

**In 2006, SPC achieved an exploration success rate of 50%, with gas discoveries in three of its six wells.**





SPC's E&P assets



The Group's E&P activities involve the exploration, development, production, gas transmission and sale of oil and gas. SPC's presence and profile in the E&P sector have grown with the acquisition of high potential assets over the years.

Since its entry into the E&P business in 2000, SPC has grown its E&P portfolio considerably focusing on low to moderate risk assets. The Group currently holds interests in six E&P assets in the Asia-Pacific region, namely Block T06-3 in Australia; Block B in Cambodia; Kakap Production Sharing Contract (PSC) and Sampang PSC in Indonesia and Block 101-100/04 and Blocks 102 and 106 in Vietnam. Besides these E&P assets, SPC holds interests in midstream gas pipeline assets in Indonesia.

During the year, production from the Kakap fields offshore Indonesia increased by approximately 10% following completion of the work on a series of well workover and services. Meanwhile, Lukah-1X well made a gas discovery. This will add to Kakap's performance once the plans to tie-back the discovery to the existing platforms are formalised in late 2007.

Besides the Lukah discovery, the Company achieved a number of successes from its active drilling programme during the year. The exploration effort resulted in additional gas resources being discovered in Indonesia and Vietnam.

In the Sampang PSC, production from the Oyong field was targeted to commence in 2006. However, this had been delayed due to contractual issues with the production barge. The production barge had been successfully re-tendered and the remaining development works are now in progress. First oil production is expected in the second quarter of 2007.

Efforts are continuing to further evaluate and appraise possible development options for the Jeruk oil discovery and the recent Wortel gas discovery in the Sampang PSC.

In its pursuit to expand the E&P portfolio, the Company has secured a new exploration asset, Block 101-100/04 in Vietnam. The new acreage is located offshore northern Vietnam in the Gulf of Tonkin and adjacent to the Company's existing Blocks 102 and 106. Meanwhile in Cambodia, SPC and its co-venturers had jointly pre-empted an existing partner's sale of its 10% participating interest in Block B located offshore Cambodia. This addition increased the Company's interest in the block to 33.3% from its the existing 30.0%, subject to the approval of the Cambodian authority. In February 2007, SPC was awarded a new exploration permit for Block T06-3 in the Bass Basin, Australia.

To further position the Group for further growth, SPC signed a Memorandum of Understanding (MOU) with PT Pertamina in November 2006. The MOU aims to further strengthen the cooperation between the two companies in oil and gas exploration, development and production both in Indonesia and internationally. SPC had also participated in several international exploration bid rounds in 2006.

#### E&P business performance

The Group's E&P business has continued to perform well in 2006 as global oil prices remained high throughout the year. Against a net realised oil price which averaged US\$58.22 per barrel in 2006, E&P contributed strong revenue of \$49.2 million and a net operating profit of \$14.6 million. Net production for the year averaged 2,540 barrel of oil equivalent per day, an increase of 10% over the previous year.

## Kakap PSC, Indonesia

SPC's interest: 15%

**Kakap PSC, an oil and gas producing asset located offshore Indonesia in the West Natuna Sea, forms a consortium of three PSC blocks in West Natuna.**



Asset/Location	Working Interest	Wells Drilled	Drilling Remarks
Kakap PSC, Indonesia	15.0%	Lukah-1X	Exploration, Gas discovery
Sampang PSC, Indonesia	36.0%	Herbras-1	Exploration, Insignificant hydrocarbon
		Dukuh-1	Exploration, Insignificant hydrocarbon
		Wortel-1	Exploration, Gas discovery
	19.8%	Wortel-2	Appraisal, Failed to encounter hydrocarbon
		Jeruk-3	Appraisal, DST flowed oil at a stabilised rate
Blocks 102 and 106, Vietnam	20.0%	HaLong-1X	Exploration, Failed to encounter hydrocarbon
		Thai Binh-1X	Exploration, Gas discovery

The E&P Business Unit (BU) had an active drilling year in 2006. In addition to the four workover and service wells drilled in the Kakap PSC in Indonesia, the Company participated in the drilling of eight exploration and appraisal wells. The active exploration effort resulted in gas discoveries in both Vietnam and Indonesia.

