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PRESS RELEASE

Sakhalin Energy's Multibillion Sakhalin-II Phase 2 Project Becomes Official

MOSCOW, Russian Federation, 15 May 2003: Sakhalin Energy's Declaration of Development Date in Moscow today for the Lunskoye field marks the official launch of the multibillion dollar Phase II Project and establishes Russia as a leading energy supplier to the Asia Pacific Region.

Today's Declaration of Development Date follows a positive investment decision by the project's shareholders this week. Their commitment of approximately $10 billion dollars to allow for the development of the Phase 2 Project represents the largest single foreign investment in Russia to date.

Steve McVeigh, Chief Executive Officer of Sakhalin Energy said: "It has been an exciting journey to where we are today and we look forward to working in cooperation with the Russian Federation Government and Sakhalin Oblast to deliver Phase II, the largest single integrated oil and gas development ever undertaken. There is a lot of hard work ahead, but we are ready for it and committed to building on the achievements of Phase I to supply Russian Far East gas to markets in the Asia Pacific in the near future.

"We are dedicated to delivering a world-class project that is designed and operated to high environmental standards and which maximizes the socio-economic benefits," Steve McVeigh added.

The Sakhalin-II project is expected to provide about $ 45 billion in value to the Russian state in the form of taxes, refund of prior exploration expenditures and proceeds from hydrocarbons over the life of the project. It will also involve multibillion construction and service contracts for Russian and international contractors.

Russian industry has already won contracts worth about $1 billion for Phase I and for preparatory work on the Phase 2 project. Russian contractors are expected to undertake further contracts worth more than $4.5 billion during the construction of the Phase II project, and then play a continuing major role in supplying materials and services during the operational life of the project.

Steve McVeigh added: "Under the terms of our production sharing agreement, we are required to use our best efforts to achieve 70% Russian Content – defined as manhours and volume of materials - over the life of the project. I am happy to report that we are achieving that target, and will continue to meet or exceed 70% manhours and materials content during the life of the project. That is a significant achievement both for us and the capabilities of Russian industry."

Earlier this week, Sakhalin Energy announced the first gas sales deal for LNG from the planned Phase 2 project LNG plant had been reached with Tokyo Gas – the largest gas company in Japan.

Sakhalin Energy Commercial Director Andy Calitz said: "Japan has elected to buy gas from

Russia, and has chosen LNG as the first means of transportation of Russian gas to Japan. The Tokyo Gas agreement means that we have secured 1.1 mtpa of sales, and we are currently in advanced negotiations for the rest of the volume of the first train. More announcements can be expected shortly. The strategic location of Sakhalin also offers customers in Korea and China and Taiwan a new source of LNG on their doorstep."

Following on from the Phase I Project, which has been successfully producing oil from the Vityaz Complex in the Piltun-Astokhskoye (PA) field offshore Sakhalin since July 1999, the Phase II Project calls for the installation of a second platform on the PA field and a new platform on the Lunskoye field.

Offshore pipelines will be installed to bring both oil and gas ashore. Lunskoye hydrocarbon production will then be sent to an onshore processing facility, where condensate and oil will be separated and mixed with the crude oil. Both the oil and gas will be transported via 800 km oil and gas pipelines to an oil export terminal and LNG plant at Prigorodnoye in the Island's south where the sea remains largely ice-free.

The project will involve approximately $300 million worth of upgrades to Sakhalin's infrastructure – including roads, bridges, railways and Nogliki airport and Kholmsk port. These upgrades are required to enable the Phase II project to be developed, and will be funded by Sakhalin Energy. They are already underway, and will also provide lasting benefits to the people of the island..

Construction activities on the project elements are dependent on Government final approvals, which are expected to be completed within the next few months. Subject to the approvals, year round oil production is expected in 2006, with first gas production from Lunskoye in 2006. First LNG cargo will be scheduled according to customer requirements, but is currently planned for 2007 in line with current sales agreements.

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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 and development of the Sakhalin 2 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 and 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 underway in Russia at the moment. 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 Astokh feature of the Piltun-Astokhskoye (PA) reservoir offshore Sakhalin. The Molikpaq is the first offshore oil production platform in the Russian Federation.

Production is currently limited to the ice-free period during the summer months. Production during the 2002 season amounted to 10.8 million barrels, which has been exported to customers in Japan, China, and Korea.

Operations are well advanced to commence the Molikpaq's fifth production season at the beginning of June. Target crude oil production this season is 9.7 million barrels – about 70,000 b/d. The reduction in volume over previous seasons is due to natural pressure reduction in the reservoir. A pressure maintenance project (PMP) is currently underway to boost production back up to early production levels of 90,000 b/d using water injection to re-pressurise the reservoir.

The PMP calls for the installation of new water injection and power generation modules on the Molikpaq this summer at a total cost of about $300 million. The PMP modules have been built by Amur Shipyard in Komsomolsk, and represent the first work of their type that has been undertaken by the Russian Far Eastern shipyard. Work on the installation and testing of the PMP facilities is expected to be completed by the end of the year in time for the 2004 production season.

Phase 2 of the project is thought to be the biggest single integrated oil and gas project ever undertaken, and calls for the further development of the PA field – an oil reservoir with associated gas – and the development of the Lunskoye field – a gas reservoir with associated condensate and an oil rim.

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