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PRESS RELEASE

Russian companies to help develop Russia's first ever LNG Plant

MOSCOW, Russian Federation, 2 June 2003: A Consortium made up of Russian companies OAO Nipigaspererabothka (Nipigas) and the KhimEnergo consortium together with Japan's Chiyoda Corporation and Toyo Engineering, was today awarded the contract to develop Russia's first ever Liquefied Natural Gas (LNG) Plant as part Sakhalin Energy's multi-billion dollar Sakhalin II Phase 2 Project.

The signing of the contract, which is valued at just over $2 billion, follows the Declaration of Development Date for the Lunskoye Field a few weeks ago – an announcement which marked the official launch of the full Sakhalin II Project by Sakhalin Energy worth approximately $10 billion.

Hilary Mercer, Construction Manager of Sakhalin Energy's LNG project said: "We are extremely pleased to have finalised this contract to develop Russia's first LNG Plant We look forward to working with the winning Russian-Japanese consortium on this important venture and are keen to commence work as soon as possible."

The LNG plant forms an important part of Sakhalin Energy's Phase 2 Project which also calls for the installation of a second platform on the Piltun-Astokhskoye field a new platform on the Lunskoye field, both offshore Sakhalin Island, an onshore processing facility, an oil and gas pipeline system and an oil export terminal.

The contract will result in a Russian industry utilisation of more than $700 million. Works totalling approximately $150 million have already been allocated to Nipigas, and KhimEnergo consortium members ZAO Engineering Corporation Transstroy, OAO Angarsk Construction and OOO Company IKEM. These contracts, which are for services ranging from design and construction to management and procurement, are the first in what is anticipated will be a sequence of works awarded to Russian companies as part of the overall project.

Nikolai Korsakov, Director General of Nipigas, said: "We are proud that Russian companies are involved in constructing Russia's first LNG Plant and we look forward to establishing Sakhalin Island and the Russian Far East as a new strategic energy supplier through the construction of this Plant"

Work is set to commence immediately on the contract, which includes the engineering, procurement and construction of the LNG Plant on a 490 hectare site at Prigorodnoye on Aniva Bay, Sakhalin Island.

The LNG Plant will consist of two gas liquefaction process trains, which will use a dual mixed refrigerant process. Both trains will have an annual capacity of 4.8 million tonnes making them the largest single trains to be built worldwide to date. The LNG

Plant will also consist of two 100,000 cubic metre storage tanks and an export jetty, with two loading arms, that will extend into Aniva Bay.

The LNG Plant will be self-sufficient having its own power, water, fire-fighting, emergency response and waste water treatment services.

In the past few weeks, Sakhalin Energy has announced its first two sales deals with Tokyo Gas and Tokyo Electric for a total of 2.3 million tonnes per annum of LNG from the Sakhalin LNG plant for periods in excess of 20 years. Sakhalin Energy is in discussions with other potential Customers from Japan and the Asia Pacific Region for the remaining plant capacity.

Pre-construction site works and front-end engineering design work have been completed to allow for the commencement of construction activities as soon as all Government approvals have been granted. These approvals are expected to be completed within the next few months. Subject to the completion of approvals, the first train is expected to be operational in 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 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 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 on 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 Khomsomolsk, 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. Apart from the LNG plant, the project also calls for a new oil and gas production platform on the PA field, and a new platform on the Lunskoye field.

An onshore processing facility will be built to separate gas and condensate from the Lunskoye field. More than 800 km of pipelines will transport the oil and gas to an oil export terminal and the LNG plant at Prigorodnoye at the southern end of Sakhalin Island – which remains largely ice free year round. The Phase 2 project will also enable year round production from the Molikpaq following the installation of offshore pipelines that will bring the oil ashore at Piltun Bay.

Additionally, the project will require major upgrades to the island's infrastructure – including roads, bridges, railways and Nogliki airport and Kholmsk port – which will be funded by Sakhalin Energy in support of both the project and the island. Work on the infrastructure upgrades has already commenced, and is expected to cost about $300 million.

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

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