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Sustainable Development Report 2016

САХАЛИНСКАЯ ЭНЕРГИЯ
SAKHALIN ENERGY

SUSTAINABLE DEVELOPMENT REPORT

2016

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TO BE THE PREMIER ENERGY SOURCE FOR ASIA-PACIFIC

Content

The design of this Report is based on four elements colours: air, earth, fire and water.

1 MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear readers!

This publication is the Sakhalin Energy's 2016 Sustainable Development Report.

As with previous reports, this document was prepared in compliance with the Global Reporting Initiative (GRI) international standards. It is the second time that the Report is written in the GRI G4 format. While working on it, we took into account, to the fullest extent, the opinions of all our stakeholders.

This Report is devoted to environmental protection which Sakhalin Energy has always paid special attention to. Being the operator of a global-scale oil and gas project, the company realises how important it is to monitor any impact on the environment.

In order to assess the state of the environment, to identify the impact of the company's production assets and to develop elimination and mitigation measures, Sakhalin Energy carries out regular industrial environmental control and implements a number of local environmental monitoring and biodiversity conservation programmes. The Gray Whale Monitoring Programme is one of the most successful among them.

The company strives to achieve high performance while taking care of the environment. We use innovative technology and advanced expertise of our shareholders and apply best practices in environmental protection.

Since the Sakhalin-2 project reached its full capacity, there has not been a single occurrence of an oil spill that could be classified as an emergency. Sakhalin Energy showed excellent performance: the company exceeded the 2016 production targets, having produced 61 cargoes of oil and 168 cargoes of LNG (against the planned 57 and 166 cargoes, respectively).

By supplying gas to the Russian party in accordance with the terms and conditions of the Production Sharing Agreement, Sakhalin Energy promotes the transition of the Sakhalin Oblast heating systems from coal to gas, a more environmentally friendly fuel type. In 2011–2016, about 2.8 bln m^3 of natural gas was delivered to the Yuzhno-Sakhalinsk Heat and Power Plant 1 and other facilities on Sakhalin.

Striving to promote environmental culture, Sakhalin Energy disseminates best practices in occupational safety, environment protection and environmental responsibility among its contractors working under the Sakhalin-2 project.

Even with the low oil prices which have persisted in the past two years, we have not reduced the environmental monitoring and biodiversity conservation programmes and continue to closely monitor the environmental impact of the project. Continuous improvement in the field of safety and environmental responsibility is a priority for Sakhalin Energy. In the 2016 Report, this information is even more complete and detailed than in the previous ones.

In general, in 2016 Sakhalin Energy achieved excellent performance in all areas and fulfilled its obligations to shareholders, the Russian party, employees, contractors and the community. The Sakhalin Oblast budget revenues from Sakhalin Energy remained high, accounting for more than 60%, just like in the previous few years.

Sakhalin Energy attaches great importance to the protection of the environment and biodiversity when implementing its social programmes. By investing in social projects, we encourage the development of social initiatives and responsibility, contributing to the solution of the region's social and environmental issues.

In 2016, the UN General Assembly adopted a new global agenda dedicated to the Sustainable Development Goals (SDGs) and the way their achievement will affect the transformation of the world. Many of Sakhalin Energy's operating principles correspond to these goals and the Sustainable Development Report presents information about the company's contribution to their implementation over the past year.

The company's work on biodiversity conservation and environmental safety in 2016 yet again received recognition at the highest level. Sakhalin Energy won the national contest of the Russian Union of Industrialists and Entrepreneurs (RUIE) — Russian Business Leaders: Dynamics and Responsibility in the Environmental Responsibility category and became the first in the environmental responsibility ranking among the country's oil and gas companies conducted by the World Wildlife Fund (WWF) of Russia.

This is especially significant for Sakhalin Energy, since the year of 2017 has been announced the Year of the Ecology in the Russian Federation. We are determined to continue operations and maintain the company's reputation as a reliable supplier of energy resources in the Asia-Pacific region, responsibly addressing environmental issues.

Roman Dashkov

2 ABOUT THE REPORT

2.1.

General Information

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

CSR and SD reporting benefits the company in a number of ways, including opportunities to:

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

The Report describes the company's SD performance in 2016 and presents material topics, issues and indicators of the company's economic, environmental and social performance, including executives' appraisals of the company's performance in the period under review as well as the stakeholders' areas of attention.

Each of the two recent Sakhalin Energy's Sustainable Development Reports is devoted to a specific theme. In the 2016 Report, the company covers the issues of environmental protection in great detail. Sakhalin Energy's stakeholders pay special attention to the company's practices in this field, in particular industrial environmental monitoring, local environmental monitoring and biodiversity conservation programmes, planning and organisation of production with minimal impact on the environment, measures to minimise or eliminate adverse environmental impacts, etc. (see Section 2.3. Defining Material and Priority Topics to Be Included in the Report). The Report addresses issues of environmental responsibility in all areas of the company's activities, including governance systems, production and commercial activities, environmental monitoring and control, work with contractors, staff training, social investment, etc. (see Sections 3–9). Materials covering these topics are presented in this Report more comprehensively and in greater detail than in the reports of previous years.

The target audience of the Report is both internal and external stakeholders listed in Section 6.2. Stakeholder Engagement in 2016.

The Report is prepared in accordance with the procedures and schedule approved by the Committee of Executive Directors. The procedures provide for the establishment of a dedicated working group to prepare the Report. This group includes managers and specialists from a majority of the company's divisions, responsible for particular aspects of corporate governance and production activities, as well as for economic, social and environmental impacts. The Report is approved by the Committee of Executive Directors.

This Report has been prepared in accordance with the GRI G4 Sustainability Reporting Guidelines (Core).

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

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

- fill out the feedback form (see Appendix 6. Feedback Form) and send it to the specified address;
- 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).

2.2.

Principles of the Report Content and Quality Definition

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

Principles of Report Content and Quality Definition

2.3. Defining Material and Priority Topics to Be Included in the Report

The Report pays particular attention to safety as a key priority of the company's production, economic, environmental activities and social performance.

The company used the most preferred engagement mechanisms and information exchange channels for interacting with each group of stakeholders, taking into account the practice of relationships (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;
- dialogue meetings with external stakeholders;
- discussions with the company personnel.

Material topics of the company's activities, which are reflected in the 2016 Report and their priority were identified in close cooperation with all key stakeholders of the company, including:

- **shareholders;**
- **lenders;**
- **government authorities;**
- **customers;**
- **personnel;**
- **contractors;**
- **community;**
- **Japanese stakeholders;**
- **international organisations;**
- **NGOs and other non-profit organisations;**
- **mass media;**
- **other stakeholders.**

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

- systematic media monitoring;
- annual public opinion surveys and analysis of the subjects of the grievances submitted to the company (see Section 6. Stakeholder Engagement Management);
- recommendations and comments regarding the 2015 Sustainable Development Report and recommendations of the RUIE Non-Financial Reporting Council that conducted the public endorsement of the 2015 Report.

The company has also analysed the materiality 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 engaging stakeholders while preparing the Report, including meetings and consultations, surveys, etc., is presented in the Material Topics to Be Included in the 2016 Report Based on Stakeholders' Opinions and Most Priority Topics to Be Included in the 2016 Report Based on Stakeholders' Opinions tables.

Two rounds of dialogue meetings 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).

Most Priority Topics to Be Included in the 2016 Report Based on Stakeholders' Opinions

Topics	Number of answers	Included in the Report (sections of the Report)
Main production results and development projects	124	4.2
Stakeholder engagement performance in 2016	115	6.2–6.10
Financial benefits to the Russian Federation and the Sakhalin Oblast budgets	105	7.2
Health, safety, environmental and social performance management system	101	3.5.1
Environmental, health and social impact assessment of the Sakhalin-2 project	101	3.5.2
Importance of the Sakhalin-2 project for the Russian Federation and the Sakhalin Oblast	100	7.1
Mission, vision, values and principles of the company	91	5.1
Engagement of the Russian party, contracting and procurement management, vendor development programme	89	7.3–7.5
General information about Sakhalin Energy and the Sakhalin-2 project	87	4.1
Industrial environmental control	86	8.1
Labour safety and protection	86	9.2
Social investments and contributions to sustainable development of the host region	86	9.5
Risk management system	84	5.6
Environmental monitoring and preserving biodiversity	84	8.2
Anti-bribery and corruption	82	5.7
Strategy, principles and mechanisms of stakeholder engagement	82	6.1
Sakhalin Energy's CSR system, Sustainable Development Policy and performance standards	81	3.2–3.4
Oil spill prevention and response preparedness	80	8.4

Comments and suggestions of the stakeholders concerning specific aspects, indicators and/or programmes of the company to be included in the 2016 Report as well as corresponding response 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.

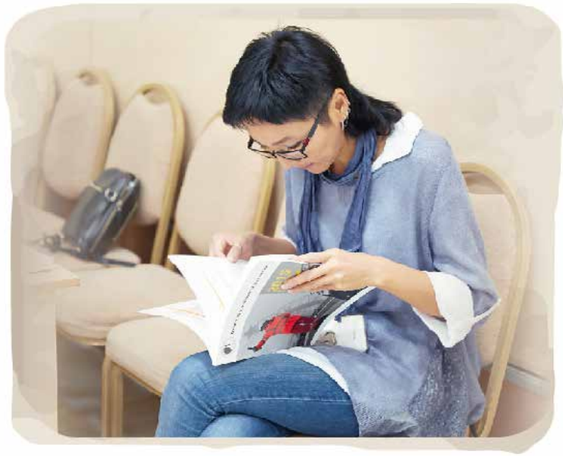
Material Topics to Be Included in the 2016 Report Based on Stakeholders` Opinions

Topics	Substantiation	Topic boundaries: Internal	Topic boundaries: External	Stakeholders: Shareholders	Stakeholders: Lenders and their advisors	Stakeholders: Customers	Stakeholders: Company senior management	Stakeholders: Personnel	Stakeholders: Government authorities	Stakeholders: Suppliers and contractors	Stakeholders: Social programmes partners	Stakeholders: Japanese stakeholders	Stakeholders: Mass media	Stakeholders: Non-profit and non-governmental organisations	Stakeholders: Community	Included in the Report (section of the Report)
Main Production Results	Sakhalin Energy aims to be the premier energy source and conducts its business on the basis of efficient, reliable and safe production, as well as a responsible attitude toward social and environmental issues.	■	■	■	■	■	■	■	■	■			■	■	■	4.2.1
Development Projects		■	■	■	■	■	■	■	■	■			■	■	■	4.2.2
Oil Spill Prevention and Response Preparedness	Oil spill prevention and oil spill response (OSR) preparedness are the top priorities for Sakhalin Energy. The company uses the comprehensive approach to handle this important task.	■	■	■	■	■	■	■	■	■		■	■	■	■	8.4
Corporate Governance	Corporate governance is the process of ensuring the proper organisation, management and control at Sakhalin Energy. Governance is carried out through cooperation between Sakhalin Energy's senior management, shareholders and the Russian party. They define the areas of activity, establish responsibilities and evaluate the results achieved.	■	■	■	■	■	■	■	■	■				■	■	5
Risk Management	Sakhalin Energy considers that effective risk management is of great importance for achieving the company's goals. 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 the goals, risks of losses and negative factors affecting such areas as operational excellence, respect for human rights, labour relations, health, safety and environment, anti-bribery and anti-corruption and others.	■	■	■	■	■	■	■	■					■	■	5.6
Impact Assessment of the Company's Activities	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. Sakhalin Energy seeks to avoid or reduce the impact to the lowest possible level or to compensate for it by taking appropriate measures	■	■	■	■	■	■	■	■	■	■		■	■	■	3.5.2
HSE and Social Performance Management System	The company uses a systemic approach to handle HSE and social performance issues, which enables continuous improvement in this area. The comprehensive HSE and SP Management System defines the controls used by Sakhalin Energy to handle hazardous situations and risks.	■	■	■	■	■	■	■	■	■				■	■	3.5.1
Contracting and Procurement Management	The Sakhalin-2 project is one of the most complex projects undertaken in recent decades by the global oil and gas industry. Effective management of contracting and procurement is the key for the project to be successful.	■	■	■	■	■	■	■	■	■				■	■	7.4
Stakeholder Engagement	The company considers regular and meaningful engagement with stakeholders to be an important component of its successful business operations.	■	■	■	■	■	■	■	■		■		■	■	■	6
Economic Impact Management	The Russian Federation and the Sakhalin Oblast receive numerous benefits from the Sakhalin-2 project, including financial and tax revenues to the budgets of the Russian Federation and the Sakhalin Oblast, new opportunities for developing new technologies, experience in managing complex high-tech projects, contracts with Russian companies, promotion of employment, etc.	■	■	■	■	■	■	■	■	■	■		■	■	■	7
Environmental Impact Management	Due to its scope and complexity, the project can potentially cause environmental and social impacts and Sakhalin Energy is committed to dealing systematically with these impacts so as to 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.	■	■	■	■	■	■	■	■	■	■	■	■	■	■	8
Social Impact Management	The company and its stakeholders attach special importance to social impact management, such as HR management and development, respect for and promotion of human rights, occupational safety and health, social investments and contribution to the sustainable development of the host region.	■	■	■	■	■	■	■	■	■	■		■	■	■	9

2.4.

Definition of the Report Scope

The Report contains information on the activities of all structural units and assets of the company in all areas related to sustainable development, including economic, environmental and social impacts that occur both within (internal boundaries) and outside (external boundaries) the compan See Material Topics to Be Included in the 2016 Report Based on Stakeholde Opinions table above.



2.5.

Public Endorsement of the Report

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

The RUIE Non-Financial Reporting Council was engaged to provide external public endorsement of Sakhalin Energy's non-financial report. This Council issues independent expert evaluations at the highest professional level in the Russian Federation. The result was the Public Endorsement Certificate and Conclusion of the RUIE Non-Financial Reporting Council on the Review of the Sakhalin Energy Investment Company Ltd. 2016 Sustainable Development Report for the Purpose of Public Endorsement (See Appendix 7. Certificate of Public Endorsement and Appendix 8. Conclusion on the Results of the Review of Sakhalin Energy 2016 Sustainable Development Report by the RUIE Non-Financial Reporting Council for the Purpose of Public Endorsement.

3 CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

3.1.

Introduction

Sakhalin Energy's activities in the area of corporate social responsibility (CSR) are aimed at the implementation of 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 high transparency and active stakeholder engagement, corporate governance at Sakhalin Energy has gradually progressed to managing the company as an open system. Sakhalin Energy has developed a system to take into account and control external production, financial, technological, social and environmental impacts, which allows the company to mitigate all types of risks to enhance its corporate sustainability (see Section 5.6. Risk Management).

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.

In connection with this, the company initiated work to study the SDGs and define Sakhalin Energy's contribution to their achievement. The analysis showed that most of the company CSR programmes and practices are specific activities that contribute to the achievement of the SDGs. These include the occupational safety and employment programmes (SDGs 3, 8, 12), the environmental protection and biodiversity conservation programmes (SDGs 6, 7, 12, 13, 14, 15), stakeholder engagement and partnerships practices (SDGs 16, 17), human rights (SDGs 10, 16) and others.

In 2016, Sakhalin Energy updated its Sustainable Development Policy. One of the fundamentally new provisions included in the updated Policy is the adoption by Sakhalin Energy of its commitments to the SDGs: Sakhalin Energy strives to be a leader in the field of sustainable development, taking into account the Sustainable Development Goals set out in the 2030 Agenda for Sustainable Development. In addition, the company took the decision to include information in the Sustainable Development Report, showing its contribution to the achievement of the SDGs. It was also suggested that the participants of the dialogues with stakeholders, held as part of the preparation of this Report, share ideas on the company ways towards reaching the SDGs.

In December 2016, Sakhalin Energy made a report titled «Sustainable Development Goals: Business Role and Opportunities» at the extended meeting of the RSPP Committee's on Corporate Social Responsibility and Demographic Policy with the participation of the Steering Committee of the UN Global Compact Network Russia and the Public Chamber of the Russian Federation on the topic Responsible Business Practices and the Millennium Development Goals through the Reporting Prism.

Sakhalin Energy strives to be a leader in the field of sustainable development and is committed to achieve the UN Sutainable Development Goals set for all countries of the world for years 2016–2030.

This Report includes information on company's contribution to the achievement of the SDGs supported by common icons on respective pages.

3.2.

Sakhalin Energy's CSR System

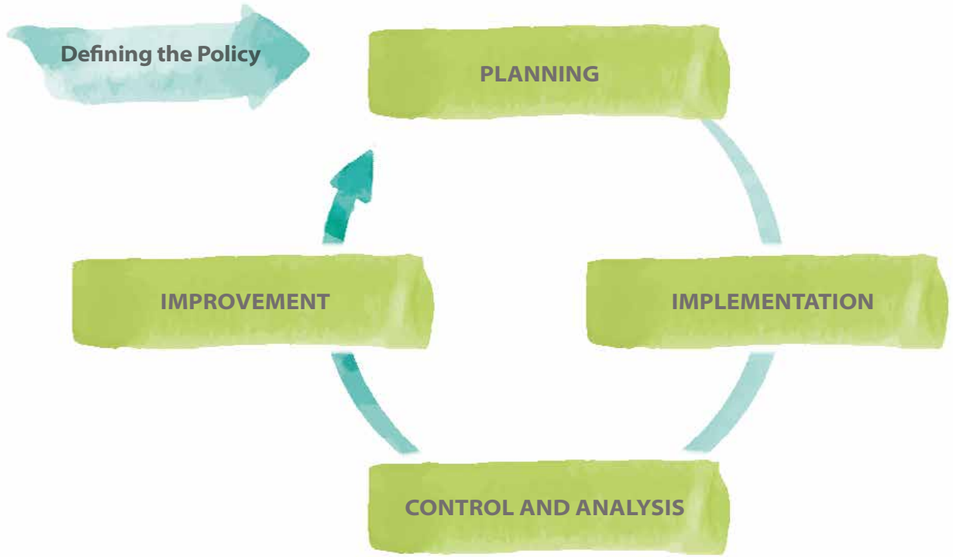
Corporate social responsibility applies to all activities of Sakhalin Energy. This approach is supported by its mission, vision and values. Practical aspects are reflected and approved in a number of corporate documents (see Section 5. Corporate Governance), including:

- 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.

CSR Management System

- 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

- Defining the Standards: Russian and International
- Risk and impacts Assessment
- Health, Safety, Environment, and Social Performance Action Plan (HSESAP)
- HSE and SP standards
- HSE and SP plans



- Monitoring
- Audits and Checks
- Reporting
- Tracking though Fountain – an Automated Tracking and Monitoring System
- Public Opinion Survey

Implementation Mechanisms in accordance with:
- Public Consultations and Information Disclosure Plan
- Grievance Procedure
- HSE and SP plans

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.

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

In 2009, Sakhalin Energy joined the UN Global Compact (UNGC) and pledged its commitment to consistently follow the UNGC's principles concerning human rights, labour, environment and anti-corruption. In 2011, Sakhalin Energy became the first and (as per beginning of 2017) the only Russian company chosen by the UN to participate in its new Sustainable Corporate Leadership platform — the UN Global Compact LEAD, established in the framework of the UN Global Compact. LEAD companies are obliged to carry out certain activities in the areas of environmental protection, social performance and corporate governance, as well as to develop new CSR standards.

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 management, etc.);
- GRI and AA1000SES standards (non-financial reporting, stakeholder engagement).

In 2016, Sakhalin Energy completed the self-assessment of its application of ISO 26000:2010 Guidance on Social Responsibility. It was the second time that the company had carried out this type of assessment. The first self-assessment was completed in 2012. It was the first full self-assessment to be carried out in Russia.

During the self-assessment in 2015–2016, Sakhalin Energy paid particular attention to documents and processes that had entered into force in recent years. The projects aimed at the expansion of the company's operations, namely the OPF Front-End Compression and the LNG train 3 projects, were also taken into consideration. The Statement on application of ISO 26000:2010 Guidance on Social Responsibility issued based on the results of the self-assessment, is public and available on the company's website (www.sakhalinenergy.com).

The company made a report using the results of this self-assessment titled The Experience of Carrying out Self-Assessment of the Application of Standard ISO 26000:2010 as a Regular Business Process of Social Responsibility Diagnostics, at the extended meeting of the RSPP Committee's on Corporate Social Responsibility and Demographic Policy with the participation of the Steering Committee of the UN Global Compact Network Russia and the Public Chamber of the Russian Federation on the topic Responsible Business Practices and the Millennium Development Goals through the Reporting Prism. In addition, in 2016 Sakhalin Energy published a brochure that provides an overview of ISO 26000:2010, the stages of self-assessment of its application, including the company's experience. The brochure is also available on the company's website.

The company extends an essential part of the requirements and business principles set out in these documents to its contractors. This is in line with the recommendations of the GRI G4 Guidelines and the GRI standards, which will come into effect in July 2018. In addition to special contractual provisions and specific requirements, the company arranges training sessions and workshops to ensure these principles are effectively integrated into the work of its contractors and to oversee their compliance (see Section 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 stakeholder engagements:

- public consultations;
- workshops and topical discussions;
- opinion surveys;
- consultations in the information centres established by the company in the settlements located along the trans-Sakhalin pipeline system and in close proximity to other facilities of Sakhalin Energy;
- grievance addressing in accordance with the established system, etc.

For details, see Section 6. Stakeholder Engagement Management.

The company regularly provides the community with reports on sustainable development and fulfilment of commitments. To define the Report content and material topics, consultations with all stakeholders are conducted. In 2015, the stakeholder engagement process for defining material topics of the Report was considerably extended as part of the final transition to the G4 version of the GRI Guidelines (see Section 2. About the Report).

3.4.

Sustainable Development Policy

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

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

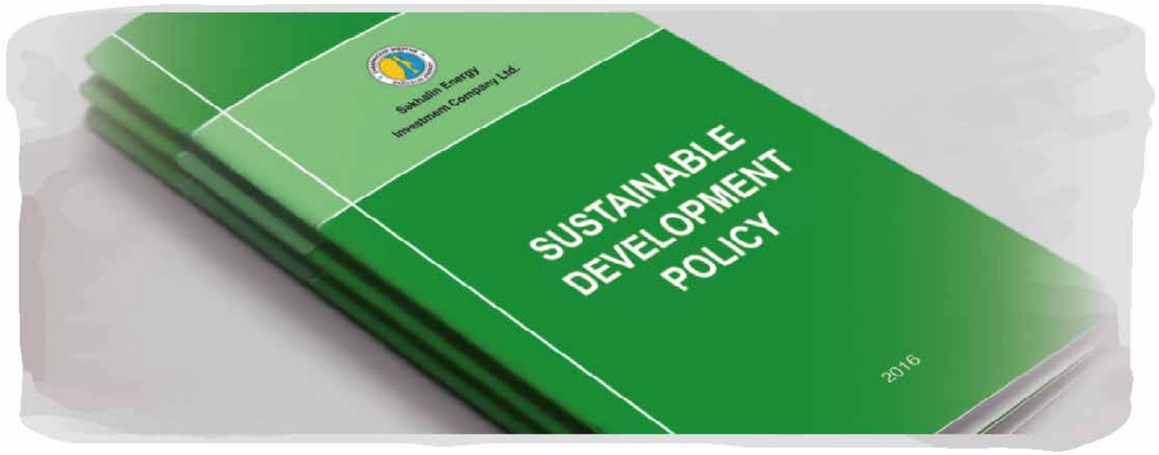
In 2016, Sakhalin Energy consistently implemented the provisions of the Sustainable Development Policy — the public strategic document approved by the Committee of Executive Directors in 2003. The Policy sets forth the company's principles, directions and responsibilities in this area.

The main provisions of the company's 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 the society on the Sakhalin Island, while keeping a balance between economic development, environmental protection and social responsibility, beside 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 makes 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 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 to enhance positive impact of community development programmes;
- issue annual non-financial reporting in accordance with the Global Reporting Initiative (GRI) standards and principles as per corporate Sustainable Development Report Development Procedure;
- be a participant of the UN Global Compact complying with its ten principles and promoting them;
- be a member of UNGC LEAD demonstrating sustainability leadership.



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.

During Sakhalin-2 project implementation, the Russian Federation and Sakhalin Oblast have received numerous benefits, including multibillion investments, employment growth, an increase in 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 prevent associated potential problems, reduce risks and prevent adverse impacts in a consistent manner. 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 5.6 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 including:

- Sustainable Development Policy;
- Commitment and Policy on Health, Safety, Environment and Social Performance (adopted in 2001, updated in 2016);
- HSE and SP Management System;
- Health, Safety, Environment and Social Action Plan;
- Hydrocarbon Flaring Commitment;
- Sakhalin Energy Investment Company Ltd. 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 Manual.

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 company uses a systemic approach to handling HSE and SP issues, which ensures continuous development in the field. 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 facilities, 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.

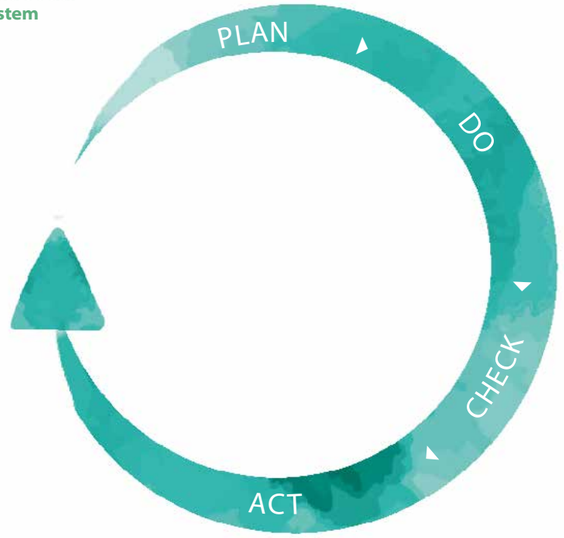
The system is based on the Plan-Do-Check-Act methodology of ISO 14001 and OHSAS 18001 standards.

The commitments adopted by the company following the results of assessing the impact on the environment, health and social performance conducted prior to 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 mandatory in order to obtain a loan for Sakhalin-2 Phase 2 implementation.

The Plan was developed in compliance with Russian laws and international standards, including World Bank Policies and Directives, standards of the International Finance Corporation, etc. 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 settlements located in the vicinity of the company's facilities. 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).

Health, Safety, Environment and Social Performance Management System



The Plan-Do-Check-Act methodology is applied in order to:

- Identify goals and set procedures necessary to achieve performance indicators in compliance with the Commitment and Policy HSE and SP. This includes identifying legal and other requirements, determining problems and risks, assessing the impact, identifying management elements, as well as developing annual performance improvement plans.
- Implement procedures for training and advanced training, contractor performance management, participation and interaction, change management, emergency response, as well as operational control over hygiene, personal safety, asset integrity of facilities and industrial safety. The procedures cover transportation, health, safety, environment and social performance issues, 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 and social investments.
- Monitor and assess performance in accordance with the set objectives, legal and other requirements; provide reports on results, incidents, non-conformities; take corrective and preventive measures; conduct HSE management system audits at the company's assets facilities and in functions.
- Regularly perform the overview of the management system and contribute to the 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 managed by the company CEO. The HSE General Manager reports to the CEO and oversees the development, implementation introduction, operation and monitoring of the management system. To ensure the compliance with requirements fulfilment of the industrial safety and HSE standards, HSE teams services were formed in company's structural and functional units.

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. The following measures are taken when any potential adverse impact is identified:

- avoid;
- prevent;
- decrease;
- 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 impact assessment results are posted on the company's website. The validity and completeness of the assessments are monitored by government authorities and project lenders.

In 2016, the company (with contractor involvement) started collection of baseline data and project documentation development including integrated impact assessment in accordance with Russian and International requirements for the LNG train 3 construction project (see Section 4.2.2.3. LNG Train 3 Construction Project). Impact assessment work will continue according to the project schedule.

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, specially trained auditors (the company's qualified employees and shareholder specialists) are engaged. In 2016, eight HSE and SP management system audits were conducted, including five external and three internal ones (see the Inspections and Audits of the HSE and SP Management System in 2016 table).

Inspections and Audits of the HSE and SP Management System in 2016

Audit level	Number of audits	Content
External	5	Control over the compliance with HSE and SP standards issued by the representative of lenders — by the independent environmental consultant *
		Audit for compliance with ISO 14001 and OHSAS 18001 standards
		Audit of flight operations (helicopters and charters) with the participation of Shell auditors
		Control overview of marine transportation performance indicators by Shell specialists
		Monitoring of implementation of the Sakhalin Indigenous Minorities Development Plan — by the External Monitor of the Plan *
Internal	3	Audit of the HSE system of the LNG plant
		Audit of the HSE system of the onshore assets
		Audit of the HSE system of the facilities management department

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

4 ABOUT THE COMPANY

4.1.

Sakhalin Energy

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

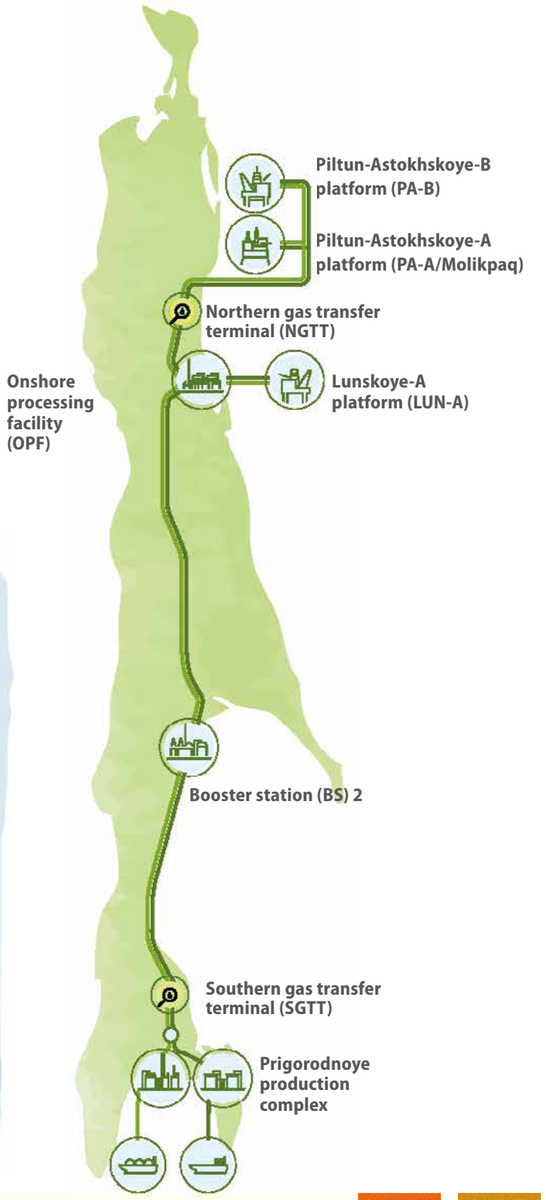
Sakhalin Energy operates under the Sakhalin-2 Production Sharing Agreement (PSA) that was signed by the company and the Russian Federation represented by the Government of the Russian Federation and the Sakhalin Oblast Administration (currently, the Sakhalin Oblast Government).

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

To develop these two fields, the company constructed a large-scale infrastructure for extracting, transporting, processing and then selling 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 LNG export terminal and gas transfer terminals. This has been one of the most technically complex projects carried out over the last few decades in the global oil and gas industry.

Sakhalin Energy is the first and, for the time being, the only Russian LNG producer supplying gas to foreign markets. Because of Sakhalin Energy, the Russian Federation has become one of the key players on the promising Asia-Pacific market.

Sakhalin Energy Assets



4.2.

Main Production Results in 2016

Sakhalin Energy is the Leader in Labour Efficiency

Sakhalin Energy is among the leaders of the Labour Efficiency: Russian Industrial Leaders – 2016 All-Russian Award and ranked second in the Top 100: Russian Industrial Leaders – 2016 and Top 30: Highest Productivity in the Russian Oil and Gas Industry categories.

The company is a leader in labour productivity in the Sakhalin Oblast and takes the second place at both national and local levels for the second year in a row. The award has been granted by Production Management business portal every year since 2015. The main objective of this project is to identify the industry leaders of the country, regions and key industries and to generate benchmarking information. During the analysis of the results, the data from more than 5,000 industrial enterprises in Russia, with total revenues amounting to more than 55% of Russia's GDP and the number of employees of more than 5.6 mln people, have been studied.

4.2.1.

Assets

In July 2016, for a second year running, Sakhalin Energy, with support from our core contractors and original equipment manufacturers, safely completed the planned major technical shutdown of the gas production assets at the Sakhalin-2 project.

This time the production was suspended for 25 days to allow the major inspection and maintenance of large gas turbines and compressors, equipment integrity inspections, process chemicals replacement, control valve overhaul and other tasks. Preparations for this outage took 18 months and almost every company unit was involved in the process. Lessons learnt from 2015 were incorporated into the planning and execution allowing for a continuous improvement in all aspects. As a result, all works were performed timely and in a safe manner.

In 2016, the company delivered oil/LNG production targets ahead of schedule. This was achieved due to elimination and optimisation of limitations in operation of onshore equipment, improvement of well operation modes and reliability of all process equipment of the company. The above targets have been achieved in compliance with all safety requirements.

4.2.1.1.

Molikpaq (PA-A) Platform

In July 2016, it was 17 years from the time the Molikpaq platform first started producing oil.

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

As per the end of 2016, the operating well stock of the Molikpaq platform included 15 wells, five water injection wells and one intake well for re-injecting drill cuttings back into the reservoir. The average daily production rate in 2016 was 6.72 thousand t (49.49 thousand barrels) of oil and 0.83 mln m^3 of associated gas.

In 2016, development drilling continued to maintain production plateau. Two new wells were drilled.

- In May 2016, first new well was drilled since 2005. The well targeted the crest of the field with Frac and Pack completion.
- Pilot hole drilled in another well acquired core for analysis to reduce existing field uncertainties. After that, a sidetrack was drilled in the same well and completed across a contingent resource layer to assess the layer productivity and performance.

Several well interventions were carried out to manage/remediate well integrity failures. Additional well intervention activities were carried out to safeguard production and perform mandatory reservoir surveillance.

Alongside drilling activities, the company continued to monitor reservoir and well performance, injected water quality and CRI well performance. Additionally, geochemical tracer analysis and water composition assessments were done on produced oil and water samples. Continuous sand and well integrity monitoring is performed on all wells.

Essential rig refurbishment projects (new choke and kill manifold, new spooler) as well as the 5-year rig inspection were successfully completed over the year.

Further Geological Study of Pilot and Full-Scale CRI Zone of Astokh Area of Piltun-Astokhskoye Oil, Gas and Condensate Field, Revision of CRI Volumes report was prepared and submitted for SRC Rosnedra expert review. Positive conclusion was obtained in November 2016.

4.2.1.2.

Piltun-Astokhskoye-B (PA-B) Platform

As per the end of 2016, the PA-B platform had 13 production wells, seven water injection wells and two cutting re-injection wells.

The platform's average daily production rate in 2016 was 3.94 thousand t (29.05 thousand barrels) of oil and 1.17 mln m^3 of gas.

In 2016, two oil producers were drilled at Piltun area. One of the drilled oil producers was the first Piltun Frac and Pack well, with sand control technology successfully implemented and sand screens installed.

Another oil well was drilled with two appraisal pilot holes that helped to revise the trajectory of main horizontal hole and to obtain the required data for further study of southern part of the area. The logging performed during drilling provided the geophysical data that allowed to revise the structure of layers and their properties. Alongside with drilling, wellhead samples of the layer fluids were analysed and geochemical survey of oils was made on routine basis.

Well intervention was performed to optimise well recovery: gaslift valve change-out, perforation of additional layer and special studies to identify tubing integrity.

In 2016, the company developed design documentation titled Operational Reserves Update of Oil, Gas and Condensate of Certain Layers of Piltun Area at Piltun-Astokhskoye Oil, Gas and Condensate Field and Addendum to Reservoir Management Plan for Piltun Area at Piltun-Astokhskoye Oil, Gas and Condensate Field. SRC Rosnedra approval was obtained for both of these documents.

The reason for preparing these documents was Piltun geological model revision based on new data on area development history and well drilling results that changed the company's view on further strategy for Piltun area development.

In summer of 2016, concrete repairs were carried out on the PA-B platform at one of the most challenging locations to work on—the splash zone. All the works were implemented by contractor's personnel and in the company's experts' opinion, these were done at the highest level. During the repair works, all risk factors were taken into account and action plan was elaborated in detail. There were no HSE incidents during the works. It has been a unique experience of repair executed on high-strength concrete in the splash zone on an offshore platform.

4.2.1.3.

Lunskoye-A (LUN-A) Platform

In 2016, 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 was 45.68 mln m^3.

In 2016, two production wells were drilled and completed. With sand control purpose, the wells were completed as open-hole gravel pack wells.

Prior to completion of both wells, well cleanup unit was installed to protect platform equipment from potential contamination by production wells fluids.

In Q3 and Q4 2016, the upper master gate valves, production wing valves and swab valves were replaced on two gas wells to restore their integrity.

In 2016, alongside with drilling and repair works, cased hole logging was executed, continuous monitoring of reservoir pressure, cutting re-injection and produced water re-injection monitoring were performed as well as core studies and downhole water samples analysis.

4.2.1.4.

Onshore Processing Facility (OPF)

The onshore processing facility (OPF) handles the initial processing of gas and condensate from the Lunskoye field before they are pumped into the pipelines for transportation to the oil export terminal and LNG plant.

The oil and associated gas from the Piltun-Astokhskoye field are also processed at the OPF. In 2016, OPF daily capacity was 58 mln m^3 of gas and 25 thousand t (195 thousand barrels) of oil and condensate.

4.2.1.5.

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

The trans-Sakhalin pipeline system comprises about 300 km of offshore pipelines and onshore multiphase pipelines, over 1,600 km of oil and gas pipelines, as well as 105 block valve stations, five pipeline maintenance depots, two booster stations (BS) and two gas transfer terminals (north and south).

