

CHAIRMAN'S STATEMENT

Despite the daunting challenges posed by the volatile operating environment in 2003, the Group continued to make progress in its vision to be a strong and integrated oil and gas Company with a premium brand in Asia. For 2003, the Group achieved an excellent set of results. The PATMI of \$59.0 million, on a record turnover of \$3.2 billion, was an increase of 20.7 per cent over the previous year. This is the second highest PATMI since the Company's listing in 1990.



Mr Choo Chiau Beng

Dear Shareholders,

2003 was one of the most difficult and turbulent years that Singapore has experienced. In quick succession, the Iraqi war, SARS (Severe Acute Respiratory Syndrome) and the widespread sporadic acts of global terrorism stifled the economy and dampened investor and consumer confidence. The impact of SARS and the geo-political situation in the first half-year led to a near standstill in the region's tourist industry. Airlines were particularly badly affected as load factors plunged to untenable levels.

Confidence in the region took a dramatic turn for the better in the second half as concerted and determined efforts to combat SARS and heightened security measures paid dividends. With the threat of SARS receding and return of consumer confidence, the pace of global and regional economic recovery quickened as airlines restored flights and tourists began returning to the region. Both equity and commodity markets rebounded strongly and these have fuelled optimism that the long awaited resurgence in economic activities led by the US, Japan and China could be sustained.

The turbulent events in 2003 were mirrored by the roller coaster volatilities experienced in the oil industry. Oil prices started the year high on uncertainties over the duration and extent of the Iraqi war. Crude and product prices peaked in March 2003 with the benchmark Dubai crude trading at US\$30.62 per barrel while the WTI (West Texas Intermediate) crude traded above US\$37.00 per barrel. However, the decisive conclusion to the Iraqi war and the cessation of major combat activities in Iraq resulted in crude prices rapidly adjusting to the OPEC (Organisation of the Petroleum Exporting Countries) crude benchmark price range of US\$22-28 per barrel. Product prices too were not sustainable and tumbled in the second quarter on perception of surplus inventory. This led to a squeeze in refining margins. Refining margins were as a result negative throughout most of the second quarter. The return of consumer confidence in the second half year boosted demand for crude and petroleum products. Crude prices ratcheted upward and remained well above the OPEC basket of crudes benchmark price range of US\$22-28 per barrel. Product prices rose in tandem with the demand and refining margins ended the year higher, averaging above US\$2.50 per barrel.

2003 Review

Despite the daunting challenges posed by the volatile operating environment in 2003, the Group continued to make progress in its vision to be a strong and integrated oil and gas Company with a premium brand in Asia. For 2003, the Group achieved an excellent set of results. The PATMI of \$59.0 million, on a record turnover of \$3.2 billion, was an increase of 20.7 per cent over the previous year. This is the second highest PATMI since the Company's listing in 1990.

The Group was able to achieve this sterling performance as it was able to capitalise on the rebound in demand for petroleum products and the high refining margins in the fourth quarter of the year. In line with the Group's operating philosophy, it has at the same time kept a very tight lid on operating costs to achieve this result.

Turnover for 2003 was 27.6 per cent higher than last year's as the volume of products handled increased by 17 per cent over the previous year. Contributions from associates and joint ventures for 2003 were however poorer as SPC's joint ventures in Korea and China faced tremendous competition in their respective markets.

Despite intense competition in both domestic and international markets, SPC's downstream activities recorded a total volume of 58.9 million barrels against 50.5 million barrels in the previous year, a significant increase of 16.6 per cent over the previous year. Downstream activities contributed \$58.2 million to the group's operating profit for 2003.

In line with the strategy of continuously adding value and broadening its retail reach, SPC successfully opened its ninth station at Commonwealth Avenue in April after a record breaking 50 days of construction time. Furthermore, SPC also secured a new petrol station site at Hougang in September following a competitive e-bidding tender process. This new site with an area of 2,256 square metre was secured with a winning bid of \$15.7 million. Besides enhancing the retail network's operating profitability and efficiency, the tenth station at Hougang is further adding to SPC's visibility and brand image.

