Sakhalin II Project: Sakhalin Energy signs Project Finance contract

Sakhalin Energy Investment Company Ltd. (Sakhalin Energy; a Joint Venture of OAO Gazprom, Royal Dutch Shell plc, Mitsui&Co., Ltd., Mitsubishi Corporation), the Japan Bank for International Cooperation (JBIC) and a consortium of international commercial banks today signed a Project Finance Contract of US$5.3 billion for the Sakhalin II Oil and Natural Gas development project (phase 2 development) taking place in offshore Sakhalin Island, Russia.

In this context, Mitsubishi Corporation, as well as the other three Shareholders of Sakhalin Energy (Gazprom, Shell and Mitsui) signed a sponsor guarantee contract which will be effective until the completion of the project.

As for the breakout of the finance amount, JBIC is planned to provide US$3.7 billion, while the commercial banks consortium will contribute an additional US$1.6 billion.

Sakhalin II, now on the final stage of construction, is scheduled to start delivery of Liquefied Natural Gas (LNG) to Japan, Korea and North American West Coast customers soon. The Project Finance will be allocated to the construction and the plant commissioning cost of the project.

This signing of Project Financing for Sakhalin II project is extremely meaningful for the project execution, and we are grateful of this occasion as a shareholder of Sakhalin Energy. Together with other shareholders, we will continuously support Sakhalin Energy to become a reliable supplier to all the consumers, and concerned stakeholders.

(Exhibit) Reference material “Outline of Sakhalin II Project”
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Sakhalin II is one of the world’s largest integrated oil and gas development project, with estimated resource of approximately 4 billion barrels oil equivalent.

Sakhalin Energy Investment Company Ltd is the Joint Venture of Shareholders and is the Operator of the Sakhalin II project. Shareholder composition of the company is OAO Gazprom (50%+1share), Royal Dutch Shell plc (27.5%-1share), Mitsui & Co. Ltd (12.5%) and Mitsubishi Corporation (10%).

Today, the project has oil production capacity of around 90,000 barrels per day. The Completion of the Phase2 development will increase the total project production capacity up to 150,000 barrels of oil per day (year round production), and 9.6million tones of Liquefied Natural Gas (LNG) per annum. The second phase development construction is over 90% completion.

The substance of the Phase2 construction is as following:

- Offshore production facilities including the Molikpaq platform (PA-A, producing oil on half year basis from 1999 as Phase1 development), the new PA-B and Lun-A platforms and approximately 300km of offshore pipeline.
- An onshore processing facility to process the gas and crude oil from the Piltun-Astokh and Lunskoye fields.
- Two onshore oil and gas pipelines extending to the south of the island for approximately 800km, and the oil exporting unit available for year round operation.
- The first LNG plant and associated export facilities built in Russia.
- Island infrastructure upgrades, such as roads, bridges, railroads, port, airport, and medical facilities.

Project Financing is a finance scheme secured by the cash flow generated by the project, which is commonly used in the world’s oil and gas industry. Project Finance by JBIC and other banks was also executed for the Sakhalin II project’s phase 1 development.