In 2006, SPC achieved a remarkable exploration success rate of 50%, above the industry norm.

Besides the drilling programme, the E&P BU continued to acquire new seismic data and undertake technical works to further evaluate the existing assets. Results from recent wells drilled were being incorporated into the existing database to better understand the petroleum environment and resource potential of these assets.

During the year, the Company successfully acquired Block 101-100/04, located offshore Vietnam and increased its equity interest in Block B, Cambodia, from 30.0% to 33.3% through the joint exercise of its pre-emption rights with the other co-venturers. This incremental interest is conditional upon the approval of the Cambodian National Petroleum Authority.

### E&P business highlights

#### Kakap PSC, Indonesia

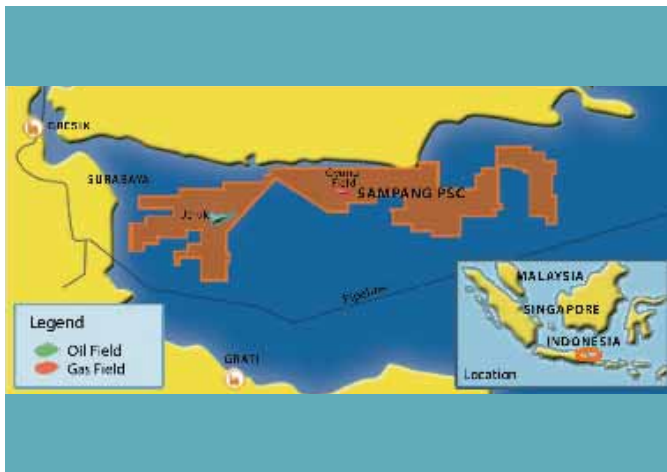
The Kakap PSC which spans approximately 2,000 square kilometres in two separate blocks, is located in the West Natuna Sea, Indonesia, 486 kilometres Northeast of Singapore.

The Kakap PSC currently has nine oil and gas fields in South Kakap producing from four platforms and five subsea tie-back wells.

Oil produced is exported via the Floating, Production, Storage and Offloading vessel while gas is transported through the West Natuna Transportation System pipeline to Singapore.

During the year, a total of four workover and well servicing operations were successfully conducted on subsea wells using a drill ship to enhance oil and gas well deliverability. Production in the Kakap PSC continued to be maintained through compressors optimisation and improved gas flaring capability.

Although this is a producing asset, further efforts to explore untapped oil and gas potential are planned. An exploration well, Lukah-1X was drilled in May 2006, to test various formations against the north-south trending fault. Lukah-1X successfully tested natural gas and condensate over two sand intervals. The intervals flowed at a stabilised combined rate of approximately 19.7 million standard cubic feet (scf) per day of natural gas and 2.8 barrels of condensate per day though a 64/64" choke. Development plans to tie-back the Lukah gas discovery to the production platform via a pipeline had been studied. The pipeline construction is expected to commence in the second half of 2007.



## Sampang PSC, Indonesia

SPC's interest: 36%

**Sampang PSC is located offshore East Java, Indonesia, contains the Oyong oil and gas field, the Jeruk oil discovery, the Wortel gas discovery, and several exploration prospects and leads.**

Besides the tie-back of the Lukah field to the platform, proposed development work in 2007 includes drilling of a development well to increase gas production. To cope with the increase in gas transmission, another gas pipeline will be constructed. An exploration well has also been identified to test the structure of the deeper formations. This exploration well is expected to be drilled in the third quarter of 2007.

