

“Alliance Strategy for Upstream Industries in Northeast Asia”



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1. Japanese Government's Policy for Petroleum Upstream Industries(1).

- a. JOGMEC's equity finance for exploration by Japanese private companies in the overseas' projects.
- b. JBIC's finance and JOGMEC's liability guarantee for development by Japanese private companies in the overseas' projects.
- c. JBIC's finance and JOGMEC's liability guarantee for acquisition by Japanese private companies in the overseas' projects.
- d. Deployment of diplomatic policy for resource's seeking against resource-rich countries.

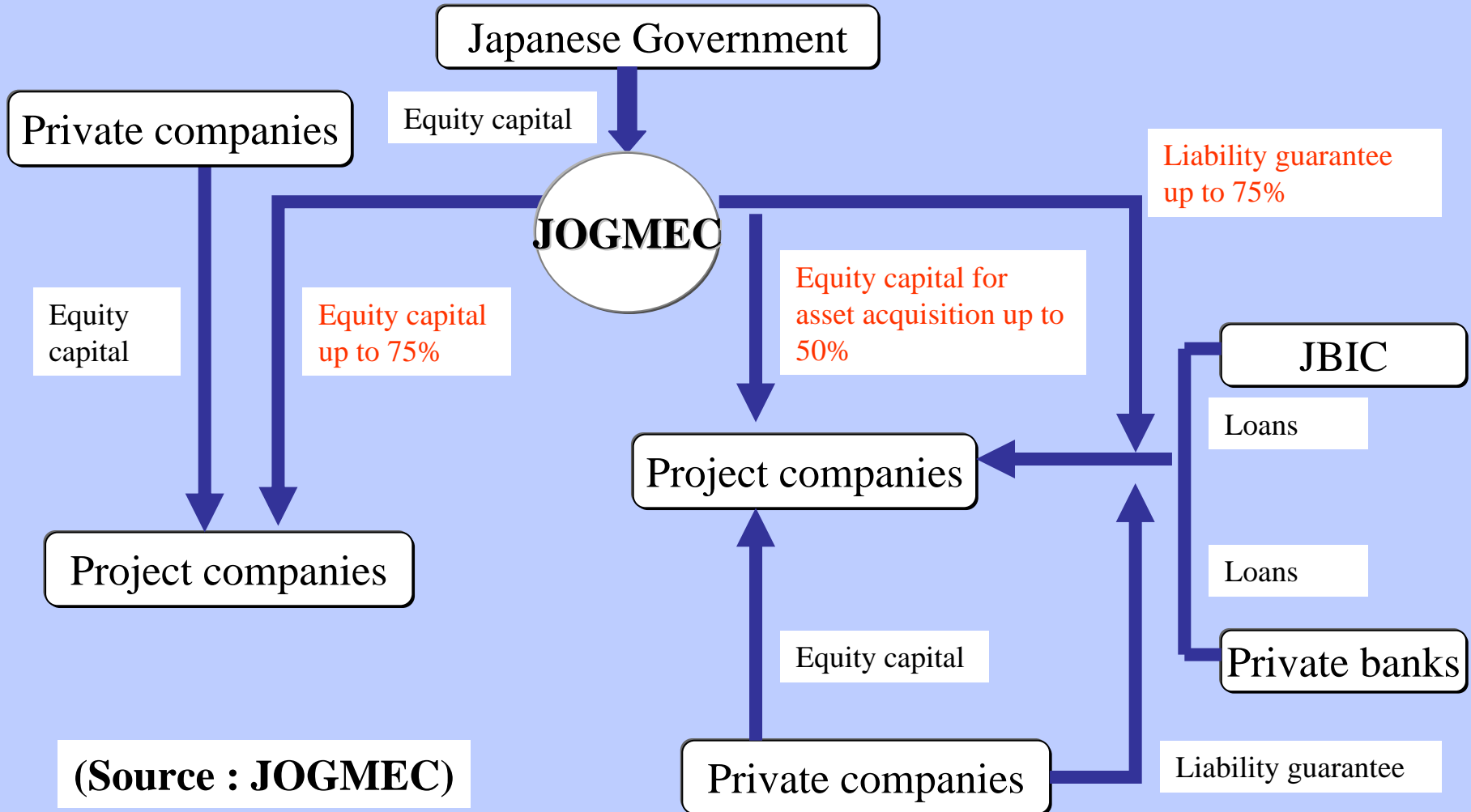
1. Japanese Government's Policy for Petroleum Upstream Industries(2).

