



The Sakhalin-II Project: The Strategic Energy Partnership with Japan for the 21st century.

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General Manager: Commercial

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Commercial Expert

IEEJ Tokyo 13 December 2004

APEC, Bangkok, October 2003



“Russia is also prepared to make its contribution to creating a new energy configuration in the Asian and Pacific Region. For example, in 2007 it is planned to open a factory for liquifying natural gas on Sakhalin – one of the largest (LNG) factories in the world.”

President Vladimir Putin



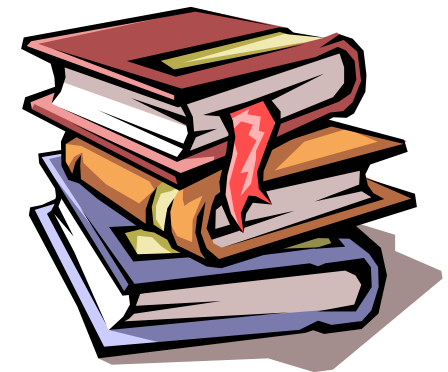
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Definition of Strategic Partnership (Oxford Dictionary)

- **Strategic** *adjective* [usually attributed to] 1 of strategy, forming part of a **plan** or scheme; *strategic(al) decisions*. 2 giving an **advantage**; right for a particular **purpose**; a strategic **position**, move...
- **Partner** *noun* a person who takes part in an **activity with another or others**, especially of one of several ownership of business...
- **Partnership** *noun* state of being a partner or partners, especially in **business**...

“cooperation”
“long-term”
“mutual benefit”
“risk sharing”
“common goals”



Our Strategic Partnership with Japan



Japan is our Core Market

- Customers
 - Crude and LNG
- Shareholders include
 - Mitsui and Mitsubishi
- Contractors
- Shipping
- Lenders
- Proximity and historical ties



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Competing Concepts for Russian Resources



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Sakhalin II Project Overview



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In Our Presentation I Shall Cover:

- Introduction – Sakhalin Island
- Sakhalin Energy and its Organization
- Sakhalin II Project:
 - Phase 1 – Oil Production
 - Four Landmark LNG Sales
 - Phase 2 – Integrated Oil and Gas Production
 - Progress in LNG Marketing
- Sakhalin – The Strategic Supply Source for Japan



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Sakhalin at a Glance



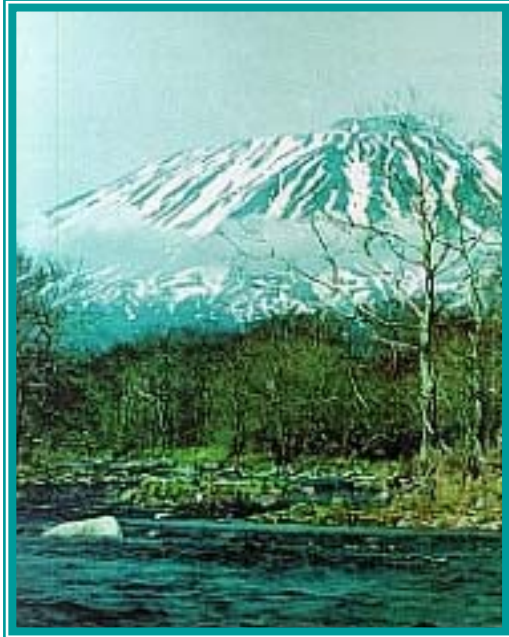
- Sakhalin Region formed 1947
- Territory – 87,100 Km²
- Population – 608,000
- Capital Yuzhno-Sakhalinsk
- Sakhalin Regional “Oblast”
- Legislature is Sakhalin Duma
- Main industry is fishing, timber, and oil & gas export
- 2/3 of Sakhalin area is mountainous
- Large temperature differences
-54 C Winter and +38C in Summer



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Sakhalin Island Geography



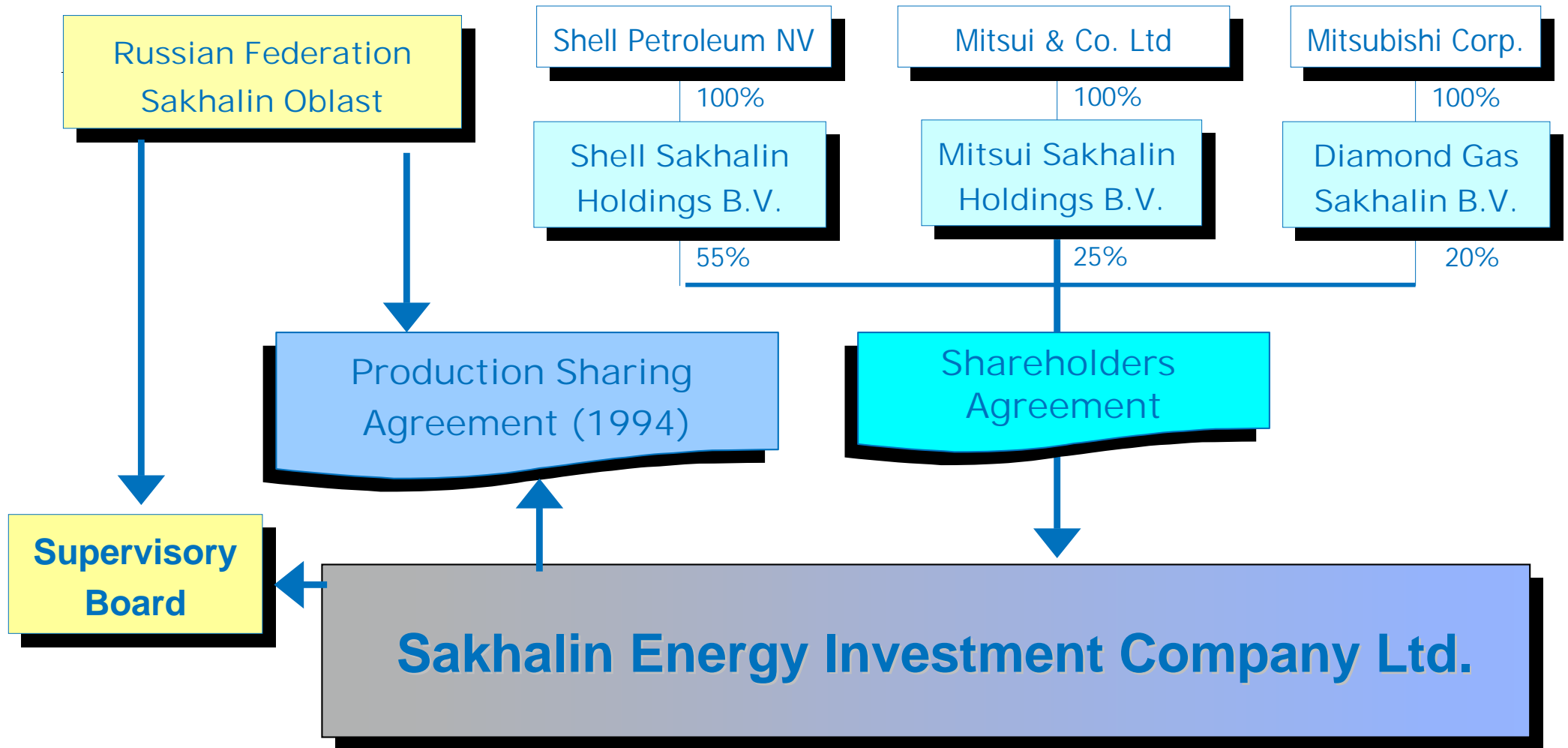
- Sakhalin Island stretches 948 km from north to south
 - Maximum width is 160 km, minimum 30 km
- 2/3 of Sakhalin area is mountainous
 - Highest mountain is Lopatin (1,609 m)
 - Two mud volcanoes and more than 60,000 rivers /streams
- Lakes number 16,000+. The largest is Nevskoye (178 km²)
- Large temperature difference between North & South
 - Winter average varies between minus 6 & minus 24°C, and in summer between plus 10 & plus 19°C (record : minus 54°C in Winter and plus 38°C in Summer)
- Most productive areas of ocean in the world
 - The Sakhalin coast and basin alongside Kuril Islands is Russia's largest fishing ground



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Sakhalin Energy - PSA Structure



