



Sustainable Development Report

Sakhalin Energy Investment Company Ltd.

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Sustainable Development Report 2015



2015





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1. Message from the Chief Executive Officer



Dear colleagues,

I am happy to present the Sakhalin Energy 2015 Sustainable Development Report.

As with previous reports, this document was prepared in compliance with the Global Reporting Initiative (GRI) international standards. While creating the Report, we tried to take into account, to the fullest extent, the opinions of all our stakeholders.

Despite the economic situation in Russia and in the world, it was another year of success for Sakhalin Energy.

Safety remains a top priority for the company—technological, economic, or administrative decision is made on the basis of a thorough assessment of all safety aspects.

We pay utmost attention to the reliability and integrity of our assets. The prevention of incidents is the main task that Sakhalin Energy sets in the area of safety. In this regard, success is possible primarily on

the condition that each employee has a responsible attitude to safety, actively participates in the Effective Observation and Intervention Programme, and company's leadership unconditional commitment to safety.

In 2015, the company exceeded its production targets and shipped 57 cargoes of oil and 166 cargoes of LNG (while the target figures were 51 and 162 cargoes, respectively).

Thanks to increasing reliability, the company reduced unplanned production losses fourfold in comparison with the previous year and threefold as compared with the average indicator for the period from the beginning of its operations. In 2015, during the first major turnaround campaign at train 1 of the LNG plant we completed the modifications of the equipment which resulted in a 1 to 2% further output increase at train 1. Robust at \$40 corporate programme helped the company to optimise the costs to the required level without affecting safety and production.

Sakhalin Energy was able to achieve this success thanks to its personnel. The company creates an environment for professional growth and development of its employees and is committed to providing an attracting and competitive employee value proposition package.

An integral part of our work is engagement with stakeholders: shareholders, customers, contractors, representatives of government authorities, and communities.

Sakhalin Energy effectively cooperates with the Sakhalin Oblast Government, successfully solving complex problems that require coordination among the various parties.

Since we were able to optimise work in all areas, the financial performance of the company remained at a high level in 2015,

while the proportion of the Sakhalin Oblast budget revenues coming from Sakhalin Energy were over 60%.

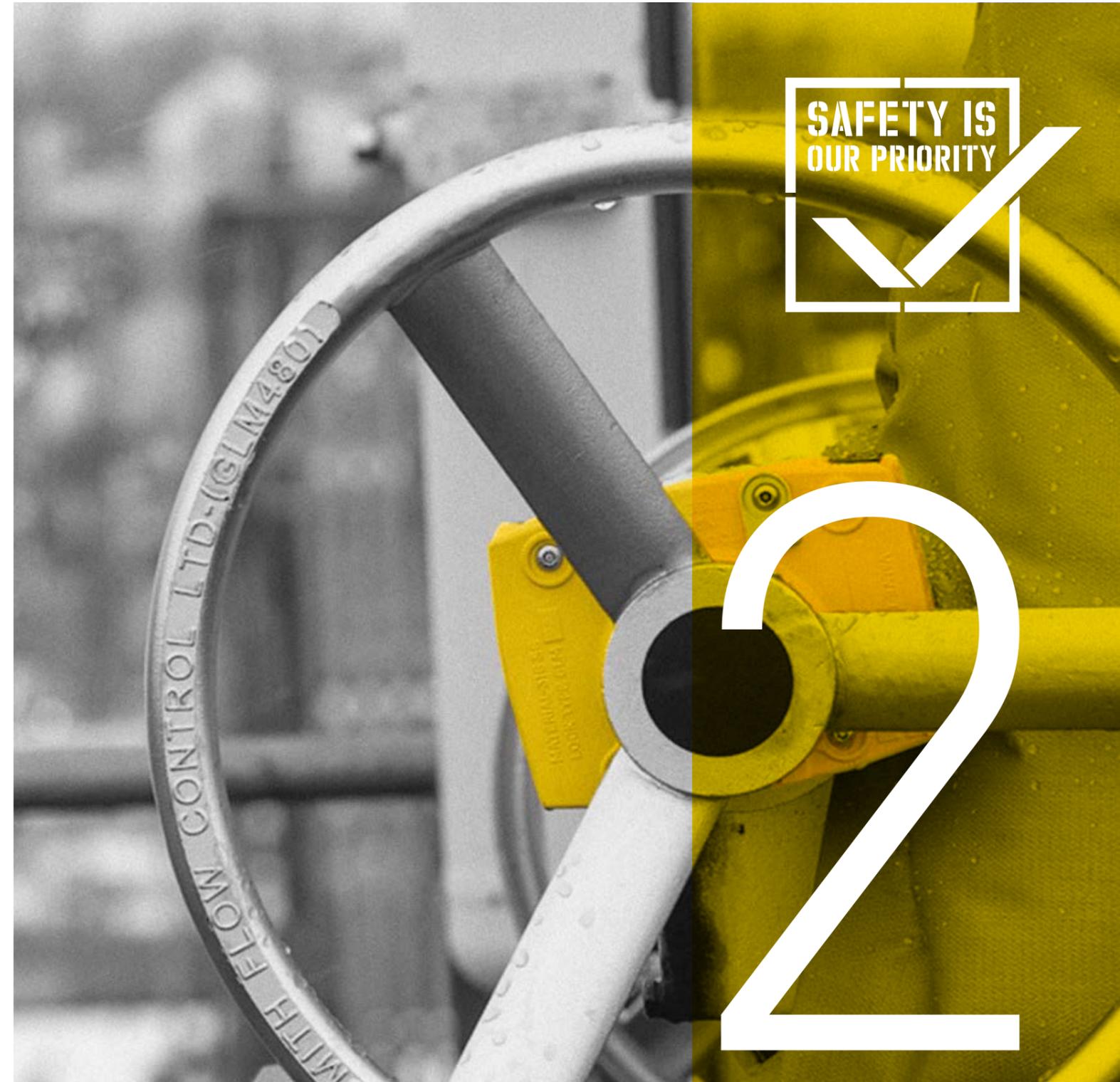
In spite of the challenging economic situation, the company does not reduce its expenditures on social programmes but continues to meet all its commitments.

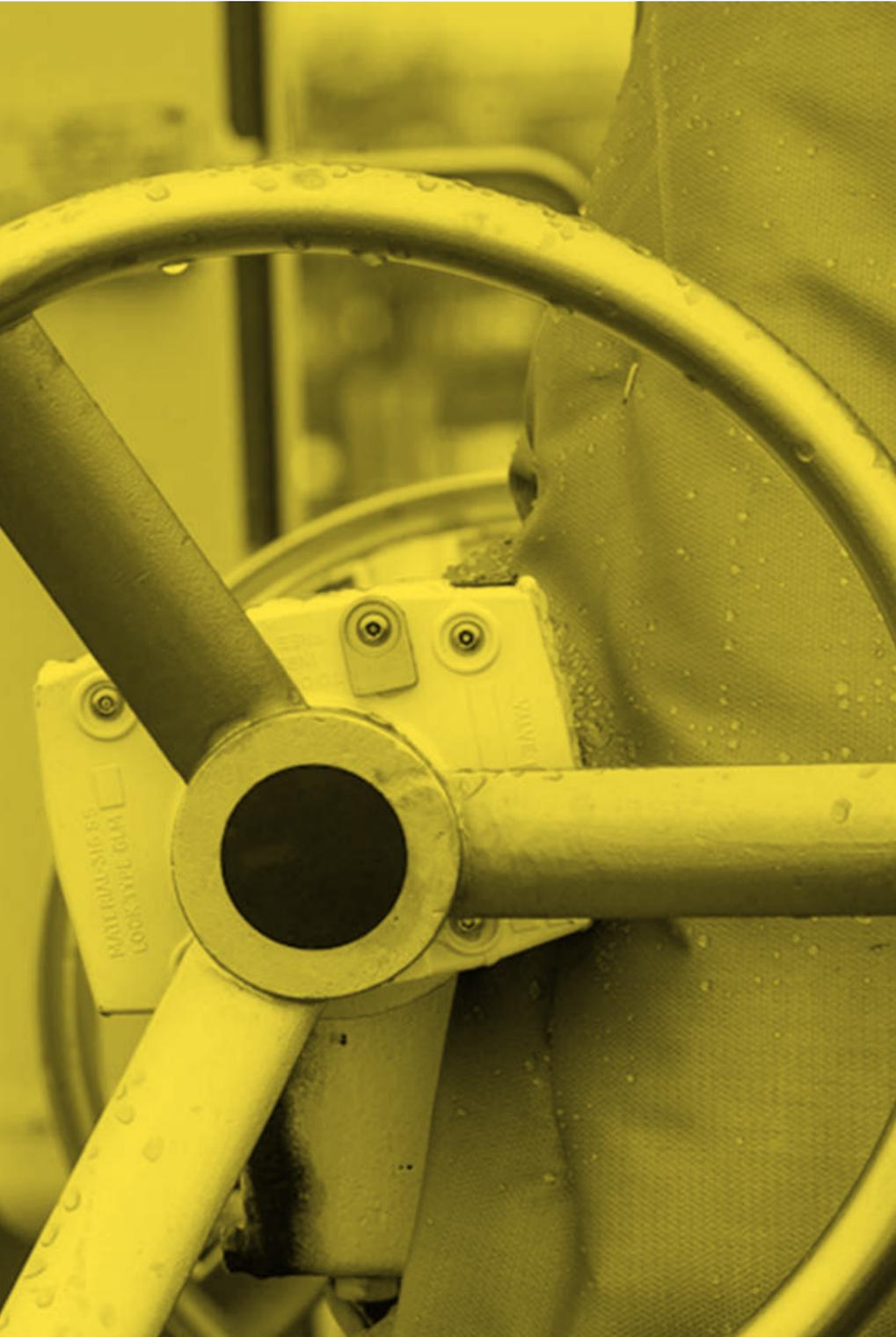
We achieved a lot in 2015 and continue moving forward. I am confident that the long-term growth of the company, and, above all, the implementation of the LNG Train 3 project, will strengthen Russia's position as a leading energy supplier, bring economic benefits to the Russian Federation and the Sakhalin Oblast, and contribute to further strengthening of energy security in the Asia-Pacific region.

Regards,

Roman Dashkov

About the Report





Material topics and aspects, which are reflected in the Report, and their priority were identified in close cooperation with the company stakeholders.

2. About the Report

2.1. General

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

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

- identify the stakeholders' opinions and expectations of the company activities and clarify the company 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 competitiveness.

The Report describes the company SD performance in 2015 and presents material topics, issues, and indicators of the company economic, environmental, and social performance, including executives' appraisals of the company performance in the period under review as well as the stakeholders' areas of attention.

The target audience of the Report is both internal and external stakeholders listed in Section 7.2 Stakeholder Engagement Performance in 2015.

The Report is prepared in accordance with the procedures and schedule approved by the Committee of Executive Directors. A dedicated working group is established to prepare the Report. This group includes managers and specialists from a majority of the company divisions responsible for particular aspects of corporate governance and production 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 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 attached to the Report and sent it to the specified address;

- use the Feedback Form on the company website (www.sakhalinenergy.com);

- fill out the Feedback Form at one of the company information centres (see Appendix 5 Company Information Centres List).



2.2. Principles of the Report Content and Quality Definition

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

Material topics of the company activities, which are reflected in the 2015 Report, and their priority were identified in close co-operation 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.

The Report pays particular attention to safety as a key priority of the company 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 7 Stakeholder Engagement Management). Representatives of stakeholders were involved in defining the Report content by means of:

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

Principles of Report Content and Quality Definition



Two rounds of dialogue meetings were traditionally held while preparing the Report, in correspondence with the AA1000SES international standard. The stakeholder representatives were able to ask questions about the company activities, receive answers and express their opinions on the materiality of any aspect of Sakhalin Energy's activities in real time (see Appendix 2 Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes, and Company's Response and Commitments).

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

- systematic media analyses;
- annual public opinion surveys and analysis of the subjects of the inquiries submitted to the company (see Section 7 Stakeholder Engagement Management);
- recommendations and comments regarding the 2014 Sustainable

Development Report and recommendations of the RUIE Non-Financial Reporting Council that conducted the public endorsement of the 2014 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 2015 Report Based on Stakeholders' Opinions and Most Priority Topics to Be Included in the 2015 Report Based on Stakeholders' Opinions tables.

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



Comments and suggestions of the stakeholders concerning specific aspects, indicators, and/or programmes of the company to be included in the 2015 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.

Most Priority Topics to Be Included in the 2015 Report Based on Stakeholders' Opinions

Subjects/Aspects	Number of answers	Included in the Report (section of the Report)
Main production results and development projects	113	4.2
Environmental, health, and social impact assessment of the Sakhalin-2 project	106	3.5.2
Stakeholder engagement performance in 2015	96	7.2—7.10
Importance of the Sakhalin-2 project for the Russian Federation and the Sakhalin Oblast	95	6.1
Financial benefits to the Russian Federation and the Sakhalin Oblast	94	6.2
General information about Sakhalin Energy and the Sakhalin-2 project	90	4.1
Oil spill prevention and response preparedness	89	8.4
Mission, vision, values, and principles of the company	88	5.1
Industrial environmental control	84	8.1
Engagement of the Russian party, contracting and procurement management, vendor development programme	84	6.3—6.5
Health, safety, environmental, and social performance management system	82	3.5.1
Personnel development and training	81	9.1
Hydrocarbon production and export	80	4.2.3
Labour safety and protection	73	9.2



Material Topics to Be Included in the 2015 Report Based on Stakeholders' Opinions

Topics	Substantiation
Main production results and development projects	Sakhalin Energy aims to be the primer 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.
Oil spill prevention and response preparedness	Prevention of oil spills and constant preparedness for oil spill response (OSR) are the absolute priority for Sakhalin Energy. The company uses the comprehensive approach to handle this important task.
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 senior management, shareholders, and the Russian party. They define the areas of activity, establish responsibilities, and evaluate the results achieved.
Risk management	Sakhalin Energy considers that effective risk management is of great importance for achieving company 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.
Impact assessment of the company 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.
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.
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 key for the project to be successful.
Stakeholder engagement	The company considers regular and meaningful engagement with stakeholders to be an important component of its successful business operations.
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 and human resources development, etc.
Environmental impact management	Due to its scope and complexity, the project can potentially cause environmental 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.
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.

Boundaries		Stakeholders												Included in the Report (section of the Report)	
Internal	External	Shareholders	Lenders and their advisors	Customers	Company senior management	Personnel	Government authorities	Suppliers and contractors	Social programmes partners	Japanese stakeholders	Mass media	Non-profit and non-governmental organisations	Community		
															4.2
															8.4
															5
															5.6
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															3.5.1
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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 (inter-

nal boundaries) and outside (external boundaries) the company. See Material Topics to Be Included in the 2015 Report Based on Stakeholders' Opinions table above.

2.5. Public Endorsement of the Report

The RUIE Non-Financial Reporting Council was engaged to provide external public endorsement of Sakhalin Energy non-financial report. This Council issues independent expert evaluations at the highest professional level in the Russian Federation; (see Appendices 7 Certificate of Public Endorsement, and 8 Conclusion on the Review of Sakhalin Energy 2015

Sustainable Development Report by the RUIE Council for Non-Financial Reporting for the Purpose of Public Endorsement).

The primary focus of public endorsement is the materiality and completeness of the information on the company performance disclosed in the non-financial

report according to the best practices of conducting business.

Corporate Social Responsibility and Sustainable Development



3



In 2015 Sakhalin Energy won the national contest of the Russian Union of Industrialists and Entrepreneurs (RUIE) — Leaders of Russian Business: Dynamics and Responsibility – 2014 — in the main nomination Business with Outstanding Social Responsibility.

3.1. Introduction

Since Sakhalin Energy was founded, corporate social responsibility (CSR) has been a mechanism for implementing corporate strategy to improve the company role in society and its image and guide the company 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 continuously exposed to impacts from the outside business environment.

The company has developed a system to account for and control external production, financial, technological, social, and environmental impacts, which allows the company to mitigate all types of risks and enhance its overall sustainability (see Section 5.6 Risk Management).

Sakhalin Energy won the national contest of the Russian Union of Industrialists and Entrepreneurs (RUIE) — Leaders of Russian Business: Dynamics and Responsibility – 2014 — in the main nomination Business with Outstanding Social Responsibility.

The awards ceremony took place in Moscow on 19 March 2015 during the plenary session of the RUIE Congress held as part of the 8th Annual Week of Russian Business.

3.2. Sakhalin Energy 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:

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

The company applies a considerable part of the requirements and principles defined in these documents to its suppliers and contractors, in accordance with the requirements of the new G4 GRI Guidelines. 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 6.4 Supply Chain Management).

At Sakhalin Energy, CSR trends and indicators are regularly evaluated by authorised personnel and senior management within the company system of internal oversight and audit, as well as by lenders, their advisers, and independent third-party auditors. Assessments are also done through stakeholder engagements:

- public consultations;
- workshops and topical discussions;
- opinion surveys;
- consultations at information centres set up by the company all over the Sakhalin Island;
- grievance addressing in accordance with the established system, etc.

For details, see Section 7 Stakeholder Engagement Management.

The company regularly provides the general public with reports on sustainable development and fulfilment of commitments. To define the Report content 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).

Company's CSR System



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 practical 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 best international standards established with regard to CSR.

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

In 2009, Sakhalin Energy joined the UN Global Compact (UNGC) and pledged its commitment to consistently follow the UNGC's principles concerning human rights, labour, environment, and anti-corruption. In 2011, Sakhalin Energy became the first and (as per beginning of 2016) the only Russian company chosen by the UN to participate in its new Sustainable Corporate Leadership platform – the UN Global Compact LEAD, established in the framework of the UN Global Compact. LEAD companies must perform certain activities in the environmental, social protection, and management spheres and create new CSR standards.



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

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

3.4. Sustainable Development Policy



The Sustainable Development Policy has been pursued since the foundation of Sakhalin Energy by incorporating SD principles into the company 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 2015, 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 principles, directions, and responsibilities in this area.

The main provisions of the company 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 community, and shareholders.
- Sakhalin Energy will contribute to the present and future needs of society on Sakhalin Island, while keeping a balance between economic development, environmental protection, and social responsibility, 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 the abovementioned principles, Sakhalin Energy's commitments are:

- embed SD principles into all the regulatory documents and standards of the company;
- ensure ongoing compliance with the HSE and Social Performance commitments, as well as regulatory documents and standards stipulated in the Health, Safety, Environmental, and Social Management System and Action Plan;
- inform and engage with our stakeholders on our performance and seek feedback;
- develop and implement social investment and sustainable development programmes that are linked to the company strategy, and have clear procedures and controls;
- develop strategic partnerships with stakeholders to maximise the positive impact of community development programmes;
- maintain non-financial reporting in accordance with the Global Reporting Initiative (GRI) standards and principles;
- observe and promote the principles of the UN Global Compact (UNGC);
- participate in the Global Compact LEAD programme of the UN Global Compact, leading the sustainable development efforts of the international community.

3.5. HSE and Social Performance Management



3.5.1. HSE AND SOCIAL PERFORMANCE MANAGEMENT SYSTEM

The company pursues the goals of not harming people, protecting the environment, and contributing to sustainable development. This attitude is beneficial to the residents of the Sakhalin Island and other key stakeholders. The Russian Federation and the Sakhalin Oblast receive numerous benefits from the Sakhalin-2 project, including billions in investments, increasing local employment, contracts for Russian companies, etc. (see Section 6.1 Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast). 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. The company uses a preventive approach with a strong focus on proactive risk management and impact assessment (see Section 5.6 Risk Management).

Health, Safety, Environment, Social Performance, and Industrial Safety Management is an integral part of the entire corporate governance system and is regulated by

a number of fundamental documents, including:

- Sustainable Development Policy;
- Health, Safety, Environment, and Social Performance Policy and Commitments;
- Health, Safety, Environment, and Social Performance Management System;
- Health, Safety, Environment, and Social Performance Action Plan;
- Hydrocarbon Flaring Commitment;
- Statement of Sakhalin Energy Investment Company Ltd. Industrial Safety Policy;
- Regulations on the Industrial Safety Management System;
- Business Continuity Policy;
- 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 staff and contractors.

This comprehensive approach applied by the company to the HSE and SP management system is designed to ensure continuous improvement in this area. The company integrated health, safety, environment, and social performance management system describes the controls which Sakhalin Energy utilises to manage impacts and risks. The system is applied to all assets, projects, and operations, including those carried out by contractors. Sakhalin Energy considers the management of such risks as critical to its business success and regularly updates and optimises this management system.

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

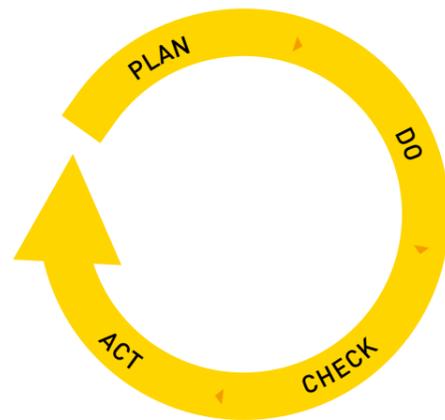


The commitments adopted by the company on the basis of the ESHIA that was conducted before phase 2 construction began are included in the Health, Safety, Environment, and Social Action Plan (hereinafter — the Plan). The development of the Plan was necessary in order to obtain a loan for Sakhalin-2 phase 2 implementation.

The Plan was developed in compliance with the Russian legislation and international standards, including World Bank Policies and Directives, International Finance Corporation standards, etc. The Plan describes the HSE and Social Performance Management System, provides detailed information on the actions to be taken to minimise potential adverse impacts, the monitoring, the activities in environmental and social areas, as well as on all the internal and external standards regulating the company HSE and SP activities. The Plan has been approved by project lenders. The fourth edition of the document was approved in 2014 and published in 2015.

The Plan was posted on the company website (in Russian and English) and is available at company information centres and libraries of the towns located in the vicinity of the company assets. Some of these materials are available in Japanese for stakeholders in Japan. The implementation of the Plan is regularly monitored by the company, lenders and their advisors, the results are published on the company website (www.sakhalinenergy.com).

Health, Safety, Environment, and Social Performance Management System



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

- Set objectives and establish procedures required for achieving the desired results in accordance with the company HSE and SP Policy. This includes a definition of legal and other requirements, identification of hazards, risk and impact assessment, determination of controls, and development of objectives and annual improvement plans.
- Introduce procedures, including organisation, awareness, training, and competence processes, contractor management, participation and engagement, change management, and emergency preparedness and response; also, operational control of occupational health, personal safety, asset integrity, and process safety, transportation, environmental protection, and social performance, including cultural heritage, land acquisition, resettlement and supplemental assistance, planned public consultations and information disclosure, addressing of grievances, and social investments.
- Monitor and determine process effectiveness in compliance with given

tasks as well as legal and other requirements, reporting results, incidents, and non-compliance; take corrective and preventive measures; and conduct HSE audits at the company assets and functional units.

- Review the management system on a regular basis and take measures for continuous improvement of the company HSE and SP.

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

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 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 negative 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 standards, while its ongoing activities are based on relevant plans and programmes.

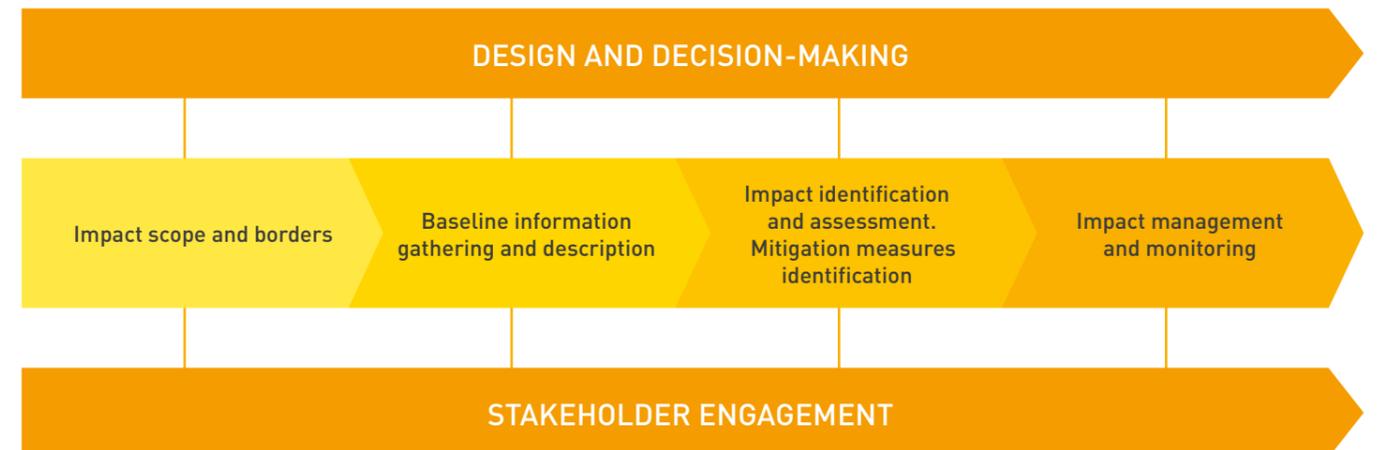
The impact assessment results are posted on the company website. The validity and completeness of the assessments are monitored by government authorities and project lenders.

In 2015, the company completed a comprehensive impact assessment and held public consultations with the stakeholders in regard to the planned OPF Front-End Compression Project construction works (see Section 4.2.2.1).

In 2015, the company carried out an impact assessment in accordance with Russian and international requirements and conducted public hearings and consultations with the stakeholders in regard to the implementation of the Programme of Marine Geophysical (Seismic) Surveys in the waters of the Lunskeye and Piltun-Astokhskoye oil and gas fields.

The results of the assessments for both projects are posted on the company website.

Stages of Impact Assessment





3.5.3. CHECKS AND AUDIT

Since 2005, to monitor the integrated HSE and SP Management System, internal and external checks and audits have been performed in accordance with approved annual plans. External audits are conducted by the company shareholders and lenders, external certifying authorities, etc. For internal audits, specially trained auditors (the company qualified employees and shareholder specialists) are engaged. In 2015, ten HSE and SP Management System audits were

conducted, including six external and four internal ones (see the Checks and Audits of the HSE and SP Management System in 2015 table).

Checks and Audits of the HSE and SP Management System in 2015

Audit level	Number of audits	Content
External	6	Control over the compliance with HSE and SP standards exercised by the representative of lenders — an external advisor on environmental issues*
		Recertification audit for compliance with ISO 14001 and OHSAS 18001 standards
		Audit of flight operations (helicopters and charters) with the participation of Shell auditors
		Marine transportation performance review (by Shell specialists)
		Monitoring / final assessment of the Sakhalin Indigenous Minorities Development Plan implementation*
		Independent assessment of social investments / sustainable development programmes / projects
Internal	4	Project Department HSE System Audit
		Diving Operations HSE Audit (with the participation of a Shell SME)
		Offshore and Drilling Operations HSE Audit (with the participation of Shell auditors)
		LNG Plant HSE Audit

* The reports are posted on the company website (www.sakhalinenergy.com)

About the Company





About **4%** of the global LNG is supplied from Sakhalin Energy's LNG Plant.

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 near 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 the two fields, the company constructed a large-scale infrastructure for extracting, transporting, processing, and then selling hydrocarbons. This 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, 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.

Because of Sakhalin Energy, the Russian Federation has become one of the key players on the promising Asia-Pacific market.

4.2. Main Production Results in 2015

4.2.1. ASSETS

In 2015, PA-B and LUN-A platforms embarked on a 10-month improvement programme in Maintenance Execution and Integrity Assurance.

Following a self-assessment in late 2014, a detailed action plan was drawn up and implemented both offshore on the platforms as well as onshore with the support teams. The onshore support is focused on Integrity Assurance—making sure the correct maintenance routines are in place. Offshore focused on maintenance execution—planning, preparing, and executing the maintenance.

Shell completed an external assessment in October 2015, and PA-B and LUN-A Integrity Assurance achieved the highest score ever in Shell globally. Both PA-B and LUN-A are now among the top 10 Shell assets, together with OPF, which reached the top 10 in 2014.

4.2.1.1. Molikpaq Platform (PA-A)

In July 2015, it was 16 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.

In 2015, the operating well stock of the Molikpaq platform included 13 oil-producing wells, five water injection wells, and one intake well for re-injecting drill cuttings back into the reservoir. In 2015, the average daily production rate on the platform was 6.2 thousand t (45.83 thousand bbl) of oil and 0.99 mln m³ of associated gas.

In 2015, the decline in pressure was addressed and stable production was achieved at the Astokhskoye area by drilling and commissioning additional

water injection wells, well interventions and side-tracking. The company did a 4D seismic survey to manage and optimise the waterflood front.

Normalised water injection in conjunction with steady well performance helped the company to exceed annual oil production targets.

Because of this, the company prepared the Addendum to the Reservoir Management Plan for the Astokhskoye Area Development of the Piltun-Astokhskoye Field in 2015, which was approved by the Gas Industry Committee of Gazprom and CDC Rosnedra.

Two oil producers were worked over with side track drilled to layers XXI1 and XXI-s. The wells were completed using Frac&Pack technology to provide sand control.



PA-B and LUN-A achieved a new **global record** in MIE in 2015.

Another oil producer was sidetracked and converted to water injector to layer XXI1.

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

In 2015, the PA-B platform had eleven production wells, seven water injection wells, and two cutting re-injection wells.

The platform's average daily production rate in 2015 was 3.36 thousand t (24.78 thousand bbl) of oil and 1.2 mln m³ of gas.

In 2015, one additional water injector well and one oil producer well were drilled and put into operation, the latter will provide "new oil" production from the southern area of the field.

The water injector was drilled ahead of schedule with horizontal completion installed in the well. The primary purpose of the well is to maintain reservoir pressure in the northern part of Piltun.

Sand control technology was successfully implemented with drilling and completion

of the oil well. Open-hole stand-alone screens were installed.

Pilot holes drilled in the producer enabled experts to appraise the area and identify the oil-water contact and geological structure.

By year-end 2015, four years will have been invested in improving Voidage Replacement, primarily by isolating gas cusping and making the integrated water injection system work. As a result, reservoir pressure and oil production have now stabilised in the heartland of the field.

A 4D seismic survey was done at the Piltun-Astokhskoye field in 2015. The results are now being analysed. It is expected that the data will help clarify injection front location, localise undeveloped areas, and identify areas for in-fill drilling and water-flood optimisation.

4.2.1.3. Lunskeye-A Platform (LUN-A)

In 2015, the LUN-A platform continued to perform stably, producing an uninterrupted flow of gas from the existing wells.

The platform's average daily production rate was 45.27 mln m³.

Existing gas wells met production targets and utilised the full capacity of the LNG plant.

One watered-out oil well (water cut above 99%) was sidetracked into Block IV of Lunskeye field in 2015. The company started drilling a side track to the gas layer at the end of 2014, and in April 2015 the well became a gas producer.

In December 2015, a second cutting re-injection well was completed in Block V. There was a concerted effort to acquire data from this well, including 180 m of core and sampling of downhole fluids. This was the first core acquisition of the company, prior cores were obtained from appraisal wells.

During the year, a total of five cased hole logging well interventions were executed successfully. The results from this help to estimate well inflow, and contact movement and well bore access.

In the summer of 2015, a 4D seismic survey was done at the Lunskeye field to track the impact of gas-water contact and pressure variation on field development. The 1997 3D seismic survey was used as the baseline for this survey. Results were submitted to a service company to be processed and interpreted.

4.2.1.4. Onshore Processing Facility (OPF)

The onshore processing facility (OPF) handles the initial processing of gas and condensate from the Lunskeye 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.

OPF daily capacity reached 58 mln m³ of gas and about 25 thousand t (195 thousand bbl) of oil and condensate in 2015.

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 over 1,600 km of oil and gas onshore 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 Transgas 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 pig 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

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 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 steadily increased the plant's capacity by 10%.

Mid July 2015, Sakhalin Energy completed a major gas system shutdown of Sakhalin-2. Every year the company performs maintenance on its gas facilities. This year was the first time the shutdown lasted 28 days to perform a major turnaround. The extensive preparations for the shutdown took more than a year, including ordering spare parts, equipment, and materials. Various divisions and departments were involved. 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.

The whole gas section of the Sakhalin-2 project was suspended, however gas supply to south gas transfer terminal was not interrupted. This allowed Yuzhno-Sakhalinsk Heat and Power Plant to keep running on gas and save the environment instead of reverting to coal.

