

2.1 SAKHALIN II OIL AND GAS DEVELOPMENT

Sakhalin Energy Investment Company Limited (Sakhalin Energy) is a consortium of companies developing oil and gas reserves off the northeast coast of Sakhalin Island, in the Russian far East. The shareholders in Sakhalin Energy are:

- Gazprom (50% plus one share)
- Shell (27.5%)
- Mitsui (12.5%)
- Mitsubishi (10%)

Sakhalin Energy is implementing the Sakhalin II Production-Sharing Agreement, an agreement between the government of the Russian Federation, the Sakhalin Oblast (regional government), and Sakhalin Energy. Sakhalin II is a phased development project. Phase 1, an oil-only development, went into production in 1999 and produces approximately six months of the year during the ice-free period. Phase 2 is an integrated oil and gas development that will allow year-round oil and gas production, and includes two additional offshore platforms, offshore and onshore pipelines, and onshore processing and exporting facilities. Production from Phase 2 of the Sakhalin II project is planned to commence in 2008, and is estimated to be operational for the next 40 years. Phase 2 of the Sakhalin II Project is the largest international oil and gas investment in Russia.

SEIC Website: <http://www.sakhalinenergy.com/en/>