

**Sakhalin Energy Investment Company Ltd. - Press Conference, Moscow,
January 30, 2003**

Speech given by Steve McVeigh, CEO.

Good morning, ladies and gentlemen. Thank you for joining us today.

Most of you I think are familiar with the Sakhalin II Project. For those of you who are new to it, and to Sakhalin Energy, I would like to say a few words about our Project. We are on the eve of starting construction of one of the largest oil and gas developments the world has ever seen – that is, Phase 2 of our project.

Subject to approval by the Russian authorities and the final investment decision by our three shareholders, Shell, Mitsui and Mitsubishi, Sakhalin Energy will start construction of the second phase of our Project later this year. Sakhalin Energy has already delivered the first offshore oil production in Russia. In four years' time, we will deliver Russia's first liquefied natural gas development – delivering Russian oil and gas to the growing markets of east Asia for the first time.

Sakhalin Energy will invest more than \$10 billion in all in developing the Sakhalin II Project. That is a huge amount of money. It is also a huge responsibility – and not just in financial terms. The Russian government, our shareholders, our customers in Asia as well as the people of Russia have huge expectations of our Project, expectations not only about things like financial returns and gas supplies but also expectations about the way that we will manage some of the other big challenges facing the Project – including the environmental challenges. I'd like to talk a little about some of those and what we are doing to address them.

Sakhalin Energy faces some really severe environmental challenges in the area where we work. People in the oil and gas industry the world over – especially the Russian oil and gas industry – are used to working in pretty harsh conditions. It is a fact of life that oil is hardly ever found in the world's garden spots. But the weather in the north of Sakhalin Island is as tough as you will find anywhere, even in Russia. Temperatures drop to –40 degrees centigrade offshore during the winter, and the sea is iced over for half the year. We get waves several metres high out at the Piltun field where we've been producing oil since 1999. In fact, our drilling platform, the Molikpaq, was originally built to withstand some of the worst sea-storms of Alaska, and its name actually means "Big Wave".

Apart from the weather, Sakhalin is an area of high seismic activity. It lies on that same tectonic border that surrounds the Pacific Ocean, the so called "Ring of Fire" which has led to earthquakes in California and in Japan – and worse ones on Sakhalin Island itself. 2,000 people died in the 1995 earthquake in Neftegorsk, at the north of the Island. The risk of "sea-quakes" is as high as the risk of earthquakes, so the new offshore production platforms we are going to build for Phase 2 of the Project have got to be strong enough to withstand the worst that could happen. That means more than just a lot of steel and concrete – it means a big investment of time and money spent on research and design to make sure we get it right. It's called design for safety.

So much for the harsh winters and the earthquakes. What most people who've never been to Sakhalin don't realise is how beautiful it is. It takes your breath away, winter and summer. What makes Sakhalin so special is that it is teeming with life of all kinds. There are thousands of different birds, fish, plants and flowers, including many

rare and protected species. They are not all there for decoration, by the way: the fishing industry is the mainstay of the Sakhalin economy.

Sakhalin Energy has to fit into this picture. That means working with Sakhalin's industries and businesses, such as the fishing industry, to make sure that we limit the disruption that construction of our project will cause.

Getting a dialogue going with people is one thing. There are a number of Sakhalin residents who can't answer back. Sakhalin Energy has a special responsibility to make sure we limit any adverse impact on Sakhalin's wildlife, whether onshore or offshore, flora or fauna. To do that, we must first understand what is happening in the environment. Sakhalin Energy has spent more than \$20 million on environmental surveying and monitoring programmes to date.

We pay special attention to surveying and monitoring rare and endangered species. One of these is the western gray whale, which spends the summer offshore Sakhalin Island at feeding grounds in the north. Very little is known about the gray whales, and what is known is known largely as a result of research funded by Sakhalin Energy and Exxon, which is also developing a big project offshore Sakhalin. Sakhalin Energy has invested \$2 million in the past five years in gray whale research. We spent the money to find out if there is any effect from our operations on the whale population.

The results so far suggest that there is no adverse effect and that Sakhalin Energy and the whales co-exist peacefully in the Sea of Okhotsk. No research has demonstrated an adverse impact on the whales, whose main feeding ground is some 12 km away from our existing platform. No Gray Whale has ever come into contact with the Molikpaq or been killed or injured by our operations. However, research that we have funded *has* shown that Sakhalin's gray whales are a different species from the gray whales found on the other side of the Pacific in California, and that has led to them being classified as a critically endangered species. The population offshore Sakhalin – which may be the only western pacific gray whale population – numbers only 100.

But apart from the numbers offshore Sakhalin, not nearly enough is known about the whales. Where do they go when they leave Sakhalin in the winter to breed? What happens to them there? Sakhalin is just one piece in the whales picture – an important piece, certainly, as that's where they build up their food reserves for the breeding season – but nevertheless just one piece. Understanding where we fit into the big picture is a challenge for us, especially as we are going to ramp up our activity dramatically in the next three to four years, as we build our new project.

So we have decided to help build the picture ourselves. Sakhalin Energy is committing \$5 million to an expanded gray whale research programme that will go beyond Sakhalin to Korea, Japan and China. We will put that \$5 million on the table to contribute to research programme that extends well beyond the footprint from our Project.

I'd like to tell you a bit about our vision for this research programme. First of all, we're contributing to it but we don't want to run it. Our core business is oil and gas, not whale research. We will set up an independent council that will administer the research programme. And we'll be part of it, along with whale specialists, representatives of regional governments, and other contributors. We'll commission research to find out about the entire life cycle of the western gray whales, and the results of the research will be subject to peer review by independent specialists. They'll be publicly available. We want others to join and contribute – and that is why

we asked you here today – not just to tell you about our initiative but to ask you to spread the word to make others aware of this important development.

We are working in partnership with VNIRO (Russian Research Institute of Fisheries and Oceanography) in setting up the programme and I'm delighted by this partnership. Part of the funding will involve capacity-building technical grants to the Russian research community. Sakhalin Energy is committed to maximising Russian Content - and here's another way we are demonstrating that commitment.

I started out speaking about responsibility. Sakhalin Energy cannot single-handedly save the gray whale, not even if we had unlimited funds at our disposal. That responsibility lies beyond us, beyond Sakhalin and beyond the Russian Federation. It is the joint responsibility of the Far East Asian region's governments, the research community and industries and businesses that operate where the whales live and breed. We are doing what we can. We cannot do it alone, but together we can make a difference.