Market Presence (2016)				
202-1	Ratio of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Remuneration and Bonus System	152	1 5 8

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
202-2	Proportion of senior management hired from the local community at significant locations of operation	General Information Recruiting Personnel and Onboarding New Employees	146-147 150	8
GRI 203 Indirect Economic Impacts (2016)				
203-1	Development and impact of infrastructure investments and services supported	Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast Social Investments and Contributions to Sustainable Development of the Host Region	100 183	2 5 7 9 11
203-2	Significant indirect economic impacts, including the extent of impacts	Economic Impact Management	100	1 2 3 8 10 17
GRI 204 Procurement Practices (2016)				
204-1	Proportion of spending on local suppliers at significant locations of operation	Russian Content	105	8
GRI 205 Anti-Corruption (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of management approach	Anti-Bribery and Corruption	76-77	16
205-2	Communication and training on anti-corruption policies and procedures	Anti-Bribery and Corruption	76-77	16
205-3	Confirmed incidents of corruption and actions taken	<i>No cases of corruption were registered in 2019</i>		16
Category: Environmental				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of management approach	HSE and Social Performance Management System Environmental Impact Management Grievance Handling in 2019 Environmental Protection Costs and Payments for the Negative Impact	36-37 112-139 181 120-121	12 13 14 15 16
GRI 302 Energy (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of management approach	Energy Production and Consumption	117-118	7 8 12 13
302-1	Energy consumption within the organisation	Energy Production and Consumption	117-118	7 8 12 13
302-3	Energy intensity	Energy Production and Consumption	117-118	7 8 12 13

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
GRI 303 Water (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Impact on Water Bodies Environmental Protection Costs and Payments for the Negative Impact	114-115 120-121	6
303-1	Total water withdrawal by source	Impact on Water Bodies	114-115	6
303-2	Water sources significantly affected by withdrawal of water	Impact on Water Bodies <i>No water sources are materially affected by the company's withdrawal of water</i>	114-115	6
GRI 304 Biodiversity (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Environmental Monitoring and Biodiversity Conservation Environmental Protection Costs and Payments for the Negative Impact	121-135 120-121	6 14 15
304-1	Operational sites on, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Environmental Monitoring and Biodiversity Conservation	121-135	6 14 15
304-2	Significant impacts of activities, products, and services on biodiversity on protected areas and areas of high biodiversity value	Environmental Monitoring and Biodiversity Conservation <i>There are no significant impacts of activities, products or services on biodiversity</i>	121-135	6 14 15
304-4	Total number of IUCN red list species and national conservation list species with habitats in areas affected by operations	Environmental Monitoring and Biodiversity Conservation	121-135	6 14 15
GRI 305 Emissions (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Greenhouse Gas and Ozone-Depleting Substance Emissions Environmental Protection Costs and Payments for the Negative Impact	118-119 120-121	12 14 15
305-1	Direct greenhouse gas (GHG) emissions	Greenhouse Gas and Ozone-Depleting Substance Emissions	119	3 12 13 14 15
305-2	Energy indirect greenhouse gas (GHG) emissions	Greenhouse Gas and Ozone-Depleting Substance Emissions	119	3 12 13 14 15
305-6	Emissions of ozone-depleting substances (ODS)	Greenhouse Gas and Ozone-Depleting Substance Emissions	119	3 12
305-7	Nitrogen oxides (NO _x), sulphur oxides (SO _x), and other significant air emissions	Impact on Atmospheric Air	113-114	3 12 14 15

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
GRI 306 Effluents and Waste (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Impact on Water Bodies Waste Management Oil Spill Prevention and Response Preparedness Environmental Protection Costs and Payments for the Negative Impact	114-115 116 136-137 120-121	12 14 15
306-1	Total water discharge by quality and destination	Impact on Water Bodies	115	3 6 12 14
306-2	Total weight of waste by type and disposal method	Waste Management	116	3 6 12
306-3	Total number and volume of significant spills	Oil Spill Prevention and Response Preparedness	136	3 6 12 14 15
GRI 307 Environmental Compliance (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	HSE and Social Performance Management System Environmental Impact Management Grievance Handling in 2019 Environmental Protection Costs and Payments for the Negative Impact	36-38 181 112-139 181 120-121	12 14 15
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Environmental Protection Costs and Payments for the Negative Impact	120-121	16
GRI 308 Supplier Environmental Assessment (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Supply Chain Management	108-109	12
308-1	Supplier Environmental Assessment	100%		12
Category: Social				
GRI 401 Employment (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Approaches to HR Management and HR Policy Grievance Handling in 2019	143-145 181	
401-1	New employee hires and employee turnover by age group, gender, and region	General Information Recruiting Personnel and Onboarding New Employees	147 150	5 8
401-3	Return to work and retention rates after parental leave, by gender	General Information	147	5 8 10

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
GRI 402 Labour/Management Relations (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Engagement with Personnel Approaches to HR Management and HR Policy Grievance Handling in 2019	84-85 143-145 181	
402-1	Minimum notice periods regarding operational changes	<i>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</i>		8
GRI 403 Occupational Health and Safety (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Labour Safety and Protection Occupational Health Grievance Handling in 2019	168-177 177-179 181	
403-2	Rates of injury, occupational diseases, and total number of work-related fatalities	Labour Safety and Protection Occupational Health	169 179	3 8
GRI 404 Training and Education (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Learning and Development Grievance Handling in 2019	156-167 181	
404-1	Average hours of training per year per employee by gender, and by employee category	Personnel Training	158-159	4 5 8 10
404-2	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Learning and Development	156-167	8
404-3	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Individual Performance Review	155	5 8 10
GRI 405 Diversity and Equal Opportunity (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of management approach	Approaches to HR Management and HR Policy Grievance Handling in 2019	143-145 181	
405-1	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	General Information	145-148	5 8
405-2	Ratio of basic salary and remuneration of women to men by employee category	<i>Basic salaries of men and women of all personnel categories do not differ</i>		5 8 10
GRI 406 Non-discrimination (2016)				
406-1	Total number of incidents of discrimination and corrective actions taken	<i>No cases of discrimination on any grounds were registered in 2019</i>		5 8 16

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
GRI 407 Freedom of Association and Collective Bargaining (2016)				
407-1	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	<i>No operations in which the right to exercise freedom of association and collective bargaining may be at significant risk</i>		8
GRI 408 Child Labour (2016)				
408-1	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	<i>No operations risk of involving child labour</i>		8 16
GRI 409 Forced or Compulsory Labour (2016)				
409-1	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	<i>No operations risk of involving forced or compulsory labour</i>		8
GRI 410 Security Practices (2016)				
410-1	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	<i>100%</i>		16
GRI 411 Rights of Indigenous Peoples (2016)				
411-1	Total number of incidents of violations involving rights of indigenous peoples and actions taken	<i>No registered cases of violation of rights of Indigenous Peoples in 2019</i>		2
GRI 412 Human Rights Assessment (2016)				
412-2	Employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Human Rights Training	182	
GRI 413 Local Communities (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of management approach	Corporate Social Responsibility and Sustainable Development Corporate Governance Engagement Strategy, Principles, Mechanisms and Tools Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches Grievance Handling in 2019	24-25 80-81 183-184 181	
413-1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Impact Assessment Engagement Strategy, Principles, Mechanisms and Tools Social Investment and Contribution to the Sustainable Development of the Host Region <i>100%</i>	38-39 80-81 183-194	
413-2	Operations with significant actual and potential negative impacts on local communities	Impact Assessment <i>In 2019, the company did not carry out operations with significant actual or potential negative impacts on local communities</i>	38-39	1 2

