



## **Sakhalin Energy Investment Company Ltd.**

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### *Press Release*

**Yuzhno-Sakhalinsk, Russian Far East, 5 September 2003** - Russian pipeline manufactures have won major contracts as part of one the most significant pipeline projects to be undertaken worldwide in the last decade, following Sakhalin Energy's announcement that it has completed the awards for linepipe and pipe coating for the on and offshore pipelines for Phase 2 of the Sakhalin II project.

ZAO United Metalurgical Company (OMK) will produce and coat 45,000 tonnes of pipes at its Vyksa Steel Works mill in an order worth some \$36 million as part of a joint venture with the Japanese Mitsui & Co., Ltd. This contract will also involve further Russian industry involvement through using steel plate supplied by Russian steel manufacturer Severstal.

Under a separate set of awards, OOO Transpromresurs will construct a new, high technology pipe coating plant in Vostochny as part of a joint venture with Mitsubishi Corporation of Japan. The new coating plant is expected to cost some \$15 million, and the pipe coating work will be worth a further \$35 million. The joint venture, ZAO Metal Trans Far East, will also supply logistics services for the transport of materials and finished coated pipe.

These significant linepipe contracts follow Sakhalin Energy's award of a contract worth some \$1.2 billion to Russian company Starstroi, which heads up a consortium which will construct and install the 800 km of onshore pipelines required under the \$10 billion Phase 2 project to bring oil and gas to export terminals in the south of the island

Vyksa will supply 38,000 tonnes of 24 inch pipe and 7,600 tones of 20 inch pipe. ZAO Metal Trans Far East's new coating yard will be used to coat a variety of pipe sizes in preparation for installation onshore, including 1200 mm (48 inch), 610 mm (24 inch) and 550 mm (20 inch).

Steve McVeigh, Chief Executive Officer of Sakhalin Energy, said: "The combination of these line-pipe awards and the onshore pipeline construction contract clearly shows the major part Russian industry is playing in this enormous and technologically advanced project.

"These line pipe awards give us the best of both worlds – major involvement of Russian pipe manufacturing industry, and technology transfer and state of the art capacity expansion in pipe coating operations in Russia."

The line-pipe and coating awards to Vyksa and ZAO Metal Trans Far East will also lead to upgraded facilities and create significant employment. Vyksa has already undertaken substantial upgrade work in the area of quality assurance equipment to worldclass standards. More than 2,000 employees at Vyksa will be involved in the Sakhalin II linepipe contract, and 5,000 employees will be processing the order at Severstal.

Mr Anatoliy Sedykh, President of OMK, said: "This is one of the largest pipeline projects in the world, and the ability of Vyksa to win such a significant part of the line-pipe supply against stiff competition from both Russian and foreign companies is a major success for us

and Russian pipe manufacturing. We believe the upgrades we have made to our plant and our co-operation with Mitsui provides real opportunities for winning further line-pipe orders both in Russia and internationally.”

ZAO Metal Trans Far East’s new coating plant in Vostochny will create more than 200 jobs, and recruitment has already started. It will also allow local employees to be trained in the latest pipe coating techniques.

Mr. Igor Panfilov, General Director of Transpromresurs said: “We are very pleased in the trust shown in us by Metal One. Construction of the coating plant has been made possible through the good understanding reached between Transpromresurs and Metal One during common work under the project. The opening of this plant at Nakhodka will mean not only new jobs, but also the attraction of additional logistical flows to Vostochny port, and consequently increased revenues for the local community. Besides the control of the production quality at the plant, we have been paying special attention to safety and environment protection.

“The good geographical location of the plant near to Vostochny port and the modern technology we will be using allow us to expect that the plant could be used for other oil and gas pipeline projects in the Asia-Pacific region in the future.”

The size of the linepipe orders for the Phase 2 Project pipelines, the tight delivery requirements to meet the project schedule of pipelines completion - by 2005 for the oil line and 2006 for the gas line - and the technical specifications for offshore and high pressure gas lines are a significant challenge. Such large contracts are rarely fulfilled in one country, and Russia is no exception. While Russian industry is playing a significant part in the Sakhalin II Phase 2 pipelines, some of the more technically complex and offshore linepipe for the Phase 2 project will be supplied by Russian company joint venture partners Mitsui and Mitsubishi’s Metal One Corporation. An Italian pipe manufacturer will also supply some of the 1200 mm gas line-pipe.

Onshore pipelines Project Manager Jaap Guyt said: “We have worked hard during the last 18 months to create the opportunity for Russian companies to join the international effort required to supply the enormous quantities of pipe required. We split the line-pipe into smaller, more manageable batches to provide increased opportunities for Russian mills, and there was stiff competition between Russian and international bidders for the contracts.

“However, capacity constraints in the production time period, technical requirements for offshore linepipe - which is new to Russia - and the requirement for large quantities of 1200 mm, 100 bar rated high pressure gas pipe – a specification that is currently not available from Russian manufacturers – meant the ability of Russian companies to manufacture pipes for the project was a challenge. It is therefore a matter of considerable satisfaction that Vyksa and Transpromresurs will be playing such a significant role in the Phase 2 pipelines project.”

The pipeline requirements for the Phase 2 Project call for about 167 km of offshore oil and gas lines to bring the gas and oil from three offshore platforms to shore. A further 800 km of onshore oil and gas pipelines (total linepipe length of 1600 km) will be constructed to bring oil and gas to the planned oil export terminal and natural gas liquefaction plant to be built at Prigorodnoye in the south of Sakhalin island.

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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 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 & 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 2 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 Astokhskiye (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. 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 on to the Molikpaq earlier this summer, and work on the hook-up and testing of the PMP facilities is underway and 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 Lunskiye 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 Lunskiye field.

An onshore processing facility will be built to separate gas and condensate from the Lunskiye field. The Phase II 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 Kholmok port – which will be funded by Sakhalin Energy in support of both the project and the island. Work on the infrastructure upgrades – which will cost about \$300 million - is already more than 50% complete.

Construction activities of 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 Lunskiye in

2006. First LNG delivery will be scheduled according to customer requirements, but is currently planned for 2007.

**End**