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Sakhalin Energy Staffing

We are a growing company

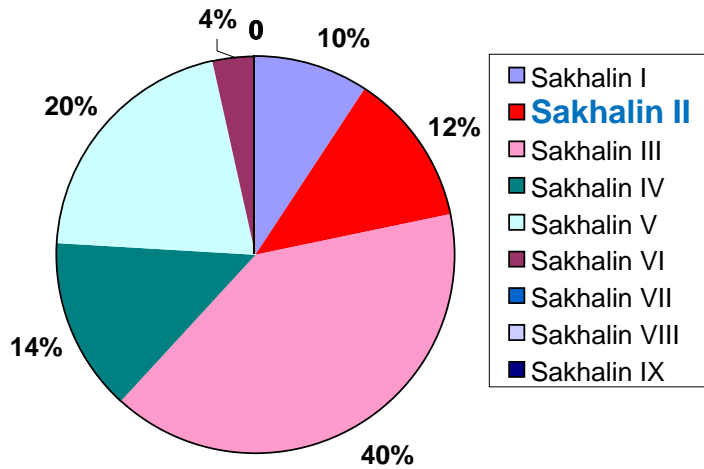


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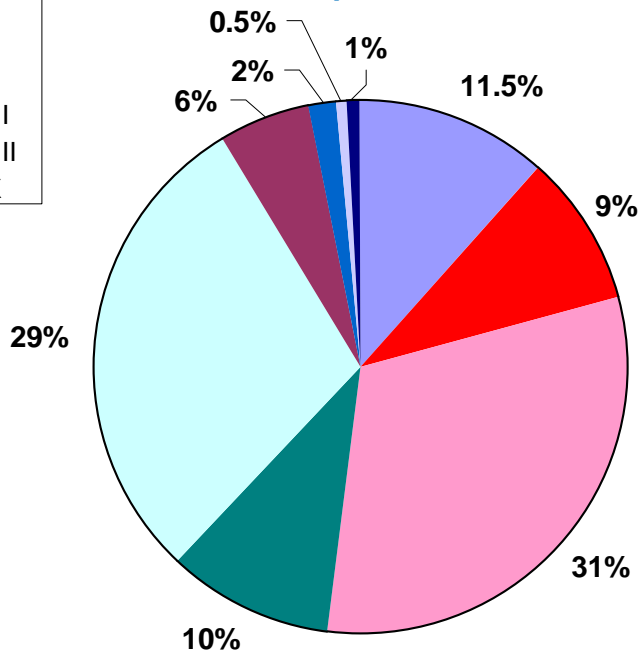
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Sakhalin Shelf: Hydrocarbons In-Place

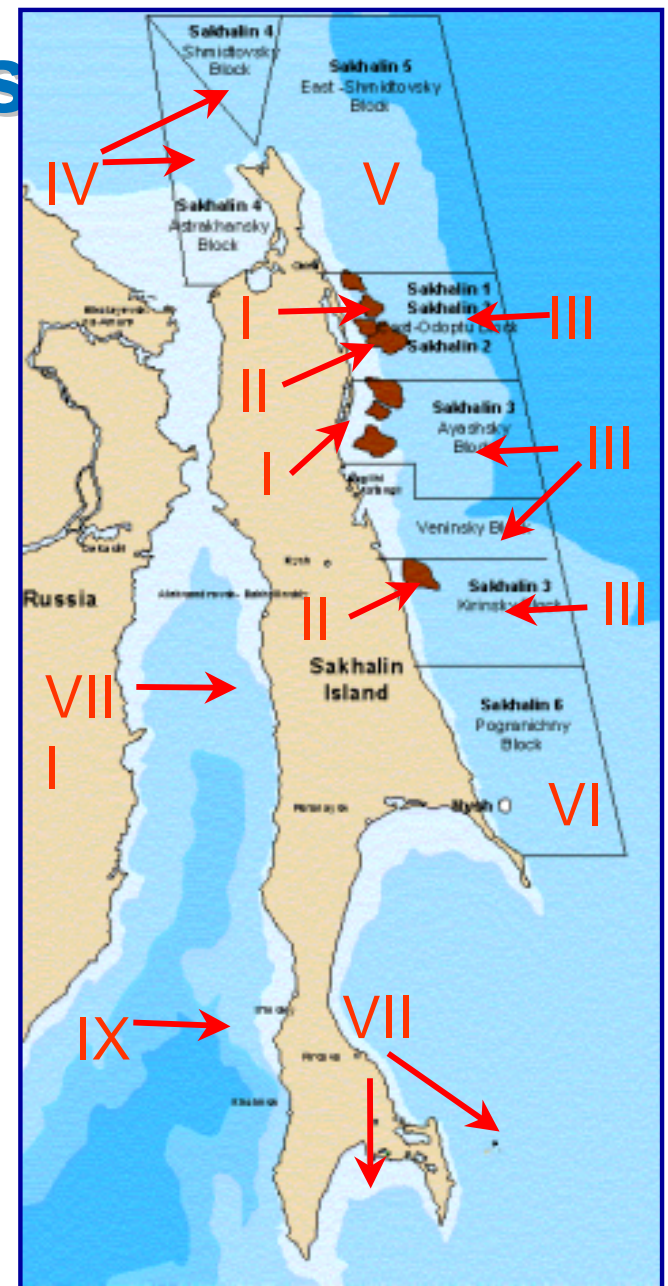
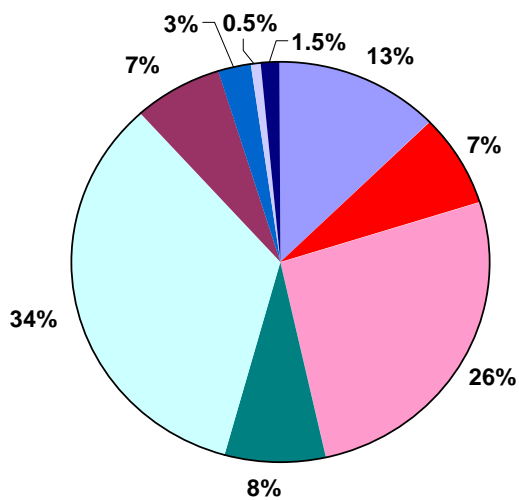
GAS-IN-PLACE (196 Tcf)



BOE In-Place (94,300 MMboe)



OIL-IN-PLACE (60,500 MMbbls)