GRI index	GRI disclosure	Report section and/or <i>comments or references to other sources</i>	Page in the Report	UN SDGs
GRI 415 Public Policy (2016)				
415-1	Total value of political contributions by country and recipient/beneficiary	<i>As per the company's Code of Conduct, Sakhalin Energy does not support any political parties, organisations, or their representatives financially and does not participate in political activities</i>		16
GRI 416 Customer Health and Safety (2016)				
416-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	<i>No incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services in 2019</i>		16
GRI 417 Marketing and Labelling (2016)				
417-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	<i>No incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling in 2019</i>		16

Sector Disclosures (in Addition to General and Specific Standard Disclosures)

Category: Environmental				
OG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	Environmental Monitoring and Biodiversity Conservation	121-135	6 14 15
OG5	Volume and disposal of formation or produced water	Impact on Water Bodies	114-115	3 6 8 12 14
OG6	Volume of flared and vented hydrocarbon	Impact on Atmospheric Air Greenhouse Gas and Ozone-Depleting Substance Emissions Utilisation of Associated Gas in Production	113-114 118-119 120	3 7 8 12 13 14
OG7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	Waste Management	116	3 6 12
Category: Social				
OG9	Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place	Engagement with the Sakhalin Indigenous Minorities Sakhalin Indigenous Minorities Development Plan <i>www.simdp.ru</i>	88-91 191-193	1 2
OG10	Number and description of significant disputes with local communities and indigenous peoples	<i>In 2019, there were no significant disputes with local communities and indigenous minorities</i>		1 2
OG12	Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process	<i>In 2019, there was no activity due to which involuntary resettlement took place Use the link specified in Appendix 4. Resettlement: Experience of Sakhalin Energy brochure</i>		1 2 11

APPENDIX 2
Comments and Suggestions of Stakeholders on Individual Aspects, Indicators
and/or Programmes and the Company’s Response and Commitments

Detailed information on the results of stakeholder engagement work conducted during the preparation of the Report, including dialogue meetings, surveys, etc., is presented in Section 2. About the Report.

In addition to identifying relevant topics, stakeholders also made comments and suggestions on individual aspects, indicators, and/or programmes of the company for inclusion in the 2019 Report.

In November 2019, Sakhalin Energy held the first dialogue as part of the 2019 Report preparation. At this meeting, the company provided stakeholders with information on its activities and achievements during the reporting period. In February 2020, the second dialogue was held to provide responses to comments, suggestions and questions received during the first dialogue. During this meeting, participants made additional comments. Apart from the dialogue meetings, the company conducted electronic surveys and personal interviews, as well as surveys

at various events in November and December 2019 (see Section 2.3. Defining Material and Priority Topics to Be Included in the Report).

Stakeholder comments and suggestions, as well as the relevant responses and 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 they were expressed at the dialogue meetings, the participant`s name, position and organisation are indicated. In other cases, the format of the event in which the stakeholders’ opinion was collected (electronic questionnaires, interview, etc.) is specified.

The right column contains the responses 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
Event: first dialogue meeting. Open statements	
Nadezhda Nikitina, Head of the Programme and Estimate Documentation Analysis and PSA Implementation Department, Sakhalin Oblast Ministry of Natural Resources and Environmental Protection	
Thank you for the information provided. I would like the materials of the Report and the presentation to contain information on the Russian content, including the following indicators: man-hours, labour costs, actual use of funds by Russian contractors. It is advisable that the book/Report and the presentation contain data on Sakhalin contractors and examples of cooperation with them	This information is included in Section 7.3.1.
It would be useful if the Report contained indicators of the Goal Zero implementation results, showing, in particular, how the programme has changed the company's activities, how it has influenced its performance indicators.	This information is included in Section 9.2.3.
Natalya Koltunovich, Director of the Department of Environmental and Water Resources Protection, Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast	
The company's earlier reports mentioned that in an attempt to reduce nitrogen dioxide emissions into the air the company employed gas turbines equipped with a device to reduce nitrogen dioxide emissions. Could you provide specific data on the actual values of these emissions and by what per cent emissions are reduced when the company uses such installations?	The use of technology for dry low nitrogen oxide emission in gas turbines and compressors, which are the main sources of emissions of these substances, can reduce emissions by 60% to 80%. For actual emission data, see Section 8.2.2.
Sakhalin Energy, together with Exxon Neftegas Limited, took a very active part in the development of regional standards for the permissible residual content of oil products in the soil of the Sakhalin Oblast during reclamation and other restoration work, although there was no oil-contaminated soil in the company's territory when all these tests were performed. The Department of Environmental Protection and Water Resources of the Sakhalin Oblast Ministry of Natural Resources welcomes the fact that there was no oil-contaminated soil in the company's territory. The standards were approved by the RF Government Decree in July 2018. I would like to know if the company applies these standards in its work and if it does, how often and where exactly?	The company takes into account the values of these standards when monitoring soil in the territory of production facilities and in the potentially affected area. They will be included in the company's documentation during the next update and approval of OSR plans

