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PRESS RELEASE

Russian contractors reap Sakhalin II rewards

MOSCOW, Russian Federation, 26 June 2003: Sakhalin Energy announces that it has signed a contract worth over a quarter of a billion dollars – around $150m million of which will go directly to Russian industry. The Contract was awarded for the Sakhalin II Phase 2 Project, Onshore Processing Facility (OPF).

BETS, a joint venture company comprised of Russian company Technostroyexport, Enka and Bechtel from Turkey and US respectively, was awarded the $250 million contract for the construction of the Onshore Processing Facility on Sakhalin Island.

Steve McVeigh, Chief Executive Officer of Sakhalin Energy said: "We are extremely pleased to have been able to award another Phase 2 Contract today. This contract emphasises the significant role that Russian industry is playing in the development of the world's latest energy frontier in the Russian Far East, and in what is probably the largest single integrated oil and gas project ever undertaken."

"The OPF contract adds to the growing level of work being undertaken by Russian industry for the Sakhalin II Project. Russian industry has already been awarded contracts worth about $2 billion as part of the Phase 1 and Phase 2 projects. We anticipate that Russian enterprises will undertake contracts worth about $4.5 billion during the construction of the Phase 2 project, and then play a continuing major role in supplying materials and services during the operational life of Sakhalin II."

The signing of today's contract follows Sakhalin Energy's May 15, Declaration of Development Date for the Lunskoye Field – an announcement which marked the official launch of the full Sakhalin II Project worth approximately $10 billion.

Chairman of Technostroyexport, Victor Velichko, said: "Technostroyexport is a key member of the BETS joint venture company. We are looking forward to contributing Russian skills and expertise to enable the successful construction of this technologically advanced plant, which will be built in challenging conditions."

In May, Sakhalin Energy 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

Following on from the Phase 1 Project, which has been successfully producing oil from the Vityaz Complex in the Piltun-Astokhskoye (PA) field offshore Sakhalin Island since July 1999, the Phase 2 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 to the onshore processing facility before the oil and gas are transported, via pipelines, to an oil export terminal and LNG plant at Prigorodnoye in the Island's south.

The project will involve approximately $300 million worth of vital improvements 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 final Government approvals, which are expected to be completed within the next few months. Subject to the approvals, year round oil production is expected 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 1 of the Sakhalin II Project.

Onshore Processing Facility Contract

Construction of the $250million Onshore Processing Facility (OPF) is set to commence immediately on receipt of the final approvals from the relevant Russian authorities and be completed by December 2006. BETS, the winning Joint Venture (JV) will use a fully integrated construction management team and work force with members from each of the JV partner organizations in the construction of the facility. It is estimated that up to $150 million of the total contract price will go to Russian industry.

BETS is committed to maximising the involvement of the Russian Industry in the project and is aiming to achieve 75 percent Russian content in manhours and tonnes of materials. (Note: Under the terms of the PSA, Sakhalin Energy is required to use its best efforts to achieve 70% Russian Content in Sakhalin II over the life of the project. Russian Content is defined as the volume of materials and manhours.)

The OPF will be constructed over a period of three and a half years. The first stage of construction in 2003 will concentrate on site preparation and civil work, in 2004 delivery of the major equipment items is expected and in 2005 mechanical completion and preparations for a phased start up and commissioning will occur.

The OPF will be located near Lunskoye beach in the North of Sakhalin Island. It will serve as the point for processing of gas and condensate from the Lunskoye platform. The gas will be transported by pipeline to the liquefied natural gas plant (LNG), and the condensate will be injected into an oil pipeline, which will also pass through the OPF, for onward transport to an oil export terminal (OET). At full capacity, the facility will be capable of processing 1,800 million standard cubic feet of gas per day (51 million cubic metres/day)

In addition to processing the oil and gas in preparation for the transportation to the LNG and oil export facilities, the OPF will also be the source of power for the Lunskoye Platform. The OPF Project will include a 100-megawatt power station to supply the Lunskoye platform with an average of 19 megawatts of power.

When completed, the OPF will be fully self-supporting for power, water, and fuel gas and instrument air. It will also have its own support facilities including maintenance workshops and a helicopter-landing pad.

Detailed engineering for the project is well advanced and pre-construction site works have already begun on the OPF site to allow the construction activities to commence as soon as all Government approvals have been granted.

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