



Sampang PSC signing ceremony

The highlight of Upstream activities in 2004 was the acquisition of new assets in Vietnam and Indonesia. These assets increased the Group's presence in the regional E&P sector and raised the Company's profile significantly with the discovery of oil and gas accumulation in the assets soon after their acquisitions. Besides the new acquisitions, activities of the Upstream-Midstream BU continue to center on its existing 15 per cent interest in the Kakap PSC and its investment in major gas pipeline assets in the Southeast Asia region. The existing businesses had performed well and contributed to the sterling results of the Group in 2004.

2004 Performance

Net oil and gas production from the Kakap PSC averaged 2,600 boepd (barrels of oil equivalent per day), which was about the same level achieved in the previous year. Average realisation price for the year was US\$35.23 per boe. On the back of continued high oil and gas prices, Upstream reported revenue of \$36.1 million and an operating profit of \$18.5 million in 2004.

In the Midstream sector, the Group holds interests in three regional gas transmission pipelines.

The 654-kilometer West Natuna Transportation System is the first Singapore cross border subsea gas pipeline carrying gas from the West Natuna Sea to Singapore. A consortium of PSC blocks in West Natuna Sea including the Kakap PSC owns this pipeline which commenced gas supply to Singapore in 2001 under a 22-year contract.

The 468-kilometer Grissik-Batam-Singapore Pipeline is the second direct gas pipeline transporting gas from Indonesia to Singapore. Gas is supplied under a 20-year term contract that commenced in 2003.

The 536-kilometer Grissik-Duri Pipeline is a trunk line that transports gas from gas fields in South Sumatra to Caltex's Duri facilities under long term contracts which commenced in 1998.

The two Grissik pipelines are owned and operated by PT Transportasi Gas Indonesia (TGI). The Group's interest in TGI is held through a joint venture company Transasia Pipeline Company Pvt Ltd (Mauritius) (Transasia) which holds 40 per cent of the equity in TGI. SPC in turn holds a 15 per cent equity stake in Transasia. SPC's investment in Transasia is in the form of shareholder loan (investee company) and direct equity. Returns from this investment will be in the form of interest income as well as dividends. In 2004, interest income of \$4.9 million relating to financial years 2002 and 2003 were received in full by SPC.

The region's demand for energy is expected to continue to grow. As a result, these pipeline assets which form part of the emerging Trans-ASEAN Gas Pipeline network will play an important role in meeting the imbalances between supply and demand centres within the region. With the anticipated increase in regional gas utilisation projects, these assets are expected to add value and contribute to the Group's performance.

2004 Investments

Vietnam

In line with the strategic drive to acquire assets in the E&P sector, the Group has in April 2004, through its wholly owned subsidiary SPC Vietnam (Blocks 102/106) Co. Ltd, successfully farmed in for a 10 per cent participating interest in Blocks 102 and 106, located in the Song Hong Basin, offshore in the Gulf of Tonkin, Vietnam. Blocks 102 and 106 cover an area of approximately 14,000 square kilometers and contain several exploration prospects and leads.



Kakap platform in Indonesia West Natuna Sea

The consideration of US\$3.5 million for the interest was funded from internal resources, taking into account the estimated cost of the farm-in work programme. The other partners are Petronas Carigali Overseas Sdn. Bhd., PetroVietnam Investment & Development Company and ATIP.

SPC's exploration efforts in these blocks were successful as the partners made an oil and gas discovery after drilling its first exploration well, Yentu-1X in Block 106. Preliminary analysis of the oil samples from the Yentu-1X well indicates that the oil is of light and sweet quality with 43.2° API (American Petroleum Institute) and a pour point of 4.5°C.

More technical work is currently being undertaken to further evaluate this discovery in Block 106.

Indonesia

In July, the Group expanded its E&P portfolio further with the acquisition of the entire issued and paid-up share capital of Coastal Indonesia Sampang Ltd, subsequently renamed as Singapore Petroleum Sampang Ltd (SP Sampang), from El Paso Production Oil & Gas Company (El Paso).

SP Sampang owns a 40 per cent working interest in the Sampang PSC, located offshore East Java, Indonesia. The Sampang PSC contains the discovered Oyong oil and gas field and several exploration prospects.

This asset was acquired for a cash consideration of US\$23.2 million plus working capital and was funded from internal resources.

Prior to SPC's acquisition, El Paso had opted not to participate in the drilling of the Jeruk exploration prospect within the Sampang PSC, which was drilled by co-venturer and operator, Santos Ltd (Santos) on a sole risk basis. Following the acquisition, Santos reported that its exploration well Jeruk-2 tested 7,488 barrels of oil and 2.21 million cubic feet of gas per day. The Jeruk-2 well is located about 42 kilometres from Surabaya in water depth of 44 meters.

While the Jeruk prospect has been drilled by Santos on a sole risk basis, under the terms of the Sampang Joint Operating Agreement, SP Sampang is entitled to reinstate its rights to participate in the Jeruk discovery. In the event that SP Sampang exercises its reinstatement rights, it is required to pay its 40 per cent share of the exploration and appraisal costs incurred up to the time of the reinstatement; and a premium of ten times its 40 per cent share of the cost of the discovery well and five times its 40 per cent share of the appraisal wells costs. The premiums are payable in kind out of SP Sampang's share of future production from a Jeruk development.

SP Sampang has the right to reinstate its interest in the Jeruk discovery at each stage of any future appraisal programme, up to the receipt of a proposed plan of development on the discovery. In relation to this, SP Sampang will continue to evaluate data on Jeruk and conduct further technical, commercial and financial evaluation.

Aside from the Jeruk discovery, SP Sampang and its partners continue to evaluate a number of other prospects in the block for possible exploratory drilling in the near future.

In the Oyong field, the partners are working towards an early Plan of Development which targets first oil production in the second half of 2005.

The Group's presence in the E&P sector in the region has been boosted considerably by these assets. SPC Upstream-Midstream is working towards realising the full potential values of these assets in order to enhance contribution towards the future profitability of the Group. Meanwhile, the Group will continue to take a measured approach to further expand its E&P portfolio.