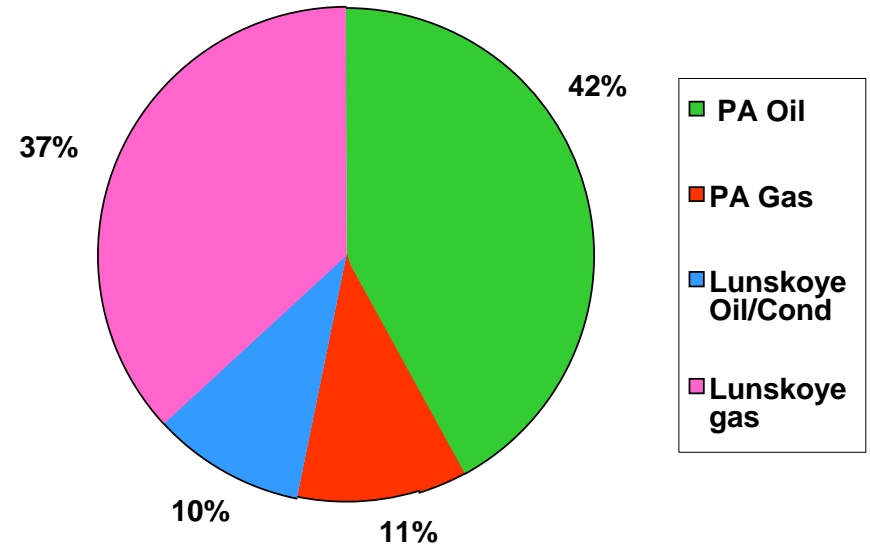


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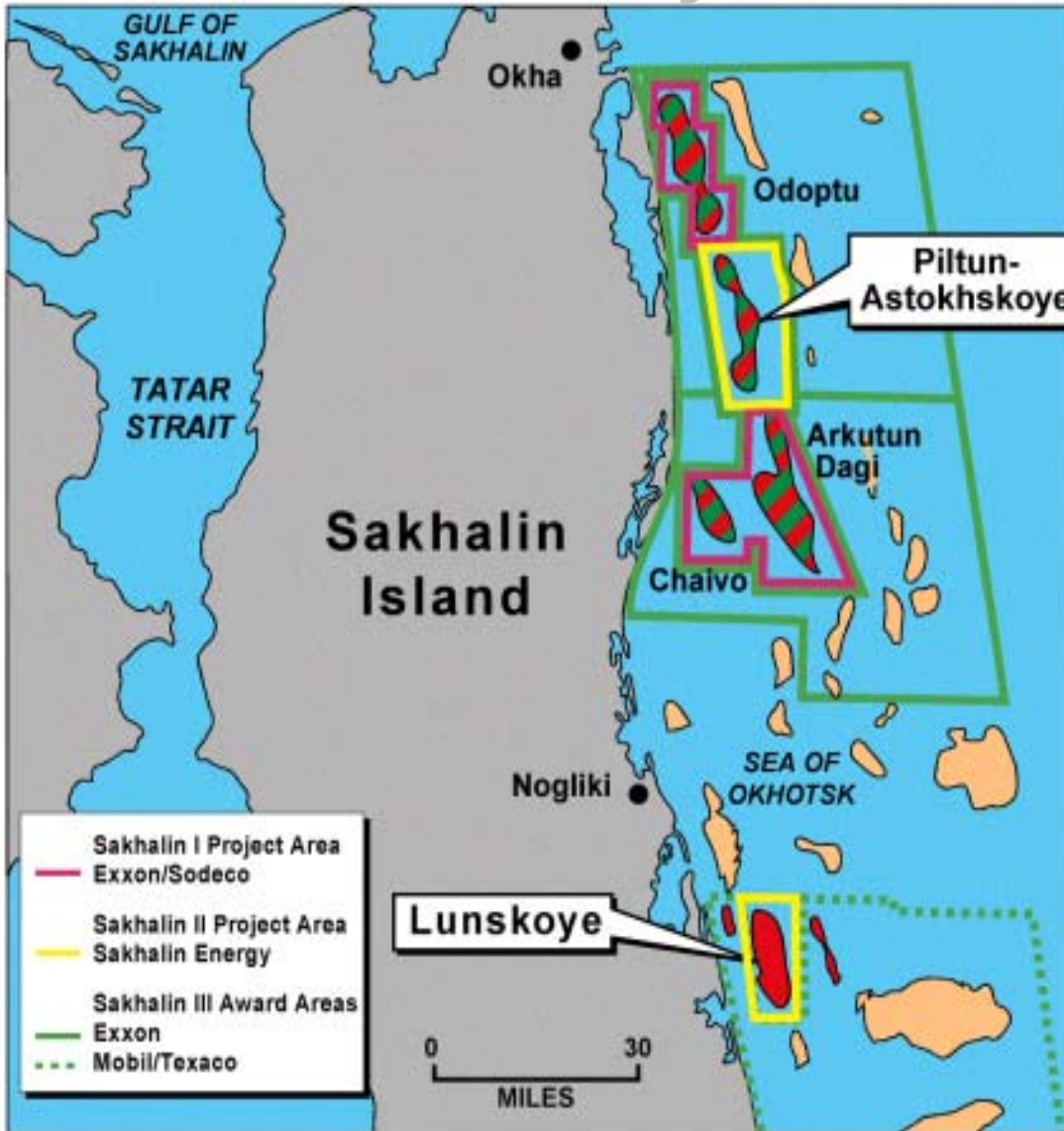
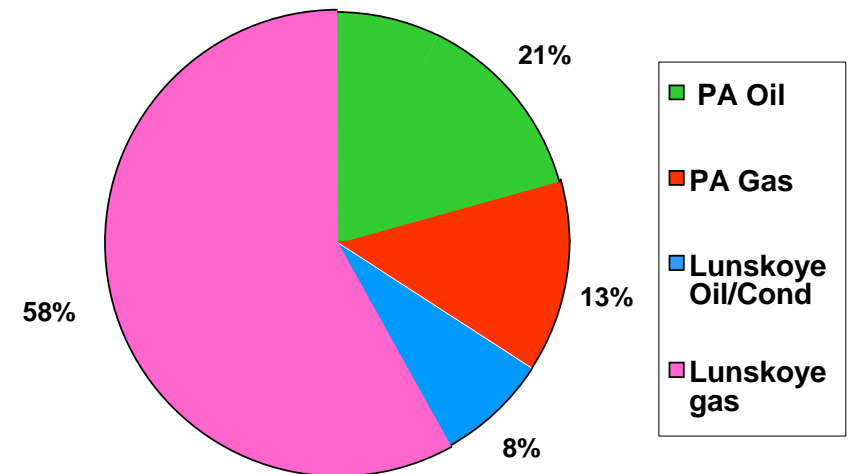
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Sakhalin II Hydrocarbon Resources

IN-PLACE (8,700 MMboe)



RECOVERABLE (4,900 MMboe)



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Sakhalin II Project: Phase 1

Vityaz Complex: Molikpaq, SALM and FSO
First offshore oil production in Russia
Produces during six month ice free summer season 60-70,000 b/d oil production



Oil Production

2000	12.4 million bbls
2001	15.1 million bbls
2002	10.8 million bbls
2003	10.3 million bbls
2004	11.69 million bbls



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Supplying Crude Oil to Customers Since 1999

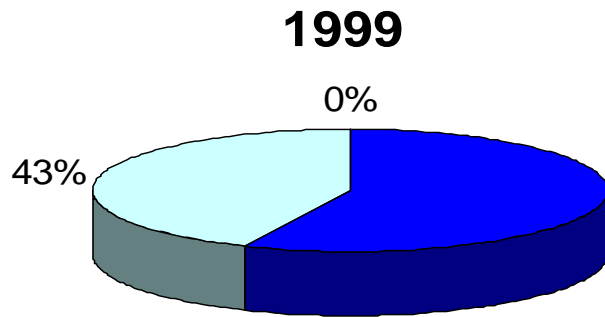


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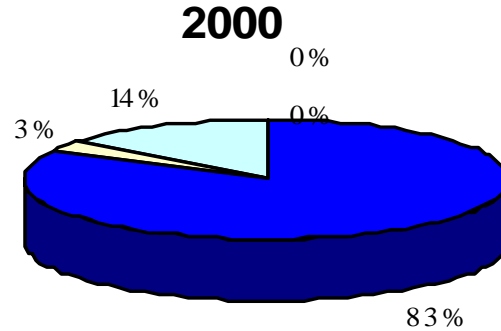
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Sakhalin Vityaz Crude Oil Sales 1999 - 2004

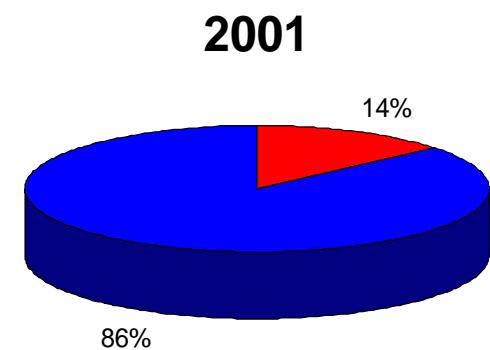
■ Japan
 ■ Korea
 ■ USA
 ■ China
 ■ Taiwan
 ■ Philippines
 ■ Thailand



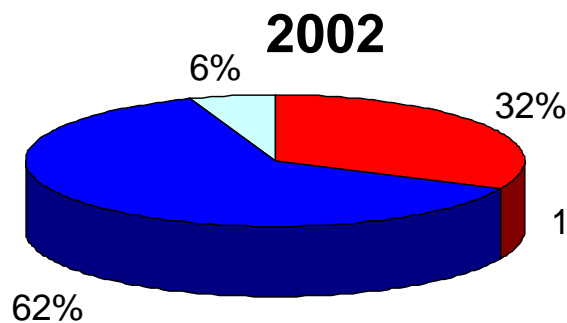
1.1 mln. bbls



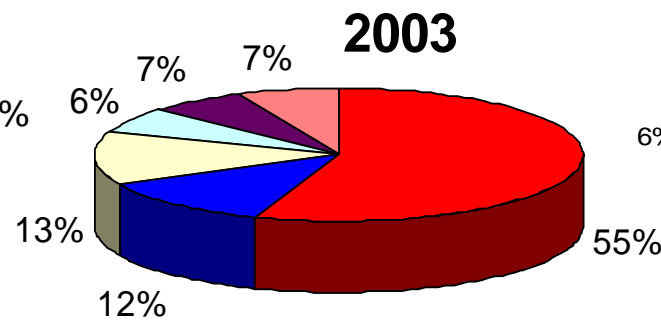
12.4 mln. bbls



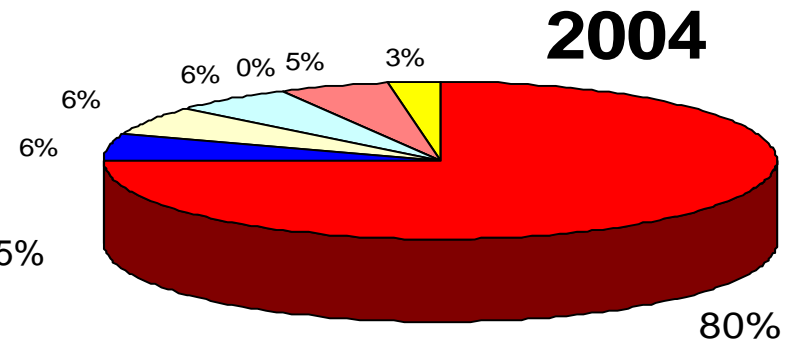
15.0 mln. bbls



10.8 mln. bbls



10.3 mln. bbls



11.69 mln. bbls

Acceleration of shift from Korea to Japan



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Our Crude Oil Customers in Japan



- Tohoku Electric



- Nippon Oil

MITSUI & CO., LTD.