An important event for the Prigorodnoye production complex in August 2015 was achieving more than 9 mln man-hours without a lost time injury (LTI) for seven years. The countdown for these seven 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).

4.2.2. DEVELOPMENT PROJECTS

4.2.2.1. OPF Front-End Compression Project

The company completed FEED works on the OPF front-end compression project, which will help to maintain the projected production levels as the wellhead pressure at the Lunskeye field begins to decline.

In 2015, a contract with REP Holding was signed for manufacturing and supplying three drivers/compressors for the OPF compression project.

It is anticipated that the Early Works and Engineering, Procurement and Construction (EP+C) contract will be awarded in 2016.

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 Lunskeye 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-As-tokhskoye field, including the South Piltun area, and is planning to submit an integrated reservoir management plan to the State Reserves Committee of Rosnedra.



In August 2015, total LNG production reached **65 mln tonnes.**



4.2.2.3. LNG Train 3 Construction Project

In 2015 Sakhalin Energy signed design development contracts for Sakhalin-2 LNG train 3.

According to the contracts, Shell Global Solutions International and Giprogazsentr, a Russian design institute, are entrusted with developing the design for Sakhalin-2 LNG train 3.

The Sakhalin-2 LNG expansion project is the optimal 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 exceeded its design output (9.6 mln t per year) by producing 10.82 mln t of liquefied natural gas in 2015.

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 especially for this project and provided to the company under long-term charters by two Russian-Japanese consortiums. It is also transported on the Amur River, Ob River, Fuji LNG, and Energy Frontier vessels chartered on a short-term basis. Amur River started to operate on 1 July 2015 in place of Fuji LNG and Energy Frontier vessels. Thus, the company fleet consists of five LNG tankers.

In 2015, Sakhalin Energy shipped LNG to Japan, South Korea, China, and Taiwan. Sakhalin's share of LNG in the Asia-Pacific region was about 6%, and they had about 4% of the global market in 2015.

Sakhalin Energy announced the Best LNG Project Operator

Sakhalin Energy was awarded first prize in the Best LNG Project Operator category at the 10th Annual Russia Offshore Conference held in Moscow on 3–4 March 2015, with the theme of “Strengthening partnership for the development of offshore and LNG projects in Russia.”

Top managers of Russian and international companies and representatives of scientific and expert communities and research centres took part in the conference and in the voting.

Among the projects considered by the expert commission were current as well as forthcoming developments, including large-scale projects for constructing oil and gas infrastructure on the arctic shelf that are being currently implemented.

4.2.3.2. 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 2015 Sakhalin Energy received 3.49 mln t (25.77 mln barrels) of oil grade and 1.64 mln t (14.47 mln barrels) of condensate. The company received 92.55 thousand t (765.5 thousand barrels) of condensate in 2015 from the Kirinskoye field Sakhalin-3 project.

In 2015, Sakhalin Energy exported 5.22 mln t (41.01 mln barrels) of oil grade from the Prigorodnoye production complex.

In total, 10 companies from five countries purchased the oil blend in 2015. Sakhalin Blend was delivered through 17 transit and destination ports in Japan, China, South Korea, Singapore and Indonesia.

Historically, the main markets for Sakhalin Blend have been Japan, South Korea, and China, which did not change in 2015. These are strategically important markets because of their geographical proximity and their stable demand for light sweet crude oil.

Japan became the largest Sakhalin-2 oil customer in 2015 (45% of total volume).

About 3.5% of the oil produced was sold and successfully delivered to Indonesia and Singapore. That shows there is stable demand from Asia-Pacific refineries for Sakhalin Energy crude oil, even in an over-supplied market.

In 2015, the share of Sakhalin Blend exported by the company in the Asia-Pacific region was 0.4%.

4.2.3.3. Natural Gas

Since 2011, Sakhalin Energy has been supplying natural gas to the 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 via the Yuzhno-Sakhalinsk Southern Gas Transfer Terminal to Yuzhno-Sakhalinsk Heat and Power Plant and other Sakhalin infrastructure assets, more than 2.1 bln m³ of natural gas have been delivered (including 617 mln m³ delivered in 2015). In 2015, about 467 mln m³ of natural gas were delivered via the Northern Gas Transfer

Terminal to the Sakhalin – Khabarovsk – Vladivostok gas main line for further usage as part of the Far East and Primorye fuel and energy sector development programmes. In total, about 1.084 bln m³ of gas were supplied to the Russian party in 2015.

4.2.3.4. Oil and LNG Supply Safety

Since the company began to supply oil and LNG from Prigorodnoye Port, it has been committed to ensuring the safety of shipments and supplies. The company has avoided incidents that could have adverse consequences. This has been achieved by following key principles for organising the shipments and supplies of our products, the main of which are:

- chartering vessels that meet international standards (international conventions, regulatory acts, etc.) and additional safety requirements adopted in the industry (Oil Companies International Marine Forum, etc.);
- working with shipowners that have implemented and effectively use a safety management system in accordance



The 400th oil standard cargo was loaded on 18 August 2015.

The 1000th LNG standard cargo was loaded on 22 August 2015.

with the International Safety Management Code, that have experience and are internationally recognised;

- identifying, assessing, and reviewing current risks (commercial, environmental, professional, etc.) as well as developing and implementing programmes to reduce the likelihood and impact of these risks on the supply of products;

- setting high requirements for the qualifications and experience of the crews of vessels carrying company goods (mandatory training in and experience of sailing in icy conditions, training in and experience in steering large-capacity vessels, etc., in addition to the requirements of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers);

- close cooperation along the "shipowner – crew – charterer" chain, which allows to find the best solutions for issues related to the safety of supply and fleet management (safe routes, optimal speed, and safety analysis of ports and mooring systems);

- development of incident response plans; interaction with territorial, federal, and international bodies regarding responses; and insurance of cargoes, vessels, and crews against accidents and incidents.

Because of the above measures, buyers are fully assured that the cargoes will be delivered on time and safely.

4.2.4. SANITARY PROTECTION AND SAFETY ZONES

To ensure the safety of the population and according to Federal Law No. 52-Φ3 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 the human habitat and health. The size of such a zone mitigates the impact of pollution on the atmosphere, keeping it in line with health standards.

The sanitary protection zone limits confirmed by the Chief State Medical Officer of the Russian Federation for the

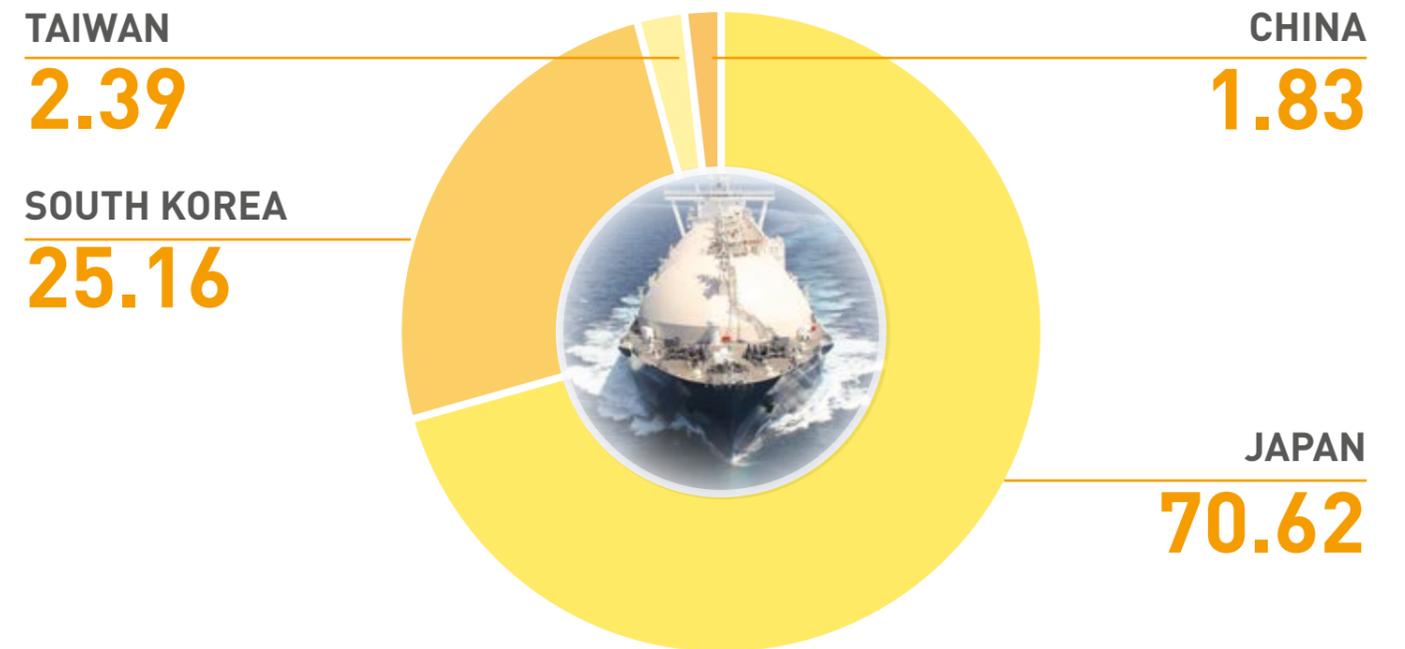
Prigorodnoye production complex, the OPF, and BS 2 were not changed in 2015.

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.

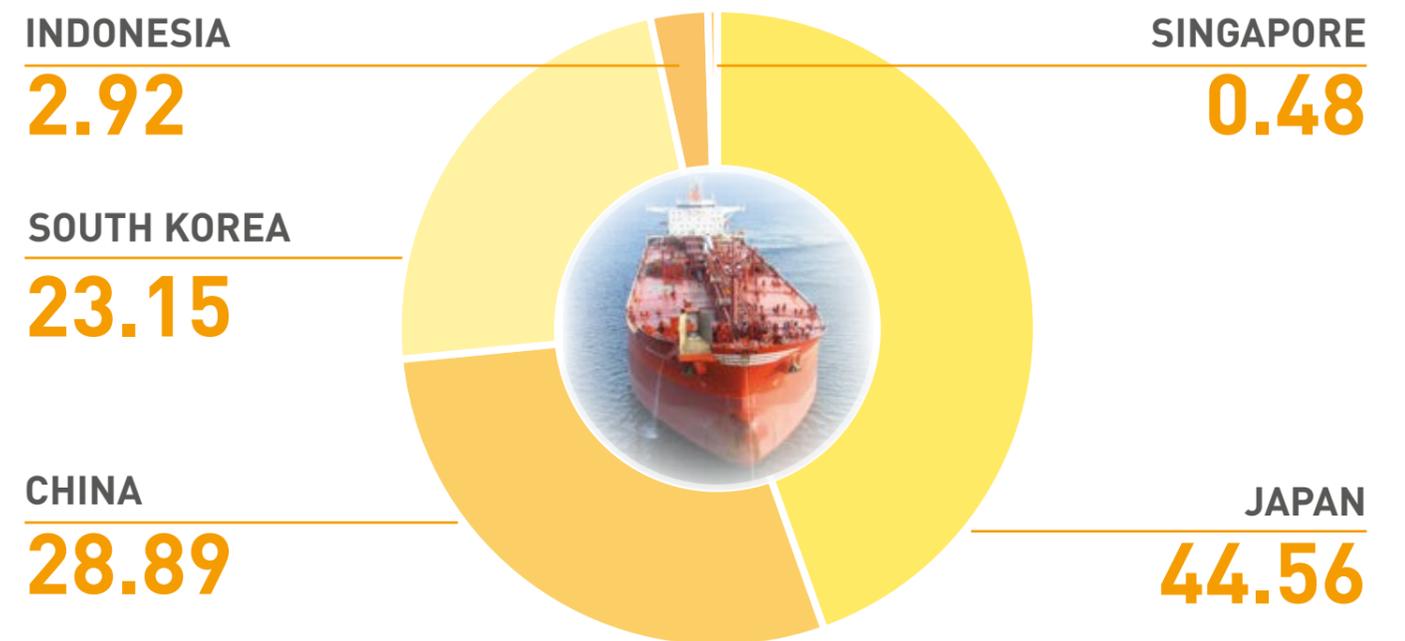
A safety zone was established for the main pipelines to prevent any possible damage to them.

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.

Sakhalin LNG Sales Market Structure in 2015, %



Structure of Oil Blend Sales Market in 2015, %





4.3. Operational Excellence Programme

In 2015, Sakhalin Energy continued implementing the Operational Excellence programme. Most of these improvements were carried out internally, but external experts were also engaged in two cross-directorate improvement drives (in the CP contract award process and Well and Facilities Reservoir Management (WRFM)). Significant reductions in waste and improvements in the processes were identified and are being implemented in 2015 and into 2016.

During these two projects, approximately 120 staff completed LEAN training, followed by on-the-job practical application of this training.

The CED had a two-day intensive LEAN workshop. The CED is committed to continuously improving our business processes based on the following 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.
- 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, the Operational Excellence programme will be renamed Continuous Improvement, making it clear that the focus is across every area of our business.

Operational Excellence Programme Main Directions



Corporate Governance





5.1. Company 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 General Business Principles is available on the Sakhalin Energy website (www.sakhalinenergy.com).

Sakhalin Energy activity underlies on **core values** of honesty and integrity, respect and care for people, individual accountability supported by teamwork.

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 senior management with its shareholders and the Russian party to determine the direction of the company 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 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.

Corporate Governance System





In 2015, the company improved the management of non-technical and IT projects and introduced the uniform Change Management Policy. This will help to respond to emerging needs in a more structured and effective way based on risk assessment and the objectives of the company, while involving a wide range of experts not only in production and technical areas but also when introducing changes in corporate functions.

Policy and Strategic Objectives

The company policies and standards comply with Russian laws and regulations as well as with the requirements of its shareholders and lenders. Sakhalin Energy 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 staff from all directorates at the annual 100 Workshops (see Section 7.3 Engagement with Personnel).

Contingency and emergency response plans are implemented and regularly evaluated.

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

Implementation

Performance indicators are established and monitored, and results are reported. Corrective measures are taken as necessary, and policies, organisational structure, risks, plans, and processes are updated. All incidents with significant potential or actual consequences are

thoroughly investigated and reported. 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 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 7.3 Engagement with Personnel).

5.3. Corporate Governance Model

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

The Supervisory Board is the Sakhalin-2 project strategic management body established and operating in accordance with the Agreement on the Development of the Piltun-Astokhskoye and Lunskeye Oil

and Gas Fields on the Basis of Production Sharing (PSA). The Supervisory Board supervises the fulfilment of the PSA terms and approves the company 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 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 website (www.sakhalinenergy.com).

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

- certain key decisions are made by shareholders;

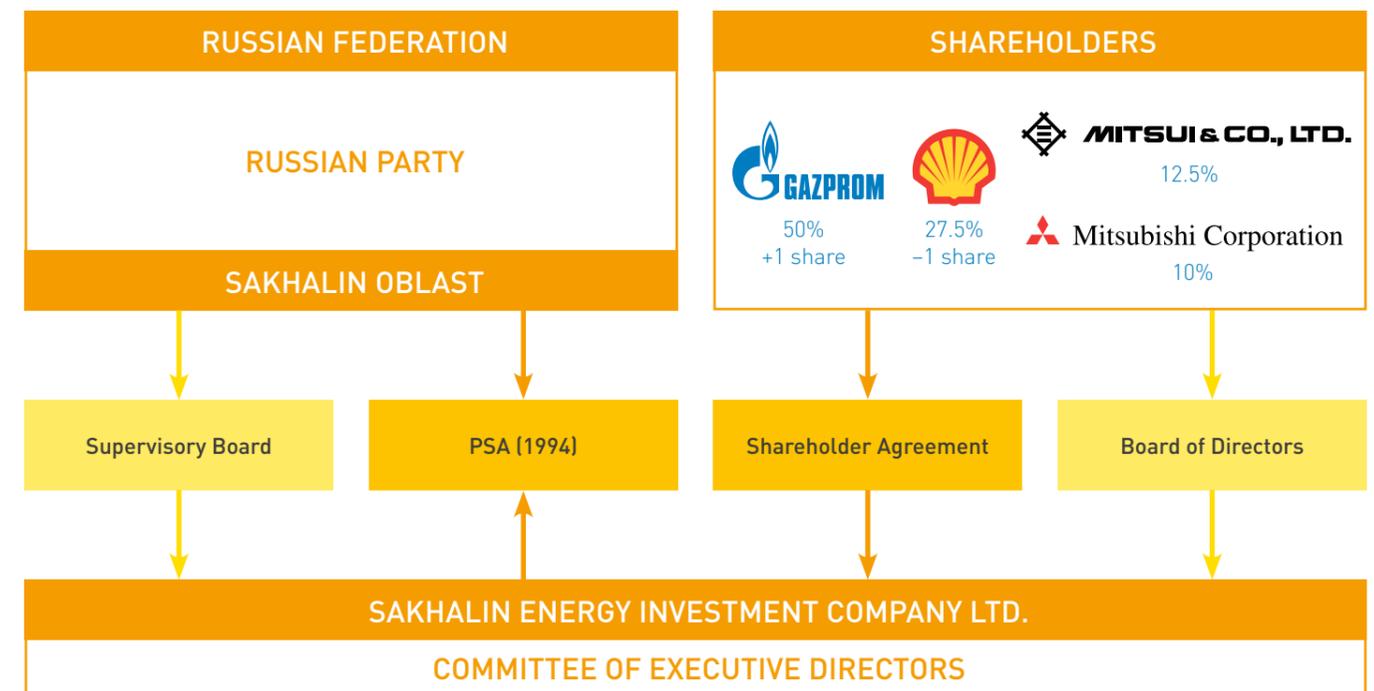
- the Board of Directors is responsible for overall company governance;
- daily management and operation of the company is the prerogative of the Committee of Executive Directors.

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

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

The BoD members in 2015 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 2015.

Corporate Governance Model





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

Commercial Committee—chaired by the company 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 Technical Director and consisting of the representatives from the Sakhalin Energy 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; 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 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 company positions and communications with shareholders; monitoring and responding to press reports, releases, and inquiries; and coordinating issues associated with managing the company reputation.

Board Assurance Committee—consists of two representatives from each of the company shareholders, one of which is a Non-Executive Director. The meetings are attended by the company 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 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 2015 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;
- Business Integrity Committee;

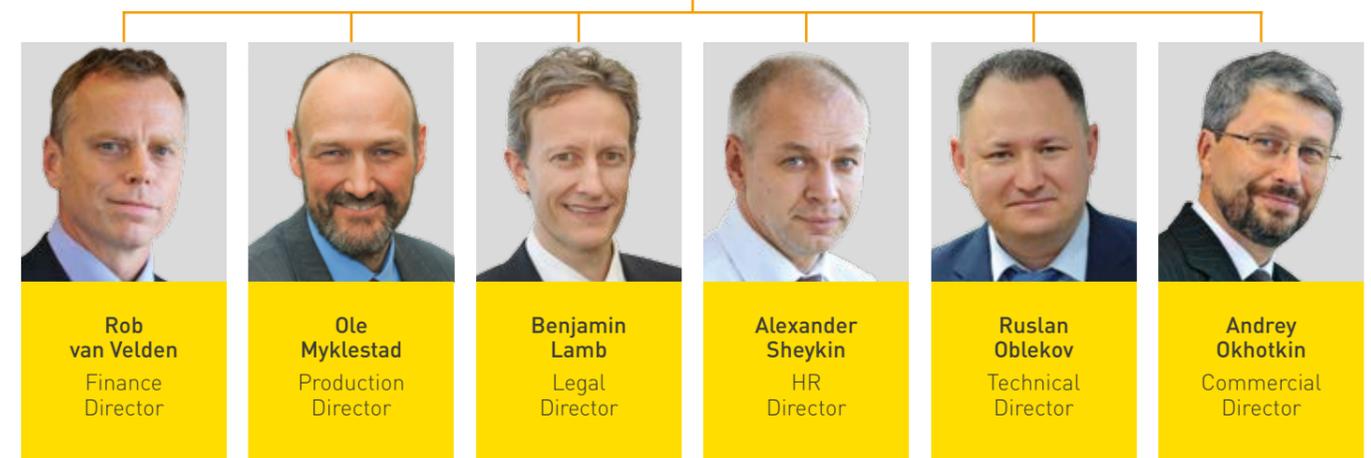
- Business Assurance Committee;
- Claims Steering Committee;
- HSES Management Committee;
- Operational Excellence Committee.

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

Committee of Executive Directors



Roman Dashkov
Chief Executive Officer



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.

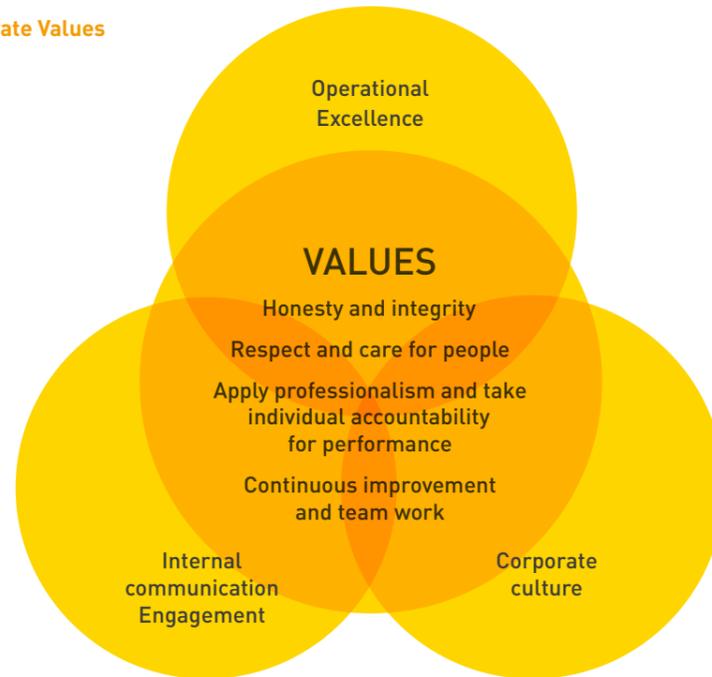
In order to ensure compliance with professional and business ethical standards, the company Code of Conduct explains the norms of behaviour which Sakhalin Energy expects from its employees and describes how these norms correlate with the company business principles and core values (see Section 5.5 Code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

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

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

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

Corporate Values



These documents ensure that Sakhalin Energy operates within the framework of applicable laws and in accordance with the ethical requirements set out in the Sakhalin Energy General Business Principles. The human rights principles control system requires the company 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 (all-staff communication sessions, internal meetings of all units, etc.), as well as various types of electronic and written communications and feedback (see Section 7.3 Engagement with Personnel).

The company has developed and applies the Conflict of Interest Procedure. Under the procedure, an annual conflict of interest declaration must be completed by all the employees. This provides an understanding of the ethical principles of the company 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 explains the fundamental rules and standards acceptable to the company to ensure compliance with the Statement of General Business Principles. It regulates behaviour and spells out requirements and guidance, expressed as clearly, concisely, and consistently as possible in a single, company-wide document for all our employees. The Code of Conduct includes, but is not limited to, the following main rules:

- Sakhalin Energy endeavours to comply with principles of respect, support, and promotion of human rights in all its activities.

- Sakhalin Energy aims to operate in environmentally and socially responsible ways.
- Sakhalin Energy does not tolerate bribery, insider dealing, market abuse, fraud, or money laundering.
- Sakhalin Energy is committed to free, fair, and ethical business dealings.
- Intellectual, physical, and financial assets of Sakhalin Energy are valuable and must be preserved, protected, and properly managed.

In 2015, the company conducted a Business Integrity poll to assess staff awareness on how to use confidential hotline channels such as the HR Grievance Procedure, the Whistleblowing Procedure, and the Community Grievance Procedure. The questionnaire was distributed to all the staff and was turned in by 333 people. Of these, 67% demonstrated that they understand the procedure for using the hotline channels.

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.



5.6. Risk Management

Sakhalin Energy believes that effective risk management plays an important role in achieving company 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, counter-acting bribery and corruption, etc.

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

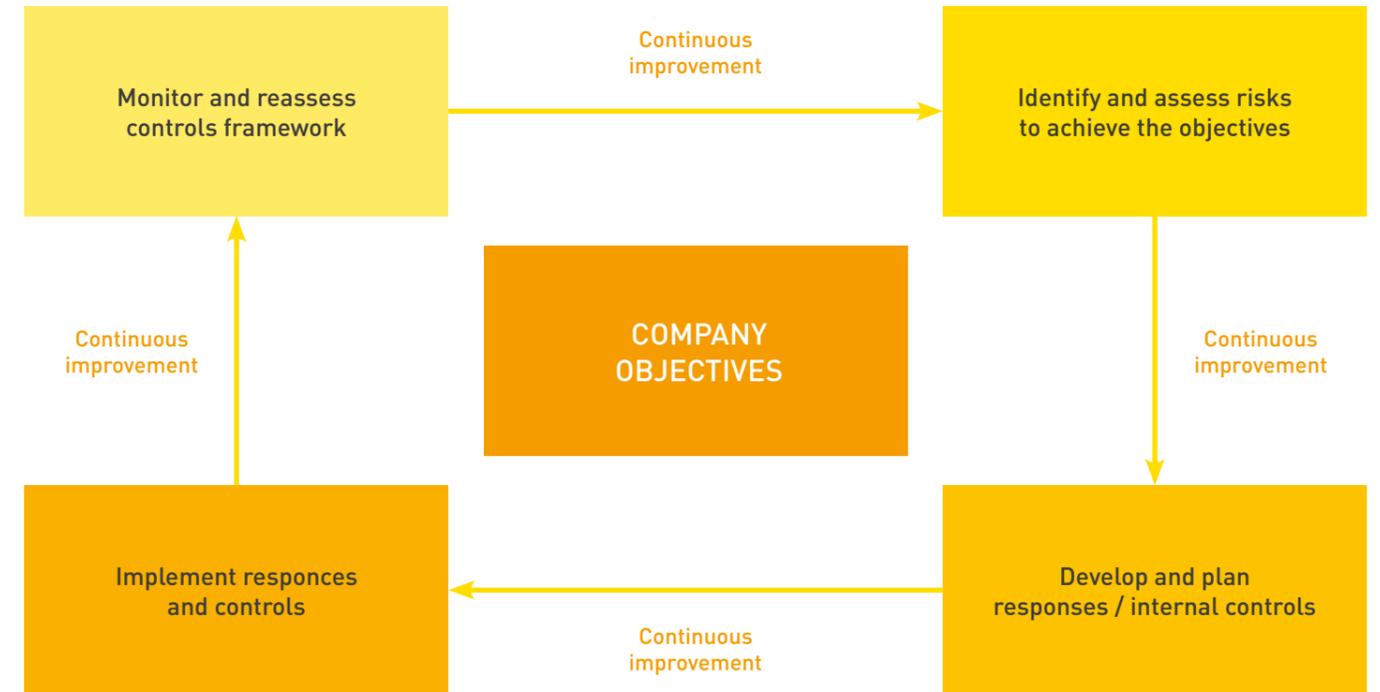
The process for managing risks at Sakhalin Energy involves identifying and assessing risks, planning and implementing a response, monitoring performance, and reassessing risks on an ongoing basis to ensure that areas for improvement are captured and such improvements are implemented (see the Risk Management 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 Business Assurance Committee which includes company executive directors, and the Board Assurance Committee (see Controls Framework chart).

Risk Management Lifecycle



Controls Framework



Risks Which are Believed by the Company to Be Significant, and Ways to Control Them

Risks	Description / Controls	Reference
Operational excellence (opportunity)	Many Sakhalin Energy processes can be improved to become more effective and/or more efficient, to enable the company to realise its vision of becoming the premier energy source for Asia-Pacific. Controls in place: In 2010, the company developed a strategy to achieve maximum performance indicators, referred to as the Operational Excellence programme	For details, see Section 4.3
Economic risks		
Cost management	The main elements of cost management are making investment decisions that optimise scarce resources and challenging the costs to use resources more effectively. Transparency, awareness, 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 6.4
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 business. A cross-discipline sanctions working group has been established to monitor this risk	



Risks	Description / Controls	Reference
Cash flow management in the conditions of falling oil prices	Significant and continuous drops in oil prices affect the company 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	
Rouble devaluation	The devaluation of the rouble has impacted the company financial and operational performance. The risk is regularly discussed at the CED. The company monitors and analyses market fluctuations in order to make balanced decisions and provide optimal value propositions to its employees and contractors	
Social and reputational risks		
Staff retention, competence, and succession plan	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
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 the compliance with the work instructions during work, control over the use of PPE, and education on the prevention of occupational diseases	For details, see Section 9.3
Risk of not meeting the utilisation rate of 95% for associated petroleum gas	In order to minimise the flaring of associated petroleum gas, the company is constantly taking steps to enhance equipment reliability, increase operating time, and minimise the number of unplanned shutdowns	For details, see Section 8.1
Environmental risks		
Risks with regards to the environment	The company uses the following controls to reduce the risk of negative impact on environment and the risk of its contamination in line with the requirements of the environmental legislation and international standards: <ul style="list-style-type: none"> identifying all environmental aspects and performing an environmental impact assessment when planning business activities and implementing a project; developing and operating within acceptable limits for emissions and discharges, waste generation volumes, obtained approvals, and limits; developing and implementing comprehensive programmes for industrial environmental control, local environmental monitoring, and biodiversity conservation in the areas of the production assets; analysing 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 Risk Management Standard and Atmospheric Air Protection Standard, Water Use Standard, Waste Management Standard, Soil Use Standard, Groundwater Use Standard, Land Plot Use Standard, Marine Environment Protection Standard, and Biodiversity Standard	For details, see Section 8

Risks	Description / Controls	Reference
Safety risks		
Process safety	Process safety is the management of hazards that can cause major accidents that release potentially dangerous materials or energy such as a fire or explosion or both. Potential sources of major accidents are: hydrocarbon releases from production installations or wells, onshore and offshore assets and pipelines which could result in a fire or explosion; loss of structural integrity of offshore installations; marine hazards such as a ship colliding with an installation or another vessel; aviation hazards such as a helicopter crash; major road traffic accidents; contamination of food or water affecting personnel at the assets; loss of power to remote locations during the winter; dropped objects; and transferring personnel between offshore installations and vessels. The Process Safety Control System consists of three elements: <ul style="list-style-type: none"> Design Integrity—designing and building company assets so that risks are as low as reasonably practicable (ALARP); Technical Integrity—applying technical control measures through effective maintenance, inspection, repair, and quality assurance; 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 asset based on Russian Federation legislation and international practice	For details, see Sections 4 and 9.2
Personnel safety risks	These risks mainly include personnel safety risks during lifting operations, risks of falling objects, risks of falling from height or as a result of slipping or tripping, and electrical safety risks. To reduce the safety risks, relevant precautionary measures and controls are being implemented	For details, see Section 9.2
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 the violations of the 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



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 activities.

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

Risks associated with non-compliance with this Procedure come from the company 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.

The company Anti-Bribery and Corruption programme was reinforced in 2015 by developing new focused training for categories of personnel at risk. Supply chain management employees and personnel involved in the company social investment and targeted

financing activities have undergone this additional training.

Additionally, all newly hired staff must be briefed about the requirements set forth in the Procedure as part of their induction. The Finance Controller in collaboration with the Governance, Risk, and Assurance Manager is required to ensure that Sakhalin Energy 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 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 supply chain management processes and to implement further controls:

- The Legal Directorate shall monitor any changes in standard contract clauses which specify the company 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 supply chain management processes.

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

Economic Impact Management





6.1. Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast

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

- Since Sakhalin Energy started its operations, the Russian Federation's proceeds from the Sakhalin-2 project have totalled over US\$ 18.8 bln, including US\$ 6.7 bln that was received by the Sakhalin Oblast.
- Russian companies have gained access to new technologies and business development opportunities.
- Over US\$ 23 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 notably 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 significantly.
- The company has carried out extensive social and public initiatives on Sakhalin Island.

In 2015, according to the International Accounting Standard (IAS), revenues of Sakhalin Energy amounted to US\$ 6,192 mln, and its total net income was US\$ 1,962 mln.

About
us\$ 5.2 bln
 Sakhalin Energy paid to the Russian Federation in 2015 including
us\$ 2.4 bln
 to the Sakhalin Oblast budget.

6.2. 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 tax payers.