Comment, Question, Critical Remark or Suggestion	Company`s Response and/or Commitment
Antonina Nachetkina, Deputy Chairman of the Sakhalin Indigenous Minorities Council at the Administration of Yuzhno-Sakhalinsk	
Recently, the Oil and Gas of Sakhalin 2019 international conference was held in Yuzhno-Sakhalinsk. Among the issues discussed during the conference was the issue of Sakhalin indigenous minorities. Regrettably, no SIM representatives from the Regional Council, the Sakhalin Oblast Government or the regional Duma had been invited to the conference. Why had they not been invited to participate in the event? Although active large-scale work is being carried out in this area, representatives of Sakhalin indigenous minorities were completely ignored.	The question does not apply to the company, since the company was just a participant rather than the organiser of the conference. It was the Sakhalin Oblast Government that had prepared the guest list and the agenda. Pre-registration for the event was carried out through the official website of the conference
Event: second dialogue meeting. Open statements	
Anatoly Ivanovich (surname was not indicated)	
You are supplying gas to Sakhalin now. Is this provided as compensation for using subsoil or do you charge the region for it?	Natural gas supplied by the company to the domestic market is in compensation for the use of subsoil in accordance with the Production Sharing Agreement for the Sakhalin-2 project (see Section 7.2.)
I have a suggestion: a group of specialists has developed a technology that allows prolonging a person's life by 5 to 20 years. We can offer such treatment to your colleagues (we will provide the technology and work with them).	The company applies a structured approach to the protection of our employees' health in accordance with the corporate Occupational Health and Hygiene Standard (see Section 9.3.)
Svetlana Shvets, Deputy of the Yuzhno-Sakhalinsk City Council, Chairperson of the Economics and Budget Committee	
The company does a lot for the region, including charity events, very good programmes. It also provides an excellent benefits package for its staff. Are these additional benefits and programmes financed from your net profit or are they included in the item of expenses that reduces the base for the calculation of royalties paid to the Russian party?	Payments to staff are made in accordance with the company's HR Policy and do not affect the calculation of subsoil use fees (royalties), which are paid to the Russian party
Ivan Voronin, Director of Aquazashchita Company	
There was a time when we were looking for oil and gas. Then, we found gas, and now it is supplied to Sakhalin. It is not clear, though, why the price of electricity remains the same as at the time when power was generated from coal. Why does the price not go down?	The issue of energy supply to the island is beyond the company's scope
How are ice oil spill drills conducted and by who? Have any such drills been conducted at all? I have information that the company has no training in recovering oil from ice	The company has all necessary equipment for collecting oil in ice conditions, and we conduct regular exercises (see Section 8.5.)
The advanced countries of the world are now switching to tidal power plants. Experts have proven that tidal energy is the energy of the future. When we run out of gas and oil, we will start using hydrogen extensively. To survive, we need to switch to energy sources that surround us — water currents, tides. When will we switch to the new kind of energy?	Sakhalin Energy Investment Company Ltd. (Sakhalin Energy) was founded in 1994 to develop the Piltun-Astokhskoye and the Lunskoye oil and gas fields in the Sea of Okhotsk offshore Sakhalin Island. The company carries out its operations in accordance with the Sakhalin-2 Production Sharing Agreement
Vasily Pisarev, Chairman of the Board, Cold Training and Sports Winter Swimming Federation (AQUICE-SPORTA) Sakhalin Regional Non-Governmental Organisation — Division of the Cold Training and Sports Winter Swimming Federation of Russia All-Russian Public Organisation	
I would like to offer the employees of Sakhalin Energy, Rosneft and Gazprom an excursion to Ivan Grozny volcano at Kunashir this year	The company does not organise tourism events for its employees
Antonina Nachetkina, Deputy Chairman of the Sakhalin Indigenous Minorities Council at the Administration of Yuzhno-Sakhalinsk	
I would like to thank SIM people working at Sakhalin Energy — well done, thank you: you are very hard-working, scrupulous and attentive in work. I would also like to thank the staff of the Sakhalin Regional Art Museum, the Literary and Art Museum of the Book of A. P. Chekhov 'The Sakhalin Island', the Sakhalin Regional Folk Arts and Crafts Centre — SIM people also work at these establishments. Thank you so much! I wish you good health and good luck. I have been collecting calendars for a long time already. Another beautiful calendar has been published this year. Thank you so much for publishing calendars dedicated to the indigenous peoples of the North	The company is grateful for the comment

Comment, Question, Critical Remark or Suggestion	Company`s Response and/or Commitment
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Additional Questions Asked at the Exhibition Booths (as Part of Dialogue Meetings)

Could information on the number of the company's employees who are residents of the Sakhalin Oblast, provided in the Report (the Personnel section), be supplemented with data on the number of residents of the Korsakov and Nogliki Districts working in the company, since the main the company's facilities are located in these particular districts?	The company makes every effort to engage Russian citizens, mainly residents of the Sakhalin Oblast (irrespective of the municipal district they live in) to work on the Sakhalin-2 project. The company has made a point of hiring Russian citizens, mostly Sakhalin residents, to work on the Sakhalin-2 project. At the end of 2019, the number of Sakhalin Oblast residents working at the company was 1,238 people, which is 55.4% of the total personnel. In its Sustainable Development Report, the company provides information for the Sakhalin Oblast as a whole, without a breakdown by municipal district. Nevertheless, data on the number of local personnel by district, including the Korsakov and Nogliki Districts, were presented during the second dialogue meeting
There was an Indigenous Peoples Team at the company for several years. Why did the company dissolve this unit? What were the reasons for it?	The company carries out planned organisational and staffing activities, aimed at maintaining and improving the overall company performance. The tasks related to the development, implementation and coordination of various projects, programmes and practices of engagement with the indigenous peoples of the Sakhalin Oblast are performed by the company's Social Performance Subdivision
Concerning engagement with the vocational educational institutions of the region: can the company collaborate not only with the Polytechnic College of SSU, but also with other vocational educational institutions?	Information on cooperation with educational institutions is included in Section 9.1.3. The only specialised oil and gas vocational educational institution on Sakhalin and the primary partner in organising and conducting practical training for students of working occupations is the SSU Polytechnic College. Nevertheless, in 2019 the company began to cooperate with the Sakhalin College of Agricultural Mechanisation in the organisation of practical training for equipment repair and maintenance electricians — an occupation which is in demand at the company
Senya / Safety Is Important Programme — information for children with special needs	The Safety Is Important Programme has been implemented for 15 years already. In all this time, the programme partners (the Chief Directorate of the Ministry of Emergency Situations for the Sakhalin Oblast, the Sakhalin Oblast Ministry of Education and Sakhalin Energy) have created a large number of materials that are freely available on the programme's website (www.senya-spasatel.ru) and can be used in any institutions, including specialised institutions for children with disabilities. Specialists engaged in the programme create cartoons and comics, computer and board games, as well as other materials devoted to the safety issues which are most relevant for Sakhalin residents. For information on the programme and the results of its implementation in 2019, see Section 9.5.3.

Other activities (electronic questionnaires, personal interviews, etc.)

The results of the preparation and implementation of a new integrated Reserves Management Plan for the Piltun-Astokhskoye field	This information is included in Section 4.2.1.
The topic of innovation was not disclosed in last year's Report	Relevant information is included in Section 4 (including the new Section 4.3. Innovation and Continuous Improvement), Section 8 and Section 9
The company influence in the Far Eastern Federal District is enormous, and therefore certain changes in the company and/or work schedule strongly affect the policies and work of service providers	The company is grateful for the comment
Engaging local Sakhalin staff in carrying out work and developing them. Stimulating contractors to engage local staff	This information is included in Section 7.4. and Section 9.1.3.
Maintaining the non-stop operation of the OPF and the LNG plant. Reducing leaks (spills) will reduce environmental impact	This information is included in Section 4.2.1. and Section 8.5.
Moscow takes 50%. The local residents receive nothing	When making payments to the Russian party, the company is guided by the PSA provisions and Russian legislation. Further inter-budget regulation within the Russian Federation is carried out without the company's participation
Volunteer movement. Remarkable project (Golden Mask, etc.)	This information is included in Section 9.5.