- Showa Shell

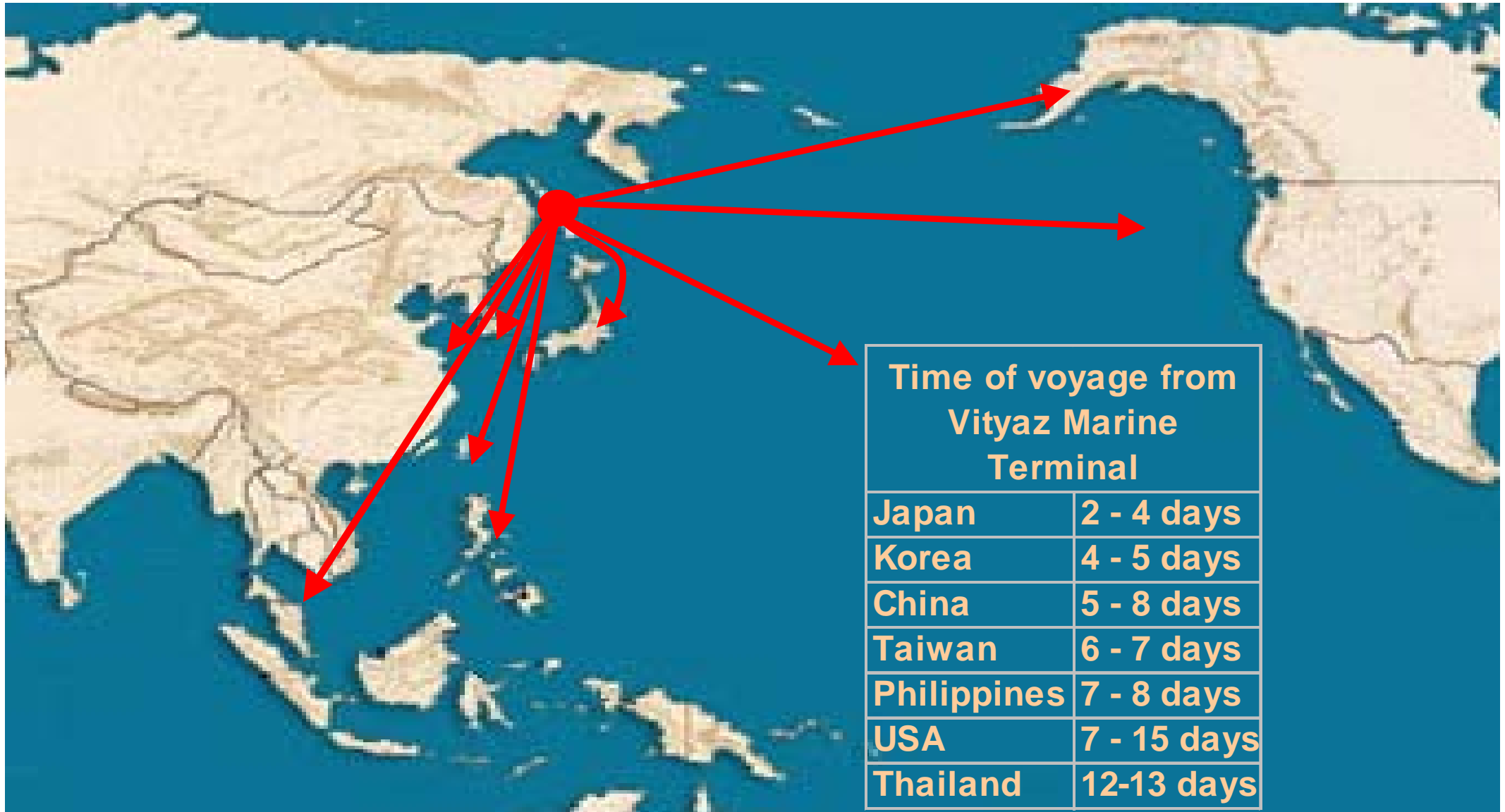
ExxonMobil



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Cargo Destinations 1999 - 2004



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Declaration of Development Date Announced – May 15, 2003



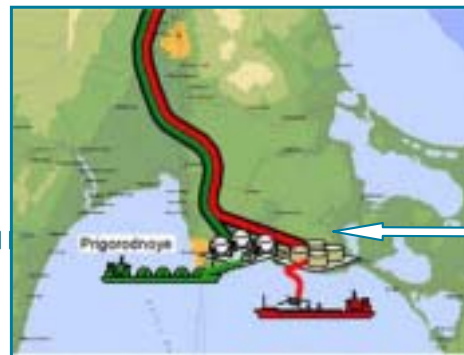
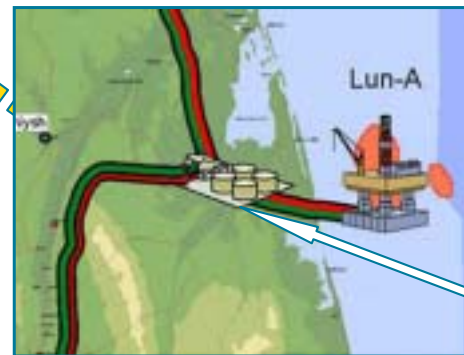
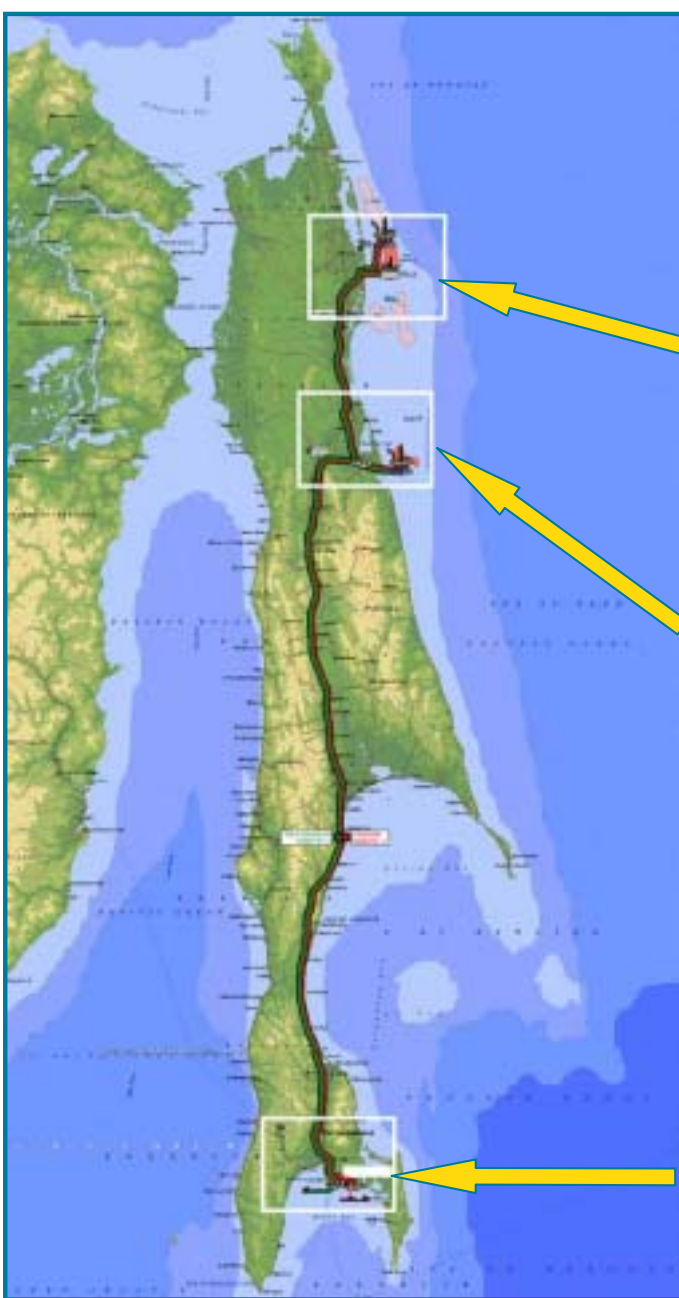
- Sakhalin Energy and shareholders took Final Investment Decision on \$10 billion + Phase 2 project
- Declared Development Date for the Lunskeye Field
- First sale of Russian gas into the Asia-Pacific markets with Japanese customers
- Russian Government provided assurance on long term PA/Lunskeye PSA license security
- Launched Phase 2 Project Financing
- Awarded major Phase 2 contracts



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Sakhalin II Project: Phase 2



- Piltun -B Platform.
- Astokh Year Round Production.
- Lunskoye A Platform.
- Onshore Processing Facility.
- 1870 km Oil and Gas Pipelines.
- LNG Plant & Oil Export Terminal.
- Infrastructure Upgrades.



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Phase 2 Project: A Four Year Challenge



- Piltun -B platform
- Lunskeye-A platform



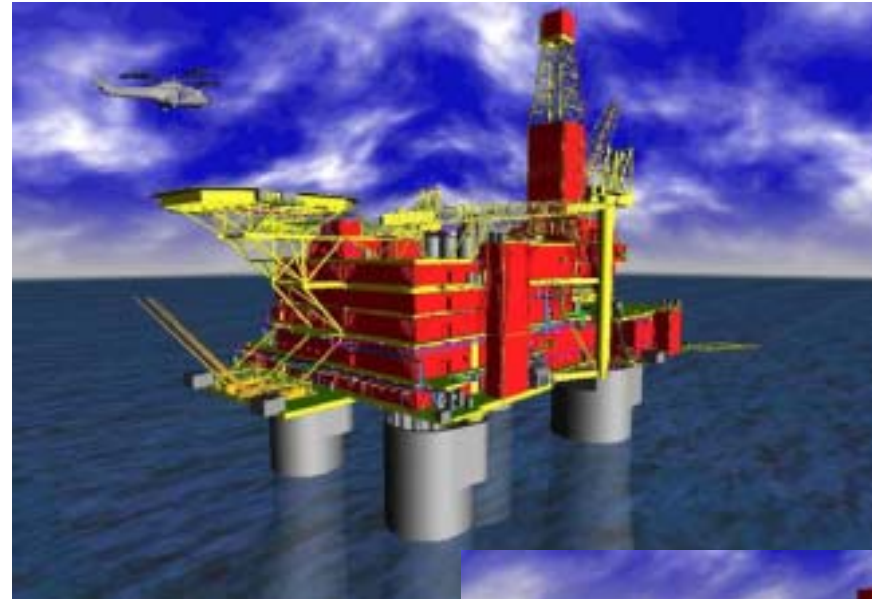
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Offshore platforms

- Lunskoye

- 4 leg concrete gravity base.
 - Topsides 22,000 tonnes.
 - Gas production 1800 mmscf/d.
 - 30 well slots.
 - Possible oil rim production.