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

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

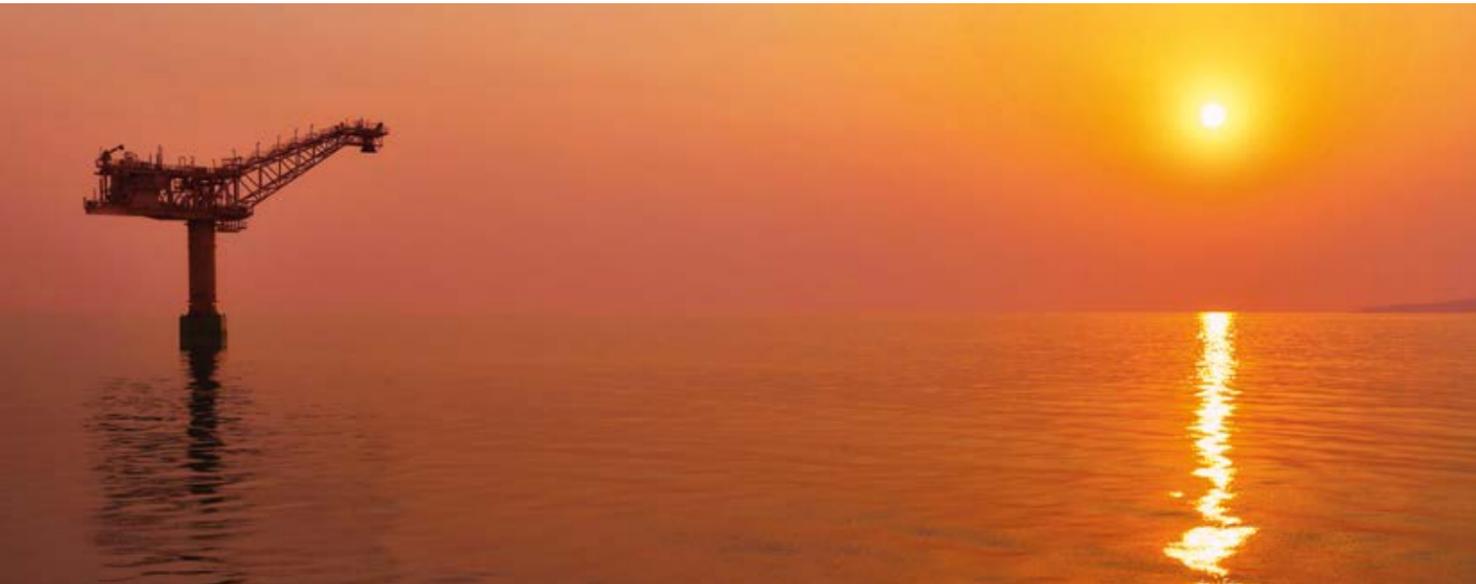
In total, for the reporting period, Sakhalin Energy paid about US\$ 5.2 bln (in kind and in cash) to the Russian Federation.

Royalties (in kind payment) amounted to US\$ 409 mln.

The Russian party's production profit share was US\$ 434 mln. In addition, the 2014 fiscal year profit tax totalled US\$ 2.7 bln and dividends totalled US\$ 1.6 bln (paid by the company in 2015).

Based on the performance results for 2015, the profit tax in the amount of approximately US\$ 1.4 bln will be paid to the budget in 2016.



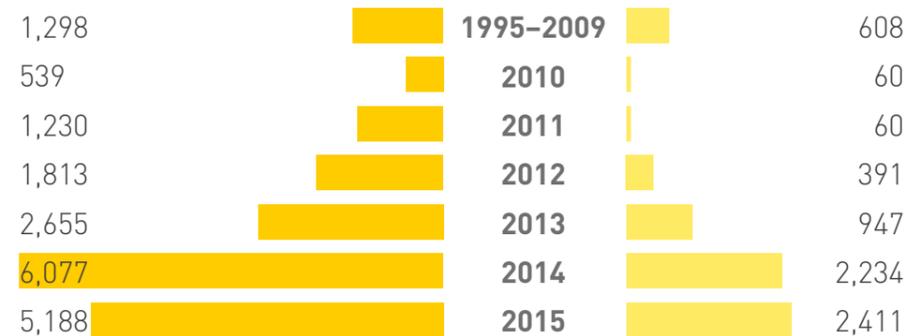


For the entire period of project implementation (1995–2015), the Russian party has received US\$ 18.8 bln from the Sakhalin-2 project, taking into account the 2015 amounts.

The amount of taxes and other mandatory payments made to the Sakhalin Oblast budget and to local budgets totalled US\$ 2.4 bln in 2015 (which is US\$ 177 mln more than in 2014).

Revenues from the Sakhalin-2 project were a significant part of the total fiscal revenues of the Sakhalin Oblast in 2015 (over 60% of the total amount).

Total Amount of Payments to the Russian Party from the Project in 1995–2015, US\$ mln



Taxes and Other Mandatory Payments Made to the Sakhalin Oblast Budget and to Local Budgets from the Sakhalin-2 Project in 1995–2015, US\$ mln

1,298
539
1,230
1,813
2,655
6,077
5,188

6.3. Russian Content

The Russian Content means the utilisation of Russian labour, equipment, and services. In accordance with the PSA requirements, the Russian Content is measured in labour input (in man-hours) as well as materials and equipment (in weight units) delivered by Russian contractors (both legal entities and natural persons). 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 2015, the company reached a Russian Content level of 89% man-hours and 79% of materials and equipment used.

During the Sakhalin Oil and Gas 2015 conference, Sakhalin Energy signed two important documents with Russian manufacturers.

The first document is the contract between Sakhalin Energy and JSC REP Holding to supply equipment for the Sakhalin-2 project. Under the contract, three gas pumping units (GPU) will be manufactured and supplied for Sakhalin Energy OPF Compression Project. This contract provides new prospects for REP Holding to increase supplies of high-performance equipment to develop the Far East region and achieve oil and gas industry improvements in Russia.

The second document is the Memorandum of Understanding between Sakhalin Energy and TMK (Pipe Metallurgical Company). The Memorandum provides the framework for cooperating on TMK's tubular product qualification and certification with a view to testing its suitability for Sakhalin Energy's operations.

Sakhalin Energy has identified its key activities and mechanisms for maximising the Russian Content, which are featured in the Russian Content Policy and the Russian Content Development Strategy. The company efforts are primarily focused on the long-term planning for Supply Chain Management requirements, identifying

opportunities for Russian Content development, providing targeted assistance to Russian companies in order to increase their competitive potential, and developing the workforce and suppliers.

The total value of contracts awarded to Russian companies since the project was launched through the end of 2015 has reached approximately US\$ 23.2 bln. In 2015, the value of new contracts and amendments to existing contracts with Russian companies totalled approximately US\$ 628.4 mln or 46% of the total value of the contracts.

Some of the contracts awarded to Russian enterprises in 2015:

- JSC REP HOLDING (St. Petersburg)—supply of compressor packages and associated services for OPF Compression Project;
- SEACOR MARINE SAKHALIN—chartering of accommodation support vessel;
- SCF GEO—provision of 4D marine seismic services;
- POLARUS—provision of crew boats;
- SAKHALIN BRANCH OF MRS ROSMORRECHFLOT—provision of standby OSR support;
- FAR EAST HYDROMETEOROLOGICAL RESEARCH INSTITUTE (Vladivostok)—offshore environmental monitoring;
- BUSINESS PROFI (Moscow)—supply of OEM materials;
- ENKI CONSTRUCTION COMPANY LLC (Yuzhno-Sakhalinsk)—repair / construction work (Zima RC, the company offices);
- SAKHALINZAPCHASTSERVICE (Yuzhno-Sakhalinsk), AVTO-LIDER

(Yuzhno-Sakhalinsk), SLT TRADING HOUSE (Yuzhno-Sakhalinsk)—a number of purchase orders for providing light vehicles, passenger coaches, heavy vehicles, road construction and specialised equipment for Sakhalin Energy assets.

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

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

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

6.4. Supply Chain Management



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

Our fundamental Supply Chain Management document is 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 company funds on equipment, materials, resources, services, and works.

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

Sakhalin Energy adheres to the following SCM principles:

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

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

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

Creating a List of Qualified Vendors (for Certain Scopes of Resources / Services or for Specific Tender Scopes):

- conducting workshops for potential vendors (see Section 6.5 Vendor Development Programme);
- pre-qualifying potential vendors.

Conducting Tenders for the Purchase of Materials / Equipment or Provision of Services:

- competitive bidding is preferred when a 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 the contractor performance;
- the company raises awareness and conducts training in order to ensure compliance with its requirements (including those related to HSE and social performance, anti-corruption and bribery, human rights, etc.);

- the company conducts contract performance audits.

Sakhalin Energy Requirements for Contractors and Suppliers

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

Health, Safety and Environment (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 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 Supplied Materials, Equipment, and Services

Contractors must:

- develop and comply with the company 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 being 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, works 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.

6.5. Vendor Development Programme

For several years, Sakhalin Energy has been actively implementing the Russian Vendor Development Programme, which main purpose 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;
- Tendering skills.

As part of the Vendor Development Programme, in 2015, the company held 15 workshops for potential contractors of Sakhalin Energy, including one off-site workshop in Moscow. The workshops were attended by more than 238 specialists from 99 Russian companies, including 60 Sakhalin companies.

Open Workshop for Potential Contractors and Vendors (Joint Vendor Day)

Joint Vendor Day for potential Russian contractors and contractors of Sakhalin-1 and Sakhalin-2 projects was held in Moscow in June 2015. This event, the first of its kind, was organised in cooperation with Exxon Neftegas Limited. The purpose of the workshop was to identify potential opportunities for Russian companies to participate in supplying materials and providing services for the projects.

The workshop was attended by representatives of over 70 companies (including Sakhalin companies) from different sectors of business.

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.

Stakeholder Engagement Management





7.1. Engagement Strategy, Principles, Mechanisms, and Tools

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

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

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

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

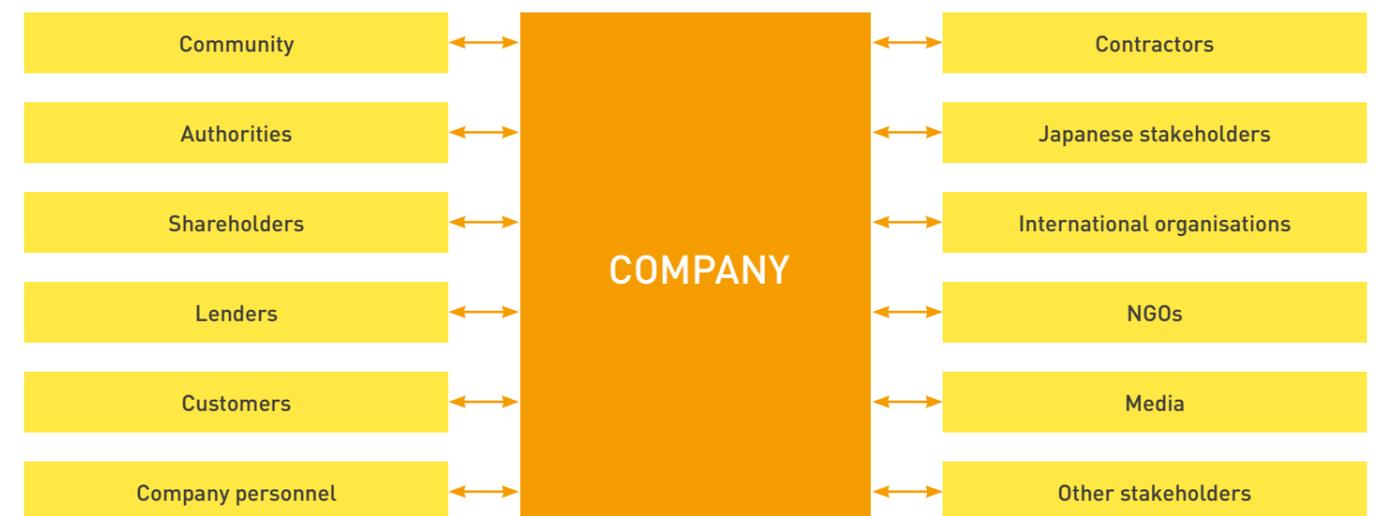
- Statement of General Business Principles;
- Code of Conduct;
- Sustainable Development Policy;
- Health, Safety, Environment, and Social Performance Policy and Commitments;
- Social Performance Standard of the Company (Public Consultation and Disclosure section);
- Public Consultation and Disclosure 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 Public Consultation and Disclosure Plan at the company website).

About **3000** people visited Sakhalin Energy information centres in 2015.

Company Stakeholders





7.2. Stakeholder Engagement Performance in 2015

In 2015, Sakhalin Energy continued systematic and consistent engagement with key stakeholders.

The key activities included the following:

- engagement with personnel (for more details, see Section 7.3);
- public, group and individual meetings to update the participants on the latest development and other aspects of the company activities and to receive feedback;
- information sharing through the company website, Energy weekly TV programme broadcast on Sakhalin, Vesti monthly corporate newspaper; distributing information reports and printed materials in the communities and through the media (radio, newspapers, TV);

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

Key statistics on engagement in 2015:

- 11 public meetings held in communities located near the company's facilities, with the participation of 68 Sakhalin residents;
- 2,919 visitors to the information centres;
- 2 rounds of public consultations under the preparation of Sakhalin Indigenous Minorities Development Plan 3 (for more details, see Section 9.5.8.4);
- 2 rounds of dialogues with the stakeholders as part of preparation of the Sustainable Development Report.

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).

Stakeholder Engagement Process



7.3. Engagement with Personnel



Engagement with personnel is an important component of strengthening and developing the company corporate culture (see Section 5.4 Corporate Culture) and is carried out, 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 2015, a regular survey was conducted to study the opinion of the company's employees. The questions concerned personnel engagement, their attitude toward the company and its management, responsibilities, working conditions, teamwork, participation in the company held activities, and respect for national, cultural, and individual differences. In addition, quick polls on various subjects were published on the corporate intranet website (to find out if the

employees are interested in sports, to identify staff commitment to work safety in winter conditions, etc.);

- Vesti corporate newspaper and various informational and reference materials. Vesti is distributed within the company, sent to the information centres, and posted on the website;
- news releases distribution through the daily news bulletin and email messages on behalf of the company directors;
- distribution of printed information materials such as posters, leaflets, brochures, etc. to inform the employees about the 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. For example, lunch-and-learn sessions

were continued. These sessions raise employees' awareness about the work and achievements of various departments and are very popular among the staff;

- corporate intranet site available to all the employees where they can find information on the company's activities and documents, including policies, procedures, schedules, etc.

The 100 Workshop

The 100 Workshop was traditionally held in November 2015. This was the seventh annual workshop. About one hundred employees attended it. Along with the directors, the company's leadership forum members and heads of business units, representatives of all directorates participated in its work. The results of the discussions formed the basis of the Journey Book for 2016–2020, with a focus on the objectives for the next year.

7.4. Local Communities Engagement Through the Company 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 facilities. 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 consultations to information centre visitors on the issues related to the company activities during working hours.

In December 2015, the librarians participated in the regular workshop to obtain first-hand knowledge of the company's activities.

The work of the information centres included the following:

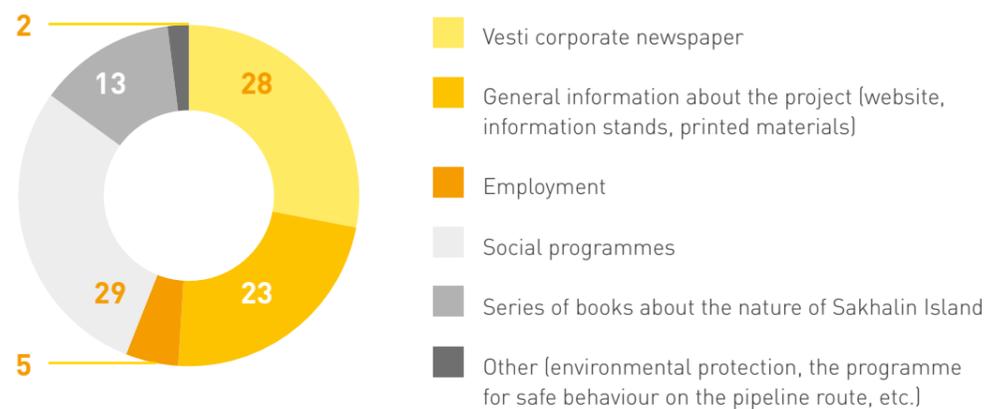
- regularly updating materials of the company's information stands;
- helping people find information on the company website;
- providing assistance to the community in preparing and submitting complaints in accordance with the Community Grievance Procedure;
- providing requested company information materials;
- providing support in carrying out company's social campaigns in the communities (e.g., St. George's Ribbon campaign).

The Donated Book Project

In 2015, the company continued The Donated Book project. The company donated sets of books on the history of Russian literature and about the winners of the Nobel Prize for Literature to 25 libraries of Sakhalin Island, including 23 libraries that host the company information centres and two regional libraries. The selection of books is not random, as 2015 was announced the Year of Literature in the Russian Federation.

In 2015, 2,919 people visited Sakhalin Energy information centres. The statistics is presented in the Statistics about Inquiries at the Information Centres in 2015 chart.

Statistics about Inquiries at the Information Centres in 2015, %



7.5. Engagement 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, 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; for information about the Plan, see Section 9.5.8]. Following the recommendations of the stakeholders received during the preparation of SIMDP 2 for 2011–2015, in 2015, the partners focused on raising the community awareness about the programmes implemented and the new opportunities (see www.simdp.ru).

In early 2015, the final year of SIMDP 2 implementation, a Working Group was formed to develop SIMDP 3 for 2016–2020. This group consisted of representatives of three partners (the Regional Council of the Authorised Representatives of the Indigenous Minorities of the North of

Sakhalin, Sakhalin Oblast Government, and Sakhalin Energy), a SIM representative in the Sakhalin Oblast Duma, a representative of the Sakhalin Public Chamber, a representative of the Russian Association of Indigenous Minorities of the North (RAIPON), and an external expert. The objectives of the Working Group were to jointly prepare consultations with the indigenous people of Sakhalin Oblast, to respond to their concerns and wishes regarding SIMDP 3, and to develop the Plan (for information on preparing SIMDP 3, see Section 9.5.8 Sakhalin Indigenous Minorities Development Plan).

Since 2006, the SIMDP has been the key document that Sakhalin Energy uses in its work with the SIM. In addition, the company implements other projects related to indigenous ethnic groups. In 2015, the company:

- jointly with the Office of the UN High Commissioner for Human Rights in Russia, published a collection of basic United Nations documents in the languages of the Sakhalin Indigenous Minorities. This edition includes the

declarations translated into the languages of the four major ethnic groups of indigenous people living on the island;

- prepared and published a calendar for 2016 in the languages of the Sakhalin Indigenous Minorities. The calendar was prepared with the support of native speakers, representatives of the Sakhalin Indigenous Minorities, as well as the Institute of the Peoples of the North of Herzen State Pedagogical University of Russia;
- jointly with the Sakhalin Oblast Government, implemented a special project dedicated to the anniversary of Vladimir Sangi, the classic author of Nivkh literature, to preserve and promote the cultural and linguistic heritage of the Sakhalin Nivkhs using his work as an example. On 18 March 2015, Vladimir Sangi celebrated his 80th birthday.

The most significant project events in Russia and abroad:

- Preservation and Promotion of the Cultural and Linguistic Heritage of the



Sakhalin Indigenous Minorities (Nivkhs) round table at UNESCO Headquarters in Paris (see Section 7.10 International and Regional Cooperation). By decision of the Minister of Foreign Affairs of the Russian Federation Sergey Lavrov, the event was held under the auspices of the Commission of the Russian Federation for UNESCO;

- publication and presentation of a collection that included the works of the classic writer;
- digitisation of the writer's works and their publication on the Russian State Library website (www.rsl.ru), which was a joint project of the company and the Russian State Library;
- preparation of a series of printed products to promote linguistic heritage: books, postcards, bookmarks with the writer's poems, puzzles, etc.;
- information board presentation about the culture and languages of the Sakhalin Indigenous Minorities under the 10th International Treasures of the

North 2015 Exhibition-Fair. The main idea of the exhibition was to introduce the general public to the literary world of Vladimir Sangi and give every visitor an opportunity to read the digitised works of the author and receive his autograph;

- meeting of the writer with readers at the Ethnomir Ethnographic Park-Museum;
- two exhibitions at Sakhalin Regional Art Museum, which completed the programme of events. The first exhibition called "Tales of the Nivkh Land" displayed the results of the literary and art contest in which more than 200 children aged 3 to 14 years old from different parts of the region took part. The second exhibition, "The World of Nivkhs," displayed paintings, graphics, sculptures, works of decorative and applied arts representing the life of the Nivkhs: people, traditions, and ethnographically precise details of everyday life.

Sakhalin Energy's "Sakhalin: Cultural Heritage of Mankind" exhibition received an award in the "Best Thematic Exhibition: Relevance and Professionalism" category at the 10th International Treasures of the North 2015 Exhibition-Fair.

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

- parliamentary hearings on "Legislative Support for the Livelihoods of the Indigenous Peoples of the North, Siberia, and the Far East of the Russian Federation" (Russian State Duma) in April;
- 17th International Ethnic Reality Scientific and Practical Conference (Herzen State Pedagogical University of Russia) in November.

Message from Ms Irina Bokova, Director-General of UNESCO on the occasion of the 80th anniversary of Vladimir Sangi

I wish to extend my greetings to all the participants of the International Round Table on Preservation and Promotion of Cultural and Linguistic Heritage of the Sakhalin Indigenous Minorities (the Nivkhs), which is timed to coincide with Mr Sangi's anniversary.

UNESCO has always highlighted the importance of preserving cultures, languages, traditions, and identities of indigenous peoples. Education in mother language is an essential part of achieving these goals. Regrettably, half of the 7,000 contemporary languages in the world are endangered. These include the languages of the indigenous peoples of Sakhalin, include the Nivkh language.

Vladimir Sangi is rightly recognised as the founder of the Nivkh literature and the modern Nivkh alphabet. One cannot overestimate Mr Sangi's role in preserving the culture and language of the Nivkh people, as the developer of Nivkh spelling rules, the author of ABC books for Nivkh schools, and a translator of the classics of Russian literature into the Nivkh language.

I believe that it is only by joining the effort of government, business, and civil society that the challenges facing the world today can be addressed effectively. I am pleased that this International Round Table, organised with the Sakhalin Government and Sakhalin Energy, builds on strong support from the local indigenous peoples and their contribution. Such cooperation creates new opportunities for society to effectively address social issues, including those connected with safeguarding culture and cultural diversity, on the basis of human rights, as a wellspring of identity, inclusion and sustainable development.

I am confident that this initiative will send a strong message to all societies about the important contribution of indigenous peoples to innovation and creativity, as well as to cultural diversity.



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

In 2015, 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:

- collaboration with Japanese stakeholders: Hokkaido authorities, Hokkaido fishery associations, and other stakeholders in Hokkaido regarding oil spill response and preservation of biodiversity (see Section 7.7 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 2015, there were meetings of Sakhalin Energy representatives with scientist members of the Panel, as well as representatives of environmental organisations included in the WGWAP as observers.

7.7. Engagement with Japanese Stakeholders

Engagement with Japanese stakeholders is of special importance to Sakhalin Energy, considering the geographical proximity of the Sakhalin Island to the 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 2015, 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 30th International Symposium on the Sea of Okhotsk (seminar on oil spill response — February, Mombetsu, Japan);

- meeting with the Hokkaido Fisheries Environmental Centre (February, Sapporo, Japan);
- participation in the meeting of stakeholders on safety and prevention of accidents during navigation of tankers as part of Sakhalin projects. The meeting was organised by the Japanese Coast Guard (May, Tokyo, Japan);
- participation in the Forum on Sakhalin Projects (September, Rumoi, Japan).

7.8. 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 with 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.

Partnerships with the customers and reliable supplies of hydrocarbons are among the company's priorities. In May 2015, Sakhalin Energy held a regular annual customers reception in Tokyo. The event was attended by over 200 people, including representatives of oil and gas-buying companies, international financial institutions acting as lenders, representatives of the Russian party, and company shareholders. The participants discussed the prospects of cooperation and stressed the importance of the further development of Sakhalin-2 project.

The company holds annual forums with customers that help foster constructive relationships. The range of topics for

discussion includes issues of transportation, maintenance, safety, environmental protection and many others.

In March 2015, Yuzhno-Sakhalinsk hosted the Annual LNG Buyers Forum for entities that charter vessels for delivering LNG from Prigorodnoye port. The forum was attended by 19 representatives of seven LNG buying companies from Japan and South Korea.

The 6th Annual Oil Buyers Forum was held in August 2015. Among the participants were employees of nine customers: Tonen General, Mitsui & Co. Energy Trading, GS Caltex, JX Nippon Oil, Fuji Oil, SK Energy, Cosmo Oil, Idemitsu Kosan, Showa Shell, as well as representatives of the Sakhalin Energy shareholders, Mitsui and Mitsubishi. It was the first time the representatives of SK Energy, Cosmo Oil, Idemitsu Kosan, and Showa Shell visited Sakhalin, which indicates the growing interest of the Asia-Pacific oil refineries in the Sakhalin-2 project.

In August 2015, Yuzhno-Sakhalinsk hosted the 10th Annual Conference on Maritime Hydrocarbon Transportation, which focused

on the commercial transportation of oil and gas under the Sakhalin-2 project. The conference discussed the issues related to the prospects and opportunities of the maritime transportation market, ship-building development, and improvement of shipping management. The conference participants discussed the issues related to improving and optimising marine industry operational processes, the organisation and performance of vessel-to-vessel cargo operations, modern systems for ballast water management, etc. The conference was attended by 26 representatives of shipowners providing vessels to Sakhalin Energy for short- and long-term charter.

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

7.9. Engagement with State and Local Government Authorities



Since the start of the Sakhalin-2 project, Sakhalin Energy has been engaging with various state authorities of the Russian Federation, including the legislative and executive bodies of federal, regional and local levels.

In 2015, as in the previous years, engagement with state authorities was carried out in various ways, the most significant of which is the work of the official groups of the Sakhalin-2 project, such as the Supervisory Board (SB) and the SB Working Group. Besides, there

was routine interaction at a working level on various issues of the project, including waste management, reconstruction of the road section near the LNG plant, border clearance of tankers at Prigorodnoye port, and many others.

Representatives of state authorities regularly participate in dialogues with the stakeholders conducted by the company during the preparation of this Report. The results of the 2015 dialogues are presented in Appendix 2 Comments and Suggestions of Stakeholders on

Individual Aspects, Indicators and/or Programmes and Company's Response and Commitments.

In 2015, the Coordination Council for cooperation between the Administration of Yuzhno-Sakhalinsk and Sakhalin Energy was established to effectively deal with various operational and long-term tasks. Its working groups deal with the safety and environment issues, the development of operations and office infrastructure, education, establishment of the Sakhalin Tekhnopark, as well as land use and legislative compliance.

7.10. International and Regional Cooperation

In 2015, Sakhalin Energy continued to vigorously promote its business reputation and image as a socially responsible company both within and outside of the Russian Federation. The 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.

Sakhalin Energy attended a number of important international and regional events, including:

14th Annual LNG Conference, 26–27 February, Houston (USA).

The international conference dedicated to the issues of production, transportation, and LNG marketing.

Round Table on Preserving and Promoting the Cultural and Linguistic Heritage of Sakhalin Indigenous Minorities (Nivkhs), 18 March, Paris (France).

The event was held at UNESCO Headquarters. It was organised by the Permanent Mission of the Russian Federation to UNESCO, the Sakhalin Oblast Government, and Sakhalin Energy. The objective of the round table was to contribute to the preservation and promotion of the cultural and linguistic heritage of the Sakhalin Nivkhs using the works of Vladimir Sangi as an example.

5th International Conference HSE in Oil and Gas. Russia and CIS, 30–31 March, Moscow.

The international event was dedicated to the issues of environmental and industrial safety, energy efficiency, and health. At the conference, Sakhalin Energy shared its experience in environmental and industrial safety under the Sakhalin-2 project.

LNG Congress of Russia 2015, 31 March – 2 April, Moscow.

The international event was held to address the issues of production development and the use of liquefied natural gas in Russia. At the congress, the company presented information on the Sakhalin-2 project, the first and the only supplier of LNG in Russia.

Charity in Provincial Russia Conference, 15 April, Moscow.

The company was a partner of the conference and participated in the discussion platform Charity in the Regions: Challenges of the time. Views of the regions and the centre, and shared its experience at the Partnership in Solving Local Problems session.

10th International Treasures of the North 2015 Exhibition-Fair, 22–26 April, Moscow.

The exhibition was held to celebrate the 25th anniversary of the foundation of the Russian Association of the Indigenous Peoples of the North, Siberia, and the Far East of the Russian Federation. Together with the Association, the company organised The Soul of the North literary readings dedicated to the works of writers and poets of the indigenous people of the North, Siberia, and the Far East. The company received an award in the Best Thematic Exhibition: Relevance and Professionalism category.

Parliamentary Hearings on Legislative Support of Livelihoods of Indigenous People of the North, Siberia, and the Far East of the Russian Federation, 23 April, Moscow.

At the hearings held at the RF State Duma, the company presented its experience of engagement with the indigenous people of the North.

Russian–Japanese Forum on Cooperation in Business, Investment, and Sport, 21 May, Tokyo (Japan).

The aim of the international event was to facilitate a direct dialogue between the representatives of business, science, culture, and sports in Russia and Japan. The forum was organised by Rossiyskaya Gazeta and Mainichi Shimbun, a Japanese national newspaper. At the forum, the company presented information about the Sakhalin-2 project, cooperation between Russia and Japan under the project, and plans for company development.

9th Asia LNG Summit held under the auspices of the China Petroleum and Petrochemical Engineering Institute, 27–28 May, Beijing (China).

The summit was dedicated to the LNG industry in Asia (in particular, in China). It was attended by about 200 representatives from 15 countries—existing and potential LNG buyers from China, foreign LNG suppliers, and experts from Asia. Sakhalin Energy delivered a report entitled LNG Supply from Russia to Asia: Experience of Sakhalin Energy.

18th Annual General Meeting of the European Business Congress, 28–29 May, Belgrade (Serbia).

The congress deals with practical issues of economic cooperation, the development of proposals to remove obstacles and create favourable conditions for an effective and safe business environment.

Round Table on Corporate Social Responsibility and Social Partnership: Models of Effective Cooperation and Development Prospects, 31 July, Khabarovsk.

The company delivered a report on modern trends in corporate philanthropy and presented its social programmes.



Eastern Economic Forum, 3–5 September, Vladivostok.

It was the first economic forum to be attended by more than 1,500 delegates including officials, business representatives, and experts from 26 countries of South-East Asia, Europe, and America. At the forum, the company delivered a report on the Sakhalin-2 project and the measures aimed at the conservation of gray whales listed in the Red Book of Russia.

19th International Conference Sakhalin Oil and Gas-2015, 28 September – 1 October, Yuzhno-Sakhalinsk.

It is the only international event dedicated to oil and gas projects of Sakhalin and the Far East, where the participants discuss issues of energy supply to the growing economies of the Asia-Pacific Region. Sakhalin Energy presented several reports related to the status of work under the Sakhalin-2 project, LNG production, safety and environmental responsibility, import substitution, marine transportation, etc.

Far-East Civil Forum, 15–16 October, Khabarovsk.

The company participated in the forum and shared its experience in corporate philanthropy and evaluation of social programmes.

4th Annual UN Forum on Business and Human Rights, 16–18 November, Geneva (Switzerland).

The company gave a presentation entitled Indigenous Peoples: An Effective Grievance Mechanism

PEOPLE INVESTOR Business Forum, 19 November, Moscow.

The company made a presentation on its partnership initiative in road safety.

Shanghai International Petroleum Petrochemical Natural Gas Technology Equipment Exhibition (SIPPE 2015), 24–26 November, Shanghai (China).

During the business programme, the Sakhalin Energy delegation learned about modern technologies and innovative solutions in the oil and gas industry, met with the leaders of the largest industrial oil and gas companies, discussed the issues of equipment supplies, etc.

Leaders of Corporate Philanthropy, 25 November, Moscow.

The company participated in the business part of the award ceremony of the 8th Annual Leaders of Corporate Philanthropy project and presented its cultural development projects.

4th International Scientific Conference Environmental Safety in the Gas Industry (ESGI 2015), 2–3 December, Moscow.

At the conference, Sakhalin Energy presented information on the drilling waste re-injection technologies in the framework of the Sakhalin-2 project.

4th Moscow Forum Corporate Volunteering: Business and Society, 8 December, Moscow.

The company delivered a report entitled Professional Skills and Competencies for the Benefit of Society: Myth, Reality, or Prospects for the Development of Corporate Volunteering.

