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SAKHALIN 2 PROJECT OPERATOR CONFIDENT OF PROFITABILITY

YUZHNO-SAKHALINSK -- The president of Sakhalin Energy Investment Co. indicated Friday the firm is confident of securing profitability in connection with its Sakhalin 2 oil and natural gas development project off the island of Sakhalin in Russia's Far East.

Though development costs have run up, oil price hikes are expected to push up profit, Ian Craig said in an interview with Kyodo News.

Craig admitted the total project costs have doubled from the original estimate to some $ 20 billion due to severer-than-expected climatic conditions on Sakhalin and steel price hikes.

Sakhalin Energy is jointly owned by Royal Dutch/Shell Group and two Japanese trading houses -- Mitsui & Co. and Mitsubishi Corp. -- for the project to provide Japan, the United States and South Korea with 9.6 million tons of liquefied natural gas annually.

In Japan, Tokyo Electric Power Co., Toho Gas Co. and other utilities have already signed contracts to take delivery of LNG under the Sakhalin 2 project.

Craig said LNG shipments to the United States, Japan and South Korea will begin in the summer of 2008. The LNG shipment launch had been earlier scheduled for 2007.

Oil shipments, now limited to summer, will be made all year around beginning in 2007, he said.

The development of huge resources on Sakhalin will benefit both Russia and its customers, Craig said.

He noted that Japan and the United States will be able to reduce their dependence on the Middle East and diversify energy supply sources.

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