- Piltun

- 4 leg concrete gravity base.
 - Topsides 28,000 tonnes.
 - Oil production 70,000 b/d.
 - Gas production 92 mmscf/d.
 - 45 well slots.



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Lunskoye / Piltun GBS Construction at Vostochniy in Summer



GBS Concrete Base



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Lunskoye GBS in October, 2004

**First Shaft
Completed 22nd
October 2004**



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Lunskoye GBS

3 December, 2004



- The Lunskoye concrete substructure has a total weight of 116,000 tonnes.
- The base is 105 metres by 88 metres and 13.5 metres high.
- The diameter of each leg measures more than 20 metres and they are some 56 metres high.
- Total height of the entire structure is 69.5 metres.



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Tow to Offshore Location



LUN-A

- Towing distance \approx 960 nm.
- Duration of tow \approx 16 days.
- 3 Tugs, each of 150 Tonnes.
- 1 Tug to assist during tow.

PA-B

- Towing distance \approx 1020 nm.
- Duration of tow \approx 17 days.
- 3 Tugs, each of 150 Tonnes.
- 1 Tug to assist during tow.

Milestone 5

LUN-A, install 15th July 2005.

Milestone 6

PA-B, install 15th September 2005.



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Lunskoye – Status



Upper Deck Block UD30 Installed



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Lunskoye – Status



Installation of UD40 with underdeck outfitting in place



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Piltun – Status



PAB Lower Deck Block LD 21 – Turn Over



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**Onshore Processing
Facility**



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OPF – Plant View



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OPF – View Looking North



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OPF - Status

Piperack Erection



Gas/Liquid Exchanger onto Foundations



Condensate Tank



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OPF - Status



Parking Loop Vessel – Loaded onto Foundations



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Pipelines



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Offshore Pipelines – Status



Cable Casing Pulled to Shore



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Offshore Pipelines – Status



Lunskoye Landfall – Cofferdam with Pull-heads



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Onshore Pipelines – Status



ROW preparation – Spread # 2



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Onshore Pipelines – Status



Welding at KP 336



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Onshore Pipelines – Status



Pipelaying in Onor District



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Onshore Pipelines – Status



Lowering at KP 589



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Onshore Pipelines - Status



Commencement of 1st weld on 48” pipeline (3rd November 2004)



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Phase 2 Project: A Four Year Challenge



LNG plant and export terminal



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Sakhalin II LNG Plant – Project Dimensions

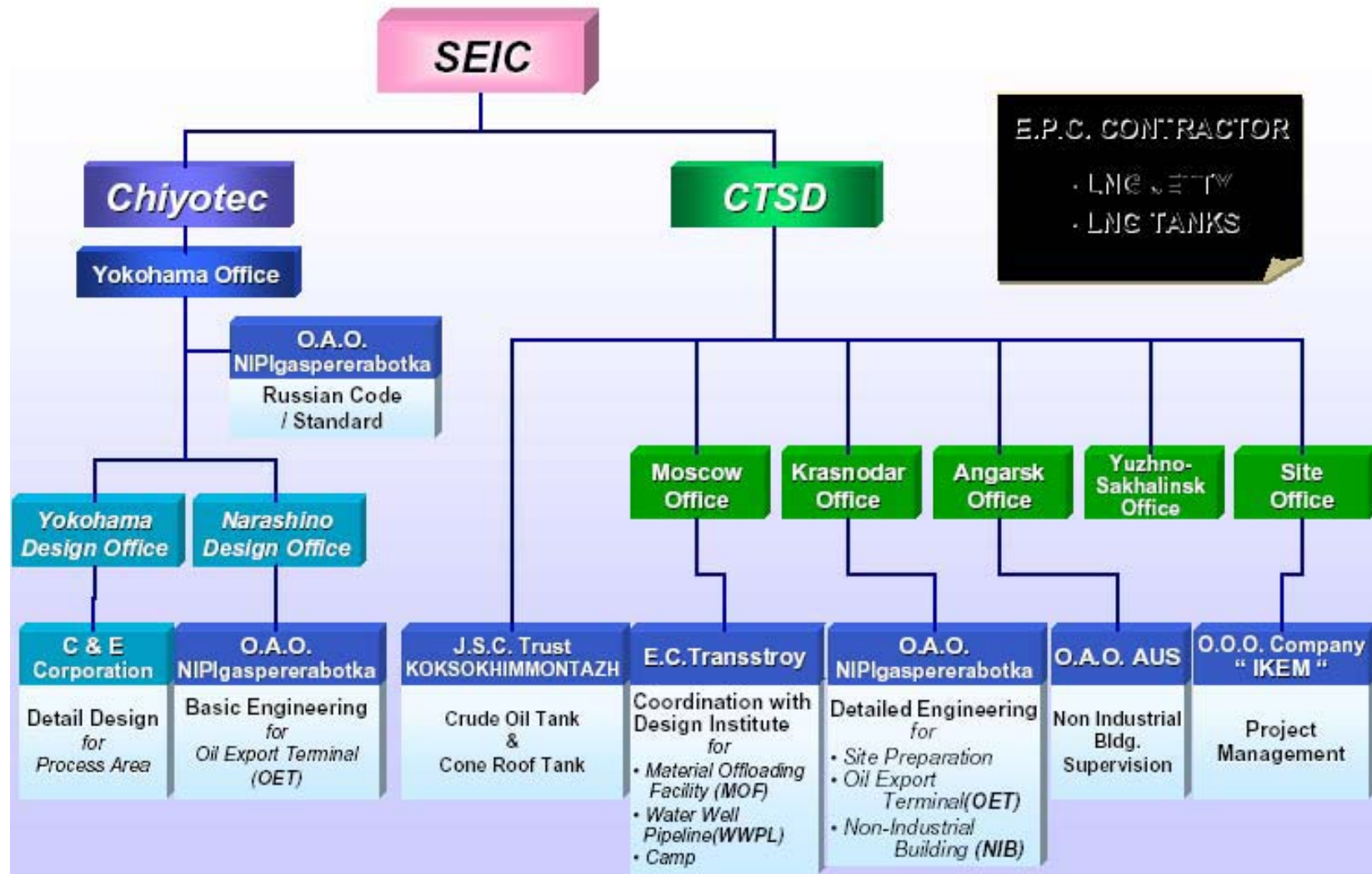
- State-of-the-art LNG processing technology for maximum advantage of Sakhalin climate – **more LNG in the winter**
- Feed gas supplied from dedicated Sakhalin Energy fields
- Plant with two parallel LNG trains each producing 4.8 million tons LNG per annum – largest in the world
- LNG export terminal suitable for wide range of LNG carriers, operating 24 hours a day, 365 days a year
- Engineering completed, construction progressing



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LNG EPC CONTRACT ORGANISATION



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LNG/OET Plant Site Overview



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LNG Plant :

Green Field to Construction Site (photographed by Tokyo Gas)

14 July 1998



16 September 2004



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LNG/OET Status



LNG Process Area



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LNG – Process Train Foundations



**Process Train-1 PR-101
Base Concreting Block-1**



**Process Train-1 C-1301 ABC
Rebar Installation**



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LNG / Oil Export Terminal Status



LNG Piperack PR-101



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LNG / Oil Export Terminal Status



LNG Tank T-3101



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LNG Material Offloading Facility Status



Installing first MOF insert



Installing fourth MOF cell



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Four Landmarks Japanese LNG Sales Agreements

- 12 May 2003 HoA signed with Tokyo Gas -1.1 million tonnes a year from 2007 for a period of 24 years.
- 19 May 2003 HoA signed with Tokyo Electric - 1.2 million tonnes a year from 2007 for a period of 22 years, 23 April 2004 TE declared increase of the long term volumes to 1.5 million, and on 5 November full SPA was signed
- 24 July 2003 HOA signed with Kyushu Electric – up to 0.5 million tonnes a year from 2009 for a period of 21 years, 9 June 2004 full SPA signed between Kyushu Electric & Sakhalin Energy.
- 12 March 2004 HOA signed with Toho Gas – 0.3 million tonnes from 2010 for the period of 23 years
- Total Volume sold to-date to Japan is 3.4 million tonnes per annum



Tokyo Gas HOA Signing Ceremony



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2004: Toho Gas HoA Signed; Additional Volume



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2004: Kyushu Electric SPA Signed; Additional Volume



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2004: Tokyo Electric SPA Signed; Additional Volume



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Sakhalin SPA with Shell Eastern Trading Signed To Supply America

(14 October 2004)

FORWARDED REPORTS
A Royal Dutch/Shell-led group has signed the world's largest liquefied natural gas (LNG) plant on Sakhalin Island has first to supply deal in North America, the group said Thursday.