Sakhalin Energy and Gazprom transgaz Tomsk (contracted by Sakhalin Energy to maintain the trans-Sakhalin pipeline system) are tasked with maintaining the integrity of the pipeline systems.

Sakhalin Energy has developed and implemented an HSE case for its pipeline systems that identifies all the 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, ship traffic, illegal hot taps and inadvertent or wilful damage. The following measures have been taken to prevent or eliminate these potential hazards:

- to deal with external surface corrosion, the pipeline has a cathodic protection system;
- to monitor internal surface corrosion, Sakhalin Energy internally pigs the pipelines using intelligent pigs that can detect internal corrosion;
- the offshore and onshore oil pipelines are pigged on a regular basis to remove water and sediments;
- to ensure a timely response in case of an earthquake, Sakhalin Energy uses its own seismic monitoring system with detectors located along the entire pipeline and the USGS (United States Geological Services) system;
- 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 limiting pipe movement;
- the pipeline RoW is monitored regularly with helicopter overflights and 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 every twelve months;
- space technologies are also used to monitor the vegetation growing on the RoW.

According to statistics, 70% of pipeline incidents in the world are caused by unintentional damage from human activity. Sakhalin Energy has been proactively educating the community about how to identify the pipeline system and its importance. Local authorities, contractors and land users are regularly informed about land use limitations within the RoW and are provided with the contact information and telephone numbers of the company. Additionally, special notice boards are located along the RoW with free telephone numbers in case of questions or concerns.

Sakhalin Energy continues to route gas condensate from the Sakhalin-3 project complex 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 to the oil export terminal (OET) along with Sakhalin Energy's oil.

4.2.1.6.

The Prigorodnoye Production Complex

An important event for the Prigorodnoye production complex in August 2016 was achieving more than 11 mln man-hours without a lost time injury (LTI) for eight years. The countdown for these eight years started in August 2008, even before the commencement of LNG production. The Prigorodnoye production complex successfully maintains ISO 9001 for its Quality Management System (QMS).

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 and the oil export terminal (OET) with the tanker loading unit (TLU) installed 5 km away from the shore. The plant covers 490 ha and has two trains, each with a design capacity of 4.8 mln t of LNG per year. Over the years, efficiency and reliability enhancement programmes have significantly increased the plant's capacity.

In the middle of July 2016, Sakhalin Energy completed a major planned shutdown of Sakhalin-2 gas system. The LNG train 2 and the associated upstream facilities were closed in. The company drew from its previous experience and was able to complete the work in time and safely. Upon completion, the work was discussed and analysed in order to optimise future shutdowns.

Gas supply to southern gas transfer terminal was not interrupted. This allowed the Central Heating and Power Plant of Yuzhno-Sakhalinsk to keep running on gas and save the environment instead of reverting to coal.

In 2016, Sakhalin Energy has set a new daily LNG production record, exceeding the previous maximum achieved in March 2012. In addition to this, the company has recorded another achievement — over 255 thousand t of LNG produced in a single week. Previously, weekly production was never higher than 250 thousand t; the previous record week was in February 2014.

These achievements became possible because in 2015 and 2016, during the major turnarounds, the internals of the main cryogenic heat exchangers (MCHE) at the LNG plant were modified, allowing for a better efficiency. Combined with highly reliable integrated gas system (from Lunskoye field via OPF/BS 1 and BS 2 all the way to LNG plant) and high performance of the oil production assets, the company was able to increase the gas throughput and produce more LNG as a result.

4.2.2. Development Projects

4.2.2.1. OPF Front-End Compression Project

Manufacturing of three gas compressor units by REP Holding was continued in 2016. In addition, contracts for manufacturing of tanks and vessels were awarded to Russian and foreign companies over the year.

In 2016, the company signed a contract with ZapolyarPromGrazhdanStroy for OPF compression site preparation activities. The works commenced in August 2016, with completion expected at the end of 2017.

Preparations for EPC (engineering, procurement and construction) contract have been initiated in 2016. Contract award and start of operations are scheduled for 2017.

4.2.2.2. South Piltun Area Development Project

The decision whether to develop the South Piltun area will be based on the depletion of the Lunskoye field, the construction of LNG train 3, the macroeconomic situation and the situation on the energy market.

Sakhalin Energy is updating information on the geological structure and geological and recoverable reserves at the Piltun-Astokhskoye field, including the South Piltun area and is planning to submit an integrated reservoir management plan to the State Reserves Committee of Rosnedra.

4.2.2.3. LNG Train 3 Construction Project

In 2016, Sakhalin Energy started the development of design documentation for the Sakhalin-2 LNG train 3 project.

Shell Global Solutions International and Giprogazcenter, a Russian design institute, lead development of the design, in which a number of other companies, including local, are involved. In addition, a large number of Sakhalin companies perform engineering and environmental baseline surveys.

The Sakhalin-2 LNG expansion project is the optimum and economically sound way to strengthen Russia's presence on the world LNG market.

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 (-250°F) at standard atmospheric pressure, natural gas liquefies and contracts to 1/600th of its initial volume, becoming suitable for collection, storage and sea shipment.

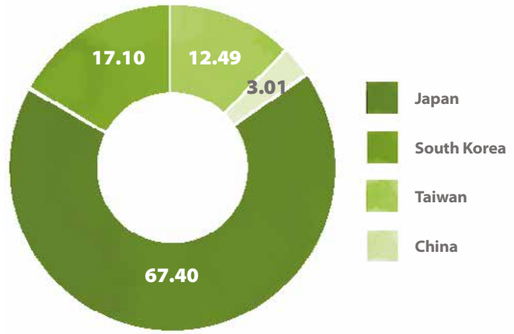
Due to successful debottlenecking and equipment adjustment, the LNG plant exceeds its design output (9.6 mln t per year). In 2016, Sakhalin Energy produced 10.93 mln t of liquefied natural gas.

Sakhalin LNG is transported in spherical-hold customer vessels and in Grand-series LNG tankers (Grand Elena, Grand Aniva and Grand Mereya) that were constructed specially for this project and provided to the company under long-term charters by two Russian-Japanese consortiums. It is also transported by the Amur River and Ob River vessels chartered on a short-term basis. Thus, the company's fleet consists of five LNG tankers.

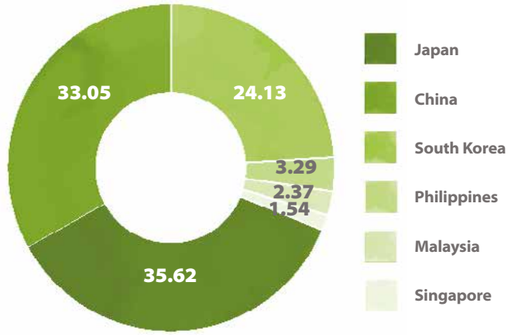
In 2016, Sakhalin Energy shipped LNG to Japan, South Korea, China and Taiwan. CPC Corporation (Taiwan) increased its share of consumption of LNG produced under the Sakhalin-2 project due to the increased domestic demand and the shutdown of the nuclear power plants that had been used to produce electricity.

Sakhalin's share of LNG in the Asia-Pacific region was about 6% and they had about 4.5% of the global market in 2016.

Sakhalin LNG Sales Market Structure in 2016, %



Structure of Oil Blend Sales Market in 2016, %



Oil

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

In 2016, Sakhalin Energy received 3.90 mln t (28.75 mln barrels) of oil grade and 1.61 mln t (14.17 mln barrels) of condensate. In 2016, Sakhalin Energy exported 5.48 mln t (42.82 mln barrels) of oil grade from the Prigorodnoye production complex.

In total, 14 companies from six countries purchased the oil blend in 2016. Sakhalin Blend was delivered through 18 transit and destination ports in Japan, China, South Korea, Malaysia, the Philippines and Singapore.

Historically, the main markets for Sakhalin Blend are Japan, South Korea and China. These are strategically important markets because of their geographical proximity and their stable demand for light sweet crude oil. In 2016, the shares of these countries were consistently high. Japan and China became the largest Sakhalin-2 oil customers in 2016 (68% of total volume).

About 7.2% of the oil produced was sold and successfully delivered to Malaysia, the Philippines and Singapore. That shows there is stable demand from Asia-Pacific refineries for Sakhalin Energy crude oil, even in an oversupplied market.

In 2016, the share of Sakhalin Blend exported by the company in the Asia-Pacific region was 0.3%.

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, about 6.5 bln m^3 of gas have been delivered to the Russian party, including 2.8 bln m^3 of natural gas transported via the southern gas transfer terminal to Yuzhno-Sakhalinsk Heat and Power Plant 1 and other Sakhalin infrastructure assets (the figure includes 671 mln m^3 delivered in 2016). In 2016, over 427 mln m^3 of natural gas were delivered via the orthern gas transfer terminal to the Sakhalin – Khabarovsk – Vladivostok gas main line for further usage as part of the Far East and Primorye fuel and energy sector development programmes. In total, about 1.1 bln m^3 of gas were supplied to the Russian party in 2016.

4.3.

Continuous Improvement Programme

In 2016, the Operational Excellence Programme was renamed Continuous Improvement, making it clear that the focus is across every area of our business.

Sakhalin Energy continued implementing improvements of all processes using key success factors:

- management making commitments on the basis of understanding: leaders and managers are personally convinced, involved and engaged with staff;
- linked to the business imperative: improvement is linked to a few (2-4) performance/strategic imperatives;
- detailed, in-depth approach: management and work processes are supported and engaged at all levels;
- expertise and organisational capability: leadership creates an environment where "continuous improvement" is part of who we are.

In 2016, Sakhalin Energy demonstrated continuous improvements across the company, including cross-directorate campaigns such as:

- Robust@35, which generated substantial cost savings;
- well and reservoir facility management (WRFM) work that realised significant additional barrels thanks to production system optimisation improvements;
- a review of the company's fitness to work process resulting in reduced cost exposure to the company as well as reducing the possibility of non-fit staff going to remote locations to work and other improvements.

5 CORPORATE GOVERNANCE

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, individual accountability supported by teamwork, professionalism and continuous improvement. These principles are exemplified by the company responsibilities to its shareholders, the Russian party, customers, company 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 operational excellence, reliability and safety. 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 company'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 Business Management System Manual describes the main principles and approach to managing the company.

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 constant improvement of business processes through their decisions and actions.

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.

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 5.6. Risk Management).

Organisation, Responsibilities, Resources and Competency

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

Processes, Assets and Standards

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

Planning

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

Corporate Covernance System

Contingency and emergency response plans are implemented and regularly evaluated.

The Journey Book, which is published annually, is used to inform all company 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, organisation, risks, plans and processes are updated. All incidents with significant potential or actual consequences are thoroughly investigated and reported. Any lessons that are learned are 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 5.4. Corporate Culture and Section 6.3. Engagement with Personnel).

5.3.

Corporate Governance Model

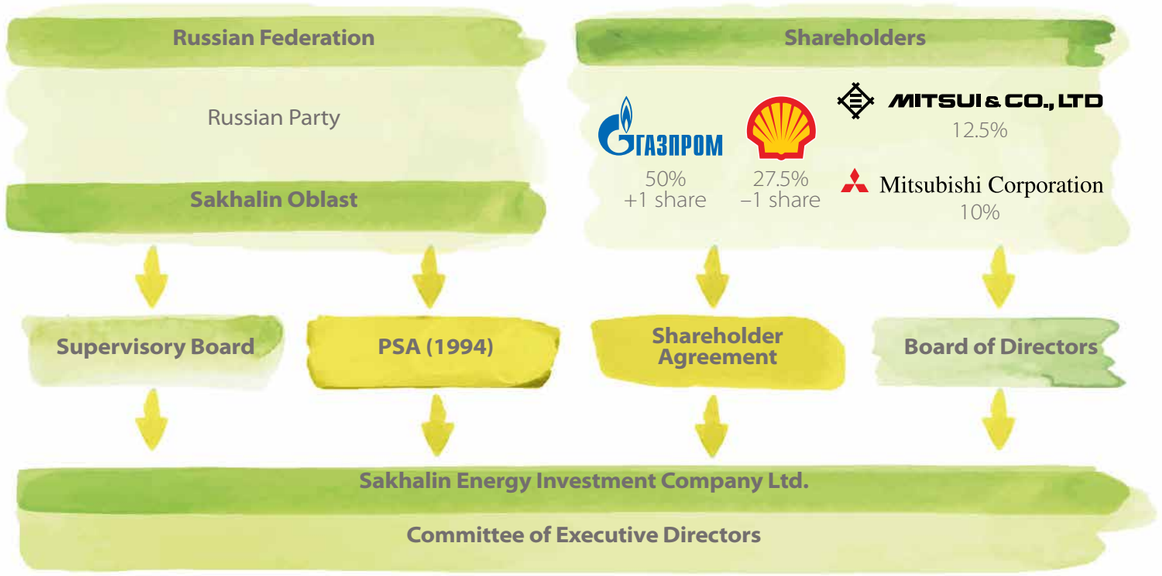
Strategic planning is carried out through engaging the Sakhalin Energy's senior management with the Russian party (representatives of the federal executive authorities and the Sakhalin Oblast Government) and company's shareholders that determine policy directions, establish areas of responsibility and 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 Lunskoye 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 programmes and budgets, LNG sales agreements, procurement procedures, Russian national employment and training plans, etc. The Supervisory Board also reviews the company's annual reports and appoints auditors. The Supervisory Board consists of 12 members: six representatives from the company and six representatives from the Russian party. Information on members of the Supervisory Board is available on the Sakhalin Energy's website (www.sakhalinenergy.com).

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

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

Corporate Governance Model



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

Board of Directors (BoD) appointed by 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 2016 included all the executive (7) and non-executive (8) directors of the company. Olivier Lazare, Vice-President of Russia at Shell, served as the Chairman of the Board in 2016.

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

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

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

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

External Affairs Committee an advisory committee to the BoD. The Committee is chaired by the Sakhalin Energy's Head of the Government, Shareholders and External Affairs Division and consists of representatives from the company and its shareholders that meet to discuss external affairs, such as formulating and coordinating the company's positions and communications with shareholders; monitoring and responding to press 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 and any other executive directors who are responsible for the agenda items of a Committee meeting, the Audit Manager and other individuals the Committee invites.

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

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

The CED members as of 31 December 2016 are shown in the Committee of Executive Directors organisational chart.

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

- Tender Committees;
- Management Development Committee;
- Decision Review Committees;
- Business Integrity Committee;
- Business Assurance Committee;
- HSES Management Committee;
- Operational Excellence Committee.

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

Committee of Executive Directors

Roman Dashkov
Chief Executive Officer

Ole Myklestad
Production Director

Ruslan Oblekov
Technical Director

Roger Hickman
Finance Director

Andrey Okhotkin
Commercial Director

Benjamin Lamb
Legal Director

Alexander Sheykin
HR Director

Company's Organisational Structure

5.4. Corporate Culture

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

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

- honesty and integrity;
- respect and care for people;
- professionalism and individual accountability for performance;
- continuous improvement and team work.

These values are reflected in Sakhalin Energy's standards, policies and procedures, such as:

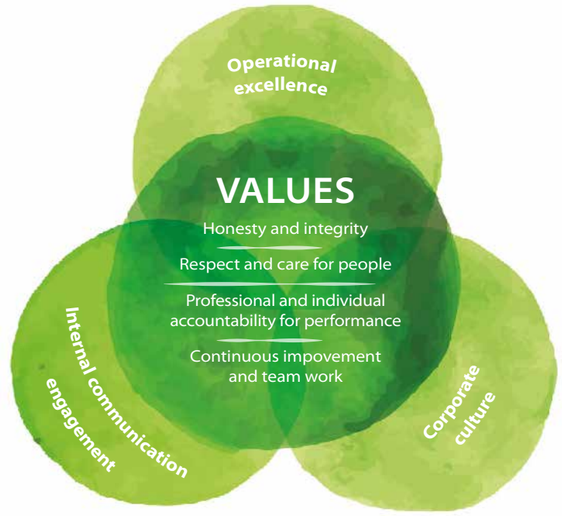
- Code of Conduct (including Statement of General Business Principles);
- Sustainable Development Policy;
- Human Rights Policy;
- Whistle Blowing/Grievance Procedure;
- Conflict of Interest Procedure;
- Anti-Bribery and Corruption Procedure.

These documents ensure that Sakhalin Energy operates within the framework of applicable laws and in accordance with the ethical requirements set out in the Statement of General Business Principles. The human rights 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, in their turn, are expected to report to the company any incidents of non-compliance with the General Business Principles.

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

The company constantly works to reinforce engagement with staff and internal communications, using such methods as direct communication (staff communication sessions, internal meetings of all units, etc.), as well as various types of electronic and written communications and feedback (see Section 6.3. Engagement with Personnel).

Corporate Values



The company has developed and applies the Conflict of Interest Procedure. Under the procedure, an annual conflict of interest declaration must be completed by all the employees. This provides an understanding of the ethical principles of the company's activities and allows the company to assess potential conflicts and take measures to protect both Sakhalin Energy and its personnel from the risk of actual conflict between the employees' private and professional interests.

5.5. Code of Conduct

The Code of Conduct is the primary document that contains the General Business principles and explains the fundamental rules and standards adopted by the company and necessary to meet the requirements of these principles. It regulates behaviour and spells out requirements and guidance, expressed as clearly, concisely and consistently as possible in a single, company-wide document for all our employees.

The Code of Conduct includes, but is not limited to, the following main rules:

- Sakhalin Energy endeavours to comply with principles of respect, support and promotion of human rights in all its activities.
- Sakhalin Energy aims to operate in environmentally and socially responsible ways.
- Sakhalin Energy does not tolerate bribery, insider dealing, market abuse, fraud, or money laundering.
- Sakhalin Energy is committed to free, fair and ethical business dealings.
- Intellectual, physical and financial assets of Sakhalin Energy are valuable and must be preserved, protected and properly managed.

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

All employees biannually complete online trainings dedicated to the Code of Conduct, anti-bribery and corruption principles and Conflict of Interest Procedure.

During 2016, awareness sessions were conducted in area of business integrity and code of conduct for personnel (> 500 employees) subject to risks of fraud and corruption.

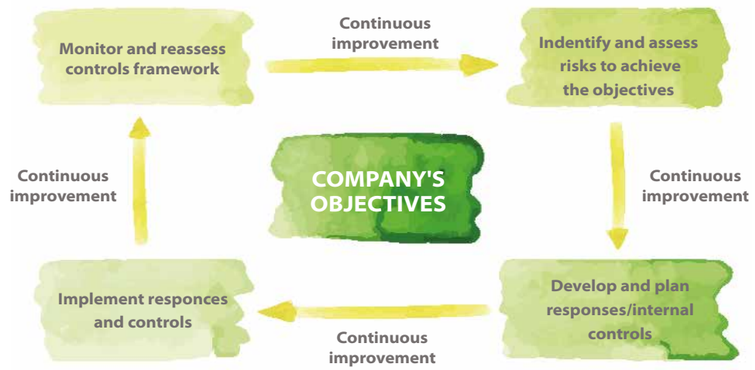
5.6. Risk Management

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

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

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

Risk Management Lifecycle



The process for managing risks at Sakhalin Energy involves identifying and assessing risks, planning and implementing a response, monitoring performance and reassessing risks on an ongoing basis to ensure that areas for improvement are captured that and such improvements are implemented (see the Risk Management Lifecycle chart). This process is regulated by the corporate Risk Management Procedure.

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

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

Risk management is the responsibility of those who are accountable for achieving the objectives associated with these risks. All executive directors of the company shall apply proactive risk management as an integral part of their management activities. Risk control is exercised by the person responsible for the risk (risk coordinator), the company's Business Assurance Committee which includes the company's executive directors and the Board Assurance Committee (see Controls Framework chart).

Controls Framework

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

Risks	Description / Controls	Reference
Operational excellence (opportunity)	Many Sakhalin Energy's processes can be improved to become more effective and/or more efficient, to enable the company to realise its vision of becoming the premier energy source for Asia-Pacific. Controls in place: In 2010, the company developed a strategy to achieve maximum performance indicators, referred to as the Operational Excellence Programme	For details, see Section 4.3. Continuous Improvement Programme
	Economic risks	
Cost management	The main elements of cost management are making investment decisions that optimise scarce resources and challenging the costs to use resources more effectively. Transparency, awareness and efficiency in managing costs and contracts all aid in achieving the goal of reducing long-term costs. The cost management strategy of the company is supported by the Journey Book, Business Plan and Operational Excellence Programme	For details about managing contractors and suppliers, see Section 7.4. Supply Chain Management

Risks	Description/Controls	Reference
Current and potential sanctions	The EU, US and a number of other countries have imposed sanctions related to the situation in Ukraine that may affect the company's business. A cross-discipline sanctions working group has been established to monitor this risk	
Cash flow management in the conditions of falling oil prices	Significant and continuous drops in oil prices affect the company's performance. The company monitors the market continuously in order to make informed decisions on cash flow management and dividends policy, on oil sales under the most favourable conditions on the market, as well as on the level of commitments for future expenditures	
	Social and reputational risks	
Staff retention, competence and succession plan	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 technical 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. The Programme for Employing and Training Russian Nationals is being updated	For details, see Section 9.1. Personnel: Management and Development
Risk of occupational diseases	The company applies the following controls 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.	For details, see Section 9.3. Occupational Health
Risk of not meeting the utilisation rate of 95% for associated petroleum gas	In order to minimise the flaring of associated petroleum gas, the company is constantly taking steps to enhance equipment reliability, increase operating time and minimise the number of unplanned shutdowns	For details, see Section 8.1. Industrial Environmental Control
	Environmental risks	
Risks with regards to 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 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 general requirements of 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	For details, see Section 8. Environmental Impact Management

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 have been assessed at each company's asset based on Russian Federation legislation and international practice	For details, see Sections 4. About the Company and 9.2. Labour Safery and Protection
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	For details, see Section 9.2. Labour Safery and Protection
Road traffic safety	Traffic decreased during the operations phase, but the risk levels remain high over the entire service life of the assets. 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 Traffic Safety Team inspectors, conducts training sessions and discussions with drivers and performs strict journey management. Other precautionary measures and controls are also being implemented	For details, see Section 9.2. Labour Safery and Protection

5.7. Anti-Bribery and Corruption

In order to counteract bribery and corruption, the company:

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

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

Risks associated with non-compliance with this Procedure come from the company failing to follow anti-bribery and corruption legal requirements or failing to comply with ethical business standards. These risks may lead to reputational damage, financial losses (through fines) and criminal liability associated with company employees as well as with the activities of its agents, contractors and intermediaries. The Procedure includes a list of categories of employees who are considered to be high-risk for violating anti-bribery and corruption laws and must attend individual training on the requirements of this Procedure.

All newly hired staff must be briefed about the requirements set forth in the Procedure as part of their induction. The Finance Controller in collaboration with the Budget and Reporting Manager is required to ensure that Sakhalin Energy employees are made aware of this Procedure (including through training sessions) and that all employees comply with the Anti-Bribery and Corruption Procedure.

Furthermore, the company's Legal Directorate will consult employees on anti-bribery and corruption legal issues and the legal risks associated with non-compliance.

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

- meeting anti-bribery and corruption requirements;
- identifying violations;
- reporting to the Business Assurance Committee;
- utilising 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.);
- utilising pre-contractual due diligence, mandatory contract provisions, etc.

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

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

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

6 STAKEHOLDER ENGAGEMENT MANAGEMENT

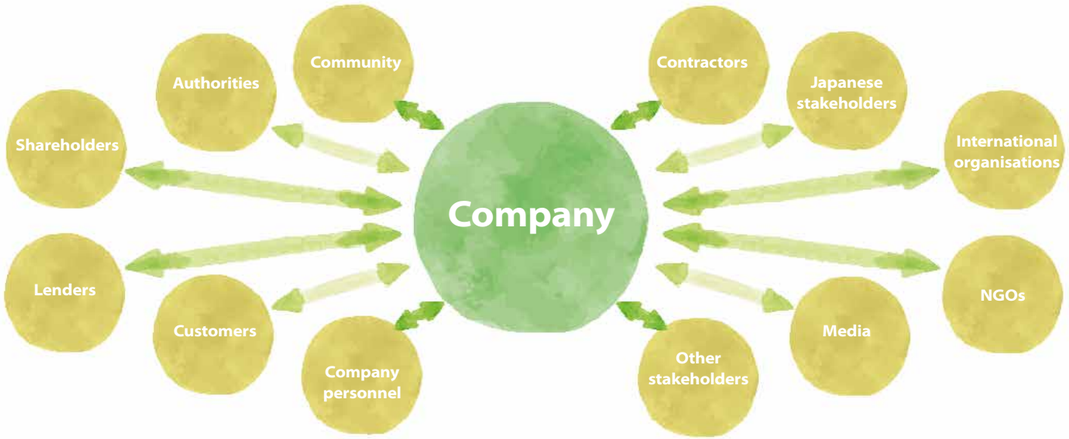
6.1. Engagement Strategy, Principles, Mechanisms and Tools

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

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

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

Company's Stakeholders



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

- Code of Conduct, including the Statement of General Business Principles;
- Sustainable Development Policy;
- Health, Safety, Environment and Social Performance Policy and Commitments;
- Sakhalin Energy Social Performance Standard (Public Consultation and Disclosure section);
- Public Consultation and Disclosure Plan (updated annually).

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

The selection of the most effective mechanisms and tools is determined by the goals and objectives of engagement and depends on a particular stakeholder group (see the Public Consultation and Disclosure Plan on the company`s website www.sakhalinenergy.com).

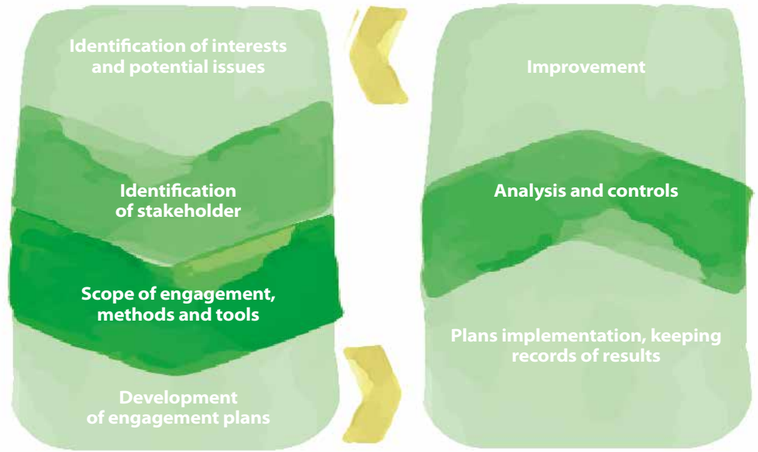
Stakeholder Engagement Process

STRATEGY

- Regular and constructive engagement
- Open and wide informing

KEY PRINCIPLES

- To be constructive and target oriented
- To be open and transparent
- To hold positive relationships
- To apply effecient mechanisms, opinion exchange regarding issues and ways for solution



6.2. Stakeholder Engagement in 2016

Sakhalin Energy continued systematic and consistent engagement with key stakeholders in 2016.

The key activities included the following:

- engagement with personnel (for more details, see Section 6.3);
- public, group and individual meetings to update the participants on the latest development and other aspects of the company`s activities and to receive feedback;
- provision of information for stakeholders through the company`s website, the Energy TV programme broadcast on Sakhalin, Vesti monthly corporate newsletter and the media (radio, newspapers, TV); distribution of information reports and printed materials in the communities;
- work of the company's information centres established in local libraries (for more details, see Section 6.4. Local Communities Engagement through the Company's Information Centres);
- engagement with indigenous people under the Sakhalin Indigenous Minorities Development Plan (for more details, see Section 6.5. Engagement with the Sakhalin Indigenous Minorities (SIM);
- engagement with non-governmental and non-profit organisations (for more details, see Section 6.6. Engagement with Non-Governmental and Non-Profit Organisations);
- engagement with Japanese stakeholders (for more details, see Section 6.7. Engagement with Japanese Stakeholders);
- engagement with customers, suppliers and contractors (for more details, see Sections 6.8. Engagement with Customers, 7.4. Supply Chain Management and 7.5. Supplier Development Programme);
- engagement with and local government authorities (for more details, 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 (for more details, see Section 2. About the Report).

Key statistics on stakeholder engagement in 2016:

- **12 public meetings held in communities located near the company's assets (67 participants from the residents of the Sakhalin Oblast);**
- **2,987 visits to the information Centres;**
- **16 public meetings in 12 communities of the districts of traditional residence of the Sakhalin Indigenous Minorities (257 participants — representatives of indigenous minorities, non-governmental organisations, tribal enterprises and communities, municipal authorities and other stakeholders);**
- **2 rounds of dialogues with the stakeholders as part of preparation of the Sustainable Development Report.**

6.3. Engagement with Personnel

Engagement with personnel is an important component of strengthening and developing the company`s corporate culture (see Section 5.4. Corporate Culture) and is conducted, among other ways, through the internal communication system, which includes the following:

- Regular staff communication sessions to inform the employees of the results of the meetings of the Committee of Executive Directors, the Board of Directors and the Supervisory Board, as well as other important events in Sakhalin Energy.
- Opinion surveys. In 2016, a regular survey was conducted to study the opinions of the company's employees. The questions concerned personnel engagement, their attitude towards the company and its senior management, responsibilities, working conditions, teamwork, participation in activities held by the company and respect for national, cultural and individual diversity. In addition, quick polls on various subjects were published on the corporate intranet website (to find out if the company`s employees adhere to the principles of environmental protection, to identify staff commitment to work safety in winter conditions, etc.).
- Vesti monthly corporate newsletter and various informational and reference materials. Vesti is distributed within the company, sent to the information centres and posted on the website. In addition, in 2016 the company began to publish an English version of the newsletter, ensuring that the information is accessible for foreign employees.
- News releases distribution through the daily news bulletin and email messages on behalf of the company`s directors.
- Distribution of printed information materials such as posters, leaflets, brochures, etc. to inform employees about various aspects of safety, operational excellence, HR issues and upcoming events.
- Posting advertisements, posters and other information on special information boards in the company's offices.
- Training workshops and information sessions to explain new procedures and programmes of the company.
- Corporate intranet site available to all employees, where they can find information on the company's activities and documents, including policies, procedures, schedules, etc.

The 100 Workshop

The 8th annual 100 Workshop was held in November 2016. The event is traditionally attended by approximately a hundred employees. In addition to directors, the company's Leadership Forum members and heads of business units and representatives of all directorates are also invited to participate in the workshop. The results of the discussions formed the basis of the Journey Book for 2017–2021, with a focus on objectives for the next year.

6.4. Local Communities Engagement through the Company's Information Centres

The information centres established at district and village libraries are located in the communities along the trans-Sakhalin pipeline system and in close proximity to other company's assets. They are equipped with required office equipment, computers with Internet access and information stands. This helps meet the company's objectives and increase the functional capacity of the libraries.

The librarians provide consultation to information centre visitors on issues related to the company`s activities during working hours.

In December 2016, the librarians participated in the regular workshop to obtain first-hand knowledge of the company's activities.

The work of the information centres includes the following:

- regularly updating materials of the company's information stands;
- helping people find information on the company's website;
- providing assistance to the community in preparing and submitting complaints in accordance with the Community Grievance Procedure;
- providing requested company`s information materials.

Statistics of Visits to the Information Centres in 2016, %

6.5.
Engagement with the Sakhalin Indigenous Minorities (SIM)

Since its foundation, Sakhalin Energy has continuously interacted with the Sakhalin Indigenous Minorities (SIM). The company considers the SIM to be a special group of stakeholders for which the issues of industrial and environmental safety, as well as of preservation of their culture and economic activity, are of paramount importance. Sakhalin Energy takes this into account in its operations and implementation of social programmes.

Since 2006, the company has been implementing the Sakhalin Indigenous Minorities Development Plan (hereinafter—the SIMDP or the Plan; see Section 9.5.8. Sakhalin Indigenous Minorities Development Plan). Following the recommendations of the stakeholders received during the preparation of SIMDP 3 for 2016–2020, in 2016, the partners focused on raising community awareness about the programmes implemented and the new opportunities (see www.simdp.ru).

The SIMDP is the key document that Sakhalin Energy uses as a basis for its work with the SIM. In addition, the company implements other projects related to indigenous ethnic groups. In 2016, it conducted a series of activities aimed at the preservation and promotion of the cultural and linguistic heritage of Sakhalin Nivkhi, in particular:

- The World of Nivkhi exhibition in Stroganov Palace in St. Petersburg, a joint project of the State Russian Museum and the Sakhalin Regional Art Museum, implemented with the support of Sakhalin Energy. Among the exhibits, there were items from the collections of the regional museums reflecting the unique culture of the Nivkhs. The visitors to the exhibition were offered guided tours, lectures, workshops and quests (see Section 9.5.7. The World of Nivkhi Exhibition Project);
- preparation and publication of a 2017 The World of Nivkhi calendar illustrated with reproductions of thematic paintings from the collections of the Sakhalin Regional Art Museum and the Okha Local Lore Museum;
- issue and presentation of the audio double album with tales written by Vladimir Sangi, the founder of Nivkhi literature. The tales in the Nivkhi language are told by the author himself, while the Russian versions of the tales are presented by well-known Russian actors. The edition was illustrated by children—the participants of the Tales of the Nivkhi Land literary and art contest, dedicated to the writer's anniversary.

The company's project—Preservation and Promotion of Sakhalin Nivkh Cultural and Linguistic Heritage—became the winner of the People Investor: Companies Investing in People, an international contest of corporate projects, in the Development of Local Communities and Volunteering category, took the second prize in the Best Programme to Support Contemporary Art and Culture category in the Leaders of Corporate Philanthropy 2016 contest and the first prize in the Social Projects category of the KonTEKst contest, which is supported by the Russian Ministry of Energy with a view to identify and promote best communications practices used by energy companies.

In 2016, with the support of Sakhalin Energy, SIM representatives took active part in the Russian North Forum of Youth of Indigenous Peoples of the North, Siberia and the Far East of the Russian Federation and in the work of the Council of Sakhalin Indigenous Minorities under the Sakhalin Oblast Governor. The company was the title sponsor of the Regional Festival of Sakhalin Indigenous Minorities.

Sakhalin Energy took an active part in the business programme of the Treasures of the North 2016, an international exhibition, where it presented a booth exhibition titled Sakhalin Treasure Trove: Tradition and Innovation, which reflected the company's experience of engagement with indigenous minorities and its initiatives that aim to preserve and develop their culture.

At the end of the exhibition, Sakhalin Energy won awards for the preservation and support of the cultural heritage of Sakhalin Indigenous Minorities and its contribution to the preservation of SIM culture and languages.

6.6.
Engagement with Non-Governmental and Non-Profit Organisations

In 2016, the company continued to cooperate with local, regional and international public organisations in various forms, including meetings and correspondence. Among the important areas of engagement are:

- cooperation with Japanese stakeholders—the authorities of Hokkaido Island, fishermen's associations and other stakeholder groups in Hokkaido—on issues related to biodiversity conservation and preparedness for oil spill response (see Section 6.7. Engagement with Japanese Stakeholders);
- collaboration with the Western Gray Whale Advisory Panel (WGWAP) to develop optimal solutions to minimise the impact on whales. Within the framework of the consultations of the Advisory Panel in 2016, there were meetings of Sakhalin Energy`s representatives with scientist members of the Panel, as well as representatives of environmental organisations included in the WGWAP as observers.

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 and representatives of NGOs, fishermen and other stakeholders are concerned about issues related to environmental aspects of the company's activities — for example, oil spill response operations and biodiversity preservation.

The company has been successful in establishing a regular, open and constructive dialogue with Japanese stakeholders. During 2016, Sakhalin Energy held a number of consultations and meetings with the Japanese stakeholders, including:

- meetings with representatives of the Hokkaido Government (February, Sapporo, Japan);
- participation in the International Symposium on the Sea of Okhotsk (Oil Spill Response Workshop, February, Mombetsu, Japan);
- meeting with the Hokkaido Fisheries Environmental Centre (February, Sapporo, Japan);
- visit of the Hokkaido Fisheries Environmental Centre representatives to Prigorodnoye production complex (April, Yuzhno-Sakhalinsk);
- participation in the meeting of stakeholders on safety and prevention of accidents during the navigation of tankers as part of Sakhalin projects (August, Wakkanai, Japan). The meeting was organised by the Japanese Coast Guard.

6.8. Engagement with Customers

Maintaining 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 both parties. During the reporting year, there were no complaints from the customers about the quality or delivery terms of Sakhalin Energy's products.

In May 2016, Sakhalin Energy held a regular annual customers reception in Tokyo. The event was attended by more than 200 people. Among the guests were the Russian Ambassador to Japan, representatives of companies purchasing LNG and oil, international lenders, financial institutions and shareholders of the company. The participants discussed the prospects of cooperation and stressed the importance of the LNG train 3 project and further development of the Sakhalin-2 project.

The company holds annual forums with customers that help foster constructive relationships. The topics for discussion include issues related to transportation, vessel maintenance, safety, environmental protection and many others.

In August 2016, the company held the 7th Annual Oil Buyers Forum, which attracted more participants than in previous years. Among the participants were representatives of the companies purchasing Sakhalin Blend oil grade, namely Tonen General, GS Caltex, JX Nippon Oil, Fuji Oil, Cosmo Oil, Showa Shell, Sinochem, SIETCo, Taiyo Oil, GMT, Petro Diamond, Unipec, Seibu Oil, as well as representatives of Mitsui and Mitsubishi. It was the first time that a representative of Seibu Oil visited Sakhalin.

In August 2016, Yuzhno-Sakhalinsk hosted the 11th Annual Conference on Maritime Hydrocarbon Transportation, which focused on the commercial transportation of oil and gas under the Sakhalin-2 project. The conference discussed challenges related to the prospects and opportunities of the maritime transportation market, shipbuilding development and shipping management. The conference participants analysed issues associated with the improvement and optimisation of marine navigation operational processes, the organisation and performance of vessel-to-vessel cargo operations, modern systems for ballast water management, etc. The Conference was attended by 28 representatives of shipowners providing vessels to Sakhalin Energy for short- and long-term charter.

