JONES DAY

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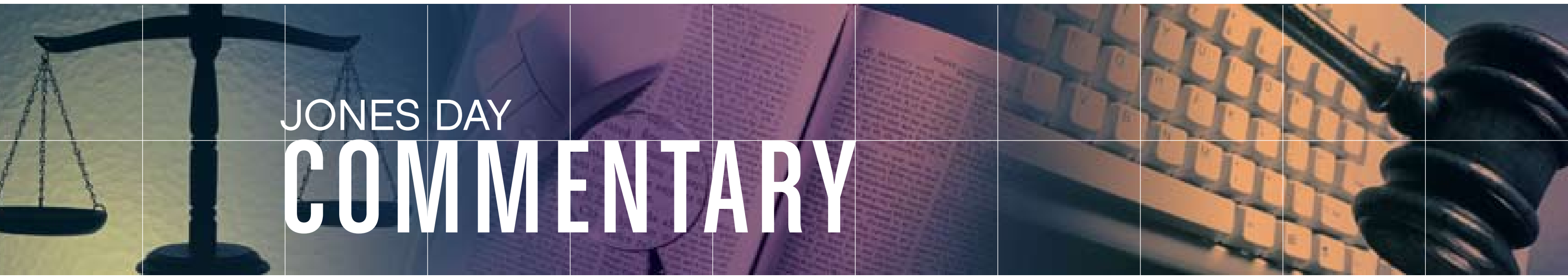

HIGH OIL PRICES SIGNAL OPPORTUNITIES FOR SINGAPORE

The energy ministers of the Asia-Pacific Economic Cooperation ("APEC") nations met in Gyeongju, in the Republic of Korea, on October 19, 2005, to address concerns over the effect of rising oil prices on APEC economies.

In their joint declaration issued after the meeting, the ministers set out a broad range of supply- and demand-side measures designed to respond to high and volatile oil prices and oil dependency, as well as the region's broader energy supply-and-demand challenges. The ministers suggested that member nations take a number of measures to address those challenges, including actions that increase oil production, enhance the security of oil supply, improve the efficient operation of the global oil market, and promote energy diversification, efficiency, and conservation.

These measures provide several opportunities for Singapore as a nation, together with companies basing themselves on the island.

During times of high oil prices, oil- and gas-producing operations that were previously marginal become profitable. These prices also justify an increased budget for exploration activity. Despite Singapore's lack of oil and gas resources, Singaporean companies are exploiting these opportunities for upstream companies by being active in discovering and producing petroleum in neighboring countries.

Since diversifying into the upstream sector in 2000, Singapore Petroleum Company is now a fully integrated company, having acquired operations in Indonesia, Vietnam and, earlier in 2005, Cambodia. Other Singapore-listed companies have also been actively expanding their portfolios of exploration and production assets, most notably Pearl Energy and Interra Resources.

A number of multinational companies also headquarter their regional exploration and development operations in Singapore. The recent upswing in exploration activity should continue to rise on the back of high oil prices and substantial acreage releases across the region, resulting in a positive cash-flow effect for the nation.

Buoyant times for the upstream sector will have a flow-on effect, providing opportunities for other Singaporean companies involved in petroleum-related shipbuilding, transportation, and oil services and supply activities.

One of the biggest opportunities is in providing services supporting exploration and production activities, particularly the construction, refurbishment, and repair of drilling rigs and service vessels. Keppel Corporation and SembCorp Marine are the two largest international players in this industry, cornering more than 70 percent of the global market for offshore oil rigs between them. Each has interests in shipyards around the globe, and both are reporting that their existing order books should keep their yards busy for several years. The demand for conversion, refurbishment, and repair contracts is expected to continue rising for many years, due to increased exploration and production activities, an aging fleet, and increased technological requirements as activities move into more challenging deep-water areas.