Round Table on Business and Human Rights: Promotion and Implementation of the Guiding Principles on Business and Human Rights, 9 December, Moscow.

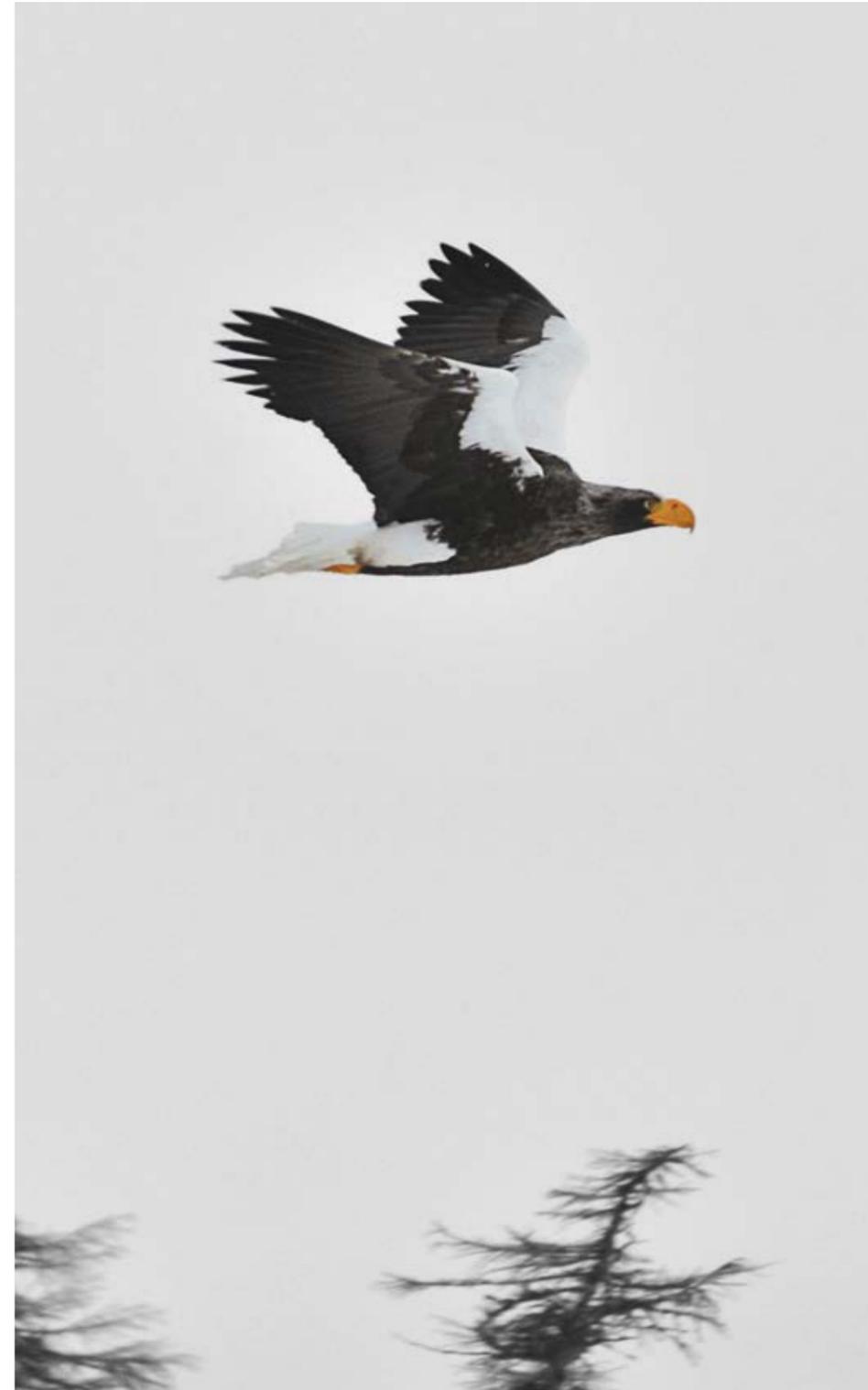
The event was organised by the Office of the United Nations High Commissioner for Human Rights and Sakhalin Energy. The event was held in the celebration of

the 70th anniversary of the United Nations Organisation. During the round table, the company shared its experience in the use of the Guiding Principles on Business and Human Rights.

4th St. Petersburg International Cultural Forum, 14–16 December, St. Petersburg.

The company participated in the Charity in Culture panel discussion organised as part of the programme of the education section, and shared its experience of social investment in the cultural sector.

Environmental Impact Management





In 2015, Sakhalin Energy was ranked third in the annual Environmental Responsibility Rating of Oil and Gas Companies in Russia, and **was given a special award** for its contribution to the development of corporate preserving biodiversity programmes.

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

The environmental management system is described in Section 3.5 on HSE and Social Performance Management. In its environmental protection activities, the company follows the Russian Federation legislation on environmental protection, taking into account the international standards and best international practices of the oil and gas industry.

The environmental management system of the company is focused on organising and

implementing industrial environmental control, environmental monitoring, and biodiversity conservation.

In 2015, Sakhalin Energy was ranked third in the annual Environmental Responsibility Rating of Oil and Gas Companies in Russia. The company was also given an award for its contribution to the development of corporate biodiversity conservation programmes.

The rating is run by the World Wildlife Fund (WWF) of the Russian Federation and CREON Energy, the provider of advisory services to the fuel and energy industries, with the participation of the

National Rating Agency. The rating is aimed at promoting the efficient use of hydrocarbon resources, environmental protection, and socially responsible business administration.

The list of rated companies included leading oil and natural gas producers (over 1.5 mln t per year).

According to its organisers, the rating “is an opportunity to effectively influence the environmental decisions made by oil and gas companies, reinforcing the feedback channels between the industry and the society.”

8.1. Industrial Environmental Control

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

The company exercises industrial environmental control in the following areas:

- air emissions control;
- water use and discharge control;
- 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 2015, the total gross emissions remained at the previous year's level.

Gross Air Emissions in 2012–2015, thousand t

Pollutant	2012	2013	2014	2015
Carbon oxide	4.0	4.3	4.2	4.1
Nitrogen oxide (in NO ₂ equivalent)	4.7	4.8	4.1	4.1
Methane	0.86	1.08	1.1	1.0
Sulphur dioxide	0.06	0.07	0.05	0.04
Other pollutants	1.08	1.15	1.15	1.1
Total	10.7	11.5	10.6	10.3



Specific Air Emissions in 2015, by areas of activity

Activity	Value	UoM
Hydrocarbon production	0.19	kg/toe
Hydrocarbon transportation	0.06	kg/thousand t-km
LNG production	0.24	kg/toe

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.

In 2015, the total water intake remained at the previous year's level.

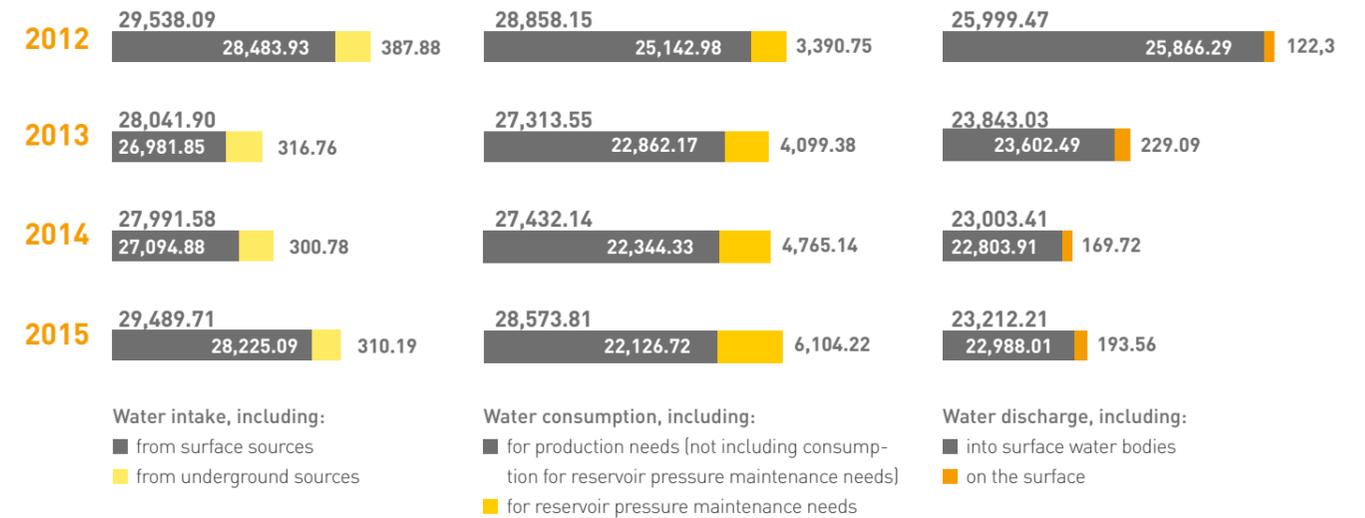
No unit exceeded water intake limits set for 2015. The water disposal level remained the same as in the previous year. Only 1% of the wastewater was insufficiently treated, 4% of wastewater treated to standard quality, and the other 95% met minimum standards without treatment.

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

Specific Water Use in 2015, by areas of activity

Activity	Water consumption for in-house needs	Disposal of polluted water into surface water bodies	UoM
Hydrocarbon production	1.0	0.002	m ³ /toe
Hydrocarbon transportation	0.001	-	m ³ /thousand t-km
LNG production	0.01	0.001	m ³ /toe

Consolidated Figures of Water Use in 2012–2015, thousand m³



8.1.3. WASTE MANAGEMENT

The objectives of the company with regard to waste management are to:

- comply with regulations and other requirements;
- protect the environment and minimise risk relating to waste management;
- provide reliable waste management solutions to support projects and operations;
- optimise waste management by applying the Waste Management Hierarchy and encouraging a healthy company culture regarding environmental waste management.

The Waste Management Hierarchy lists the following solutions, ordered from highest to lowest priority:

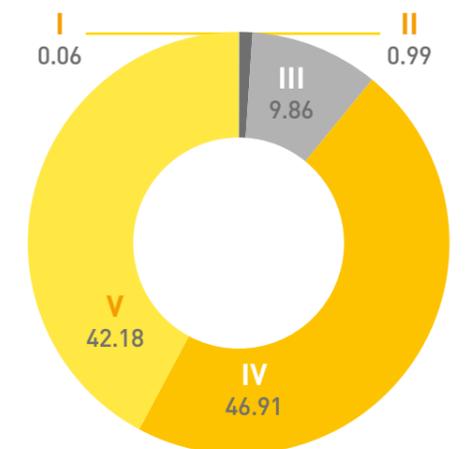
- avoiding waste by choosing alternative design, maximising use of raw materials before they become waste, avoiding packaging;

- separating waste to allow for reuse or recycling, reusing containers and packaging, recycling waste back into the plant process, recycling materials where a market solution is available;
- utilising wastes by reusing, recycling, or recovering energy from the waste;
- treating waste to reduce risks via decontamination or volume reduction;
- disposing in a safe and secure location such as a landfill that meets regulations.

Most of the company waste is classified as low-hazard (hazard class IV and V); it is mainly drilling waste and solid household waste.

Compared to the previous year, the total volume of waste decreased by 68% due to reductions in the amount of drilling waste, associated water, and water used for internal production and technological needs that is disposed of deep in the subsoil.

Waste Breakdown by Hazard Class in 2015 (not including drilling waste), %





As compared to 2014, the volume of waste transferred for use or disposal decreased by 24% due to a reduction in the total volume of hazard class II waste generated as well as due to the increase in hazard class III waste used at the company.

The volume of waste disposed at landfills in 2015 decreased by 25% compared to the previous year since it was temporarily impossible to dispose waste at the Sakhalin Oblast landfills. A portion of the waste was transferred for disposal at landfills in other regions. Waste accumulated at the end of the year will also be transferred for disposal in 2016.

Waste Management Indicators (including drilling waste) in 2012–2015, thousand t

	2012	2013	2014	2015
Amount of waste at the beginning of the year (all hazard classes)	0.000097	0	0	0
Waste generated in the reporting year (all hazard classes)	105.37	154.07	95.87	30.52
Waste used for internal production	0.04	0.04	0.01	0.02
Transferred to other organisations for use and disposal	6.86	2.72	2.37	1.81
Transferred to other organisations for burial at landfills, including:	4.05	3.60	2.67	2.01
in the Sakhalin Oblast	3.22	3.46	2.52	1.82
outside the Sakhalin Oblast	0.83	0.14	0.15	0.19
Waste disposed at own facilities (burial of drilling waste)	94.42	147.71	90.82	26.54
Amount of waste at the end of the year (all hazard classes)	0	0	0	0.14

Specific Energy Consumption, by areas of activity

Activity	Value	UoM
Hydrocarbon production	0.71	GJ/t of hydrocarbons produced
Hydrocarbon transportation	0.14	GJ / thousand t-km
LNG production	4.01	GJ/t of LNG produced

8.1.4. ENERGY

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

The company assets were built based on modern technologies and state-of-the-art solutions in the oil and gas industry. All production assets have their own autonomous power supply sources. Process equipment, boiler units, and power plants run on gas. Diesel fuel is used for assets standby power supply, 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.

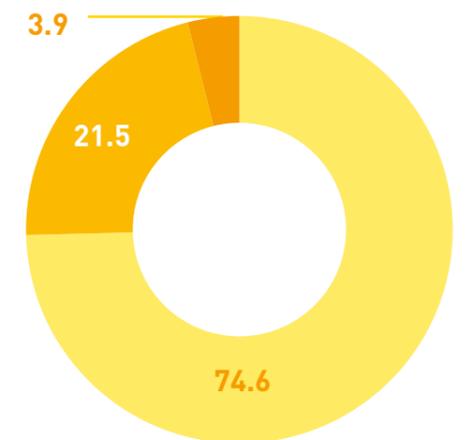
Sakhalin Energy assets are highly energy efficient and meet international standards. In 2014–2015, specific energy consumption by the assets producing hydrocarbons was less than 1 GJ/t of hydrocarbons produced. The value of this indicator for hydrocarbon-producing assets was 1.4 GJ/t of hydrocarbons produced in 2014, according to the International Association of Oil and Gas Producers.

Energy Consumption Balance of the Company in 2013–2015, mln GJ

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

* Generated from the natural gas produced

Energy Consumption in 2015, %, by areas of activity



- LNG production
- Hydrocarbon production
- Hydrocarbon transportation



8.1.5. GREENHOUSE GAS AND OZONE-DEPLETING SUBSTANCE EMISSIONS

Sakhalin Energy shares the global concern about climate change and routinely measures and controls greenhouse gas (GHG) emissions in compliance with the Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions developed by the American Petroleum Institute (API). Greenhouse gases include the following substances: carbon dioxide, methane, dinitrogen monoxide, and hydrofluorocarbons (HFC). In 2015, the global warming potential (GWP) indices of greenhouse gases changed.

GWP Indices of Greenhouse Gases in 2014–2015

Greenhouse gas	2014	2015
Methane	21	25
Dinitrogen monoxide	310	298
Hydrofluorocarbons	1300	1430

The company emitted slightly more greenhouse gases in 2015 compared to the previous years. This is because the GWP indices for greenhouse gases were changed and emissions from acid gas incineration during LNG production were added.

GHG Emissions in 2013–2015, mln t of CO₂ equivalent

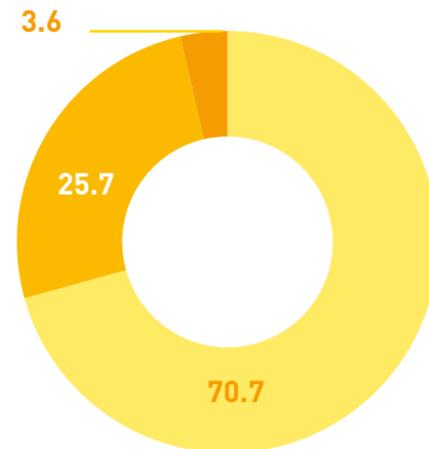
	2013	2014	2015
Direct emissions (coverage 1)	3.502	3.518	3.699
Indirect emissions (coverage 2)*	0.006	0.006	0.005
GHG emissions	3.508	3.524	3.705

* From electric power purchased

Specific Emissions of GHG, by areas of activity

Activity	Value	UoM
Hydrocarbon production	0.054	t CO ₂ eq. / t of hydrocarbons produced
Hydrocarbon transportation	0.008	t CO ₂ eq. / thousand t-km
LNG production	0.242	t CO ₂ eq. / t of LNG produced

GHG Emissions in 2015, %, by areas of activity



- LNG production
- Hydrocarbon production
- Hydrocarbon transportation

Structure of GHG Emission Sources in 2015, %

Source	%
Fuel consumption	89.510
Gas flaring	6.290
Uncontrolled leakages	0.793
Mobile sources	3.128
Gas venting emissions	0.120
HFC emissions	0.015
Indirect emissions	0.143

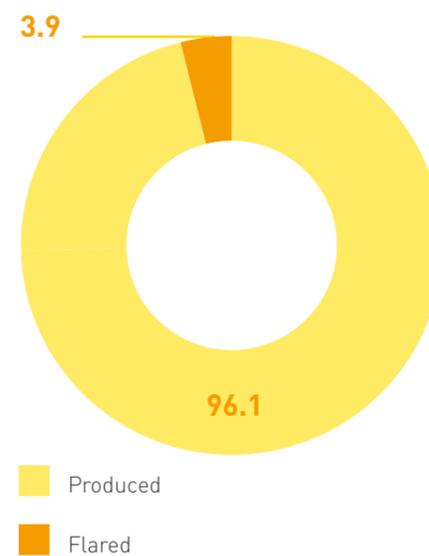
8.1.6. UTILISATION OF ASSOCIATED GAS IN PRODUCTION

The company strives to reduce associated gas flaring to a minimum. Associated gas produced at 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 2015 was 96.1%.

Utilisation of Associated Gas During Production in 2015, %



In 2015, 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.



8.1.7. ENVIRONMENTAL PROTECTION COSTS AND PAYMENTS FOR THE NEGATIVE IMPACT

To comply with international standards and Russian legislation, Sakhalin Energy implements measures to protect the environment. The cost of these measures in 2015 was 2,248 mln roubles.

The actions of Sakhalin Energy to protect the environment are overseen by federal and regional authorities, 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;
- 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 2015, regional offices of federal supervisory agencies conducted inspections and revealed violations related to permission documentation.

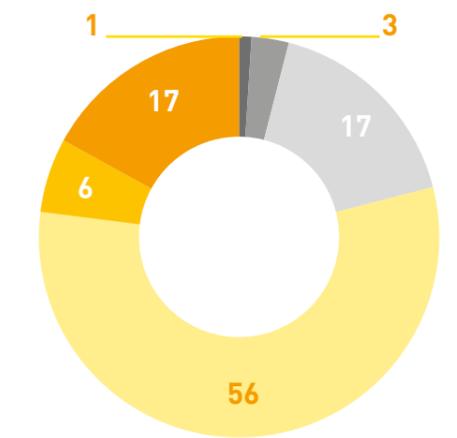
No significant violations of environmental legislation that could have had a negative impact on the environment were identified in 2015.

The share of payments above the permitted standards in the total payment for the negative impacts was 0.25, which was mainly due to the lack of disposal limits for waste at the landfills of the Sakhalin Oblast that are not included in the state registry of waste disposal sites.

Payments for Negative Environmental Impact in 2012–2015, thousand roubles

	2012	2013	2014	2015
Air emissions	4,664.7	3,498.8	11,516.884	4,931.253
Discharges into water bodies	242.5	127.1	166.208	91.602
Waste disposal	850.2	886.7	684.210	13,263.975
TOTAL	5,757.4	4,512.6	12,367.302	18,286.830

Environmental Operating Expenses Breakdown in 2015, %



- Atmospheric air protection and climate change prevention
- Wastewater collection and treatment
- Waste management
- Protection and restoration of land, surface and subsurface water, including offshore zone
- Biodiversity conservation and protection of natural territories
- Other environmental protection activities



8.2. Environmental Monitoring and Preserving Biodiversity



The company is supporting a number of local environmental monitoring and biodiversity preservation programmes to determine the condition of the environment, assess the impacts of production assets, and develop measures for eliminating or mitigating such impacts.

The company objectives compel to continue environmental monitoring and biodiversity preservation programmes.

The objectives are:

- risk management;
- complying with the Russian legislation and international best practices.

Local environmental monitoring and biodiversity preservation programmes have confirmed that the company is minimising the effects its production activities have on the environment through its environmental protection management system, which includes risk assessment and prevention, and prompt mitigation of identified risks.

In 2015, experts were brought in to conduct the following environmental monitoring and biodiversity preservation activities:

- soil monitoring in the area of impact from the onshore pipelines and Prigorodnoye production complex;
- river ecosystem monitoring in the area of impact from the onshore pipelines, OPF, and Prigorodnoye production complex;
- flora and vegetation monitoring in the area of impact from the onshore pipelines, OPF, and Prigorodnoye production complex;
- wetlands recovery monitoring;
- protected bird species monitoring in the Chaivo Spit area;
- Steller's Sea Eagle monitoring;
- offshore monitoring in the area of impact from the offshore platforms and marine assets at the Prigorodnoye production complex;

- ballast water control in the Aniva Bay coastal area near the Prigorodnoye production complex;

- Gray Whales monitoring.

The steps Sakhalin Energy takes in accordance with the Biodiversity Action Plan (BAP) help the company fulfil its commitments to minimise impacts on biodiversity and the environment.

In 2015, the Biodiversity Working Expert Group of the Ecological Council under the Sakhalin Oblast Governor founded by the initiative of the company in 2008 continued its activities. Representatives of supervisory authorities, non-governmental organisations, oil and gas companies, and research institutions meet twice a year to discuss the results of the studies conducted in the areas where the company assets are located as well as the issues of biodiversity conservation on the island. In particular:

- In March 2015, the meeting of the Biodiversity Working Expert Group was held

to discuss Sakhalin Energy and Exxon Neftegas Limited partnering to conduct seismic surveys on the north-eastern shelf of Sakhalin Island where the feeding ground of gray whales is situated. Also, group members discussed and approved the final version of the Biodiversity Action Plan in the Sakhalin Oblast.

- In May 2015, the Group meeting was focused on assessing the preparedness of oil and gas companies for rescuing oiled wildlife and birds.

In 2015, Sakhalin Energy continued to cooperate with the UN Development Programme / Global Environmental Facility (UNDP/GEF) and the RF Ministry of Natural Resources on Mainstreaming Biodiversity Conservation into Russia's Energy Sector Development Policies and Operations. As part of this project, a training session was held on reclamation and recovery of oil-contaminated and disturbed soils on Sakhalin Island at which scientists, experts, representatives of state authorities, public organisations,

and oil and gas companies discussed the best practices for reclaiming and recovering oil-contaminated and disturbed soils.

8.2.1. SOIL MONITORING

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

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

In 2015, soil monitoring was carried out at 100 test sites. According to the survey results, the soil characteristics around the company assets were close to the baseline indicators of the relevant soil types.

The soils of the ecosystems adjacent to 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. In 2015, no incidents were recorded related to soil damage or degradation caused by the operation of the company assets.

Benzopyrene, 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 oil hydrocarbons in the soils of the area potentially affected by the Prigorodnoye production complex was 42 mg/kg in layer 0–5 cm and 15 mg/kg in layer 5–25 cm, which is many times lower than the maximum allowable level of 1,000 mg/kg.

Reclaimed areas gradually recover in biological, geological, and chemical cycles of plant mineral nutrition elements, which positively affects the rate of vegetation growth. In 2015, a particular focus was made on assessing the measures taken to eliminate the degradation identified in some areas of the right-of-way in the previous years. Monitoring in 40 areas with a total length of over 70 km showed that 33 areas have no evidence of erosion. Recommendations were made for the areas where erosion was identified.

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

In 2015, no works causing soil disturbance were carried out. By the end of 2015, the area of disturbed land was 6.4 ha, where logging had been conducted for the OPF Compression Project in 2013 [for more information on the project, see Section 4.2.2.1 OPF Front-End Compression Project].



8.2.2. RIVER ECOSYSTEMS MONITORING

Special programmes have been developed to monitor the rivers. Under these programmes, the quality of surface waters and the bed sediments is monitored, and changes in the water bodies due to natural and man-made factors can be detected. Moreover, it is possible both to assess the impact of production assets on watercourses and aquatic ecosystems and to identify the inverse impact of the environment (changes in the river bottom structure and river bed configuration, changes in the hydrological regime, etc.) on the integrity of the engineering structures.

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

- hydrological characteristics of waterways;
- hydrochemical characteristics of water;
- condition of the bottom sediments in river beds;

- hydromorphological changes characteristics;
- benthic composition and abundance;
- area and quality of potential Pacific Salmon spawning grounds;
- ichthyological community in model waterways.

In 2015, hydrological and hydrochemical surveys were conducted:

- along the pipeline route from the Val River in the north of the island to the Maly Takoy River in the south (33 water bodies);
- in the area of potential impact from the Prigorodnoye production complex (the Mereya River and the Goluboy Stream);
- in the area of potential impact from OPF (the Vatung River).

As in previous years, the surveys were conducted during three phases of the hydrological cycle: 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 infrastructure assets) and downstream monitoring sections.

On the most river-crossing sites investigated (from the upstream to the downstream cross-sections) no significant hydromorphological changes were found in the river beds. Engineering surveys were conducted at the sites where river bed deformations were identified to draw up design documentation for future repairs. The crossings are in satisfactory condition, and no damaged utility lines were found.

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

- Physical properties of the waterways meet the regulatory criteria.
- The content of biogenic substances is within standard limits.

- Seasonal fluctuations in the concentration of suspended substances are within the natural value.
- The waterways are clean based in terms of the content of highly oxidising matter specified by BOD5 (biochemical oxygen demand for five days) values.
- Of all the studied metals, concentrations of iron and copper had the highest variability. In the most of waterways, the content of these metals exceeded relevant MPC standards, which is typical for the local surface waters of Sakhalin due to its geochemical specificity.
- No contamination of surface water with oil products, phenols, or ASAS (anionic surface-active substances) was revealed.
- The content of oil products in bottom sediments changed just slightly in different seasons. The concentrations in the monitoring cross-sections corresponded to the values measured in the baseline cross-sections.

- The particle size distribution of bottom sediments in almost all of the waterways was homogeneous in all seasons.

In 2015, benthos monitoring studies continued. The variability of benthos quantitative indicators was caused by natural processes. Differences in the composition and abundance of benthos at different cross-sections are associated with the granulometric characteristics of soil and the variability of the hydrological characteristics within the river bed.

The water quality and environmental state of waterways were analysed using the Woodiwiss biotic index and structural indices. Overall, most of the waterways studied were characterised as “clean”, the water quality level was Class II.

In 2015, a three-year cycle of studies of the ichthyic fauna was completed in the basin of the Lazovaya River and its tributaries classified as freshwater waterways of south-eastern and southern Sakhalin. During the monitoring period

(2013–2015), 16 species of fish and fish-like vertebrates from seven families were found in the basin of the Lazovaya River. The structure of species composition of the river is fairly stable. Seasonal changes in fish species composition, abundance, and biomass during the studies in the Lazovaya River were associated with the spawning run of Pacific Salmon and other species as well as feeding migrations of fishes. It was noted that there was a reduction in the quantity of fish that are of interest to amateur fishermen.

In 2015, the Pacific Salmon monitoring was continued in the Goluboy Stream, which flows partly through the area of the Prigorodnoye production complex. The spawning grounds in the stream were less populated than the long-term average annual level, the values varied from 0.01 (in top areas) up to 40 individuals / 100 m² (in the LNG plant area). The estimated number of Pink Salmon spawners that entered the waterway in 2015 was 0.5 thousand individuals. According to the study results, the occupancy rate in September was 25% of the norm, which in some cases exceeded the occupancy rate of the rivers in Aniva Bay.

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

8.2.3. FLORA AND VEGETATION MONITORING

Vegetation is a key biota component which determines the scenery and plays a significant part in the life of nature. Vegetation prevents river banks and hill-side scouring as well as soil erosion; it affects the atmosphere, waterways, lakes and swamps, underground water, and wildlife. Plants are sensitive to environmental changes caused by both natural phenomena and man-induced impacts. The latter can also lead to the extinction of some plant species and emergence of new ones, which can ultimately result in a partial or complete change of the existing vegetation community.

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

The Monitoring Programme includes the following objectives:

- to control the condition of vegetation on the areas adjacent to the company assets;
- to evaluate and forecast natural and man-induced changes / successions in the plant communities;
- to control 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 2015, the company monitored the state of the environment in the vicinity of the Prigorodnoye production complex on the shore of Aniva Bay, along the right-of-way of the onshore pipelines which run from

the north to the south of the island, and in the vicinity of OPF, at a point which is 6 km from Lunskey Bay. As in 2014, 162 species of vascular plants were identified at the sample sites around the production assets. About 570 species of vascular plants were found along the onshore pipelines, which is approximately one-third of Sakhalin plants.

The results of the 2015 Monitoring Programme show that the tree layer at the sample sites does not show any decrease in the number of individual tree species. Insignificant variations in the population of shrubs and herbs at some sample sites are due to natural reasons associated with the specifics of their biology.

Man-induced impacts on vegetation are observed only at the boundary of the right-of-way passing through dark coniferous forests due to stronger wind and light factors. To improve the microclimatic conditions, the company implements a range of actions designed to protect the young undergrowth along the forest edge in those identified areas.

The studies demonstrated that some epiphytic lichens had experienced a certain impact initially associated with the change in the microclimatic conditions (stronger lighting and wind, dusting caused by soil denudation) occurred during the construction of the company 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. Twelve protected lichen species are included in the Monitoring Programme to control their habitat condition. The results of the 2015 Monitoring Programme indicate all habitats of protected species are in satisfactory condition.

Studies of habitats and conditions of 18 protected species of vascular plants, three

of which are on the IUCN Red List (Chosenia Arbutifolia, Sakhalin Spruce, and Japanese Yew), indicate they are in good condition. There is only one exception, a 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. After corrective measures were taken to improve the soil hydrology in that area, no new trees appear to be distressed.

In 2015, the assessment of the degree and nature of the right-of-way regrowth showed a good growth of vegetation over more than 80% of the surveyed sample sites on the right-of-way. Herewith, more than 60% of the sample sites are covered by a dense grass canopy and 30% have a projective cover of at least 50-60%. Individual lightly overgrown areas are located mostly on steep slopes and in the northern parts of the island, which is explained by insufficient soil fertility in sandy and clayey land plots. However, even in these areas there are changes for the better.



8.2.4. WETLANDS RECOVERY MONITORING

Sakhalin Energy implements the long-term Wetlands Recovery Monitoring Programme within the right-of-way, the objectives of which are:

- to control wetlands recovery processes within the right-of-way and adjacent areas;
- to assess all potential negative impacts on wetlands resulting from onshore pipeline construction and operation activities;
- to develop impact mitigation measures.

In 2015, 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.

It was noted that the degree of grass cover reinstatement on the right-of-way was good in all the areas. In 17 of 30 wetland

areas (57%) recovery of natural wetland ecosystems can be seen on the right-of-way. In other areas, vegetation is reinstated with the species typical for the vegetation cover of adjacent wetlands and the species not typical for these ecosystems. This is typical for the initial stages of vegetation recovery. In some areas of the right-of-way, recovery of moss, lichen, and shrub covers is observed. None of the surveyed areas demonstrated underflooding or drying out as a result of hydrological regime violation.

The condition of the protected plant species (Pogonia Japonica and Dicranum Drammondii moss) found in the surveyed areas is good. The 2015 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. PROTECTED BIRD SPECIES MONITORING

In 2015, the monitoring of protected bird species took place in the Chaivo Spit wetlands inhabited by the Sakhalin Dunlin and Aleutian Tern colonies.

Over the years of monitoring, the total number of avifauna species on the Chaivo Spit has reached 193, and 33 of which are classified as protected at the regional level (Red Book of the Sakhalin Oblast, 2001), and ten species are on the Red List of IUCN (IUCN, 2010).

In the 2015 breeding season, 83 species of birds were recorded, 14 of which are rare and protected species. The key species that have been monitored on the Chaivo Spit since 2004 are four regularly nesting

species: Steller's Sea Eagle, Sakhalin Dunlin, Aleutian Tern, and Long-Toed Stint. In 2015, nesting was reliably ascertained for all the key species, i.e. nests with eggs and younglings were found, and clutches and young birds were observed.