In October 2016, Yuzhno-Sakhalinsk hosted the Annual LNG Buyers Forum for entities that charter vessels for delivering LNG from Prigorodnoye port. The Forum was attended by 25 representatives of ten LNG-buying companies from Japan and South Korea.

Such forums allow participants to strengthen business relations and share the unique experience gained during the implementation of the Sakhalin-2 project.

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 2016, as in the previous years, engagement with state authorities was carried out in various ways, the most significant of which was the work of the Sakhalin-2 project official management bodies provided for by the PSA, such as the Supervisory Board (SB) and the SB Working Group.

In addition, the company interacted with state authorities on various aspects of the project implementation at the working level. The Coordinating Council for cooperation between the Administration of Yuzhno-Sakhalinsk and Sakhalin Energy, established in 2015, continued its work. It comprises several working groups carrying out activities in various areas.

Representatives of state authorities regularly participate in dialogues with stakeholders conducted by the company during the preparation of the Report. The results of the 2016 dialogues are presented in Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and Company's Response and Commitments.

6.10. International and Regional Cooperation

In 2016, Sakhalin Energy continued to vigorously promote its business reputation and image as a socially responsible company both within and outside of the Russian Federation. Sakhalin Energy attended a number of important international and regional events, including:

LNG Congress of Russia 2016, 16–18 March, Moscow
This is an international event focusing on the issues related to liquefied natural gas. The Congress was attended by representatives of more than 250 Russian and foreign companies. Project operators shared key information on the implementation and various construction stages of large-, medium- and small-capacity LNG plants.

International Conference and Exhibition on Liquefied Natural Gas, 11–15 April, Perth, Australia
This is the largest conference and exhibition dedicated to LNG issues. The programme provides its participants with an opportunity to communicate and interact with industry leaders on development issues and to discuss technological, commercial, social and environmental problems associated with LNG production.

All-Russian OSH Week 2016, 18–22 April, Sochi
Held as part of the World Day for Safety and Health at Work, All-Russian OSH Week is the main event of the year in the field of occupational safety and the central discussion platform, where participants share best international and domestic practices in occupational safety and health management systems, analyse measures to prevent injuries and occupational diseases, discuss and specify areas of the state policy in the field of occupational safety and improve the regulatory framework. Sakhalin Energy representatives informed the event participants about the company's HSE experience.

ECOTECH International Exhibition and Forum, 26–29 April, Moscow
The event was attended by representatives of the Russian government, federal and regional authorities, executives and specialists of Russian and international companies, experts of the global environmental community, leading researchers and developers from 20 countries. The exhibition presented the latest developments and solutions that aim to reduce emissions and discharges of pollutants, to minimise waste and to reduce resource consumption in various sectors of the economy. Representatives of Sakhalin Energy talked about the technology of injecting drilling wastes into deep subsurface horizons, which the company applies in the fields of the Sakhalin-2 project.

Annual General Meeting of the International Business Congress, 25–27 May, St. Petersburg
The Congress deals with issues of economic cooperation and the development of proposals to remove obstacles and create favourable conditions for an effective and safe business environment.

Eastern Economic Forum, 2-4 September, Vladivostok
The main objectives of the Eastern Economic Forum are to strengthen ties between the international investment community, Russian entrepreneurs and federal, regional and local authorities, to make a comprehensive expert assessment of the economic potential of the Far East and to present a new environment for investment and business in the region. In their reports, Sakhalin Energy representatives told the Forum participants about the implementation of the Sakhalin-2 project and the measures the company takes to minimise the environmental impact. During the Forum, Sakhalin Energy and Schneider Electric signed a Memorandum of Cooperation, which provides, among other things, for cooperation in the creation of the Sakhalin Industrial Park.

Federal IT Forum, 21–22 September, St. Petersburg
This is a business event where IT directors of major oil and gas companies discuss common tasks and challenges, exchange best practices and propose ideas for industry initiatives.

Sakhalin Oil and Gas 2016 International Conference, 28–30 September, Yuzhno-Sakhalinsk
At the anniversary event dedicated to the oil and gas projects of Sakhalin and the Far East, conference participants discussed the most important challenges currently faced by the industry, such as the decline in oil prices, the reduction of investment in oil and gas companies, sanctions, access to financing, business process optimisation, technological problems and their solution, as well as the strategies of further development of projects in the Far East. Sakhalin Energy presented several reports on the Sakhalin-2 project implementation, LNG production, industrial safety and environmental responsibility, import substitution, marine transportation, etc.

St. Petersburg International Gas Forum, 4–7 October, St. Petersburg
This is the leading platform for discussing current problems faced by the industry. Decisions adopted by industry leaders based on the results of discussions directly impact the global gas market. The interaction between representatives of state authorities, key players in the international and Russian business communities and representatives of research institutions and design institutes makes it possible to discuss global trends and the state policy in the gas industry, the priority industry projects and many other relevant topics.

Annual Conference of the Donors Forum — Charity Management: Traditions, Challenges, Innovation, 20 October, Moscow
The company shared its experience in social investment management.

PEOPLE INVESTOR 2016: New Risks and New Standards of Sustainable Development, International Forum, 17 November, Moscow
Sakhalin Energy presented its project titled Preservation and Promotion of Cultural and Linguistic Heritage of Sakhalin Nivkhi.

Offshore Oil and Gas Contracts: NEFTEGAZSHELF 2016, Annual Conference, 8 December, Moscow
The participation of Russian companies in the development of oil and gas offshore fields is paid increasingly more attention. At the conference, Sakhalin Energy representatives spoke about the company's achievements in the development of Russian content and opportunities for its further participation in the project.

Moscow Forum Corporate Volunteering: Business and Society, 8 December, Moscow
The company shared its experience during the work of the Corporate Volunteering in the Information Society section of the Forum.

World LNG Summit, 12–15 December, Barcelona, Spain
This is one of the key events in the global LNG industry. The conference is a great opportunity for Russian and foreign operators involved in the production of liquefied natural gas to exchange their experience. During the event, participants discussed current issues and future development prospects of the world's LNG industry.

The participation in prestigious Russian and international forums enables the company to determine and put into practice the most advanced Russian and international experience and best practices in sustainable development and corporate social responsibility, which is necessary for the company to maintain its leading position in this area.

7 Economic Impact Management

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 numerous benefits from the Sakhalin-2 project.

- Since Sakhalin Energy started its operations, the Russian Federation's proceeds from the Sakhalin-2 project have totalled over US$ 20.8 bln, including US$ 8 bln received by the Sakhalin Oblast.
- Russian companies have gained access to new technologies and business development opportunities.
- Over US$ 24 bln worth of contracts have been awarded to Russian companies and organisations.
- The Russian Federation has gained valuable experience in managing complex high-tech projects in remote locations and in subarctic conditions.
- The infrastructure on Sakhalin Island has undergone large-scale upgrades (over US$ 600 mln was invested by the company).
- 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 have been awarded to Sakhalin companies that took part in the Sakhalin-2 project. Their capacity and competitiveness has been enhanced dramatically.
- The company has carried out extensive social and public initiatives on Sakhalin Island.

In 2016, according to the International Accounting Standard (IAS), revenues of Sakhalin Energy amounted to US$ 4,554 mln and its total net income was US$ 869 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 Lunskoye 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.

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

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

Under the PSA, some types of taxes, levies and duties are replaced with production sharing. This effectively means that instead of some taxes (including 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 total, for the reporting period, Sakhalin Energy paid almost US$ 2.02 bln (in kind and in cash) to the Russian Federation.

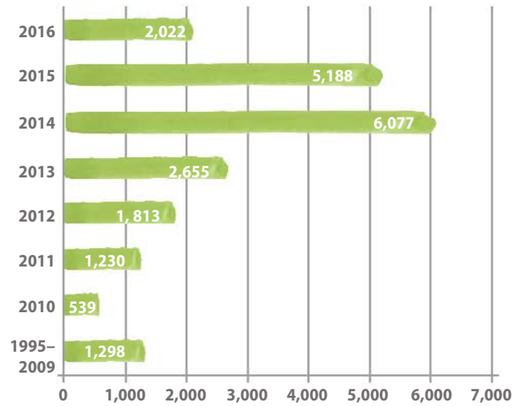
Royalties (in kind payment) amounted to US$ 289 mln.

The Russian party's production profit share was US$ 330 mln. In addition, the 2015 fiscal year profit tax totalled US$ 1.36 bln paid by the company in 2016.

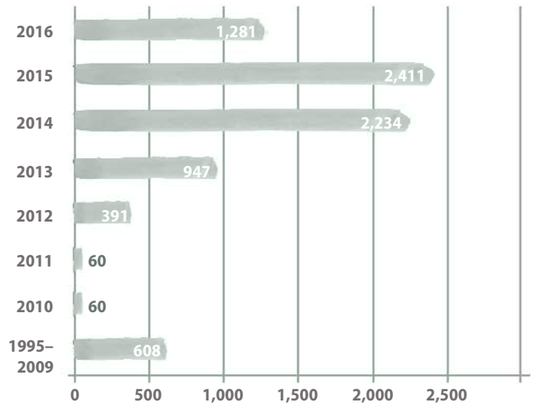
Based on the performance results for 2016, a profit tax in the amount of approximately US$ 0.9 bln will be paid to the budget in 2017.

Over the entire period of project implementation (1995–2016), the Russian party has received US$ 20.8 bln from the Sakhalin-2 project, taking into account the 2016 amounts.

Total amount of payments to the Russian party from the project in 1995–2016, US$ mln

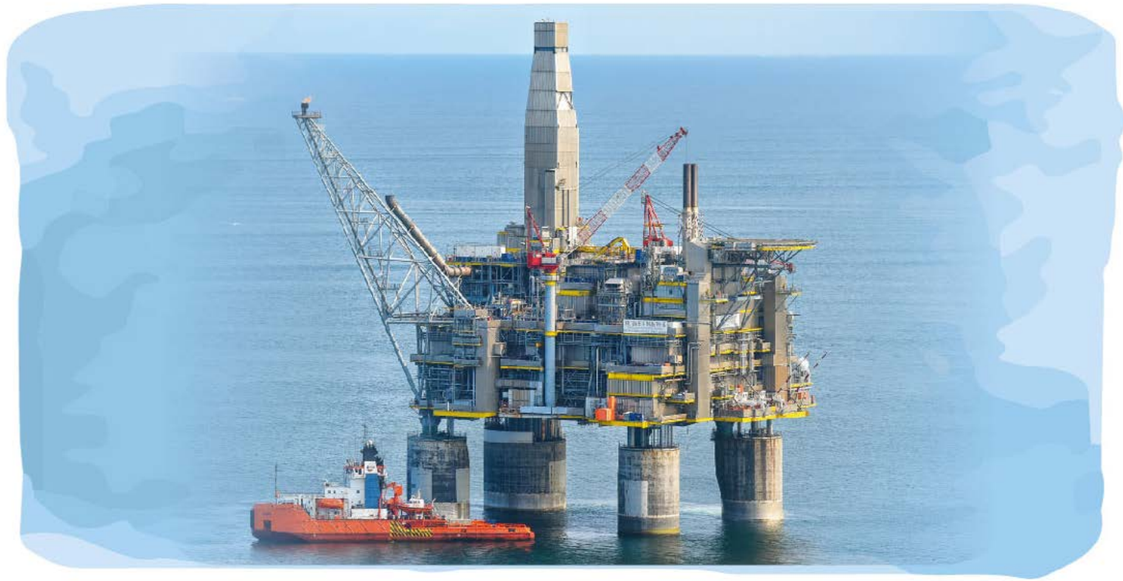


Taxes and other mandatory payments made to the Sakhalin Oblast budget and to local budgets from the Sakhalin-2 project in 1995–2016, US$ mln



Taxes and other mandatory payments made to the Sakhalin Oblast budget and to local budgets totalled US$ 1.3 bln in 2016.

Revenues from the Sakhalin-2 project were a significant part of the total fiscal revenues of the Sakhalin Oblast in 2016 and represented over 60% of the regional budget.



7.3. Russian Content

In accordance with the PSA requirements, the Russian content is measured in labour input (in man-hours), as well as materials and equipment (in weight units) delivered by Russian contractors (both legal entities and individuals). Sakhalin Energy will make its best efforts to achieve a Russian content level of 70% over the life of the entire Sakhalin-2 project. In 2016, the company reached a Russian content level of 86% of labour and 94% of materials and equipment used.

Russian content means the utilisation of Russian labour, equipment and services.

Sakhalin Energy has identified its key activities and mechanisms for maximising Russian content, which are featured in the Russian content Policy and the Russian content Development Strategy. The company's efforts are primarily focused on long-term planning for Supply Chain Management requirements, identifying opportunities for Russian content development, providing targeted assistance to Russian companies in order to increase their competitive potential and developing the workforce and suppliers.

The total value of contracts awarded to Russian companies since the project was launched through the end of 2016 has reached approximately US$ 24.2 bln.

In 2016, the value of new contracts and amendments to existing contracts with Russian companies totalled approximately US$ 947.7 mln, or 59% of the total value of the contracts.

Examples of contracts awarded to Russian companies in 2016:

- SCF SHELF for seagoing vessel charter services;
- ZapolyarPromGrazhdanStroy for performing early work (site preparation) for the OPF compression project;
- Giprogazcenter for development of the train 3 project FEED (front-end engineering and design) documentation and design documentation for the Gas Transportation System (GTS) upgrade;
- SM Trading for providing fully managed bus services;
- SOGAZ for providing offshore operational insurance, including risks of physical loss and physical damage, equipment damage and operators extra expense related to drilling activity;
- INTRA Service company for providing CUI (corrosion under insulation) services for OPF;
- UHSEP for providing compliance services.

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

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

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

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

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

Sakhalin Energy adheres to the following SCM principles:

- safety—causing no harm to people, the environment, or to our property; ensuring that contractors comply with the company's safety standards;
- additional value in SCM — value maximisation, 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 — maximisation 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.

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

In accordance with the principles listed above, our contract award and management process uses the following process.

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

- conducting workshops for potential vendors (see Section 7.5 Vendor Development Programme);
- pre-qualifying potential vendors.

Conducting tenders for the 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;
- submitting 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 the performance of the contract, the company monitors contractor activities by tracking the mutually agreed key performance indicators (KPIs) and by organising meetings to review contractor performance;
- the company raises awareness and conducts training in order to ensure compliance with its requirements (including those related to HSE and social performance, anti-corruption and bribery, human rights, etc.);
- 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:

Health, safety and environmental (HSE) requirements

Contractors must:

- include compliance with HSE principles in the performance assessment;
- perform checks and investigate any breaches of the HSE rules to ensure the company's HSE policy is properly followed;
- independently evaluate the HSE management system for compliance with generally recognised standards;
- verify that they are in compliance with similar HSE standards and provide the necessary advice on these issues, etc.

Requirements for the quality of materials, equipment and services supplied

Contractors must:

- develop and comply with the company's 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 Russian content requirements have arisen from the Production Sharing Agreement concluded with the Russian party. The parameters used to measure the Russian content are weights of material and equipment, man-hours and their cost equivalents.

Requirements for a tender proposal

A tender proposal shall clearly demonstrate and confirm the following:

- a company is financially stable and solvent;
- a company has the relevant experience;
- services provided, work performed and materials supplied are high quality and reliable;
- HSE management systems and procedures are in place;
- a quality assurance system and procedure are in place;
- resources are available to meet the work/supply schedule.

7.5. Vendor Development Programme

Sakhalin Energy has released a new brochure on the development of Russian content in the Sakhalin-2 project

Russian content contains general information about the project, the most vivid examples of cooperation with the leading enterprises of Russian industry and services, as well as information about the Russian vendor development programme. Particular attention is paid to development projects, opening up new opportunities for domestic enterprises. An electronic version of the brochure can be found on the company's website.

For several years, Sakhalin Energy has been actively implementing the Russian Vendor Development Programme, the main purpose of which is to offer greater opportunities to Russian businesses and to increase the Russian content in the Sakhalin-2 project.

An important component of the Vendor Development Programme is its educational module that provides regular workshops on the following important subjects:

- HSES;
- quality management system;
- skills in participating in Sakhalin Energy's tenders.

As part of the Vendor Development Programme, in 2016, the company held a number of workshops for potential contractors of Sakhalin Energy, including one distance workshop via videoconferencing. The workshops were attended by more than 42 specialists from 27 Russian companies, including 16 Sakhalin companies.

In addition to offering the training module, the Vendor Development Programme targets particular Russian companies to ensure that they receive the technical qualifications necessary to be added to the approved vendor list of Sakhalin Energy.

Programme for audits of Russian companies for the LNG plant train 3 construction project

In addition to the Vendor Development Programme, in early 2016 the company launched an audit programme for the Russian industrial companies in order to compile a list of technically acceptable Russian manufacturers for construction of the LNG train 3. During the year, the audit covered about one hundred Russian companies which are the leading manufacturers and suppliers of oil and gas equipment and materials, more than 80 companies of which were reported as conforming to qualification requirements.

The companies recognised during the analysis as technically qualified for inclusion in the project will also be considered as suppliers within operating activity that will allow to significantly increase the number of domestic suppliers of the Sakhalin-2 project.

8 ENVIRONMENTAL IMPACT MANAGEMENT

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

The environmental policy of the company is part of the company General Business Principles, Sustainable Development Policy and HSE and SP Policy and Commitments. These commitments are specifically identified in the HSE and SP Action Plan, standards, procedures and other internal documentation of the company.

The environmental management system is certified to comply with the requirements of international standards ISO 14001 and OHSAS 18001 (see Section 3.5. HSE and Social Performance Management).

To enhance the system's efficiency, Sakhalin Energy uses an approach based on the pattern: planning – implementation – analysis – correction. Internal and external audits are conducted to evaluate the effectiveness of the company's environmental management system. Internal checks of compliance with the requirements of environmental laws and company standards and procedures are regularly conducted at production assets.

Particular attention in this regard is being given to monitoring of contractors' compliance with requirements of Sakhalin Energy, which includes analysis of documentation and inspections of contractual activities.

The company pays special attention to preventive risk management and environmental impact assessment. In an effort to mitigate the environmental impact and minimise the risk of environmental pollution, the company implements the monitoring and management system (see Section 5.6. Risk Management).

The company implements a wide range of organisational and technical measures aimed at consistent minimisation of adverse environmental impacts and improvement of the competencies of the company's and contractor's personnel. In this endeavour, the programmes for in-process environmental monitoring, environmental monitoring and biodiversity conservation are developed and implemented.

In 2016, Sakhalin Energy was ranked the first in the annual Environmental Responsibility Rating of Oil and Gas Companies in Russia.

The rating is given by the World Wildlife Fund (WWF) of the Russian Federation and CREON Energy, the provider of advisory services to the fuel and energy industries, in partnership with the National Rating Agency and the Project of United Nations Development Program / Global Environmental Facility and the RF Ministry of Natural Resources — The Objectives of Biodiversity Conservation in the Policy and Development Programmes of the Energy Sector of Russia.

The list of rated companies included 21 leading oil and condensate producers (over 1.5 mln t per year). Sakhalin Energy was the winner in all rating nominations — Environmental Management, Environmental Impact and Information Disclosure / Transparency.

According to its organisers, the purpose of the project is to gather objective and comparable information on environmental impacts. Additionally, publicity associated with this event also leads to improved quality of environmental risks management and mitigation of environmental impacts by the oil and gas industry.

8.1. Industrial Environmental Control

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

The company exercises industrial environmental control in the following areas:

- air emissions control;
- water use and discharge control;
- waste management control.

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

8.1.1. Impact to the 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 the gas flaring in a soot-free mode.

The company uses fuel tanks equipped with fuel vapour recirculation system nozzles connecting the tank with the tanker. This leads to the reduction of volatile hydrocarbon emissions by 90% during the refuelling operations.

In 2016, as part of the air quality protection programme, the company conducted instrumental monitoring of fixed sources at production assets for compliance with established standards for maximum allowable emissions.

To reduce atmospheric pollutant emissions, measures were implemented to improve operational reliability and fail safety of equipment and to monitor compliance with the operating mode of gas turbines. To ensure timely elimination of potential gas leaks at the company's assets, the company performed inspections and diagnostics of equipment and required repair and maintenance and used fixed and portable gas analysers.

In 2016, the total gross emissions increased by 5% as compared to 2015. This was primarily due to equipment shutdowns during work to enhance equipment reliability and increase the production of hydrocarbons.

Gross Air Emissions in 2013-2016, thousand t

Pollutant	2013	2014	2015	2016
Carbon oxide	4.3	4.2	4.1	4.4
Nitrogen oxide (in NO_2 equivalent)	4.8	4.1	4.1	4.3
Methane	1.08	1.1	1.0	1.1
Sulphur dioxide	0.07	0.05	0.04	0.03
Other pollutants	1.15	1.15	1.1	0.97
Total	**11.5**	**10.6**	**10.3**	**10.8**

Specific Air Emissions in 2015-2016, by areas of activity

Activity	2015	2016
Hydrocarbon production, kg/toe	0.19	0.19
Hydrocarbon transportation, kg/thousand t-km	0.06	0.08
LNG production, kg/toe	0.24	0.25

Monitoring of air quality at the boundaries of sanitary protection zones showed neither non-compliance with established standards, nor an increase in pollutant concentrations.

8.1.2. Impact on Water Bodies

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

Water use included water intake from surface and groundwater bodies on the basis of water use agreements and licenses for subsoil use. To prevent pollution of water bodies and manage water resources in 2016, the company's structural units monitored compliance with established water use and water discharge limits and regularly performed laboratory and instrumental quality control of wastewater, surface water and groundwater. Maintenance of water intake and treatment assets and accident prevention activities on water bodies were performed. Groundwater monitoring was 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.

Total water intake has increased due to the increased production of hydrocarbons, but no unit exceeded water intake limits set for 2016. The water disposal level remained the same as in the previous year.

Reduced water disposal on the surface is due to the ongoing company's activities on redirection of wastewater to water bodies. Only 1% of the waste water was insufficiently treated, 4% of the waste water was treated to minimum standards and the other 95% met minimum standards without treatment.

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

Consolidated Figures of Water Use in 2013-2016, thousand m³

Specific Water Use in 2015-2016, by areas of activity

Activity	Water consumption for in-house needs		Disposal of polluted water into surface water bodies	
	2015	2016	2015	2016
Hydrocarbon production, m³/toe	1.0	1.1	0.002	0.005
Hydrocarbon transportation, m³/thousand t-km	0.001	0.001	—	—
LNG production, m³/toe	0.01	0.01	0.001	0.005

8.1.3. Waste Management

The company's waste management activities in 2016 were aimed at meeting Russian and international requirements, reducing the adverse environmental impact and optimising waste management processes.

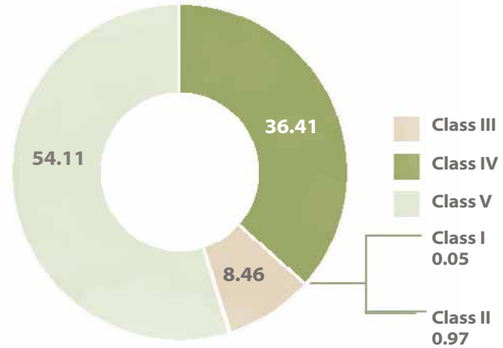
Most of the company's waste is classified as low-hazard (hazard class IV and V); it is mainly drilling waste and solid domestic waste. To prevent an adverse environmental impact, drilling waste was injected through special disposal wells into deep underground horizons with necessary insulating formations to ensure their full containment and safe disposal. This technology was included into engineering manual ITS-17 2016 "Disposal of Industrial and Consumer Waste" as the best available technology for waste disposal associated with oil and gas production. In December 2016, the manual was approved by the order of the Federal Agency on Technical Regulation and Metrology to be put into effect on 01 July 2017.

During the year, the company constantly monitored the injection process and took all reasonable measures to reduce the volume of drilling waste. In the area of underground drilling waste disposal assets, to confirm the elimination of its adverse environmental impact, the company organised monitoring of the sea water condition in the bottom layer, sediment and benthic communities.

At the production assets, waste is collected separately for subsequent disposal, treatment and reducing the amount of waste transported to landfills; timely removal of waste is performed; 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 that conform to the Russian requirements aimed at minimising the environmental impact. The company searches for cost-effective methods of management of hazard class IV-V wastes in order to reduce the proportion of waste disposed at landfills.

Waste Breakdown by Hazard Class in 2016 (not including drilling waste), %



Waste Management Indicators (including drilling waste) in 2013-2016, thousand t

Parametre	2013	2014	2015	2016
Amount of waste at the beginning of the year (all hazard classes)	0	0	0	0.14
Waste generated in the reporting year (all hazard classes)	154.07	95.87	30.52	36.86
Waste used for internal production	0.04	0.01	0.02	0
Transferred to other organisations for use and disposal	2.72	2.37	1.81	2.73
Transferred to other organisations for burial at landfills, including:	3.60	2.67	2.01	1.63
• in the Sakhalin Oblast	3.46	2.52	1.82	0
• outside the Sakhalin Oblast	0.14	0.15	0.19	1.63
Waste disposed at own assets (burial of drilling waste)	147.71	90.82	26.54	32.52
Amount of waste at the end of the year (all hazard classes)	0	0	0.14	0.11

As compared to the previous year, the total volume of waste increased by 21% mainly due to the increased amount of drilling waste generated during the construction of new wells.

As compared to 2015, the volume of waste disposed in landfills decreased by 19%. The volume of waste transferred for use or treatment increased by 50% as a result of actions taken to minimise the production of waste and search for the most effective ways to recycle and treat it.

Since it was temporarily impossible to dispose of waste at the Sakhalin Oblast landfills, the company disposed of waste at landfills in other regions.

Waste accumulated as of the year end will be transferred for disposal at landfills furnished in accordance with the requirements and included in the state registry of waste disposal sites.

8.1.4. Energy

The company's commitment to the efficient use of energy is reflected in the policy, standards, the company's obligations for gas flaring management on flaring units and energy management.

Energy saving and energy efficiency activities are carried out under the company's programme for continuous improvement (up to 2016—the Operational Excellence programme, see section 4.3. Continuous Improvement Programme) and production processes optimisation.

The company's assets were built using advanced technologies. All production assets have their own self-contained power supplies.

Natural gas is the main source of energy for the company. Diesel fuel is used as a standby resource, with low-sulphur fuel preferred. Yuzhno-Sakhalinsk and Korsakov infrastructure assets are power-supplied from the central electrical networks but generate their own energy for heat supply. The energy consumption balance is shown in the table.

Energy Consumption Balance of the Company in 2013-2016, mln GJ

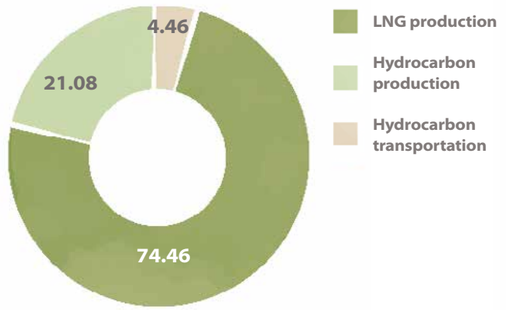
Parametre	2013	2014	2015	2016
Primary energy generated	867.80	864.92	846.85	868.06
Primary energy sold, including:	758.39	754.16	790.36	807.92
• energy transferred to the Russian party	51.42	53.58	38.61	39.12
Primary energy consumed, including:	58.89	58.45	58.26	58.74
• energy direct consumption*	56.93	56.59	56.45	56.95
• primary energy acquired	1.96	1.86	1.81	1.79
Secondary energy acquired/consumed	0.12	0.12	0.11	0.12

* Generated from the natural gas produced

Energy consumption in 2016 for each area of activity is shown in the chart Energy Consumption in 2016, by areas of activity.

The slight increase in direct energy consumption is associated with the increase in hydrocarbon production and thus commodity transport work. Specific indicators of energy consumption during LNG production and production of hydrocarbons were improved in 2016 as compared to the previous year.

Energy Consumption in 2016, by areas of activity, %



The LNG plant is the main energy consumer. Upgrading of cooling heat exchangers performed during scheduled maintenance in 2015 and 2016 improved the performance of the LNG trains while maintaining the same level of energy consumption.

Specific Energy Consumption in 2015-2016, by areas of activity

Activity	2015	2016
Hydrocarbon production, GJ/t of hydrocarbons produced	0.71	0.68
Hydrocarbon transportation, GJ/thousand t-km	0.14	0.16
LNG production, GJ/t of LNG produced	4.01	4.00

Sakhalin Energy assets are highly energy efficient and meet international standards. In 2015-2016, specific energy consumption by the company's assets producing hydrocarbons was equal to 0.68 GJ/t of hydrocarbons produced. The value of this indicator for hydrocarbon-producing assets was 1.4 GJ/t of hydrocarbons produced in 2015, according to the International Association of Oil and Gas Producers.

The LNG plant leads the ranking of LNG plants in the Shell Group. The Prigorodnoye production complex is a champion in terms of reliability, energy and production efficiency. Good results can be achieved by gas liquefaction technology with double mixed refrigerant. Due to the low temperature, this process consumes considerably less energy to cool the gas. Heat released during the liquefaction of natural gas is used for other processes.

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.

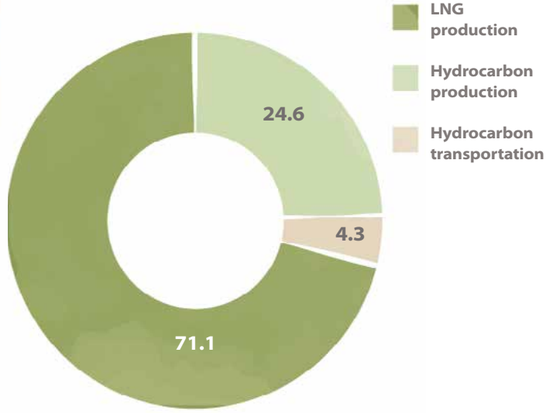
The company shares the concern about the global climate change problem and annually measures and controls GHG emissions. These are performed in compliance with the Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions developed by the American Petroleum Institute (API). Emissions from 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).

GHG emissions increased in 2016 related to the increase in hydrocarbon production and, consequently, the increase in the volume of transportation by pipelines.

GHG Emissions in 2013–2016, mln t of CO_2 equivalent

Parametre	2013	2014	2015	2016
Direct emissions (scope 1)	3.502	3.518	3.699	3.708
Indirect emissions (scope 2)	0.006	0.006	0.005	0.008
Total	**3.508**	**3.524**	**3.705**	**3.716**

GHG Emissions in 2016, by areas of activity, %

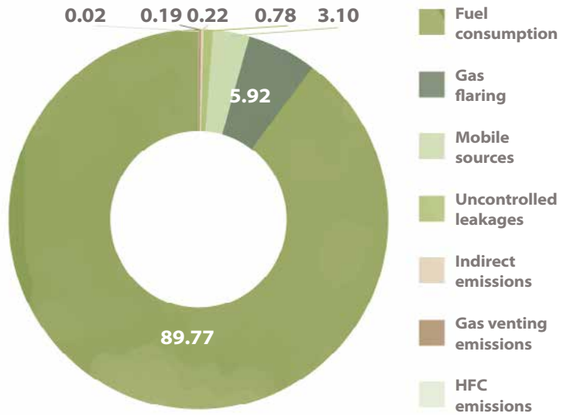


Specific Emissions of GHG in 2015–2016, by areas of activity

Activity	2015	2016
Hydrocarbon production, t CO_2 eq./t of hydrocarbons produced	0.054	0.050
Hydrocarbon transportation, t CO_2 eq./thousand t-km	0.008	0.010
LNG production, t CO_2 eq./t of LNG produced	0.242	0.242

In 2016, the company continued implementing the action plan aimed at the gradual cessation of using ozone-depleting substances (ODS) by 2020 in accordance with the Montreal Protocol requirements.

Structure of GHG Emission Sources in 2016, %



In October 2016, specialists of Sakhalin Energy took part in a workshop on GHG emissions organised by Shell.

Shell experts presented the Group strategy on GHG management and key measures to reduce emissions. They highlighted the objectives and stages of GHG emission management planning and enterprise energy efficiency improvement, provided an overview of the information system for real-time monitoring of emissions and enterprise energy efficiency and shared their successful experience in introducing this system in the Shell companies.

The participants became acquainted with the basic steps of development of GHG emission management and energy efficiency improvement plans. At the workshops, they worked out the ways of prioritizing measures aimed at reducing GHG emissions. The main selection criteria of priority measures include commercial appeal, implementation deadlines and efficiency.

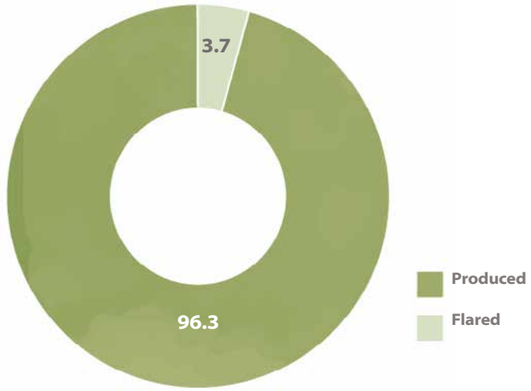
Specialists of Sakhalin Energy told about the company's experience in GHG emission management and provided examples of projects implemented to reduce emissions and improve the energy efficiency of the company's assets.

8.1.6.

Utilisation of Associated Gas in Production

The company strives to reduce associated gas flaring to a minimum.

Utilisation of Associated Gas during Production in 2016, %



Associated gas produced at the PA-A and PA-B platforms is transported via offshore pipelines to the shore. PA-A and PA-B gas is transported to the northern gas transfer terminal and excess gas goes to OPF, where it is mixed with LUN-A gas for further transportation to the LNG plant and the southern gas transfer terminal. A part of the associated gas is used as fuel for production assets.

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

The company has included targets for associated gas utilisation in the Reservoir Management Plans for the PA-A, PA-B and LUN-A platforms. The actual associated gas utilisation in 2016 was 96.3%.

8.1.7. Environmental Costs and Payments for the Adverse Impact

To comply with the international and Russian legislation requirements, Sakhalin Energy implements environmental conservation measures. The current cost of implementation in 2016 was 2,922 mln roubles.

The Sakhalin Energy environmental conservation activities are controlled by the state authorities at 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;
- Federal Subsoil Resources Management Agency;
- Federal Service for the Supervision of Natural Resources (Rosprirodnadzor);
- Federal Water Resources Agency;
- Amur Water Basin Committee of the Federal Water Resources Agency;
- Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast.

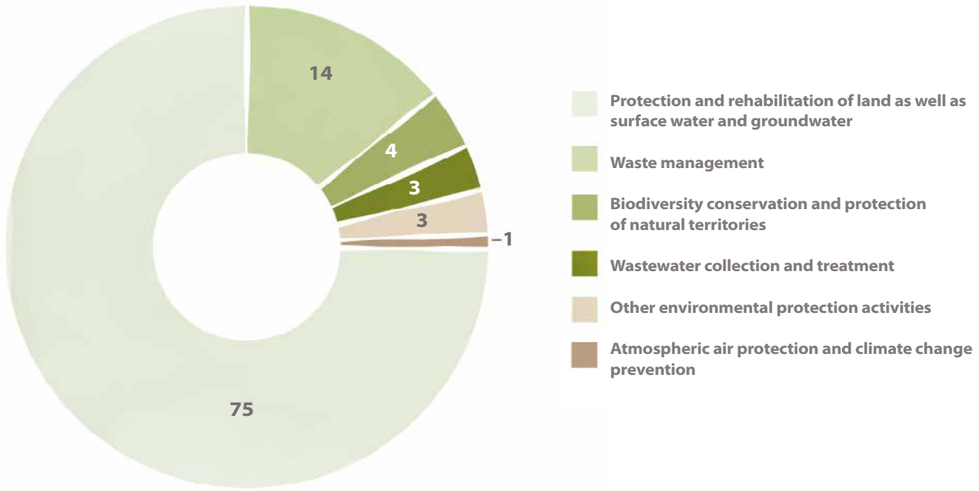
In 2016, regional state control authorities conducted no inspections.

Payments for Adverse Environmental Impact in 2013–2016, RUB thousand

Parametre	2013	2014	2015	2016
Air emissions	3,498.8	11,516.884	4,931.253	987.595
Discharges into water bodies	127.1	166.208	91.602	29.045
Waste disposal	886.7	684.210	13,263.975	1,475.297
Total	**4,512.6**	**12,367.302**	**18,286.830**	**2,491.937**

The share of payments exceeding the standards in the total payment for the adverse impact was 43%, which was mainly due to the absence of disposal limits of hazard class IV–V waste at the landfills of Primorsky Krai, as well as the exceeding of discharge limits for some of the wastes during commissioning of OPF front-end compression.

Current Environmental Costs in 2016, %



8.2. Environmental Monitoring and Biodiversity Conservation

Sakhalin Energy implements a number of local environmental monitoring and biodiversity conservation programmes in order to determine the condition of the environment, to assess the impacts of production assets and to develop measures for eliminating or mitigating such impacts.

The necessity to implement these programmes is caused by the company's objectives, such as:

- to manage risks;
- to ensure compliance with the Russian legislation and best international practices.

The results of the local 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.

In 2016, specialised organisations were involved in environmental monitoring and biodiversity preservation activities, carried out in the following areas:

- soil cover;
- river ecosystems, including habitats, communities and individual valuable and protected species;
- flora and vegetation;
- wetlands;
- protected species of birds, including the Steller's sea eagle;
- marine environment and biota in the area of impact from the company's offshore production assets;
- ballast water control in the Aniva Bay coastal area near the Prigorodnoye production complex;
- gray whales and other protected species of marine mammals.

The steps taken by Sakhalin Energy in accordance with the Biodiversity Action Plan (BAP) ensure that the company fulfils its commitments to minimise impacts on biodiversity and the environment.

In 2016, the Biodiversity Working Expert Group of the Ecological Council under the Sakhalin Oblast Governor, founded on the initiative of the company in 2008, continued its activities.

