



Sakhalin Energy Investment Company Ltd.

35, Dzerzhinskogo, Yuzhno-Sakhalinsk, 693000, Russia
Tel.: (7 4242) 73 2000 Fax: (7 4242) 73 2012

693000, Россия, г. Южно-Сахалинск, ул. Дзержинского, 35
Тел.: (7 4242) 73 2000 Факс: (7 4242) 73 2012

Sakhalin Energy commissions independent panel to review effectiveness of whale impact mitigation measures

Yuzhno-Sakhalinsk, Russian Federation, 26 August 2004: Sakhalin Energy today announced it has commissioned IUCN - The World Conservation Union – to convene an independent panel to review the effectiveness of mitigation measures to minimise the impact of its operations on Western Gray Whales as it develops the Sakhalin II Phase 2 project.

The Independent Scientific Review Panel will study the key issues concerning conservation of the whales in relation to the Company's activities. Sakhalin Energy is committed to ensuring that the Sakhalin II Phase 2 project can be developed while minimising any impact on the whales, which are critically endangered.

Sakhalin Energy has been operating offshore Sakhalin since 1999 and has implemented a comprehensive programme of protection measures for the whales, including vessel exclusion zones and noise and speed limits. There has been no discernible change of behaviours in or impact on the whales from Sakhalin Energy's existing operations.

IUCN is a unique union with scientists and experts from some 181 countries, including 78 States, 114 government agencies, and more than 800 Non Government Organisations (NGOs). IUCN has been operating for more than 50 years in the areas of the environmental management, global standards and scientific knowledge.

Ian Craig, CEO of Sakhalin Energy, said: "Our determination to ensure we can develop the Sakhalin II Phase 2 Project in a sustainable manner was clearly demonstrated by our decision to reschedule offshore work planned at Piltun this summer to allow us to carry out further studies on the Western Gray Whales. The formation of this expert panel goes even further – it underlines Sakhalin Energy's commitment not only to ensure we have the best scientific advice, but that we also address people's concerns in an open and transparent way.

"Sakhalin Energy is determined to ensure that the Phase 2 project can be developed in line with our environmental standards and our commitment to mitigate potential impacts as far as is practicable - not just to the Western Gray Whales, but to the island as a whole.

"Protection of the environment and species like the whales form part of our overall commitment to sustainable development. The project will bring many substantial and important sustainable benefits, and we need to maximize all these benefits. The project will create up to 2,400 permanent and long-term contractor jobs once construction is completed, and generate value for the Russian Federation of up to \$45 billion over the life of the project. It is bringing new business opportunities for

Sakhalin companies and boosting economic activity on the island. It is also providing a clean energy source for both the island and the wider Asia Pacific Region.”

Dr Randall Reeves, who will chair the Independent Scientific Review Panel said: “The precarious status of this whale population has long been recognised by whale scientists and conservationists, but we had not anticipated that its critical feeding habitat would be found to lie in such close proximity to a major oil and gas complex. No cookbook recipe exists for shielding whales from the effects of industrial activities such as those underway on and around Sakhalin. This means that the project proponents and the scientific community face an enormous challenge in trying to define, predict and manage the environmental consequences of Sakhalin development. The intent of our review will be to examine the evidence in an independent manner and to provide a scientific evaluation of potential impacts as well as the likely efficacy of proposed mitigation measures.”

Western Gray Whales – which are listed as a critically endangered population - migrate to the Sakhalin region and feed offshore Piltun, in northern Sakhalin, in the summer months. A near-shore feeding ground and a recently discovered offshore feeding area are currently the only confirmed feeding locations of the whales.

Sakhalin Energy and other energy companies have been studying Western Gray Whales since 1997, drawing on the best available Russian and international scientific research and expertise. A total of more than US\$6 million has been spent on the studies between 1997 and 2003, with a further \$3 million to be spent in 2004. Research and monitoring carried out to date indicates that there has been no discernable impact on the whales from the project’s Phase 1, which went into operation in July 1999 with oil production from the offshore Molikpaq platform.

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Further Inquiries:

Sakhalin Energy (Yuzhno-Sakhalinsk)	+ 7 4242 73 2000
Julian Barnes (Yuzhno-Sakhalinsk)	+ 7 4242 73 2040
Valentina Kiseleva (Yuzhno-Sakhalinsk)	+ 7 4242 73 2082
Masami Naruse (Yuzhno-Sakhalinsk)	+ 7 4242 73 2324

Sakhalin Energy (Moscow)	+ 7 095 956 1750
Ivan Chernyakhovsky (Moscow)	+ 7 095 956 1774

Jamie Walls (London)	+44 (0)20 7934 2575
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Notes for editors

Sakhalin Energy Investment Company Ltd. is an incorporated company, established in April, 1994 and based in Yuzhno-Sakhalinsk, Russia for the purpose of the implementation of and development of the Sakhalin-II integrated oil and gas project. The shareholders in Sakhalin Energy are: Shell Sakhalin Holdings B.V. with 55 % interest (parent company – Royal Dutch/Shell), Mitsui Sakhalin Holdings B.V. with 25% (parent company – Mitsui & Co., Ltd.) and Diamond Gas Sakhalin B.V. with 20 % (parent company – Mitsubishi Corporation).

The Sakhalin II development represents the largest single foreign direct investment project currently underway in Russia. It is the first Production Sharing Agreement (PSA) to be signed in Russia and the first PSA to go into operation following commencement of oil production under Phase I of the Sakhalin II Project.

Phase I has been successfully producing oil from the Vityaz Complex offshore Sakhalin since July 1999. The Vityaz complex consists of the Molikpaq production platform, a single anchor leg mooring buoy and the Okha floating storage and offloading unit, and is located on the on Astokh feature of the Piltun Astokhskoye (PA) reservoir offshore Sakhalin. Production is currently limited to the ice-free period during the summer months, and more than 55 million barrels of oil have been produced since production began. The Molikpaq is the first offshore oil production platform in the Russian Federation.

Sakhalin II Phase 2 includes two new offshore platforms, a gas condensate processing plant in the North of Sakhalin Island and two 800 km pipelines. The centrepiece of the project is a state-of-the-art LNG plant, comprising two trains each of 4.8 million tonnes per annum, located close to an oil and LNG export terminal in the south of the island at Prigorodnoye on Aniva Bay which remains largely ice-free year round.

Further information can also be found at the following web sites:

www.sakhalinenergy.com

www.sakhalinenergy.ru

www.iucn.org

www.iucn.ru