In addition, three new species were observed: the Little Bittern, which is listed in the Red Book of the Sakhalin Oblast as a limited species nesting on the range periphery; and the White-Winged Black Tern and Winter Wren, which are vagrant species not typical for the Chaivo Spit habitats.

Based on the results, ornithocomplexes on the Chaivo Spit appear to be in stable condition.

8.2.6. STELLER'S SEA EAGLE MONITORING

Steller's Sea Eagle is one of the world's largest birds 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 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 long-term variations in the main parameters of the indicator species (Steller's Sea Eagles and White-Tailed Eagles) within the control zone and in the impact zone. Based on a comparative analysis of the data, the man-made impact and the effectiveness of measures to mitigate it are assessed.

Monitoring is being conducted in Nogliki District within the 2-km corridor along the

onshore pipelines, 3-km zone around OPF boundaries, and in the control zone at a distance of up to 2 km from the Lunsky Bay shoreline.

The 2015 breeding season was more favourable than the 2014 one. During the field studies, 172 birds were identified (119 individuals in 2014). In 2015, the Sea Eagles bred up 12 younglings in the area of potential impact (6 younglings in 2014), and 22 younglings successfully bred up in the control zone as well (seven younglings in 2014).

The condition of Steller's Sea Eagle nesting pool within the impact zone and the control zone can be considered to be good. Within the potential impact area, 80% of all marked nests were in good or satisfactory condition, within the control zone of Lunsky Bay—84%.

During the ten-year period, there were no significant changes in the condition of Steller's Sea Eagles nesting pool.



8.2.7. OFFSHORE ENVIRONMENT AND BIOTA MONITORING

In 2015, Sakhalin Energy continued the Marine Environmental Monitoring Programme, with a view to analyse the hydrological, hydrochemical and hydrobiological characteristics of the marine environment and biota condition within the area of potential impact from its offshore production assets.

As a result of the studies, which were carried out with a consistent methodological approach, multi-year comparative data were obtained on the distribution of the qualitative and quantitative characteristics of marine biota and its habitat both near the production assets (in the cross-section area) and outside its boundaries (in the area of potential impact and in the baseline area).

Based on this comparative data, scientifically robust conclusions can be made on the condition of the offshore ecosystem; and impacts can be promptly detected, prevented, or minimised.

Thus, the comprehensive offshore survey programme in 2015 included environmental

monitoring studies around the PA-A, PA-B, and LUN-A offshore platforms and the wellheads of abandoned appraisal wells located in the Piltun-Astokhskoye and Lunsokoye fields, and also in the areas of oil and LNG export terminals at the Prigorodnoye Port in Aniva Bay.

The key conclusions of the 2015 monitoring are:

- Hydrochemical parameters including oil hydrocarbons, heavy metals, phenols, and detergents complied with the baseline values approved for these water areas and with the standards established for the fishery water bodies.
- The content of chemicals (phenols, detergents, oil hydrocarbons, and heavy metals) in bottom sediments was distributed unevenly due to the regional geology and the distribution of different types of seabed. As a whole, the concentrations were varied within the baseline ranges and had lower values, which could result in biological effects.

- Oil hydrocarbons and methane were not detected near the wellheads of abandoned appraisal wells.
- Benthos and plankton communities demonstrated high species diversity with high quantitative values, which indicates the habitat near the production assets has favourable environmental conditions. The characteristics identified in the studied areas were generally consistent with the baseline values. No noticeable effect on the marine biota was detected from production.

8.2.8. BALLAST WATER CONTROL

Every year, more than 200 oil and gas tankers from various worldwide ports (Japan, South Korea, China, Taiwan, etc.) arrive at the Prigorodnoye Port. International experience shows that the ballast water taken in these ports for the purpose of vessel stability may contain dangerous invasive species of flora and fauna. The company takes a whole range of actions on ballast water control to preserve the unique ecosystem of Aniva Bay.

Exchanging ballast water in the open sea is an effective way to prevent transferring invasive species in accordance with the International Convention for the Control and Management of Ship's Ballast Water and Sediment. According to the Convention and taking into account the international best practices, in 2009, Sakhalin Energy developed and introduced a corporate Ballast Water Management Policy. Russia joined the IMO Convention in April 2012.

To ensure compliance with this Policy, the documentation of each vessel is checked,

and ballast water undergoes express physical and chemical tests. Only after it is confirmed that ballast water was exchanged in the open sea, water discharge is permitted in the Prigorodnoye port.

Along with these control measures, the company conducts biological testing of the ballast water in tankers and monitors flora and fauna in Aniva Bay. In the period from April to November, when the risk is highest for invasive species to be introduced and adapted, samples of phyto- and zooplankton are taken from each vessel, when technically possible. The results of multiyear monitoring indicate that there are no dangerous invasive species in the ballast water of tankers entering the Prigorodnoye port. This means that all tankers are following company rules and, consequently, comply with the International Convention.

Environmental monitoring has been conducted since 2007 to assess the condition of flora and fauna in the Aniva Bay coastal area. Spatial and seasonal

variability of qualitative and quantitative characteristics is analysed within the planktonic and benthic communities monitoring programme.

As a result of long-term monitoring, a significant amount of new data on Aniva Bay flora and fauna has been obtained. Over 600 species of phytoplankton, over 90 forms of zooplankton, about 40 species of ichthyoplankton, and 160 benthic species have been identified. New species of plants and animals have been discovered that had not been observed in Aniva Bay before but that are biogeographically and environmentally related to local inhabitants.

During the environmental monitoring, no protected species of flora and fauna were observed in the Prigorodnoye port water area.



8.2.9. GRAY WHALES MONITORING

The company is committed to gray whales monitoring and preservation, as the Okhotsk-Korean gray whales are currently classified in the RF Red Book as threatened and by IUCN Red List as critically endangered. Sakhalin Energy allocates considerable resources to the monitoring programme, far more than required by standard procedures included in the company area of liability. Other protected cetaceans such as the Bowhead Whale, North Pacific Right Whale, Fin Whale, Curvier's Beaked Whale, and Harbour Porpoise and pinnipeds such as the Steller's Sea Lion can be observed in the vicinity of the company offshore assets as well. 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 2015, as in previous years, Sakhalin Energy (in close cooperation with

Sakhalin-1 operator, Exxon Neftegas Limited) continued the Integrated Monitoring Programme near the North-Eastern coast of the Sakhalin Island. The Programme consists of scientific study and research of whale distribution, food resources, acoustic monitoring, photographic identification of individual whales, and assessment of their external appearance, and gathering biopsy samples for genetic analysis.

According to preliminary data obtained during the field season in 2015, 168 gray whales were identified, including 11 new calves and three adult whales that had not been previously registered in north-eastern Sakhalin waters. They have been recorded in the photo catalogue, which includes 259 animals. As in the previous years, gray whales were observed in both feeding areas, Piltun (coastal) and Morskoy (offshore). Same common factors as in the previous years were noted in regards to their distribution. A full scope of acoustic monitoring, survey of structure and variety of benthic

community was performed. The scientists also took samples of tissues from nine whales.

In 2015, the company conducted 4D seismic surveys in Lunskeye and Piltun-Astokhskoye licenced areas. The seismic surveys were designed and carried out in compliance with Russian legislation and international standards. In 2015, Sakhalin Energy and Exxon Neftegas Limited carried out geophysical researches near the Piltun feeding area. In order to reduce the cumulative impact of simultaneous operations, the companies worked sequentially, according to a schedule they had agreed upon.

In compliance with the SEER conclusion, Sakhalin Energy, in co-operation with experts from the Western Gray Whale Advisory Panel (WGWAP) to the International Union for Conservation of Nature (IUCN), developed some additional mitigation measures to reduce the impact on gray whales. In particular, safety zones were established around

the research vessel; additional real-time acoustic and visual monitoring was conducted (to prevent the noise impact). In the course of the seismic survey, an independent observer from IUCN supervised all mitigation measures.

Not a single gray whale was observed within the buffer zone around the seismic survey vessel during the surveys. According to the onshore monitoring data, there were no gray whales (mother and calf pairs) present within the area affected by 156 dB sound (behavioural effect level). The seismic survey operations were started and completed in July, before most of the gray whales returned to the feeding areas of north-eastern Sakhalin.

8.3. Pipeline Right-of-Way Maintenance



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

The list of RoW monitoring actions for 2015 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.

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

Repair and maintenance of the RoW were completed in December 2015, as planned. Work was performed at 22 plots and included eliminating the consequences of natural erosion as well as repairing existing anti-erosion structures.

Landslide sites have been identified in Makarov and Dolinsk districts. Landslides on those sites were triggered by the construction of telephone lines done by third parties. Stabilising measures for three sites will be carried out in 2016.

As for one water crossing and one landslide which became active, a special subcontractor completed bank protection repair and right-of-way stabilisation. Several landslides were observed during the 2015 monitoring. Design engineers completed required surveying and started to develop plans to mitigate the impact of landslides.

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 and duly deployed at all of the company assets.

The company has concluded contracts for OSR services to be provided by the professional emergency response teams of:

- CREO (Center of Rescue and Ecological Operations) for onshore assets;
- 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 the Prigorodnoye port.

The number and volume of oil spills have decreased significantly in recent years (since 2010), with only 23 emergency oil spills totalling 118.50 litres reported between 2010 and 2015 versus 21 emergency spills releasing 3504.46 litres of oil in 2008–2009.

In 2015, the total amount of crude oil and petroleum products spilled was just about 8 litres.

The ratio of the total hydrocarbons spilled (26.54 bbl) to the total hydrocarbons produced (ca. 396 MMbbl in 1999–2015) is less than 0.0000067%.

None of the project-to-date crude oil and/or petroleum product spills from the company 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 ready to implement 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 involving over 10 vessels took place in Aniva Bay in May 2015.

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.



personnel practised capturing, hazing, and transporting birds. In October, a two-day theoretical and practical training course in bird hazing, capturing, and cleaning was conducted. The company maintains a database of trained personnel who are able to provide aid in case of emergencies on Sakhalin.

In autumn 2015, Sakhalin Energy participated in a meeting with experts from MERRAC NOWPAP (Marine Environmental Emergency Preparedness and Response Regional Activity Centre) to discuss the issues of oiled wildlife response.

8.4.2. OILED WILDLIFE REHABILITATION

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

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.

It remains 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 Lunsy Bay and at the pipeline maintenance depot (PMD) in Gastello.

In May 2015, during a regular OSR exercise on the Aniva Bay coast, company

Social Impact Management





In 2015, the employee opinion survey showed that **98%** of the company employees were ready to recommend Sakhalin Energy as a responsible employer.

9.1. Personnel: Management and Development

9.1.1. APPROACHES TO HR MANAGEMENT AND HR POLICY

The HR Directorate meets the company manpower needs, which includes preparing organisational changes for upcoming large-scale projects, training and retaining current 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 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 offices and facilities.

The company 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 to contribute to the growth of the company using their knowledge, skills, and abilities. Employee engagement is measured annually via employee opinion surveys and is viewed as one of the most important indicators of employee work satisfaction at the company.

In 2015, 1,901 people participated in the employee opinion survey, which is about 90% of the employees in the company. The survey showed that the general level of employee engagement was very high—84%. Employees continue to point out how seriously the company commitment is to safety and work quality, occupational safety and the environment, and equipment reliability and process safety. They would recommend Sakhalin Energy as a reliable and socially responsible employer that offers an attractive remuneration and benefits package. 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.

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 documents, methods, and tools that governs the company 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 HR policy. These processes are based on our HR management policy, which is in line with international standards.

The HR Directorate makes maximum use of human capital management (HCM) software from SAP. This allows to significantly reduce time and costs and to optimise 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.



9.1.2. GENERAL INFORMATION

As of 31 December 2015, there were 2,230 people on the company payroll, including 1,959 Russian employees, which is 88% of the total. Sakhalin Energy operates mostly on the territory of the Sakhalin Oblast, Russian Federation. There were 2,199 people working in Sakhalin, and 31 working in the Moscow office.

The company strives to hire as many Russian citizens as possible, mostly Sakhalin residents, to work on the Sakhalin-2 project. This approach is set forth in the company HR policy and complies with the terms of the PSA. At the end of 2015, 1,192 people, which is 53% of the personnel, were residents of the Sakhalin Oblast.

At the end of 2015, 26% of company employees were working on a rotational basis and living in hotels and rotational camps that have been built in accordance with Russian legislation and best international practices.

Three hundred seventy-four of the Russian employees were in managerial positions (see the Structure of Personnel in Managerial Personnel Structure diagram), 200 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 9.1.7.3 Personnel Training and Section 9.1.7.4 Traineeship Programme).

In 2015, 63 employees were granted child care leaves. Among employees who took advantage of this right were two fathers. During the same period, 47 employees (46 women and one man) resumed their job duties at the end of their child care

leave. Of these, 41 people continued their employment with the company.

About 28% of the employees are women (627 people at the end of 2015). Of these, 78 occupy executive positions, making up 17% of the company management team (see the Structure of Personnel in Managerial Personnel Structure diagram).

The number of employees has been increasing steadily over the past three years. This is mainly due to the new projects underway to construct a booster station and upgrade the offshore facilities. Unlike the tourism or agricultural industries, the company does not experience significant seasonal fluctuations in the number of personnel.

Since Sakhalin Energy is actively replacing foreign workers with Russian personnel, we are in need of Russian experts, including technically skilled ones.

In 2015, 171 employees (133 men and 38 women) resigned from their positions in the company. This number includes 50 foreigners and 121 Russian employees (including 52 residents of the Sakhalin Oblast). This gives a turnover rate of 8.14%. The voluntary turnover rate of critical technical personnel was 4.95% in 2015.

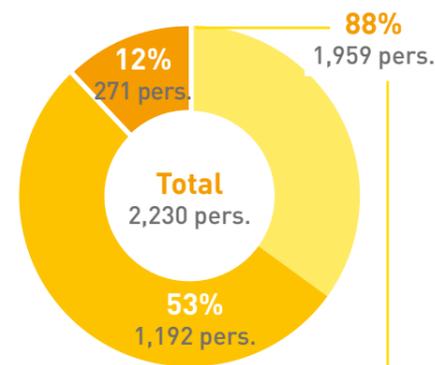
The number of employees who left the company in 2015 is broken down by age group in the table below.

Number of Employees Who Left the Company in 2015, by age group

	Persons	%
Below 30 years	35	20
31–50 years	99	58
Above 50 years	37	22
Total	171	100

Personnel Structure

- Russian personnel
- Including Sakhalin residents (61% of the Russian personnel)
- Foreign personnel



At the end of 2015, the average age of employees was 38 years. Employees aged under 50 accounted for more than 87%.

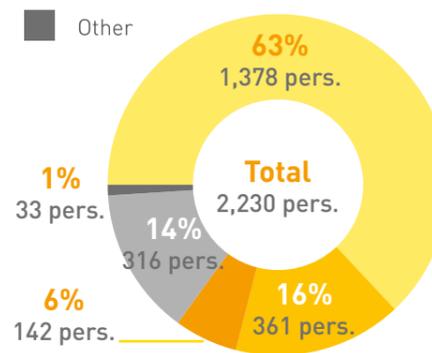
The working hours established by the company are found in the Internal Working Rules:

- 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 assets are shown in the Company Employee Working Schedules table.

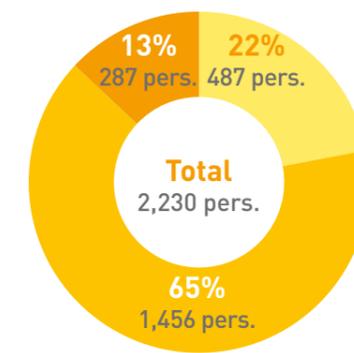
Personnel Structure by Facilities

- Offices
- LNG plant
- OPF
- Platforms
- Other



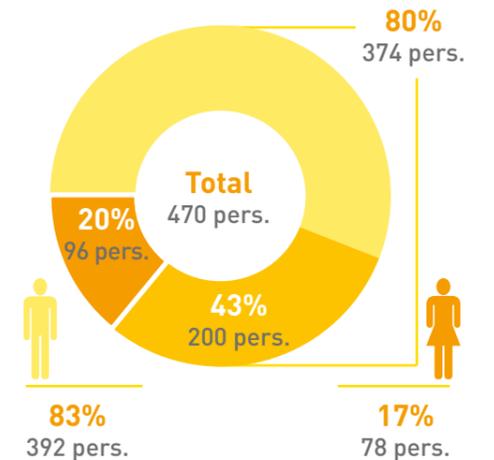
Personnel Age Structure

- Below 30
- 31–50 years
- Above 50 years



Managerial Personnel Structure

- Russian personnel
- Including Sakhalin residents (53% of the Russian personnel)
- Foreign personnel



Company Employee Working Schedules

	5/2	Rotation-based	Shift work
Offices			
LNG plant			
OPF			
Platforms			
Other			

Changes in the Number of Personnel in 2012–2015, persons

Year	Russian personnel		Foreign personnel	Total
	Of which Sakhalin residents (61% of the Russian personnel)			
2012	1,806	(1,129)	246	2,052
2013	1,862	(1,163)	282	2,144
2014	1,921	(1,194)	277	2,198
2015	1,959	(1,192)	271	2,230



9.1.3. RECRUITING PERSONNEL AND ONBOARDING NEW EMPLOYEES

At Sakhalin Energy, we recruit new personnel based on the manpower plan and recruitment plan developed and approved annually. Various tools and methods are used to attract potential candidates and advertise new vacancies, such as:

- posting on the official website of Sakhalin Energy (in 2015, the method for submitting CVs on the website was simplified). The website offers guidelines for uploading CVs; applicants can edit their CVs in their personal accounts;
- providing information to Yuzhno-Sakhalinsk Labour Centre (monthly);
- working with recruitment agencies;
- participating in career fairs;
- publishing vacancy lists in other online resources and print media;
- using social networks to search for candidates;
- promoting the company Employee Referral Programme, according to which Sakhalin Energy employees can recommend candidates and are given a bonus if these candidates are hired to work at the company;
- attracting skilled employees from shareholder companies.

In 2015, Sakhalin Energy participated in three career fairs in Yuzhno-Sakhalinsk and in similar events in Moscow, Tomsk, Ufa, Vladivostok, Sochi, and Ukhta. As a result, Sakhalin Energy received more than 500 applications for vacancies.

In 2015, the company hired 206 people (150 men and 56 women). Forty-nine of the personnel hired were foreign employees, and 157 were Russian nationals (including 73 residents of the Sakhalin Oblast).

The number of employees hired in 2015 is broken down by age group in the table below.

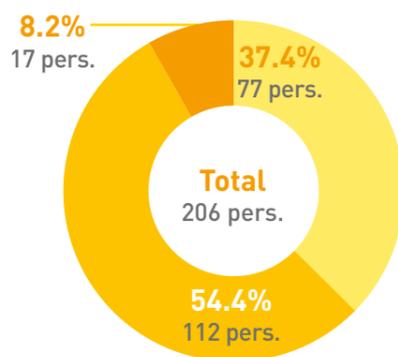
Number of Personnel Hired in 2015, by age group

- Below 30 years
- 31–50 years
- Above 50 years

One of the key performance indicators of the HR Directorate remains the percentage of critical technical jobs that are filled. In 2014, the figure was 93.8%, and in 2015, 95.7%.

Sakhalin Energy continues its new employee onboarding programme, which aims to maximise productivity of new employees from their first day at work. In 2015, new workers coming from other regions received the company guidebook, which describes the main stages of moving to Sakhalin and the living conditions on the island.

Once every two months, new employees are given a presentation about the company with a full overview of the specific features of the production activities and processes and the interaction between the units and stakeholders.



9. Social Impact Management

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 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 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 remuneration policy, practices, and methods are designed to recognise and encourage excellent personal and production performance. The company 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 subdivisions. This is achieved through the following types of bonuses as per the Regulations on Labour Remuneration, Bonuses, and Social Benefits:

- annual performance bonus;
- special recognition award (SRA);
- long service award (10 years or more);
- employee referral reward;
- one-off payment to 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 letter for many years of excellent work and for achievements in the development of fuel and energy sector and petrochemical industry on the occasion of professional holidays (Oil and Gas Industry Workers Day) or company 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 2015, the minimum salary in the company was five times higher than the minimum wage established by Russian legislation. Sakhalin Energy labour remuneration expenses totalled 13.85 bln roubles in the reporting year, with award / bonus payments totalling 3.56 bln roubles.



9.1.5. SOCIAL GUARANTEES, BENEFITS AND COMPENSATIONS

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

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

- voluntary medical insurance for employees and their families;
- health benefits;
- accident and sickness insurance;
- travel insurance;

- free meals at the company assets and free meals in the company 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 Far North areas and equivalent areas;

- corporate pension programme;
- material assistance in case of the birth (or adoption) of a child; and difficult personal circumstances;
- sport and recreation facilities (see Section 9.3 Occupational Health);
- additional benefits for female employees on maternity leave;
- programmes for the company employees' children.

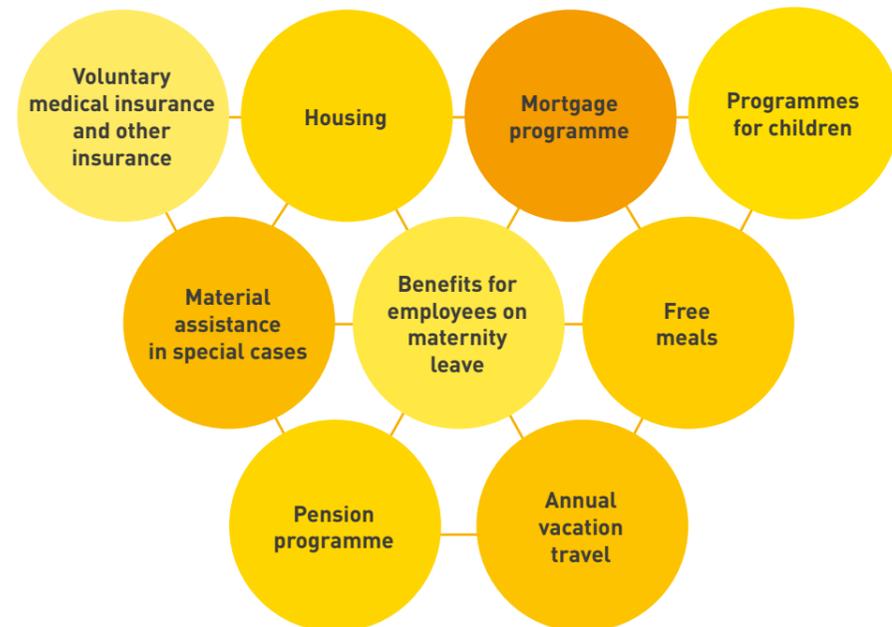
Housing for Employees (and their Family Members)

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, in particular:

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

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

Additional Social Guarantees and Benefits Package at Sakhalin Energy



Medical Insurance

As part of the health insurance contracts, the company continues to contract with SOGAZ Insurance Group for voluntary medical insurance programmes, voluntary insurance against accidents and diseases, travel insurance, and insurance against accidents for children participating in the Happy Holidays Programme. The company also aids employees in purchasing voluntary medical insurance policies for family members on favourable terms.

In 2015, the Voluntary Medical Insurance Programme was expanded. It was supplemented with a number of additional services, and new medical institutions were added to the existing list.

In the five years of working with SOGAZ, 132 company employees have received insurance payments under the Contract of Voluntary Insurance against Accidents and Diseases totalling more than 121 mln roubles, including more than 38 mln roubles in 2015.

Mortgage Programme

The mortgage programme is governed by the Regulations on Payments to Employees. Since the beginning of the mortgage programme, 126 Russian employees (6.6% 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 Plan

The company offers a corporate pension plan under which employees and the company pay contributions towards occupational pension schemes.

Participation in the corporate pension plan is voluntary and allows each employee to independently pay into their retirement pension.

At the end of 2015, 24% of the company Russian employees are enrolled in the corporate pension plan.

The company contributed a total of 145 mln roubles to Gazfond from 2011 to 2015.

In 2015, in order to provide staff with health benefits aimed at improving health, preventing and early detection of diseases, as well as health protection and treatment, the company launched a new project as part of the expansion of the Voluntary Medical Insurance Programme. The programme provides comprehensive specialised medical care for Russian employees working on a rotational basis. This benefit includes treatment at sanatoriums, rehabilitation treatment, and a complete medical examination at leading medical and preventive treatment facilities of the Russian Federation.



Programmes for the Children of the Company Employees

Wonder Island Leisure and Development Club

Since 2012, Wonder Island Leisure and Development Club in Zima Highlands RC has been providing early childhood education, art classes, and afternoon childcare groups for children who do not attend kindergarten.

Happy Holidays Programme for School-children

Children of company employees have the opportunity to attend Happy Holidays Leisure and Recreation Programme during the summer at the sports and cultural facilities of Zima Highlands RC. The programme has been offered for five 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 2015, the theme was "The World of Your Capabilities." The activities were aimed at developing each child's individual qualities.

The number of children participating in the programme increases every year. In 2015, 652 children attended the five sessions. This is 5% more than in 2014.

Other

Employees and their families can use company shuttle buses, which run on a set timetable and stop at city educational institutions.

School counsellors are available for employees and their children. High school students can take the Proforientator test, which can help them identify careers that may interest them.

9.1.6. INDIVIDUAL PERFORMANCE REVIEW OF THE EMPLOYEES

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

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.

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

Individual Performance Review of the Employees





Personnel development

- Training planning and implementation
- Competence assessment
- Career planning and development
- Recruitment and development of talent pool
- Development of young professionals
- Traineeship and pre-graduation internship
- Development of scientific potential
- Retention of knowledge
- Scholarship programme

9.1.7. STAFF LEARNING AND DEVELOPMENT

9.1.7.1. General Information

Staff development at all levels is a key element in creating and maintaining a high level of professionalism and motivating personnel as well as retaining them at Sakhalin Energy. To ensure the best performance, the company strives to maximise the potential of its employees, taking into account diversity and individual characteristics.

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

- personnel training planning and implementation;
- annual competency assessment;
- career planning and development;
- recruitment and development of the talent pool;
- development of young professionals;

- development of scientific potential;
- retention of knowledge;
- scholarship programme;
- traineeship and pre-graduation internship programme.

New Cooperation Models

In September 2015, representatives of the Sakhalin Energy shareholders Sergey Khomyakov, Deputy Chairman of the Board of Directors of Gazprom, and Hugh Mitchell, Chief HR and Corporate Officer of Shell, visited Sakhalin. The main purpose of the visit was to discuss cooperation in personnel issues in the framework of the Shareholders Agreement on the Strategic Cooperation. This new model of cooperation opens up opportunities for company personnel such as participating in joint training programmes, developmental assignments programmes, etc.

9.1.7.2. Staff Assessment

The company uses the competency approach for HR management. A profile of functional, leadership, and personal competencies 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 personnel decisions. Job competency profile is a list of competences and levels of those needed for a certain job.

Competence Based Assessment is a process that gives a clear picture of the professional and behavioural requirements for employees depending on their skill pool, position, and current duties. Identifying employee competency levels in their functional areas and further developing them are important for successful business tasks fulfilment. Company employees can assess their competencies and have them approved by their line manager via an electronic automated system—ESS/MSS portal (a SAP HCM module).

In 2015, 98% of competency profiles for personnel (office staff, specialists, and managers) were posted in SAP HCM, and 86% of personnel underwent a full competency assessment. The company continues to use competency level reports for personnel as a tool that helps to identify cases when the actual competency level of an employee does not match the standard competency level of that employee's position in terms of organisational units or skill pools.

To assess the leadership potential and managerial qualities of personnel, the company uses modern tools, including:

- **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 company employees JG5 and above. The assessment criteria are known by the acronym CAR: Capacity, Achievements, and Relationships.

In 2015, CEP was calculated for 993 employees. The assessment results are used for human resources planning, creating a successors pool in the company, planning the individual and career development of the employees, as well as developing staff retention programmes.

- **Assessment Centre**—a technology of integrated expert assessment of the employees' leadership competency, 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 2015, 92 employees of this category passed the Assessment Centre.

Since 2009, the company has assessed the leadership competency of 423 company 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. In 2015, 86 people underwent this assessment, including 74 individual and two team assessments, followed by sessions to interpret the results and prepare development plans.

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

- **Structured Interview.** In 2015, the Learning and Development department developed information sessions on the structured interview methodology during which videos were shown that gave examples of proper and improper behaviour of managers during the competency assessment. One hundred and sixty-six line managers were introduced to this methodology.

- **Personal and Business Competences Assessment Tests.** This new tool for assessing business skills has been successfully applied throughout the year. Currently, a company specialist can assess each business competency using a comprehensive, professionally designed test to help the line manager with the assessment. In 2015, 124 employees underwent this kind of assessment using a total of 266 tests. It is important that, in addition to the competency level, the tests determine the basic knowledge required for the given competency.

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

The **Competence Assurance Programme** 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. It is based on the criteria developed in accordance with the professional norms and the standards for performing job functions / tasks on a specific production site or type of 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. Assessing employee competencies also provides an opportunity to draw attention to the rules and standards of labour behaviour in the team and the attitude of the employees towards their work, which is an important component of operating hazardous production assets.

The assessment is conducted by experienced employees from among the production personnel. Specialised training and subsequent certification from City & Guilds international organisation allows them to master modern assessment methods and become familiar with the best international practices. The assessment is overseen by trained and accredited internal verifiers in order to ensure the assessments are made objectively, assessment conclusions are valid, and follow-up activities are offered to close any gaps.

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

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

Personnel training options include on-the-job training, e-learning, conventional training courses, workshops, and case studies. In 2015, 1,747 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 10.5 training man-days per employee (excluding on-the-job training). In 2015, Sakhalin Energy invested 325 mln roubles in personnel training.

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

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

- compulsory training in accordance with Russian laws;
- HSE training in accordance with internal company standards;
- vocational training;
- personnel development training.

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 competencies of the employees is carried out in the in-house technical training system. To do this, the PrD Technical Training Subdivision was established, which provides continuous technical training for technicians working at company production assets and for employees of the main contractors.

The PrD Technical Training Subdivision implements programmes and in-house technical courses:

- in the existing disciplines (LNG process technology, operation, repair, and maintenance of production equipment);
- on-the-job and off-the-job training in all disciplines;
- in developing practical process control skills on existing process training simulators and training equipment;
- in targeted modules aimed at developing specific technical competencies and specially adapted to the production assets;
- 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 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 carried out at the company hands-on training workshop by trainers and instructors in production technology, maintenance, and repair as well as by instructors using operations training simulators.

Learning Priority Areas at Sakhalin Energy

Compulsory training in accordance with Russian laws

- labour and safety;
- industrial safety;
- ecological safety.

HSE training in accordance with internal company standards

- process safety;
- prevention of emergencies and protection of facilities from emergencies;
- health protection.

Vocational training

- targeted professional training in technical and other disciplines;
- professional development;
- training of personnel in the operation of equipment (vendor training);
- international professional qualification (CIMA, ACCA, CIPS, NEBOSH, etc.).

Personnel development training

- leadership skills development for all levels of managers in programmes developed by the leadership competence model;
- PC skills, Internet and Intranet training and other IT courses;
- language proficiency.

Employee Training in 2015, by personnel categories

Categories	Number of personnel	Number of trained personnel	% of trained personnel
Managers	470	361	77
Specialists	1,433	1,066	75
Clerks	18	11	62
Workers	309	309	100
TOTAL	2,230	1,747	79

The company has made it a priority to study the best practices in industrial training, the integration of Russian and international approaches, the use of modern technologies in the educational process, as well as the development of classroom training, material, and technical equipment for industrial training.



9.1.7.4. Traineeship Programme

In order to ensure there are enough qualified technical specialists at the production assets, the company continues to implement the traineeship programme. Since 2003, 236 people have been trained under this programme.

At the end of 2015, 27 people continued training as company trainees. The programme focuses on professional development and further employment for young residents of the Sakhalin Oblast with blue-collar professions with specialisations the company needs. Programme participants are mainly

graduates of the Polytechnic College of the Sakhalin State University.

The technical training focuses on helping the trainees develop practical skills and acquire work experience. Practical lessons during which the trainees put into practice the skills they have learned

ensure that they master the material at 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.

At all stages of the traineeship programme, industrial and personal safety are emphasised for various types of work, and the trainees are taught the safety culture.