8.2.1. Soil Monitoring

The system of regular soil monitoring allows identification of tendencies towards possible changes.

The monitoring programme involves assessing the soil condition along the route of the onshore pipelines, at the infrastructure assets and within the areas around the Prigorodnoye production complex and OPF.

Soil monitoring includes:

- obtaining data on physicochemical and agrochemical characteristics of soils in the areas of land remediation and in adjacent territories;
- analysing the content of petroleum products and benzo(a)pyrene in soils around the Prigorodnoye production complex and OPF.

In 2016, soil monitoring was conducted at the pipeline route sections within farmland and on the sites within a 4 km area around the Prigorodnoye production complex and OPF; a total of 55 test sites.

The composition of the soils in the right of way within the farmland differs slightly from that of the soils in the adjacent areas. Plants grew well in the right of way and their productivity is often higher than in the adjacent farmland.

The soils around the Prigorodnoye production complex are in good condition, with an increased content of organic matter for black bog soils, relatively low content for raised bog soils and low content for brown forest soils.

Bog soils with similar typical characteristics predominate in the areas adjacent to OPF; acidic and strongly acidic pH reactions were observed in lowland and upland bog soils, respectively. To the south of OPF and in some individual areas northwards, there are brown forest soils with low humus content and a strongly acidic pH reaction. On the whole, the values of soil parameters determined reflect the processes of soil formation in these areas.

Benzo(a)pyrene, a key indicator of potential contamination, was not detected in layer 0–25 cm at the monitoring sites around the Prigorodnoye production complex. The average content of petroleum hydrocarbons in the soils of the area potentially affected by the Prigorodnoye production complex was 119 mg/kg in layer 0–5 cm and 16 mg/kg in layer 5–25 cm; in the soils around OPF the content was 79 mg/kg in layer 0–5 cm and 52 mg/kg in layer 5–25 cm, which is many times lower than the maximum allowable level of 1,000 mg/kg.

According to the 2016 monitoring results, the soil characteristics around the company's assets were close to the baseline indicators of the relevant soil types. The monitoring in 2016 did not reveal any land contaminated with oil and petroleum products as a result of work in the territories of the company's assets.

As of the end of 2016, the area of disturbed land was 58.3 ha, including 51.9 ha disturbed in 2016 due to preparatory work and surveys as part of the development projects.

8.2.2. River Ecosystems Monitoring

During the implementation of the Sakhalin-2 project, the river crossing of more than a thousand water bodies located in the area from Chayvo Bay in the north to Aniva Bay in the south were completed. Due to the specific properties of the water bodies, a watercourse monitoring and control system has been developed which allows to track any changes, detect critical points and develop and take corrective measures in a timely manner.

The monitoring system includes monitoring of the quality of surface waters and bottom sediments, monitoring of river communities and monitoring of the ichthyocomplexes a model watercourses. The monitoring of river ecosystems quality primarily recognises the nature and specifics of potential impact on the water bodies during the operation of pipeline and infrastructure facilities operation. In addition, the monitoring allows to identify the possible reverse impact from aquatic ecosystems on the infrastructure assets within the Sakhalin-2 project.

The monitoring of river ecosystems includes:

- determination of hydrological characteristics of streams;
- determination of hydrochemical characteristics of water;
- 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;
- assessment of area and quality of potential Pacific salmon spawning areas;
- assessment of ichthyocomplexes in model watercourse.

In 2016, the monitoring of surface waters and bottom sediments was implemented at 26 watercourses crossed by the pipelines, as well as in the area of potential impact from OPF at the Vatung River and in the area of the Prigorodnoye production complex at the Mereya River and Goluboy Stream.

Monitoring was performed during three hydrological seasons: spring floods, summer low water and autumn high 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 damaged utility lines were found. Engineering surveys were conducted at the sites where river bed deformations were identified to draw up design documentation for future repairs.

The physicochemical properties of surface water met the regulatory criteria in all periods of the monitoring. The water was odourless in all the studied streams. The transparency of water in almost all watercourses was more than 30 cm, apart from a few samples taken during spring high water.

The pH of the water was neutral. The physicochemical properties of the surface water at two cross sections, upstream and downstream, of each watercourses were changing with equal tendency and had equal quantitative and qualitative characteristics.

The oxygen regime of the surface water was within standard limits during all monitoring periods.

The content of all the studied biogenic substances (ammonium ion, nitrates, phosphates) did not exceed MAC standards.

The majority of watercourses were clean in terms of the content of highly oxidising matter specified by BOD_5 (biochemical oxygen demand for five days) values. The majority of BOD_5 values were less than 2.0 mg$\hat{I}_2$/dm^3, except for the Maly Takoy River and the Ai River. In the Maly Takoy River during spring high water the BOD_5 was 6 mg/dm^3 in the baseline cross section and 5 mg/dm^3 in the monitoring cross section. In the Ai River, the BOD_5 values were equal for both cross sections and were 5 mg/dm^3 during spring high water. The exceedance of this rate was probably caused by human-induced pollution sources located upstream.

Benthos monitoring studies in streams continued in 2016. The analysis of quantitative and structural indicators of macrozoobenthos along with the analysis of environmental characteristics (such as bed form, current speed, bed type and depth) showed that in the studied watercourses the variability of composition, condition and structure of bed communities in the baseline and monitoring cross sections was caused by natural processes, in particular by the diversity of biotopes and hydrological and hydrochemical characteristics at the monitoring stations. The total abundance of zoobenthos varied in a wide range from 8 to 1,040 individuals/m^2.

In the summer and autumn of 2016, ichthyic faunas were monitored in the basin of the Pilenga River and its tributaries. 20 stations in the main channel and 11 stations in the tributaries were observed. It was identified that the ichthyic fauna of the river was dominated by the boreal piedmont and boreal plain ichthyic faunal communities, populating mostly the main bed of the river. Representatives of the arctic freshwater community, the closest in terms of ecological characteristics, occupy both the main watercourse and the studied tributaries. 12 species and subspecies of fish from five families were found.

Of all the studied metals, concentrations of iron and copper had the highest variability. In most of the watercourses, the content of these metals exceeded the relevant MAC standards, which is typical for surface waters of Sakhalin. According to Sakhalin Rosgidromet, concentrations of iron may reach more than 3.0 mg/dm^3 in the northern rivers of Sakhalin and more than 1.0 mg/dm^3 in the central and southern rivers. This is due to the impact of such natural factors as chemical erosion of rocks, accompanied by their mechanical disintegration and dissolution and transfer of significant amounts of iron and copper along with subsurface flow, which is one of the major nutrient sources for the surface waters in Sakhalin. According to 2016 monitoring data, interseasonal transfer of iron and copper concentrations in the cross sections upstream and downstream of the point where the pipeline crosses was equal and continued with a steady trend. Concentrations of iron and copper in upstream and downstream sections of watercourse were commensurable to each other (for instance, in the Severnaya Khandasa River, the concentration of iron was 1.02 and 0.81 mg/dm^3 and the concentration of copper was 0.019 and 0.015 mg/dm^3 in the baseline and monitoring cross sections, respectively).

During 2016 monitoring, no pollution of surface water by petroleum products was detected. All measured concentrations were stable and in line with MAC standards. The particle size distribution of bottom sediments in almost all of the watercourses was heterogeneous in all seasons and was dominated by particles with diameter of 10 mm and more.

During the monitoring, it was found that the river bed has undergone significant changes due to past cyclones in autumn 2015: it has become straighter; the current speed has increased; the hiding places in the form of snag pits and stretches have disappeared. These factors could cause the low abundance and biomass of fish in the river. In the main river bed, the concentration of predatory fish, such as Dolly Varden, white-spotted char and Sakhalin taimen, remained only in some places. Pacific salmon were not found in 2016.

In 2016, Pacific salmon migration and reproduction monitoring was continued in the Goluboy Stream, which in the downstream flows through the territory of the Prigorodnoye production complex. The timing of spawning migration of pink salmon spawners in the stream was close to the average indicators for the rivers of the Tonino-Anivsky peninsula. The spawning area in the Goluboy Stream were less populated than the long-term average annual level for this watercourse, but more populated than the average level for the rivers in Aniva Bay. The fish density values varied from 15 to 40 individuals/100 m^2; the total estimated number of humpbacked salmon spawners that entered the watercourse in 2016 was 2.5 thousand individuals.

The outcomes of the River Ecosystems Monitoring in 2016 did not reveal any impact of the Sakhalin Energy assets on the quality of surface waters, their flora and fauna.

8.2.3. Flora and Vegetation Monitoring

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

The Monitoring Programme includes the following objectives:

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

In 2016, monitoring was conducted in the area of the Prigorodnoye production complex on the Aniva Bay coast, around OPF at a distance of 6 km from Lunsky Bay and on the sites of protected species monitoring located along the onshore pipelines route.

The results of the monitoring show that the species composition at the sample sites around the production assets is stable. In particular, there is no decrease in the number of individual species in the tree layer. Insignificant variations in the number of trees in certain areas are due to natural causes, such as death of old trees and undergrowth ageing. The subordinate layers, i.e., shrub and grass-shrub, are in good condition. The species composition of layers at all the sample sites surveyed has not changed.

Some epiphytic lichens are still experiencing a certain impact associated with the change in the microclimatic conditions (stronger lighting and wind, dusting caused by soil denudation) occurred during the construction of the company's assets. On the other hand, almost all of the sample sites showed rudiment young thalluses alongside with the older thalluses, which indicates the restoration of the lichen cover. 12 protected lichen species are included in the Monitoring Programme to control their habitat condition. The results of the 2016 Monitoring Programme indicate that all habitats of protected species are in satisfactory condition.

The studies of habitats and condition of 18 protected species of vascular plants, three of which are on the IUCN Red List (Chosenia arbutifolia, Sakhalin spruce and Japanese yew), indicate their good condition. The only exception is one local area in the Mereya River floodplain, where individual Sakhalin spruce trees were found to be distressed due to soil waterlogging in the previous years. The corrective actions taken to improve the soil hydrology in the specified area have prevented the development of the process.

More than 85% of the surveyed sites on the right-of-way showed good growth of vegetation, which forms a dense grass canopy on many of them. Individual lightly overgrown areas are located mostly on steep slopes and in some areas in the northern parts of the island.

This is due to insufficient soil fertility in sandy and clayey areas, but a positive trend has also been observed there.

8.2.4. 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 peculiarities of the Sakhalin wetlands include the prevalence of oligotrophic bogs, the rich peat deposits (up to 8 m) and the large quantity of slightly decomposed plant residue in mineral intermediate layers between the layers of peat.

The Sakhalin-2 pipelines cross about 200 boggy areas (including peat bogs), almost half of which are represented by sparse birch and larch, as well as alder and larch woodlands. Sakhalin Energy operates in such areas and carries out regular monitoring in compliance with international standards. This approach is due to the following risks: a possible violation of the hydrological regime, draining or swamping of the territory, irreversible transformation of the marshes, the reduction of water inflow into rivers and streams.

The objectives of the Wetlands Recovery Monitoring Programme, which is implemented by the company, include:

- to monitor wetlands recovery processes within the right-of-way and adjacent areas after the construction;
- to monitor the condition of vegetation and soil cover in the adjacent areas;
- to assess all potential adverse impacts on wetlands resulting from onshore pipeline operations;
- to develop impact mitigation measures.

In 2016, 30 wetland areas along the entire pipeline route were surveyed. The surveyed areas belong to the category of acid bogs characterised by poor mineral nourishment of peat soils, acidic environment and a peculiar plant species composition. Particular attention is given to the species composition of the vegetation so that it will be possible to identify, in a timely manner, cases of invasive species on the right-of-way.

It has been noted that the degree of grass cover reinstatement on the right-of-way is good in all the areas. Recovery of natural wetland ecosystems can be seen on the right-of-way in 20 of 30 wetland areas, which amounts to 67%. In other areas, vegetation is reinstated with species typical for the vegetation cover of adjacent wetlands, as well as species not typical of these ecosystems. This is characteristic of the initial stages of disturbed vegetation recovery. In some areas of the right-of-way, recovery of moss, lichen and shrub covers is observed. The survey did not reveal any flooding or draining of the territory as a result of violation of the hydrological regime, which would definitely have impacted on the vegetation.

It has been observed that the condition of the protected plant species (Pogonia japonica and Dicranum drammondii moss) found in the surveyed areas is good. The 2016 monitoring season did not identify aggressive invasive species at the crossings of wetland ecosystems.

Generally, monitoring of the wetlands in the right-of-way shows that their recovery goes with the expected speed.

8.2.5. Monitoring of Protected Bird Species

Early in the Sakhalin-2 project development, broad-range studies of birds were undertaken at the sites of future construction, which helped define the focus areas for monitoring bird populations and communities.

Rare and protected bird species were selected for focused monitoring out of the abundant and diverse bird fauna of Sakhalin. Surveys in 2016 covered the Prigorodnoye area and Chayvo Spit near the pipeline landfall.

Since 2003, 147 Red Book bird species, 28 of which are listed in the Sakhalin and Russian Federation Red Books, were sighted in the Prigorodnoye area. Special attention was given to the Japanese snipe, an indicator species. The long-term monitoring has shown the abundance of this species to have recovered and stabilised after the Prigorodnoye construction was finished. The land reclamation activities resulted in the expansion of nesting biotopes for this species (due to new meadow areas). Over 110 nesting sites (15-20 breeding pairs / 1 sq. km) were recorded within 4 km of the LNG plant in 2016. Several pairs were sighted nesting on the LNG plant site.

The following protected species were sighted on the Aniva coast and at Lake Mereya during the migration period: Bewick's swan, whooper swan, Far Eastern curlew, sharp-tailed sandpiper, long-toed stint, black-winged stilt, great egret, little egret and long-billed murrelet. The Prigorodnoye area has become home to synanthropes, such as tree sparrow, northern white-rumped swift and black-backed wagtail. Gulls and cormorants are using the near-shore loading assets for resting.

Over the monitoring period, the overall list of the Chayvo Spit bird species has expanded to 193 species, including 34 regionally protected and 10 Red Book species.

During the 2016 nesting season, 89 bird species were sighted on the Chayvo Spit, including 13 rare or protected species. The bird monitoring is primarily focused on the following four nesting species: Steller's sea eagle, Sakhalin dunlin, Aleutian tern and long-toed stint.

The yearly surveys of the Sakhalin dunlin colony have shown very slight fluctuations of its abundance. Low breeding success was observed in years with harsh weather conditions and high fox predation. The nesting conditions for Sakhalin dunlin were favourable in 2016, with 80 nesting pairs reported by experts.

Long-term monitoring showed there is no stable nesting community of Aleutian tern at the Chayvo Spit. Within the monitoring area, the number of Aleutian terns tends to increase in the second half of the nesting season due to expulsion of some individuals from the other coastal areas. In view of the above, the Aleutian tern abundance varies from year to year in a wide range, with no permanent nesting sites available. During the monitoring period, this species' abundance numbers varied from 120 to 2,167 individuals in different years. A total of 310 Aleutian tern individuals were registered in 2016, with 60 defined nesting sites.

The long-toed stint has been sighted in the monitored area every year. Similar to other areas in the north-east Sakhalin, its abundance is low, but stable.

In 2016, a nest of another protected species was first sighted in the pipeline landfall area. It was the red-necked phalarope, with the southern edge of its range known to be bordering on the north-east Sakhalin coast.

The results of the 2016 monitoring show no adverse impacts on the protected nesting and migratory bird species from the operation of the Sakhalin Energy production assets.

8.2.6. Steller's Sea Eagle Monitoring

Steller's sea eagle is the world's largest fish-eating bird of prey. It is endemic to the Russian Far East and has a localised habitat and small population. This species is listed in the Red Books of different levels (IUCN, Russia and the Sakhalin Oblast). This determines the need to develop and implement special protection measures within the framework of the Sakhalin-2 project.

The North-Eastern Sakhalin Sea Eagle Population Monitoring Programme was developed and has been implemented since 2004. The main objective of the Programme is to obtain reliable data on the key factors influencing the long-term dynamics of the population of the indicator species (Steller's sea eagles and white-tailed eagles) within the reference area and the potential project impact zone. The human-induced impact and efficiency of measures to mitigate it are assessed based on comparative analysis of the above data.

Monitoring is conducted in Nogliki district within the 2-km corridor along the onshore pipelines route, within the 3-km zone around OPF boundaries and in the control zone at a distance of up to 2 km from the Lunsky Bay shoreline.

In 2016, four individuals of white-tailed eagle and 129 individuals of the Steller's sea eagle were identified during the field studies. The eagles bred up five younglings in the area of potential impact and eight younglings in the territory adjacent to the Lunsky Bay.

The condition of eagles' nesting pool within the impact zone and the control zone can be considered to be good. Within the pipeline impact area, 75% of all nests were in good or satisfactory condition, within the control zone of the Lunsky Bay — 79%.

During the ten-year period, there were no significant changes in the condition of the Steller's sea eagles nesting pool at the monitoring sites.

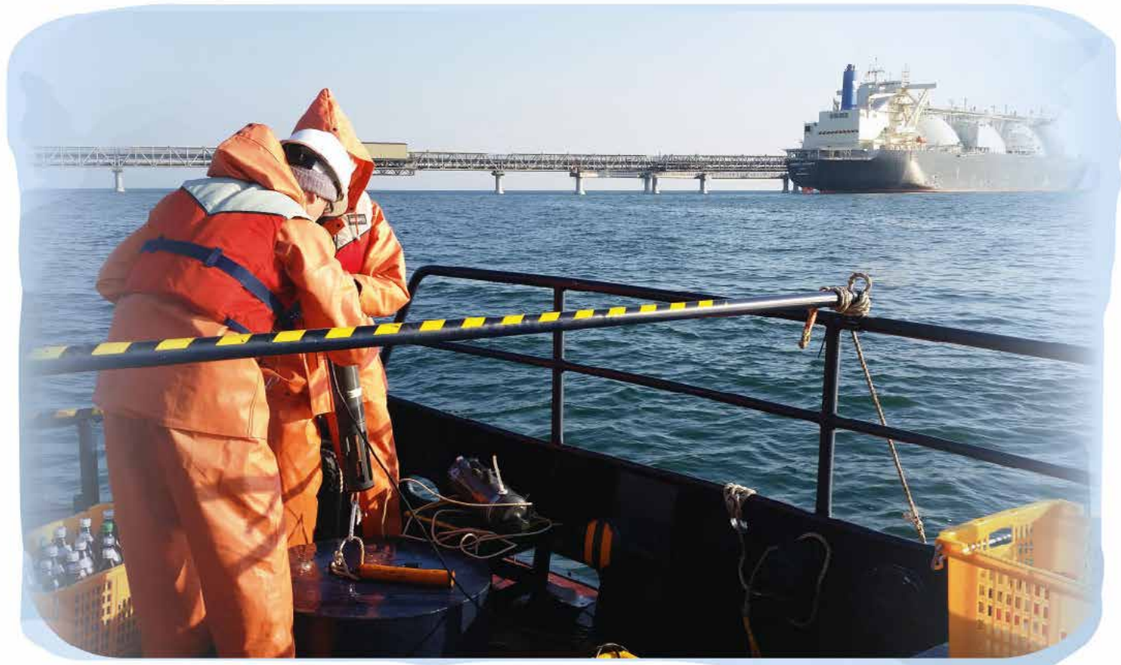
The analysis of variations in nesting site occupancy within the monitoring zone and the pipeline impact area in 2004–2016 indicates a continuing downward trend in the number of nesting (breeding) eagle pairs, which is probably typical of the whole population of eagles inhabiting the north-eastern coast of Sakhalin and is not a specific feature of the territory under consideration.

8.2.7. Marine Environment and Biota Monitoring

In 2016, Sakhalin Energy continued the regular marine environment and biota monitoring programme within the area of potential impact from the company's offshore production assets.

As part of the 2016 integrated expedition survey, the monitoring programme covered the PA-A, PA-B and LUN-A offshore platform areas, the wellheads of abandoned appraisal wells and subsurface assets for disposal of drilling waste in the Piltun-Astokhskoye and Lunskoye fields in the Sea of Okhotsk. Environmental surveys also covered potential impact areas of the oil export terminal and LNG loading jetty in Prigorodnoye port of Aniva Bay.

- There was no occurrence of petroleum hydrocarbons and methane near the wellheads of abandoned appraisal wellheads.
- No exceedance of baseline concentrations of petroleum hydrocarbons in the near-bottom layer and bottom sediments was identified at the boundaries of drilling waste disposal.



The studies produced data on benthos and plankton communities distribution, their habitat conditions both in the area of potential impact from assets and beyond, in the baseline areas. The 2016 monitoring resulted in the following main conclusions:

- Hydrochemical characteristics, including petroleum hydrocarbons, heavy metals, phenols and detergents near offshore production assets were within the baseline value range for these sea areas and complied with the standards established for the water bodies of commercial fishery importance.
- Concentrations of chemicals (phenols, detergents, petroleum hydrocarbons and heavy metals) in bottom sediments were distributed unevenly due to specific features of the regional geology and distribution of different types of sediment. Overall, concentrations of pollutants in bottom sediments varied within baseline ranges typical for these offshore areas and were lower than the values causing initial biological effects at organism and marine ecosystem community levels.
- Benthos and plankton communities were typical of these water areas and demonstrated a stable rich diversity of species with high quantitative values comparable with the baseline.

Overall, the 2016 data show that there is no influence of operational activities on sea water quality, bottom sediments and the condition of marine biota inhabiting the offshore field areas.

8.2.8. Ballast Water Control

Every year, over 200 standard oil and LNG cargoes have been loaded to oil and gas tankers arriving to the Prigorodnoye asset from the ports of Asia Pacific Region.

The ballast water taken at the port of departure may contain dangerous invasive (alien to the local environment) organisms, which, under favourable conditions, can adapt to the local environmental conditions and disturb the delicate balance of the ecosystem of Aniva Bay.

Sakhalin Energy has developed a package of preventive measures to ensure ballast water management, which is based on international and national regulations and best international practices.

According to the International Convention for the Control and Management of Ships' Ballast Water and Sediments adopted in 2004, the exchange of ballast water on the high seas is one of the effective measures to prevent the introduction of alien species. This requirement is enshrined in the corporate Ballast Water Management Policy introduced in 2009.

The ballast water monitoring and control of each tanker to be loaded in Prigorodnoye port includes:

- checking vessels' logbooks for ballast water exchange in deep waters of the Pacific Ocean and the Sea of Japan;
- express analysis of physicochemical characteristics of ballast water.

A vessel is only allowed to commence discharging ballast water in the area of the port and loading of hydrocarbons when exchange of ballast water is confirmed. In addition to this, environmental, taxonomic and biogeographic analysis of organisms found in ballast tanks is carried out.

The 8-year research results indicate the absence of dangerous invasive species in ballast water of ships calling at Prigorodnoye port.

The effectiveness of preventive control measures is proven by results of annual offshore environmental monitoring of the flora and fauna of Aniva Bay. Plankton samples are taken every month from April through November; bottom species are sampled in autumn.

There have been over 600 species of phytoplankton, over 90 forms of zooplankton, about 40 species of ichthyoplankton and 160 species of benthos identified.

Also recorded are new species of seaweed and animals which were never recorded in Aniva Bay, but are local inhabitants in view of biogeographic and ecological characteristics.

No protected species of flora and fauna have been observed during the environmental monitoring of water area of Prigorodnoye port.

8.2.9. Gray Whale Monitoring

Gray whales arriving at the shores of Sakhalin for feeding have a high conservation status in the Red Book of the Russian Federation and the IUCN Red List. This species forms feeding aggregations in the area off the north-eastern coast of the island in the immediate vicinity of Sakhalin Energy's offshore production assets. In this regard, the company pays much attention to the monitoring and conservation of gray whales. Other protected cetaceans such as the bowhead whale, North Pacific right whale, fin whale, curvier's beaked whale, harbour porpoise, as well as pinnipeds such as Steller Sea Lion can also be observed in the vicinity of the company's offshore assets. In accordance with the principles of sustainable development, the company believes that risks to marine mammals arising from industrial activities must be considered and mitigated in a timely manner; not only for endangered species, but for all marine inhabitants.

In 2016, as in previous years, Sakhalin Energy in close cooperation with Sakhalin-1 operator continued implementing the Integrated Monitoring Programme near the north-eastern coast of Sakhalin Island. The full scope of acoustic monitoring, survey of structure and variety of benthic community and hydrological characteristics was performed. Scientists carried out a census and studies of the distribution of gray whales, as well as photographic identification of individuals. They also took tissue samples (biopsies) from 19 whales for genetic studies.

During the 2016 field season, 14 new calves and one adult whale, which had not been previously recorded, were identified in the waters around Sakhalin. Updates have been made to the Sakhalin photo catalogue, where the total number of registered individual whales has now increased to 274.

Multi-year studies show that the number of whales is increasing and the reproduction rate is stable. These results have allowed the experts from the Western Gray Whale Advisory Panel (WGWAP) to draw the following conclusion, "...Sakhalin gray whale population has been increasing by 3–4% annually and has grown from an estimated 115 individuals in 2004 to 174 individuals (excluding calves) in 2015, according to the latest assessment of the population".

2016, G. Martin-Mehers, the Western Gray Whale Advisory Panel: Stories of Influence. Publication of IUCN, WWF, IFAW.

Similar conclusions have been drawn by government and oversight bodies. "Over the past ten years, the number of the Western gray whales, whose feeding area is in the waters of the Russian Far East, has recovered rapidly."

Sergey Donskoy, Minister of Natural Resources and Environment of the Russian Federation, 2016.

The data on the increase in the number of the Sakhalin gray whales served as the basis for its conservation status revision. In accordance with the Draft Order On Approval of the List of Objects of Fauna Listed in the Red Book of the Russian Federation and Excluded from the Red Book of the Russian Federation developed by the RF Ministry of Natural Resources and Environmental Protection in 2016, the gray whale has been transferred from category 1 (Endangered Species) to category 2 (Threatened Species) (Draft Order is available on the MNR website).

Much factual data on the biology and ecology of this unique species of marine mammals has been collected over the period of the Gray Whale Monitoring Programme. The data obtained significantly improved the understanding of the state of the Sakhalin feeding aggregation of gray whales and its habitat.

In turn, this contributed to the development of effective measures to minimise risks and ensured successful co-existence of the company and the gray whales.

As part of the IX International Conference Marine Mammals of the Holarctic in 2016, representatives of Sakhalin Energy took part in a round table on biodiversity conservation during offshore fields development. The company's representatives shared best practices to reduce the impact on marine mammals during project implementation with the conference participants representing the Russian oil and gas industry. In the nearest future, the company and scientists plan to focus on interdisciplinary, multi-component analysis of the data obtained and to publish the research results in peer-reviewed scientific journals.

8.2.10. Small Mammal Monitoring

Small mammals include murine rodents and shrews. They are an essential component of natural ecosystems. Due to their biological properties such as high population and fertility, short life and quick population renewal, small mammals are excellent models for ecological studies, widely used as marker species to evaluate industrial pollution. Their response to industrial emissions can be observed in changes in morphological and demographic parameters and in disruption of community structure.

Regular monitoring of the small mammal communities is implemented near the Prigorodnoye production complex (since 2008) and the onshore processing facility (since 2009). To obtain qualitative data, the survey methods are in place and long-term records are implemented strictly at designated time periods and in the same areas. Around each production asset, the monitoring is conducted at six permanent sites: three test sites, located within the potential impact zone and three control sites, located at a distance from the assets where direct impact on the environment is eliminated. The results are analysed with consideration for long-term repeated fluctuations of the small mammal population and the natural change in their community structure.

In 2016, four species of rodents (northern redback vole and grey-sided redback vole, Korean field mouse and long-tailed birch mouse) and two species of shrews (Laxmann's and slender shrews) were found within the monitoring zone at the Prigorodnoye production complex. The population of all above species was naturally low. Among all rodents, grey redback vole dominated at the monitoring sites. The abundance of Laxmann's and slender shrews was approximately the same.

In 2016, the monitoring of four species of rodents and five species of shrews was conducted near OPF. High abundance of redback and grey-sided redback voles was noted. The abundance of shrews was at the medium level; the most common species were Laxmann's, long-clawed and slender shrews. Occasionally Eurasian least and large-toothed shrews were found.

Comparison of quantitative, morphometric and propagation indicators and population dynamics of the small mammals indicator species between the test and control sites revealed no strong indication of the impact from the company's assets on their abundance. Changes in community structure were observed both at test and control sites and were due to natural causes.

8.3.

Pipeline Right-of-Way Maintenance

The list of RoW monitoring actions for 2016 included:

- helicopter fly-overs and photoshooting;
- river crossing surveys;
- river surveys based on geomatics principles;
- monitoring of river hydrological characteristics;
- surveys of geological hazards, cover thickness;
- plant growth and soil local monitoring;
- groundwater surveys;
- satellite surveys of the pipeline RoW;
- boggy areas surveys.

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

Based on outcomes of RoW monitoring, a RoW maintenance plan has been developed. Repair and maintenance of the RoW were completed in December 2016, as planned. Work was performed at 17 plots and included eliminating the consequences of natural erosion as well as repairing existing anti-erosion structures.

No pipeline damage occurred in 2016.

For two water crossings and one landslide which became active a special subcontractor completed bank protection repair and right-of-way stabilisation. Under 2016 programme activities design engineers completed required surveying and started to develop plans to mitigate the impact of landslides. It is planned to finalise in 2017 landslide mitigation activities started in 2016 and stabilising activities on new landslide site, as well as repair of two existing bank protection sites.

8.4.

Oil Spill Prevention and Response Preparedness

8.4.1.

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 and an Emergency Coordination Team that are on duty 24/7 to coordinate the response in emergency situations.

The OSR Plans have been developed, approved by State Ecological Expertise and duly deployed at all of the company's assets.

The company has concluded contracts for OSR services to be provided by the professional emergency response teams of CREO, Ecoshelf and Sakhalin branch of the Rosmorrechflot Offshore Rescue Service for offshore assets.

Also, certified non-professional Emergency Response Teams (NERTs) have been established at Sakhalin Energy production assets.

The OSR vessels are continuously on standby near the offshore platforms and in Prigorodnoye port.

The number and volume of oil spills have decreased significantly in recent years, with only 24 emergency oil spills totalling 118.5 litres reported between 2010 and 2016 versus 21 emergency spills releasing 3,504.46 litres of oil in 2008–2009.

In 2016, the total amount of crude oil and petroleum products spilled was just about 0.01 litre.

The ratio of the total hydrocarbons spilled (26.54 bbl) to the total hydrocarbons produced (ca. 451 MMbbl in 1999–2016) is less than 0.000006%.

None of the project-to-date crude oil and/or petroleum product spills from the company's assets can be defined as an "emergency situation".

Global practices of providing response to large-scale emergencies have proven that an effective response to major oil spills is possible subject to an integrated application of mechanical and non-mechanical technologies. Namely, using dispersants allows significantly mitigating the environmental damage, reducing the time to be spent on oil spill response and rescuing unique wildlife species. Sakhalin Energy has conducted surveys based on the results of which a package of documents was developed and approved by government authorities that allow the company to use dispersants in emergencies. The company is implementing burning – yet another non-mechanical method of responding to emergency oil spills.

In order to increase the personnel's OSR level and improve their practical skills, the company regularly conducts practical and theoretical training sessions, drills and exercises of various levels, including periodic corporate exercises. All basic incident command members receive level I and II OSR programme as well as level I (ICS-100) and II (ICS-200) incident command system training. Level I of the programme is basic and is designed for regular rescuers and emergency responders, while level II is designed for training supervisors, team leaders and oil spill responders. Key incident command members completed level III training for asset managers, department heads, crisis managers and ER coordinators. They are issued level III Incident command system (ICS-300) certificates. The OSR drills are conducted regularly.

An integrated emergency oil spill response drill took place in Piltun in June 2016.

According to observers, the company and contractors acted in a well-coordinated and effective manner during the drill. The objectives of the drill were fully realised. As a follow-up to the drill, recommendations were developed and appropriate measures were taken to improve the OSR systems. The analysis of the drills and exercises conducted by the company showed it to be fully prepared to respond in the event of an emergency oil spill, whether offshore or onshore.

8.4.2.

Oiled Wildlife Rehabilitation

In keeping with its commitment to biodiversity preservation and in line with the 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 with the International Bird Rescue Research Centre (IBRRC), taking into account Sakhalin's flora, fauna and severe climate. In 2009, the Oiled Wildlife Response Plan was developed to prevent and rescue animals contaminated with oil and petroleum products and to identify resources and procedures to coordinate actions of corporate and external entities.

As part of its integrated Oil Spill Response Plan, the company developed the Wildlife Rehabilitation Site Implementation Manual (hereinafter—the Manual). In 2011, the oiled wildlife rehabilitation site was established on the territory of the Prigorodnoye production complex. In the end of 2016, it remained the only one of its kind on Sakhalin and in Russia at large.

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

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.

To implement the Programme, the company installed specialised equipment in the central and northern parts of the island, at the onshore processing facility (OPF) near Lunsky Bay and at the pipeline maintenance depot (PMD) in Gastello.

In June 2016, the company conducted large-scale comprehensive oil spill response training exercises in the area around the Piltun-Astokhskoye field. A separate block of the exercises was devoted to practising actions to forecast the potential impact of a spill on seabirds and marine mammals and to the sequence of decision-making in the rescue operation and evaluation of the necessary amounts of material and human resources.

Every year, employees take a training course in capturing, transportation and rehabilitation of animals harmed by oil spills, which is held by the company as part of regular OSR exercises. During the training in 2016, employees gained knowledge and practised skills of repelling and capturing birds. The company maintains a database of trained personnel who are able to provide aid in case of emergencies on Sakhalin. Since 2006, 270 employees have completed the appropriate training.

8.5.

Sanitary Protection and Safety Zones

To ensure the safety of the population and according to Federal Law No. 52-FZ On the Sanitary and Epidemiological Welfare of the Population of 30 March 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.

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 2016.

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 Gosgortekhnadzor (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

9.1. Personnel: Management and Development

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, training and retaining staff 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 experts to ensure staff is retained and a talent pool for key managerial and engineering positions is created;
- 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 a collaborative work environment that unites the company`s offices and assets.

The company`s senior management believes that all employees should feel engaged in their work, be confident the company supports and respects them and be given the opportunity 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.

To pursue these goals and objectives, Sakhalin Energy implements its HR strategy through its HR policy.

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 and the market of qualified professionals. All required notifications regarding changes in employment conditions are communicated to the employees as required by 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 our HR management policy, which is in line with international standards.

Human capital management (HCM) software from SAP

The HR Directorate makes maximum use of human capital management (HCM) software from SAP. This significantly reduces time and costs and optimises many processes in the HR Directorate and other units of the company. In particular, the system modules used by the company not only automate the process of preparing HR documents and reports, but also aid in managing important processes such as learning and development, succession planning, performance reviews and recruitment.

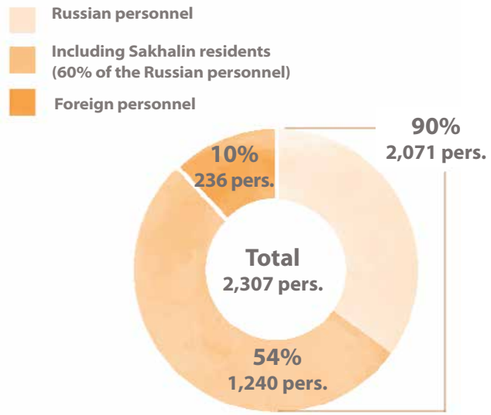
In 2016, 1,827 people participated in the employee opinion survey, which is about 84% of the employees in the company. The survey showed that the general level of employee engagement was very high — 85%. Employees continue to point out how seriously the company is committed to safety and work quality, occupational and environmental safety, equipment reliability and process safety, which is remarkably good, since one of the company's priorities in the field of safety is Goal Zero. According to employees, the company's remuneration and benefits package remains competitive and employees willingly recommend the company as a good employer. At the same time, employees expect the company to continue to make gains in optimising and improving work processes, enhancing the quality of communications and accelerating the rate at which important operational decisions are made.

9.1.2. General Information

As of 31 December 2016, there were 2,307 people on the company`s payroll, including 2,071 Russian employees, which is 90% of the total. Sakhalin Energy operates mostly on the territory of the Sakhalin Oblast, Russian Federation. There were 2,274 employees working in Sakhalin and 33 people working in the Moscow office.

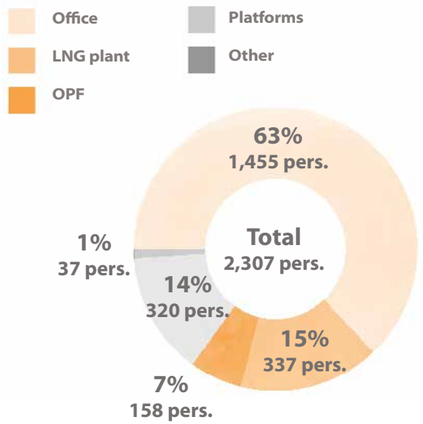
The company strives to hire Russian citizens, mostly Sakhalin residents, to work on the Sakhalin-2 project. This is the approach set forth in the company`s HR policy and complies with the terms of the PSA project. At the end of 2016, 1,240 people, which is 54% of the total personnel, were residents of the Sakhalin Oblast.

Personnel Structure in 2016



The personnel structure is mandated by the specific nature of the company`s operations: 87% are managers, experts and office staff; approximately 63% are office workers and the rest work at the project assets.

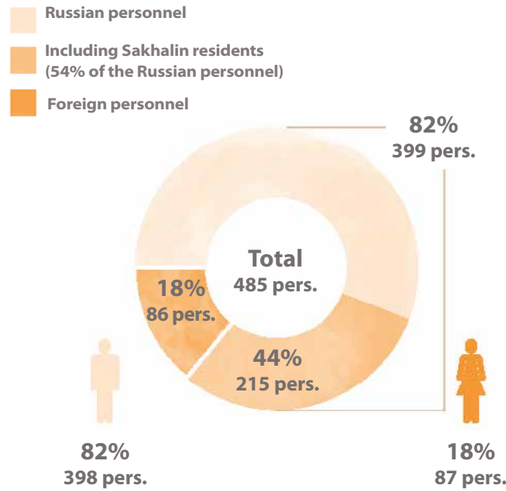
Personnel Structure in 2016 by Assets



At the end of 2016, 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.

