



With the 2004 retail acquisitions, SPC has an enlarged retail network of 39 service stations

The Marketing BU's role in the Group is to market and trade refined petroleum products such as LPG (liquefied petroleum gas), diesel, fuel oil, asphalt, sulphur, motor-gasoline and lubricants to traders, intermediate users as well as end consumers. In discharging this role, the BU is organised into marketing channels comprising Commercial Sales, Retail Sales & Development and Lubricants Sales. Integral to the success of the BU are the Market Development & Ventures and the Operations and Logistics support units.

In 2004, the Marketing BU was able to leverage off the fast improving regional as well as local economies to deliver a stellar performance, contributing strongly to the Group's revenues, volumes as well as profitability. With the better operating environment, the BU's volume of refined products traded and

marketed expanded to 6.6 million barrels in 2004 compared to 5.7 million barrels in 2003, an increase of 15.8 per cent.

On the back of this increased volume, the BU was able to surpass its internally set KPIs (Key Performance Indicators). The BU's focus on being distinctive, creative and thinking out of the box played an integral role in its success.

2004 had been a momentous year for the Marketing BU. In the third quarter, SPC was successful in the bid for the existing BP retail network and LPG business in Singapore. These transactions were completed in the fourth quarter and the enlarged retail network and LPG business had been a key factor in the BU's volume gains in 2004. A re-branding exercise for all the 28 BP stations acquired was embarked upon immediately.

This exercise, when completed by the first half of 2005, will transform SPC from the smallest network operator in Singapore to the third largest with 39 stations carrying the distinctive SPC logo and premium brand island wide.

Distinctive, creative and out of the box thinking in marketing, retail and outreach programmes to customers had indeed been the hallmark of the BU's efforts to build the SPC premium brand of refined petroleum products and services both locally and in the region. Numerous such initiatives were embarked upon during the year. These initiatives to build a loyal customer base and continually provide services that delight had already been paying handsome dividends to the Group. The high visibility, instant recognition and intense passion for the SPC brand were hard earned. In Singapore, SPC is without a doubt "Your Friendly Neighbourhood Service Station"!

Commercial Sales

The Commercial Sales unit trades and export special products comprising asphalt, LPG and sulphur in the Asia Pacific region and markets refined petroleum products (except lubricants) to the domestic commercial, industrial and wholesale markets. Its activities account for the largest segment of the Marketing BU's volumes, revenues and profitability.

SPC's successful acquisition of BP's LPG business in Singapore had doubled its market share for the cylinder LPG business. The BP LPG business has since been rationalised to an equal joint venture with Wearnes Gas Pte Ltd (Wearnes), and renamed SPC Wearnes Pte Ltd. Commercial Sales' LPG business in Singapore is distributed by this joint venture's LPG arm and Union Gas to a network of dealers. With the focus on building the SPC brand equity, the re-branding programme for this newly acquired LPG business is targeted to be completed by the third quarter of 2005.

The trading and marketing of asphalt, LPG and sulphur continued to be highly successful as a result of increased demand in the Asian region. Intense competition with margins squeezed drastically were the distinctive characteristics of the domestic inland, commercial and industrial markets. Nonetheless with the focus on service and reliability, Commercial Sales was able to secure new supply contracts with a number of key customers.



SPC doubled its market share for the cylinder LPG business

Despite the challenges, SPC remains committed to build and grow the commercial sales business. Commercial Sales will continue to be both creative and prudent in its efforts to increase its market share and profitability in this segment.

Retail Sales & Development

The Retail Sales & Development (RSD) unit is responsible for the smooth and effective running of the Group's retail network in Singapore. The retail network is the public and most visible segment of the Group's business in Singapore.

RSD commenced the year as the smallest retail network operator with 10 stations but ended the year as the third largest operator in Singapore with an enlarged network of 39 stations.

SPC's acquisition of the BP's network of 28 retail sites in the last quarter of the year was a timely investment. The acquisition of the BP's refining interest in Singapore had given the Group additional refining capacity and the enlarged network provided a welcome outlet for the refined gasoline and diesel products. This transaction was a first in the petroleum retail business in Singapore where an entire retail network changed ownership and catapulted SPC to third place in the retail distribution landscape.



1



2

1. The rebranded stations are aligned to SPC's enhanced level of service
2. SPC SpeedyCare, a one-stop auto-care centre

Re-branding of the newly acquired stations commenced in November 2004. These stations would be aligned to SPC's brand image and enhanced level of services. All the acquired stations will incorporate SPC's retail business model of one-stop convenience, reliable and quality services. This re-branding exercise is targeted to be completed by the first half of 2005. In 2004, SPC was successful in tendering for a new station at Jalan Bukit Merah through a HDB e-bidding exercise. With this addition, SPC has a total of 39 petrol retail stations island wide.

In the matured and saturated local retail market, SPC had been influential in its retail initiatives despite its small network size of 10 prior to the acquisition of the BP stations. Despite the enlarged network, SPC had maintained its pole position among the competing brands in Singapore. SPC's highly distinctive, creative

and numerous focused retail initiatives in 2004 had garnered a significant and loyal customer base.

The enlarged retail network had enabled the Group to realise better economies of scale in its operations. Overall, the Group is able to further consolidate its procurement, administration, engineering and logistic functions. This would improve cost efficiencies and enhance competitiveness. RSD expects a significant increase in sales revenue, volumes, market share and profit contribution from the expanded network in 2005.

