



Mr Bertie Cheng, Independent Director of SPC (extreme left), receiving the Corporate Governance 2004 Award at the SIAS Investors' Choice Awards



SPC is committed to upholding the highest standards of corporate governance. The Company believes that sound corporate governance principles and practices will improve corporate performance, accountability, auditability and transparency and build trust and confidence in the Group.

The Code of Corporate Governance issued by the Corporate Governance Committee (the Code) has been embraced by the Company. It is used as a benchmark in the Company's review of its corporate governance structures and processes. Revisions to the Code may be made by the Council on Corporate Disclosure and Governance pursuant to the issue of its Consultation Paper of December 2004. The Company will conduct a review of the revisions with the objective of refining its internal corporate governance processes.

SPC is pleased to share this corporate governance report (the Report) with its stakeholders. The Company confirms that it has complied with the spirit and the requirements of the Listing Manual (Listing Manual) of the Singapore Exchange Securities Trading Limited (SGX-ST) and the Code.

There are other sections in this Annual Report that have relevance to corporate governance and as such, this Report should be read together with those sections.

This Report is broadly divided into four main sections, consistent with the Code as follows:

- Board Matters
- Remuneration Matters
- Accountability and Audit
- Communication with Shareholders

## Board Matters

### **The Board's Conduct of its Affairs (Principle 1)**

The Board establishes the corporate vision, strategic business policies and objectives of the Group. It monitors the financial performance and oversees management in its control of the Group's businesses and corporate affairs.

Corporate authority in SPC is delineated through two sets of delegation of authority for the day-to-day operation of the Company. The first, an executive delegation of authority, sets out guidelines on matters requiring Board approval and authority limits for the Executive Committee (ExCo) and management. The second is an internal delegation of authority with differing authority limits for management and staff.

Matters that are specifically reserved for the Board are those involving annual budgets, major financing proposals, investment and divestment proposals, strategic business initiatives, and significant corporate actions of the Company.

The significant growth and development of the Group, illustrated by the material acquisitions made in 2004, have been achieved as a result of Board and Board committee decisions, based on management actions and recommendations which were subjected to corporate governance processes that ensured thorough assessment of financial, economic, political and other risks.

To assist the Board in its functions, the Board established and delegated specific responsibilities to three Board committees, namely the ExCo, the Nominating & Remuneration Committee (NRC) and the Audit Committee (AC).

The respective roles and responsibilities of each Board committee and their work and activities are covered in the extracts included in this Report.

### Executive Committee

The ExCo comprises four Board members. They are Messrs Choo Chiau Beng (Chairman), Koh Ban Heng, Cheng Hong Kok and Goon Kok-Loon.

The ExCo reviews, develops and recommends to the Board:

- (1) Strategic business directions and plans of the Group.
- (2) Substantial acquisitions and disposal of assets (including securities and business undertakings of the Group).
- (3) Significant joint ventures and matters requiring corporate disclosure under the SGX-ST Listing Manual (as may be amended from time to time).
- (4) Significant matters requiring Board recommendations affecting shareholders' interests in the Company.

In addition, the ExCo acts as an intermediate forum between the Board and management, facilitating timely review and endorsement of recommendations on the above business matters, subject to the delegation of authority and the final decision of the Board.

### Nominating & Remuneration Committee

The NRC has four Board members. They are Messrs Bertie Cheng (chairman), Choo Chiau Beng, Geoffrey King and Dr Audrey Chin.

The NRC was formed by the merger of the Nominating Committee (NC) and the Remuneration & Share Option Committee (RSOC) on 21 April 2004. The merger optimised the resources of the two committees by streamlining the processes previously undertaken by the NC and RSOC.

The NRC's principal functions are summarised as follows:

- (A) On evaluation, appointment, nomination and re-appointment of a director, the Committee:
  - (1) Reviews the background, academic and professional qualifications of nominees.
  - (2) Ensures that all directors submit themselves for re-nomination and re-election at least once in every three years.
  - (3) Determines the independence of the directors annually.
  - (4) Proposes criteria for the objective performance evaluation of the Board.
- (B) On the remuneration of directors and key employees of the Company, the Committee:
  - (1) Establishes a competitive remuneration framework to attract, retain and motivate directors and key employees.
  - (2) Reviews the Company's relative performance and the performance of individual directors and key executives and considers their remuneration in totality with long-term incentive schemes such as share option and share-based schemes.
  - (3) Assesses the performance of the Executive Director.
  - (4) Administers and implements share option and share-based schemes of the Company in accordance with the rules of such schemes and determines offers of options or awards of share grants to directors and key employees.