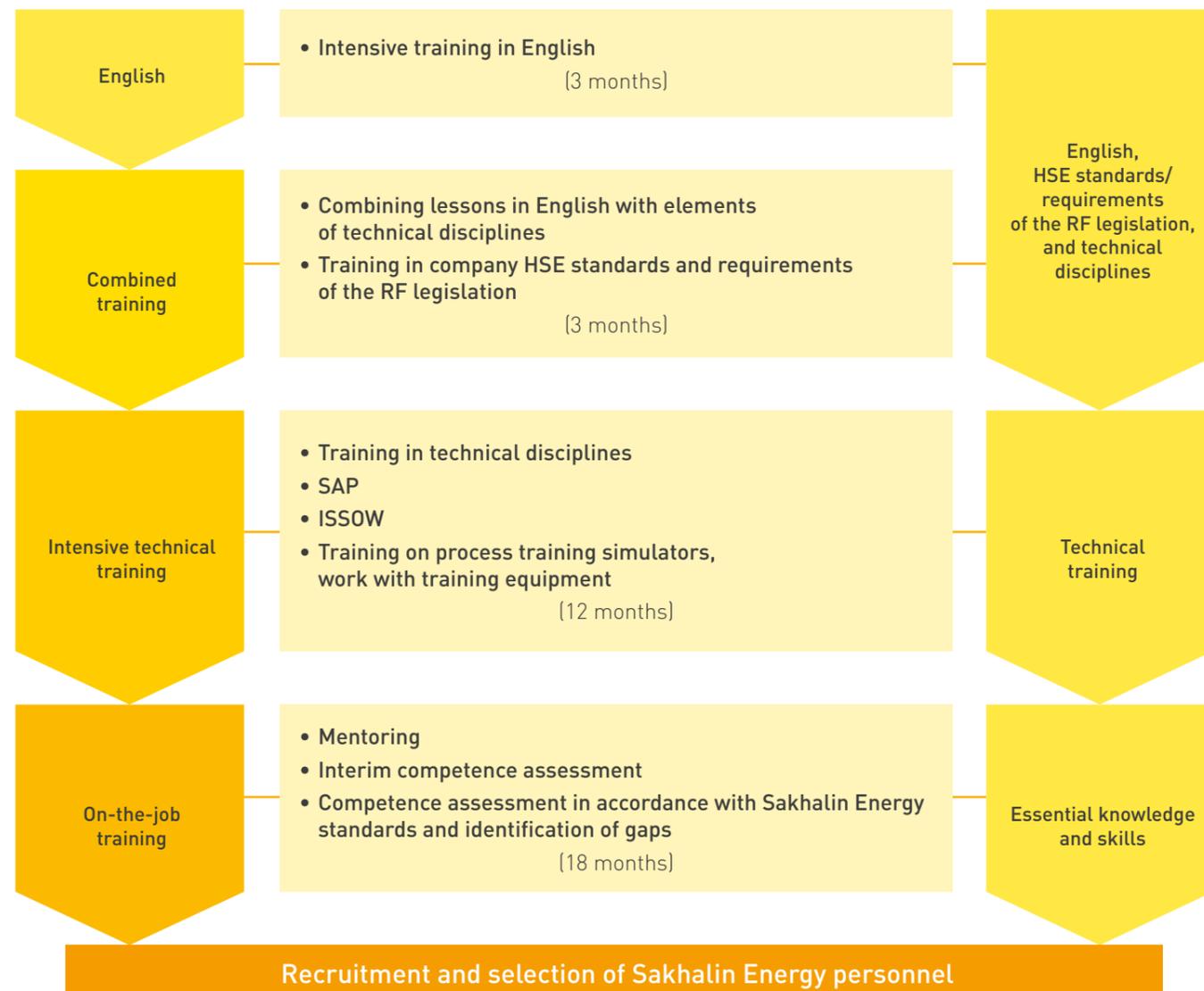
The programme graduates are in demand at all production assets. In hands-on setting, they demonstrate a high level of knowledge and practical skills acquired during the programme, steady motivation for further professional development, and commitment to the principles of the industrial safety culture.

E-learning

In the past three years, the company strategy has been to teach general business skills online. The company has developed the Competence Gap Closure Programme based on the competency assessment, which offers a series of online courses for developing each competency. E-learning at the Shell Open University and on ESS/MSS portal of SAP HCM

makes all employees aware of mandatory industrial safety standards and general principles of work and business ethics, making other resources obsolete. The number of e-learning courses designed specifically for the needs of the company is constantly growing. Building on this trend, the company is saving money, involving more employees in training, and providing them with necessary information in modern electronic formats.

Traineeship Programme (a three-year course)



Comment on the traineeship programme by Dmitry Merkurjev, a trainee who enrolled in the programme in 2010, currently a Mechanical Technician at the PA-A offshore oil production platform:

“The Traineeship Programme gives a graduate or junior staff member a great opportunity to start his or her career by acquiring the necessary set of knowledge about oil and gas production, industrial processes and principles of repair and maintenance of oil and gas equipment.

I now know English well enough to work with technical documents and communicate with foreign colleagues. What’s more, we were taught by experienced industrial training instructors

in key technical disciplines right in the Industrial Training subdivision at the LNG plant. They emphasised industrial safety and working with flow charts and technical documents for the equipment, which was later used for practical training.

The theoretical training and practical mastering of the material are structured so that future employees acquire the most relevant information. The management of the subdivision have taken significant steps to improve the programme. For example, they introduced mandatory rotation for trainees across all production areas of the LNG plant, and the trainees now have the opportunity to work at other production assets of the company under the programme.”



9.1.7.5. Successors Pool Planning and Development

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

- identification of potential candidates from among the Russian personnel to fill positions occupied by expatriate specialists and key and managerial positions occupied by Russian nationals;
- 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 2015–2019, potential successors (in the short- and long-term) were identified for 612 of the 673 positions within the scope of the succession planning (91%). For all employees included into the successor's pool, individual development plans were developed incorporating training and development events to be taken under the company's learning and development framework (professional training, development of leadership and management skills, developmental assignments, coaching, overseeing of projects, etc.).

9.1.7.6. Leadership and Management Development Programmes

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

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

In 2015, 147 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. In 2015, 87 employees participated in the programme as mentees, and 37 employees as mentors.
- Group mentorship. A series of sharing knowledge sessions under the Journey to Nine Planets project. The company leaders share their experience in building a career and managing projects and people as they relate to leadership competences. The audience includes high potential employees in managerial and supervisory positions and potential successors to leadership roles. Nine sessions were conducted in 2015.

Leadership and Management Development Programmes

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
Initial 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 Standard Programmes		

Stages of the Graduate Development Programme



9.1.7.7. Graduate Development Programme

Since 2010, the company has been implementing the Graduate Development Programme aimed to meet Sakhalin Energy needs for talented staff. In 2015, representatives of company shareholders began to participate in the programme.

The company organises systematic work with graduates in accordance with the three-year development programme (see Stages of the Graduate Development Programme above).

In 2015, the company hired 12 graduates under the programme. Since 2010, 94 people have participated in the Graduate Development Programme.

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 2015, the Club organised a number of events, including a visit to the LNG

9.1.7.8. Personnel Development Assignments

An integral part of the Sakhalin Energy 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, Sakhalin Energy signed seven Framework Agreements on Arranging Developmental Assignments with shareholder companies.

In 2015, developmental assignments at shareholder companies were arranged for seven Sakhalin Energy employees, and six developmental assignments of shareholder companies employees were arranged in Sakhalin Energy.

plant, and a meeting with the heads of various company divisions, during which the participants discussed career-building strategies.

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 2015, 30 graduates participated in the programme.



9.1.7.9. Developing Scientific Potential

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

The company holds scientific and practical conferences for young professionals annually. All Sakhalin Energy 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 2015, the company held the 7th Scientific and Practical Conference of Young Professionals. Participants presented 25 reports in three areas: Engineering and Geology, Production and Maintenance, Information Technology, and HR Management. This was the first conference that was attended by someone outside Sakhalin Energy: one of the papers was presented by a student of the Polytechnic College of the Sakhalin State 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 and the Sakhalin State 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 2015, 88 university students and 21 students of vocational schools underwent on-the-job training and pre-graduation internships at the company. In 2015, about 75% 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 on-the-job training and pre-graduate internship opportunities for third- and fourth-year students 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 young people to work in their chosen profession after graduating from the college. Various kinds of internships at the company production assets and the traineeship programme are also discussed with the students [see Section 9.1.7.3 Personnel Training].

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 2015, 10 graduates of Sakhalin schools became the contest winners.

As of the end of 2015, 30 Sakhalin residents who participated in the scholarship programme studied at RF 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 facilities, the main focus must be health and safety. Sakhalin Energy has made a commitment to industrial safety and causing no harm to people.

At the end of 2012, the Health, Safety, Environment, and Social Performance (HSE and SP) Steering Committee decided to revise the company's existing Life Saving Rules to bring them in line with the company new Risk Profile. At present, the company uses eight Life Saving Rules adopted in March 2013. These rules are particularly associated with the high-risk zones.

Data on instances of employees and contractor organisations violating the Life Saving Rules in 2015 are shown in the chart Violations of the Sakhalin Energy Life Saving Rules in 2015, number of cases.

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

The company uses a consistent approach when handling HSE issues (see Section 3.5 HSE and Social Performance Management). This approach complies with both 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 main fields of activity in the area of safety remain:

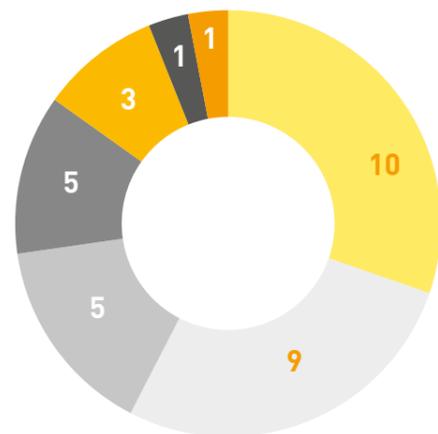
- occupational safety;
- industrial safety;
- road safety.

LIFE SAVING RULES

	I WILL NOT APPEAR AT WORK UNDER THE INFLUENCE OF DRUGS OR ALCOHOL		I WILL WEAR A SEATBELT WHEN TRAVELLING IN A VEHICLE
	I WILL NOT SMOKE, CARRY OR USE IGNITION SOURCES IN ACTIVE HYDROCARBON AREAS		I WILL ONLY DRIVE ON COMPANY BUSINESS WITH A VALID DEFENSIVE DRIVING TRAINING AND JOURNEY AUTHORIZATION
	I WILL NOT WALK UNDER A SUSPENDED LOAD		I WILL NOT EXCEED THE SPEED LIMIT
	I WILL COMPLY WITH THE REQUIREMENTS OF PERMIT TO WORK		I WILL NOT USE COMMUNICATION DEVICES WHILST DRIVING



Violations of the Sakhalin Energy Life Saving Rules in 2015, number of cases



- Alcohol / drug abuse
- Smoking / use of ignition sources in a hydrocarbon area
- Failure to follow the requirements of a work permit

Injury Rates for the Company and Contractor Organisations in 2013-2015

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

- Failure to use safety belts
- Failure to provide a valid defensive driving certificate / trip permit
- Speeding limit exceeding
- Use of handheld communication devices while driving

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 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 company 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;
- use of equipment operated under excess pressure (over 0.07 MPa);
- use of permanently installed lifting equipment.

As required by law, the company has registered 10 hazardous production facilities 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 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 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 employees as required by law.

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 oil is loaded into tankers and liquefied natural gas is loaded into LNG carriers in Aniva Bay.

9.2.3. SAFETY CULTURE

One of Sakhalin Energy priorities is to develop a corporate culture that will help 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 from 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 a responsible personal 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 April 2008, the CEO award was established to promote safe behaviour and HSE

achievements. Company and contractor employees are awarded monthly for contributions to developing a safety culture such as excellent and safe work, timely response, and prevention of hazardous situations.

Twenty-nine nominations were received in 2015. Six company employees received this award. Also, six awards were given to contractors.

The Safety Culture Evolution Ladder shows how a safety culture evolves toward the generative level. At this level, company 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.

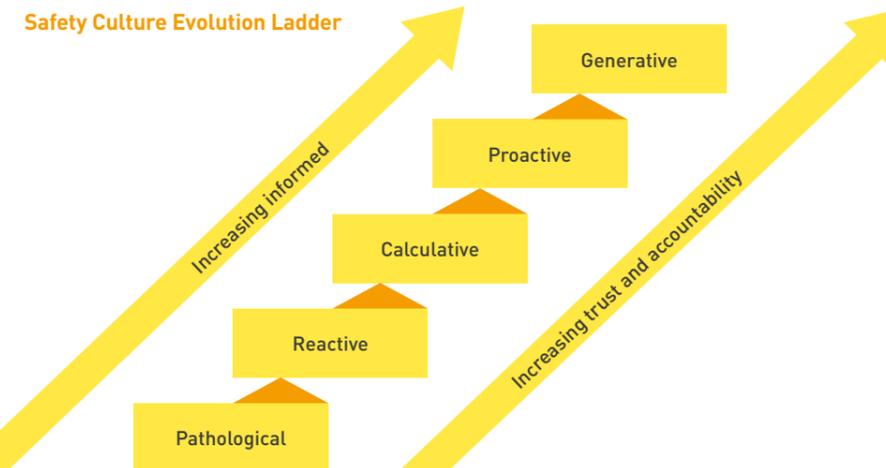
The company has been holding Summer and Winter Safety Days for the last eight years. All company and contractor employees meet to discuss relevant safety issues, such as how our actions and behaviour affect the safety of others and what we can do to make work safer. They also discuss following safety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

The key factor in developing a successful safety culture is to have the company

senior management committed to an HSE culture. In 2015, supervisors at all levels (directors, facility managers, and heads of subdivisions) visited the company and contractor production facilities 93 times.

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

In 2015, 115 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.





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 facilities. In 2015, about 45,000 interventions by company and contractor employees were recorded at all facilities.

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 2015, over 36,000 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 facilities of the company. In 2015, more than 1,200 Sakhalin Energy

and contractor employees took a training course.

A workshop on managing safety technology, part of the Annual Sakhalin Energy HSE Plan, was held in October 2015 and was a continuation of the series of workshops started in 2012 for the company executive management. The workshop in 2015 was interactive and covered the following main topics:

- major international process safety incidents;
- learning from process safety incidents at Sakhalin Energy;
- thinking biases and their impact on process safety;
- reflective learning training for frontline staff to bring the lessons learned from process safety incidents to remote assets (with support from Shell Russia);
- role of leadership in preventing major process safety incidents;
- continuous improvement: how to create chronic unease when things are going well;
- improved frontline collaboration between Technical and Production Directorates.

Participants at the workshop included frontline supervisors, technical experts and contractor representatives. More than 50 process safety leadership commitments as well as eight process safety improvement plans were developed by participants, all aiming to improve the safety culture at Sakhalin Energy assets.

An interactive online course

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 2013–2015, more than 500 employees of the company and contractors received the training.



9.2.4. ROAD SAFETY

In 2015, the Sakhalin Energy Road Safety Programme received the Shell CEO's Special Award for HSE&SP excellence in 2014, in the Achieving Good HSE and SP Results category.

Company's vehicles drove more than 9 mln km during 2015. In November 2015, Sakhalin Energy reached a level of high safety performance. We had four years with no road traffic accidents in which people were injured. This achievement is especially important taking into consideration the difficult situation on the roads of the Sakhalin Oblast.

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 company CEO;
- **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 1,500 drivers and 640 vehicles;

- **defensive driving training.** All professional and non-professional drivers take defensive driving courses. In 2015, the courses were conducted for more than 1,400 drivers of various categories. Moreover, the company allowed any employees to attend the defensive driving training;
- **vehicle compliance control.** All company and (sub-)contractor vehicles used in production activities are checked, and company and (sub-)contractor drivers are monitored to see that they comply with road safety rules and strictly comply with the RF traffic legislation and the company Road Safety Management Standard. Three Road Safety Monitoring teams

perform oversight on a daily basis in different regions;

- **interaction with other organisations.** The company initiated cooperation with Gazprom Dobycha Shelf, which develops the Kirinskoye field, in order to jointly solve road safety issues at the south access road to Lunskey Bay. The Road Safety Monitoring team and the State Traffic Safety Inspectorate keep watch over the south access road;
- **active participation in various forums,** where the company shares its experience in ensuring road safety under the project;
- **implementation of the safe journey management programme at the company facilities.** Each Sakhalin Energy production facility has appointed persons responsible for road safety who monitor the daily operation of all vehicles within the facility, including journey management and checkups of the technical state of vehicles and transported cargoes;



- development and introduction of the **cargo securing and vehicle transportation training course**. Sakhalin Energy 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.

All company vehicles are equipped with monitoring devices that record drive, work and rest times (tachographs) and dashboard cameras. Moreover, in 2015, all company vehicles were equipped with parking radars.

In 2015, more than 1,400 Sakhalin Energy and contractor employees received defensive driving training.

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 9.5.3 Sakhalin Road Safety Council).

9.3. Occupational Health

Sakhalin Energy Occupational Health and Hygiene Standard



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:

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

The company Occupational Health and Hygiene Standard was updated in 2015 in accordance with corporate procedures. Moreover, a specification was developed for monitoring ionising radiation at production facilities. In accordance with the changes made to the Medical Requirements for Occupational Fitness, company employees underwent clinical screen-

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

Health risks are assessed at all company facilities. A monitoring system for harmful occupational factors has also been introduced. 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 facilities 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 2015, the rate of reported occupational diseases remained at a relatively low level (see the Rate of Reported Occupational Diseases in 2011–2015 table).

In 2015, all company employees lifting heavy loads or working in harmful and/or hazardous conditions underwent mandatory medical examinations. Over 85% of the office personnel underwent medical examinations.

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

In 2015, an increasing number of contractors applied the company 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 facilities. The company 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 remote production facilities in 2010, and as a result the mortality level dropped to virtually zero in 2012–2015.



Besides mandatory health programmes, in 2015, 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, volleyball, tennis, swimming, hiking, etc.);
- providing access for company employees and their families to the corporate sports and fitness centre in Yuzhno-Sakhalinsk (gym, swimming pool, football field, and tennis courts). Moreover, there are gyms and sports fields at the company remote facilities;
- 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 2015, over 300 employees of Sakhalin Energy and contractors completed first-aid training.

Company employees and contractors at remote facilities of the Sakhalin-2 project as well as company employees on foreign business trips are provided with high-quality medical support guaranteed by ZAO AEA International (Sakhalin). Company 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).

Rate of Reported Occupational Diseases in 2011–2015

Total rate of reported occupational diseases	2011	2012	2013	2014	2015	2016 target
Company alone	0.6	0	0.56	0.61	3.33	5.0
Company and contractors	0.6	0.8	0.5	0.39	1.15	5.0
With temporary disability (company alone)	0	0	0.28	0.36	0.67	–
With temporary disability (company and contractors)	0.2	0.1	0.07	0.23	0.15	–

9.4. Human Rights



9.4.1. HUMAN RIGHTS: PRINCIPLES AND MANAGEMENT SYSTEM

One of Sakhalin Energy key business principles is to run the business in a socially responsible manner, comply with the laws of the Russian Federation, and respect fundamental human rights within the legal business framework.

The company management provides a safe and confidential setting for employees and external stakeholders to express any concerns, questions, and raise issues of human rights violations. The whistle blowing / grievance procedure (see Section 9.4.2 Grievance Mechanisms) is a key mechanism to implement that.

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

- Human Rights Policy commitment;
- incorporation of commitments into the company strategy;
- human rights risks and impact assessment;

- stakeholder engagement in connection with human rights issues;
- efficient grievance mechanism;
- training of the company and contractor personnel;
- human rights monitoring and reporting.

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

- Statement of General Business Principles;
- Human Rights Policy;
- Code of Conduct;
- 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 website) sets forth the human rights commitments and discusses managing risks associated with potential or actual violations of human rights resulting from company 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.



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 human rights standards.

The company fully acknowledges the relevance of the Guiding Principles on Business and Human Rights (Guiding Principles) approved by the UN Human Rights Council in 2011.

In 2015, upon the invitation of the Russian Federation Ministry of Foreign Affairs, Sakhalin Energy participated in the 4th UN Forum on Business and Human Rights in Geneva.

At the Forum, the company annually presents its experience and achievements in applying the Guiding Principles.



9.4.2. GRIEVANCE MECHANISMS

The company stakeholder engagement strategy is focused on minimising impacts on human rights. It is obvious, however, that it is impossible to eliminate all adverse impacts of a project as large as Sakhalin-2. This is why the company adopted a grievance mechanism 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 to address labour issues of company personnel (violation of employee rights under the laws, regulatory legal acts, the company 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 targeted 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.

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9. Social Impact Management

The company handles grievances based on several principles (in compliance with the Guiding Principles):

- 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 2015

In 2015, as part of various corporate grievance mechanisms, 54 grievances and appeals were received from company personnel and external stakeholders, including:

- 16 grievances under the Whistle Blowing Procedure;
- 4 grievances from employees of the company;
- 34 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 procedures were handled under the Whistle Blowing Procedure. These grievances concerned tender procedures, conflict of interest,

and recording hours worked by the employees.

By the end of 2015, eight grievances out of the 16 received under the Whistle Blowing Procedure had been resolved. In addition, three grievances received at the end of 2014 had been resolved. All 11 grievances were resolved within the timeframe established in the Terms of Reference for carrying out investigations. By the end of 2015, eight internal investigations based on reviews of the grievances related to violations of the General Business Principles, the Code of Conduct, or other company procedures remained unresolved. These investigations will be completed in 2016.

Grievances from company personnel were examined as set forth in the Grievance Procedure.

In 2015, four grievances were received from company employees. These grievances concerned labour relations issues as well as the application of the employer's local regulations. All four 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 (contractor and subcontractor organisations), disclosure of information, and the Sakhalin Indigenous Minorities Development Plan (see the Categories of Public Grievances in 2015 table).

As of the end of 2015, 31 grievances out of the 34 received from the public and employees of contractor and subcontractor organisations had been resolved. In addition, three grievances received at the end of 2014 had been resolved. All 34 grievances were addressed within the timeframe stipulated in the Grievance Procedure (less than 45 business days). By the end of 2015, three grievances remained unresolved. The status of these grievances will be presented in the 2016 Sustainable Development Report.

Categories of Public Grievances in 2015

Grievance category	%
Impact on communities	18
Labour relations	9
Information disclosure	14
SIMDP implementation	41
Other issues (management of contracts, labour safety, the Code of Conduct)	18
Total	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 requirements in the area of human rights are included in a number of educational instructions and courses that all company employees and contractors are required to take.

Examples of this training are as follows:

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

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

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 representatives who directly manage contractor organizations).

In 2015, personnel of the Road Transport Department, the Facilities Management Department, the Environmental Protection Department, and employees of the Technical Directorate received such training.

Identifying the Correct Training



9.4.5. MONITORING HUMAN RIGHTS

Monitoring is important for ensuring human rights are observed. Monitoring and reporting of human rights are done both internally and externally.

As a rule, monitoring includes:

- visiting communities;
- surveys conducting among 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 CEO and a number

of CED members, 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 annual Sustainable Development Reports.

9.5. Social Investments and Contributions to Sustainable Development of the Host Region



In 2015, Sakhalin Energy was awarded **the third prize** in the Russian ranking of the Corporate Philanthropy Leaders project.

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 2015, Sakhalin Energy was among the winners of the Corporate Philanthropy Leaders project, it was awarded the third prize in the Russian ranking. Corporate Philanthropy Leaders is a joint project of the Donors Forum, PricewaterhouseCoopers and Vedomosti business newspaper and is aimed at supporting, developing, and promoting corporate philanthropy.

In 2015, the company invested over 60 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.

The Social Investment Strategy 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 conduct continuous internal monitoring and a biannual independent external evaluation of social investment projects.

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

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

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.



The company defined its main priority areas for social programmes through consultations with the public. These are:

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

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

Focus on the Implementation of Strategic Long-Term Partnership Projects

<p>SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN</p>	<p>Partners: company, Sakhalin Oblast Government and Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities</p>	<p>FPIC (free, prior and informed consent). SIMDP case has been included into the Stakeholder Engagement Handbook, issued by the International Finance Corporation. The Plan was recommended at the parliamentary hearings in the Russian Council of Federation as an example for Russian regions</p>
<p>WHAT TO DO IN EMERGENCY SITUATIONS</p>	<p>Partners: company, Sakhalin EMERCOM, Sakhalin Ministry of Education</p>	<p>A complex educational programme, targeted on schoolchildren and aimed at teaching system development in the sphere of life safety</p>
<p>KORSAKOV SUSTAINABLE DEVELOPMENT PARTNERSHIP COUNCIL</p>	<p>Partners: company, Korsakov Administration, public</p>	<p>Initiated by the company in one of the most critical and malcontent communities on the island. Now the partnership of the public, business and authorities contributes a lot to local sustainable development and is moving to a new level of interaction with UNDP expertise</p>
<p>ROAD SAFETY PARTNERSHIP</p>	<p>Partners: company, Sakhalin Oblast Government, Department of the RF Ministry of Internal Affairs for the Sakhalin Oblast, public</p>	<p>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</p>



9.5.2. CHILDREN'S SAFETY (WHAT TO DO IN EMERGENCY SITUATIONS PROGRAMME)

Sakhalin Energy is committed to high standards and follows corporate principles and values, among which top priority is given to safety. Due to its geographical location and geological features, the Sakhalin Oblast is one of the few regions in the Russian Federation where almost any kind of natural disasters may occur. The region frequently deals with earthquakes, floods, hurricanes, blizzards, forest fires, etc. Therefore, it is essential that children on Sakhalin and the Kuril Islands know what to do in case of an emergency. Since child safety issues are a priority and obviously relevant to the Sakhalin Oblast, in 2005 the company initiated a programme that is carried out in partnership with Sakhalin Emercom and the Ministry of Education of the Sakhalin Oblast.

The programme has several directions, one of which is creation of the short educational cartoons on safe behaviour in various situations.

Anniversary of the Programme

In November 2015, the programme celebrated its 10th anniversary. In total, 35 cartoons on safety issues have been released over the project lifetime. Children participated as co-authors of a number of them. By now, children have learned by heart the motto of all the cartoons featuring Senya: "Everyone should know for certain—safety is very important." The project is popular not only on Sakhalin but also in the Russian Far East, St. Petersburg, Arkhangelsk, and Khakassia.

Two new cartoons about playground safety and preventing burns were released in 2015.

Comic books have also been published based on the Beware of Frost!, Beware of the Flu!, and Flickers cartoons.

On 15–19 September 2015, the Days of Russian Children's Films Festival was held in Nis, Serbia with the theme

"Childhood Tales." The Film Forum organised by the RF Ministry of Culture, the Russian Embassy in Serbia, and the Russian-Serbian Humanitarian Centre, included cartoons featuring Senya about safe behaviour in emergencies.

Over 100 schoolchildren participated in the Safety Is Important quiz, an open event held on 1 September, to check their knowledge of safety rules. In addition, several schools in Yuzhno-Sakhalinsk held safety lessons with Senya, and the Cadet School hosted a computer game that tested knowledge of safe behaviour in various dangerous situations.

On the International Day for Disaster Reduction in October 2015, the Annual Regional Children's Safety Holiday was held on Sakhalin for the sixth time. It was attended by 16 teams of children aged 11–12 years from 15 districts of the Sakhalin Oblast. The participants practised the rules of safe behaviour on the water and on a hike, at home, and in case of a natural disaster. They learned to

give first aid to the injured and answered questions about traffic rules and fire safety regulations. The children were judged by experts such as rescuers, firemen, doctors, and inspectors of the State Small Vessels Inspectorate and the State Road Safety Inspectorate.

In 2015, Senya Warns: Information Boards in Tsunami-Hazardous Communities and Avalanche-Hazardous Areas of the Sakhalin Oblast was successfully completed. During 2015, information boards were set up in Okha and Alexandrovsk-Sakhalinsky Districts.

In 2015, a new programme component called Senya Teaches was developed. This was a workshop aimed at development of awareness-raising health and safety campaigns for high school students participating in the regional School of Safety. At the end of the workshop, each team gave a short presentation and showed a poster on one of the topics related to promoting safe behaviour to the jury. The winners received prizes as well as funding for implementing the information campaigns they had designed. The most important results of the project were the willingness and ability that older students demonstrated to share their knowledge with younger schoolchildren. It was also the beginning of Senya's Volunteer School.

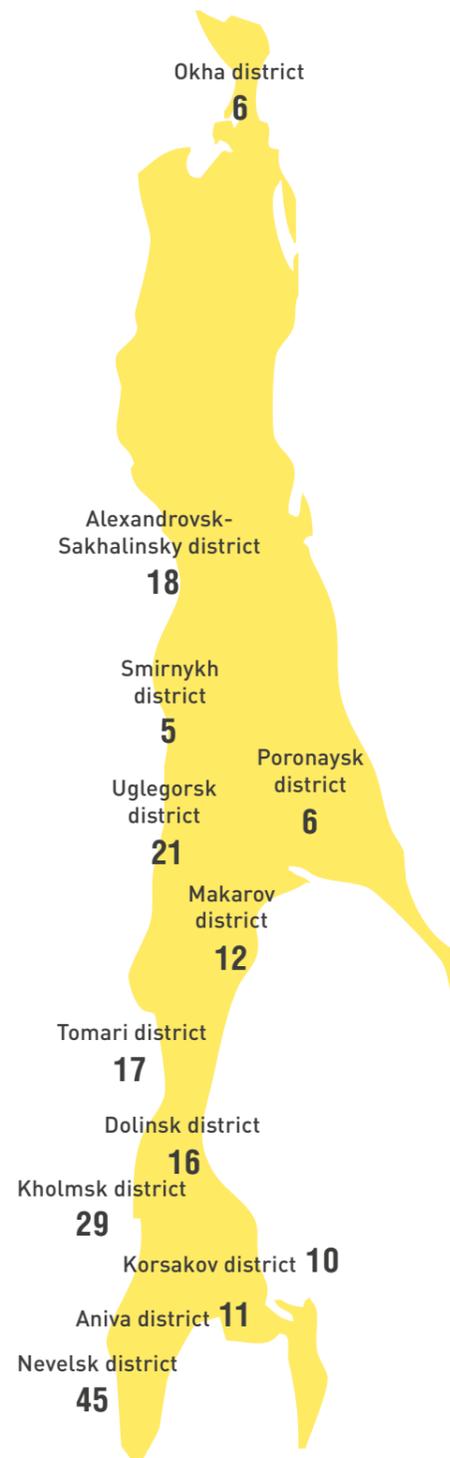
The Children's Safety Programme initiated by the company was awarded the first prize in the KonTEKst PR contest. The contest has been held with the support of the Ministry of Energy of the Russian Federation since 2009. The main objective of the contest is to identify and summarise the best practices in information, social, charity, environmental, and other programmes that benefit the community and have a positive impact on the image and reputation of energy companies.

The Children's Safety Programme of the company was also included in the "Best Social Projects of Russia" collection, which comprises materials of the programme under the same name created to support the Russian Government policy to strengthen the social policy with the partnership of the state, society, and private business. It is supported by the RF Ministry of Natural Resources and Environment, the Agency for Strategic Initiatives, WWF, FSC, and a number of other organisations.

In December, the CEO of Sakhalin Energy received an award from the Sakhalin Oblast Government during a meeting held to review civil defence and emergency prevention and response initiatives taken by the executive branch of the Sakhalin Oblast and local governments. The award was given to the company for many years of building a culture of safe behaviour in the community through the implementation of road safety and child safety programmes.

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

Map of the Information Boards Location



During 2010–2015, 196 information boards warning of the risk of a tsunami or avalanche were installed in 12 Sakhalin districts.

9.5.3. SAKHALIN ROAD SAFETY COUNCIL

Safety is a universal term. Therefore, as a socially responsible company, Sakhalin Energy is seeking to inspire the general public to adopt its high industrial safety standards in order to develop a safety culture in the surrounding communities. An important objective of the Road Safety Programme is to instil corporate safety standards in the areas outside the liability limits of the company and its contractors, especially in the Sakhalin settlements where the company operates. This is being done by the Sakhalin Road Safety Council (Road Safety Partnership) established at the initiative of the company in 2005.

The Partnership is one of the company's flagship social programmes, and all the stakeholders actively participate in it. 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.

Under the implementation of road infrastructure direction of the programme, the equipment of the pedestrian crossings with the latest traffic control was confirmed. It helps drivers be aware of road signs and pedestrians in cross walks. 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 by several times.

Regarding education and awareness direction, a campaign was held to promote safety at pedestrian crossings. Its main purpose was to educate the public on safe behaviour at pedestrian crossings. These issues were promoted on television commercials and banners, radio contests, internet publications, and public events that took place in Yuzhno-Sakhalinsk, Kholmsk, Korsakov, and Aniva.