399 Russian employees were in managerial positions (see the Managerial Personnel Structure in 2016 diagram), 215 of which are residents of the Sakhalin Oblast. In addition to training, developing and promoting existing Russian staff, the company is actively recruiting new qualified Russian specialists in order to increase the share of Russian executive personnel. By hiring trainees, we can guarantee a constant influx of young technicians (see Section 9.1.7.4. Traineeship Programme and Section 9.1.7.5. Successors Pool Planning and Development).

Managerial Personnel Structure in 2016

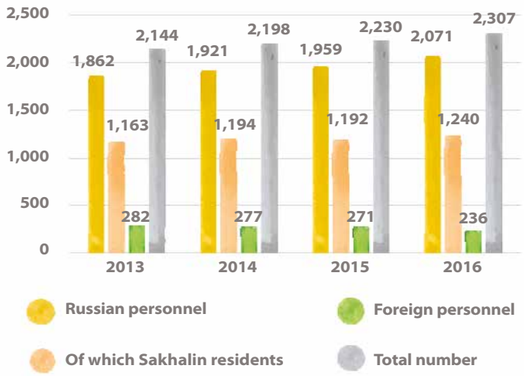


In 2016, 75 employees were granted child care leave. Of these, one male employee — the father of a child — used his right to child care leave. During the same period, 54 employees (52 women and two men) resumed their job duties at the end of their child care leave. Of these, 48 people continued their employment with the company.

About 29% of the employees are women (658 people at the end of 2016). Of these, 87 occupy executive positions, making up 18% of the company`s management team (see the Managerial Personnel Structure diagram).

Over the past five years, the number of employees increased steadily due to the implementation of the projects for construction of a booster compressor station and the upgrading of offshore assets. Unlike the tourism or agricultural industries, the company does not experience significant seasonal fluctuations in the number of personnel.

Changes in the Number of Personnel in 2013-2016, persons



Personnel Retirement in 2016 by Age

Age	Persons	%
Below 30 years	33	18
31–50 years	99	55
Above 50 years	49	27
Total	**181**	**100**

In 2016, 181 people (143 men and 38 women) left the company. This number includes 88 foreigners and 93 Russian employees (including 48 residents of the Sakhalin Oblast). This gives a turnover rate of 8.46% (8.14% in 2015). The voluntary turnover rate of critical technical personnel was 3.04% in 2016.

The statistics of employees who left the company in 2016, broken down by age group, are presented in the table below.

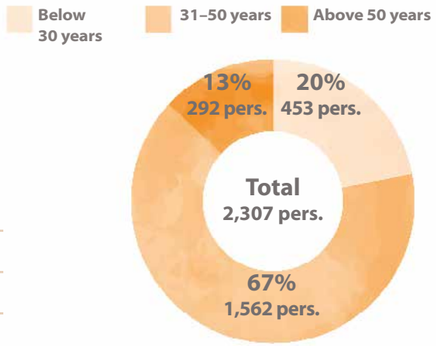
At the end of 2016, the average age of employees was 38.7 years. Employees aged under 50 accounted for more than 87%.

The working hours established by the company are found in the Internal Working Rules:

- everyday work under five-day working week with two days-off;
- rotation-based work with 28 calendar days of work and 28 calendar days-off;
- shift work.

The working schedules at the company`s assets are shown in the Company`s Employee Working Schedules table.

Personnel Age Structure in 2016



Employee Working Schedules

Company`s asset	Working schedule
Offices	• everyday work under five-day working week
LNG Plant	• everyday work under five-day working week • rotation-based
OPF	• rotation-based
Platforms	• rotation-based
Other	• everyday work under five-day working week • rotation-based • shift work

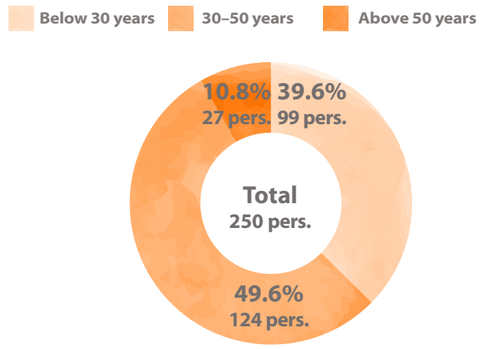
9.1.3. Recruiting Personnel and Onboarding New Employees

At Sakhalin Energy, new personnel are employed based on the manpower plan and the recruitment plan.

Various tools and methods are used to attract potential candidates and advertise new vacancies, in particular:

- advertising through the Sakhalin Energy's website. For the applicants' convenience, there is an automated service for submitting CVs on-line. The website offers guidelines for uploading CVs; applicants can edit their CVs in their personal accounts;
- provision of information on vacancies to the Yuzhno-Sakhalinsk Labour Centre (on a monthly basis);
- cooperation with leading Russian recruitment agencies;
- participation in local and regional specialised job fairs;
- publishing vacancy lists in on-line resources and in print media;
- using social networks to search for candidates;
- promoting the Company`s Employee Referral Programme, according to which Sakhalin Energy's employees who recommend candidates are given a bonus if these candidates are hired to work at the company;
- attracting skilled employees from shareholder companies.

Number of Personnel Hired in 2016 by Age



The company continues to run the new employee onboarding programme aimed at maximising the awareness of employees and increasing performance efficiency. In 2016, a memo about the employees' personal appearance was added to the set of information materials for newly hired staff.

In 2016, Sakhalin Energy participated in three job fairs held in Moscow and Ufa. As a result, more than 500 candidates applied for vacant positions with the company. On 20 May 2016, the Recruitment Subdivision held, for the first time ever, a large-scale event—Sakhalin Energy's Business Day at Sakhalin State University (SSU). Cooperation with this educational institution is a key way to attract talented young specialists residing in the Sakhalin Oblast to work at the company. Specialists of the Technical, Production, and HR Directorates of Sakhalin Energy were invited to participate in the event and to acquaint students with the production assets and the corporate culture of the company. During the Business Day, students were shown a short film about the company's Graduate Development Programme (see Section 9.1.7.7. Graduate Development Programme). After seeing the film, students had an opportunity to get answers to their questions directly from young Sakhalin Energy's specialists attending the event who are currently participating in the programme.

The organisers of the Business Day also held the Archipelago of Values business game, and more than 30 students participated in it. The game winners were awarded a unique chance to go on a tour of the Prigorodnoye production complex.

At the end of the event, about 15 of the most promising SSU students received invitations to a job interview.

In 2016, the company hired 250 people (181 men and 69 women). Forty-one of the personnel hired were foreign employees, and 209 were Russian nationals (including 92 residents of the Sakhalin Oblast).

The statistics of employees hired in 2016, broken down by age group, are presented in the Number of Personnel Hired in 2016 by Age diagram.

The percentage of critical technical jobs filled remains one of the key performance indicators of the HR Directorate. The figure was 95.7% in 2015 and 99% in 2016.

Regular information sessions are held for new employees in Russian and English with a complete overview of the specifics of the organisational units, processes and interactions between the units and stakeholders.

9.1.4.
Remuneration and Bonus System

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

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

Remuneration of Sakhalin Energy's employees includes:

- base salary, hourly rate as per the employment agreement;
- compensating or incentive allowances and uplifts to the base salaries and hourly rates payable as per the Regulations on Labour Remuneration, Bonuses and Social Benefits, RF Labour Code and other 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`s remuneration system is the same for men and women.

The existing incentive system uses a single unified, standard approach to motivating employees in all the company`s subdivisions. This is achieved through the following types of bonuses as per the Regulations on Labour Remuneration, Bonuses and Social Benefits:

- annual performance bonus;
- special pecognition award (SRA);
- long service award (10 years or more);
- employee referral reward;
- one-off payment to the employees in connection with rewarding;
- 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 achieved special success in teamwork.

Employees may be awarded certificates of honour and Honorary Letters on the professional holiday (the Oil and Gas Workers Day) and the company`s anniversaries. Awarding employees may also be given to celebrate anniversary dates of employees (50 years and then every 5 years).

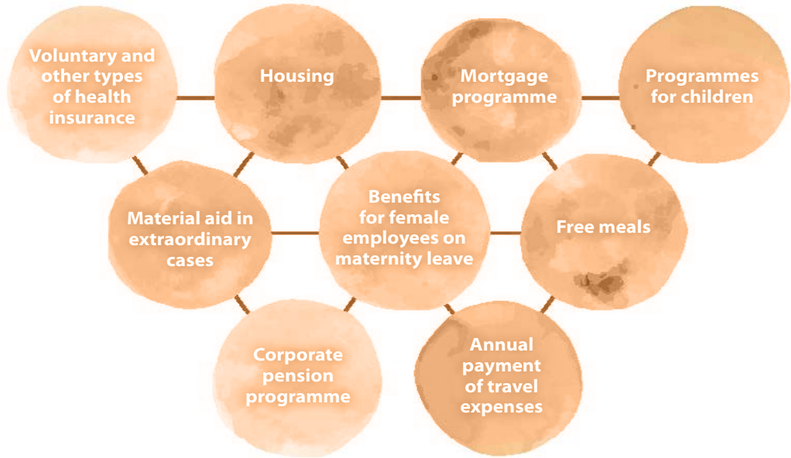
To make sure that its salaries are competitive, Sakhalin Energy regularly monitors the financial segment of the job market and annually adjusts salaries to account for the employees' individual performance (see Section 9.1.6. Individual Performance Review of the employees).

In 2016, the minimum salary in the company was five times higher than the minimum wage established by Russian legislation. Sakhalin Energy`s labour remuneration expenses totalled 13.83 bln roubles in the reporting year, with award/bonus payments totalling 3.95 bln roubles.

9.1.5.
Social Guarantees, 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.

Sakhalin Energy`s Employee Compensation and Benefits Package



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

- voluntary medical insurance for employees and their families;
- health benefits;
- accident and sickness insurance;
- travel insurance;
- free meals at the company`s assets and free lunches in the company`s offices;
- housing for employees and their families for the duration of their employment (for those employed on terms of relocation from other Russian regions and CIS countries, as well as from the Far North and equivalent areas), or payment for housing rent for such employees;
- mortgage programme;
- annual payment of round-trip travel expenses to the employees' chosen place of vacation within the RF territory; this applies to employees and non-working members of their families (spouses and children up to the age of 18 years) living in the Far North and equivalent areas;
- corporate pension programme;
- material assistance in case of upon the birth (or adoption) of a child; and difficult personal circumstances;
- sport and recreation facilities (see also Section 9.3. Occupational Health);
- additional benefits for female employees on maternity and child care leave;
- leisure and development programmes for the children of the company`s employees.

Housing for Employees (and Family Members)

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

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

Medical Insurance

The company continues to provide employees and their families with benefits related to medical insurance under the insurance contracts with SOGAZ concluded for the period of 2017–2019, under voluntary medical insurance programmes, voluntary accident and illness insurance , travel insurance and accident insurance for children participating in the summer leisure and development 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.

Since 2016, personnel working at the company's production assets have been entitled, as part of the voluntary health insurance, to treatment at sanatoriums, rehabilitation treatment, and medical examinations at the leading medical institutions of the Russian Federation with compensation of the cost of travel to the place of treatment and back. More than 50 employees used this benefit in 2016.

Mortgage Programme

The mortgage programme is governed by the Regulations on Payments to Employees. Since the beginning of the mortgage programme, 203 Russian employees (10% of total staff) have participated in it.

The programme provides for compensating a part of mortgage interest for purchase (construction) of dwelling premises. 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.

Corporate Pension Programme

The company offers a Corporate Pension Programme under which employees and the company pay contributions towards occupational pension schemes.

Participation in the Corporate Pension Programme is voluntary and allows each employee to independently pay into their retirement pension.

At the end of 2016, 22% of the company`s Russian employees are enrolled in the Corporate Pension Programme.

The company contributed a total of 145 mln roubles to Gazfond from 2011 to 2016.

Programmes for the Children of the Company`s Employees

Wonder Island Leisure and Development Club

The company implements leisure and development programmes for preschool children. Development groups, creative associations and studios for the children of the company`s employees have been working at the Wonder Island Leisure and Development Club in the Zima Highlands residential complex since 2012. A pilot project aimed at creating a bilingual environment for children's development was launched in 2016.

Happy Holidays Programme

Children of the company`s employees have the opportunity to attend Happy Holidays Leisure and Recreation Programme during the summer at the sports and cultural facilities of Zima Highlands recreation centre. The programme has been offered for six years already and is designed for children from preschool up to 16 years old. The programme has a different theme every year and each of the five summer sessions is unique.

In 2016, the programme was devoted to the Year of Cinema in Russia and was held under the Territory of Cinema. From Dreams to Reality slogan. During the five traditional shifts, children worked together with film industry professionals and created 23 cinema products of different types and genres. Some of them were presented at the official competition programmes of the year and won prizes.

In 2016, 652 children participated in the project.

Other

Employees and their families can use company`s shuttle buses, which run along the approved routes across the city to the company`s offices and stop at educational institutions of Yuzhno-Sakhalinsk.

School psychological consultations are available for employees and their children.

Since 2015, the working group that includes representatives of the company, the Yuzhno-Sakhalinsk Department of Education and Sakhalin State University has been working in the area of education as a part of the Coordinating Council for Cooperation between the City Administration and Sakhalin Energy. The working group aims to create additional conditions for the education and development of children (including the children of the company`s employees) who attend Yuzhno-Sakhalinsk educational institutions (for more information about the Coordinating Council, see Section 6.9. Engagement with State and local Government Authorities).

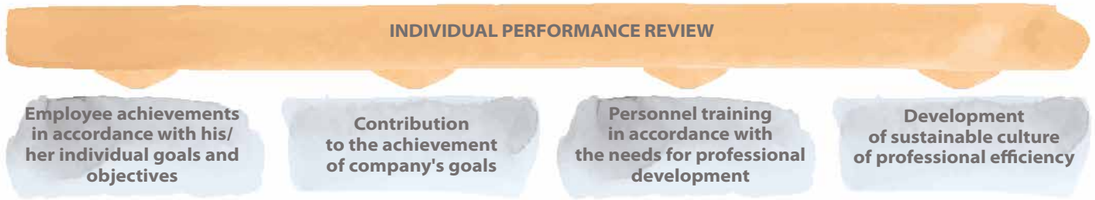
9.1.6. Individual Performance Review of the Employees

All employees undergo annual performance review. 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.

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

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

Individual Performance Review of the Employees



9.1.7. Learning and Development

9.1.7.1. General Information

The learning and development system aims to meet the company's need for highly skilled production, managerial and administrative employees in order to implement current and strategic goals of the company. Staff development at all levels is a key element in creating and maintaining high professionalism and motivating as well as retaining personnel in Sakhalin Energy. To ensure the best performance, the company strives to maximise the potential of its employees, taking into account their diversity and individual characteristics.

The company applies a comprehensive approach to staff learning and development.

Approaches to Personnel's Development

In 2016, the company continued to develop closer links with the training units of the shareholders. Company's specialists and managers visited the Training Centre at Rijswijk, the Netherlands to learn more about Shell staff learning and development strategy and changes in this sphere. Also, the company's representatives got acquainted with the system of the Gazprom Training Simulator Computer Centre and now the company has better opportunities for developing a material base for technical training, including the development of new materials for e-learning of technical staff. The development of new e-learning courses will make it possible to preserve the information about advanced technologies applied by Sakhalin Energy and to provide unique technical expertise for training Russian specialists at any asset, no matter how remote it is. Targeted interaction with the shareholders in the field of employees' professional training is the basis of unique knowledge management and mutually beneficial cooperation.

9.1.7.2.

Staff Assessment

The company applies the competence-based development approach for HR management. A profile of functional, leadership and personal competences has been developed for each position. The assessment of these competencies is used to recommend further development and training for the employee at this position as well as for other HR decisions. The job competency profile is a list of competences and their detailed levels descriptions for a current job.

Competence assessment gives a clear understanding of the professional and behavioural employee's level against the requirements set depending on his qualifications, position and tasks performed.

There are various assessment tools the manager can use during assessment activities. The main assessment tools include the following:

- Observation of the employee in the course of work;
- studying evidence provided by the employee;
- conducting a structured interview to assess the employee's competences.

To improve the efficiency of the evaluation process, the company recommends that managers use additional assessment instruments, such as interviewing witnesses, 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 and the Assessment Centre (for leadership competences).

Personal and Business Skills Development System

Not only does the company develop new employee assessment tools and materials that help line managers to assess staff competence, but it also creates an integrated, competence based development system. Thus, since 2015, the company has been testing personal and business competences using electronic tests and an automatic report on the assessment results for the employee and the line manager. In 2016, 61 employees successfully passed the assessment and received recommendations for further development. The company has developed the Competence Gap Closure Programme based on the competence approach, which is presented to the employee after testing and is an important tool in planning his/her learning and development, including the description of projects and various tasks at the workplace. In 2016, employees of the Professional Training Subdivision developed Knowledge Maps — brief descriptions of the competence and the fundamentals of theory, which help employees to quickly and independently gain sufficient knowledge for awareness-level competence. This system ensures an integrated approach to the development of company`s employees' personal and business competences.

By the end of 2016, 99% of competence profiles for office staff, specialists, and managers) had been posted in SAP HCM.

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. CEP is evaluated once every two years for the company`s employees JG5 and above. The assessment criteria are known by the acronym CAR: capacity, achievements and relationships.

  In 2016, CEP was estimated for 1,120 employees. The assessment results are used for manpower planning, creating a successors pool in the company, planning the individual and career development of employees, as well as developing staff retention activities.

- **Assessment Centre —** a technology of integrated expert assessment of employees' leadership competence, which has been widely used in the company since 2009. This method incorporates such components as 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 high-potential employees included in the successors pool for senior positions. In 2016, 72 employees of this category passed the Assessment Centre.

  Since 2009, the company has assessed the leadership competency of 495 company`s employees using the Assessment Centre.

- **360 Degree —** an additional tool used to assess leadership competency and personal effectiveness of employees that was developed and implemented in the company at the end of 2014. As of the end of 2016, this type of evaluation had been arranged for 98 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 and are accompanied by the key findings regarding the employee's strengths and weaknesses as well as recommendations for employee development.

- **Structured interview —** an interview during which the competence of a job candidate or employee is determined by applying the appropriate methodology. The Learning and Development Subdivision worked out information sessions on the structured interview methodology, during which videos were shown that gave examples of proper and improper behaviour of managers during competence assessment. The majority of managers were familiarised with this methodology in 2015–2016.

- **General Business Competence Assessment Tests —** specifically designed tasks and questions to help the manager assess the level of each functional competence of his/her subordinate. This new business skills assessment tool was successfully used throughout 2016. Upon completion of the testing, both the employee and the manager receive an automatically generated report that includes recommendations for development.

  The company continues to improve the personnel learning and development system based on the competency assessment.

- **The Competence Assurance Programme** for technicians was designed to encourage safe and trouble-free operations at the production assets. 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, the employees demonstrate professional knowledge acquired through learning and professional development as well as the skills and abilities developed in the course of their duties. 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.

  Competency 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 asset.

9.1.7.3.

Personnel Training

Integration and Automation

In 2016, integration and automation were the most important principles in the work of the units regarding learning and development. The learning function was integrated as regards to the personnel involved in the organisation of training. All training contracts concluded by the company were concentrated within a single organisational unit. This allowed the company to continue the development of the technical training system, to enlarge the electronic learning base and to find ways to replace classroom professional training with distance learning. The automation of the planning of mandatory training and the administration of training programmes via SAP HCM system continues.

The company uses the following employee training options: on-the-job training, e-learning, classroom training courses, workshops and case studies. In 2016, 1,880 people attended workshops and professional development courses, including e-learning (one or more courses per individual). The company provides training for all categories of personnel without exception. The average duration of training was 7.9 training man-days per employee (excluding on-the-job training). In 2016, Sakhalin Energy invested 281 mln roubles in personnel training.

Sakhalin Energy`s unique training resources include both Russian and foreign training service providers. Employees themselves, their line managers, the HR Directorate and company`s senior management all see that training plans are implemented.

The top priorities for Sakhalin Energy's training policy are as follows:

- mandatory training in accordance with RF legislation;
- HSE training in accordance with the internal standards of the company;
- professional training;
- in-house technical training.

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

In 2016, the company continued to implement cost optimisation programmes, including those aimed to optimise learning and development costs. However, it affected neither employees' opportunities for learning and development, nor the number of recommended programmes and their providers. At the same time, the company is forced to plan learning and development activities more carefully and selectively, using all available means: distance learning, including on-line learning, group training in Sakhalin instead of individual off-site training and internal resources. The company develops and implements new learning and development tools and uses its own resources — internal trainers. For optimisation, the company involved the resources of contractors, including those of Sakhalin State University. All these activities allow the company to maintain the competence of its staff at the highest level.

Employee Training in 2016 (by Personnel Categories)

Category	Gender	Number of personnel, pers.	Number of trained personnel, pers.	Percentage of trained personnel
Managers	Male	398	333	84
	Female	87	61	70
Specialists	Male	959	825	86
	Female	543	354	65
Clerks	Male	0	0	0
	Female	22	10	45
Technicians	Male	292	292	100
	Female	6	5	83
Total		**2,307**	**1,880**	**82**

The Top Priorities for Sakhalin Energy's Trainings

Mandatory training in accordance with RF legislation:

- occupational safety and health
- industrial safety
- environmental safety

HSE training in accordance with the internal standards of the company:

- process safety
- prevention of emergencies and protection of company assets from emergencies
- healthcare

Professional training:

- targeted professional training in technical and other disciplines
- professional development
- training employees to operate the contractor's equipment (vendor training)
- long-term international training courses (CIMA, ACCA, CIPS, NEBOSH, etc.)

In-house technical training:

- implementation of technical training programmes and courses
- practical training in the workplace at the company production facilities
- development of workers' technical competence

Modern Technologies for Mandatory Training: New Horizons

Since 2016, the company has been running the project to automate the planning of mandatory training. It is implemented on the basis of SAP HCM and allows each employee to see the profile of his/her mandatory certifications and the dates of the next training for each mandatory course and to enrol in training programmes in due time. This tool makes it possible to automatically send advance notifications to employees about the necessity to undergo mandatory training before the licenses and certificates expire.

In-House Technical Training

The growth of the company and the use of advanced technologies in constructing and operating production assets require technicians to have a particular knowledge base and skills within the framework of their technical competencies and the ability to safely and efficiently perform production tasks of any complexity.

The development of the technical competences of employees is carried out through the in-house technical training system. To fulfil these tasks, discipline in-house technical training trainers/instructors and Lead trainers, selected from among experienced production staff, were united in the Technical Training Subdivision, which successfully functions at the company. The Subdivision ensures continuous technical training for workers employed at the company's production assets and those employed by the key contractors. The portfolio of industrial training programmes includes more than 150 courses.

The Technical Training Subdivision implements the following programmes and courses:

- by existing disciplines (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 utilizing the existing operations training simulators and training equipment;
- in targeted modules aimed at developing specific technical competencies and customised to the production assets specifics;
- in safe production asset operations, developed in accordance with best international practices as well as based on the findings of audits and investigations of industrial accidents;
- in technical areas developed by equipment vendors;
- in the target areas for the main contractors whose personnel work at the company`s production assets;
- in developing technical competencies in accordance with the approved career development 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 the competence standards at the production assets. The programmes reflect the specific features of the facilities related to work flow, material handling and operation of equipment. Further, the training programmes include the requirements and practices in the field of HSE/technology and personal safety, which allows using them as guidelines in the performance of any work tasks and initiatives at the production assets.

The company has made it a priority to study the best practices in 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 portfolio and training facilities.

9.1.7.4.

Traineeship Programme

In order to ensure there are enough qualified technicians, the company continues to implement the Traineeship Programme.

Since 2003, 258 people have taken part in the Programme, including 29 people who continued training as company`s trainees as of the end of 2016. 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 technical training focuses on helping the trainees develop practical skills and acquire work experience. Practical part of the Programme aims at training their skills to the required level. Different training methods are actively used, such as:

- 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, process and personal safety are emphasised for various types of work and the trainees are taught the safety culture.

The Programme graduates are in demand at all production assets. 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 the industrial safety culture.

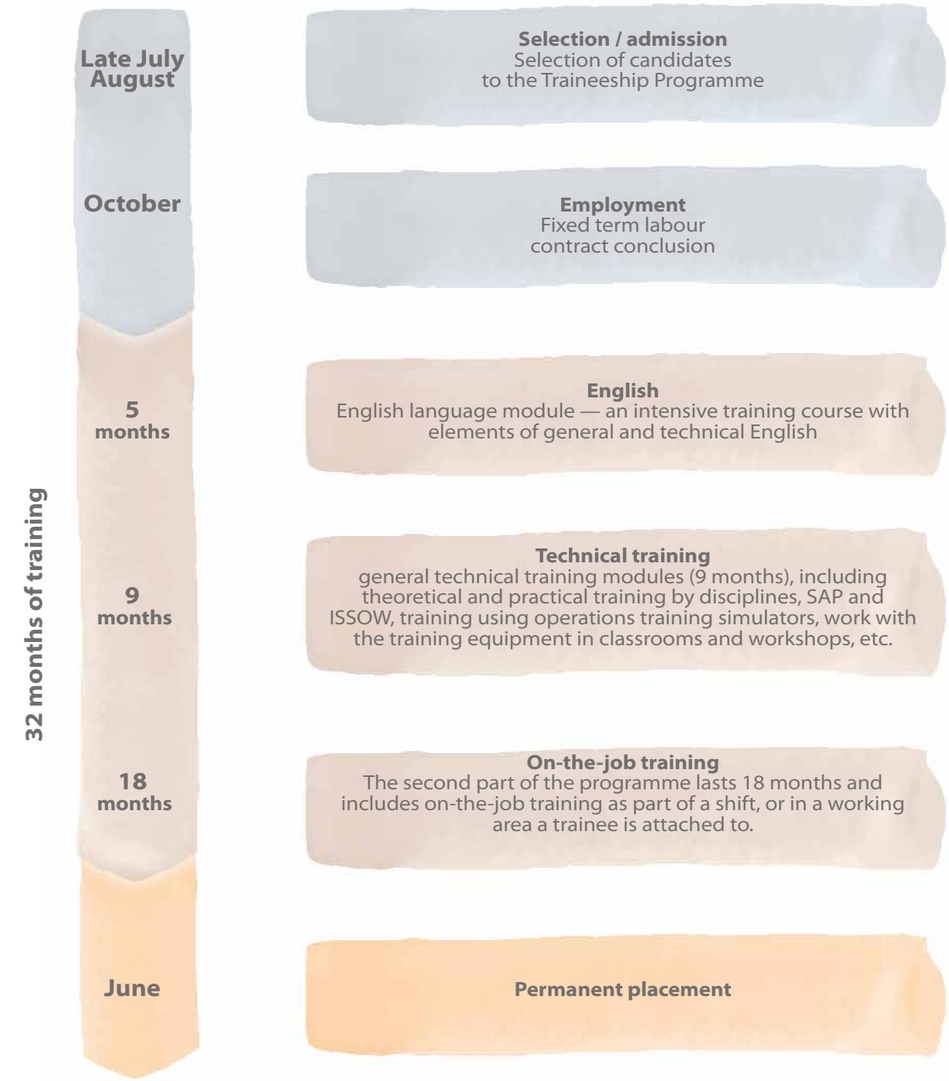
In 2016, the Traineeship programme underwent changes. Application of new training methods and the increased intensity of the training process make it possible to optimise the duration of the Programme from 36 to 32 months.

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 by disciplines, SAP and ISSOW, training using operations training simulators, work with the training 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 a working area a trainee is attached to.

Traineeship Programme



9.1.7.5.

Successors Pool Planning and Development

The key stages of the process are as follows:

- identification of potential candidates from among the Russian personnel to fill positions occupied by foreign specialists, as well as key and managerial positions occupied by Russian employees;
- assessment of the potential successors' readiness to succeed the positions according to the succession plan;
- the potential successors' development in accordance with the job requirements for the positions planned for succession.

During the succession planning process for 2016–2020, potential successors (in the short- and long-term) were identified for 606 of the 641 positions within the scope of the succession planning (95%). For all employees included in the successor's pool, Individual Development Plans were developed incorporating trainings and development activities to be taken under the company's learning and development framework (professional training, development of leadership and management skills, developmental assignments, coaching, overseeing of projects, etc.).

Successors pool planning and development is a high priority activity for further development of personnel capacity of the company.

Job Experience Navigator for Engineering Disciplines

In 2016, the Job Experience Navigator — a tool for planning career development to employees in engineering disciplines in Production Directorate — was developed. The Job Experience Navigator incorporates information on the seven skill pool groups in Production Management, on key jobs in each skill pool, on possible career routes and requirements for transition from one position to another.

The Navigator includes:

- career maps with possible career routes within the same skill pool group and between skill pool groups;
- archive of electronic documents comprising a catalogue of job details, a list of special requirements for transition to other jobs within a job skill pool, electronic versions of Career Maps and detailed information on transition between skill pool groups.

During 2016, company's employees used the Job Experience Navigator 2,490 times.

9.1.7.6.

Leadership and Management Development Programmes

The leadership skills of the company`s staff are enhanced by developmental classroom and online training courses, on-the-job training, as well as learning methods based on relationships such as coaching and mentoring.

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

In 2016, 140 Russian employees of the company occupying managerial positions at various levels were trained under the leadership programmes.

Also the company develops its leaders through two types of mentoring programmes:

- Individual mentorship. Set up as pairing of employees of different levels of responsibility in order to encourage professional and personal development of the employee with the lower level of responsibility.
- Group mentorship. A series of sharing knowledge sessions under the Journey to Nine Planets project. During sessions, leaders of the company share their experience of building a career, as well as managing projects and staff in the context of leadership competences.

In order to achieve its strategic and production goals, the company requires highly qualified leaders.

Management Level		Course title
Highest management level	JG 1	CCL Leadership Programme Standard
	JG 2	Leadership Mastery Module Programme
Medium management level	JG 3	Transformational Management Module Programme
	JG 4–3	Way to Success Module Programme
Inital management level	JG 5–4	Access Code Module Programme
	JG 7–5	Horizons of the Future Module Programme
		Basic Management Skills Module Programme
Effective Team Management, Executive Management, Performance Management,Effective Business Meetings, Coaching		

9.1.7.7.

Graduate Development Programme

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 the 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).

In 2016, the company hired 12 graduates under the programme. Since 2010, 94 people have participated in the Graduate Development Programme.

Stages of the Graduate Development Programme

ME AND MY COMPANY	ME AND MY PROFESSION	ME AND MY CAREER
Input assessment of business and personal skills of a graduate	Building and consolidation of the junior staff member's professional skills	Further professional development of a graduate
Preparing and approval of the graduate's individual development plan	Creation of motivation for further professional growth	Evaluation of perspectives for career in the company
Assignment of a mentor and/ coach	Individual development plan implementation	Professional competencies assessment
		Assessment of business and personal skills using the assessment centre

Young Energy Graduates Club

Since 2012, the Young Energy Graduates Club has been functioning in the company to help graduates adapt quickly and develop their business and leadership skills. In 2016, the Club held a number of events, including an information session about the lines of activity of the Engineering and Technical Support and Operational Safety Subdivision and a meeting with the head of the Production Department (offshore assets), during which various issues of the career building strategy were discussed.

Future Horizons Programme

In order to improve competency of graduates and provide them with basic management skills, the Future Horizons modular programme was developed in 2014. The main objectives of the Programme are to realise the potential of young professionals, develop skills needed for effective team collaboration and for understanding tasks and manager's role as well as to create conditions to identify their own strengths and areas for development. In 2016, 16 graduates participated in the programme.

9.1.7.8.

Personnel Development Assignments

An integral part of the Sakhalin Energy`s HR strategy regarding the recruitment, retention and development of employees is arranging personnel development assignments.

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

In 2015–2016, developmental assignments at shareholder companies were arranged for eight Sakhalin Energy's employees and 12 developmental assignments of shareholder companies employees were arranged in Sakhalin Energy.

9.1.7.9.

Developing Scientific Potential

Sakhalin Energy pays great attention to the development of scientific potential of its employees. The company cooperates with universities and research institutes in the development of joint technical projects. Company's specialists are involved in the work of student scientific societies, the preparation and delivering of lectures, etc.

Every year, the company holds scientific and practical conferences for young professionals. All Sakhalin Energy`s employees aged 35 or younger that have worked at the company for at least 12 months are invited to participate in these conferences.

In October 2016, the company held the 8th Scientific and Practical Conference of Young Professionals. Participants presented 18 reports in three areas: Engineering and Geology; Production and Maintenance; Economy, Information Technology and HR Management. The conference was attended not only by Sakhalin Energy`s professionals, but also by employees of the shareholder companies, as well as graduate and post-graduate students of the Gubkin Russian State Oil and Gas University.

The Conference Evaluation Committee included experts from the Production, Technical and HR Directorates of the company, as well as representatives of the Gubkin Russian State Oil and Gas University.

9.1.7.10.

Internship Programme

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 can become acquainted with advanced production technologies and the best international and domestic business practices as well as gain unique practical experience.

In 2016, 52 university students and 33 students of vocational schools underwent on-the-job training and pre-graduation internships at the company. In 2016, about 70% of the interns were residents of the Sakhalin Oblast.

The company has a successful partnership with the Polytechnic College of the Sakhalin State University in the area of vocational education:

- Every year, the company provides third- and fourth-year students with opportunities for on-the-job training and pre-graduate internship at the Prigorodnoye production complex. The internship programme for college students began in 2009. From 20 to 30 students studying in fields relevant to Sakhalin Energy receive internships at the company annually.
- Every term, the company holds career guidance seminars for second-, third- and fourth-year students. The students receive general information about the Sakhalin-2 project and about Sakhalin Energy as a potential employer. These events help to motivate the young people to work in their chosen profession after graduating from the college. Various kinds of internships at the company`s production assets and the Traineeship Programme are also discussed with the students (see Section 9.1.7.4. Traineeship Programme).
- In 2016, undergraduate students of the college were suggested topics reflecting the specificity of the LNG plant for student course and graduate projects. The topics were approved by the college management. During the development of projects, industrial training instructors of the company provided methodical, informational and consulting support to the students and wrote reviews for four graduate projects. The presentation of the graduate projects was successful and the students defended them with good and excellent marks.
- The company arranges trips to the Prigorodnoye production complex for the college teachers so that they can get acquainted with the advanced production equipment, production procedures and standards used at the LNG plant. Industrial training instructors and specialists from among experienced technical and process personnel provide teachers with information and consultation, deliver lectures on the technological process of the LNG plant and conduct narrowly targeted workshops.

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 an industry-specific 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 reimbursing of tuition costs (for those admitted to the fee-based slots for a full-time study at a university).

In 2016, seven graduates of Sakhalin schools became the contest winners.

As of the end of 2016, 21 Sakhalin residents, who participated in the Scholarship Programme, studied 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 health and safety. Sakhalin Energy has made a commitment to industrial safety and causing no harm to people health.

In 2016 there were eight mandatory life saving rules applied by the company. These rules are particularly associated with high-risk zones.

Sakhalin Energy`s Life Saving Rules

- **I will not appear at work under the influence of drugs or alcohol**
- **I will not smoke, carry or use ignition sources in active, hydrocarbon areas**
- **I will not walk under a suspended load**
- **I will comply with the requirements of permit to work**
- **I will wear a seatbelt when travelling in a vehicle**
- **I will only drive on company business with a valid defensive driving training and journey authorisation**
- **I will not exceed the speed limit**
- **I will not use communication devices whilst driving**

Statistics on violation of the Sakhalin Energy's life saving rules by the company's and contractor's staff are presented in the table Violation of the Sakhalin Energy's Life Saving Rules in 2016.

Any violation of the Life Saving Rules leads to serious consequences, including dismissal.

Violations of Sakhalin Energy`s Life Saving Rules in 2016, number of cases

Violations	Number of cases
Alcohol / drug abuse	6
Smoking / use of ignition sources in a hydrocarbon area	1
Standing under suspended load	1
Failure to follow the requirements of a work permit	5
Failure to use safety belts	4
Failure to provide a valid defensive driving certificate / trip permit	2
Speeding	4
Use of handheld communication devices while driving	0

The company uses a consistent approach when handling HSE issues (see Section 3.5. HSE and Social Performance Management). This approach complies with both legislation 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 remain:

- occupational health;
- industrial safety;
- road safety.

Injury Rates for the Company and Contractor Organisations in 2013-2016

	2013	2014	2015	2016
Number of people injured in accidents at the workplace, total	12	6	9	9
including fatalities	0	0	0	0
Number of accidents for contractor organisations at the company`s assets	9	4	9	9
including fatalities	0	0	0	0
Total registered incidents (per 1 million man-hours)	0.89	0.46	0.68	0.64
Number of people injured in road traffic accidents (per 1 million man-hours)	0	0	0.07	0

9.2.2.

Industrial Safety

Sakhalin Energy has an industrial safety policy and an Industrial Safety Management System (ISMS) that comply with Russian legislation and international best practices. The company`s main industrial safety goal is to ensure individuals and society are protected from accidents at hazardous production facilities and to mitigate their effects.

An integral part of ISMS is overseeing compliance with the industrial safety requirements. This is done by evaluating the functioning of all hazardous production facilities of the company, preventing accidents at these facilities and ensuring we are prepared to respond to accidents and incidents and their consequences.

All aspects of industrial safety are continuously and regularly inspected by the company`s experts under the ISMS. These inspections are planned and carried out so that the safety of all operations is effectively monitored at hazardous production facilities.

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 the Federal Law On the Industrial Safety of Hazardous Production Facilities N 116-FZ dated 21 July, 1997;
- 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.

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 the current legislation.