Sakhalin Energy, which is a joint venture of Japanese trading houses Mitsubishi and Inpex, said it would supply a total of 1.5 million tons of super-cooled gas a year to Mexico and California, U.S.

Sakhalin Energy, which operates the Sakhalin-2 project, said the deal is worth at least \$6 billion.

LNG will be purchased by Shell Eastern Trading, a subsidiary of Shell, which will be supplied by Sakhalin Energy.

OIL & GAS Shell first to supply Russian gas to US

By James Bowell in London

Royal Dutch/Shell has signed a deal to supply 37m tonnes of liquefied natural gas to Mexico and the US west coast, in what it claims will be the first export of Russian gas to North America.

The gas, which will be supplied by Sakhalin Energy, is stored in the Rockies. The Mexican LNG plant in Baja California is being built by Semptra, the US energy trading group.

Shell, which owns 10 per cent of Sakhalin 2 alongside two Japanese partners, is essentially selling the gas on to itself, under the auspices of the Shell Eastern Trading group.



НЕПТОНЕСУРСЫ

“Сахалин-2” прорвался в Америку

Родриго Левинский
Александр Тутушман
Владимир

Компания Sakhalin Energy, оператор проекта “Сахалин-2”, заключила с одной из “лихих” Shell контракт на поставку 1,5 млн т в год сжиженного природного газа (СПГ) на западное побережье Мексики и в США. Это первый контракт на поставку российского газа в этот регион.

Своем партнерстве Sakhalin Energy обсуждала возможность ее увеличения еще на 4,8 млн т. С целью достичь ее проектное освоение СПГ должно быть увеличено на 20%.

Контракт по проекту СПГ Sakhalin Energy заключила с Shell Eastern Trading. По словам представителя российской компании Павла Чернышова, контракт с 2005 г. охватывает 37 млн т газа в течение 20 лет, причем в первые три года объем поставок будет больше, чем в последующие, когда поставки будут выведены на стабильный уровень в 1,6 млн т в год. Он будет поступать на южной территории, который будет поступать в мексиканском штате Баха Калифорния. Потребуется газ будет не только в Мексике, но и в западных штатах США. По словам представителя на условиях “франко-судна”, этот объем будет поступать Sakhalin Energy. В настоящее время компания проводит оценку технико-экономических параметров проекта.

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объем, который Sakhalin Energy собирается поставлять в Америку в настоящее время, не имеет факта выхода сахалинского газа на этот рынок. Скорее, можно сказать, что Sakhalin Energy впервые достигла уровня конкуренции со стороны компаний, которые уже давно обосновались в США. Но у российской компании, считает эксперт, есть свои козыри, в частности, звание крупнейшей российской компании по производству газа. О конкуренции с компаниями из Австралии и Австралии говорит и Алексей Сидоркин “Современник”. Но, по его мнению, газ из Австралии скорее всего не будет поступать в США. По мнению администрации энергетической информации (EIA) США, в 2005 г. стране потребуется газ в объеме 1,5 млрд куб. м СПГ в год. Сейчас в США действует четыре терминала, способные принимать газ, который составляет около 255 млрд куб. м.

19 ОКТЯБРЯ 2004 ГОДА, ВТОРНИК • № 187 (22994) • ИЗДАЕТСЯ С 1 МАЯ 1925 ГОДА

Америка закупила сахалинский газ на двадцать лет вперед

Сообщаем подробности

Каждый угольщик, владелец сахалинской электростанции и владелец нефтепровода “Шельф-Восток” (или, по крайней мере, 50% его) должны были бы подписать контракт на поставку 1,5 млн тонн сжиженного природного газа (СПГ) в течение 10 лет, если бы не было соглашения о покупке российской природного газа на западном побережье Северной Америки.

Заключив это соглашение, сахалинская компания сможет обеспечить поставки газа в Мексике и США, а также в западных штатах США. По словам представителя на условиях “франко-судна”, этот объем будет поступать Sakhalin Energy. В настоящее время компания проводит оценку технико-экономических параметров проекта.

Своем партнерстве Sakhalin Energy обсуждала возможность ее увеличения еще на 4,8 млн т. С целью достичь ее проектное освоение СПГ должно быть увеличено на 20%.

Будет использоваться для производства электроэнергии в Мексике. Остаточная часть будет экспортирована в США, в штат Калифорния, где, как и в Мексике, также планируется строительство электростанции на газе.

“Сахалин Энерджи” и Россия осуществляют фундаментальный анализ на первом этапе проекта. В настоящее время компания работает над подготовкой технико-экономического обоснования проекта. В настоящее время компания работает над подготовкой технико-экономического обоснования проекта.

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Мобильные объекты сахалинского СПГ-проекта. На заднем плане видны объекты сахалинского СПГ-проекта. На переднем плане видны объекты сахалинского СПГ-проекта.

First Russian Gas Exports to North America!



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Key Terms of Baja Agreement

- Volume 37 mt
- Duration 20 years
- Start Date 2007-2008
- Delivery Delivered Ex-Ship
- Destination Terminal developed at Costa Azul
- Take-or-Pay Yes
- Price Linked to gas price in USA



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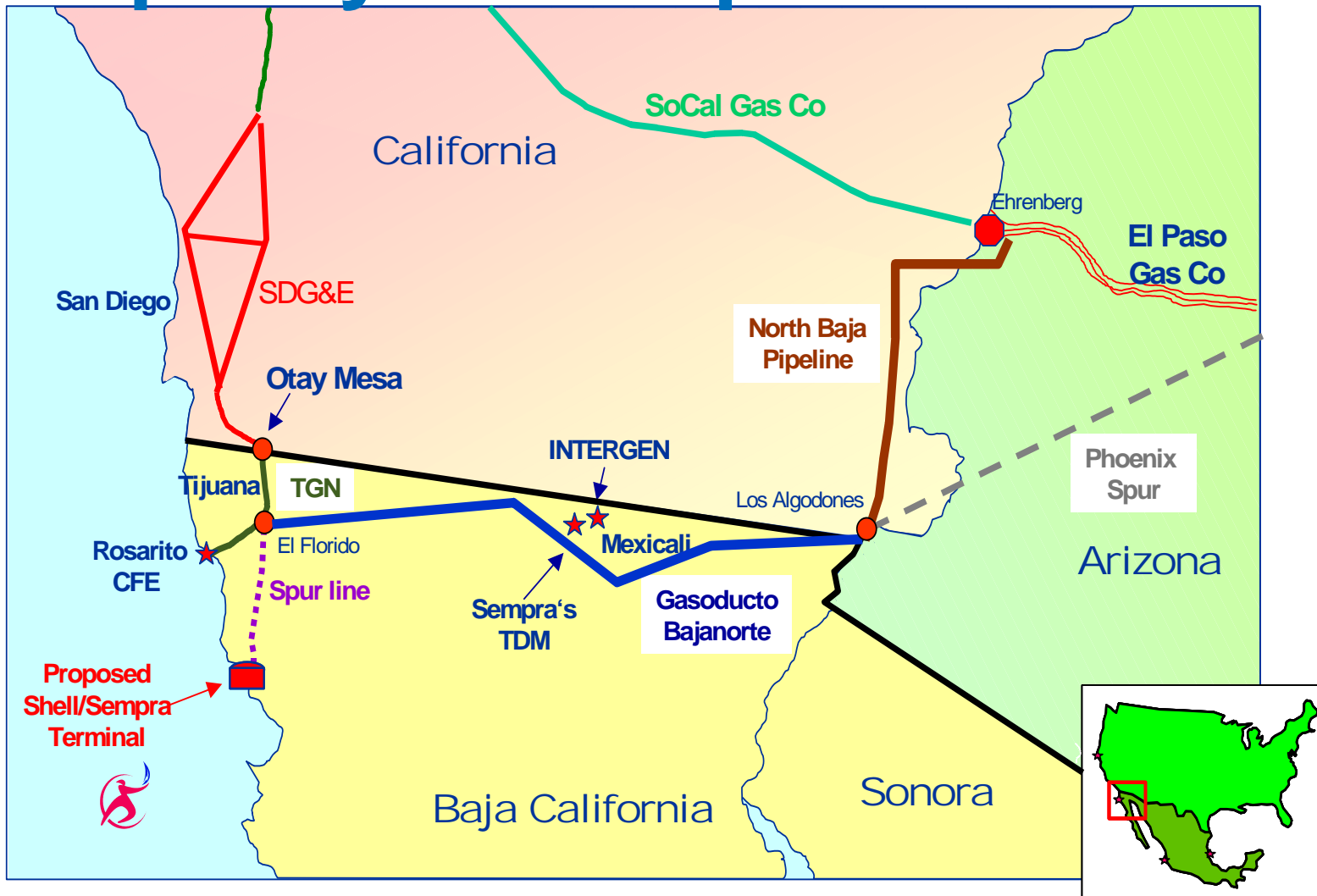
The Shipping Route



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Shell and Sempra will Share Capacity of Sempra Terminal



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THE NEW ENERGY SOURCE FOR THE ASIA PACIFIC

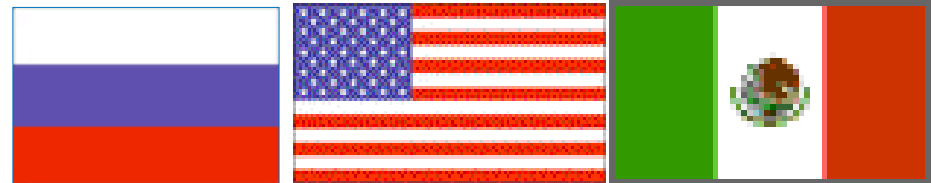
Why has Sakhalin Energy Entered into this SPA?