The road safety classes continued its activity in 2015. These classes are held at six educational institutions in the Sakhalin Oblast (the House of Children and Youth Creativity, secondary comprehensive schools No. 31 and 32 in Yuzhno-Sakhalinsk, secondary comprehensive school No. 1 in Korsakov, secondary comprehensive school No. 6 in Kholmsk, and secondary comprehensive school No. 7 in Okha). The classrooms are equipped with modern interactive equipment and software so that classes and activities can be offered for a variety of age groups.

Anniversary of the Programme

In June the Road Safety Partnership programme celebrated its' 10th anniversary. Sakhalin Energy and its partners, the Sakhalin Road Safety Inspectorate, and the Sakhalin Oblast Government organised a festive event with the motto "Together for Safety on the Roads." The participants of the event painted road signs, played a road safety game, and entered their drawings in the Road and Us contest. Young participants took tests to demonstrate their knowledge of

the traffic rules, made light-reflective souvenirs, and showed off their skills in giving first aid to victims of traffic accidents. The parents used a computer programme to test their own knowledge of the road safety rules and found out how well they knew the construction of mopeds.

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

9.5.4. ENERGY SOCIAL INITIATIVES FUND

The Energy Social Initiatives Fund is one of the Sakhalin Energy charitable programmes that demonstrates the comprehensive and consistent approach to promoting social transformation in the host region and commitment to solving relevant issues of local communities. Launched in 2003 the grant contest to support socially important initiatives allows to identify interesting and effective solutions to community issues. The 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).

In 2015, funding was granted to 39 projects (out of the 98 applications submitted). These are all socially significant projects in the field of art, culture, education, sports, promoting healthy lifestyles, and environmental protection.

Since 2003, more than 240 organisations and institutions have received financial support, 450 projects have been implemented in 64 Sakhalin settlements under the Energy Social Initiatives Fund. The company has invested 40 mln roubles.

Number of Projects Supported in 2003-2015, by districts



9. Social Impact Management

9.5.5. HURRY UP FOR GOOD DEEDS

Corporate volunteering is one of the ways to incorporate corporate social responsibility. The opportunity to contribute into solving social issues forms positive attitude towards the company and pride for self and the company. The company actively integrates corporate volunteering in its charitable programmes, providing support to employee initiated volunteer activities. Volunteering immerses employees into a new environment and enriches their personal experience, stimulates creative thinking, and inspires them to find innovative solutions. The Hurry Up for Good Deeds Programme, which was launched in 2003 to support employee charity initiatives, is an example of this.

In 2015, the programme was carried out in three main areas:

- charity projects;
- volunteer days (Voluntary Community Work Days), which involve volunteering for one of the social institutions on Sakhalin;
- fundraising campaigns organised by the company. Employees either make financial donations or volunteer to help organise the campaign.

The Dolinsk Boarding School for Deaf and Hearing Impaired Children received financial support from the corporate campaigns in 2015. Employees collected nearly 1.88 mln roubles within two campaigns, one of which was timed to the company birthday and another one — to the Oil and Gas Workers Day. This amount was matched by the company; thus 3.7 mln roubles was used to purchase new equipment to ease the lives of the boarding school students (a hearing loop, an infra-red sound intensifier, a new sensory room, sewing and embroidery

equipment, and new sports equipment were donated).

The New Year Miracles is an annual charity event to raise funds for disabled children, lonely elderly people, and children suffering from hardships. In 2015:

- Employees dressed up as the Russian traditional New Year characters Father Frost and Snow Maiden handed out New Year gifts to children with disabilities from low-income families that the children had asked for in their letters to Father Frost.
- On New Year's Eve, the staff of the Centre of Social Support for the Population of the Sakhalin Oblast handed out 200 gifts donated by the company employees to elderly people living alone.

In 2015, employees and their family members participated in Voluntary Community Work Days in August and October. Summer volunteering was held at Sakhalin Botanical Gardens, and the autumn work was done at the Dolinsk Boarding School for Deaf and Hearing Impaired Children.

At the initiative of company employees, several charity events were held during the year. The Department of Adaptive Physical Education of the Sakhalin Children's and Youth Alpine Skiing Olympic Reserve Sports school received mountain boards under the social initiative of the Company Healthy Lifestyle Promotion Committee. Now, young snowboarders can practise year round. The Miracle Island Children's Club, which is attended by the children of company employees, organised an autumn charity fair. The funds they raised were used to purchase computers and other equipment for students of the Aniva Centre for Social Rehabilitation of Children. Another charity event was initiated by employees to

purchase books for children in orphanages and social rehabilitation centres located far from the capital of Sakhalin.

In November 2015, life safety lessons were held in primary schools and kindergartens at the initiative of company staff. Company employees told the children about how to properly set off firecrackers and fireworks and dress in winter, explained to them the rules of safe behaviour on ice, and much more. The lessons were held in Yuzhno-Sakhalinsk, Korsakov, Dolinsk, Nogliki, and Val.



9.5.6. KORSAKOV SUSTAINABLE DEVELOPMENT PARTNERSHIP COUNCIL

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 initiated a Social Investments and Sustainable Development programme in the Korsakov District of the Sakhalin Oblast. The company finances social projects under this programme, including the Korsakov Initiatives contest.

The programme is managed by the Korsakov Sustainable Development Partnership Council, which consists of nine members, three from each partner: Sakhalin Energy, government authorities, and the community of the Korsakov District.

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

In 2015, public consultations were held on the Korsakov Sustainable Development Partnership Council activities in the communities of the Korsakov District. The residents were informed about the Korsakov Partnership Council, its achievements, completed projects, and plans for the future.

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

9.5.7. VICTORY DAY PROJECT

To mark the 70th anniversary of the Victory in the Great Patriotic War the company focused its efforts on taking care of war veterans and home front workers. In 2015, the Veterans Project, which was held on Sakhalin, continued.

- On the eve of Victory Day, the company presented a check for 700 thousand roubles to the Sakhalin Regional Council of Veterans to hold the Council's

plenum and conference and support development of district veterans' organisations.

- Sixty veterans from Yuzhno-Sakhalinsk, Aniva, and Dolinsk were given an opportunity to see the theatre performance Vasily Terkin.
- Events were held in the settlements of the island for veterans and youth at

the company information centres in the local libraries [see Section 7.4 Local Communities Engagement through the Company Information Centres].

- Veterans in Yuzhno-Sakhalinsk and 25 other Sakhalin communities received gifts and greetings from company employees.

9.5.8. SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN

9.5.8.1. Goals and Structure of the SIMDP

Sakhalin Energy, the Regional Council of the Authorised Representatives of the Indigenous Minorities of North of Sakhalin, and the Sakhalin Oblast Government have partnered together since 2006 to implement the Sakhalin Indigenous Minorities Development Plan (SIMDP or the Plan) in the Sakhalin Oblast. The programme has been divided into five-year phases, with 2011–2015 being SIMDP 2.

The mitigation matrix was developed as a result of the 2005–2006 multipartite consultations. The matrix included potential issues and mitigation measures. It was updated as necessary and reviewed at each meeting of the Governing Board of SIMDP 2. Under implementation of SIMDP 2, the matrix contained five issues:

- concern of the consequences of oil and other substances spill;
- provision of information about the measures aimed at biodiversity conservation;

- the process for informing Sakhalin Indigenous Minorities of any Sakhalin-2 project expansion;
- provision of information about the mechanism of funds distribution under the SIMDP programmes;
- Grievance Procedure.

The representatives of the indigenous minorities elected from each district to work in the SDF Council and TEASP Committee were responsible for distributing funds allocated for projects. This has become an important distinguishing feature of SIMDP 2. The budget of the Plan was divided between the two programmes equally (50/50). In 2015, the TEASP and SDF programmes each received 8.2 mln roubles.

The final external evaluation of SIMDP 2 was held in June 2015. The objectives of the final evaluation were to determine if the Plan achieved its goals and to provide recommendations on developing SIMDP 3 (2016–2020). The Plan Completion

Evaluation Team included G. E. Guldin, an international expert, Head of Cross-Cultural Consulting Services; V. E. Valdiu, a representative of the indigenous peoples of the Khabarovsk Krai; and A. T. Konkov, Chair of the Sociology Department of the Sakhalin State University. The following monitoring was done: a sociological survey of the population in the areas of traditional residence of the Sakhalin Indigenous Minorities; meetings in 12 settlements with Plan participants, stakeholders, representatives of government authorities, and Plan partners; participation in the meetings of the SIMDP management bodies; an analysis of the implementation of the SIMDP projects and programmes; etc.

The final evaluation of the programme can be found on the website of the Plan at www.simdp.ru.

Note: The issue was closed by the decision of the Governing Board on 29 June 2011.

9.5.8.2. Traditional Economic Activities Support Programme of SIMDP 2

The Traditional Economic Activities Support programme assists in developing employment and business opportunities for indigenous minorities.

The resources of the programme are distributed through:

- Business Planning;
- Self-Sufficiency Grants;
- Microloan Fund.

In total, 72 applications were received in 2015 in the first two areas. The Programme committee selected 41 projects (support of clan and family enterprises, communities and other associations of the Sakhalin Indigenous Minorities, and aid for representatives of the Sakhalin Indigenous Minorities) submitted from the four districts of traditional residence of the Sakhalin Indigenous Minorities. Outboard motors, fishing gear and net materials, snowmobiles, consumables, and certain types of electrical appliances used for traditional economic activities were purchased under the programme.

The Microloan Programme was designed to promote the traditional economic activities of the Sakhalin Indigenous Minorities and to increase the availability of funding sources. The partner of the programme was the Batani International Development Fund for Indigenous Peoples of the North, Siberia, and the Far East of the Russian Federation. Since the programme was completed, no applications for issuing credit were received in 2015.

9.5.8.3. Social Development Fund of SIMDP 2

Funds are distributed in the following areas:

- education, health, capacity building of the indigenous peoples;
- culture—Link of Times competitive programme.

In 2015, the Social Development Fund Council supported 26 projects aimed at the development of traditional culture, education, health, the preservation and study of indigenous languages, and capacity building. The projects were developed and selected by representatives of the indigenous people. The partner in implementing the SDF long-term projects was the Kykh-Kykh (Swan) Centre for SIM Traditional Culture Preservation and Development Okha Local Public Organisation. Thus, in the area of education, 48 students of secondary vocational education institutions and universities received financial support. For details about the projects, see the website of the Plan at www.simdp.ru.

“The Secrets of Promotion,” a project of the School of Young Leaders 2015, was conducted in Yuzhno-Sakhalinsk. The purpose of this workshop was to inspire the youth and to teach organisational and leadership skills to representatives of the indigenous peoples of the Island. Eighteen young people from Okha, Nogliki, Tymovsk, and Poronaysk Districts and Yuzhno-Sakhalinsk completed the “I Am a Leader” training course, aimed at teaching leadership skills, competencies, and abilities.

9.5.8.4. SIMDP 3: Development

SIMDP 3, like the previous ones, is based on international standards on indigenous peoples and is implemented in compliance with them. SIMDP 3 takes into account the experience gained over the past decade. To increase the participation of the Sakhalin Indigenous Minorities at the district level and to further promote the Plan in the seven districts of traditional residence of the Sakhalin Indigenous Minorities, district committees have been added to its management structure.

The development of SIMDP 3 was carried out in accordance with the principle of free, prior, and informed consent (FPIC) contained in the United Nations Declaration on the Rights of Indigenous Peoples (2007) and Performance Standard 7 on Indigenous Peoples of the International Finance Corporation (IFC). The objectives of each five-year phase of the programme are identified by the indigenous population during consultations. The objectives of SIMDP 3 include:

- **capacity building.** Enhancing the capacity of Sakhalin Indigenous Minorities to actively participate in the self-management of their own affairs. Such capacity-building could range from leadership training, to technical skills enhancing (e.g., for accounting, report-writing, budget preparation, traditional economic and cultural activities, business planning), to heightened cultural and ethnic self-awareness;
- **social, cultural, and economic development.** Improving the lives and livelihoods of the Indigenous Minorities of Sakhalin Oblast through the implementation of social and economic development plans in a culturally appropriate manner. Cultural revival, economic viability of traditional economic enterprises, and improved social conditions will be targeted areas for support.



Long-term strategic planning with the concept of sustainable development as an objective will also be emphasised;

- **independent fund preparation.** Assisting Sakhalin Indigenous Minorities to prepare for the eventual establishment of an independent Indigenous Minorities development fund;
- **project environmental effects disclosure.** Providing timely, objective and complete information to the Sakhalin Indigenous Minorities’ community of the actual and/or potential impacts of the Sakhalin-2 project on the environment, and the measures taken to prevent and/or minimise any potential negative impacts.

To ensure that the opinions of the Sakhalin Indigenous Minorities are taken into account during the preparation of SIMDP 3, two rounds of extensive and open consultations were conducted in all the areas of their traditional residence and economic activities. The consultations were held in 13 Sakhalin communities and were attended by more than 500 people.

The first round of the consultations was held in February 2015 to gather opinions and proposals and to set priorities for developing programmes and the Plan’s management structure.

A survey was conducted to assess the results of SIMDP 2 and to make proposals regarding the preparation of SIMDP 3. Questionnaires were handed over to the local representatives of the SIMDP governing bodies for further receipt of proposals; people were given an opportunity to fill in the questionnaires on the Plan website.

During the second round of the consultations, stakeholders were provided with a draft of the Plan’s selected components, subcomponents, and the governance structure; a list of the Plan’s coordinating bodies; mitigation matrix; and the grievance procedure for management of grievances submitted by the local population regarding implementation of the SIMDP. This second round of the consultations was held in October 2015 in the areas of traditional residence and economic activities of the SIM.

Under development of SIMDP 3, special attention was given to discussing the Grievance Procedure (Procedure) with the population. The Procedure regulates the process of submitting, recording, and resolving grievances related to the implementation of SIMDP 3. The Procedure was developed in accordance with the general principles and approaches of the Grievance Procedure for handling grievances of the population and the requirements of Sakhalin Energy in respect of human rights (see Section 9.4.2 Grievance Mechanisms). In addition, the Procedure is in line with the provisions of the Guiding Principles on Business and Human Rights.

Many of the recommendations obtained in the course of the consultations as well as the results of the final evaluation and the public opinion survey were also taken into account in developing the Plan. Therefore, it underwent significant modifications.



2016 Plans and Development Strategy up to 2020



9.5.8.5. SIMDP 3: Free, Prior, and Informed Consent (FPIC)

During the first round of consultations, the Working Group established to prepare SIMDP 3 collected recommendations and opinions of the stakeholders.

During the second round of consultations, the Working Group presented a preliminary draft of the selected components, sub-components, and sections of the Plan.

Taking into account the comments received during the consultations of the Working Group, a draft version of SIMDP 3 was drawn up and sent to all the stakeholders, including the indigenous peoples at large in all the districts of traditional residence of the Sakhalin Indigenous Minorities for review and comments.

In November 2015, a special conference organised by the Regional Council of the Authorised Representatives of the Indigenous Minorities of the North of Sakhalin was held in Yuzhno-Sakhalinsk to approve and/or amend the Plan. The conference was attended by the Sakhalin Indigenous Minorities representatives elected in all the communities of traditional residence of the SIM and delegated for participation in this event. The conference participants agreed that the consultations were carried out without compulsion, were held early enough to discuss the issues at length, and were accompanied by the relevant information regarding SIMDP 2 and SIMDP 3 to formulate our own independent assessment of the SIMDP.

On the basis of the Conference decision the statement of consent to the contents of SIMDP 3 was signed.

The Cooperation Agreement to implement the five-year Sakhalin Indigenous Minorities Development Plan 3 (2016–2020) was signed by the partners on 16 December 2015.



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.

Sakhalin Energy Plans

Sakhalin Energy has set the following priorities for 2016:

- ensure the safety and reliability of production;
- improve the efficiency of oil and gas field development and the production of hydrocarbons;
- optimise costs;
- develop the project with regard to the principles of continuous improvement and lean processes.

In 2016, the company will continue its health, safety and environmental (HSE) protection projects. Goal Zero, i.e. work with no harm, spills, or damage to production facilities while preserving the environment, remains a top priority for the company. The key activities in this area are as follows:

- increasing the commitment of the company's leadership and employees to a positive HSE culture;
- increasing the awareness of HSE within the company and caring for the health of the company personnel;
- handling transport safety issues and job hazards;
- ensuring the technical integrity of the company's assets and process safety;
- ensuring compliance with Russian and international requirements and promoting industry best HSE practices.

The main production projects for 2016 involve:

- intensive operations at the three offshore platforms, including drilling optimisation projects and work to maintain coil, gas and LNG production at consistently high levels;

- the development of the OPF Compression Project and LNG train 3 project.

In 2016, the company will continue to work with customers to ensure the most favourable conditions for the sale of oil and gas.

Robust at \$40 corporate programme launched in 2015 will be even more focused on continuous cost optimisation in 2016. Now it will be implemented as Robust at \$35 and will have a focus on maximising the optimisation of production processes, continuous improvement and lean process.

The continuous improvement programme involves the establishment of a corporate culture in which everyone feels involved and is aware of own capacity for action and of the importance of continuing the search for more effective methods of work, the result of which will meet the expectations of the end user and the needs of the company.

HR management strategy for 2016 and subsequent years involves:

- attracting and retaining the best industry experts;
- investing in professional and personal training and development of Russian specialists;
- delivering an attractive and competitive employee value proposition (EVP);
- delivering simple and clear HR processes;
- implementing collaborative work environment (CWE) in the offices and at the company assets.

OPF Compression Project and LNG train 3 project are an integral part of the HR strategy and the HR policy for 2016 and subsequent years.

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 2016 are included in the Public Consultation and Disclosure Plan (published on the company website).

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 endeavour to make further improvements in sustainable development.



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	6	
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 2016 Plans and Development Strategy up to 2020	6 46-49 21-23 53-55 75-96 99-142 145	
ORGANISATIONAL PROFILE					
G4-3	Name of the organisation	Full	About the Company	27	
G4-4	Primary brands, products, and/or services	Full	About the Company	32-33	
G4-5	Location of organisation's headquarters	Full	On the outside rear cover 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	27-35	
G4-7	Nature of ownership and legal form	Full	Corporate Governance	41	
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	Full	About the Company	27, 35	
G4-9	Scale of the reporting organisation	Full	About the Company Economic Impact Management Personnel: Management and Development	27-34 53-55 100	
ECONOMIC IMPACT MANAGEMENT					
G4-10	Total number of employees by employment type gender, employment contract and region	Full	General Information	100-101	
G4-12	Organisation's supply chain	Full	Supply Chain Management	56-58	
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	Full			No significant changes in 2015

GRI index	Element/indicator	Disclosure of the element/indicator	Report section	Page in the report	Comments and references to other sources
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	17-18 20 46-49 23	
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	19	
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organisations	Full	Performance Standards International and regional cooperation	19 71-72	In November 2009, the company joined the UN Global Compact. In 2015, the company is a member of: <ul style="list-style-type: none"> • Global Compact LEAD; • Working Group on Human Rights of the UN Global Compact; • European Business Congress (EBC)
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES					
G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents	Full	About the Report	14	
G4-18	Process for defining the report content and the aspect boundaries. Reporting principles for defining report content	Full	About the Report	10-14	
G4-19	List of all the material aspects identified in the process for defining report content	Full	About the Report	11-13	
G4-20	Material aspects within the organisation	Full	About the Report	12-14	
G4-21	Material aspects outside the organisation	Full	About the Report	12-14	
G4-22	Restatements of information provided in previous reports, and the reasons for such restatements	Full	About the Report	12-13	
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	Full	About the Report	12-14	
STAKEHOLDER ENGAGEMENT					
G4-24	List of stakeholder groups engaged by the organisation	Full	About the Report Stakeholder Engagement Management in 2015	10 62	

GRI index	Element/indicator	Disclosure of the element/indicator	Report section	Page in the report	Comments and references to other sources
G4-25	Basis for identification and selection of stakeholders with whom to engage	Full	Stakeholder Engagement Management	62	
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 61-62	
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 Appendix 2	10-13 62 157-164	
REPORT PROFILE					
G4-28	Reporting period (such as fiscal or calendar year) for information provided	Full	About the Report	9	
G4-29	Date of most recent previous report (if any)				April 2015
G4-30	Reporting cycle (such as annual, biennial)	Full	About the Report		Annual
G4-31	Contact point for questions regarding the report or its contents	Full	About the Report Appendices 5-6	9 169-170	
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	9 148-156 171-175	
G4-33	Organisation's policy and current practice with regard to seeking external assurance for the report	Full	About the Report Appendices 7-8	14 171-175	
GOVERNANCE					
G4-34	Governance structure of the organisation, including committees of the highest governance body	Full	Corporate Governance Model	41-43	
G4-36	Executive-level position or positions with responsibility for economic, environmental and social topics	Full	Corporate Governance Model	41-43	
G4-38	Composition of the highest governance body and its committees	Full	Corporate Governance Model	41-43	

GRI index	Element/indicator	Disclosure of the element/indicator	Report section	Page in the report	Comments and references to other sources
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
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	17 39-50	
G4-46	Highest governance body's role in reviewing the effectiveness of the organisation risk management processes for economic, environmental and social topics	Full	Risk Management	46-47	
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	9	
ETHICS AND INTEGRITY					
G4-56	Organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Full	Corporate Social Responsibility and Sustainable Development Corporate Governance	19 44-45	
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organisational integrity, such as helplines or advice lines	Full	Corporate Governance System and Structure Corporate Culture Stakeholder Engagement Management	40 44 61	
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	Full	Corporate Culture Human Rights	44 127-129	

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	27 41-43 53-58	

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	27 53-55 103 131	
G4-EC3	Coverage of the organisation's defined benefit plan obligations	Full	Social Guarantees, Benefits and Compensations	104-105	
G4-EC4	Financial assistance received from government	Full			The company received no financial assistance from the government in 2015
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	103	
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	Full	Personnel Recruitment and Adaptation of New Employees	102	
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	53 131	
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Full	Economic Impact Management	53	
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Full	Russian Content	55	
CATEGORY: ENVIRONMENTAL					
G4-DMA	Disclosures on management approach	Full	HSE and Social Performance Management System Environmental Impact Management	21-22 75-96	
G4-EN3	Energy consumption within the organisation	Full	Energy	78-79	
G4-EN5	Energy intensity	Full	Energy	78-79	
G4-EN8	Total water withdrawal by source	Full	Impact on Water Bodies	76-77	
G4-EN9	Water sources significantly affected by withdrawal of water	Full	Impact on Water Bodies	76-77	No water sources are materially affected by the company 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	82-93	

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	82-93	
G4-EN15	Direct greenhouse gas (GHG) emissions	Partly	Greenhouse Gas and Ozone-Depleting Substance Emissions	80	
G4-EN16	Energy indirect greenhouse gas (GHG) emissions	Partly	Greenhouse Gas and Ozone-Depleting Substance Emissions	80	
G4-EN20	Emissions of ozone-depleting substances (ODS)	Full	Greenhouse Gas and Ozone-Depleting Substance Emissions	80	
G4-EN21	NO _x , SO _x , and other significant air emissions	Full	Greenhouse Gas and Ozone-Depleting Substance Emissions	80	
G4-EN22	Total water discharge by quality and destination	Partly	Impact on Water Bodies	76-77	
G4-EN23	Total weight of waste by type and disposal method	Full	Waste Management	77-78	
G4-EN24	Total number and volume of significant spills	Full	Oil Spill Prevention and Response Preparedness	95	
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	81	
G4-EN31	Total environmental protection expenditures and investments by type	Full	Environmental Protection Costs and Payments for the Negative Impact	81	
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Full	Grievance Handling in 2015	129	
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	99 117-124 125-126	
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Full	General Information	100-101	
G4-LA3	Return to work and retention rates after parental leave, by gender	Full	General Information	100	

GRI index	Element/indicator	Disclosure of the element/indicator	Report section	Page in the report	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	118 126	
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Partly	Personnel Training	111	
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Partly	Staff Learning and Development	108–116	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Partly	Individual Performance Review of the Employees	107	
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	101	
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 labor practices filed, addressed, and resolved through formal grievance mechanisms	Full	Grievance Handling in 2015	129	
Sub-Category: Human Rights					
G4-DMA	Disclosures on management approach	Full	Human Rights: Principles and Management System	127–128	
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	130	
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Full			No registered cases of discrimination in 2015

GRI index	Element/indicator	Disclosure of the element/indicator	Report section	Page in the report	Comments and references to other sources
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 labor, and measures taken to contribute to the effective abolition of child labor	Full			No operations risk of involving child labour
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	Full			No operations risk of involving compulsory work
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	Full	Human Rights: Principles and Management System Human Rights Training	128 130	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 2015
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Full	Grievance Handling in 2015	129	
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	17–20 61 131–132	
G4-S01	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	23 61 131–132	100%
G4-S02	Operations with significant actual and potential negative impacts on local communities	Full	Impact Assessment	23	No such operations in 2015
G4-S04	Communication and training on anti-corruption policies and procedures	Full	Anti-Bribery and Corruption	50	

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

GRI index	Element/indicator	Disclosure of the element/indicator	Report section	Page in the report	Comments and references to other sources
G4-S05	Confirmed incidents of corruption and actions taken	Full			No cases of corruption were registered in 2015
G4-S06	Total value of political contributions by country and recipient / beneficiary	Full			As per the company Code of Conduct, Sakhalin Energy does not support any political parties or their representatives financially and does not participate in political activities
G4-S011	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Full	Grievance Handling in 2015	129	
Sub-Category: Product Responsibility					
G4-DMA	Disclosures on management approach	Full	About the Company Oil and LNG Supply Safety Engagement with Customers	27 33–34 69	
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 2015
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Full			No incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling in 2015

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 2015 Report Based on Stakeholders' Opinions and Most Priority Topics to Be Included in the 2015 Report Based on Stakeholders' Opinions tables found in Section 2 of this 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 2015 Report.

In November 2015, Sakhalin Energy held the first dialogue as part of the 2015 Report preparation. At this meeting, the company provided stakeholders

with information on its activities and achievements during the reporting period. In February 2016, 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 dialogues, the company conducted electronic questionnaires, personal interviews, as well as surveys at various events in November and December 2015 (see Section 2.2 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 stakeholder's 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	
<p>A. V. Buryka, Director of the Sakhalin Regional Art Museum:</p> <p>I would like to say thank you to Sakhalin Energy for the kind words expressed to us, and to comment on the excellent relationship we have with the company. It can be divided into two parts: events and the financial support. We have held significant events. One of them was mentioned in the presentation—the 80th anniversary of the well-known Nivkh writer Vladimir Sangi.</p> <p>For each event supported by Sakhalin Energy, we received the necessary technical equipment, and we are grateful to the company for this. For example, thanks to the company, physically challenged residents of Sakhalin now have the opportunity to attend our events. The company supports our exhibitions and helped to repair the Centre of Applied Arts that was transferred to us two years ago. Our cooperation with Sakhalin Energy has continued successfully for several years</p>	<p>The company appreciates the feedback and looks forward to further fruitful cooperation</p>
<p>E. G. Chernyavskaya, Advisor of the Subdivision of State Registration and Cadastre for Wildlife and Specially Protected Natural Areas, Department of Hunting and Use of Wildlife, Ministry of Forestry and Hunting of the Sakhalin Oblast:</p> <p>My question is about the pipeline that runs across the Sakhalin Island. Every year the company conducts a number of geological works in response to dangerous processes along the pipeline, including protecting the banks of the rivers the pipeline crossings. What works did the company conduct in this area in 2015?</p>	<p>The company has been permanently monitoring geological hazards both during pipeline construction and operation. Now, we are carrying out bank protection works in the Makarov district. At the beginning of the operations we conducted such works on 20–30 rivers per year. Now the situation has stabilised, and such works are required only for two or three rivers per year. General information on maintaining right-of-ways for onshore pipeline is included in Section 8.3 of the Report</p>

Comment, question, critical remark or suggestion	Company's response and/or commitment
<p>L. V. Kirillova, Head of the Subdivision for Supervision over Water and Land Resources, Hunting and Specially Protected Natural Areas, Sakhalin Oblast Department of the Federal Service for Supervision of Natural Resources:</p> <p>At which water bodies along the pipeline route did the company conduct protection and restoration works in the reporting year?</p>	<p>The company conducted some bank protection works in winter 2015–2016 where the pipeline system crossed the Duet River and the Seredka River. General information on maintaining right-of-ways for onshore pipeline is included in Section 8.3. of the Report</p>
<p>N. E. Samarina, Head of Natural Resources Management and Environmental Protection Subdivision, Yuzhno-Sakhalinsk Urban District Administration:</p> <p>Will the company include any information on industrial monitoring of the land condition in the 2015 Report?</p>	<p>The information is included in Sections 8.2.1. and 8.3. of the Report</p>
<p>T. S. Voskoboynikova, Secretary of Stroitel Dacha Cooperative, Prigorodnoye:</p> <p>There is still a question in regards to the compensation of the dacha owners for their losses from the operations of the LNG plant. Your production and financial indicators are very impressive. However, we address this request to the company once again.</p>	<p>The environmental impact of the Prigorodnoye production complex is limited by the size of the sanitary protection zone (SPZ) established for this facility in compliance with the Russian Federation legislation. Stroitel Cooperative is located outside the SPZ, and therefore the dacha owners have no legal grounds to request resettlement. Nevertheless, the company, from the very beginning, has respected the concerns of dacha owners about the proximity of the Prigorodnoye production complex and proposed an integrated compensation programme that the dacha owners and project lenders agreed to. All dacha owners received the compensation.</p> <p>According to the provisions of the standard agreement signed by all dacha owners, these owners:</p> <ul style="list-style-type: none"> accepted the compensation under the agreement and recognised it as the full and final reimbursement for any market value loss of their plots of land; confirmed that they were acting on their own free will under the agreement and waived any claims against the company in relation to the agreement. <p>The company believes that, having signed these agreements, dacha owners recognised the compensation they received was sufficient and waived any claims against the company</p>
<p>N. P. Sharukhina, Lead Specialist of the Chief Directorate of the MChS for Sakhalin Oblast:</p> <p>I would like to thank your company for our wonderful project — the What to Do in Emergency Situations partnership programme — which has celebrated its 10th anniversary We did a lot of work, in 2015 we completed two projects: Senya Warns, a series of information boards installed in tsunami - and avalanche-hazardous areas of the Sakhalin Oblast, and Senya Teaches, materials provided to teams from municipalities that participated in the School of Safety competitions. These two projects have been implemented with the financial support of the company, and the partners are grateful to Sakhalin Energy.</p> <p>In 2015 a tripartite agreement was signed between the partners of the What to Do in Emergency Situations programme. This programme will be further developed. Earlier, we said that our Senya was still small and should grow a little. The year of 2015 shows that the target audience of Senya includes not only preschoolers and younger students, but also 13–14 year olds, and that Senya is well received by adults. It's very good, it is the real result of our work. I wish to say thank you to all participants of our programme. I think our cooperation will continue for decades.</p>	<p>The company appreciates the feedback and looks forward to further fruitful cooperation. We would also like to distinguish the Senya Warns project, a series of information boards installed in tsunami- and avalanche-hazardous areas of the Sakhalin Oblast, and to say that the Sakhalin Oblast is the first region in Russia where a project like this has been implemented</p>