Competition can be expected, however. In recent years Malaysia has emerged as a potential threat to Singapore's position as a regional oil center, and recent reports suggest Malaysia is looking to develop a niche in marine engineering and construction for the oil and gas industry, which would directly compete with Singapore's successful operations. Operating at close to full capacity, Singaporean companies could lose market share to existing heavyweights such as Malaysia Marine and Heavy Engineering and other regional success stories such as M3nergy.

Singapore's established leadership as an oil-trading hub—it is the world's third-largest after New York and London—means it can do much to meet the challenges identified by the APEC energy ministers in enhancing the security of the oil supply and improving the efficient operation of the oil market.

Boasting deep-water berths in the world's busiest port and a strategic location on major shipping routes, and complemented by extensive storage capacity, a well-developed infrastructure, and sound legal and financial systems, Singapore is a natural center for the physical trading of crude and petroleum products. Plans to increase storage capacity by up to 70 percent over the next few years, including the construction of vast underground storage caverns beneath Jurong Island, will expand the physical volume of trade in oil and products that Singapore can handle. It will also allow a larger strategic stockpile to counter short-term supply shortages and price spikes.

The volume of Singapore's oil trade should also be enhanced with the introduction by the Singapore Exchange of an over-the-counter clearing facility for energy and forward freight derivatives in 2006. Critically, the development of the clearing facility will reduce counterparty risks for participants and ease concerns over a possible repeat of the financial fallout following the large losses declared by China Aviation Oil Corporation in 2005 as a result of its non-cleared over-the-counter derivative activities. A number of leading international financial institutions have already confirmed their participation as clearing members, and if successfully implemented, the facility should support and encourage greater volume in international oil-trading activities through Singapore.

This expansion in the island's physical and financial capacity to handle trade volumes will go some way toward meeting the requirements of the rapidly growing Asian market and addressing the concerns expressed by the APEC energy ministers.

Other initiatives also seem to be attracting industry participants to Singapore. The Approved International Shipping Enterprise Scheme and Approved Shipping Logistics Scheme provide tax exemptions and concessions aimed at encouraging ship owners, operators, and managers, as well as ship agencies and logistics operators, to base their operations in Singapore. These efforts are showing signs of success. Most recently, Mitsubishi Corporation announced in September 2005 that it would move its oil-tanker operations from Tokyo to be headquartered in Singapore. On the legal front, the Singapore Chamber of Maritime Arbitration, established in November 2004, was designed to become Asia's center of maritime legal expertise and dispute resolution, and it should also enhance Singapore's attractiveness as a global center for oil- and gas-related shipping and other commercial activities.

Collectively these approaches should help to cement Singapore's position as a leading energy and maritime hub and provide beneficial knock-on effects for the local economy.

A natural complement to oil and products trading and shipping is the increased activity in refining and petrochemicals. Singapore is the world's third-largest refining hub, and in 2004 its average refinery utilization rate was more than 91 percent of capacity. Refining companies have enjoyed strong margins over the past two years, due mainly to the global shortage of refining capacity and the strong regional demand for products, particularly from China and India. With increasing demand and prices for oil products, continued strong demand for refinery capacity is inevitable. Proposed increases in refinery capacity in India, China, Chinese Taipei, Vietnam, and Indonesia will provide competition; however, with a construction lead time of some two to three years and demand for oil products expected to continue to grow, refining margins should stay high for some time.

Singapore's petrochemical industry is also set to expand to take advantage of strong regional demand. In January 2005, ExxonMobil announced plans to expand its steam cracker capacity at its Singapore chemical plant to boost ethylene production. Royal Dutch/Shell is also moving ahead with a new naphtha cracker for its Jurong Island facility, which is scheduled to become operational in 2009.

According to the APEC energy ministers, urgent and significant investment is essential if APEC economies are to increase supply and improve demand-side efficiency to meet growing energy needs. An estimated investment on infrastructure in the region of US$5.3–6.7 trillion will be required over the next three decades to meet these requirements. This presents a great opportunity for the Singaporean government, together with the private sector and financial institutions, to ensure that a large share of this investment will be made in Singapore or will benefit Singaporean companies.

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