### Sampang PSC, Indonesia

#### *Oyong Oil and Gas Field*

The Oyong field is located in the Sampang PSC, offshore East Java, Indonesia. An interim analysis from the operator of the Oyong field suggests that the mid-range recoverable oil and gas volumes for the field are six million barrels and 97 billion scf respectively.

The phase 1 oil development is approximately 95% completed, with the Oyong wellhead platform installed and seven development wells drilled. The Floating, Storage and Offloading vessel is on standby while the conversion of a production barge is in progress. As a result of the extended negotiations over the production barge contract and increased costs for this facility last year, the Indonesian authorities had requested that the contract be re-tendered. The re-tender had been completed and first oil production is now targeted for the second quarter of 2007.

The phase 2 gas development will include the construction of a 60-kilometre, 14-inch diameter gas pipeline from the field to a power plant located at Grati, East Java, owned by PT Indonesia Power, a unit of Indonesian state-owned electricity generating company, PT Perusahaan Listrik Negara. Gas sales volume is expected to be between 40 and 60 billion British thermal unit per day under a gas sales agreement signed in 2003.

#### *Jeruk Oil Field*

The Jeruk discovery was located approximately 40 kilometres Southeast of Surabaya. The Jeruk-1 exploration well was drilled in late 2003 and was first appraised by the Jeruk-2 well drilled in July 2004. The Jeruk-2 well flowed 7,488 barrels of 33° API oil and 2.21 million scf of gas per day. This was then further appraised by the Jeruk-3 well, drilled in January 2006.

The Jeruk-3 well first flowed oil at a rate of approximately 3,200 barrels per day with a Gas-Oil Ratio of 230 scf per barrel through a 16/64" choke at an interval of 4,663 – 4,696 metres in vertical depth subsea. The flow rate was constrained by surface facility limitations. The well was subsequently re-tested over the same interval for stabilised flow rate. The flow test, conducted over a 48-hour period flowed at a stabilised rate of approximately 2,750 barrels of 37.5° API oil per day through a 16/64" choke.

To further evaluate the rock formations and properties, two nine-metre core samples were retrieved from the well.

On 14 July 2006, the operator of the field, Santos, reported that 'The height of the known hydrocarbon column in the Jeruk structure is now considered to be approximately 145 metres compared to the originally interpreted 379 metres. This has reduced the most likely contingent resource to less than the 170 million barrels estimate previously provided to the market in January 2005.'

A subsequent test of the bottom hole section flowed formation water at a rate of 6,700 barrels per day through a 28/64" choke. The well was then suspended as a potential future oil producer at a total depth of 4,918 metres in vertical depth subsea. The results from Jeruk-3 had been integrated with well and seismic data to better determine the most likely oil resource range.

On 24 November 2006, Santos announced that 'This analysis is now largely complete and whilst there are substantial remaining reservoir uncertainties, the upside recoverable oil resource for Jeruk is most likely to be less than 50 million barrels. Opportunities to commercialise Jeruk are being pursued, however plans for additional appraisal drilling have been placed on hold pending the review of development scenarios and the resolution of commercial and technical issues which may potentially impact the viability of any development.' Going forward, SPC and partners will continue to evaluate various scenarios for a Jeruk development.

In 2006, to mitigate the uncertainty over Jeruk's resource potential, SPC entered into an agreement with Medco under which SPC would transfer an approximately 18.2% economic interest in Jeruk to Medco. In exchange, SPC would be relieved



Blocks 102 and 106, Vietnam  
 Blocks 101-100/04, Vietnam

SPC's interest: 20%  
 SPC's interest: 45%

**Blocks 102 and 106 cover approximately 14,000 square kilometres and contain several exploration prospects and leads.**

**Block 101-100/04 covers approximately 6,174 square kilometres.**

from its obligation to pay Medco its share of the back-in premium of approximately US\$132 million which SPC was liable for following the reinstatement of its interest in Jeruk in 2005. The agreement with Medco effectively lowers the minimum reserve threshold required to support an economic Jeruk development and would allow SPC to benefit from early cash flow from a future Jeruk production.