The company achieves high productivity and observes all industrial safety regulations by using the latest technologies and regularly assessing and managing industrial safety risks. The company takes many measures to improve performance, including:

- setting up and operating the company`s industrial safety management system as required by law;
- auditing 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;
- monitoring compliance with the industrial safety rules set forth in federal laws, other regulations and local regulations;
- 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 company's employees as required by law.

Justification of safety documents (JoS) were developed and implemented at all company hazardous production facilities. All JoS passed the industrial safety expert review pursuant to the requirements of the RF legislation.

All the above measures implemented by the company along with a number of the 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 in Prigorodnoye port.

9.2.3.

Safety Culture

One of Sakhalin Energy`s priorities is to develop a corporate culture that will help us achieve Goal Zero, which is no harm to people, bringing the incident rate to the lowest possible level and encouraging proactive HSE behaviour in personnel both in the company and in contractor organisations.

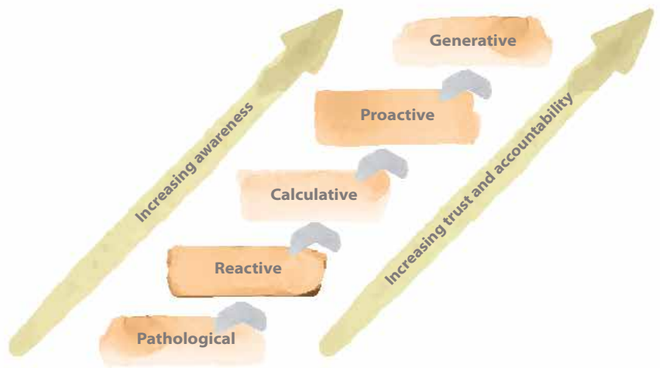
Personnel of Sakhalin Energy and contractor organisations demonstrate their commitment to safety principles and Goal Zero. Goal Zero is to prevent incidents by recognising hazards early and managing risks. It is possible to achieve this goal only if each and every employee maintains personal responsibility attitude towards safety.

If employees take personal responsibility for complying with the HSE Rules and intervening in unsafe situations, the company can reach its safety targets and production goals.

In 2016, the company launched the Goal Zero Safety Leadership Programmes for OPFC and Train 3 major projects. The goal of the programmes is to engage all staff in personal safety leadership.

In April 2008, the CEO award was established to promote safe behaviour and HSE achievements. The company`s and contractors` employees are awarded monthly for contributions to developing a safety culture such as excellent and safe work, timely response and prevention of hazardous situations.

Safety Culture Evolution Ladder



Sixteen nominations were received in 2016. Four employees of the company received this award. Also, one award was given to the contractor.

The Safety Culture Evolution Ladder shows how a safety culture evolves toward the Generative level. At this level, company`s employees trust their managers sufficiently to share information that will prevent incidents. Achieving this level of corporate culture is the primary goal of all labour safety programmes implemented by the company.

When employees change their behaviour so that safe behaviour is the norm at production sites, in the office and at home, it will be a tremendous step towards achieving the highest (Generative) level of HSE culture.

The company has been holding Summer and Winter Safety Days for the last nine years. All company`s and contractors` employees meet to discuss relevant safety issues, such as how actions and behaviour affect the safety of others and what we can do to make work safer. They also discuss following safety rules both at the workplace and outside working hours.

The company continues to promote the Effective Observation and Intervention Programme. The objective of the programme is to prevent serious incidents by responding quickly to potential hazardous situations. As this programme is implemented in the company and contractor and subcontractor companies, a safety culture is being created and improved.

According to the Health, Safety, Environmental and Social Performance Policy and Commitments, it is the right and duty of every employee to intervene in a potentially hazardous situation.

The Effective Observation and Intervention Programme has been successfully used at all company`s assets. In 2016, about 50,000 interventions by the company`s and contractors` employees were recorded at all assets.

The key factor in developing a successful safety culture is to have the company`s senior management committed to an HSE culture. In 2016, supervisors at all levels (directors, asset managers and heads of subdivisions) visited the company`s and contractors` production facilities 87 times.

By doing this, they personally demonstrated their commitment to a safety culture to the company`s and contractors` employees. This is an important factor in motivating employees and improving the safety culture in general.

In 2016, 179 line managers, HSE specialists and HSE critical contract holders underwent training to demonstrate a commitment to HSE. Seventeen people were promoted to trainers under the programme. The aim of the programme is to achieve a common understanding of the current HSE situation, motivate employees to seek continuous HSE improvement and remind them of the company's goal to be an HSE leader.

Observation and intervention cards can be filled in when an employee sees positive examples of safety compliance or when best practices are applied at the workplace. In 2016, over 33,000 cards were filled in with safety culture examples.

The company also has a Hazard Identification Programme. The goal of the programme is to identify and eliminate potentially hazardous situations associated with equipment or system breakdown. Every employee who identifies such a hazard should fill in a hazard identification card to report hazardous conditions, factors, or technical failures that they cannot correct themselves. These cards should be immediately submitted to the manager in charge or HSE staff so serious incidents are prevented.

Training sessions for developing a safe behaviour culture are offered at all production assets of the company. In 2016, more than 1,200 employees of Sakhalin Energy and contractors took a training course.

Given the fact that the most of project activities are being performed by contractors, the company adheres to the "Company and Contractors are One Team" principle. Based on this principle, a special programme was developed to evaluate HSE competences of 10 key contractors' personnel according to the criteria specially designed. Thereafter, using company`s resources, trainings for contractors were arranged to address the identified gaps in HSE competences.

The company, within the framework of the same programme, arranges annual assessments of key contractors' HSE culture (32 companies in 2016) and develops measures to improve the HSE culture.

An interactive online course was developed in International Minimum Industry Safety Training (IMIST) to be used by companies and their contractors. The course describes basic elements of safety for the oil and gas industry as well as potential hazards and controls for all employees.

The course helps to reduce the number of injuries and incidents by ensuring that all personnel have the safety knowledge and basic skills necessary to recognise and minimise risks. In 2013–2016, more than 586 employees of the company and contractors received the training.

9.2.4. Road Safety

More than 700 vehicles with overall annual mileage of 10 million kilometres are engaged in the project activities. Sakhalin Energy's management and the Road Safety Steering Committee emphasized strict adherence to the norms of the RF 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:

- Monthly 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 traffic accidents. This year, the IVMS reports demonstrated an improvement in driving. The entire monitoring system covers more than 1,600 drivers and 700 vehicles.
- Defensive driving training. All professional and non-professional drivers take defensive driving courses. In 2016, the courses were conducted for more than 1,700 drivers of various categories. Moreover, the company allowed any employees to attend the defensive driving training.
- Vehicle compliance control. All company`s and (sub-)contractors` vehicles used in production activities are inspected and company`s and (sub-) contractors` drivers are monitored to see that they comply with road safety rules and company`s Road Safety Management Standard. Three Road Safety Monitoring teams perform oversight in different regions.
- Interaction with other organisations. The company initiated cooperation with Gazprom Dobycha Shelf LLC, which develops the Kirinskoye Field, in order to jointly solve road safety issues at the south access road to Lunsky Bay. The Road Safety Monitoring team and the State Traffic Safety Inspectorate keep watch over the south access road.

Road safety is of particular importance for Sakhalin Energy.

- Active participation in various forums, where the company shares its experience in ensuring road safety under the project.
- Implementation of the Safe Journey Management Programme at the company`s assets. Each Sakhalin Energy`s production asset has appointed persons responsible for road safety who monitor the daily operation of all vehicles within the asset, including journey management and checkups of the technical state of vehicles and transported cargoes.
- Cargo Securing and Vehicle Transportation training course. Sakhalin Energy`s operations involve transportation of materials and heavy equipment using the roads of the island. 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 are no clear recommendations in the regulations of the Russian Federation on proper securing of cargo.

An important objective of the Road Safety Programme is to maintain high corporate safety standards even in areas outside the liability of the company and its contractors, especially in Sakhalin communities where the company operates. This objective is being handled by the Sakhalin Road Safety Council, which was established at the initiative of the company back in 2005 (see Section 9.5.6. Sakhalin Road Safety Council).

In 2016, more than 1,700 Sakhalin Energy's employees and contractor employees received defensive driving training

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, including the following sections:

- occupational health;
- health risk assessment;
- medical emergency response;
- medical requirements for occupational fitness;
- medical requirements for contractors;
- monitoring the use of alcohol and psychoactive substances at workplaces;
- chronic fatigue management;
- etc.

Sakhalin Energy`s Occupational Health and Hygiene Standard

Periodic health examinations and clinical screening of the company`s employees working under hazardous, dangerous and harsh work conditions were arranged in accordance with the Medical Requirements for Occupational Fitness Standard.

In 2016, all company`s employees engaged in work with harsh, hazardous and (or) dangerous work conditions underwent mandatory periodic health examination. More than 80% of office personnel were covered by clinical screening.

The company continues to focus on preventing employee fatigue. To do this, additional measures were developed and introduced to assess the risk. The company`s employees have access to interactive information on managing risks associated with fatigue.

Health risks are assessed at all company`s assets. A monitoring system for harmful occupational factors has also been introduced. The process of mapping harmful occupational factors at the company`s remote assets was initiated to increase the visibility of information on harmful factors.

Cause and effect were analysed to compare the production environment data (air in working zones, vibration, noise, microclimate, ionising radiation, etc.) and employee health data. Risks of harmful factors influencing employee health at the production assets are assessed based on the analysis.

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 2016, the rate of reported occupational diseases remained at a relatively low level (see the Rate of Reported Occupational Diseases table).

Rate of Reported Occupational Diseases in 2012–2016

Total rate of reported occupational diseases	2012	2013	2014	2015	2016	2017 target
Company alone	0	0.56	0.61	3.33	0	5.0
Company and contractors	0.8	0.5	0.39	1.15	0.21	5.0
With temporary disability (company alone)	0	0.28	0.36	0.67	0	–
With temporary disability (company and contractors)	0.1	0.07	0.23	0.15	0.07	–

Performance indicators are analysed on a regular basis in order to improve working conditions, prevent illness and promote a healthy lifestyle.

In 2016, an increasing number of contractors applied the company`s approach to assessing cardiovascular disease risks and body mass index. This allows them to effectively monitor the risk of developing acute coronary syndrome. The company uses software that allows only employees who are fit in terms of health to work at remote assets. The company`s approach to risk assessment of cardiovascular disease and body mass index calculation is based on an analysis of mortality for reasons other than occupational injuries. These programmes were introduced at the company`s remote production assets in 2010 and as a result the mortality level dropped to virtually zero in 2012–2016.

Besides mandatory health programmes, in 2016, the company continued its policy of encouraging personnel to keep fit and prevent diseases.

To do this, additional steps were taken, such as:

- preventing acute respiratory viral diseases and influenza, including health education and vaccination;
- implementing a programme promoting a healthy lifestyle and engaging in sports. An initiative group of the company developed a schedule of activities to improve general health and promote fitness and sports. According to this schedule, employees participated in sports and competitions both within their subdivisions and at the corporate level as well as in open local and regional championships in various sports (football, hockey, volleyball, tennis, swimming, hiking, etc.);
- implementing a programme to prevent alcohol and drug addiction by raising the awareness of the impact alcohol and drugs have on health;
- introducing a campaign against smoking. Every year on 31 May, Sakhalin Energy celebrates the World No Tobacco Day when employees meet to discuss the problem of tobacco addiction. Smokers are offered free medical advice and supportive medical treatment. Also, there is an extensive information campaign during which posters and leaflets are distributed;
- continuing to implement high standards for medical emergency response. In 2016, over 370 employees of Sakhalin Energy and contractors completed first-aid training.

The company`s and contractors` employees at remote assets of the Sakhalin-2 project as well as company`s employees on foreign business trips are provided with high-quality medical support guaranteed by AEA International (Sakhalin). The company`s employees can also receive medical services at other healthcare facilities listed by SOGAZ insurance company under the VMI (voluntary medical insurance) programme (see Section 9.1.5. Social Guarantees, Benefits and Compensations).

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 respect for fundamental human rights within the legal business framework.

The integrated approach to human rights has several inseparably linked components, including:

- 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 the company`s and contractors` personnel;
- human rights monitoring and reporting.

The company`s human rights standards are laid out in the following principal documents to ensure they are implemented on a day-to-day basis:

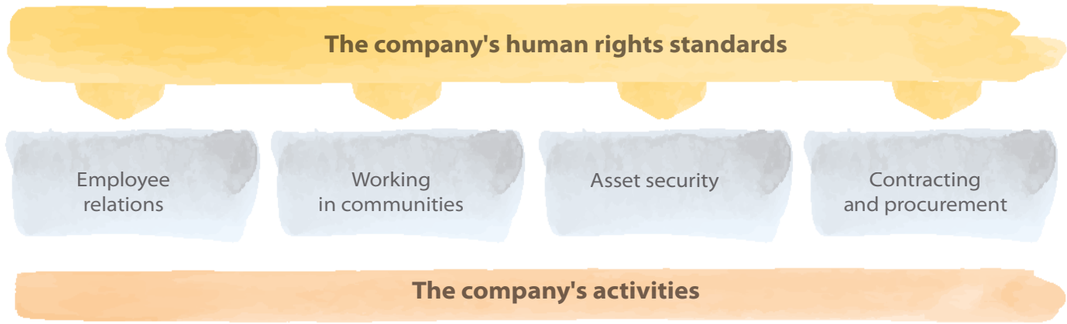
- Human Rights Policy;
- Code of Conduct, including the Statement of General Business Principles;
- Business Management System;
- Commitments and Policy on Health, Safety, Environment and Social Performance;
- Security Policy;
- Contracting and Procurement Policy;
- Whistle Blowing Procedure / Community 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's 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 project.

This is why the company adopted a grievance mechanism right as construction started 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 procedures of the company (related to conflict of interest, bribery, corruption, etc.).
- Grievance Procedure (Human Resources) to address labour issues of the company`s personnel (violation of employee rights under the laws, regulatory legal acts, the company's local regulatory acts; violation of labour agreements and terms of labour contracts with employees; other situations affecting the interests or violating the labour and personal rights of employees in the course of their work for the company).
- Community Grievance Procedure to address grievances from the public and contractor's/subcontractor's 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 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 affected by the company.

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 continuous learning, taking preventive measures and proactive steps.**

9.4.3. Grievance Handling in 2016

In 2016, as part of various corporate grievance mechanisms, 67 grievances and appeals were received from the company`s personnel and external stakeholders, including:

- 36 grievances under the Whistle Blowing Procedure;
- 9 grievances from employees of the company;
- 22 grievances from the public and employees of contractor and subcontractor organisations.

The 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 tender procedures, material and services procurement, conflict of interest and unethical behaviour.

By the end of 2016, 25 grievances out of the 36 received under the Whistle Blowing Procedure had been resolved. In addition, five grievances received in the end of 2015 had been resolved. All 30 grievances were resolved within the timeframe established in the Terms of Reference for carrying out investigations. By the end of 2016, 11 internal investigations based on reviews of the grievances related to violations of the General Business Principles, Code of Conduct, or other company`s procedures remained unresolved. These investigations to be completed in 2017.

Grievances from the company`s personnel were examined as set forth in the Grievance Procedure (Human Resources). In 2016, nine grievances related to labour relations issues as well as the application of the employer's local regulations were received under the Grievance Procedure. All grievances were resolved within the timeframe stipulated in the Procedure.

The grievances from communities and employees of contractor and subcontractor organisations were addressed in compliance with the Community Grievance Procedure. They mainly concerned community impact (e.g. condition of the roads, impact on the local infrastructure), labour relations (within contractors and subcontractors) and implementation of the Sakhalin Indigenous Minorities Development Plan, as well as other issues (information disclosure, construction camp management, compliance with Code of Conduct, etc.).

By the end of 2016, 19 grievances out of the 22 received from the public and employees of contractor and subcontractor organisations had been resolved. In addition, three grievances received at the end of 2015 had been resolved. All 22 grievances were addressed within the timeframe stipulated in the Grievance Procedure (less than 45 business days). By the end of 2016, three grievances remained unresolved. The status of these grievances will be presented in the 2017 Sustainable Development Report.

Categories of Public Grievances in 2016

Grievance category	Number of registered grievances	%
Impact on communities	8	36
SIMDP implementation	5	23
Labour relations / Labour safety	3	14
Other issues (management of contracts, construction camp management, Code of Conduct, information disclosure)	6	27
Total	**22**	**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 the personnel of Sakhalin Energy, its contractors and other stakeholders.

The company`s requirements in the area of human rights are included in a number of educational instructions and courses that all company`s employees and contractors are required to take.

Examples of this training are:

- general instruction;
- Code of Conduct training;
- health, safety, environmental and social training.

The company conducts personalized courses for specific personnel that have a higher risk of violating human rights. The process of identifying the correct training is shown in the Identifying the Correct Training chart.

Community Grievance Procedure training is offered for those employees, who, due to the nature of their duties, may receive or resolve grievances from the public (e.g. subdivision heads, reception desk employees and company`s representatives who directly manage contractor organisations).

In 2016, personnel of the Production Directorate, the Environmental Protection Subdivision and employees of the Government, Shareholders and External Affairs Division received such training.

Indentifying the Correct Training

Risk assessment	Risk groups identification	Appropriate training awareness raising programme
• Asset security • Hazardous work conditions • Addressing grievances	• Contractors • Contract holders • Security department peronnel (and respective contractors personnel) • Reception personnel	• Corporate social responsibility • Grievance procedure • Occupational safety • Human rights observance

9.4.5.

Monitoring Human Rights

Monitoring is important for ensuring human rights are observed. Both monitoring and reporting of human rights are done not only internally, but also externally.

As a rule, monitoring includes:

- visiting communities;
- surveying the personnel of the company and external stakeholders;
- meeting with internal and external stakeholders, including local community and representatives of contractor organisations, for receiving 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 directors, oversees compliance with the established grievance process.

Conclusions on compliance with human rights standards are included in regular internal reports for the management and shareholders as well as in the company`s annual Sustainable Development Reports.

9.5.

Social Investments and Contributions to Sustainable Development of the Host Region

9.5.1.

Social Investments 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 on Sakhalin Island. Significant and consistent investments in social sphere, as well as a long-term policy focused on addressing the social issues, are the core of Sakhalin Energy's commitment to sustainable development principles. Sakhalin Energy pursues a policy of mutual investments of resources for the benefit of all stakeholders.

In 2016, Sakhalin Energy was first in the Russian ranking of the Corporate Philanthropy Leaders project. It is a joint project of the Donors Forum, PricewaterhouseCoopers and Vedomosti newspaper aimed at supporting, developing and promoting corporate philanthropy.

In 2016, the company invested over 74 mln roubles in various 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 activity;
- relate to issues that affect the company's reputation;
- may not directly relate to the company's activity, while contributing to economic, environmental and social development of Sakhalin Island;
- contribute to sustainable economic, environmental and social development of Sakhalin and demonstrate the company's commitment to sustainable development to stakeholders.

Charity activities and social investments are managed by the Social Performance Subdivision of the External and Corporate Affairs Department. The Subdivision handles development, implementation and monitoring of social projects and programmes and is responsible for annual and current financial planning and reporting activities.

The company performs its social investment activities in line with a number of documents. They identify the objects and principles of the 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, which is 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 social investment projects.

Sakhalin Energy's social investment programmes are aligned with the company's long-term goals in its host region, Sakhalin.

In the area of social investments, Sakhalin Energy focuses on implementing strategic long-term partnership projects with external stakeholders and on using various tools and techniques to implement social programmes, including competitive funding. Governing bodies and expert councils have been established to make decisions under the key programmes. These are collegial coordinating and advisory bodies that involve the company's representatives, partners and members of non-governmental organisations in the territory where the company operates.

Focus on the implementational of Strategic Long Term Partnership Projects

Sakhalin Indigenous Minorities Development Plan	**Partners:** Company, Sakhalin Oblast Government and Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities	FPIC (free, prior and informed consent). SIMDP case has been included into the Stakeholder Engagement Handbook, issued by the International Finance Corporation. The plan was recommeded at the parliamentary hearings in the Russian Council of Federation as an example for Russian regions
What to Do in Emergency Situations Programme	**Partners:** Company, Sakhalin EMERCOM, Sakhalin Ministry of Education	A complex educational programme, targeted on schoolchildren and aimed at teaching system development in the sphere of life safety
Korsakov Sustainable Development Partinership Council	**Partners:** Company, Korsakov Administration, public	Initiated by the company in one of the most critical and malcontent communities on the island. Now the parthership of the public, business and authorities contributes a lot to local sustainable development and is moving to a new level of interaction with UNDP expertise
Road Safety Partnership	**Partners:** Company, Sakhalin Oblast Government, Department of the RF Ministry of Internal Affairs for the Sakhalin Oblast, public	The first partnership of such kind established on the territory of the Russian Federation with support of Global Road Safety Partnership (2005). Later on this successful example was replicated in other regions

While striving to achieve lasting social changes in the host regions, the company has implemented a number of projects within priority areas defined through public consultations. These are:

- environmental protection and biodiversity;
- safety;
- education;
- culture and arts;
- healthcare;
- contributing to the development of the Sakhalin Indigenous Minorities.

The company's approach to the development of the host region is a targeted policy of participating in the life of the community. This includes support for relevant projects and programmes (funds for this activity are allocated by shareholders), involvement of the company's employees in corporate social programmes, development of charity and volunteer activities in the region and active participation of the company in discussing issues that are vital to the territory where it operates.

Over the years that it has been developing the social investment programme, Sakhalin Energy has built its own model for managing external social programmes that is based on the company`s policies and the best international charity practices. Not only does the company seek to adapt and use the best international practices, but it has become an example of corporate philanthropy.

Environmental initiatives are among the priority areas of Sakhalin Energy's social investments. This is how the company contributes to the development of environmental awareness, ecological education of the next generations and the conservation of biological diversity and the natural environment.

Company's Objectives in Social Investments for 2017:

- **Develop and implement programmes to support the company's development strategy and to enhance the effectiveness of its contribution to solving the regional tasks.**
- **Maintain and further the dialogue with stakeholders aimed at creation of a sustainable social basis for the company's initiatives.**
- **Improve social programme efficiency by:**
  - **involving the company's employees 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;**
  - **ensuring knowledge management in the field of corporate social responsibility (CSR) and developing advanced training system to improve skills of employees engaged in social investments programmes; ensuring high-level information transparency and visibility.**

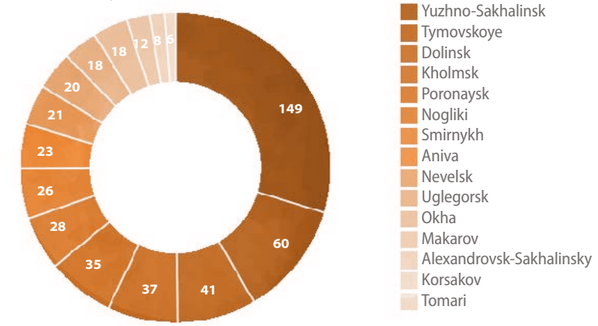
9.5.2. The Energy Social Initiatives Fund

The Energy Social Initiatives Fund is one of the Sakhalin Energy`s charity programmes that demonstrates the comprehensive and consistent approach to promoting social transformation in the host region and commitment to solving important problems of local communities.

Launched in 2003, the grant contest to support socially important initiatives allows to identify interesting and effective solutions to community issues. Grass-roots support of such initiatives at the local level can go a long way toward solving these problems. Moreover, it gives socially active citizens confidence that they can improve the lives of people around them and increase capacity of public organisations. In considering proposals, the company adheres rigorously to the principles of openness and transparency. The Expert Council, consisting of representatives of the company, NGOs and government evaluates proposals and selects the winning projects. Information on the terms and conditions of the contests and the selection criteria is available on the website of the Energy Social Initiatives Fund (www.fondenergy.ru).

One of the priority areas identified for funding on a competitive basis is environmental protection. Other areas that receive financial support are arts, culture, education, sports and promotion of a healthy lifestyle.

Number of Projects that Received Funding in 2003–2016, by districts



Since 2003, more than 250 organisations and institutions have received financial support and 502 projects have been implemented in 64 Sakhalin settlements as a part of the Energy Social Initiatives Fund. The company has made investments totalling over 54.35 mln roubles.

In 2016, funding was granted to 52 projects, including:

- **Social Tourism School** of the Boomerang Club Sakhalin Regional Public Organisation: social tourism development by efforts of volunteers and community organisations, as a means of ecological and patriotic education of children and youth. As part of this project, a school of volunteer tour guides has been organised, an Interpretative Approach to Guided Tour Preparation and Arrangement workshop has been held; and model ecological educational tours have been developed, the best of which are included in a Travellers for Local Natural History Tours of Sakhalin collection.
- **Let Me Introduce to You,** a project of the Rainbow Kindergarten No. 6 of Troitskoye village, Aniva district: creating conditions for preschoolers' comprehensive understanding of the world and various professions. As part of the project, a new museum exhibition Sakhalin Is a Treasure Island has been created. It teaches children about the Sakhalin mineral riches, tells about industries of the island and shows children where their parents work.

9.5.3.

Hurry up for Good Deeds Programme (Support for Charity Initiatives of Employees)

One way companies can demonstrate corporate social responsibility is by encouraging corporate volunteering. If a company provides its employees with an opportunity to help solve social problems, they feel a sense of pride in themselves and their company.

The social policy of Sakhalin Energy includes volunteering. It encourages employees to take part in charity programmes and supports their personal initiatives. Volunteering immerses employees in a new environment and enriches their personal experience, stimulates creative thinking and inspires them to find out-of-the-box solutions. The Hurry Up for Good Deeds Programme, which was launched in 2003 to support employee charity initiatives, is an example of this.

In 2016, the programme was carried out in three main areas:

- volunteer days (Voluntary Community Work Days), which involve volunteering for one of the social institutions on Sakhalin;
- fundraising campaigns organised by the company;
- charity projects initiated and implemented by employees.

In addition, a number of initiatives to provide professional (pro bono) assistance have been implemented, which is another step in a new area of the programme—competent and skilled volunteering (using professional knowledge and skills of the employees for the sake of the public good).

In 2016, two environmental volunteer campaigns were conducted. The Spring Community Clean-up Saturday was held in the Yuzhno-Sakhalinsk nursing home (for the elderly and disabled). The company`s employees and their families cleaned up and improved the premises of the nursing home: they planted ornamental shrubs, arranged flower beds and cleaned up promenade areas in the parkland.

The autumn campaign was held in the Korsakov park. 120 company's employees and their families took part in it. Sakhalin Energy made some significant preparations: HSE Department employees visited the park to catalogue species of vegetation, ecologists developed texts for information boards and the information notices have been translated into Japanese and English. The information boards were installed along the ecological trail and walking paths in the park and the ecological trail has been arranged. During the campaign, volunteers painted 130 metres of the railings on the stairs and renovated pre-installed information notices, planted ornamental shrubs and flowers, repaired the park alleys and made feeders for squirrels.

The corporate campaigns of 2016 supported social service institutions for the elderly and disabled in five settlements of the island (Gastello in the Poronaysk district, Makarov, Alexandrovsk-Sakhalinsky, Yuzhno-Sakhalinsk and Sinegorsk). Employees collected money (over 1.6 mln roubles) and the company doubled the amount to renovate recreation rooms and buy equipment for leisure-time activities, as well as medical and rehabilitation equipment for these institutions.

The New Year Miracles is an annual charity event to raise funds for disabled children, lonely elderly people and children suffering from hardships. This year, the project supported #GivingTuesday, an international initiative held in Russia for the first time.

A number of charity projects initiated personally by employees have been implemented. Employees of the Prigorodnoye production complex collected money and the company doubled the amount to buy an up-to-date mobile laboratory facility for the Razdolnoye school in the Korsakov district. The lab allows to perform various experiments, including in chemistry, prepare presentations and solve multiple tasks in different fields.

In 2016, employees of Sakhalin Energy's Safety and Health Division volunteered to take part in preparing for and conducting a regional Safety Holiday for children held within a partnership programme for children safety. They served as experts in the Young Experts in Safety stage to teach children how to assess situational risks. Before the event, employees of the Division assessed safety risks at all competition sites.

9.5.4.

Korsakov Partnership Council for Sustainable Development

Following one of the basic principles of sustainable development — to meet the needs of the present without compromising the ability of future generations to meet their own needs — Sakhalin Energy has initiated the Social Investments and Sustainable Development programme in the Korsakov district of the Sakhalin Oblast. Within this programme, the company renders financial assistance to social projects.

The programme is managed by the Korsakov Partnership Council for Sustainable Development. The Council consists of nine members, three representatives of each party: Sakhalin Energy, government authorities and the community of the Korsakov district.

In addition to being a stakeholder engagement tool and an expert council to review projects for social investments, the Korsakov Council also plays a role in monitoring social development in the district.

Another task solved by this programme is involving as many as possible community members of the Korsakov district in discussions of projects. To do this, a project fair has been held twice a year as part of the Korsakov Initiatives Contest. This is both a public presentation and a competition of ideas. These fairs are open to participation of all residents and they choose the most relevant projects and prioritise the proposals submitted that need to be implemented first to further the district advancement.

The Korsakov Partnership Council for Sustainable Development has performed competitive selection of projects since 2004. In 2016, support was granted to 17 projects.

In 2016, public consultations were held on the Korsakov Sustainable Development Partnership Council activities in the communities of the Korsakov district. The Korsakov Municipal District community attitude to activities of the Korsakov Partnership Council for Sustainable Development, their awareness of the projects implemented under support of Sakhalin Energy and opinions of the further programme development were studied there.

Materials on the Council are available at www.korsakovsovet.ru.

9.5.5.

What to Do in Emergency Situations Partnership Safety Programme

Safety is one of Sakhalin Energy's top priorities.

Since child safety issues are a priority and obviously relevant to the Sakhalin Oblast, in 2005, the company initiated a programme in partnership with the Chief Directorate of the EMERCOM for Sakhalin Oblast and the Ministry of Education of the Sakhalin Oblast.

Its key tasks include creation of conditions to enhance activities aimed at assimilation and consolidation of children's knowledge about safe behaviour rules in emergency situations.

2016 saw public presentations of two cartoons dedicated to safe behaviour in the yard playgrounds and prevention of thermal burns and presentations of two comic books—Beware of the Frost! and Flickers.

On the International Day for Disaster Reduction in October 2016, the Annual Regional Children's Safety Holiday was held on Sakhalin for the seventh time. It was attended by 16 teams of children aged 11–12 years from 15 districts of the Sakhalin Oblast.

63 schoolchildren aged from 7 to 16 took part in the Safety Is Important children's animation contest. The winners were awarded at the ceremony in November 2016. Individual contestants and teams created animations to show how important it is to observe the safe behaviour rules to avoid dangerous situations. The jury included representatives of the What to Do in Emergency Situations programme partners and cinema and TV professionals.

All cartoons and other materials created under the programme are available at www.senya-spasatel.ru.

In December 2016 a ceremony was held in the press centre of Rossiya Segodnya International Information Agency to award participants of the Impulse, All-Russian Contest of Social Advertising held among public authorities. The third prize in The Best Booklet nomination and a winner's title was awarded to the Safety on Water in the Summer comic book published within partnership programme.

9.5.6.

Sakhalin Road Safety Council

The Sakhalin Road Safety Council is one of the company's social investments programmes.

Since 2005, this programme has been implemented by active efforts of all stakeholders. The Sakhalin Oblast Government and the Department of the RF Ministry of Internal Affairs for the Sakhalin Oblast partner with the company on road safety.

The Council develops and implements projects aimed to reduce the number of victims in road traffic accidents (RTA) and the number of road traffic accidents.

In 2016, in order to improve the road infrastructure, more pedestrian crossings were equipped with innovative traffic control equipment. It improves the visibility of pedestrians and pedestrian crossing road signs to drivers. The effectiveness of this project, which was started in 2013, has been confirmed by the statistics of the Department of the State Road Safety Inspectorate of the RF Ministry of Internal Affairs for the Sakhalin Oblast. The number of accidents at these newly marked pedestrian crossings has decreased several times.

Information on the Sakhalin Road Safety Council is available at www.sakhalinroadsafety.ru.

9.5.7.

The World of Nivkhi Exhibition Project

In November 2016, an exhibition called The World of Nivkhi opened in the Stroganov Palace in St. Petersburg

This joint project of the State Russian Museum and the Sakhalin Regional Art Museum has been implemented with support from Sakhalin Energy. It is intended to enhance the prestige of the Sakhalin cultural institutions and to form Russia's continuous cultural landscape.

For the first time in the history of Sakhalin culture, one of the largest museums in the country hosted Nivkhi exhibits from regional museums. The main part of the exhibition (works of Sakhalin artists from the collections of the Sakhalin Regional Art Museum, Sakhalin Regional Local Lore Museum, Okha and Nogliki Local Lore Museums) was formed as part of events celebrating the 80th anniversary of Vladimir Sangi and presented to the Sakhalin audience in November 2015.

There were 76 paintings and objects of decorative art as well as sculptural portraits on exhibit in the Stroganov Palace exhibition hall. The culture of indigenous peoples is reflected in the best works of artists who worked on this subject at different times: Sergei Gurka, the first Nivkh painter; Lydia Kimova, a talented Nivkhi craftswoman known far beyond Sakhalin; and Givi Mantkava, the pioneer and discoverer of this world of ancient people for painting connoisseurs. The authors of the 1975 Scene of the Nivkhi Life painting from the collection of the Okha Local Lore Museum are Grigory Bruskin, known as Grisha Bruskin, who now lives in the USA and Svetlana Bogatyr, who works both in Russia and in France.

The exhibition also presented thematic booklets, a catalogue of works containing photos and information about the artists and craftspeople and guides containing quizzes for children.

The project involved tours, quests, workshops and the presentation of an audio album of fairy tales by Vladimir Sangi, the founder of Nivkhi literature, told in Nivkhi and Russian (stories in the Nivkhi language are read by the author). Copies of this album were sent to the Institute of the People of the North of the Herzen State Pedagogical University of Russia, St. Petersburg; to Sakhalin schools in places of indigenous minority residence; and to federal and regional libraries.

Key exhibition events were held simultaneously with the St. Petersburg International Cultural Forum 2016 and were included into its extensive agenda.

9.5.8.

Sakhalin Indigenous Minorities Development Plan

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 the Sakhalin Indigenous Minorities and the Sakhalin Oblast Government since 2006. The programme has been divided into five-year phases, with 2016–2020 being SIMDP 3.

Every year, consultations are held as part of the Plan in all areas of SIM traditional residence. In 2016, 16 public meetings, attended by 257 people, were held in 12 communities. The main objectives of the consultations were to inform the public about the innovations of SIMDP 3 and the competitive programmes in 2016, as well as to discuss issues related to the management and implementation of the Plan as a whole and its individual programmes in particular.

9.5.8.1.

Goals and Structure of SIMDP

In 2016–2020, the Sakhalin Indigenous Minorities Development Plan aims to achieve the following key objectives:

- Capacity building: perfecting leadership qualities and technical skills (including those in accounting, budgeting, business planning, economic activity, preparation of reports) and supporting the aspiration for further development of ethnic self-awareness.
- Social, cultural and economic development: the targeted areas for support are cultural revival, economic viability of traditional economic enterprises and improved social conditions. Focus is made on long-term strategic planning with the concept of sustainable development as an objective.
- Independent fund preparation: assistance in the preparation for the eventual establishment of an independent SIM development fund.
- Disclosure of the environmental effects of the Sakhalin-2 project: ensuring timely provision of objective and complete information about the actual and/or potential impacts and about the measures taken to prevent and/or minimise any potential negative effects.

Taking into account the concerns of indigenous peoples about the potential environmental impacts of the Sakhalin-2 project, the company developed a mitigation matrix, following the results of the multilateral consultations in 2005–2006.

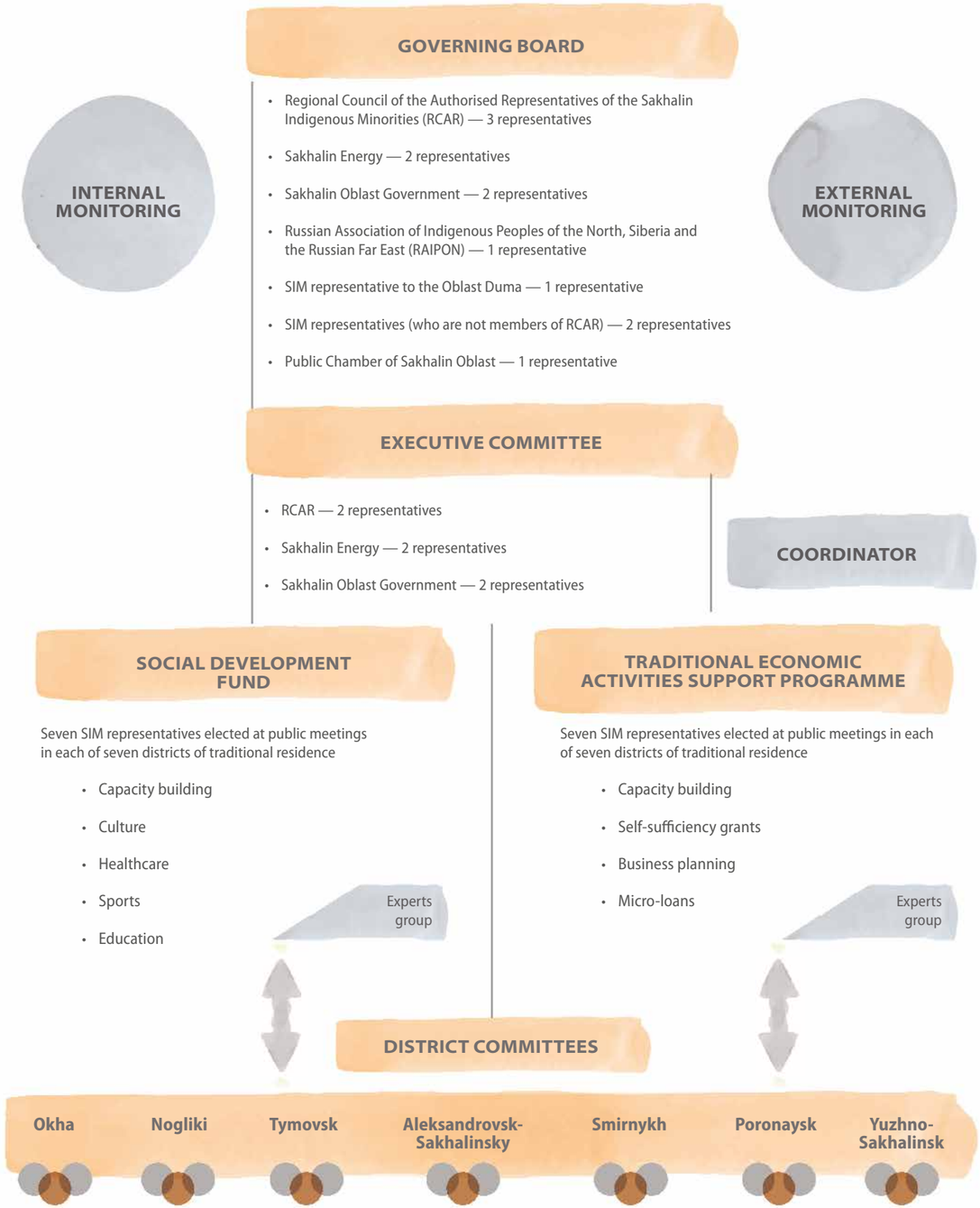
The matrix includes issues that cause concerns of indigenous peoples and measures to address them.

