

## UPSTREAM MIDSTREAM

### Upstream

SPC's Upstream business, which centred on its 15 per cent working interest in the Kakap PSC (Production Sharing Contract) in offshore Indonesia, has continued to turn in a strong performance in 2003. Revenue for the year rose to \$36.0 million, a record high for the Group since the asset was acquired in 2000. The strong revenue reported is a result of several positive factors which include higher realised oil and gas prices, sustained high oil production, as well as strong demand for Kakap gas from Singapore.

As in 2002, the high oil price environment which characterised most of 2003 continued to pose challenges to SPC to achieve its planned growth in reserves through acquisition of producing assets. Few assets were put on the markets as upstream oil companies worldwide reported strong cash flow from their assets. In spite of this situation, SPC will actively seek out opportunities through its extensive presence and relationship in this region to grow its Upstream business.

Oil and gas prices are expected to remain high in 2004. This is expected to benefit SPC's Upstream activities with anticipated good realisation values.

In addition to the strategy of acquiring producing assets, SPC will consider participation in exploration ventures where the potential return is huge. With a modest risk capital, a successful exploration drilling could add significant value to SPC's existing reserve base. The Group will take a measured approach to new exploration ventures to ensure a balanced overall risk profile for its businesses. SPC remains committed to the pursuit of its vision – "To be an integrated oil and gas company with a premium brand in Asia" and will continue to enhance its upstream portfolio through selective and targeted acquisition.

### Midstream

On 4 August 2003, SPC and its partners officially commissioned Singapore's second direct gas pipeline from Indonesia, the 468-kilometer Grissik-Batam-Singapore Pipeline. It was a milestone event attended by Singapore's Prime Minister Goh Chok Tong and Indonesia President Megawati Sukarnoputri and the ASEAN energy ministers. The ceremony marked the start of a 20-year term gas sales contract reported to be worth some US\$9 billion. Under the contract, initial gas delivery starts at 150 mmscf (million standard cubic feet) per day and is expected to rise to 350 mmscf per day by 2009. The construction of the Grissik-Batam-Singapore Pipeline project began in 2002 and was completed on time.

Apart from the Grissik-Batam-Singapore Pipeline, SPC (as part of the joint venture company, Transasia Pipeline Company Pvt Ltd) owns and operates another gas transmission trunk line, the Grissik-Duri Pipeline, in Sumatra. Completed in 1998, the 536-kilometre Grissik-Duri Pipeline transports gas to Caltex's Duri facilities to power steam flooding for enhanced oil recovery under separate long-term contracts.

Singapore's first cross-border subsea gas pipeline from Indonesia, the West Natuna Transportation System ("WNTS"), began piping natural gas to Singapore in 2001 from the gas fields in the West Natuna Sea. Singapore has a 22-year contract with Pertamina for delivery of 2.5 tcf (trillion cubic feet) of natural gas via the 654-kilometre WNTS supplied by a consortium of three PSC blocks in West Natuna including Kakap.

The commissioning of the Grissik-Batam-Singapore Pipeline has allowed Singapore to increase its import of natural gas to meet its growing demand for cleaner and more efficient fuel. Gas demand in Singapore, which has reached 600 mmscf per day, has been met with the timely commissioning of the

second direct pipeline link and the present gas delivery through WNTS. Through its strategic ownership of key pieces of cross-border gas pipelines, SPC will continue to play an important role in ensuring the supply of energy resource to Singapore. With increased emphasis on securing oil and gas resources to meet long-term energy needs, the development of gas-line linkages among ASEAN nations is regarded as strategically important.

The WNTS and Grissik-Batam-Singapore Pipeline are critical pieces developed today for future integration into the wider Trans-ASEAN Gas Pipeline (“TAGP”) network.

The regional pipeline growth mapping is extensive and challenging, from the Myanmar-Thailand link to the Thailand-North Malaysia and Philippines transmission lines. These projects will be important to the regional economies, providing further integration and creating energy security and self-sufficiency. As a founding member representing Singapore in the ASEAN Council on Petroleum (“ASCOPE”), SPC identifies with the TAGP project and will continue to support and participate in future pipeline developments.



One of the four Kakap platforms in Indonesia West Natuna Sea



The Grissik-Batam-Singapore Pipeline was commissioned on 4 August 2003