Comment, Question, Critical Remark or Suggestion	Company`s Response and/or Commitment
Scholarships for local students	This information is included in Section 9.1.7.11. and Section 9.5.6.3.
The Sakhalin-2 project is not only a city-forming, but also a regional enterprise	The company is grateful for the comment
Relations between Gazprom and Shell. Plans for further cooperation within the framework of Sakhalin Energy JV	This information is included in Section 10

Recommendations of the RUE Council for Non-Financial Reporting Following the Review of the Sakhalin Energy Investment Company Ltd. 2018 Sustainable Development Report for the Purpose of Public Endorsement

The Report contains information about the company's plans and objectives for the coming year and its development strategy until 2023. It is advisable that the next report includes specific information describing the achievement of set objectives in order to correlate the plans, targets and performance results as fully as possible	This information is included in Section 10
Based on best practices of disclosing reporting information, it is recommended to present indicators in the key areas of corporate responsibility, sustainable development and the company's SDGs covering a period of not less than three years with simultaneous presentation of measurable benchmarks for the upcoming reporting period	The Report presents information for 4 years
Attention should be paid to the fact that it is important to support data presented in dynamics with analytical comments, giving a clear idea of the factors which caused significant changes in corresponding indicators, their decrease or growth. This applies, in particular, to the data on the dynamics of registered cases of occupational diseases, provided in the Report. The inclusion of such explanations will allow a better understanding of the processes occurring in the company	Significant changes in the dynamics are accompanied by explanations
A key topic of the Report — innovation — deserves a more complete disclosure and further development in subsequent non-financial reports. It would be useful to pay special attention to key areas in which the company implements innovative solutions, and the role of innovation in the realisation of Sakhalin Energy's strategy	The company will continue to cover this topic. Relevant information is included in Section 4 (including new Section 4.3. Innovation and Continuous Improvement), Section 8 and Section 9
The implementation of long-term partnership projects with the participation of external stakeholders and the use of various mechanisms and technologies to implement social programmes are characteristic features of Sakhalin Energy's social policy. In view of the experience gained by the company in managing long-term projects and stakeholders' need for information about the company's community outreach efficiency, it is recommended to provide further data on the assessment of social effects, in particular tender projects, to include indicators that show the impact of the company's social investments on the formation and improvement of the social environment, the well-being of residents, and building the economic capacity of the territories	This information is included in Section 9.5.
It should be noted that in order to correctly confirm the application of international documents during the preparation of the Report, in particular the recommendations of the European Commission on non-financial reporting, it would be useful to indicate how exactly these recommendations are used and which specific provisions are applied by the company in the reporting process	The company follows the Recommendations in the following aspects: – economic: Procurement Practices, Anti-Corruption, and other topics. – environmental: Energy, Water, Biodiversity, Emissions, and other topics. – social: Local Communities, Diversity and Equal Opportunity, Non-Discrimination, Labour/Management Relations, Occupational Health and Safety, Training and Education, and other topics. These topics correlate with GRI topics and indicators (see Appendix 1)
It is advisable to confirm the level of anti-corruption compliance stated in the Report by disclosing, in the following reports, information on internal control actions taken and/or the audit of targeted spending and the effectiveness of charitable and sponsor payments made by the company	This information is included in Section 5.7.
It was recommended that attention should be given to enhancing stakeholders' positive perception of the reporting information through the inclusion of feed-back examples containing views on the results of company's activities in specific groups' priority areas, significant topics and topical issues of public agenda related to the company	The information is included in Section 6 (by stakeholder groups)

APPENDIX 3
List of Participants in the Discussion of the 2019 Sustainable Development Report with Stakeholders

1. Akvazashchita, I.V. Voronin, CEO.

2. Alexandrovsk-Sakhalinsky Centralized Library System, E.V. Poznykhova, Lead Librarian.

3. Alexandrovsk-Sakhalinsky Centralized Library System, L.A. Levchenko, Head of Readers Service Department.

4. Alexandrovsk-Sakhalinsky Centralized Library System, Mgachi village Library, O.V. Titanova, Head of Library.

5. Alexandrovsk-Sakhalinsky Centralized Library System, Mikhailovka village Library, T.I. Shvedchikova, Head of Library.

6. Alexandrovsk-Sakhalinsky Nursing Home for Elderly and Disabled, N.B. Gangayeva, Matron.

7. Central Office of EMERCOM for Sakhalin Oblast, R.V. Novoselov, Deputy Head of Civil Defence Administration.

8. Central Office of EMERCOM for Sakhalin Oblast, T.A. Kuzina, Lead Specialist of Education Department.

9. Chekhov's Sakhalin Island Book Literary and Art Museum, E.P. Firsova, Director.

10. Dolinsk City District Administration, A.F. Yakuba, Vice Mayor.

11. Dr. Clown Project, S.A. Inyavkina, Coordinator.

12. E.P. Dzyapi, Representative of Sakhalin North Indigenous Minority Peoples.

13. Favorit, M.A. Babi, Commercial Director.

14. G.N. Yegorova, Representative of Sakhalin North Indigenous Minority Peoples, Member of the SDF Committee under the Sakhalin Indigenous Minorities Development Plan.

15. Human Rights Commissioner for Sakhalin Oblast, S.B. Sedov.

16. Korsakov City District Administration, G.P. Golodnikov, Vice Mayor.

17. Leisure Centre / Smirnykh Centralized Club System, D.N. Bodnar, Methodologist.

18. M.V. Kragina, Representative of Sakhalin North Indigenous Minority Peoples, Coordinator of the Sakhalin Indigenous Minorities Development Plan.

19. O.V. Sadinova, Representative of Sakhalin North Indigenous Minority Peoples, Housewife.

20. Okha Centralized Library System, E.A. Korchinskaya, Lead Librarian.

21. Okha Centralized Library System, L.L. Nabokova, Head of Library.

22. Preodolenie Rehabilitation Centre for Children and Teenagers with Disabilities, A.V. Che, Director.

23. Rossiyskaya Gazeta, V.I. Arnautov, Branch Director.

24. Sakhalin Branch of FSBSI VNIRO, Y.N. Poltev, Lead Researcher, the Environmental Research and Anthropogenic Impact Monitoring Laboratory.

25. Sakhalin Oblast Education Development Institute, L.Y. Chistyakova, Specialist of Analysis, Planning, and Forecasting Department.

26. Sakhalin Oblast Firefighting Service Department, N.P. Sharukhina, HR Specialist.

27. Sakhalin Oblast Government, L.Y. Ustinovskaya, Children's Ombudsman for the Governor of Sakhalin Oblast.

28. Sakhalin Oblast Government, R.V. Fedulova, Sakhalin North Indigenous Minority Peoples Liaisons Section, Internal Policy Department.

29. Sakhalin Oblast Ministry of Education, Y.M. Domra, Specialist.

30. Sakhalin Oblast Ministry of Forestry and Hunting, E.G. Chernyavskaya, Head of Section for Specially Protected Natural Areas and Biodiversity.

31. Sakhalin Oblast Ministry of Natural Resources and Environmental Protection. A.O. Maximova, Advisor of Environmental Protection, Regulation and Licensing Section.

32. Sakhalin Oblast Ministry of Natural Resources and Environmental Protection, N.V. Nikitina, Head of WP&B Documentation Analysis and PSA Implementation Section.

33. Sakhalin Oblast Ministry of Natural Resources and Environmental Protection, N.S. Koltunovich, Director of Environmental Protection and Water Resources Department.

34. Sakhalin Region Public Organization Winter Swimming Federation (Akways Sporta), V.I. Pisarev, Chairman of the Board.

35. Sakhalin Regional Art Museum, E.S. Nitkuk, Head of Regional Art Projects Subdivision.

36. Sakhalin Regional Art Museum, I.G. Malkova, Deputy Director for Research.

37. Sakhalin Regional Art Museum, S.N. Sangi, Senior Researcher of Regional Art Projects Subdivision.

38. Sakhalin Regional Centre of Folk Art, D.G. Smekalov, Director.

39. Sakhalin Regional Centre of Folk Art, O.Y. Khuryun, Lead Methodologist of SIM Culture Department.

40. Sakhalin Regional Museum, O.F. Solovyova, Researcher.

41. Sakhalin Regional Special Library for Blind People, S.A. Kim, Head of Help Desk.

42. Sakhalin State University, A.V. Bakunov, Associate Professor.

43. Smirnykh Centralized Club System, Pobedino Village Community Centre, I.A. Ushakova, Head of Pobedino Village Community Centre.

