

Commercial Update - Sakhalin Region (Russian Far East)

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SAKHALIN-II

** SEIC published the list of upcoming tenders for the period up to 2010.*

The information is available at the company's web-site at –

(http://www.sakhalinenergy.ru/documents/doc_532_tenders_2006-2010.xls)

Contact e-mail: vendor-registration@sakhalinenergy.ru

** Shell on track to win key Sakhalin loan-EBRD sources (By Reuters, March 25, 2006)*

The European Bank for Reconstruction and Development (EBRD) is likely to approve a key loan to the Royal Dutch Shell Plc-led Sakhalin-II oil and gas project in East Russia, despite strong opposition from green groups, senior EBRD sources said. After much scepticism, the bank's management has become much more supportive of the \$20 billion project in recent months, partly due to the desire of key bank shareholders, including the United States and Japan, to secure new energy sources, and other strategic goals, the sources said. Sakhalin-II will proceed even without the loan but it would be a big win for Shell's reputation. The bank's strict environmental rules mean the loan effectively endorses the project's ecological record. The world's third largest publicly traded oil firm has taken a battering from green groups because of the risks the project poses to endangered whales, salmon spawning grounds, indigenous peoples' lifestyles, and other aspects of the largely empty and undeveloped island's delicate ecology.



The bank insists it remains neutral on whether to approve the loan and environmental officials at the bank deny any pressure is being exerted on them to take a less critical view of the development. Environmental officials said any warming toward Sakhalin-2 on their part reflected the fact they have forced Shell and its partners to make a number of key improvements to reduce the ecological impact. "The gap between our expectations and reality on the ground have narrowed considerably," Mark King, group head of the bank's environmental department, told Reuters at the sidelines of a public meeting in Yuzhno-Sakhalinsk. However, the sources said this was not the only reason the bank's management had become less skeptical about Sakhalin-2. "There was political pressure from different sources, and undoubtedly some of that came from the U.S.," a second senior bank insider said.

** Four new tankers to be built for SEIC. (RIA Novosti, March 30, 2006)*

Russia is expected to build four vessels to deliver oil and gas under the Sakhalin II energy project. A shipyard based in St. Petersburg will build two ice-breaking tankers, and a shipbuilding plant in Primorye Territory in the Far East will construct two more vessels under a 15-year contract between Sakhalin Energy and a Russian affiliate of A.P. Moller-Maersk group, which runs about 1,000 vessels and drilling platforms across the world. Sakhalin Energy is expected to receive six vessels from the group in 2007. They will operate under the Russian flag and cost some \$140 million overall. Sakhalin Energy, which is also building an oil terminal and a liquefied gas plant, the first one in Russia, will use the four vessels to deliver oil and liquefied gas to foreign consumers from the southern Aniva Bay. The vessels' overall towing capacity is at least 70 metric tons. They will be fitted with equipment to contain oil spills and fire-fighting devices. Each vessel will be operated by six-member Russian crews.

** Supervisory board to decide on Sakhalin LNG contracts soon (By RIA Novosti, April 4, 2006)*

A board overseeing the gas production project will select bidders for contracts on liquefied natural gas (LNG) supplies shortly, a project operator manager announced. Contracts for supplies of 75% of the liquefied natural gas to be produced on Sakhalin have already been signed, while talks on the remaining 25% of LNG output are nearing an end, said Viktor Snegir, a manager for project operator Sakhalin Energy.

SAKHALIN-I

** Meeting on Sakhalin-1 project issues took place in Yuzhno-Sakhalinsk (Source: Neftegazovaya Vertikal', March 30, 2006)*

The meeting of the Authorized State Body for Sakhalin-1 in Yuzhno-Sakhalinsk was held by the representatives of the Russian Government, Sakhalin Regional Administration and Exxon Neftegas Limited, who discussed the work scope and the budget for 2005-2006. The participants of the meeting discussed the additional expenses incurred in 2005, scope of work and the budget for the current year, the procedure of cost recovery and the issue of Nogliki airport upgrade. Exxon Mobil exceeded the planned expenses in 2005 - both drilling and construction was going ahead of schedule. As Sakhalin Governor Malakhov noted, the project progress in general meets the Agreement. According to Mr. Malakhov, the budget over expenditure will influence return on investment and the regional budget incomes.



Governor Ivan Malakhov. Picture by BBC.

SAKHALIN-III

** China to prospect in Russia's Far East (United Press International, April 07, 2006)*

China will search for oil in the Sea of Okhotsk, in Russia's Far East, ITAR-TASS news agency reported. Work will begin this summer, with the first well being drilled on the Sakhalin shelf as part of the Sakhalin-3 project, and will be undertaken by a 22-year-old drilling rig, the Katan-3, built in Shanghai.

Sakhalin-3 participants include Russia's Rosneft, China's Sinopec and the Sakhalin oil company. They anticipate reserves of more than 800 million tons of oil and more than 900 billion cubic meters of gas. Two further exploration wells are to be drilled as part of the prospecting activities, by Transocean Legend, and will fall under the Sakhalin-5 project, developed by Rosneft and BP, also to get underway this summer.

Transocean Legend has previously been involved in prospecting for hydrocarbons on the Sakhalin shelf, and drilled a well that appeared to indicate a significant reservoir of oil.

** Transocean Inc. Semisubmersible Rig Transocean Legend Awarded Contract (HOUSTON--BUSINESS WIRE)--April 19, 2006)*

Transocean Inc. today announced that a subsidiary of Eni has awarded an estimated six-month contract for the semisubmersible rig Transocean Legend for drilling operations offshore Indonesia. The contract is expected to commence in November 2006, following the completion of an existing contract commitment offshore Sakhalin Island.

The Transocean Legend is expected to be in a South Korean shipyard through May 2006 completing a minor upgrade program ahead of the mobilization of the rig to Sakhalin Island where it is expected to operate through October 2006. Transocean Inc. is the world's largest offshore drilling contractor with a fleet of 88 mobile offshore drilling units. The company's mobile offshore drilling fleet, consisting of a large number of high-specification deepwater and harsh environment drilling units, is considered one of the most modern and versatile in the world due to its emphasis on technically demanding segments of the offshore drilling business. The company's fleet consists of 32 High-Specification Floaters (semisubmersibles and drillships), 22 Other Floaters, 25 Jackup Rigs and other assets utilized in the support of offshore drilling activities worldwide. With a current equity market capitalization in excess of \$27 billion, Transocean Inc.'s ordinary shares are traded on the New York Stock Exchange under the symbol "RIG."

** Russia to build new gas pipeline by October (RIA Novosti, March 22, 2006)*

Russian Far East will get another natural gas pipeline by October. Khabarovsk Territory Energy Minister Vladimir Slivko said the pipeline, slated to run from Komsomolsk-on-Amur to Khabarovsk, will make it possible for the regional center to switch its heating system from costly diesel and oil fuel to natural gas. Slivko said almost all of Komsomolsk heating plants have already made the switch. The Komsomolsk-Khabarovsk pipeline, projected to carry 4.5 billion cubic meters annually, will be part of a larger line linking the Pacific port of Vladivostok and the gas-rich Sakhalin Island. In January, the Khabarovsk Territory signed an agreement with natural-gas State monopoly Gazprom to continue construction of the pipeline. It will begin supplying gas from Sakhalin to Vladivostok and neighboring cities along the Pacific coast in 2010.

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