



Sakhalin Energy Investment Company Ltd.

35, Dzerzhinskogo, Yuzhno-Sakhalinsk, 693000, Russia
Tel.: (7 4242) 73 2000 Fax: (7 4242) 73 2012

693000, Россия, г.Южно-Сахалинск, ул.Дзержинского, 35
Тел.: (7 4242) 73 2000 Факс: (7 4242) 73 2012

Press Release

Sakhalin Energy signs its fourth LNG supply deal with Toho Gas

Yuzhno Sakhalinsk, Russian Federation, 12 March 2004: The multi-billion dollar Sakhalin II Phase 2 Project achieved another major marketing success today with the signing of a liquefied natural gas (LNG) supply agreement between Sakhalin Energy Investment Company Ltd. (Sakhalin Energy) and Toho Gas Co., Ltd. The deal calls for the supply of up to 0.3 million tonnes per year for a period of about 23 years.

The sales deal with Toho Gas is the fourth successful deal signed with a major utility company in Japan, and brings volumes of natural gas sold from the Sakhalin II Project to 3.1 million tonnes per annum for periods in excess of 20 years.

This LNG sales agreement further reinforces Sakhalin Island as the new strategic source of natural gas for Japan, and confirms the wider Asia Pacific Region as a major new market for Russian gas supplies. It also marks Russia and Sakhalin Energy as major new players in the worldwide LNG market.

Steve McVeigh, Chief Executive Officer of Sakhalin Energy, and Mr. Toshitaka Hayakawa, President of Toho Gas, signed the Heads of Agreement (HoA) on 12 March. The long-term supply of LNG will begin with first deliveries expected in 2010. The two companies will now continue negotiations to enable a full sale and purchase agreement (SPA) to be completed.

“This agreement with Toho Gas represents the latest in the growing chain of sales commitments from Japan. It is a tribute to both the Sakhalin II project and the Russian Far East that customers are confident in our project, which represents the closest possible available LNG supply source to Japan,” said Sakhalin Energy Chief Executive Officer, Steve McVeigh.

“We are extremely pleased that Toho Gas has now become one of our foundation customers, and joins our other three Japanese buyers as a leader in opening up this new strategic far eastern gas supply source. With our strength in terms of capacity and proximity, we plan to build a strong relationship with Toho Gas and become their preferred LNG supplier,” added Steve McVeigh.

The agreement with Toho Gas again confirms that Russia and Sakhalin Energy are a strategic and competitive supply source for Japan and the Asia Pacific.

Steve McVeigh added, “This agreement with Toho Gas keeps our successful momentum in the marketing effort moving forward, and means that we have now pre-sold the major part of the first train. We expect further announcements of success in the near future as negotiations progress over the remaining volumes from the plant.”

The Toho Gas deal follows two other recent major milestones for Sakhalin Energy. Towards the end of December, the Russian regulatory authorities approved the Technical and Economic Substantiation of Construction (TEOC) for the Phase 2 Project. And in January, the Company held a First Weld ceremony to launch the start of the construction of the onshore pipelines that will bring the gas from the northern production platforms to the LNG plant in the south of island.

LNG will be supplied from Sakhalin Energy's major new LNG plant, which will be constructed at Prigorodnoye on the southern tip of Sakhalin. Initial construction activities on the plant have already commenced. The LNG plant is a major part of the Sakhalin II Phase 2 project. It is the first LNG plant to be built in Russia and will have a total capacity of 9.6 million tonnes per annum (mtpa). The plant will have two gas liquefaction process trains, each with a capacity of 4.8 mtpa – currently the largest LNG trains under construction in the world.

Sakhalin Oblast Governor Ivan Malakhov commented: "The proximity of Sakhalin to Japan and the promise of reliable supplies of LNG from the Russian Far East for many years into the future has enabled Sakhalin Energy to attract a fourth buyer from our neighbour. I welcome Toho Gas to the growing list of customers for Sakhalin's gas, and look forward to building a strong relationship with them in the years to come."

Mr. Toshitaka Hayakawa, President of Toho Gas, commented, "Sakhalin has abundant supplies of natural gas on our doorstep, and the Sakhalin Energy LNG plant will be just a few days' sailing time from us. We recognize that entering a long term relationship with such a close supplier makes good business sense for us."

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**Further Inquiries:
Sakhalin Energy
(Yuzhno-Sakhalinsk)
+ 7 4242 73 2000**

**Sakhalin Energy
(Moscow)
+ 7 095 956 1750**