44. Smirnykh Centralized Library System, A.M. Novikova, Librarian.

45. Smirnykh Centralized Library System, O.P. Tkacheva, Head of Children's Library.

46. Tymovsk Centralized Library System, M.S. Sushkova, Head of Children's Section of Central District Library.

47. Tymovsk Centralized Library System, Molodezhnoye Village Library, I.M. Ushayeva, Head of Library.

48. Tymovskoye Children and Youth House, E.V. Gladysheva, Teacher of Additional Education.

49. Tymovskoye Children and Youth House, S.V. Klimova, Teacher of Additional Education.

50. V.A. Naumkov, Representative of Sakhalin North Indigenous Minority Peoples, Chairman of the TEASP Committee under the Sakhalin Indigenous Minorities Development Plan.

51. Victory Memorial Museum, E.I. Savelyeva, Deputy Director.

52. Yuzhno-Sakhalinsk City District Administration, A.Y. Nachetkina, Deputy Chairman of Indigenous Minorities Council of Yuzhno-Sakhalinsk City Administration.

53. Yuzhno-Sakhalinsk City District Administration, E.Y. Berdnikov, Advisor of Public Relations Office of Internal Policy Department.

54. Yuzhno-Sakhalinsk City District Administration, P.V. Volovik, Lead Advisor of Public Relations Office.

55. Yuzhno-Sakhalinsk City District Administration, T.A. Kononenko, Head of Public Relations Office of Internal Policy Department of Yuzhno-Sakhalinsk City Administration.

56. Yuzhno-Sakhalinsk City Duma, S.M. Shvets, Chairman of the Economy and Budget Committee.

APPENDIX 4
Useful Links

Title	Link
About the company	http://www.sakhalinenergy.com (section About the Company)
Company public website	http://www.sakhalinenergy.com
Contracting with us	http://www.sakhalinenergy.com (section Contracting with Us)
Energy TV programme	http://www.sakhalinenergy.com (section Media Center)
Job and Career	http://www.sakhalinenergy.com (section Job and Career)
Media centre	http://www.sakhalinenergy.com (section Media Center)
Sustainable Development Principles	http://www.sakhalinenergy.com (section Social Performance)
Vesti newspaper	http://www.sakhalinenergy.com (section Media Center)
Community grievance procedure	http://www.sakhalinenergy.com (section Social Performance)
Whistle blowing procedure	http://www.sakhalinenergy.com (section About the Company — Our Principles)
Company documents and material referred to in the Report	
Biodiversity Action Plan	http://www.sakhalinenergy.com (section Media Center — Library — Environmental Documents)
Code of Conduct	http://www.sakhalinenergy.com (section About the Company — Our Principles)
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)
Health, Safety, Environmental and Social Action Plan, Policies and Standards on Health, Safety, Environment and Social Performance (note: body of documents)	http://www.sakhalinenergy.com (section Safety and Environment — Health, Safety, Environment and Social Action Plan)
Human Rights Policy	http://www.sakhalinenergy.com (section About the Company — Our Principles)
Lenders’ Independent Environmental Consultant Reports on Conducted Monitoring	http://www.sakhalinenergy.com (section Safety and Environment — Health, Safety, Environment and Social Action Plan)
Oil Spill Prevention and Response Plans	http://www.sakhalinenergy.com (section Media Center — Library — Oil Spill Response Documentation)
Oiled Wildlife Response Plan	http://www.sakhalinenergy.com (section Media Center — Library — Oil Spill Response Documentation)
Public Consultations and Disclosure Reports	http://www.sakhalinenergy.com (section Social Performance — Community Awareness)
Public Consultations and Information Disclosure Plan (updated annually)	http://www.sakhalinenergy.com (section Social Performance — Community Awareness)
Sakhalin Energy Commitment and Policy on Health, Safety, Environment and Social Performance	http://www.sakhalinenergy.com (section Safety and Environment — HSE and Social Performance Management System)
Statement on application of ISO 26000:2010 Guidance on Social Responsibility	http://www.sakhalinenergy.com (section Social Performance — Sustainable Development Principles)

Title	Link
Sustainable Development Policy	http://www.sakhalinenergy.com (section About the Company — Our 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/
The Safety is Important Programme	http://senya-spasatel.ru/
The Energy Social Initiatives Fund	http://www.fondenergy.ru/
Printed Materials	
ABC-book of the Uilta language	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Archaeological heritage of Sakhalin Island	http://www.sakhalinenergy.ru (section Media Center — Library — Published editions)
Birds of Sakhalin Island (photo album)	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Booklet “Sakhalin Indigenous Minorities Development Plan”	http://www.sakhalinenergy.ru (section Media Center — Library — Published editions)
Calendar 2020 — Sakhalin Fairy Tales	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Calendar 2019 — Sakhalin Energy: 25 years of energy for growth	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Comics	http://senya-spasatel.ru
EA. Best Practices Book	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Environmental protection at northern assets of Sakhalin Energy	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Environmental protection at the Prigorodnoye Production Complex	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Gray Whales. The Sakhalin Story	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)
Liquefied natural gas (collection of interesting facts)	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Poisonous Plants and Fungi	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Resettlement: experience of Sakhalin Energy	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Russian Content: Success Stories and New Opportunities	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Sakhalin-2 Encyclopedia	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)

Title	Link
Self-assessment for the Application of ISO 26000:2010 Guidance on Social Responsibility	http://www.sakhalinenergy.ru (section Media Center — Library — Published editions)
Steller's Sea Eagle	http://www.sakhalinenergy.com (section Media Center — Library — Published editions)
Vladimir Sangi the book for 80th anniversary of the writer	http://www.simdp.ru (section Multimedia — Other Materials)
Reference Material and Other	
Global Initiative Sustainability Reporting Guidelines	http://www.globalreporting.org
IUCN Western Gray Whale Advisory Panel (WGWAP)	https://www.iucn.org/western-gray-whale-advisory-panel
Mapping the Oil and Gas Industry to the Sustainable Development Goals: an Atlas	http://www.ipieca.org/our-work/sustainable-development-goals/
SDG Compass	https://sdgcompass.org/
Sustainable Development Goals	http://www.un.org/sustainabledevelopment/ru/sustainable-development-goals/
UN Global Compact	www.unglobalcompact.org/
UN Sustainable Development Goals	http://www.sakhalinenergy.ru/en/social_responsibility/sdg.wbp