Based on the results of the sociological survey of the population in 2015, as well as during consultations on the development of SIMDP 3, SIM representatives defined four issues to be included in the Matrix:

- concern with the effects of oil and other substances' spills;
- provision of information about the measures aimed at biodiversity conservation;
- provision of information for Sakhalin Indigenous Minorities on Sakhalin-2 project expansions, if any;
- Grievance Procedure: grievances related to the Sakhalin-2 project and SIMDP.

The matrix is regularly updated, reviewed at each meeting of the SIMDP Governing Board and sent to the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities and other stakeholders.

SIMDP 3, Governance Structure, 2016-2020



Decisions on the allocation of funds under SIMDP are made by the programme committees consisting exclusively of SIM representatives specially elected at meetings in the districts. The programme committees are supported in their work by the Expert Groups and District Committees. The effectiveness of the Plan implementation is regularly assessed by an independent expert and the Internal Monitoring Team.

Training workshops are organised annually for the members of the SIMDP coordinating bodies. In 2016, these included the social project management and project evaluation seminar and the Sakhalin Indigenous Minorities Development Plan: effective implementation mechanisms workshop.

Representatives of the three parties appointed a SIMDP 3 Coordinator responsible for overall administrative control over the activities of the SIMDP coordinating bodies and the results of the work, as well as for work under the Grievance Procedure regarding grievances related to the SIMDP.

9.5.8.2.

Traditional Economic Activities Support Programme of SIMDP

The funds of the Traditional Economic Activities Support Programme were distributed among its components, namely Business Planning, Self-Sufficiency and Capacity Building.

In 2016, the Programme Committee approved 36 projects aimed to support clan and family enterprises, communities and other associations of the Sakhalin Indigenous Minorities and to provide aid to SIM representatives in the total amount of more than 10.132 mln roubles. Outboard motors, fishing gear and net materials, snowmobiles, consumables and certain types of electrical appliances used for traditional economic activities were purchased, workshops on bone and wood carving and making traditional clothes were held and training in steering small vessels and driving snowmobiles was organised under the programme.

9.5.8.3.

Social Development Fund of SIMDP

The resources of the Social Development Fund (hereinafter referred to as SDF) were distributed among its components, namely Education, Healthcare, Capacity Building, Culture and Sports. In 2016, the Social Development Fund Council approved 36 projects in the total amount of more than RUB 10.132 mln. The Nivkhi Territorial-Neighbourhood Community of the Indigenous Minorities of the North was a partner in the implementation of the SDF projects. As part of educational projects, 46 students of specialised secondary and higher education institutions received financial support and 15 people were provided aid for medical reasons.

The information on the project is available on the website of the Plan at www.simdp.ru.

Proceeding from the fact that respect and support for human rights, including those of vulnerable groups of population, are an integral part of responsible business, Sakhalin Energy has committed itself to promoting both the sustainable development and capacity building of the Sakhalin Indigenous Minorities and the preservation of their languages. For many years, the company has supported linguistic studies, as well as the publishing of books devoted to SIM languages. These and other projects aimed at the preservation and promotion of languages of the indigenous minorities of the Sakhalin Oblast were included in the UN Global Compact International Yearbook 2016. In addition to the implementation of the ten principles of the UN Global Compact, the 2016 Yearbook was dedicated to the contribution of businesses to the achievement of Sustainable Development Goals. In particular, the experts noted that the company's projects aimed at the preservation and promotion of Sakhalin Indigenous Minorities' languages contribute to the achievement of the following goals: Goal 4 (Quality Education), Goal 10 (Reduced Inequalities) and Goal 17 (Partnerships for the Goals).

10 2017 PLANS AND DEVELOPMENT STRATEGY UP TO 2021

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

MISSION:
Sakhalin Energy is committed to being a premier energy supplier.

We conduct our business on the basis of efficient, reliable, and safe production, as well as a responsible attitude toward social and environmental issues.

2017 Plans and Development Strategy up to 2021

As in the previous years, Sakhalin Energy's priorities for 2017 remain the same: ensure the safety and reliability of production, improve the efficiency of oil and gas field development and hydrocarbon production, optimise costs and develop the project with regard to the principles of continuous improvement and lean processes.

In 2017, the company will continue to work towards achieving Goal Zero — work without incidents, i.e. no injuries, spills, or damage to the production assets and the environment.

As part of the HSE strategy, the company made and included in the 2017–2021 Journey Book the following commitments:

- enable leadership at all levels to increase concerns about staff safety, as well as to strengthen employees' confidence in the leadership team;
- enroll and engage all people in safe, efficient and reliable operations and projects;
- promote the health of the people;
- develop HSE and process safety capability and verify competence;
- manage significant risks to as low as reasonably practicable (ALARP) level
- focus on controls to save lives and prevent injuries;
- control transport and workplace hazards during the implementation of major projects and operational activities;
- comply with regulatory and international requirements and promote industry best practice.

In 2017, Sakhalin Energy's main production activities will be related to:

- intensive operations at the three offshore platforms, including drilling optimisation projects and work to maintain oil, gas and LNG production at consistently high levels;
- the development of the OPF Compression and LNG train 3 projects.

In 2017, the company will continue to work with customers to ensure the most favourable conditions for the sale of oil and gas.

As part of the HR management strategy implementation, in 2017 and subsequent years, Sakhalin Energy will continue to:

- attract, employ and retain the best talent available in the industry, according to the business needs;
- meet manpower requirements of major projects utilising internal resourcing and the expertise of the shareholders;
- invest in professional and leadership development of Russian staff with a focus on Sakhalin residents, capable to occupy leadership and technical expert roles in the company;
- deliver an attractive and competitive employee value proposition (EVP);
- develop a unique corporate culture to ensure the Employer of Choice status.

An integral part of the HR strategy and policy in 2017 and subsequent years will be to meet the staffing needs of the company's development projects.

Regular and meaningful stakeholder engagement remains an important component of Sakhalin Energy's successful performance. The strategy and plans for engaging the general public for 2017 are included in the Public Consultation and Disclosure Plan (published on 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.

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, as well as a responsible attitude toward social and environmental issues.

11 APPENDICES

APPENDIX 1. GRI Guidelines Compliance Table (rev. 4.0)

GENERAL STANDARD DISCLOSURES

GRI index	Element/indicator	Disclosure of the element/ indicator	Report section	Page in the Report	Comments and references to other sources
			STRATEGY AND ANALYSIS		
G4-1	Statement from the most senior decision-maker of the organisation	Full	Message from the Chief Executive Officer	7	
G4-2	Description of key impacts, risks and opportunities	Full	Message from the Chief Executive Officer Risk Management HSE and Social Performance Management Economic Impact Management Environmental Impact Management Social Impact Management 2017 Plans and Development Strategy up to 2021	7 44–47 23–25 60–62 66–86 88–124 127	
			ORGANISATIONAL PROFILE		
G4-3	Name of the organisation	Full	About the Company	28	
G4-4	Primary brands, products and/or services	Full	About the Company	35–36	
G4-5	Location of organisation's headquarters	Full	On the outside rear cover http://www.sakhalinenergy.com/en/feedback/feedback.wbp		
G4-6	Number of countries where the organisation operates and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the Report	Full	About the Company	28–36	
G4-7	Nature of ownership and legal form	Full	Corporate Governance	40	
G4-8	Markets served (including geographic breakdown, sectors served and types of customers and beneficiaries)	Full	About the Company	28, 35	
G4-9	Scale of the reporting organisation	Full	About the Company Economic Impact Management Personnel: Management and Development	28–35 60–62 89	
G4-10	Total number of employees by employment type gender, employment contract and region	Full	General Information	89–90	
G4-12	Organisation's supply chain	Full	Supply Chain Management	62–63	
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	Full			No significant changes in 2016
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Full	Sakhalin Energy's CSR System Sustainable Development Policy Risk Management Impact Assessment	19–20 22 44–45 25	

GRI index	Element/indicator	Disclosure of the element/ indicator	Report section	Page in the Report	Comments and references to other sources
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	Full	Performance Standards	21	
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organisations	Full	Performance Standards International and Regional Cooperation	21 58	In November 2009, the company joined the UN Global Compact. In 2016, the company is a member of: • Global Compact LEAD, • Working Group on Human Rights of the UN Global Compact; • International Business Congress
			IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents	Full	About the Report	14–16	
G4-18	Process for defining the Report content and the Aspect Boundaries. Reporting Principles for Defining Report Content	Full	About the Report	11–16	
G4-19	List of all the material Aspects identified in the process for defining the Report content	Full	About the Report	13–15	
G4-20	Material aspects within the organisation	Full	About the Report	13–15	
G4-21	Material aspects outside the organisation	Full	About the Report	13–15	
G4-22	Restatements of information provided in previous reports and the reasons for such restatements	Full	About the Report	13–15	
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	Full	About the Report	13–15	
			STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organisation	Full	About the Report Stakeholder Engagement Management in 2016	10 51	
G4-25	Basis for identification and selection of stakeholders with whom to engage	Full	Stakeholder Engagement Management	50–51	

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GRI index	Element/indicator	Disclosure of the element/ indicator	Report section	Page in the Report	Comments and references to other sources
G4-26	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	Full	About the Report Stakeholder Engagement Management	10 50–51	
G4-27	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	Full	About the Report Stakeholder Engagement Management in 2016 Appendix 2	10 51 139–149	
	REPORT PROFILE				
G4-28	Reporting period (such as fiscal or calendar year) for information provided	Full	About the Report	10	
G4-29	Date of most recent previous report (if any)				April 2016
G4-30	Reporting cycle (such as annual, biennial)	Full	About the Report	10	Annual
G4-31	Contact point for questions regarding the Report or its contents	Full	Appendices 5–6	154–155	
G4-32	'In accordance' option the organisation has chosen. GRI Content Index. Reference to the External Assurance Report	Full	About the Report Appendix 1 Appendices 7–8	10 130–138 156–159	
G4-33	Organisation's policy and current practice with regard to seeking external assurance for the Report	Full	About the Report Appendices 7–8	16 156–159	
	GOVERNANCE				
G4-34	Governance structure of the organisation, including committees of the highest governance body	Full	Corporate Governance Model	40–42	
G4-36	Executive-level position or positions with responsibility for economic, environmental and social topics	Full	Corporate Governance Model	40–42	
G4-38	Composition of the highest governance body and its committees	Full	Corporate Governance Model	40–42	
G4-39	Whether the Chair of the highest governance body is also an executive officer	Full			The chairperson of the highest governance body is not an executive officer

GRI index	Element/indicator	Disclosure of the element/ indicator	Report section	Page in the Report	Comments and references to other sources
G4-42	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	Full	Corporate Social Responsibility and Sustainable Development Corporate Governance	19–20 38–44	
G4-46	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	Full	Risk Management	44–45	
G4-48	Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered	Full	About the Report	10	
	ETHICS AND INTEGRITY				
G4-56	Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Full	Corporate Social Responsibility and Sustainable Development Corporate Governance	21 43–44	
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour and matters related to organisational integrity, such as helplines or advice lines	Full	Corporate Governance System and Structure Corporate Culture Stakeholder Engagement Management	39 43 50	
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	Full	Corporate Culture Human Rights	43 111–112	

SPECIFIC STANDARD DISCLOSURES

Basis of Aspects materiality is given in Section 2. About the Report

GRI index	Element/indicator	Disclosure of the element/indicator	Report Section	Page in the Report	Comments and references to other sources
	CATEGORY: ECONOMIC				
G4-DMA	Disclosures on management approach	Full	About the Company Corporate Governance Model Economic Impact Management	28 40–42 60–64	

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GRI index	Element/indicator	Disclosure of the element/ indicator	Report section	Page in the Report	Comments and references to other sources
G4-EC1	Direct economic value generated and distributed	Full	About the Company Economic Impact Management Remuneration and Bonus System Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	28 60–61 92 115	
G4-EC3	Coverage of the organisation's defined benefit plan obligations	Full	Social Guarantees, Benefits and Compensations	93–94	
G4-EC4	Financial assistance received from government	Full			The company received no financial assistance from the government in 2016
G4-EC5	Ratio of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Full	Remuneration and Bonus System	92	
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	Full	General Information Personnel Recruitment and Adaptation of New Employees	89 91	
G4-EC7	Development and impact of infrastructure investments and services supported	Full	Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	60 115–116	
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Full	Economic Impact Management	60	
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Full	Russian Content	62	
	CATEGORY: ENVIRONMENTAL				
G4-DMA	Disclosures on management approach	Full	HSE and Social Performance Management System Environmental Impact Management	23–24 66–86	
G4-EN3	Energy consumption within the organisation	Full	Energy	70–71	
G4-EN5	Energy intensity	Full	Energy	70–71	
G4-EN8	Total water withdrawal by source	Full	Impact on Water Bodies	68	
G4-EN9	Water sources significantly affected by withdrawal of water	Full	Impact on Water Bodies	68	No water sources are materially affected by the company's withdrawal of water
G4-EN11	Operational sites on, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Full	Environmental Monitoring and Preserving Biodiversity	75–83	

GRI index	Element/indicator	Disclosure of the element/ indicator	Report section	Page in the Report	Comments and references to other sources
G4-EN14	Total number of IUCN red list species and national conservation list species with habitats in areas affected by operations	Full	Environmental Monitoring and Preserving Biodiversity	75–83	
G4-EN15	Direct greenhouse gas (GHG) emissions	Full	Greenhouse Gas and Ozone-Depleting Substance Emissions	72–73	
G4-EN16	Energy indirect greenhouse gas (GHG) emissions	Full	Greenhouse Gas and Ozone-Depleting Substance Emissions	72–73	
G4-EN20	Emissions of ozone-depleting substances (ODS)	Full	Greenhouse Gas and Ozone-Depleting Substance Emissions	72–73	
G4-EN21	NOX, SOX and other significant air emissions	Full	Impact to the Atmospheric Air	67	
G4-EN22	Total water discharge by quality and destination	Partly	Impact on Water Bodies	68	
G4-EN23	Total weight of waste by type and disposal method	Full	Waste Management	69–70	
G4-EN24	Total number and volume of significant spills	Full	Oil Spill Prevention and Response Preparedness	84–85	
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Full	Environmental Protection Costs and Payments for the Negative Impact	74	
G4-EN31	Total environmental protection expenditures and investments by type	Full	Environmental Protection Costs and Payments for the Negative Impact	74	
G4-EN34	Number of grievances about environmental impacts filed, addressed and resolved through formal grievance mechanisms	Full	Grievance Handling in 2016	112–113	
	CATEGORY: SOCIAL				
	Sub-Category: Labour Practices and Decent Work				
G4-DMA	Disclosures on management approach	Full	Approaches to HR Management and HR Policy Labour Safety and Protection Occupational Health	88 105 109	
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Full	General Information	89–90	
G4-LA3	Return to work and retention rates after parental leave, by gender	Full	General Information	89	

Appendix 1

GRI index	Element/indicator	Disclosure of the element/ indicator	Report section	Page in the Re-portt	Comments and references to other sources
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Full			In accordance with the effective Labour Code of the Russian Federation, federal laws and other regulatory legal acts containing norms of labour law, agreements and employment contracts
G4-LA6	Rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities, by region and by gender	Partly	Labour Safety and Protection Occupational Health	106 110	
G4-LA9	Average hours of training per year per employee by gender and by employee category	Full	Personnel Training	98	
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Full	Staff Development and Training	95–104	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Full	Employees Performance Appraisal	95	
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	Full	General Information	89	
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category	Full			Basic salaries of men and women of all personnel categories do not differ
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	Full	Grievance Handling in 2016	112–113	
	Sub-Category: Human Rights				
G4-DMA	Disclosures on management approach	Full	Human Rights: Principles and Management System	111–112	
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Partly	Human Rights Training	113	
G4- HR3	Total number of incidents of discrimination and corrective actions taken	Full			No registered cases of discrimination in 2016
G4-HR4	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	Full			No operations in which the right to exercise freedom of association and collective bargaining may be at significant risk
G4-HR5	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	Full			No operations risk of involving child labour
G4-HR6	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	Full			No operations risk of involving child labour
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	Full			100%
G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	Full			No registered cases of violation of rights of Indigenous Peoples in 2016
G4-HR12	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	Full	Grievance Handling in 2016	112–113	
	Sub-Category: Society				
G4-DMA	Disclosures on management approach	Full	Corporate Social Responsibility and Sustainable Development Stakeholder Engagement: Strategy, Principles, Mechanisms and Engagement Tools Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	16–20 50 115–116	
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	Full	Impact Assessment Stakeholder Engagement: Strategy, Principles, Mechanisms and Engagement Tools Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	25 50 115–116	100%

GRI index	Element/indicator	Disclosure of the element/ indicator	Report section	Page in the Report	Comments and references to other sources
G4-SO2	Operations with significant actual and potential negative impacts on local communities	Full	Impact Assessment	25	No such operations in 2016
G4-SO4	Communication and training on anti-corruption policies and procedures	Full	Anti-Bribery and Corruption	48	
G4-SO5	Confirmed incidents of corruption and actions taken	Full			No cases of corruption were registered in 2016
G4-SO6	Total value of political contributions by country and recipient/beneficiary	Full			As per the company's Code of Conduct, Sakhalin Energy does not support any political parties or their representatives financially and does not participate in political activities
G4-SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms	Full	Grievance Handling in 2016	112–113	
	Sub-Category: Product Responsibility				
G4-СПМ	Disclosures on management approach	Full	About the Company Engagement with Customers	28 56	
G4-PR2	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	Full			No incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services in 2016
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	Full			No incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling in 2016

APPENDIX 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and Company's Response and Commitments

Detailed information on the results of the stakeholder engagement process that was completed to develop this Report, including dialogue meetings, questionnaire surveys, etc., is available in the Material Topics to Be Included in the 2016 Report Based on Stakeholders' Opinions and Most Priority Topics to Be Included in the 2016 Report Based on Stakeholders' Opinions tables found in Section 2. About the Report.

Besides identifying material subjects, stakeholders also made comments and suggestions on individual aspects, indicators and/or the programmes of the company for inclusion in the 2016 Report.

In October 2016, Sakhalin Energy held the first dialogue as part of the 2016 Report preparation. At this meeting, the company provided stakeholders with information on its activities and achievements during the reporting period. In February 2017, 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 questionnaires, personal interviews, as well as surveys at various events in November and December 2016 (see Section 2.3. Defining Material and Priority Topics to Be Included in the Report).

Stakeholders' 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
Dialogue meeting, Open statements	
Nadezhda Nikitina, Head of the Subdivision of Programme and Estimate Documentation Analysis and PSA Implementation, Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast	
I have three comments. First, we are glad that the company's Report has been recognised the best based on the previous year's results and it is a well-earned award. The Report is really very informative, bright and is worthy of attention	The company appreciates the feedback.
My second comment is about the report of the company's representative and the territory layout. The territory layout is available now. It was approved and defended in September. As to the landfills and the status of registration in the State Register of Waste Disposal Sites (SRWDS), the Korsakov landfill has already been included in SRWDS. Currently, we are working on the registration of the landfill in Nogliki	The company is grateful for the information and requests to provide information on the registration of the Nogliki landfill in SRWDS
Another comment is about the speech of the company's representative regarding the implementation of the OPF compression and LNG train 3 projects. These are really ambitious and huge projects. It was noted that the level of Russian content would be increased. We know that the company is currently involved in harmonisation to align international standards with the national ones to enable Russian contractors to actively participate in the implementation of these projects, thus increasing the Russian content thereunder and under the Sakhalin-2 project in general. When will the Standards Harmonisation programme be completed? Will we have enough time to prepare for the forthcoming OPF compression and train 3 projects?	The idea of harmonising the standards used in Sakhalin Energy and the standards applicable in the Russian Federation appeared in early 2014. The project is based on the identification and review of differences and similarities in foreign and national standards pertaining to the company's business. After its successful implementation, the Standards Harmonisation project will enable Sakhalin Energy to increase materials and equipment purchases from Russian vendors. The Standards Harmonisation programme is not connected with the OPF compression and train 3 projects; it applies to equipment and pipelines only

Appendix 2

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Another question relates to occupational health and safety. The company says that it is striving to Goal Zero in regards to injuries and that this indicator is achievable. I would like to know if the company has achieved this indicator in 2016?	The company has achieved these indicators at some of its assets in 2016, but some injuries were reported. The company's 2016 Report includes the records for the company and its contractors. See Section 9.2 Labour Safety and Protection
Natalya Sharukhina, Lead Expert of Sakhalin EMERCOM It is not the first time I attend the meeting. I would like to add my comments on the Children's Safety programme, in particular on the Safety Day. It took four days in the current year and was held in the Sinegorsk Mineral Waters resort. Many stages were held in a new format. I would like to highlight the company's huge organisational efforts and express our gratitude for excellent accommodation and events for participants, experts, judging panel and all organisers alike. Furthermore, it was the first time when we had children's animation contest with an official award ceremony to be held on 2 November. The decision to hold the contest was made by our partners in the company. Children aged 12 to 17 had very interesting submissions in different techniques. All animated works were dedicated to safety. It was hard to evaluate these submissions. We would like to traditionally thank our partners, namely the Ministry of Education of Sakhalin Oblast and the company for their efforts in building the safety culture of the new generation and the Sakhalin Oblast community in general	The company appreciates the feedback. We highly appreciate the contribution of all our partners to the programme we have been implementing for many years (since 2005). We hope to continue our effective cooperation
Ekaterina Koroleva, member of the Sakhalin Oblast Public Chamber The company's representatives stated the priority goal of the Report, which is environmental protection, since 2017 is the Year of Ecology. And the second priority goal is engagement with stakeholders. I will comment on the Report concerning these two priority goals. This discussion is very important for me. Have a look at the representatives present. It demonstrates that the company keeps building a dialogue and mutual cooperation on the principles of transparency, publicity and awareness raising. As for the environmental protection, the Public Chamber (PC) is preparing a round table on a crucial topic related to waste management. A business built a production site at the location of one of the traditional residences of indigenous minorities, which created a strained social environment. I believe that PC's response has been appropriate, since there were no preliminary consultations with the indigenous community, while this area is listed as the residence of indigenous minorities at the federal level. We received an official response from state environmental authorities stating that the business was not subject to the environmental expert review. Actually, Order 592 of the Federal Service for the Supervision of Natural Resources classifies this site in the State Register. It is a very serious issue. Law 72 of Sakhalin Oblast on the protection of the indigenous environment, traditional lifestyle and trades of Sakhalin indigenous minorities stipulates that the main principle of indigenous environmental protection is to identify a potential hazard from any planned activity which shall be approved by the indigenous community. That is why I have paid special attention to the environmental matters discussed today to learn about the company's focus on environment protection, waste management, etc. guided by federal law and international standards. You can make colourful presentations, but the key issue is indicators for the Russian Federation and the company. These are convincing figures; they inspire respect because they show the great efforts of the company's employees. On this occasion I would like to emphasise how important it is to have your company at the round table to show its best practices which must be made public	The company is grateful for this exhaustive comment and the invitation to the round table. The company took part in the event and shared its experience in waste management
As regards engagement with the indigenous community. A suggestion for the 2016 Report. The 2015 Report said that the company complied with the principle of free, prior and informed consent in its relations with the indigenous community. I think that it is just not enough to mention it. The company adheres to the relevant IFC principles and I would like this aspect to be included in the 2016 Report. I will give an example: when we were having hard times in 2013 and were preparing the conference to launch the next SIMDP, a challenging dialogue was in progress. A discussion is a normal process. And then, the company's representative faced people and told them about IFC PS 7. At that time, our relations with indigenous minorities were based on World Bank Directive 4.10 and EBRD Policy. But we are moving forward and we now have some experience with IFC PS 7 which focuses on corporate decision	The company appreciates the feedback. The Report includes the information about international standards the company uses in its relations with indigenous peoples (see Sections 3, 6 and 9)

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
As regards the today's Report, it features openness and an integrated approach. The company is extremely lucky to have such professionals. I suggest that you should be more active in involving more stakeholders in such dialogues and possibly have such discussions in other cities across Sakhalin	The company has a wide outreach by holding meetings in the form of a dialogue: invitations to such events are published in various mass media and distributed to addressees as well as by questioning and interviews with experts, NGO representatives, state authorities, contractors, buyers, community, etc. The company holds annual public meetings with the community in different settlements on the island where participants are encouraged to fill in a questionnaire and share their opinion on important topics to be disclosed in the Report. The stakeholders' opinion is taken into account when preparing the Report
Oleg Manukhin, Deputy Head of Social Development Department, Korsakov District Administration I would like to thank Sakhalin Energy for its financial support of the social projects implemented in the Korsakov District under the frames of the Korsakov Sustainable Development Partnership Council. Your support helped to deliver many social projects in the district in such areas as culture and education, sports accessibility, as well as accessibility of amenities and services for people with disabilities. Major projects were implemented this year, e.g. specialised elevators used by people with limited mobility to move up and down the stairs. Such elevators were also purchased for sports centre. Wheelchair users attend these facilities; four people currently attend the sports centre. We are grateful to the company. I am a member of the Korsakov Sustainable Development Partnership Council	The company appreciates the feedback on the programme. The programme has been managed by the Korsakov Sustainable Development Partnership Council since 2004. Cooperation within the Council is very important for the development of partnership in the Korsakov District
Fyodor Mygun, Chairman of the Regional Council of the Authorised Representatives of the Sakhalin Indigenous Minorities of North of Sakhalin I will continue to speak about indigenous peoples. The information on the interaction under SIMDP implemented by Sakhalin Energy, the Government and the SIM Regional Council has been provided. We address the issue of the employment of the IP representatives at Sakhalin Energy. We understand that we have few properly skilled people. We cooperated with Exxon and Rosneft-Shelf-Dalny Vostok on a seismic survey. And we managed to resolve these issues at the initial stage of the seismic survey. I would like to review how these matters were resolved regarding our community	The company conducted a seismic survey in 2015. We would appreciate if you inform us of the people who took part in the process and acquired experience so that we could consider them as candidates if we require any additional observers. In order to satisfy its demand for human resources, the company uses different methods and practices to recruit professionals from the labour market, including: interaction with related colleges and universities, employment centres, participation in local and regional job fairs, etc. The company reviews our candidates' CVs to fill vacancies on a competitive basis in compliance with Russian Federation laws. The company's HR Department is willing to consider all candidates with qualifying skills and experience to fill vacant positions. Apart from employment opportunities, the company has student intern and new-starter programmes in place. They apply to young people from the SIM community (see details in Section 9.1 Personnel: Management and Development). During the three periods of the implementation of the Sakhalin Indigenous Minorities Development Plan (hereinafter SIMDP), students from the SIM community who study at universities, special vocational, or primary (vocational) institutions (intramural and extramural education) receive annual support. Similarly to other SIMDP partners, the company is interested in providing high quality education and professional development opportunities, in the oil and gas industry in particular. The company holds annual public meetings with the Sakhalin Oblast community in settlements inhabited by the Sakhalin indigenous minorities (see details in Section 6.5 Engagement with the Sakhalin Indigenous Minorities (SIM)). If necessary, the company is willing to launch more intensive information campaigns, also at the above meetings with SIM representatives, to discuss employment opportunities
I think you can invite the representatives of the Regional Council to your production sites at the traditional residence locations to get the big picture of the process at these production facilities to mitigate the strain and have a better understanding of the company's environmental and other efforts	The company will consider visits of SIM representatives to Sakhalin Energy's production assets located in the areas of SIM traditional residence

Appendix 2

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Elena Pivnenko, Sakhalin Indigenous Minorities Representative, Okha District I am the Chairperson of the community. I would like to thank the company for cooperation. We had a workshop initiated by your company over the past two days. I was a grantee, wrote and defended a project and received financing. Thank you a lot. I attend such an event for the first time. Everything was open, clear and understandable. I liked it	The company appreciates the feedback about cooperation and this event
Alexander Buryka, Director of the Sakhalin Regional Art Museum I would like to say a couple more words about the World of Nivkhi exhibition in St. Petersburg. Yesterday, we received feedback I would like to read. "I would like to share how much I enjoyed my time last weekend at the World of Nivkhi exhibition in the Stroganov Palace with exhibits from the holdings of your museum. It is an excellent project. Please congratulate your colleagues on that. The exhibition is very popular here. There were a lot of people. Kind regards, Olga Yurkina. Museum of Decorative-Applied and Folk Art, Moscow." I have been in the position of Director for 13 years and all our efforts to launch our exhibition projects in the mainland, central museums, have been in vain so far. We are grateful to the company for this opportunity. And our exhibition has been on view for two months, although 18 days to one month is a very good period for such museums as ours. I would like to add that we had another project in 2016. Our wheelchair users received the opportunity to attend exhibition projects we had on view on the ground floor. You should see the happy and bright eyes of these people who could go down three stairs that previously were an insurmountable obstacle for them. We greatly appreciate the work you are doing, including your efforts with us, the art museum. Looking forward to further cooperation. Thank you	The company appreciates the feedback. Cultural project support is one of the social investment focuses for Sakhalin Energy. We have had long and fruitful relationships with the Sakhalin Regional Art Museum. And the World of Nivkhi exhibition project is another proof of our efficient collaboration
Sergey Makeev, Aniva Basin Council Coordinator I have questions regarding my job. I know that the company has long been implementing projects to study and preserve the Sakhalin taimen. I wish the results and prospects of these projects were available and in the public domain. The company published several wonderful books on other types of flora and fauna. We would be delighted to see similar books on water bodies. Especially since we know that the company has been involved in it for a long time and there are such specialists on Sakhalin. It is the first point. Second, the company supported a major public project several years ago. It was the Sakhalin Salmon Initiative Programme. One of the project areas was not implemented. I mean the Sakhalin Salmon Park near the Sakhalin Artek camp, which is only partially built. What would be the conditions for the company to support the launch and further functioning of this incomplete facility? There is a partially built visitors' centre of the Sakhalin Salmon Park in the Aniva District. A launch programme was developed, but the project has been pending completion for five years. It was not put into operation	As regards the first question, the company publishes some materials based on its monitoring programmes from time to time. Currently, we are preparing to publish the next book dedicated to the Sakhalin archaeological heritage. We will review your proposal. As regards the uncompleted visitors' centre of the Sakhalin Salmon Park, it was really a good project and we developed many aspects in progress. The company has ways to support different projects, in particular the grants competition with the Fund of Social Initiatives Energy. Furthermore, the fund's priorities for this year include environmental and biodiversity preservation efforts. You can submit your application for the competition. Sakhalin taimen were studied as part of the Salmon Habitat Preservation and Monitoring line of the Sakhalin Salmon Initiative Programme, a partnership programme with Sakhalin Energy as one of initiators. Sakhalin Energy stopped financing the programme in 2011. As regards the company's environmental monitoring and biodiversity preservation programmes, we do not have a special project related to Sakhalin taimen studies. This issue is to a certain degree addressed during river ecosystem monitoring, but these activities do not really meet the requirements for taimen study programmes

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Natalya Koltunovich, Director of the Department of Environmental and Water Resources Protection, Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast Based on the Decree of the President of the Russian Federation, greenhouse gas emissions should be reduced to 75% of the 1990 level by 2020. I have two questions in this regards. The first is whether the company is planning any further reduction of greenhouse gas emissions and related activities or it intends to maintain the level achieved in the last two years? The second question is about the methods you used to calculate greenhouse gas emissions. The Ministry of Natural Resources of Russia issued an order in 2015 approving practical guidelines for the quantification of greenhouse gas emissions by companies operating in the Russian Federation. Did Sakhalin Energy use these approved guidelines to calculate its greenhouse gas emissions or was it guided by the corporate departmental guidelines?	As regards greenhouse gas emissions control, the company is planning to maintain its current greenhouse gas emissions level at this stage. However, we are improving the energy efficiency of our assets as part of process optimisation. The implementation of these activities also has an effect on greenhouse gas emissions reduction. As regards emissions calculation and use of the guidelines, the company calculates its emissions in accordance with the Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions developed by the American Petroleum Institute. We are aware of the practical guidelines approved by the order of the Russian Ministry of Natural Resources. However, the applicable laws do not stipulate a procedure for reporting greenhouse gas emissions. Once this procedure is determined, we will be able to report in accordance with the practical guidelines
Nikolay Vorobyev, Sakhalin Environment Watch The presentation contained a brief outline of train 3, in particular for the LNG site. What other facilities are planned at this stage to be built within the train 3 project? And what public discussion procedures will be used and when?	The company announced the start from 1 February of public consultations regarding the Technical Assignment for the environmental impact assessment (EIA) of planned operations under the LNG plant reconstruction. Materials are available in Korsakov libraries (Children and Youth and Central District libraries), in the Sakhalin Regional Universal Scientific Library and on the company's and contractor's websites. We also offer a feedback form. Should you have any comments or questions about the project, you are welcome to send them to us
Dmitry Lisitsyn, Chairman of the Sakhalin Environment Watch I have a question regarding the LNG train 3 project. Currently, public discussions are in progress. As far as I understand, they are held in compliance with the Russian laws, aren't they? Under the environmental impact assessment laws? Are you going to hold any simultaneous public discussions as requested by the company's lenders? I mean foreign banks which after one applies for a loan initiate their own public discussions and public involvement. What are the international standards for this public discussion and when will it start? What stages, phases and formats will be covered?	The company is currently at the FEED development stage. We will carry out an environmental impact assessment based on international standards. The project lenders follow up on our activity and the implementation of project plans
Dmitry Lisitsyn, Chairman of the Sakhalin Environment Watch What are the international standards for this public discussion and when will it start? What stages, phases and formats will be covered?	When assessing the impact, the company primarily follows the standards of the International Finance Corporation applicable to the private sector. The main standard for impact assessment is PS 1, which regulates risk assessment in the environmental and social areas, as well as public consultations. Moreover, other IFC PS apply to impact assessment, including those related to the preservation of biodiversity, public consultations, indigenous people, cultural heritage, etc.