- e. Economical and environmental cooperation such as improvement of social infrastructure, providing environmental technology and aid of peripherals around resource-rich countries.
- f. Prioritizing operation- right on the overseas hydrocarbon development projects.
- g. Prioritizing to secure the stable and safety supplier by diversifying from the Middle East area.
- h. Prioritizing the big projects of LNG development.
- i. Integrating several upstream companies into big -sized upstream companies to compete with foreign major and state corporations.

Financial Support

Exploration

Development



(Source : JOGMEC)

N.B. JNOC was transformed to JOGMEC as of Feb 29, 2004.

Exploration

Providing up to 75% of the risk capital through equity to the project companies for oil and gas exploration activities overseas and offshore Japan.

Development

Granting loan guarantees of up to 75% of development capital financed by banks to the project companies.

Providing up to 50% of the risk capital through equity to the project companies for asset acquisitions.

(Source: JOGMEC)

NB: JOGMEC is “Japan Oil, Gas and Metals National Corporation ”

Latest new major projects for natural gas by Japanese firms

Latest new major projects for natural gas by the Japanese firms as follows:

- Tiga project (Malaysia)
- Oman Project (Oman)
- Tangguh project (Indonesia)
- Masera project (Indonesia)
- Australia NWS project (Australia)
- Darwin LNG Project (Australia)
- Ichthys LNG Project (Australia)
- Qatar Gas Project (Qatar)
- Sakhalin I project (Russia)
- Sakhalin II project (Russia)

2. Chinese State-run Oil Companies' strategy for upstream business(1).

- a. State mission for securing aggressively stable overseas suppliers against expanding domestic demands of oil and gas products in middle and long terms period.
- b. Deployment of frequent diplomatic visits for resources' seeking by top state officials.
- c. Strengthening domestic and overseas development capacity for oil and gas by reinforcing the 3 major state oil companies.
- d. Enlarging the operator's capacity and development technology by collecting the capital through 3 major state companies' listing on the stock exchange.

2. Chinese State-run Oil Companies' strategy for upstream business(2).

- e. Supporting advancement of overseas projects driven by 3 major state oil companies by utilizing accumulated rich dollars through 3 state financial banks like China Development Bank.
- f. Optimizing the procuring measures by selecting tanker's and/or pipelines' supply for bringing oil and gas from overseas.
- g. Advancing the purchase of the oil and gas production projects as well as "loan for oil scheme".
- h. Participating into the big oil and gas projects by making alliance with Majors and other state oil companies.

2.Chinese State-run Oil Companies' strategy for upstream business(3).

Chinese Oil and Gas Acquisitions 2009				
Firm	Target	Focus	2P Value	Transaction Value
CNPC	Verenex Energy	Libya	2.73+	\$398
CNPC	Mangistaumunaigaz,50%	Kazakhstan	2.5	1,400
PetroChina	Singapore Petroleum Co.	Singapore	NA	1,000
Sinopec	Addax Petroleum	Nigeria,Cameroon,Gabon ,Iraq	13.3	8,812
CNOOC,Sinopec	Angola Block 32,20%	Angola	4.76	1,300
Sinochem	Emerald Energy	Syria,Colombia	13.43	805
PetroChina	MacKay River,Dover oil sands projects,60%	Canada	0.55*	1,700
Total				\$15,415
Source:HIS Herold +Contingent & prospective *Contingent Reserves values in \$/boe. Transaction values in million US\$				
PIW Sep.7,2009 issued				