APPENDIX 5
Company's Information Centres List

District	Locality	Organisation	Address
Aniva	Troitskoye	Rural library, Branch No.7, Sub-division of the Municipal Institution Aniva Municipal Centralised Library System	13, Sovetskaya Str.
Dolinsk	Vzmorye	Rural library, Branch No.6, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	22, Pionerskaya Str.
	Sovetskoye	Rural library, Branch No.10, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	127a, Tsentralnaya Str.
	Dolinsk	Dolinsk Central City Library, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	31, Lenina Str.
	Sokol	Rural library, Branch No.5, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	14, Shirokay Str.
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 Str.
Makarov	Vostochnoye	Rural library, Branch No.2, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	8, Privokzalnaya Str.
	Makarov	Makarov Central Library, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	9a, 50 Let Oktyabrya Str.
	Novoye	Rural library, Branch No.4, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	11a -7, Tsentralnaya Str.
Poronaysk	Poronaysk	Poronaysk Central Library, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	45, Gagarina Str.
	Gastello	Rural library, Branch No.4, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	42-2, Tsentralnaya Str.
	Vostok	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Poronaysk Central Library System	10a, Gagarina Str.
Smirnykh	Onor	Rural library, Branch No.3, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	21, Sovetskaya Str.
	Pobedino	Pobedino Rural Library-Museum, Branch No.4, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	60, Tsentralnaya Str.
	Smirnykh	Smirnykh Central Library, Sub-division of Municipal Institution of Culture Smirnykh Centralised Library System	12, Lenina Str.
	Roschino	Rural library, Branch No.6, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	44, Shkolnaya Str.
	Buyukly	Rural library, Branch No.7, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	1, Kosmonavtov Str.
Tymovsk	Molodezhnoye	Rural library, Branch No.17, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	14a, Sovetskaya Str.
	Tymovskoye	Central District Library, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	68a, Kirovskaya Str.
	Yasnoye	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	2, Titova Str.
	Kirovskoye	Rural library, Branch No.8, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	70, Tsentralnaya Str.
Nogliki	Nogliki	Nogliki District Central Library, Sub-division of the Municipal Institution of Culture Nogliki Centralised Library System	5a, Pogranichnaya Str.
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 2019 Sakhalin Energy Sustainable Development Report (hereinafter – Report). Your opinion on this Report is very important to us, and we would really appreciate if you help us improve the quality of reporting by answering questions stated in this Form.

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

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

Please provide comments in support of your answer

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

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

3. How do you rate this Report in terms of credibility and impartially 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 is to find required information?

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

Please provide comments in support of your answer

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

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

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

8. Please provide general comments on the Report:

9. Are you or your organisation interested in participating in dialogues about preparation of 2020 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?

- ☐ Sakhalin Energy employee
- ☐ Sakhalin Energy management
- ☐ Investor / Lender
- ☐ Shareholder
- ☐ Customer
- ☐ Contractor / Supplier
- ☐ Authorities
- ☐ Business/industry representative
- ☐ Public organisation
- ☐ Representative of scientific community / expert
- ☐ Mass media
- ☐ Other stakeholder group (please specify):

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

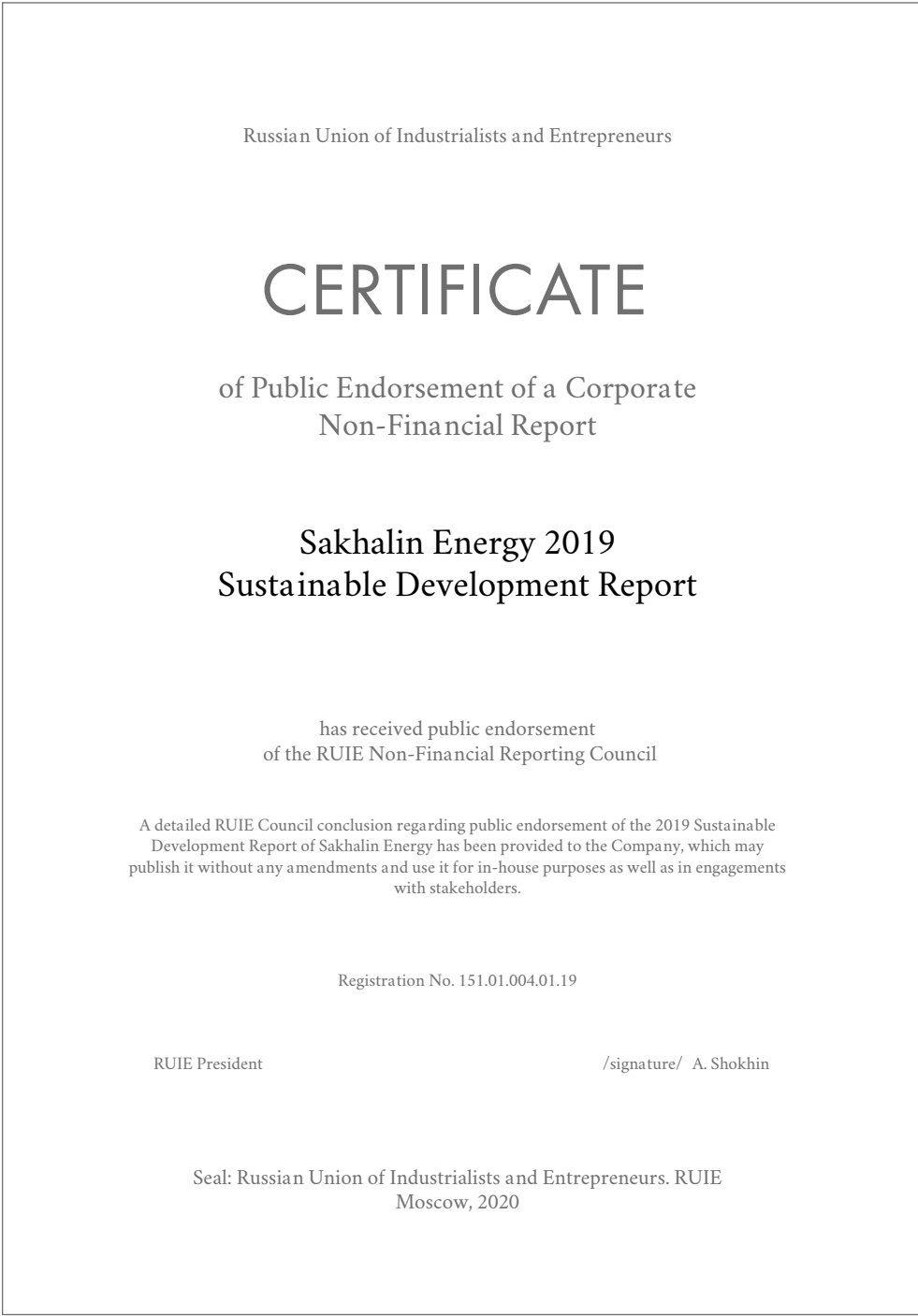
Please return the completed Form on the 2019 Sustainable Development Report to:

35 Dzerzhinskogo Str., Yuzhno-Sakhalinsk, Sakhalin Region, Russian Federation, 693020

You may also send this Form by e-mail: ask@sakhalinenergy.ru or leave it at one of the Company's Information Centres. The address list is given in Appendix 5 to the Report.

THANK YOU FOR YOUR FEEDBACK

APPENDIX 7
Certificate of Public Endorsement



APPENDIX 8
Conclusion on the Results of the Review of the Sakhalin Energy 2019 Sustainable Development Report by the RUIE Non-Financial Reporting Council 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 2019 Sustainable Development Report (the Report) at the request of Sakhalin Energy Investment Company Ltd. (Sakhalin Energy, or the company).

The company requested that the RUIE arrange for the process of public endorsement by the Council. The Council issues its opinion on the relevance and completeness of information disclosed in the company’s Report in accordance with responsible business principles, which are set out in the Social Charter of Russian Business and are in line with the provisions of the UN Global Compact, as well as Russian and international social responsibility standards.

