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PRESS RELEASE

Phase 2 Platform Substructures to Be Built in Russia

MOSCOW, Russian Federation, 3 July 2003: As part of the Sakhalin II, Phase 2 Project, Sakhalin Energy today signed contracts worth about \$250 million in total, with Aker Kvaerner Technology AS and Quattrogemini OY for the engineering and construction of the Piltun-Astokhskoye B (PA-B) and Lunskeye A (LUN-A) platform substructures.

Under two separate contracts Quattrogemini OY will be responsible for the construction of the PA-B and LUN-A Platform substructures at a Russian dry dock in Vostochny Port near Vladivostok, Primorsky Krai. It is expected that more than \$120 million of the total contract price will be spent with Russian enterprises. Norwegian offshore concrete structures specialist company Aker Kvaerner Technology AS, will provide engineering services out of Norway.

Per-Olaf Hustad, Sakhalin Energy's Offshore Project Manager said: "These substructures represent an important first for Russia and Russian industry. They are the first offshore substructures of their kind to be built in the Russian Federation. It will provide an opportunity for local industry to gain extensive experience through the transfer of knowledge and technology, and will provide a substantial number of jobs for Russian people in the Primorsky Krai and particularly Vostochny. We look forward to working with Aker Kvaerner Technology AS and Quattrogemini OY on this important venture, and are keen to commence work as soon as possible."

Under their contract, Aker Kvaerner Technology AS will carry out detailed engineering of the substructures. The design will specifically take into account the winter sea ice conditions and seismic nature of the area. Both platforms will be located in the Sea of Okhotsk, north-east of Sakhalin Island, the LUN-A substructure at a depth of about 48 metres and the PA-B at about 30 metres.

"This is a major milestone as Russia is a strategically important market to Aker Kvaerner. The new assignment will strengthen our position when competing for other projects both in the Sakhalin Region and elsewhere in Russia", says Helge Lund, CEO for Aker Kvaerner Technology AS.

Quattrogemini OY is a Finnish design-build construction company having a subcontract with RR Offshore (Russian) where the majority shareholding is held by Russian interests. Quattrogemini OY will undertake and execute the construction of the casting basin and the establishment of infrastructure (temporary offices, buildings, batching plant, roads and equipment) at Vostochny Port near Vladivostok, Primorsky Krai. Initially they will excavate some 1.2 million m³ of soil to form the casting basin in preparation for the construction of the two concrete gravity based structures.

Dmitry Paltsev, Chairman of RR Offshore said: "We are very pleased to have been awarded the subcontract to deliver and install the mechanical outfitting for the Piltun-

Astokhskoye B and Lunskeye A platforms. This contract represents a major achievement for Russia, the Primorsky Krai and Vostochny Port. These concrete platform substructures will be the first of their kind ever to be built in Russia, and will be an exciting and challenging move into a new and technologically advanced area of construction. We hope to start work on the project at Vostochny Port immediately.”

Mr Vladimir Popov, General Director of Vostochny Port, said: “The Sakhalin II Project has recognised the ability of Vostochny Port to provide the facilities required to build the first offshore concrete platform substructures ever constructed in Russia. The fact that Vostochny has been chosen to undertake this work over foreign yards that have previous experience in this field is a significant vote of confidence in the skills and capabilities of Russian industry.

“Work has already started for the huge dry dock that will be required for the construction of these structures. We are pleased to be playing a major role both in the development of this world class project, and the introduction of new construction techniques that could lead to Russia generating new business opportunities in the offshore oil and gas business in the future.”

Sakhalin Energy’s Phase 2 Project involves the further development of the Piltun-Astokhskoye field offshore Sakhalin Island. The project calls for one more platform (PA-B) to be installed on the northern Piltun feature of the field. Phase 2 will also involve the development of the Lunskeye field, predominately a gas field with associated condensate and some small oil rims in parts of the reservoir. The Lunskeye platform will produce gas, condensate and, if feasible, oil.

PA-B will be a manned integrated oil and gas platform with drilling facilities. Its oil capacity will be approximately 70,000 barrels per day (11,000 cubic metres per day).

The Lunskeye platform will have drilling facilities, accommodation and a minimum of processing facilities. The platform will have the capacity to produce about 50 million cubic metres of gas per day (1800 million standard cubic feet per day) and approximately 50,000 barrels of condensate per day (8,000 cubic metres per day).

Under initial, short-term work agreements both Quattrogemini OY and Aker Kvaerner Technology AS have already commenced preliminary works for the site. With work set to start as soon as final Government approvals are obtained, it is anticipated that installation of the two concrete gravity structures will begin in the 3rd Quarter 2005.

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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. The modules were lifted into place on the Molikpaq platform a few days ago, and 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. In addition to the two new platforms the Phase 2 Project also includes the construction of a new onshore processing facility, 800km of pipelines, an oil export terminal and an LNG plant.

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 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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