

CHAIRMAN'S
STATEMENT





SPC's revenue for 2004 was a record \$5.0 billion, a 56 per cent increase over the 2003 turnover of \$3.2 billion. This record turnover was due to higher oil prices as well as the volume increase in the handling of refined petroleum products and crudes. The higher volume of 73.9 million barrels handled resulted from the strong demand for products as well as the timely acquisition of the BP refining, retail and LPG assets.

Dear Shareholders,

SPC had a tremendously successful and rewarding year in 2004. The sales turnover of \$5.0 billion and the PATMI (profit after tax and minority interests) of \$252.9 million have been the best ever recorded by SPC. In a year marked by phenomenal volatility in the oil industry, SPC not only stayed the course, it made significant strides towards realising its vision to be an integrated oil and gas company with a premium brand in Asia.

The global economy continued on a strong recovery path in 2004. Demand for refined petroleum products grew more than three per cent in 2004, the fastest recorded rate of growth since 1976. This demand growth particularly for transportation fuels, in tandem with rising crude prices, resulted in a steep rise in refined product prices averaging 34 per cent. This led to strong margins for Asian oil refiners throughout the year.

The SPC and SRC (Singapore Refining Company Pte Ltd) management and staff were well positioned to take full advantage of this upturn in the market and refining business to maximise profits and returns for shareholders. The availability and reliability of the refinery to produce high value-added products throughout the year, coupled with the ability to correctly time the acquisition of profitable producing assets with accretive earnings and SPC's success in marketing and trading these products had made 2004 a record year for the Group.

2004 in Review

Acquisitions and Investments

SPC undertook its biggest acquisition to date in 2004 when it acquired BP's share of the refining capacity in SRC. While BP's intent to divest its refining capacity had been known for some time, the poor refining margins from 2001 to 2003 made it difficult for SPC to contemplate adding more capacity. However, towards the fourth quarter of 2003, the outlook for refining margins turned more positive. SPC was quick to capitalise on this positive turn in margins by successfully negotiating with BP to acquire its stake

in SRC in early 2004. Caltex, the other shareholder in SRC, purchased a half share of the BP refining capacity resulting in SRC being now owned 50:50 by SPC and Caltex. The acquisition of the additional refining capacity by SPC and Caltex was completed on 30 June 2004.

I am pleased to add that this landmark acquisition was effected at a fraction of the assets replacement cost. The US\$70.0 million purchase effectively increased SPC's rated refining capacity by 50 per cent from 95,000 bpd (barrels per day) to 142,500 bpd. This increased capacity reflects SPC's confidence in the prospects for the refining industry.

Shortly after this acquisition, SPC was again presented with another attractive investment opportunity. BP announced its intent to divest its retail network and LPG (liquefied petroleum gas) business in Singapore by way of bidding. BP's retail network consisted of 30 retail petrol stations with tenures ranging from freehold, leasehold to TOLs (Temporary Occupation Licences). Again, SPC was successful in reaching agreement with BP and acquired 28 retail petrol stations in the BP network and its 70 per cent stake in the LPG business for US\$70.0 million.

With this transaction, SPC's retail footprint in Singapore quadrupled to 38 stations from an existing 10 stations to become the third largest retailer of motor fuels in Singapore. This was a timely acquisition for SPC. The enlarged network will provide the Group with a steady and long-term outlet for the products from the additional refining capacity acquired earlier in the year. SPC's retail network saw a further boost in its number with the successful bid for a new petrol station site on a 30-year lease at Jalan Bukit Merah in August 2004. With the opening of this station in February 2005, the SPC network now stands at 39 stations across the island. With this enlarged retail network, the Group will be able to better serve our customers in Singapore.

Upon completion of the acquisition of BP's LPG business, the Company rationalised its stake to create a 50:50 joint venture company, SPC Wearnes Pte Ltd (previously known as BP-Wearnes Gas Pte Ltd), with its partner, Wearnes Gas Pte Ltd. With the investment in SPC Wearnes, SPC's share of the retail LPG market has risen to more than 40 per cent. I am happy to note that the acquisition of BP's refining, retail and LPG assets in Singapore was rated as one of the best merger and acquisition deals in Asia in 2004.

In upstream, SPC had been equally active and successful in concluding significant value-added transactions. In April, SPC completed a US\$3.5 million farm-in for a 10 per cent participating interest in Blocks 102 and 106, located in the Gulf of Tonkin, offshore Vietnam, from ATI Petroleum Inc. (ATIP). The other partners in this PSC are Petronas Carigali Overseas Sdn.Bhd., PetroVietnam Investment & Development Company and ATIP.