During the period from 5 to 25 March 2020, 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’s 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:

The information is deemed substantive, since it demonstrates Sakhalin Energy’s compliance with responsible business principles 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 the main aspects of the company’s activities — the underlying values and strategic goals, management systems and structures, major achievements and key performance indicators, stakeholder engagement processes.

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 of the Report with international reporting principles.

Sakhalin Energy bears all responsibility for the information and declarations 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.

Conclusions

Based on the review of the Report and the public information published on the company’s website and following a subsequent discussion of the results of the independent review of the Report by the RUIE Non-Financial Reporting Council, the Council confirms the following:

The 2019 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. contains substantive 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 2019 Report addresses the Council’s recommendations upon public endorsement for the 2018 Sakhalin Energy Report. For instance, the company expanded the list of indicators in key areas of sustainable development, which are presented in periods of not less than three years, and commented on changes during those periods; this year’s Report also includes information on the effectiveness evaluation of the company’s social investment in the region of its operation conducted by independent experts in the reporting year.

The company’s 2019 Report contains substantive information regarding the following aspects of responsible business practices:

Economic Freedom and Responsibility. The Report contains information on the strategic importance of the Sakhalin-2 project for the Russian Federation and the Sakhalin Oblast, as well as the company’s essential role as a supplier of LNG and oil blend to the Asia-Pacific region, including its future plans in this regard. The key achievements of the company in the 25 years of its existence and the main results of the reporting year are listed in the Report. The document also includes descriptions of the primary production assets and development projects, as well as evidence of the company’s efforts to ensure efficiency, reliability and safety of production based on the Continuous Improvement Programme and introduction of innovations, including in the areas of digital transformation, process automation, and improvement of corporate culture. The Report communicates Sakhalin Energy’s goals and objectives in relation to the UN Sustainable Development Goals (SDGs for 2030) and specifies the corporate programmes and projects aimed at their achievement, as well as the indicators designed for the assessment of the results. The system and structure of corporate governance are described in the Report, along with the risk management system and its role in the fulfilment of the company’s goals. It is noted that the company’s effective development is based on the principles of business integrity and compliance, zero tolerance to corruption and fraud. The document stresses that the HSE and quality management system of the LNG production complex complies with the ISO 9001, 14001:2015 and OHSAS 1800 international standards. It also communicates that the company consistently practices social responsibility principles, operates according to the provisions of the corporate Sustainable Development Policy, drawing on reputed international standards such as ISO 26000:2010, the application of

which has been assessed by the company this year in the course of the latest (third) self-evaluation cycle.

Business Partnership. Key stakeholders, as well as the principles, mechanisms and tools of their engagement, including in the process of the Report preparation, are listed in the document. There are descriptions of relevant corporate documents and policies, main areas of cooperation and key events of 2019. The Report presents information on cooperation with the staff, customers, suppliers and contractors, communities, state and local authorities, non-profit organisations, and representatives of Sakhalin indigenous minorities. It also describes HR policy principles, learning and development tools and programmes and staff motivation, social protection, occupational health, labour and industrial safety, development of the corporate culture, and employee engagement. The document reports on the company’s efforts to extend the corporate SD requirements and business principles to its contractors via promotional campaigns, training and inclusion of relevant provisions in contracts. The Report outlines the Russian Vendor Development Programme, aimed at aiding them in developing competencies and increasing the share of Russian Content in the Sakhalin-2 project. The document covers the work of the company’s information centres that ensure engagement with Sakhalin communities and presents the statistics and structure of visits in 2019. It includes information on the implementation of the Sakhalin Indigenous Minorities Development Plan, detailing its partnership mechanisms and specific support programmes. The company’s participation in international events and in the work of ministries and authorities, including on the issues of protecting the environment, biodiversity and developing eco-tourism, entrepreneurship and sustainable development, is reported as well.

Human Rights. The Report describes the principles, standards and management systems used to ensure observance of human rights and also lists the main documents that serve as the foundation for their implementation, including the company’s Human Rights Policy. It highlights Sakhalin Energy’s commitments to respecting human rights in the context of business activities, including areas where these rights can potentially be violated, in particular when it comes to labour relations with the staff, community engagement, including SIM groups, ensuring industrial safety at production assets. The document also covers the grievance mechanisms and their results, as well as relevant control and monitoring procedures.

Environmental Preservation. The Report details Sakhalin Energy’s management of environmental impact in accordance with international standards and the implementation of the corporate environmental policy, interconnected with the company’s Sustainable Development Policy and General Business Principles. Information on production environmental control is presented as well, including with regard to impact on atmospheric air and water bodies, waste management, energy generation and consumption. The document reflects the company’s climate agenda and reports on the accounting and monitoring of emissions of greenhouse gases and ozone-depleting substances, and associated gas utilisation during production. The Report includes gross and relative indicators of environmental impact. It also contains information on Sakhalin Energy’s actions aimed at preventing oil spills and ensuring response preparedness. The data reflected in the document testifies to the reliability of the established system. The Report describes the energy saving and efficiency improvement efforts undertaken by the company. It also contains information on the energy consumption by areas of activity. The Report offers details of the corporate biodiversity conservation programmes, environmental monitoring of soil, river

ecosystems, vegetation, wetlands, and various animal species, including the Steller’s sea eagles and gray whales. It discloses the company’s expenses on environmental protection and their structure in 2019. The provided information also demonstrates Sakhalin Energy’s practice of conducting impact assessment prior to the commencement of major projects, which includes consulting with stakeholders to consider their opinions in the process of impact management.

Local Community Development. The Report provides insight into the company’s principles and approaches to social investments and sustainable development of the host region. It presents the approaches established at Sakhalin Energy to managing external social programmes. The document specifies the key areas of social programmes and projects determined during public consultations. It discloses information on the internal monitoring of social investment projects and the results of an independent external audit of the performance of the social investments and their importance for the region, executed in 2019. Comparisons of the results of the external evaluation of 2015 and 2019 are presented as well. They reveal a wider geography and more diverse activities of the grant-receiving organisations in the latter period. The Report covers the work of the Energy Social Initiatives Fund, the Safety Is Important Programme, and the Hurry Up for Good Deeds Programme (Support for Charitable Initiatives of Employees). It includes information on the activities of the Korsakov Sustainable Development Partnership Council, the implementation of SIM-benefiting programmes, including those supporting traditional economic activities and preserving linguistic heritage, as well as special projects developing the potential of the non-profit sector and volunteering in the region. The company also provided information on special cultural projects celebrating the 25th anniversary of Sakhalin Energy.

Final Provisions

Overall, Sakhalin Energy’s Report provides sufficient information on the business practices of the company, which are based on the principles of corporate social responsibility and sustainable development. It provides adequate details about the company’s impact on society and the environment, along with the management of said impact, and about the strategy, policies and results of economic, social and environmental activities. The company’s goals and objectives reflect the UN SDGs for 2030; the commitments to their achievement are included in the corporate policy. The document illustrates the key areas and formats of stakeholder engagement.