#### **Wortel Gas Discovery**

Wortel-1, which is located approximately seven kilometres West of the Oyong field, commenced drilling in August 2006. The well encountered a 141 metres gross gas column and successfully tested natural gas and condensate at a rate of 18.5 million scf per day through a 56/64" choke. Condensate was produced at a rate of four to five barrels per million cubic feet. The reservoir is analogous to the hydrocarbon bearing zone in the Oyong field.

Preliminary analysis of the gas samples from the well indicated that the gas is sweet without the presence of carbon dioxide and hydrogen sulphide.

The Wortel structure is characterised by several series of north-south oriented normal faults. Four main faults have been mapped which divided the structure into Fault Blocks A, B, C and D.

Following the success of the Wortel-1 exploration well, drilled in Fault Block A on the western end of the structure, the Wortel-2 appraisal well was drilled in September 2006 to test the hydrocarbon objective in another fault block. However, Wortel-2 failed to encounter significant hydrocarbon and was plugged and abandoned.

In 2007, SPC and partners plan to drill the Wortel-3 appraisal well in the second half of the year to further appraise this discovery and are currently in preliminary discussions with potential gas buyers.

#### **Exploration Drilling**

In the Sampang PSC, Dukuh-1 and Herbras-1 wells were drilled in 2006. Both wells did not encounter significant hydrocarbon after penetrating the respective primary objectives. The costs associated with these drillings had been expensed off.

#### **PT Petrogas Participation**

Under the terms of the Sampang PSC, the Indonesian government has the right to nominate an Indonesian entity to participate in a 10% undivided interest. PT Petrogas Oyong Jatim (Petrogas) was nominated as the Indonesian participant and legal documentation is currently being finalised to formalise its participation. Petrogas is required to reimburse its 10% share of past operating costs incurred in the Sampang PSC to the existing partners, including SPC.

As a result of Petrogas' participation, SPC's interest in the Sampang PSC would be reduced proportionately to 36% and in Jeruk, the economic interest would be reduced to 19.6%. SPC would be reimbursed past costs upon completion of the proposed transaction. The transaction is currently in progress.

#### **Blocks 102 and 106, Vietnam**

SPC currently holds a 20% participating interest in Blocks 102 and 106, located in the Song Hong Basin offshore Vietnam in the Gulf of Tonkin. The first exploration well, Yentu-1X, drilled in Block 106 in late 2004 made an oil and gas discovery.

The PSC entered into the phase 2 exploration period in February 2007, following approval by Vietnam Oil and Gas Corporation (Petrovietnam) and is effective February 2007. All work commitments under phase 1 exploration period have been fulfilled.

During the year, the HaLong-1X exploration well, located in water depth of 29 metres, was drilled. It was intended to test the hydrocarbon potential of the Miocene sands and fractured Basement play. Though oil and gas shows were encountered while drilling, the drill stem test did not recover any hydrocarbon.

#### **Thai Binh Gas Discovery**

The Thai Binh-1X well, which is located about 50 kilometres South of Hai Phong City and in water depth of 28 metres, successfully tested natural gas and condensate over the upper and lower sand intervals.

On a combined basis, the well flowed at a total maximum rate of approximately 47.4 million scf per day of natural gas through a 128/64" choke at an average wellhead pressure of



524 psi. Condensate was produced at an average rate of two barrels per million scf of gas.

This is the first discovery in Block 102. SPC and its partners will continue to evaluate this discovery in 2007.

#### **Block 101-100/04, Vietnam**

SPC successfully entered into a Petroleum PSC for a 45% participating interest in Block 101-100/04 in the Song Hong Basin, offshore Vietnam.