In July, SPC made yet another successful foray into the upstream sector with the US\$23.2 million acquisition of El Paso's 40 per cent working interest in the Sampang Production Sharing Contract (PSC), located offshore East Java, Indonesia. This PSC contains the Oyong oil and gas field and the Jeruk discovery. Exploratory wells in both Vietnam and Jeruk in Sampang, Indonesia had resulted in oil finds. The extent of these discoveries is subject to technical appraisal. SPC has the right to back into the Jeruk field should the discovery prove to be economically viable.

Convertible Bond Issue

SPC launched a US\$184.4 million convertible bond issue with a coupon rate of 1.75 per cent in April 2004, to fund acquisitions and investments both in the upstream and downstream sectors. The issue was well timed to coincide with the growing optimism in both the commodity and equity markets. This bond issue was a first for SPC and was accomplished at a 47 per cent premium to the SPC's stock price. The issue was very well received by sophisticated investors and was one of the largest issues in the local market for the year.

2004 Financial Performance

SPC's revenue for 2004 was a record \$5.0 billion, a 56 per cent increase over the 2003 turnover of \$3.2 billion. This record turnover was due to higher oil prices as well as the volume increase in the handling of refined petroleum products and crudes. The higher volume of 73.9 million barrels handled resulted from the strong demand for products as well as the timely acquisition of the BP refining, retail and LPG assets.

The Group recorded a profit from operations of \$290.5 million for 2004, an increase of 297 per cent compared to that of 2003. Downstream activities contributed \$268.7 million, while Upstream contributed \$18.5 million to the operating profits. The Group achieved a record PATMI of \$252.9 million for 2004.

2005 Outlook

The volatile trend in oil prices and refining margins that marked 2004 is likely to continue in 2005. Demand for refined petroleum products is likely to remain strong. The high oil prices did not affect the global economy adversely in 2004. China grew at an estimated rate of 9.5 per cent in its GDP (Gross Domestic Product) despite measures to slow down the growth in certain sectors. China's lack of sizeable energy resources led it to a worldwide search to broaden its available choices of such resources in the international markets. India at the same time is emerging as a competitor for global energy resources to fuel its growth.

Elsewhere in the Asia Pacific region, the prognosis is for continued growth albeit at a lower level than the growth seen in 2004. In Singapore, the petroleum sector output grew some 31 per cent in 2004 to \$27.8 billion and the pace of growth in the petroleum and petrochemical sector is expected to be maintained in 2005. The growth momentum seen in the global and local economies in 2004 is therefore likely to continue in 2005.

The acquisitions and investments in 2004 will position SPC well to benefit from the growth in the oil and gas industry in the region. The Group therefore remains confident that it will continue to be successful in 2005.

Corporate Governance

SPC has continued to uphold the highest standards of corporate governance. This is in line with the Board's and management's recognition that the Group's success must be built on a strong foundation of sound corporate governance principles. I am therefore pleased to note that for the second year running, SPC was awarded the Singapore Corporate Governance (Merit) Award 2004 by the Securities Investors Association of Singapore.

In risk management and control, the ERM (Enterprise Risk Management Committee), a committee that reports to the Executive Committee, continued in 2004 to be an effective vehicle for identifying, measuring, monitoring and actively mitigating enterprise-wide risks. Environmental, Health, Safety and Security (EHSS) issues were accorded high priority by the Group. SPC will continue to benchmark itself with best practices and ensure the highest standards in these areas.

Rewarding Shareholders

In view of the sterling performance chalked up by SPC, the Board is pleased to recommend a total dividend of 40 per cent or 20 cents consisting of an ordinary first and final dividend of 20 per cent or 10 cents per ordinary share and a special dividend of 20 per cent or 10 cents per ordinary share for shareholders' approval at the Annual General Meeting.


Acknowledgements

2004 was a remarkable year for SPC. The success would not have been possible without the hard work and efforts put in by both the SPC and SRC management and staff.

The Board therefore wishes to extend its heartfelt appreciation to the SPC and SRC teams for the excellent performance in 2004 and looks forward to their continuing efforts this year.

I also wish to extend my appreciation to all our shareholders who had supported the Group wholeheartedly in its corporate actions and initiatives. SPC's success would also not have been possible without the continued staunch and loyal support of our business partners and customers.

To my fellow Board members, I am grateful for the advice and counsel rendered in an extraordinary year of activities and success for the Group.

Yours Sincerely,


CHOO CHIAU BENG

Chairman

For and on behalf of the Board
15 February 2005