The Report was prepared with due regard for the recommendations used in the domestic and international reporting practice (GRI Standards as the blueprint), which allows for comparability of information with that provided by other representatives of the industry from Russia and abroad. When preparing the Report, the company also took into consideration the UN Global Compact, the UNCTAD Guidance on Core Indicators for Entity Reporting on Contribution Towards Implementation of the UN SDGs for 2030, and other documents.

The 2019 Sustainable Development Report is Sakhalin Energy’s eleventh annual report of this kind, which confirms the continuity in the development of the non-financial reporting process and the company’s adherence to the principles of transparency and openness. It is noted that the pertinent subjects to be included in the Report were decided taking into account the opinions of the stakeholders.

Recommendations

Recognising the merits of the Sakhalin Energy’s 2019 Sustainable Development Report, the Council would like to bring to the company’s attention a number of aspects related to the informational relevance and completeness of disclosure that are essential for the stakeholders. We advise the company to consider these recommendations in subsequent reporting cycles.

The Council would like to point out that the recommendations made following the analysis of the company’s previous report for 2018 are still relevant and can be used in future reporting.

The Report contains information on the company’s plans and objectives for 2020 and its development strategy until 2024. It is recommended that the subsequent report includes clear target indicators for the coming year and the medium-term, describes specific achievements that reflect the established goals to paint a fuller picture of the correspondence of the plans, targets and results.

The information on the company’s performance of obligations for achieving the UN SDGs for 2030 appears relevant and important for the stakeholders. However, we would advise the company to expand the coverage of this topic in future reports, use specific quantifiable indicators to reflect the goal achievement metrics adopted in the company, and highlight that in the relevant sections of the report.

The Report contains plenty of indicators reflecting the economic, social and environmental performance of the company, many of which are presented in periods of not less than three years. It seems advisable to also apply this approach to all aspects and results of the company’s activities, in particular to covering the results of long-term social programmes and projects in the area of sustainable development, indicators of the impact of social investments on the territory of Sakhalin Energy’s operation (improvement of the labour force quality, more work opportunities, increase in the island residents’ quality of life and income, development of transport and social infrastructures, etc.).

According to the document, in this reporting year Sakhalin Energy conducted the latest in the series of self-evaluation cycles to assess the application of the ISO 26000:2010 standard on social responsibility. This information deserves more attention and details: it serves as additional proof of the company’s responsibility and commitment to sustainable development principles. It is recommended that the next report include key conclusions of the work conducted and its importance for the company, as well as present the managerial decisions made based on these results.

It is reported that Sakhalin Energy is developing a unified digital strategy, seeing digitalisation as a form of strategic management and a way to create new business opportunities. This topic should be covered more extensively in the future; more attention should be paid to the role of innovations in the implementation of the company’s strategy and to individual significant projects in this area. It would be useful to describe the economic benefits of innovations, energy saving efforts, and digital transformation.

We advise the company to consider supplementing Report sections with feedback from representatives of stakeholder groups on the social, economic and environmental impact of the reported information on the

development of Sakhalin Island to enhance its positive perception by stakeholders.

The RUIE Non-Financial Reporting Council expresses a positive opinion of the Report and, supporting the company in its adherence to responsible business principles and noting the consistency of the reporting process development, confirms that the 2019 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has received public endorsement.

RUIE Non-Financial Reporting Council

Seal: ALL-RUSSIAN ASSOCIATION OF EMPLOYERS. Main State
Registration Number 1067746348427 MOSCOW

Russian Union of Industrialists and Entrepreneurs

/signature/

APPENDIX 9
Abbreviations and Definitions

ALARP	As Low As Reasonably Practicable
ANO	Autonomous Non-commercial Organisation
APFSD	Asia-Pacific Forum on Sustainable Development
APR	Asia-Pacific region
BAP	Biodiversity Action Plan
BCMS	Business Continuity Management System
BEWG	Biodiversity Expert Working Group
BoD	Board of Directors
BS-2	Booster Station 2
CED	Committee of Executive Directors
CI	Continuous improvement
CREO	Centre of Rescue and Environmental Operations
CSR	Corporate social responsibility
DES	Delivered ex ship
EBRD	European Bank for Reconstruction and Development
EEF	Eastern Economic Forum
ES	Emergency situation
ESHIA	Environmental, Social and Health Impact Assessment
FES	Fuel and energy sector
FOB	Free on board
FS	Feasibility Study
FSBI	Federal State Budgetary Institution
Gazfond NSPF	Gazfond Non-State Pension Fund
Gazprom TSCC	Gazprom Training Simulator Computer Centre
Gorny Vozdukh STC	Gorny Vozdukh Sports and Tourism Complex
GRI	Global Reporting Initiative
HLPF	High-Level Political Forum on Sustainable Development
HPF	Hazardous production facility

HSE	Health, Safety, and Environment
HSES	Health, Safety, Environment and Security
HSESAP	Health, Safety, Environment, and Social Performance Action Plan
HSES-SP	Health, Safety, Environment, Security and Social Performance
IBC	International Business Congress
IC	Information Centre
IEC&LMS	Industrial Environmental Control and Local Monitoring System
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMO	International Maritime Organisation
ISMS	Industrial Safety Management System
ISO	International Organisation for Standardisation
IUCN	International Union for the Conservation of Nature
IVMS	In-Vehicle Monitoring System
KChS	Committee for Emergency Situations
KPCSD	Korsakov Partnership Council for Sustainable Development
LNG	Liquefied Natural Gas
LUN-A	Lunskoye-A platform
MBIC	Municipal Budgetary Institution of Culture
MChS	Ministry of Emergency Situations
Media	Mass media
MMPP	Marine Mammal Protection Plan
MNR	Ministry of Natural Resources
MPC	Maximum Permissible Concentrations
MPE	Maximum Permissible Emissions
MSH	Minimum Standards for Healthcare
NEBA	Net Environmental Benefit Analysis

NERT	Non-professional Emergency Response Team
NPO	Non-Profit Organisation
OET	Oil Export Terminal
OPF	Onshore Processing Facility
OPFC	Onshore Processing Facility Compressor Station
OR	Oil refinery
OSR	Oil spill response
PA-A	Molikpaq platform (Piltun-Astokhskoye-A platform)
PA-B	Piltun-Astokhskoye-B platform
PERC	Pacific Environment and Resources Centre
PERT	Professional Emergency Response Team
PMD	Pipeline Maintenance Depot
Prigorodnoye PC	Prigorodnoye Production Complex
PSA	Production Sharing Agreement
RAIPON	Russian Association of Indigenous Peoples of the North
RAS	Russian Academy of Sciences
RES	Renewable energy sources
RS	Road safety
RUIE	Russian Union of Industrialists and Entrepreneurs
RTA	Road traffic accident
RTD	Regulatory technical document
SCM	Supply Chain Management
SDG	Sustainable Development Goals
SIM	Sakhalin Indigenous Minorities
SPZ	Sanitary protection zone
SRWDS	State Register of Waste Disposal Sites
SSIP	Sakhalin Salmon Initiative Programme
SSU	Sakhalin State University
STC	Scientific and Technical Council
Stroitel GNCP	Stroitel Gardeners' Non-Commercial Partnership

TLU	Tanker Loading Unit
TPH	Total petroleum hydrocarbons
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNGC	UN Global Compact
UNO	United Nations Organisation
WGWAP	Western Gray Whale Advisory Panel
WWF	World Wildlife Fund