Lubricants Sales

The Lubricants Sales unit is responsible for the marketing of a full range of auto, motor-cycle, marine and industrial lubricants. Lubricant Sales market these lubricants through an extensive network of dealers in the Asia Pacific region.

2004 proved to be a very challenging year for lubricants sales. Increases in base oil, additives, packaging and freight costs affected the unit's performance. Baseoil trading was minimal in 2004 due to a tight supply situation. Despite the challenges, Lubricant Sales contributed positively to the Marketing BU's performance in 2004.

In 2004, Lubricant Sales adopted various initiatives as a means to build long term brand equity for the Group. These initiatives include SPC's SpeedyCare one-stop auto-care centre, a SpeedyCare premium card membership and events-based sponsorship were well received in the market and will develop further in 2005.

The Singapore market for lubricants is matured and keenly contested. Organic growth opportunities are limited and Lubricant Sales' longer term growth strategy is to focus more on emerging markets in China and Indonesia. This has been the focus since 2000 and will underpin Lubricant Sales' strategy going forward. The finished lubricants market is expected to grow and expand in 2005. Margins are expected to remain competitive.



Delivery efficiency is key to providing total customer service

Market Development and Ventures

Market Development and Ventures (MDV) role in the Group is to seek and evaluate downstream marketing investments and development opportunities in the region. MDV adopts a stringent process for screening, evaluating and decision making on such opportunities. New opportunities are screened and evaluated against SPC's rigorous guidelines and earnings targets.

In 2004, MDV assisted in the acquisition of the BP retail network and the shareholding in BP-Wearnes Gas Pte Ltd in Singapore. BP Wearnes was eventually rationalised to create an equal LPG joint venture business with Wearnes Gas Pte Ltd. During the year MDV continued to oversee the marketing investments in China, South Korea, Malaysia and Singapore. SPC's joint venture investments performed much better in 2004 compared to 2003. The joint ventures continued to be affected by intense competition and unfavourable market conditions. MDV took a direct role together with the joint venture partners to re-chart the strategy and business model for some of the joint ventures. These joint ventures had shown improvements in 2004 and are expected to improve financially in 2005.

More countries in the region are expected to deregulate the tightly controlled downstream petroleum marketing and distribution sectors. This is with the objective of attracting foreign investments, as this sector in most countries requires hefty investment expenditures to upgrade and modernise. MDV will continue to seek quality investments and joint venture opportunities in the region in 2005.

Operations & Logistics

The Operations & Logistics unit plays a critical role in supporting the daily business activities of the Marketing BU. The unit manages and operates the Jurong Bulk Plant (JBP) in a cost efficient and effective manner to ensure that products and services are always available to fulfill customers' needs and expectations. The unit also provides transportation and engineering support as part of the Group's comprehensive logistics and operations chain.

The acquisition of the BP retail network has required the unit to be heavily involved in the re-branding project for all the 28 new stations acquired. The physical re-branding exercise comes under the responsibility of the Engineering section of this unit. The section is tasked to ensure that the re-branding would be completed as planned with minimal disruption to business. Safety practices are strictly adhered to by all involved in the project. A clear testimony to the competence and capability of this section was the record 50 days for the construction of the new Hougang and Commonwealth service stations.

JBP operations achieved 76,976 man-hours worked without a loss time injury incident. Such a safety achievement is the direct result of great teamwork amongst SPC management, staff, vendors and customers. Safety has always been a top priority in the Group. From regular emergency drill exercises with the relevant authorities to frequent staff training and regular tool box meetings, the safety message is continually being reinforced into the work ethics and cultural fabric of the Group.



SPC is committed to high standards of EHSS

Environment, Health, Safety and Security

SPC is committed to providing a clean, healthy, safe and secure work environment for its employees and its business partners. In September 2004, SPC officially formalised and launched its Corporate Environment, Health, Safety and Security (EHSS) Policy and this was disseminated to all employees across the organisation. EHSS is a joint responsibility and all employees are tasked to be proactive in managing such issues in the workplace. Such a philosophy enhances SPC's reputation as a responsible corporate citizen wherever it has a presence.

In the pursuit of enhanced security, SPC successfully participated in a 3-day security exercise in September 2004 with the Singapore Police Force at the Jurong Bulk Plant to test the KINS (Key Installation National Servicemen) Unit on their mobilisation and equipping capabilities during national emergency as well as the effectiveness of the ground protection plan.

EHSS support and risk assessment were also crucial in the acquisition of the BP retail network. This included the hydrogen safety assessment at one of the acquired stations. An emergency response training was also conducted in September 2004 to familiarise all retail staff and service station operators. In November 2004, SPC conducted an annual LPG Safety training for its dealers to share best practices and promote health and safety awareness to its staff and business partners.

To manage the potential EHSS risks in engineering construction, a Contractor Safety Management program was proactively implemented for the retail re-branding project in November 2004.

The EHSS unit participated in a Petroleum Industry-MOM joint study on benzene vapour exposure at service stations from October to November 2004 in Singapore. The study concluded that exposure quantities are minimal in the SPC network and well within the Permissible Exposure Limits. All existing safety measures employed at the service stations are more than sufficient to ensure safe working conditions. Customers are thereby assured of a safe environment across SPC's entire retail service station network.

As the Group expands its business, managing EHSS issues and preserving the environment will remain a top business priority. SPC will continue to find innovative and practical solutions to the EHSS challenges by keeping abreast of current and future economic, environmental, regulatory, and technical trends and advances that impact its businesses.