Comment, question, critical remark or suggestion	Company's response and/or commitment
<p>N. I. Cherkavsky, Vice-President for Continuing Education and Affiliates, Sakhalin State University:</p> <p>I would like to tell about our long-term cooperation with Sakhalin Energy. Initially, it was limited to one-time events, but in February 2015, the CEO of the company and the President of the Sakhalin State University signed the Joint Action Plan.</p> <p>I'd like to highlight the key events. First of all, the company helps us to prepare high-quality professionals. Over 100 graduates from our university work at the Prigorodnoye production complex and other assets. I believe that over the time, due to the fact that we train personnel at the specialised secondary education and higher education levels, the number of Russian nationals working at Sakhalin Energy will reach 100%.</p> <p>We agree with Sakhalin Energy on the competencies to be developed for our students. The company provides us with facilities for practical training. When students attend classes and practical training, they see new technology; they see a new attitude toward work.</p> <p>Moreover, the company provides financial support, in particular, grants to university students.</p> <p>Specialists of Sakhalin Energy take part in scientific and practical conferences, while we participate in conferences of young specialists. Our collaboration is very close</p>	<p>The company appreciates the feedback on cooperation with the leading higher educational institution of the Sakhalin Oblast</p>
<p>A. V. Lomteva, Head of Science and Education Subdivision, Sakhalin Regional Art Museum:</p> <p>I want to say thank you to the company for our long-term cooperation within the framework of the Fund of social initiatives Energy. We have prepared a large number of projects. It is great support for our culture, and I look forward to further cooperation and further company contributions to the development of culture and education. It seems to me that without this contribution, our culture would develop more slowly and modestly</p>	<p>The company appreciates the feedback and positive comments on our cooperation</p>
<p>I. G. Malkova, Deputy Director of the Sakhalin Regional Art Museum:</p> <p>I would like to say a few words about the Report. I like it very much. In my opinion, it is one of the most interesting reports. I have been attending these events for many years. I do not know whether our stickers that we stuck on the stands at the previous meetings had any effect. But it seems to me that the company worked with them, with our requests and questions. Some figures are surprising—the company employs a little more than 2,000 people, but generates 70% of the region's income. It's amazing. Thank you.</p>	<p>The company appreciates the feedback</p>
<p>A. Ya. Nachetkina, Yuzhno-Sakhalinsk Urban District Administration, Indigenous Minorities Council:</p> <p>The figures of oil and gas production and sales in our region, as well as the taxes you have paid, are impressive. I really like the section on social projects, environment protection, and engagement with Sakhalin indigenous minorities. As representatives of the Sakhalin indigenous minorities, we get a lot of help and support from the SIMDP, and I would like to say many thanks to Sakhalin Energy for that. I would like to see and hear such a transparent report from other partners as well</p>	<p>The company appreciates the feedback and positive comments regarding our cooperation within the framework of the Sakhalin Indigenous Minorities Development Plan, as well as your comment on the transparency of our company</p>

Comment, question, critical remark or suggestion	Company's response and/or commitment
<p>V. K. Gorokhov, retiree:</p> <p>I have enjoyed well-deserved retirement for eight years, but from 1996 to 2005 I was directly involved in the Sakhalin-1 and Sakhalin-2 projects at Zarubezhneft and Rosneft. That's why many issues are interesting to me. This is the first time I have attended an event like this. Two days ago, I read about this event on Sakh.com and decided to attend it. Safety and the environment protection were number one issues both at Exxon and Sakhalin Energy when I worked. And it was nice to hear that the indicators are still at the same high level.</p> <p>My question: What is the volume of gas flaring at the LNG plant in Prigorodnoye in 2015? Has it been reduced or does it remain at the same level?</p>	<p>The company is grateful for the feedback and positive comments regarding its safety and environmental protection. As for the utilisation of associated gas, in 2015 it reached 96.1%. This is higher than the target value required by Russian legislation. The information is included in Section 8.1.6 of the Report</p>
<p>N. V. Nikitina, Head of the Subdivision of Programme and Estimate Documentation Analysis and PSA Implementation, Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast:</p> <p>I want to note that the company has taken our requests into account and added to the 2015 Report some examples of successful cooperation between Sakhalin Energy and Sakhalin companies and promotion of their activities. The company has a Russian vendor development programme. In 2015, there were about fifteen workshops under this programme, nine of which were held in the Sakhalin Oblast. Each workshop consists of three units: quality control, occupational health and life safety, and tender participation. Companies gain experience in these areas at these workshops. This is a very good initiative, and we expect that these companies will successfully participate in tenders held by Sakhalin Energy and will be awarded the contracts. This means higher tax revenues for the Sakhalin Oblast and more jobs for Sakhalin people.</p>	<p>Sakhalin Energy appreciates the feedback about the company's vendor development programme. More information about it is included in section 6.5 of the Report</p>
<p>N. S. Koltunovich, Director of the Department of Environmental and Water Resources Protection, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast:</p> <p>In his speech, Andrey Samatov touched on gasification and reduction of emissions in Yuzhno-Sakhalinsk. I didn't hear the figures. Of course, we cannot evaluate 2015 because the data is not yet available. But according to the results of 2014 compared to 2013, we could make our own assessment. I would like to confirm the importance of gasification, especially for the environmental situation in Yuzhno-Sakhalinsk. In 2014, pollutant emissions were 7.5% lower than in 2013. Over the entire period of gasification in Yuzhno-Sakhalinsk, emissions have decreased by 27%, with a significant decrease in the air pollution index. Although Yuzhno-Sakhalinsk still remains on the list of the most polluted cities, the index has decreased and shifted from very high to high. In 2014, the air pollution index was 14.4%. In total, during the whole period of gasification, emissions have decreased by 87%. Gasification's contribution to the environmental situation in Yuzhno-Sakhalinsk and generally in the Sakhalin Oblast cannot be overestimated.</p>	<p>The company appreciates the feedback</p>

Comment, question, critical remark or suggestion	Company's response and/or commitment
Other activities (electronic questionnaires, personal interviews, etc.)	
Impact assessment of new projects	<p>The company performs an impact assessment for planned projects in accordance with the Russian legislation and international standards.</p> <p>An integral part of the company impact assessment is consulting with stakeholders in order to inform them about planned activities, identify concerns, learn the opinions of stakeholders, and discuss possible impact mitigation measures.</p> <p>The information is included in Section 3.5 of the Report.</p> <p>The impact assessment results are published on the company website</p>
Interested in the disclosure of all sections about CSR and sustainable development	Information on the company activities in CSR and sustainable development is included in Section 3 of the Report
More information on the assistance given to promote Sakhalin companies	The information about the assistance the company gives to promote Russian enterprises, including Sakhalin companies, is included in Section 6 of the Report
Examples of successful cooperation with Sakhalin companies	Examples of successful cooperation with Sakhalin companies are included in Section 6 of the Report
Lack of information on the company activities in the media. Maybe it would be a good idea to issue a corporate newspaper?	<p>Sakhalin Energy has been publishing a regular information bulletin since 2007. The bulletin contains information about the company activities and the implementation of the Sakhalin-2 project. You can find it in the company's information centres and on the company website. The details of other ways of informing and engaging with stakeholders are included in Section 7 of the Report. Besides, you can find detailed information in the Public Consultation and Disclosure Plan and the related report. Both documents are updated annually and available on the company website and at the information centres</p>
The list of permits required for conducting the river bank protection works	Riverbank protection works are maintained by the company general contractor responsible for maintaining the pipeline system—000 Gazprom Transgaz Tomsk. All necessary permits and documentation have been applied for and obtained by the contractor as required by the Russian legislation
Interested in the disclosure of all stated topics associated with environmental impact management	All aspects of environmental impact management presented during the first dialogue are disclosed in Sections 3 and 8 of the Report
Production results for each asset	The information is included in Section 4.2 of the Report
Risk management system of the company	The information is included in Section 5.8 of the Report
Anti-bribery and corruption policies	The information is included in Section 5.6 of the Report
Results of industrial environmental monitoring of wastewater collection in the Zima River, the Korsakovka River, as well as collection in the sea	<p>The company presents a summary of its water use and the impact on water bodies as required by the G4 Sustainability Reporting Guidelines under the Global Reporting Initiative (GRI). This information is included in Section 8.1 of the Report.</p> <p>Data on the quality of wastewater discharge for individual sources are given by the company in statistical reports that are sent to government control and supervisory agencies. The total amount of wastewater discharged, only 1% was insufficiently treated, 4% of the wastewater was treated to standard quality, and remaining 95% was treated to minimum standards or met minimum standards without treatment</p>
Gray Whale Monitoring Programme—disclose details	Information on the Gray Whale Monitoring Programme is included in Section 8.2 of the Report

Comment, question, critical remark or suggestion	Company's response and/or commitment
Continuous improvement of principles and approaches in social investment and sustainable development	Over more than 20 years, the company has been developing principles and approaches that are based on the best practices proven both in Russia and abroad. Currently, the basic principles include funding socially significant projects on a competitive basis. Representatives of expert communities and stakeholders are involved in decision-making to ensure the competitive process is objective and transparent. The company also considers partnership programmes to be a key approach in social investment. The information on principles and approaches in social investment and sustainable development is included in Section 9.5 of the Report
How is the partnership programme initiated and planned? Can the advanced education become one of the programmes?	The partnership programme is a comprehensive programme that includes a series of projects aimed at tackling socially significant problems identified during the public consultations. If it is confirmed that the problem is relevant and if the programme idea matches the company's social investment principles, a working group is established. A working group composed of potential partners analyses a problem, determines the most effective ways to solve it and necessary resources. Presently, there are four long-term partnerships. Advanced education institutions can participate in existing partnerships (for example, the children safety programme), as well as submit their projects for funding from the competitive grant programmes of the company (e.g. "Energy" Fund of social initiatives)
The system of additional benefits for the company personnel	The information is included in Section 9.1 of the Report
Job vacancies at the company	The information is included in Section 9.1 of the Report
To highlight health and safety issues in more detail (documents, current activities, etc.)	The information is included in Section 9.2 of the Report
Company's engagement with indigenous minorities is highly commendable	The information on the company's engagement with Sakhalin indigenous minorities is included in Sections 7 and 9 of the Report, including activities within the framework of the Sakhalin Indigenous Minorities Development Plan
The results of grievances submitted in 2015	The information is included in Section 9.4 of the Report
Distribute books on ecology (Steller's sea eagles, etc.) at the dialogues under the preparation of the Report	Books of this series have been released in limited editions. These books can be found in the company's information centres and Sakhalin Oblast libraries; electronic versions are available on the company website
How is the problem with Stroitel Cooperative located next to the Prigorodnoye production complex being resolved?	The company has been engaging with Stroitel Cooperative since 2004 and till present. The information about this engagement can be found in the Public Consultation and Disclosure Plan and the related report that are annually published by the company, as well as in the company's sustainable development reports for previous years. The data can be found on the company website, as well as in its information centres
Growth projects (LNG train 3)	The information is included in Section 4.2.1 of the Report
The structure of exports deliveries	The information is included in Section 4.2.3 of the Report
Environmental pollution payments	The information is included in Section 8.1.7 of the Report
Students, trainees (statistics)	The information is included in Section 9.1 of the Report
Charity projects	The information is included in Section 9.5 of the Report
Vendor development programme	The information is included in Section 6.5 of the Report
Russian Content development strategy	The information is included in Section 6.4 of the Report
External inspections and audits	The information is included in Section 3.5.2 of the Report
Inspections and audits: results and achievements	The information is included in Section 3.5.2 of the Report
Sakhalin-2 project infrastructure	The information is included in Section 4 of the Report

Comment, question, critical remark or suggestion	Company's response and/or commitment
Protection of wild fish / salmon habitats	The company conducts monitoring of the Pacific salmon in the Goluboy Brook. It also monitors the condition of ichthyofauna in sample watercourses within the framework of the project. In 2015, the Lazovaya River was used as a sample watercourse
General information about the company: local investments / Russian investments	The information is included in Sections 6 and 9.5 of the Report
Corporate social responsibility (CSR) and sustainable development: examples of work done in occupational health and social performance	The information is included in Sections 8 and 9 of the Report
Production and shipping of hydrocarbons in dollars	The company is implementing the Sakhalin-2 project within the Agreement on the Development of Piltun-Astokhskoye and Lunskeye Oil and Gas Fields on the Basis of the Production Sharing Agreement (PSA). According to this agreement, information on the cost of oil and gas sold by the company is strictly confidential and not subject to disclosure. The company has to refrain from publication of this information
Corporate governance: publication of the company financial results. Distribution of profits to shareholders	The key financial results are included in Section 6 of the Report. Information on profits distributed to shareholders is strictly confidential and is not subject to disclosure
Personnel: management and development, assessment of working conditions at production assets	In 2015, the company assessed working conditions at the workplaces of Sakhalin Energy and contractors
Number of employees in the Sakhalin Oblast, other regions of Russia and foreign employees	The information is included in Section 9.1 of the Report
Environmental, health and social impact assessment results	The reports on the Environmental, Health and Social Impact Assessment are published on the company website. The information is included in Section 3.5.2 of the Report
Environmental impact management: system and results. Local monitoring results, amount and results of land restoration	The information is included in Section 8 of the Report
Handling of company's personnel grievances: categories and nature of grievances, handling results	The information is included in Section 9.4 of the Report
Engagement with the indigenous peoples	The information is included in Section 7.5 of the Report
Social investment and contribution to sustainable development of the territory of presence (aimed at supporting SIM)	The information is included in Section 9.5.8 of the Report
Industrial safety	The information is included in Section 9.2 of the Report
It would be nice to see information on personnel grievances	The information is included in Section 9.4 of the Report
Industrial safety management at hazardous production assets	The information is included in Section 9.2 of the Report
General information about Sakhalin Energy. Key production achievements in 2015. Key positions of the company in the sustainable development strategy	The information is included in Section 3 of the Report
Corporate governance: concisely but significantly about business ethics	The information is included in Sections 5.4 and 5.5 of the Report
Corporate social responsibility (CSR) and sustainable development: a few examples illustrating the long-term focus	The information is included in Section 3 of the Report

Comment, question, critical remark or suggestion	Company's response and/or commitment
Recommendations of the RUIE Council for Non-Financial Reporting Board concerning the Results of Examination of the 2014 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. for the Purpose of Public Endorsement	
Balance: it is recommended to ensure balanced coverage not only of the achievements but also of the existing problems in Sakhalin Energy operations and approaches to solving them	Both favourable (achievements) and unfavourable (problems to be solved) aspects of the company' operations during the reporting period are included in the Report. The degree of attention paid is proportional to the materiality, as well as interests and requests of stakeholders for including certain topics and questions in this Report (see Sections 4 and 8 of the Report)
Consultations: it is recommended to continue work in this area and to raise awareness of how material topics are chosen to be disclosed in reports. It is necessary to report not only the opinions of the stakeholders, but also the results of analysing the materiality of these opinions and to justify the choice of topics and priorities included in a Report.	The information is included in Section 2 of the Report
Disclosure of indicators: it is recommended to provide comments on the data in tables to explain the dynamics of indicators, particularly in the case of ongoing significant changes; to expand, where possible, comparative data by comparing the company indicators with national, industry-wide, and international data, particularly on energy efficiency and the achievements in restoring biodiversity; as well as to use an industry appendix that includes the respective indicators in reports, and to expand the number of corporate governance Indicators.	The Report includes data in comparison to industry-wide indicators in energy efficiency and restoration of biodiversity. The Report includes indicators of the industry appendix for the oil and gas sector, and an expanded number of indicators in corporate governance (see Appendix 1 to the Report)
Supply chain, engagement with suppliers and contractors: it is recommended to further expand the information about responsibilities in the supply chain and the company experience in responsible engagement with suppliers and contractors, to more fully cover the environmental and social responsibility requirements expected from partners, and to show the results achieved.	The information is included in Section 6 of the Report
Advanced production processes and impact assessment of them: it is recommended to provide information about the use of advanced production processes for recovering hydrocarbons that increase operational efficiency, and to add information about the associated environmental impacts and measures to prevent / reduce negative consequences if they occur. This applies in particular to the information on using the flooding process at the Molikpaq platform	When developing any new technology, an impact assessment, including the Environmental Impact Assessment, is conducted. The information about the impact assessment is included in Section 3.5.2 of the Report
Analysis of social investment results: it is recommended to give a comprehensive assessment of the long-term results of social investment, in particular, in the Sakhalin Indigenous Minorities Development Plan; it would be useful to analyse the impact of this plan on the conditions and quality of life of SIM and to include this information in the next Report. In the future, it is recommended to more fully cover the effectiveness of the company social investments	An analysis of the results of social investment is provided in the report of the final implementation assessment of the second Sakhalin Indigenous Minorities Development Plan (2011–2015) and in the third Development Plan (2016–2020), which are available on the programme's website www.simdp.ru

Appendix 3. The List of Participants of Dialogues with Stakeholders for Preparation of the 2015 Sustainable Development Report

Anchor Energy Services	V. Tkachuk, Supply Development Coordinator
Chief Directorate of the MChS for Sakhalin Oblast	N. P. Sharukhina, Lead Specialist
Korsakov Urban District Administration	V. V. Goryachev, Vice Mayor, Head of Social Development Department O. I. Manukhin, Deputy Head of Social Development Department
Literary and Art Museum of Anton Chekhov's Book The Sakhalin Island	A. A. Zhuk, Director Ye. P. Firsova, Deputy Director for Museum Development and Scientific Work
Lyudi Ykh-Mif Ethnic and Cultural Centre	A. V. Bugrei
000 Stroika Construction Company	A. N. Zhukov, CEO
Preodoleniye ("Overcoming") Centre	N. S. Dunav, Head of Physically Challenged Children Development Subdivision
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
Sakhalin Oblast Government, Governor's Office	O. S. Kutaybergy, Lead Specialist of the Indigenous Minorities Department N. V. Mizinin, Head of the Indigenous Minorities Department
Sakhalin Oblast Government, Ministry of Education of Sakhalin Oblast	N. O. Nersesyan, Deputy Minister
Sakhalin Oblast Government, Ministry of Forestry and Hunting of Sakhalin Oblast	Ye. G. Chernyavskaya, Advisor of the Subdivision of State Registration and Cadastre for Wildlife and Specially Protected Natural Areas
Sakhalin Oblast Government, Ministry of Health Care of Sakhalin Oblast	A. A. Kucherenko, Lead Advisor of Special Medical Care Management Subdivision K. V. Sakharova, Press Secretary
Sakhalin Oblast Government, Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast	N. S. Koltunovich, Director of the Department of Environmental and Water Resources Protection N. V. Nikitina, Head of the Subdivision of Programme and Estimate Documentation Analysis and PSA Implementation O. S. Rozhkova, Advisor of the Environmental Protection Subdivision N. V. Starodubtseva, Acting Head of the Environmental Protection Subdivision
Sakhalin Oblast Public Chamber's Office	O. V. Santalova, Director
Sakhalin Regional Art Museum	A. V. Buryka, Director A. V. Lomteva, Head of Science and Education Subdivision I. G. Malkova, Deputy Director Ye. S. Nitkuk, Head of Regional Art Projects Subdivision Z. V. Turmanova, Deputy Director
Sakhalin Regional Centre of Arts and Crafts	G. A. Samenko, Head of Sakhalin Indigenous Minorities' Culture Subdivision O. Yu. Khuryun, Lead Specialist of Sakhalin Indigenous Minorities' Culture Subdivision
Sakhalin Regional Centre of Extracurricular Education	S. I. Rudenko, Subdivision Head

Sakhalin Regional Council of Veterans of War, Labour, Military Forces and Law Enforcement Authorities	Z. V. Glyogover, Chairperson
Sakhalin Regional Division of the Russian Union of Industrialists and Entrepreneurs, and the Regional Association of Employers Union of Industrialists and Entrepreneurs of Sakhalin Oblast	I. V. Andreyev, Executive Director
Sakhalin Regional Local Lore Museum	N. V. Vishnevsky, Director
Sakhalin Regional Universal Scientific Research Library	V. A. Malysheva, Director
Sakhalin Research Institute for Fishing and Oceanography	D. S. Zavarzin, Senior Researcher
Sakhalin State University	N. I. Cherkavsky, Vice-President for Continuing Education and Affiliates E. N. Lisitsina, Head of the Sustainable Development Chair
Stroitel Non-Commercial Garden Cooperative, Prigorodnoye	T. S. Voskoboynikova, Secretary V. V. Kshetskaya
V. K. Gorokhov, retiree	
Yuzhno-Sakhalinsk Children (Youth) Creativity Centre	Ye. A. Kharlamova, Deputy Director for Instructional Research
Yuzhno-Sakhalinsk City Duma	Ye. A. Stolyarova, Deputy Chairperson
Yuzhno-Sakhalinsk Urban District Administration	N. V. Belyaeva, Category 1 Chief Specialist of Public Relations Subdivision N. Ye. Samarina, Head of Natural Resources Management and Environmental Protection Subdivision
Yuzhno-Sakhalinsk Urban District Administration, Indigenous Minorities Council	M. V. Kragina 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	
Vesti corporate newspaper	www.sakhalinenergy.com (section Media Center)
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	
Sustainable Development Policy	
Human Rights Policy	www.sakhalinenergy.com (section About the Company – Our Principles)
Code of Conduct	
Sakhalin Energy Commitment and Policy on Health, Safety, Environment, and Social Performance	
Health Safety Environmental and Social Action Plan, Policies and Standards on Health, Safety, Environment, and Social Performance (note: complex of documents)	www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
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)
Public Consultations and Disclosure Reports	www.sakhalinenergy.com (section Social Performance – Community Awareness)
Biodiversity Action Plan	www.sakhalinenergy.com (section Media Center – Library – Environmental Documents)
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 Energy Social Initiatives Fund	www.fondenergy.ru
The Save the Salmon Together project	www.salmon-friend.ru
PRINTED MATERIALS	
ABC-book of the Uilta language	www.sakhalinenergy.com (section Media Center – Library – Published editions)
The Universal Declaration of Human Rights in the Nivkh language	
The Universal Declaration of Human Rights in the Uilta language	www.simdp.ru (section Multimedia – Other Materials)
The Universal Declaration of Human Rights into the Nanai 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”	
Poisonous Plants and Fungi	
Rivers of Sakhalin Island	
Sakhalin Birds (photo album)	
Sakhalin-2 Encyclopedia	
Steller’s Sea Eagle	
Nivkh Myths and Fairy Tales	
REFERENCE MATERIAL AND OTHER	
Global Compact LEAD	www.unglobalcompact.org (section How to participate – Global Compact LEAD)
Global Initiative Sustainability Reporting Guidelines	www.globalreporting.org
UN Global Compact	www.unglobalcompact.org
UN Global Compact in Russia	www.undp.ru/index.php?iso=RU&lid=1
UNGC Network, Russia. Corporate Social Responsibility Practices	www.undp.ru/index.php?iso=RU&lid=1&pid=160
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 2015 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 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 unbiasedness of information provided?

- Very favourable
 Mostly favourable
 Equal
 Mostly unfavourable
 Very unfavourable
 Unsure

Please provide comments in support of your answer

4. How do you rate the Report in terms of how easy it to find required information?

- Very easy
 Mostly easy
 Equal
 Mostly uneasy
 Very uneasy
 Unsure

Please provide comments in support of your answer

5. What Section of the Report was most interesting and valuable to you?

- 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 2016 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?

- Company's employee
 Investor Shareholder Customer (Buyer)
 Partner (Contractor)
 Representative of authorities
 Representative of public organisation
 Mass media Other group of persons concerned (comment)

Please indicate your contact information below:

Name:

Job title:

Telephone:

Fax:

Address:

E-mail:

What type of communication is preferable?

- By mail E-Mail

Please return the completed Form on the 2015 Sustainable Development Report to: **35 Dzerzhinskogo Str., Yuzhno-Sakhalinsk, Sakhalin Region, Russian Federation, 693020.** You may also send this Form by e-mail: **ask-sakhalinenergy@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 2015 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. 081.01.004.01.15

Signed:
RUIE President A. Shokhin,
Russian Union of Industrialists and Entrepreneurs
Moscow, 2016



Appendix 8. Conclusion on the Review of Sakhalin Energy 2015 Sustainable Development Report by the RUIE Council for Non-Financial Reporting for the Purpose of Public Endorsement

The Non-Financial Reporting Council (the Council) of the RUIE (Russian Union of Industrialists and Entrepreneurs), established by the Bureau of the Board (Resolution dated 28 June 2007), has reviewed the 2015 Sustainable Development Report (the report) at the request of Sakhalin Energy Investment Company Ltd. (Sakhalin Energy, or the company).

The company asked the RUIE to arrange for a public endorsement process by the Council for Non-Financial Reporting, which issues its opinion on the relevance and completeness of information provided in company non-financial report on the context of the Social Charter of Russian Business that promotes responsible business principles.

During the period from 27 February to 14 March 2016, the Council's members reviewed the company report and prepared this Conclusion based on the Council-approved Rules for Public Endorsement of Non-Financial Reports. The Council members possess the required competencies in areas of corporate responsibility, sustainable development and non-financial reporting; they abide by ethical requirements for making independent and objective assessments; and they express their personal opinions as experts, but not the opinions of their respective organisations.

The relevance and completeness of the report were assessed based on the following criteria:

Information is relevant since it demonstrates the company compliance with responsible business practices as set forth in the Social Charter of Russian Business (www.rspp.ru).

FINAL OPINION

Based on the report's review and the public information published on the company website, and following a discussion of the independent review of the report by the RUIE Council for Non-Financial Reporting, the Council confirms the following.

The 2015 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 activities in these areas.

Complete information means that the company report provides integrated information on all main aspects of the company activities — the underlying values and strategic goals, management systems and structures, stakeholder engagement processes, major achievements and key performance and effectiveness indicators.

The Council notes that progress has been made in this report in terms of information disclosure as compared to the previous one.

The fact that the company has applied international reporting principles is taken into account as part of the public endorsement process. However, it is outside the scope of this conclusion to assess the extent of the compliance with international reporting principles.

Sakhalin Energy bears all responsibility for the information and announcements in the report. The authenticity of the factual data provided in the report is outside the scope of the public endorsement process.

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

The 2015 report addresses the RUIE Council's recommendations for the 2014 Sakhalin Energy Sustainable Development Report. Information on the sustainable development management system of the company and the promotion of corporate responsibility principles in its relations with suppliers and contractors has been expanded; more details have been provided regarding the procedure for defining material subjects to be disclosed in the report and the stakeholder engagement in the course of its preparation.

The company 2015 report contains material information regarding the following aspects of responsible business practices.

Economic Freedom and Responsibility:

The report gives an overview of the policies and performance of the company in the field of sustainable development, the main financial, economic and production figures for the business segments and the most important production assets. It also highlights the value of the Sakhalin-2 project for the economic development of the Far East region and the whole country, including information on the increase of Russian content in the project. It briefly characterises the development projects aimed at optimising the business processes, improving the operational excellence and safety. The principles underlying the activities of the company, the basic elements and the organisational structure of the management system are described in the report. The report also highlights company impact management issues: on the economy, society and the environment. The model of corporate governance is presented in the report. The report contains detailed information on risk management and describes anti-corruption procedures. It covers the current corporate policies and standards governing the responsible business practices of Sakhalin Energy.

Business Partnership:

The report addresses the company systematic approach to engagement with stakeholders. It identifies key stakeholder groups. The strategies, the principles, the tools of engagement, and the practice of business partnership are highlighted in the document. The report provides comprehensive description of personnel management system, HR policies, incentives, and social guarantees for employees. The company indicates in the report that HR management is regarded in the context of strengthening the corporate culture, and is based on the developed system of internal communications. The relationships with suppliers, to which the company applies, as is reported, the basic requirements of internal corporate documents for compliance with the rules of business ethics and social responsibility, are considered in the context of responsibility in the supply chain. The report describes the vendor development programme implemented with a view to ensure vendors' compliance with these requirements. It covers the measures taken to ensure the transparency of tender procedures and open competition. The report contains information on the engagement with oil and gas customers, based on regard for their interests, exchange of information, and security of supplies. Information on engagement with shareholders and investors, in particular on the issues of sustainable development, has also been included in the report. The report specifies main areas and forms of cooperation with government authorities at various levels, as well as with public and non-profit organisa-

tions. Special attention is paid to the engagement with local communities of Sakhalin Island, including information on grievance procedure. It is stated that the company attaches special importance to engagement with Sakhalin indigenous minorities based on the development plans agreed with them and consistently implemented. The report gives an account of the results of the efforts aimed at engagement with stakeholders as part of the reporting process, as well as informs about the company response to the proposals and suggestions received during these events.

Human Rights:

The report reflects the company commitment to human rights observance. It covers management system in this area, presents the main regulatory documents, including the Human Rights Policy, as well as the procedures and events ensuring their implementation. It is stated that the company has implemented the human rights standards in all areas where there is a risk of human rights infringement; relevant employee training is conducted on a regular basis. The results of grievances handling are highlighted in the report. It is also reported that, in accordance with the UN recommendations, the company applies the principle of «free, prior and informed consent» (FPIC) when working with Sakhalin indigenous minorities. The report contains information on the company participation in the promotion of human rights issues in a business setting at the international level and in the Russian business community.

Environmental Preservation:

The report provides detailed description of the environmental impact management, which is regarded as part of an integrated sustainable development management system. It characterises the company integrated health, safety and environment (HSE) management system which is based on the application of international standards ISO 14001 and OHSAS 18001. It is reported that industrial environmental control is conducted regularly taking into account the company standards for air protection, energy management, water use, and waste management. Environmental impact statistics, as well as the company efforts to reduce the adverse effects of production activities, including data on oil spills, are presented in the report. It is noted that the company maintains accounting and control of greenhouse gas emissions. The report discloses energy consumption figures, as well as information confirming the high level of energy efficiency of the company assets. It also includes information on biodiversity preservation, and the environmental monitoring conducted by the company (soil, river ecosystems, vegetation, protected species of animals, etc.). The data on environmental costs, as well as on the results of independent assessment of environmental responsibility of Sakhalin Energy are specified in the report.

Local Community Development:

The report contains information on social and economic impact of Sakhalin Energy, its contribution to sustainable development of the hosted region and local communities in the areas of production activity in the Sakhalin Oblast. The report gives an overview of the company principles and approaches in the field of social investment. Special attention is given to the specific programmes implemented in partnership with the government authorities and representatives of the communities. These include child safety and road safety programmes, the Traditional Economic Activities Support Programme as part of the Sakhalin Indigenous Minorities Development Plan, the projects of the Energy Social Initiatives Fund, the Korsakov Sustainable Development Partnership Council, and the corporate programme to support charity and volunteer initiatives of the company employees. The report shows evidence of the public recognition the company received for its activities in this area, and its contribution to the development of the hosted region.

Concluding Statements

Overall, the report of Sakhalin Energy 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 monitoring procedures that ensure

RECOMMENDATIONS

Recognising the merits of the Sakhalin Energy 2015 Sustainable Development Report, the Council would like to bring to the company attention a number of aspects related to the informational value and completeness of disclosure that are essential for the stakeholders. We recommend the company consider this advice in subsequent reporting cycles. The recommendations regarding the company previous non-financial reports remain relevant and should also be used in further work.

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 in future measurable targets for the upcoming planning period be included in reporting, which will allow the company to better assess the results achieved and progress made towards the set goals.

the implementation of these principles in the company activities in all areas of corporate social responsibility. The report provides a considerable amount of data on economic, social and environmental performance of the company, 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. Evidence is provided that the material subjects to be included in the report were defined taking into account stakeholders' opinions.

The 2015 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. is its seventh annual report of this kind, which demonstrates continuity in the development of non-financial reporting process and the company adherence to transparency and openness principles.

The report lists the projects that the company is implementing in order to promote sustainable development of local communities. It is recommended that the monitoring conducted by the company and the evaluation of such projects implementation be covered in greater detail in the future.

It is stated in the report that engagement with personnel is an important component of strengthening and development of the company corporate culture. It is recommended to further expand information on this topic, supplement the list of activities with information on their results from the standpoint of sustainable development. For example, it would be helpful if the information on the availability of a talent pool were illustrated with information on how it is used, and how exactly the career ladder works.

The company informs that CSR trends and indicators are regularly assessed by authorised personnel and senior management within the internal control and audit framework, as well as by lenders, their consultants and independent evaluators through external professional assessment. It is recommended that the future non-financial reports disclose information on the key results of the company CSR trends and indicators, and include comments on the dynamics of changes in these indicators.

Although the report contains a considerable amount of environmental indicators, it is recommended that in the future dynamics by the year be shown not only for the absolute, but also for the specific values of the environmental performance indicators so as to ensure greater completeness and clarity.

It should be noted that the informational value would be higher if the data shown in dynamics were accompanied with comments, giving a clear picture of the factors that caused the significant changes of relevant indicators. This applies, in particular, to report data on cases of occupational diseases (growth), and on waste generation (reduction). The inclusion of such clarifications will enable a better understanding of the processes taking place in the company.

The focus on the new version of G4 Guidelines in the preparation of the report is in line with the modern trends in the non-financial reporting. Consistently advancing in the mastering of this new tool, the company should pay particular attention to the recommendations regarding the disclosure of information, in particular, the formulation of the material aspects taking into account the GRI requirements, the indicators reflecting these aspects, and the completeness of their disclosure.

The RUIE Non-Financial Reporting Council expresses a positive opinion on the report, and, supporting the company in its adherence to the principles of corporate social responsibility and noting the consistency of the reporting process development, confirms that the 2015 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has received public endorsement.

Chairman of the RUIE Council

F.T. Prokopov

Deputy Chairman of the RUIE Council



E.N. Feoktistova

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
BS 2	Booster station 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
HSE and SP	Health, safety, environment and social performance
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
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