Chinese Government's supporting items for overseas upstream projects

Finance : China Development Bank and etc.
(Interest supply, applying preferential interest rate)

Diplomacy: Improvement of investment environment
Agreements between the governments
(Protection on investments, Prevention for double taxation, Cooperation of judiciary)
Providing and sharing information
(Assignment of the energy -attche at the important oil producing countries)

Deregulation: Simplifying the approval procedures
(In case of overseas investment & establishing overseas companies)
Demolishing limitation of procuring foreign currency on investing to overseas.

3. Korea National Oil Corporation' expanding strategy(1)

- a. KNOC announced its expanding plan to the effect that the production of oil and gas should be 6 times and its reservoirs be 5 times by 2012.
- b. Governmental KNOC to be expanded and private downstream based companies are jointly devoting themselves to the overseas upstream projects.
- c. Recently Korean companies push into overseas upstream business by the way of “package style” which is to secure resources while supporting energy infrastructure and social overhead capital.
- d. It seems to be concentrating for purchasing the production projects and entities rather than finding the exploration projects.

3. Korea National Oil Corporation' expanding strategy(2)

- e. Choosing the core area such as Russia, Central Asia, Africa and South America and promoting the seeking resources' diplomacy by top state officials.
- f. Planning to increase the financial support amount by the government to be used for the buying the exploration area and right .
- g. Establishing the policy of securing competent petroleum engineers for the sake of filling the shortage.

(NB: The above contents refer to Ms. Kim's paper which is published in the IEEJ's Aug. edition of 2009.)

4. New trend of Upstream Strategy by Northeastern upstream companies and state-run corporations.

- a. China is on strong position for securing overseas hydrocarbon resources backed by future tough demands and firm state mission.
- b. Japanese upstream companies activity is still supported by the government due to the necessity of enforcing the stable supply sources by Japanese companies, nevertheless the sudden and gradual decrease of oil products demands will be occurred. Natural gas has still high demands by CO₂ low emission.
- c. Korea is importing almost oil from the overseas and also exporting much volume of oil products as an important exporting goods as compared with other northeast neighboring countries. For the sake of fulfilling the crude oil demand, Korea has established the self-development policy by their own companies and KNOC for the overseas hydrocarbon resources.

5. Seeking Alliance Strategy for Japanese, Korean, Chinese upstream companies and corporations(1)

- a. Northeast Asian 3 countries leading by China should be continuing to contribute world wide stable supply of hydrocarbon resources not only for the sake of own demands but also world ones through own exploration, development and production projects.
- b. The 3 countries are active players in the upstream business and we confirm that China has a big and emerging hydrocarbon market at present as well as in future which will consume all supply volume by them, and that Korea must import and/or bring it by their own entities from overseas for their domestic demands and exporting products, and that Japan has still quite a big market for hydrocarbon resources and a strategy for strengthening own upstream industries for contributing to the world hydrocarbon suppliability.
- c. Northeast Asia is the biggest consumer and located at the nearest place to Russia and Middle East where most of oil and gas resources are and will be existing.

5. Seeking Alliance Strategy for Japanese, Korean, Chinese upstream companies and corporations(2)

- d. Considering that financing and operator ability is good at China, environmental technology and operation ability are held by Japan, performing strategic package with upstream projects and ability of exporting oil products are well handled by Korea, 3 of us should understand the necessity of alliance for promoting the upstream business in the world wide area.
- e. Cooperation for financing to the big projects, exchange of petroleum related technology, sharing opportunities of training and education for the young engineers, reciprocal exchange of equity oil and gas and etc, should be seemed to be counted as cooperative items for several occasional business chances among the 3 countries' business entities.