Appendix 2

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Sergey Makeev, Aniva Basin Council Coordinator I have a question on the Sakhalin Indigenous Minorities Development Programme. I know that previously the company provided powerful motor boats for traditional SIM activities. My question is, what does the company do to prevent and control illegal fishing?	The Sakhalin Indigenous Minorities Development Plan was launched in 2006. One of the programmes within this major programme is the Traditional Economic Activities Support Programme. This programme operates in several areas. In particular, it includes grants to promote self-sufficiency and business plans that may include purchasing of outboard motors, boats, etc. After applications are developed, decisions on allocation of funds for each project are made not by the company and our partners (the Regional Council of Authorised Representatives of SIM and the Government). As part of the Social Development Fund and the Traditional Economic Activities Support Programme (which are two components of the Plan), special committees were created which consist of seven SIM representatives from seven districts of traditional residence of the Sakhalin indigenous minorities. The representatives are elected at public meetings and gatherings. These committees make decisions on financing particular projects. As for monitoring illegal fishing, neither the company nor the SIMDP coordinating bodies have supervisory responsibilities. This is why this issue is beyond our competence
Olga Kutaybergey, Consultant of the Indigenous Minorities Department, Sakhalin Governor's Office Let me go back to the previous question and add to the statement of the company's representative. In addition to, as you described it, 'giving out' boats and motors under the Development Plan, the company also conducts internal and external monitoring of the Development Plan implementation. As of today, we have not had such precedents that our boats or motors participated in illegal fishing activities. I urge you not to identify indigenous minorities with illegal fishing	The company appreciates the additional comment
Natalya Samarina, Head of Natural Resources Management and Environmental Protection Subdivision, 4. Yuzhno-Sakhalinsk Municipal District Administration In the Year of Culture, the company organised an exhibition of unique paintings. In connection with the Year of Ecology, does the company plan environmental events of the same scale, including an event in Yuzhno-Sakhalinsk?	As part of the Fund of Social Initiatives Energy, a new grant competition was announced on 20 January. In the Year of Ecology, priority will be given to environmental protection projects. Moreover, in the end of last year the company funded several environmental projects being implemented not only in Yuzhno-Sakhalinsk. If you have ideas for environmental projects, we will be happy to discuss them
Natalya Koltunovich, Director of the Department of Environmental and Water Resources Protection, Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast I would like to add to it. Sakhalin Energy is one of the most environmentally responsible companies in Sakhalin Oblast. Now on the Year of Ecology. At the end of 2015, the order of the Sakhalin Oblast Government approved the Sakhalin Oblast Year of Ecology Implementation plan. The company actively participated in the development of this plan. The company provided suggestions and we included these suggestions into the plan. Provisions are made for both government and non-government funds, including the company's funding. Therefore, we hope for active cooperation and we hope that all these events will take place	The company sent its proposals for the schedule of activities for the Sakhalin Oblast Year of Ecology and will participate in the implementation of approved activities

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Dmitry Lisitsyn, Chairman of the Sakhalin Environment Watch I would like to go back to the report on the environment and biodiversity preservation. For so many years, the company has monitored various indicators and some results were provided to us. I wish the company was providing monitoring data changes over time, i.e. for a number of years, with diagrams reflecting changes in these indicators, etc.	Thank you for the recommendation. Yes, in fact we do have these data with changes over time. It is quite difficult to provide details of specific monitoring results in the Sustainable Development Report, but we will try to some extent to take the recommendations into account and to include these data when it won't overload the Report
Other activities (electronic questionnaires, personal interviews, etc.)	
General information about Sakhalin Energy. Key production achievements in 2016	
Over last two years Sakhalin Energy confidently takes second place for labor productivity performance at a national level	The information is included in Section 4.2. Section 4.2. Main Production Results in 2016.
Analysis of asset reliability with reference to the costs of maintenance and repair	In Section 9.2.2. Industrial Safety the company provided information on measures of production control to ensure reliable operation of all assets of the company. Information on shutdowns and repairs at the company's assets is provided in Section 4.2.1. Assets. Information on the costs of maintenance and repairs is considered internal information
Technical achievements of the project, innovative technologies	Information on technical achievements and the use of advanced technologies in the reporting year is provided in Section 4.2. Main Production Results in 2016
Reflect that HSE issues are no less important than production issues	Information is available in Section 8. Environmental Impact Management, Section 9.2. Labour Safety and Protection and Section 9.3. Occupational Health and practices used by the company in these areas demonstrate that issues of health, safety and environment are among the company's priorities
New sustainable development initiatives for 2016	The 2016 Sustainable Development Report outlines sustainable development initiatives. In particular, see Section 8. Environmental Impact Management and Section 9. Social Impact Management, etc.
Most bright (implemented) projects on continuous improvement (lean practices)	See Section 4.3. Continuous Improvement Programme.
Governance	
Information about the business ethics (in general), i.e. not only on bribery and corruption	In Section 5.4. Corporate Culture, the company provided information on all the business ethics principles followed by the company (as per Code of Conduct)
Key figures of the project (number of employees, contractors, etc.)	Information about the main results of project implementation, including the number of employees and contractor performance, is included in Sections 4, 7 and 9
Corporate social responsibility (CSR) and sustainable development	
Involvement of independent experts in the company's performance assessment	See Section 4.3. Continuous Improvement Programme
Working with clients	See Section 6.8. Engagement with Customers
Some examples of the company's activities in CSR for the reporting period	Regular Sustainable Development Reports demonstrate the company's CSR level and practices. For specific initiatives in this area, see Sections 3, 5, 6, 7, 8 and 9

Appendix 2

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
Stakeholder engagement: system and results	
Contribution to the development of national standards based on best practices for harmonising standards and working with LNG. It is important to note the company's participation in the work of Rosstandart technical committees	As for HSE sphere, the company participates in the following initiatives for developing and/or improving national standards, guides, instructions, etc.: • development of the Handbook of Best Available Techniques for Waste Management, as part of the technical working group (TWG-17), the Best Available Techniques Bureau at the Russian National Materials and Technologies Standardisation Research Institute; • work of the Coordinating Committee of UNDP/the RF Ministry of Natural Resources on Mainstreaming Biodiversity Conservation into Russia's Energy Sector Development Policies and Operations; • work of the Coordinating Council for cooperation between the Administration of Yuzhno-Sakhalinsk and Sakhalin Energy; • work of the Biodiversity Working Expert Group of the Interdepartmental Environmental Council of Sakhalin Oblast; • work of the Interdepartmental Working Group for Preservation of Western gray whales at the RF Ministry of Natural Resources In addition, within the Standards Harmonisation project, the company actively cooperates with the dedicated RUIE committee, which enables the company to use expert opinion and share best practices
Communication activities plan for the nearest years	The company has and annually updates the Public Consultation and Disclosure Plan available on the company's website and distributed in Sakhalin communities. In addition, the company monthly updates the Public Consultations Schedule, which is also available on the company's website. Also, see Section 6. Stakeholder Engagement Management of the Report
Employment of SIM representatives. Visiting production sites of SIM RCAR in the areas of traditional residence	See the answer to a similar comment above. The company will consider visits of SIM representatives to Sakhalin Energy's production assets located in the areas of SIM traditional residence
Suggestion: prioritised employment of Sakhalin specialists	The company pays special attention to employment of specialists residing and working in Sakhalin Oblast. Filling of vacancies by Sakhalin specialists is one of priority areas of the company's work for provision of its production assets with technical personnel. When recruiting personnel to vacant technical and non-technical positions, the company is primarily guided by the principle of conformance of the candidates' professional experience and qualification to the requirements for a vacancy
Engagement of the Russian party, contracting and procurement management, vendor development programme	
I suggest including the information on the number of personnel of the project contractors and subcontractors, specifying the share of Russian and Sakhalin ones	Reports on the number of contractors and subcontractors are taken into account for contracts with the value exceeding US$ 1 mln and with at least five persons involved in the work thereunder. According to these reports, in 2016, the number of personnel of the Sakhalin-2 project contractors and subcontractors was 9,723 people, among them 8,377 people or 86% were the RF citizens, including 5,800 residents of the Sakhalin Oblast
I suggest including the information on activities for expansion of the Russian content in the OPF compression project and LNG train 3 project	In 2016, the company issued a new brochure on expansion of the Russian content under the Sakhalin-2 project. The publication pays special attention to expansion projects opening new opportunities for domestic enterprises. An electronic version of the brochure is posted on the company's website. In addition to the Vendor Development Programme, at the beginning of 2016, the company introduced the Russian Enterprises Audit Programme in order to form a list of technically acceptable Russian producers for the construction of LNG train 3 (see Section 7. Economic Impact Management)
Environmental impact management: system and results	
Technologies used for minimising impact on the environment	In Section 8. Environmental Impact Management, the company provided information on advanced technologies which allow minimising the impact on the environment (see e.g. Sections 8.1.4. Energy, 8.1.5. Greenhouse Gas and Ozone-Depleting Substance Emissions, etc.)
Social impact management: system and results	
Information on engagement of Russian workers and training of students, etc.	Information on engagement of Russian workers is included into Section 9.1.3. Recruiting Personnel and Onboarding New Employees Information on work with students is included into Section 9.1.7.10. Internship Programme, 9.1.7.11. Scholarship Programme
The company's youth policy, work with youth, activities and results (exhibitions, contests, conferences, seminars and projects implemented by youth at the company or the ones where young workers made a special mark)	Information on work with graduates is included into Section 9.1.3. Recruiting Personnel and Onboarding New Employees, 9.1.7.7. Graduate Development Programme, Section 9.1.7.9. Developing Scientific Potential
Information on expansion of the Sakhalin-2 project, I mean train 3	Information on LNG train 3 construction project, alongside with other development projects, is included into Chapter 4.2.2. Development Projects
Scientific, technological and innovative activities of the company (separately, the ones of young workers)	The information is included in Sections 9.1.7.9. Developing Scientific Potential and 9.1.7.7. Graduate Development Programme
I believe it necessary to include a section on implementation of new equipment with account for global innovations and environmental orientation	In Section 4.2. Main Production Results, the company provided information on technical achievements and advanced technologies used in the work during the reporting year. In Section 4.3. Continuous Improvement Programme, the company provided information on advanced technologies which allow minimising impact on the environment
Special PSA regime, benefits, the project development prospects	See Section 7. Economic Impact Management
The Sakhalin Industrial Park project should be featured in the Russian content as a work area	Oil and gas companies operating on the Sakhalin shelf have to solve similar problems related to maintenance of equipment and receiving services. The problems are caused by the absence of specialised enterprises for repair, maintenance and manufacture of oil and gas equipment on the island and in the region, geographical remoteness from the RF regions with well-developed industry, long terms of delivery of spare parts and consumables, considerable logistics costs.

Appendix 2

Comment, Question, Critical Remark or Suggestion	Company's Response and/or Commitment
	The idea of creating the industrial park in Sakhalin Oblast arose in summer of 2013, when Sakhalin Energy specialists were discussing options of forming a single centre of maintenance and repair of the devices and equipment used at all production assets of the company. During the discussion, specialists arrived at the conclusion that the availability of a modern production and repair base on the island would allow carrying out a considerable part of the work onsite. The work on final definition of the project business model and its management model is in progress, the participants portfolio is being elaborated and financing sources are being determined
Development of relationships with other oil and gas companies in order to join the efforts for solution of common problems	See examples above
Under SIMDP, an educational programme is being implemented. This programme is much needed and well-timed	The company appreciates the feedback
On behalf of the Regional Centre of Arts and Crafts, we thank you for cooperation and wish you prosperity. We would like to give prominence to the company's SIM group represented by Yu. Zavyalova	The company appreciates the feedback

Recommendations of the RUIE Council for Non-Financial Reporting concerning the Results of Examination of the 2015 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. for the Purpose of Public Endorsement

The Report lists the projects which the company implements in order to promote sustainable development of local communities. It is recommended to provide, in the next reports, more detailed data on the monitoring carried out by the company and evaluation of the main results of implementation of such projects	External evaluation of social investment programmes of the company is conducted biennially. In 2016, such evaluation was not conducted. It is planned for 2017. When preparing further reports, the company will look into the possibility of including the data from the report on the external evaluation results into the section on social investment. Detailed information on results of annual external monitoring of the implementation of the Sakhalin Indigenous Minorities Development Plan is available on the programme website (www.simdp.ru). The 2016 Report will be available in Q2 2017
The Report informs that engagement with personnel is an important component of strengthening and developing the company's corporate culture. In future, it is recommended to expand the information on the topic and to supplement the list of activities with data on their effectiveness in terms of sustainable development. For example, it would be useful to illustrate the information on availability of the skill pool by data on the way it is used and the way the career lift actually works	The information is included in Section 9.1.7.5. Successors Pool Planning and Development. In 2016, 78 of 109 vacant positions included into the succession pool planning perimeter were filled by internal candidates from the skill pool
The company informs that CSR trends and indicators are regularly evaluated by authorised personnel and senior management of the company within the system of internal control and audit, as well as by lenders, their advisers and independent third-party auditors, by way of external professional expert review. It is recommended to disclose, in the future non-financial reports, information on key results of the company's CSR trends and indicators evaluation and to comment on dynamics of these indicators change	Results of external reviews conducted by lenders' advisers are published in the relevant reports (reports of lenders' adviser). These reports contain detailed information and evaluation of compliance of the company's work with CSR standards and other international standards adopted by the company. This information is included in Section 3. Corporate Social Responsibility and Sustainable Development. It does not seem possible to duplicate these reports in the Sustainable Development Report, as this would considerably increase the volume of the Report
Noting a considerable volume of environmental indicators contained in the Report, in future, it is recommended, for the purpose of ensuring greater completeness and visibility, to present variations by years not only for absolute but also for specific values of the indicators reflecting environmental performance	The 2016 Report (Section 8. Environmental Impact Management), includes specific values of such indicators (including broken down by years) as: specific air emissions by areas of activity, specific water use by areas of activity, specific energy consumption by areas of activity, specific greenhouse gas emissions by areas of activity, etc.
It should be noted that it is important to accompany the data with changes over time by comments giving a clear picture of the factors which had an impact on considerable changes in the respective indicators. In particular, this refers to the Report data on cases of occupational diseases (growth), on waste generation (reduction). Inclusion of such explanations will allow for better understanding of the processes occurring at the company	In Section 8.1.3. Waste Management, factors with an impact on changes in the waste generation indicators are taken into account
Orientation to a new version of G4 Guidelines, during the Report preparation, is in line with the modern trends in non-financial reporting. When consistently advancing in mastering of these new tools, one should pay special attention to the recommendations contained therein on information disclosure, in particular, on formulation of material aspects with account for GRI requirements, on the indicators reflecting these aspects and on completeness of their disclosure	See Section 2. About the Report

APPENDIX 3. The List of Participants of Dialogues with Stakeholders for Preparation of the 2016 Sustainable Development Report

1. Aniva Basin Council, S. S. Makeev, Coordinator
2. Chief Directorate of the EMERCOM for Sakhalin Oblast, N. P. Sharukhina, Lead Expert
3. Coleman Services (KS Biznes Reshenia), Yu. O. Kuzmina, Unit Manager
4. Far Eastern Aerogeodetic Company, G. N. Yegorova, Team Lead
5. Hozstroy Service, D. M. Kuzmin, General Director
6. Korsakov District Administration, O. I. Manukhin, Deputy Head of Social Development Department
7. Literary and Art Museum of Anton Chekhov's Book "The Sakhalin Island", Ye. P. Firsova, Acting Director
8. Literary and Art Museum of Anton Chekhov's Book "The Sakhalin Island", A. A. Stepanenko, Head of Department
9. Ministry of Education of the Sakhalin Oblast, S. Yu. Vasilyeva, First Deputy Minister
10. Ministry of Forestry and Hunting of the Sakhalin Oblast, E. G. Chernyavskaya, Advisor of the Subdivision of State Registration and Cadastre for Wildlife and Specially Protected Natural Areas
11. Ministry of Health Care of the Sakhalin Oblast, K. V. Sakharova, Press Secretary
12. Ministry of Health Care of the Sakhalin Oblast, T. I. Atkishkina, Lead Advisor
13. Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, N. S. Koltunovich, Director of the Department of Environmental and Water Resources Protection
14. Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, N. V. Nikitina, Head of the Subdivision of Programme and Estimate Documentation Analysis and PSA Implementation
15. Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, O. S. Ryzhkova, Advisor of the Oil and Gas Complex Subdivision
16. Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, S. V. Kunaeva, Head of the Environmental Protection, Regulation and Licensing Subdivision
17. National Research University — Higher School of Economics, N. V. Ivanova, Senior Researcher
18. Preodoleniye (Overcoming) Centre, N. S. Dunav, Head of Psychological and Pedagogical Care Subdivision
19. Regional Council of the Authorised Representatives of the Sakhalin Indigenous Minorities of North of Sakhalin, F. S. Mygun, Chairman
20. Representative of the Indigenous Peoples of the North, E. P. Dzyapi
21. Sakhalin Environment Watch, D. V. Lisitsyn, Chairman of the Board
22. Sakhalin Environment Watch, N. A. Vorobyov
23. Sakhalin Governor's Office, O. S. Kutaybergey, Consultant of the Indigenous Minorities Department
24. Sakhalin Indigenous Minorities Representative, Okha District, E. Pivnenko
25. Sakhalin Indigenous Peoples' Assembly, M. V. Kirillova
26. Sakhalin Oblast Department of the Federal Service for Supervision of Natural Resources, L. V. Kirillova, Head of the Subdivision for Supervision over Water and Land Resources, Hunting and Specially Protected Natural Areas
27. Sakhalin Oblast Department of the Federal Service for Supervision of Natural Resources, K. B. Belov, Head of Environmental Supervision Subdivision
28. Sakhalin Oblast Department of the Federal Service for Supervision of Natural Resources, V. A. Ilyin, Deputy Head of Geological Supervision and Mineral Resources Protection Subdivision
29. Sakhalin Oblast Public Chamber, E. A. Koroleva, Public Chamber Member
30. Sakhalin Oblast Public Chamber's Office, O. V. Santalova, Director
31. Sakhalin Oblast Public Chamber's Office, T. B. Morozova, Public Relations Specialist
32. Sakhalin Regional Art Museum, A. V. Buryka, Director
33. Sakhalin Regional Art Museum, A. V. Lomteva, Head of Science and Education Subdivision
34. Sakhalin Regional Art Museum, E. S. Nitkuk, Head of Regional Art Projects Subdivision
35. Sakhalin Regional Art Museum, I. G. Malkova, Deputy Director
36. Sakhalin Regional Centre of Arts and Crafts, G. A. Samenko, Head of Sakhalin Indigenous Minorities' Culture Subdivision
37. Sakhalin Regional Centre of Arts and Crafts, O. Yu. Huryun, Lead Specialist of Sakhalin Indigenous Minorities' Culture Subdivision
38. Sakhalin Regional Centre of Extracurricular Education, T. V. Gerus, Deputy Director for Research and Methodical Work
39. Sakhalin Regional Children's Library, I. M. Kalinovskaya, Chief Librarian
40. Sakhalin Research Institute for Fishing and Oceanography, D. S. Zavarzin, Senior Researcher
41. Sakhalin State University, E. N. Lisitsyna, Head of the Sustainable Development Chair
42. Yuzhno-Sakhalinsk Municipal District Administration, E. N. Yermakova, Chief Specialist of Natural Resources Management and Environmental Protection Subdivision
43. Yuzhno-Sakhalinsk Municipal District Administration, N. E. Samarina, Head of the Natural Resources Management and Environmental Protection Subdivision
44. Yuzhno-Sakhalinsk Municipal District Administration, N. V. Belyaeva, Chief Specialist of Public Relations Subdivision
45. Yuzhno-Sakhalinsk Municipal District Administration's Indigenous Minorities Council, M. V. Kragina
46. Yuzhno-Sakhalinsk Municipal District Administration's Indigenous Minorities Council, A. Ya. Nachetkina

APPENDIX 4. Useful Links

Company public website	www.sakhalinenergy.com
Sustainable development	www.sakhalinenergy.com (section Social Performance)
About the company	www.sakhalinenergy.com (section About the Company)
Contracting with us	www.sakhalinenergy.com (section Contracting with Us)
Job and career	www.sakhalinenergy.com (section Job and Career)
Media centre	www.sakhalinenergy.com (section Media Center)
Vesti corporate newspaper	
Energy TV programme	
Whistle blowing procedure	www.sakhalinenergy.com (section About the Company – Our Principles)
COMPANY DOCUMENTS AND MATERIAL REFERRED TO IN THE REPORT	
Statement of General Business Principles	www.sakhalinenergy.com (section About the Company – Our Principles)
Sustainable Development Policy	
Human Rights Policy	
Code of Conduct	
Sakhalin Energy Commitment and Policy on Health, Safety, Environment and Social Performance	www.sakhalinenergy.com (section Safety and Environment - Health, Safety, Environment and Social Action Plan)
Health Safety Environmental and Social Action Plan, Policies and Standards on Health, Safety, Environment and Social Performance (note: complex of documents)	
Lenders' Independent Environmental Consultant Reports on Conducted Monitoring	www.sakhalinenergy.com (section Safety and Environment - Health, Safety, Environment and Social Action Plan)
Company social performance management standard	
Contracting and Procurement Policy	www.sakhalinenergy.com (section Contracting with Us)
Public Consultations and Information Disclosure Plan (updated annually)	www.sakhalinenergy.com (section Social Performance – Community Awareness)
Biodiversity Action Plan	www.sakhalinenergy.com (section Media Center – Library – Environmental Documents)
Public Consultations and Disclosure Reports	www.sakhalinenergy.com (section Social Performance – Community Awareness)
Statement on application of ISO 26000:2010 Guidance on Social Responsibility	www.sakhalinenergy.com (section Social Performance – Sustainable Development Principles)
Sustainable Development Reports	www.sakhalinenergy.com (section Media Center)
PROJECTS AND PROGRAMMES WEBSITES	
Korsakov Partnership Council for Sustainable Development	www.korsakovsovet.ru
Sakhalin Indigenous Minority Development Plan	www.simdp.ru
What to Do in Emergency Situations' Programme	www.senya-spasatel.ru
The Save the Salmon Together project	www.salmon-friend.ru
The Energy Social Initiatives Fund	www.fondenergy.ru
PRINTED MATERIALS	
Steller's Sea Eagle (photo album)	www.sakhalinenergy.com (section Media Center – Library – Published editions)
ABC-book of the Uilta language	www.simdp.ru (section Multimedia – Other Materials)
The Universal Declaration of Human Rights in the Nivkh language	
The Universal Declaration of Human Rights into the Nanai Language	
The Universal Declaration of Human Rights in the Uilta language	
Comics	www.senya-spasatel.ru
Resettlement: experience of Sakhalin Energy	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Human Rights: Experience of Sakhalin Energy	
Birds of Sakhalin Island (photo album)	
EA. Best Practices Book Vol.1	
EA. Best Practices Book. Vol.2	
A methodic book titled Life Safety Fundamentals	www.senya-spasatel.ru
Gray Whales. The Sakhalin Story	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Liquefied natural gas (collection of interesting facts)	
Photo album 'the World through a lens'	
Sakhalin-2 Encyclopedia	
Nivkh Myths and Fairy Tales	
Poisonous Plants and Fungi	
REFERENCE MATERIAL AND OTHER	
UN Global Compact	www.unglobalcompact.org
UN Global Compact in Russia	www.undp.ru
Global Compact LEAD	www.unglobalcompact.org (section How to participate — Global Compact LEAD)
Global Initiative Sustainability Reporting Guidelines	www.globalreporting.org
Brochure «Global Compact in Russia»	www.undp.ru/documents/GC_in_Russia_2011-rus.pdf
Corporate Social Responsibilities practices (Global Compact Russian network)	www.undp.ru/documents/GC_in_Russia-rus.pdf
IUCN Western Gray Whale Advisory Panel (WGWAP)	www.iucn.org/wgwap/wgwap/

APPENDIX 5. Company 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 St.
Dolinsk	Vzmorye	Rural library, Branch No.6, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	22, Pionerskaya St.
	Sovetskoye	Rural library, Branch No.10, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	127a, Tsentralnaya St.
	Dolinsk	Dolinsk Central City Library, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	31, Lenina St.
	Sokol	Rural library, Branch No.5, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	14, Shirokay St.
Kholmsk	Kholmsk	Central Regional Library named after Yury Nikolayev, Sub-division of the Municipal Institution of Culture Kholmsk Centralised Library System of Kholmsk Municipality	124, Sovetskaya St.
Makarov	Vostochnoye	Rural library, Branch No.2, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	8, Privokzalnaya St.
	Makarov	Makarov Central Library, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	9a, 50 Let Oktyabrya St.
	Novoye	Rural library, Branch No.4, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	11a -7, Tsentralnaya St.
Poronaysk	Poronaysk	Poronaysk Central Library, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	45, Gagarina St.
	Gastello	Rural library, Branch No.4, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	42-2, Tsentralnaya St.
	Vostok	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Poronaysk Central Library System	10a, Gagarina St.
Smirnykh	Onor	Rural library, Branch No.3, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	21, Sovetskaya St.
	Pobedino	Pobedino Rural Library-Museum, Branch No.4, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	60, Tsentralnaya St.
	Smirnykh	Smirnykh Central Library, Sub-division of Municipal Institution of Culture Smirnykh Centralised Library System	12, Lenina St.
	Roschino	Rural library, Branch No.6, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	4, Komsomolskaya St.
	Buyukly	Rural library, Branch No.7, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	1, Kosmonavtov St.
Tymovsk	Molodezhnoye	Rural library, Branch No.17, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	13, Sovetskaya St.
	Tymovskoye	Central District Library, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	68a, Kirovskaya St.
	Yasnoye	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	2, Titova St.
	Kirovskoye	Rural library, Branch No.8, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	70, Tsentralnaya St.
Nogliki	Nogliki	Nogliki District Central Library, Sub-division of the Municipal Institution of Culture Nogliki Centralised Library System	5a, Pogranichnaya St.
Korsakov	Korsakov	Korsakov city Youth Library, Branch No.13, Sub-division of the Municipal Institution of Culture Korsakov Centralised Library System	7, Molodezhny Per.

APPENDIX 6. Feedback Form

Dear readers, you have just read 2016 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 unbiassness of information provided?

❑ Very favourable

❑ Mostly favourable

❑ Equal

❑ Mostly unfavourable

❑ Very unfavourable

❑ Unsure

Please provide comments in support of your answer

_____

_____

_____

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

1 ❑ 2 ❑ 3 ❑ 4 ❑ 5 ❑ 6 ❑ 7 ❑ 8 ❑ 9 ❑ 10 ❑ Appendices ❑

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 2017 Sustainable Development Report?

❑ Yes (please provide your contact information)

❑ No

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

_____

_____

_____

_____

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

❑ Company's employee

❑ Investor ❑ Shareholder ❑ Customer (Buyer)

❑ Partner (Contractor)

❑ Representative of authorities

❑ Representative of public organisation

❑ Mass media ❑ Other group of persons concerned

_____

_____

_____

Please indicate your contact information below:

Name:

_____

_____

Job title: _____

Telephone:_____

Organisation:

_____

Fax:_____

Address:

_____

E-mail:

_____

12. What type of communication is preferable?

❑ By mail ❑ By e-mail

Please return the completed Form on the 2016 Sustainable Development Report to:
35 Dzerzhinskogo St., Yuzhno-Sakhalinsk, Sakhalin Region, Russian Federation, 693020

You may also send this form by e-mail: ask@sakhalinenergy.ru

or leave it at the company's information centre

List and addresses of information centres are given in Appendix 5. to the Report

THANK YOU FOR YOUR FEEDBACK!

APPENDIX 7. Certificate of Public Endorsement

Russian Union of Industrialists and Entrepreneurs (RUIE)

CERTIFICATE

of Public Assurance of Corporate Non-Financial Report

Sustainable Development Report of Sakhalin Energy Investment Company Ltd.

has passed public assurance at the RUIE Council for Non-Financial Reporting

The detailed RUIE Council conclusion regarding public endorsement of 2016 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has been provided to the Company, which may publish it without any amendments and use it for in-house purposes as well as in engagements with stakeholders.

Registration No. 097.01.004.01.16

Signed:
RUIE President A. Shokhin,
Russian Union of Industrialists and Entrepreneurs

Moscow, 2017


Российский союз промышленников и предпринимателей

СВИДЕТЕЛЬСТВО

об общественном заверении
корпоративного нефинансового отчета

Отчет об устойчивом развитии
компании «Сахалин Энерджи»
за 2016 год

прошел общественное заверение в Совете РСПП
по нефинансовой отчетности

Регистрационный номер 097.01.004.01.16

Президент РСПП А.Шохин

Москва 2017

APPENDIX 8. Conclusion on the Results of the Review of Sakhalin Energy 2016 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 2016 Sustainable Development Report (the Report) at the request of Sakhalin Energy Investment Company Ltd. (Sakhalin Energy, or the company).
The company asked the RUIE to arrange a public endorsement process by the Council, which issues its opinion on the relevance and completeness of information provided in the company's non-financial report on the context of the Social Charter of Russian Business that contains responsible business principles.

During the period from 27 February 2017 to 14 March 2017, 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 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 relevant, since it demonstrates the company'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 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 Council notes that progress has been made in this Report in terms of information disclosure as compared to the previous one.

The fact that the company has applied international reporting principles is taken into account as part of the public endorsement process. However, it is outside the scope of this Conclusion to assess the extent of the compliance of the Report with international reporting principles.

Sakhalin Energy bears all responsibility for the information and announcements in the Report. The authenticity of the factual data provided in the Report is outside the scope of the public endorsement process.
This Conclusion is issued for Sakhalin Energy. The company may use this Conclusion for internal purposes, as well as for its engagements with stakeholders, provided the Conclusion is published as is, without any changes.

FINAL OPINION

Based on the review of the Report and the public information published on the company's website and followed by a discussion of the independent review of the Report by the RUIE Non-Financial Reporting Council, the Council confirms the following:

The 2016 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. contains material information and covers key areas of responsible business practices in accordance with the Social Charter of Russian Business. It provides sufficiently detailed information on the company's activities in these areas.

The 2016 Report addresses the RUIE Council's recommendations for the 2015 Sakhalin Energy Sustainable Development Report. The number of specific indicators reflecting the dynamics of environmental performance by type of activities has been expanded. The Report also specifies the factors influencing the significant changes in the indicators given in dynamic form and contains information on the effectiveness of work with the successors' pool.

The company's 2016 Report contains material information regarding the following aspects of responsible business practices:

Economic Freedom and Responsibility
The Report presents information about the company's production achievements, the early execution of the plans for oil and LNG production, as well as about the plans for the forthcoming reporting period. The document contains data on the main production assets of the company and development projects, including the Sakhalin-2 LNG train 3 project. It describes the approaches used by the company in the field of performance and quality management. The Report describes measures taken to ensure the reliability and safety of production.

Appendix 8

The data presented in the Report show the company's contribution to the economic development of Russia and Sakhalin for the entire period of the project implementation and in the reporting year in particular. The Report enumerates the main provisions of the Sustainable Development Policy, which was updated in 2016 to take into account the company's commitment to the UN 2030 Agenda for Sustainable Development. Information is provided on combating corruption and expanding the responsible business principles to suppliers. The Report shows the company's corporate governance model, the system of management of the corporate social responsibility, sustainable development and risks and presents an extensive list of corporate documents that regulate various aspects of the company's business practices.

Business Partnership
The Report describes the company's systemic approach to stakeholder engagement and provides information on the regulatory and organisational framework for activities in this area. It lists the main documents that define the strategy, principles, mechanisms and tools of stakeholder engagement; and evidence of their accessibility to the general public is provided. The areas of engagement with key stakeholders in the reporting year are characterised. The Report presents the results of the dialogues with stakeholders, including the records of proposals received during preparation of the Report. The participation of shareholder companies in the implementation of the Graduate Development Programme within the framework of the Memorandum of Cooperation in Personnel Management is described. The system and mechanisms of internal communications and feedback from the staff, as well as employee involvement in the discussion of the goals and objectives for the next year are presented in this document. It also highlights the traditional forums with foreign buyers of Sakhalin Energy's products, held by the company and its active participation in international and Russian conferences on industry and sustainable development issues. The Report describes the company's interaction with contractors, including on the introduction of socially responsible business principles, requirements for HSE, human rights and anti-corruption into their business practices. It includes information on how the company ensures effective control over compliance with these requirements. The Report presents the main areas and formats of cooperation with the authorities at various levels, including participation in the activities of joint committees, with public and non-profit organisations, as well as with the population of Sakhalin Island, including interaction with Sakhalin indigenous minorities on the basis of the Action Plan agreed with them.

Human Rights
The Report shows Sakhalin Energy's integrated approach to human rights issues with regards to entrepreneurial activity. The company's standards on this issue are set forth in regulatory documents, including the approved Human Rights Policy and the Code of Business Ethics. They are implemented, according to the Report, in all areas of activity where there are potential risks of violation of these rights. It is stated that the company's human rights requirements have been included in a series of educational briefings and special courses, which are mandatory for all company and contractor employees. The company also offers training on the application of the Grievance Procedure as an important mechanism used to realise human rights. The Report contains information on the results of work with grievances and explains the mechanisms of internal and external control in this area. It is noted that the results of compliance with human rights standards are included in regular internal reports for management and shareholders.

Environmental Preservation.
In the 2016 Report, issues of environmental responsibility, as stated in the document, are regarded as a priority subject and relevant information is disclosed in much more detail than in the previous reports, as applicable to all business areas of Sakhalin Energy, including management systems, production and commercial activities, environmental monitoring and control, contractor management, staff training and social investment. This work is organised according to international standards ISO 14001 and OHSAS 18001, as well as the best practices of the world's oil and gas industry. The Report presents a detailed description of the industrial environmental control, local environmental monitoring and biodiversity conservation programmes. It clearly shows that the planning and organisation of the company's production activities are aimed at the excluding or minimising the adverse impact on the environment and explains what measures are taken for this purpose. Absolute and specific indicators of environmental impact, the use of natural resources and energy efficiency are presented in dynamic form. It is emphasised that, since the Sakhalin-2 project reached its full capacity, there has not been a single occurrence of an oil spill that could be classified as an emergency. The Report informs that the company maintains annual calculation and monitoring of greenhouse gas emissions, including by type of activities and sources; it indicates that the company continues to implement the Action Plan to gradually cease to use ozone-depleting substances (ODS) by 2020. It also points out that the company provides support for competitive social projects aimed at promoting the environmental responsibility of the population in the region.

Local Community Development
The Report highlights the company's contribution to the sustainable development of Sakhalin Island and local communities. Information is provided on the main areas of the company's participation in the development of the region where it operates, including assistance to the development of the social and transport infrastructure. The Report characterises the company's charity and social investment management system. It gives an account of the implementation, in the reporting year, of strategic long-term partnership projects, including those with the participation of external stakeholders, in the key areas such as environmental protection and biodiversity preservation, safety, education, culture and art, health care and the development of the Sakhalin indigenous minorities. The results of these activities, the examples of specific projects and the mechanisms and technologies used to implement the company's social programmes, including the allocation of funds on a competitive basis, are presented in the Report. The document also contains information about further development of the company's corporate volunteering support programme. In addition, the Report specifies data on expenditures for some of the programmes implemented by the company and the number of project participants, as well as outlines the qualitative targets for the company's social investment in 2017.

CONCLUDING STATEMENTS

Overall, the Sakhalin Energy's Report provides sufficient information on the business practice of the company which is based on the principles of corporate social responsibility and sustainable development, presents data supporting the integration of these principles into the strategy and management systems at all levels. It contains detailed information on corporate policies, regulations, standards and control procedures that ensure the implementation of these principles in the company's activities in all areas of corporate social responsibility. The Report provides a considerable amount of data reflecting the results of the company's economic, social and environmental performance in the reporting period and its impacts on society and the environment. Particular attention is paid to safety in all key aspects.

The Report was prepared using the Sustainability Reporting Guidelines (GRI G4), which ensures the continuity of information across reporting cycles, as well as comparability with other companies' reports. The Report contains information on accounting in the corporate policy of working towards reaching the Sustainable Development Goals defined in the UN 2030 Agenda for Sustainable Development, as well as on the company's contribution to the achievement of these goals. The 2016 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. is its eighth annual report of this kind, which demonstrates continuity in the development of non-financial reporting process and the company's adherence to transparency and openness principles. Evidence is provided that the material subjects to be included in the Report were defined taking into account stakeholders' opinions.

RECOMMENDATIONS

Recognising the merits of the Sakhalin Energy's 2016 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 recommend the company consider these recommendations in subsequent reporting cycles. The recommendations regarding the company's previous non-financial reports remain relevant and should also be used in further work.

It should be noted that, in its future reporting, the company could implement to a greater degree the Council's recommendations to present data more broadly — in the dynamics of at least three years, to include measurable indicators in the description of the company's strategic goals in the field of sustainable development and their contribution to the achievement of the Sustainable Development Goals defined in the UN 2030 Agenda for Sustainable Development, taking into account the company's commitments in this area.

The Report contains information on the plans for the coming year and the medium term, which are formulated primarily in descriptive form. It is recommended that future reports include measurable targets for the upcoming planning period, which will allow the company to better assess the results achieved and progress made towards the set goals.

The Report provides information about the assessments of areas and indicators of responsible business practices, which are regularly conducted as part of the internal control and audit system, as well as by creditors, their consultants and independent experts. It is advisable to further disclose information on the key results of this practice of the company.

The Report lists the company's projects aimed at promoting the sustainable development of local communities. The reports of the following years should contain more data on the company's monitoring and evaluating the main results of such projects, including in terms of their impact on the sustainability of positive changes. It would also be useful to include comments on the dynamics of changes in requests submitted by the representatives of the local community and the company's responses.

The number of environmental indicators presented in dynamic form in the 2016 Report is considerably larger than in the previous reports. It is recommended to consistently adhere to this approach in the future. Attention should be drawn to the importance of including comments explaining the dynamics of indicators. In particular, this refers to data on water consumption and energy efficiency.
The Report states that the opinions of stakeholders were taken into account when identifying material subjects for the Report. Along with the description of the viewpoints of all major stakeholder groups, given in the Report, it is recommended to clearly outline the procedure for identifying material subjects taking into consideration the views of stakeholders on the importance of various aspects of the company's business operations.

The issue of respect for human rights in the context of entrepreneurial activities is consistently highlighted in the Report. It is advisable that subsequent reports include a description of specific practices for the application of corporate documents and management procedures that take into account the issues of social and economic human rights in the interaction with stakeholders.
The RUIE Non-Financial Reporting Council expresses a positive opinion on 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 2016 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has received public endorsement.

Chairman of the RUIE Council	Signature	F. T. Prokopov
Deputy Chairman of the RUIE Council	Signature	E. N. Feoktistova
	Stamp	

APPENDIX 9. Abbreviations

ALARP	As Low As Reasonably Practicable
ANPO	Autonomous Non-Profit Organisation
APR	Asian-Pacific Region
RS	Road safety
BAP	Biodiversity Action Plan
BoD	Board of Directors
BS2	Booster 2
CED	Committee of Executive Directors
CER	Committee for Emergency Response
CSR	Corporate social responsibility
ESHIA	Environmental, Social and Health Impact Assessment
FEC	Fuel and Energy Complex
GRI	Global Reporting Initiative for Sustainable Development
HSE	Health, Safety and Environment
IC	Information centre
IEC&LM	Industrial Environmental Control and Local Monitoring System
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMO	International Maritime Organisation
ISO	International Organisation for Standardisation
IUCN	International Unit for Conservation of Nature
IVMS	In-Vehicle Monitoring System
LNG	Liquefied natural gas
LUN-A	Lunskoye-A platform
MChS	Ministry of Emergency Situations / Emercom
MHMS	Minimum Health Management Standards
MNR	Ministry of Natural Resources
MPC	Maximum permissible concentrations
MPE	Maximum permissible emissions
NPO	Non-profit organisation
OET	Oil Export Terminal
OPF	Onshore Processing Facility
OSR	Oil Spill Response
PA-A	Molikpaq platform (Piltun-Astokhskoye-A)
PA-B	Piltun-Astokhskoye-B platform
PERC	Pacific Environment and Resources Center
PMD	Pipeline Maintenance Depot
PSA	Production Sharing Agreement
RAIPON	Russian Association of Indigenous Peoples of the North, Siberia and the Far East of the Russian Federation
RAS	Russian Academy of Sciences
RTA	Road traffic accident
RUIE	Russian Union of Industrialists and Entrepreneurs
SIM	Sakhalin Indigenous Minorities
TEOC	TEO (Feasibility Study) of Construction
TLU	Tanker Loading Unit
UN	United Nations
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact
WGWAP	Western Gray Whale Advisory Panel
WWF	World Wildlife Fund