Economics

High operating load factors in startup years

Debt capacity

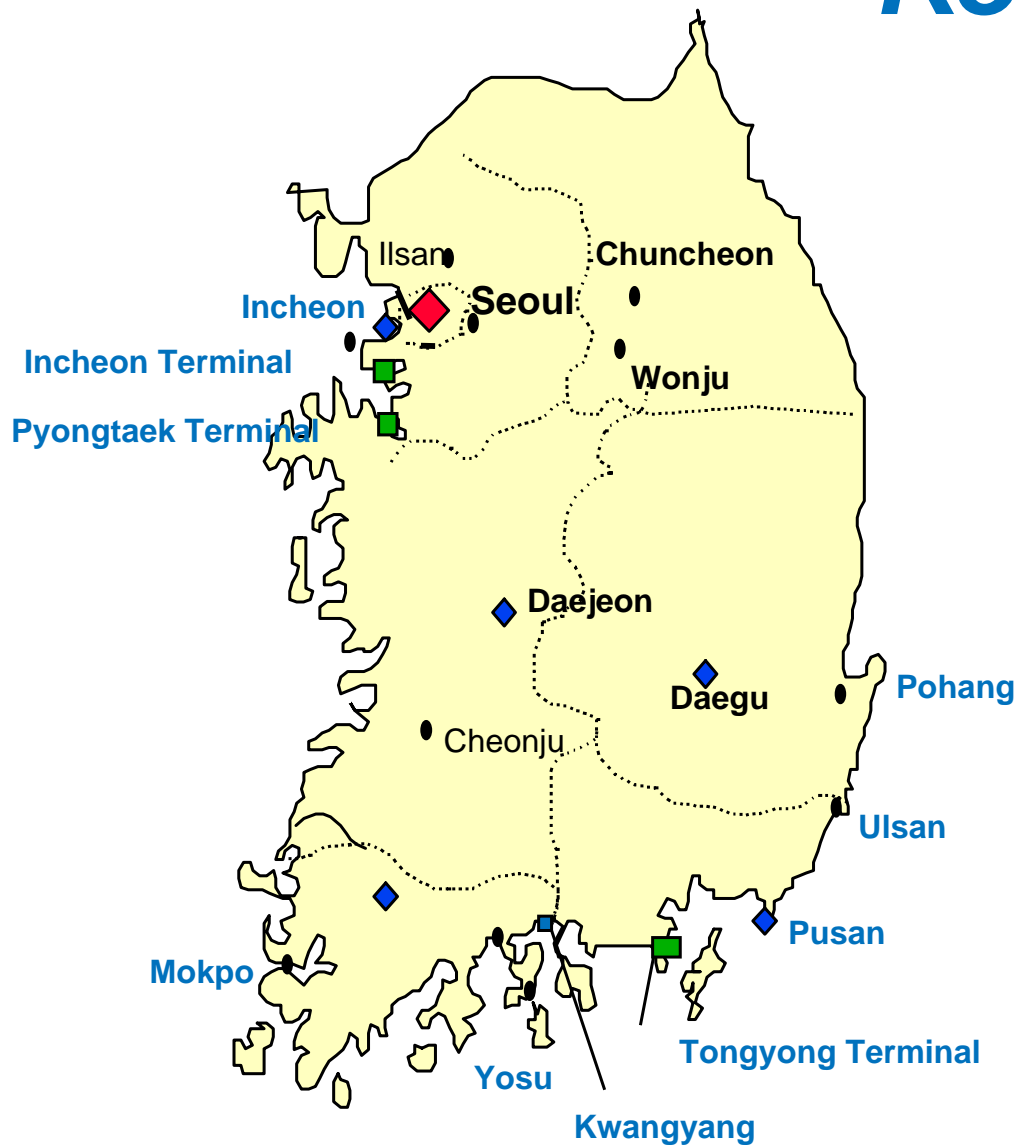
Russia-Mexico-USA



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Kogas



- Sakhalin Energy has been shortlisted as Negotiation Invitee
- Currently negotiating with Kogas
- Selection date for Preferred Sellers postponed
- Power Generation Companies also permitted to import LNG; Term Sheets or HOAs to be agreed with potential Suppliers
- MOCIE will subsequently select Preferred Sellers from Kogas shortlist and GenCo offers