Block 101-100/04, which covers approximately 6,174 square kilometres, is located in the Gulf of Tonkin, offshore northern Vietnam and is adjacent to Blocks 102 and 106. Gas and condensate discoveries had been previously made in this block.

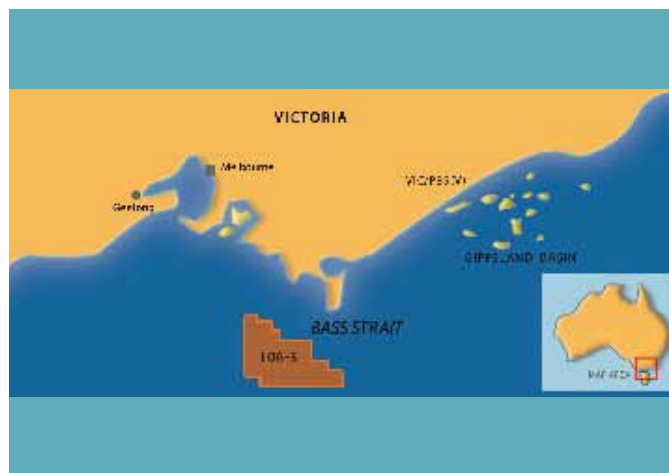
Under the PSC, SPC is committed to a three-year exploration programme. It comprises processing and interpretation of existing seismic lines, acquisition of new 3D seismic surveys, and drilling of one exploration well. The acquisition of the 3D seismic is scheduled for the first half of 2007.

#### **Block B, Cambodia**

The Block B acreage is located 250 kilometres off the coast of Cambodia to the east of the Thai-Cambodian Overlapping Claims Area, in the Gulf of Thailand. The block lies to the Southeast of the Khmer Basin where a number of oil and gas discoveries had been made previously.

During 2006, SPC and its partners jointly exercised their pre-emption rights to acquire the entire 10% equity interest from an existing partner, on an equal basis. Completion of the acquisition is conditional on the approval of the Cambodian authority and SPC's interest in the block, will be raised from 30.0% to 33.3%.

SPC plans to acquire approximately 600 square kilometres of 3D seismic survey for this block in 2007, subject to the availability of the seismic vessel.



#### **Block T06-3, Australia**

SPC was awarded a new exploration permit for Block T06-3 in the Bass Basin, Australia in February 2007. SPC holds a participating interest of 35%.

The block, covering approximately 2,890 square kilometres, is located offshore Southeast Australia about 200 kilometres from Melbourne and in water depths ranging from 50 to 100 metres. The block contains the existing Cormorant oil, condensate and gas discovery and several exploration prospects and leads.

SPC and its partners are committed to an initial work programme comprising seismic acquisition and drilling of two exploration wells.

#### **Midstream**

SPC holds a 15% interest in Transasia Pipeline Company Pvt Ltd (Mauritius) which, in turn, holds a 40% equity interest in PT Transportasi Gas Indonesia (PT TGI). PT TGI owns and operates two major gas transmission lines, namely the 536-kilometre Grissik-Duri Pipeline and the 468-kilometre Grissik-Batam-Singapore Pipeline.

Gas in South Sumatra is transported to Caltex's Duri facilities using the Grissik-Duri Pipeline under long-term contracts commencing in 1998. The Grissik-Batam-Singapore Pipeline is the second cross-border gas pipeline between Indonesia and Singapore.

As gas continues to play an increasingly important role in Singapore for power generation to meet the country's growing energy demand, the Singapore government and PT TGI concluded a new gas transportation agreement (GTA) in October 2006 for the transmission of natural gas from Sumatra to Singapore via the Grissik-Batam-Singapore Pipeline. The GTA is subject to conditions precedent and financial close in 2007.

SPC has an interest in a long-term gas contract through the Kakap PSC, which has an indirect interest in the first Indonesia-Singapore cross-border gas pipeline that transports gas from a consortium of gas producers in the West Natuna Sea to Singapore.