2003 also marked a significant milestone for SPC. Together with its partners, SPC achieved an on-time on-target completion of the Indo-Pipeline project. The new 468-km Grissik-Batam-Singapore pipeline was officially opened in August. The new pipeline, which has a throughput capacity of 650 mmscf/day (million standard cubic feet per day), is an essential infrastructure to meet Singapore's growing demand for energy. Gas to Singapore will be transported through this pipeline as part of a 20-year gas supply contract. Besides this, SPC's midstream business also include the West Natuna Transportation System ("WNTS") pipeline held through the Kakap PSC and the 536-km Grissik-Duri onshore pipeline that runs from South to Central Sumatra. Natural gas is fast becoming the fuel of choice in the region for powering utilities and industries. SPC will be a beneficiary of this trend with its pipeline investments and will be exploring further opportunities in this sector. The existing Kakap PSC investment continues to provide a reliable source of income to the Group. Overall, Upstream activities contributed \$15.4 million to the Group's operating profit in 2003.

In 2003, SPC entered the Thailand's oil market with the incorporation of a wholly owned subsidiary, Singapore Petroleum (Thailand) Company Limited ("SP Thailand"). SP Thailand is set up to market, supply, distribute and trade petroleum products. The expansion into the Thai market is in line with the Group's vision of increasing its presence and building a premium brand name in Asia.

2004 Outlook

Statistics and indicators are providing increasing evidence of a strong global economic recovery in 2004. The rebound in the US economy that began in 2003 is seen to be gathering further momentum and there is growing consensus that this growth will be sustainable. Despite being at the epicentre of the SARS outbreak, China's GDP grew more than nine per cent in 2003. This intense pace of growth is expected to continue. India is another Asian economy with huge growth potential. Growth in both these markets is expected to accelerate. The pace of MNCs relocating manufacturing facilities to these countries to lower their operating costs will increase. Energy and petroleum products will continue to be essential to power the growth in these economies. SPC with its regional reach is well positioned to benefit from this anticipated increase in demand.

Additionally, air travel is expected to become a more affordable means of transportation in the region with the advent of budget airlines. SPC is a key player in the aviation market and will benefit from this growth in air travel.

While Asia's resurgence in economic activities will create abundant opportunities, threats from terrorists' activities will continue to pose a challenge to the region's security. Any major terrorist act could result in sharp movements in oil prices, margins and demand for petroleum products.

Middle-East tensions coupled with the continued uncertainties in the restoration of Iraqi oil supplies to the world market and the weakening of the US dollar will however provide support for a healthier outlook on oil prices and refining margins.

The avian flu that is currently surfacing around the region is another development that needs to be closely monitored. SPC has placed security and business continuity issues as top priority in risk management. The Group remains vigilant and prepared for potential challenges even as it pursues investment opportunities in the region.

Corporate Governance

In 2002, SPC adopted the guidelines and principles set out in the Code of Corporate Governance established by the Singapore Corporate Governance Committee in April 2001. These practices were communicated to shareholders in the 2002 Annual Report. I am pleased to report that SPC was awarded the Singapore Corporate Governance (Merit) Award 2003 by the Securities Investors Association of Singapore, in recognition of the Group's corporate governance practice. This award was introduced to recognise companies that best meet the letter and spirit of the Singapore Code of Corporate Governance.

Dividends

In line with the remarkable performance in 2003, the Board will be recommending a final dividend of 12 per cent or six cents per share amounting to \$25.5 million or 43 per cent of the PATMI for shareholders' approval at the next Annual General Meeting. This level of dividend on the enlarged SPC share capital will be the largest dividend payout since its listing in 1990.

Appointments

I take this opportunity to welcome Mr Goon Kok-Loon to the SPC Board. Mr Goon Kok-Loon joined the SPC Board as a non-executive director and he has also been appointed to the Executive Committee and the Audit Committee. Mr Goon's experience in international business development and corporate management will strengthen SPC's pursuit of its vision.

On 21 August 2003, the Board appointed Mr Koh Ban Heng as SPC's Chief Executive Officer and Executive Director. Mr Koh joined SPC in 1974 and has held several key management positions in SPC over the years. The SPC Group will benefit from Mr Koh's extensive experience in SPC, intimate knowledge of the international oil business and his strong fraternity with leaders in the international and local business circles.

Acknowledgements

The Board wishes to express its appreciation to Mr Leon Codron who stepped down as Chief Executive Officer and Executive Director in August 2003. The SPC Group has benefited from his leadership.

The Board also wishes to extend its recognition and appreciation to the management team and the staff for their passion, hard work and dedication in pursuing the Group's vision and goals.

To my fellow directors, I want to convey my gratitude for your invaluable contribution and guidance in an extremely challenging year.

My appreciation also goes to all our shareholders, business partners and customers for their valuable and continuing support in the past year.

Yours Sincerely,



Choo Chiau Beng

Chairman

For and on behalf of the Board

17 February 2004