- ◆ Metropolitan Area
- ◆ Major City
- LNG Receiving Terminal

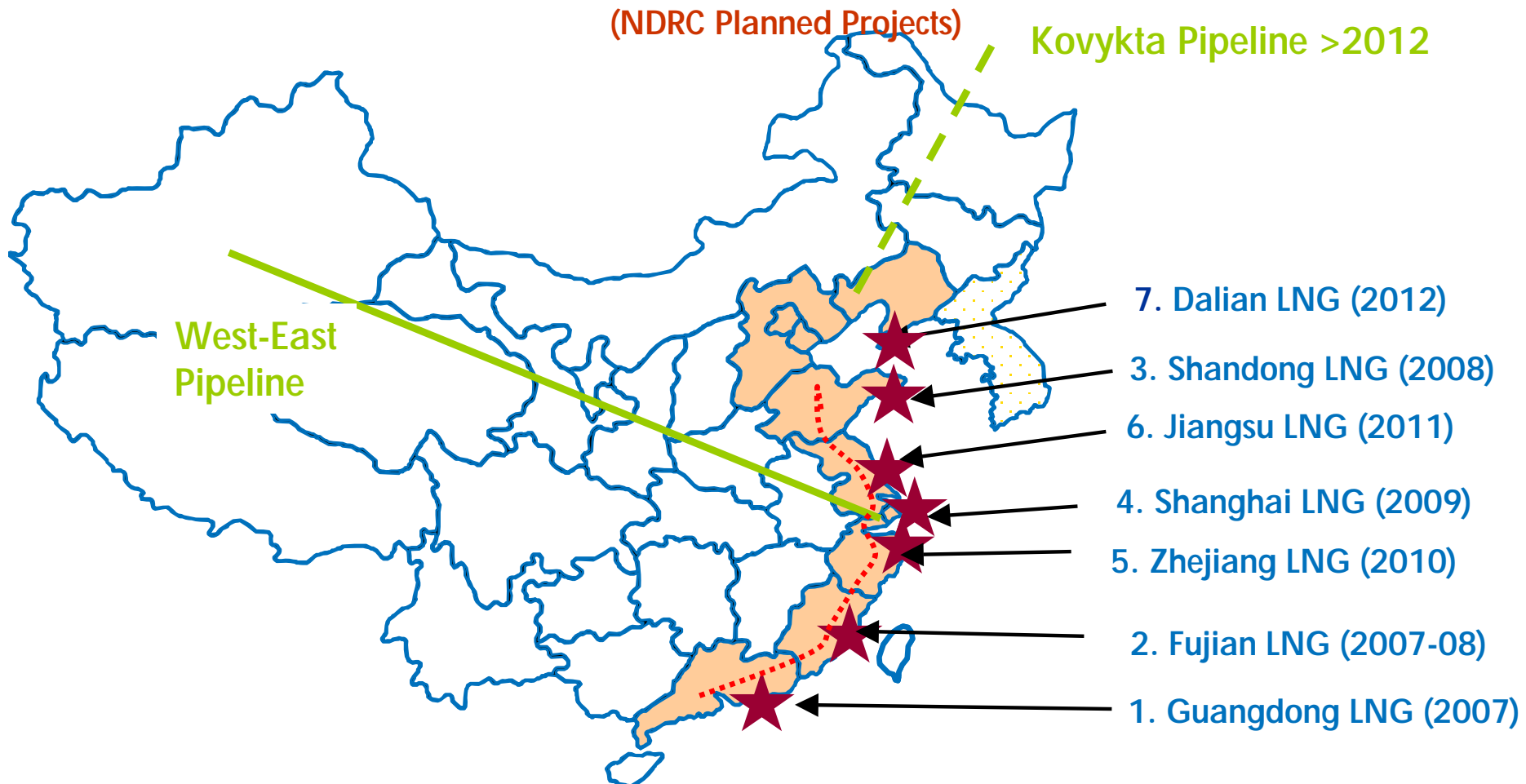


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New Chinese LNG Terminals

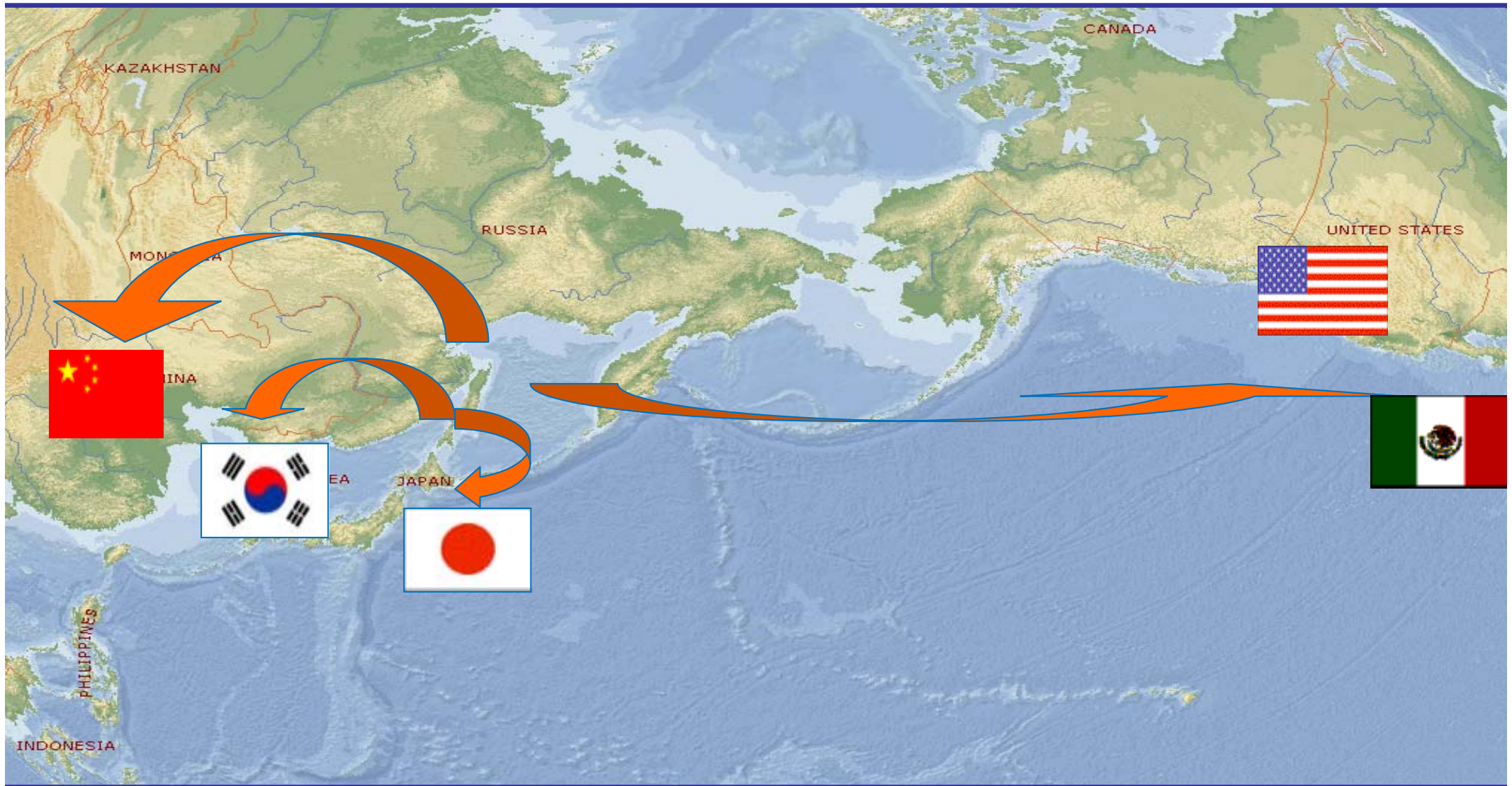
- Forecasted increase of gas share in total energy balance from 3 % in 2003 to 10% in 2010
- Gas demand will be partially met by LNG import



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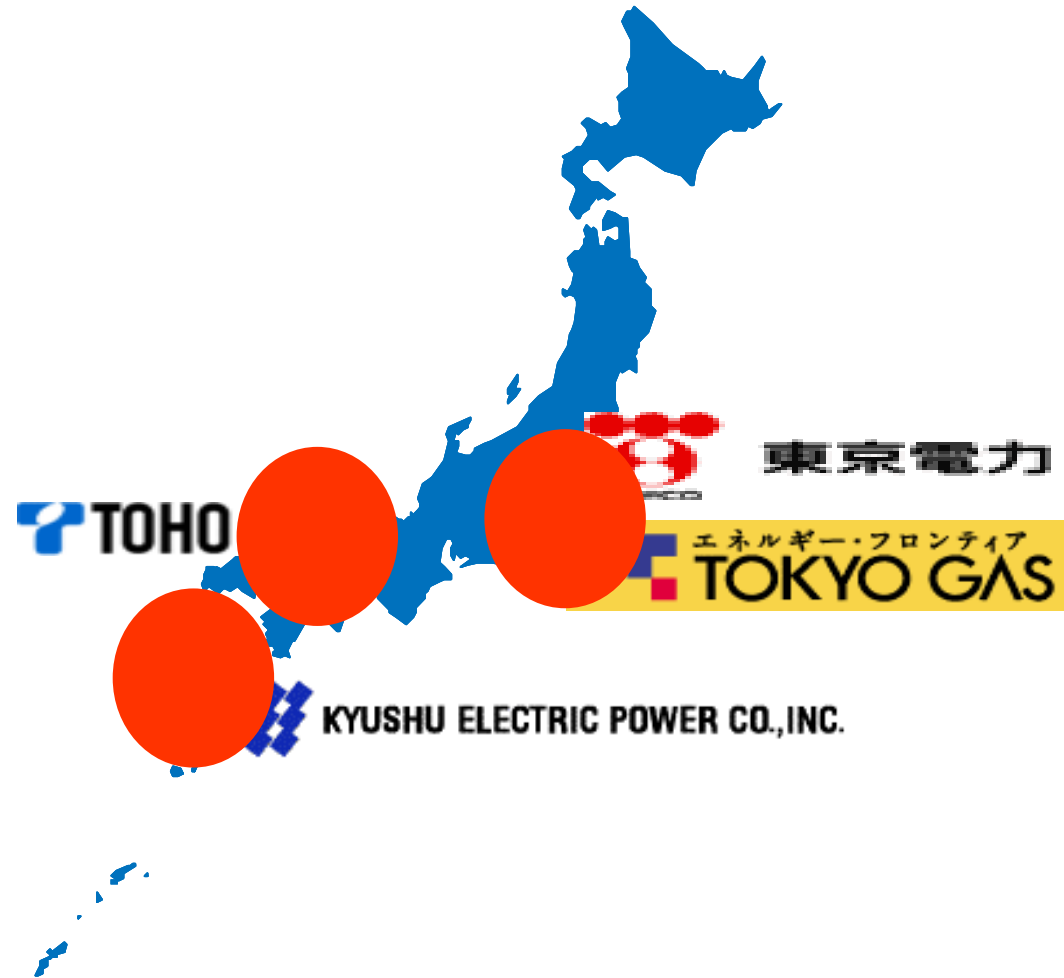
Developing Our Success ...



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We will sign More Contracts in Japan beyond Our Foundation Customers



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Our Strategic Partnership with Japan

Our Aspired Market



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LNG Ship Signing Ceremony



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Two Japanese-Russian Shipping Consortia

Nippon Yusen Kabushiki Kaisha - 60%



SC Sovcomflot - 40%



Mitsui O.S.K. Lines - 45%



Kawasaki Kisen Kaisha - 30%



Primorsk Shipping Corporation - 25%,



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Project Financing

- Agreement for Phase 1 financing of \$348m signed in Dec 1997
- Phase 1 loan repayment commenced in Oct 2000
- PIM for Phase 2 financing launched in Jun 2003
- Phase 2 financing Term Sheet negotiations with JBIC, EBRD, ECGD and USEXIM complete in Oct 2004
- Commercial bank appointment process to start early next year and Financial Signing targeted for mid next year

Phase 2 financing is:

- largest ever project financing on a limited recourse basis (roughly \$5bn senior debt targeted);
 - for the project of unprecedented size and complexity in Russia; and
 - flexibly structured to accommodate the expected build-up of LNG sales commitments.



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Sustainable Development



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Sakhalin II Project is on Track

(Current Status Highlights)

- 6th season Oil production completed with 11.69 million barrels in 2004
- Phase 2 construction 45% completed
- More than 50% LNG capacity sold
- 2 trains capacity expected to be sold by mid 2005
- Two contracts for three LNG ships were signed
- Financial close expected mid 2005



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Why Gas from Sakhalin?



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Sakhalin Energy is the Strategic Supply Source of Gas to Japan

- Earliest available gas from Russia
- Closest source of LNG to Japan
- Established LNG infrastructure in Japan
- Unrivalled shareholder track record in LNG projects worldwide (45% MC and MBK)
- Diversification of energy supply from the North
- Competitive pricing
- Winter seasonality of production
- Robust Production Sharing Framework
- Strong Russian Federal and Oblast support
- Plentiful high quality reserves of both oil and gas from the whole of Sakhalin Island



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**With the development of the Sakhalin projects,
Russia is now establishing itself as a reliable
supplier of oil and gas in Japan and**

***“...creating a new energy
configuration in the Asian
and Pacific Region”.***

**Sakhalin LNG provides an immediate
opportunity for customers to experience the
energy proposition offered by Russia**



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