In addition, the Board has delegated the oversight responsibility for Enterprise Risk Management (ERM) to the ExCo and an ERM Committee (ERMC) was formed, comprising members of senior management under the leadership of the Chief Executive Officer (CEO).

The Board is scheduled to meet at least four times a year. Additional meetings are called when required by circumstances. For the financial year ended 31 December 2004, a total of five Board meetings were held.

**Table 1 Board and Board Committees**

The nature of directors' appointments on the Board and details of their membership on Board committees are set out below:

Director	Board Membership	Committee				
		Audit	Executive	Nominating*	Remuneration & Share Option*	Nominating & Remuneration*
Choo Chiau Beng	Chairman Non-Independent & Non-Executive	-	Chairman	Member	Member	Member
Koh Ban Heng	Executive Director	-	Member	-	-	-
Bertie Cheng Shao Shiong	Independent & Non-Executive	Member	-	Chairman	Chairman	Chairman
Geoffrey John King	Independent & Non-Executive	Member	-	-	Member	Member
Timothy Ong Teck Mong	Independent & Non-Executive	-	-	-	-	-
Chin Wei-Li, Audrey Marie	Independent & Non-Executive	Chairperson	-	Member	Member	Member
Goon Kok-Loon	Independent & Non-Executive	Member	Member	-	-	-
Teo Soon Hoe	Non-Independent & Non-Executive	-	-	-	-	-
Cheng Hong Kok	Non-Independent & Non-Executive	-	Member	-	-	-

\* The Nominating Committee (NC) and Remuneration & Share Option Committee (RSOC) were merged on 21 April 2004 to form the Nominating & Remuneration Committee (NRC). The table reflects the meetings held by the NC and RSOC before 21 April 2004 and the NRC from 21 April 2004.

Apart from attendance at the various formal meetings throughout 2004, the Board members kept in regular communication over the Group's business affairs. In addition, the Board and where appropriate, the Board committees were consulted on urgent and procedural matters in accordance with the delegation of authority and terms of reference of the committees and where necessary, follow-up approvals were duly obtained from the Board.

The Company's Articles of Association were amended in May 2000 to allow Board meetings to be conducted by telephone, radio, close-circuit television or other electronic means.

Directors have access to management and are able to discuss and clarify with management, business and related issues. A further elaboration is provided under the section titled "Access to Information" below.

New directors are customarily invited to an orientation programme with SPC's management to acquaint them with the Company's vision, mission, strategy and business. New directors are also briefed on the

Company's corporate processes. Heads of each functional group provide the briefings and corporate data is also given to new directors to familiarise them with the Group's businesses.

SPC has compiled its own Corporate Governance Manual (SPC Manual) to assist directors and management in the exercise of their legal, fiduciary and statutory duties. This manual is regularly updated to keep pace with the developments and for amendments in corporate governance, the Singapore Companies Act, Singapore securities legislation and the SGX-ST Listing Manual. It contains the requisite forms and precedents for declarations of directors. The SPC Manual is provided to the Board members as well as executives appointed to the various boards of SPC's Group of companies. This is to ensure that sound corporate governance principles and processes prevail throughout the organisation. In addition, the Company's Legal Department conducts briefing sessions where necessary, to update its executives on the boards of SPC's subsidiaries, associates and joint venture companies on corporate governance.

**Table 2 Attendance at Board and Board Committee Meetings**

The directors' attendance at Board and Board committee meetings held in 2004 are disclosed below:

Director	Board Meetings	Committee				
		Audit	Executive	Nominating*	Remuneration & Share Option*	Nominating & Remuneration*
Choo Chiau Beng	5 of 5	-	2 of 2	1 of 1	2 of 2	3 of 3
Koh Ban Heng	5 of 5	-	2 of 2	-	-	-
Bertie Cheng Shao Shiong	5 of 5	4 of 4	-	1 of 1	2 of 2	3 of 3
Geoffrey John King	5 of 5	4 of 4	-	-	2 of 2	2 of 3
Timothy Ong Teck Mong	4 of 5	-	-	-	-	-
Chin Wei-Li, Audrey Marie	5 of 5	4 of 4	-	1 of 1	2 of 2	2 of 3
Goon Kok-Loon	4 of 5	3 of 4	1 of 2	-	-	-
Teo Soon Hoe	3 of 5	-	-	-	-	-
Cheng Hong Kok	5 of 5	-	2 of 2	-	-	-

\* The Nominating Committee (NC) and Remuneration & Share Option Committee (RSOC) were merged on 21 April 2004 to form the Nominating & Remuneration Committee (NRC). The table reflects the meetings held by the NC and RSOC before 21 April 2004 and the NRC from 21 April 2004.

## Board Composition and Balance (Principle 2)

The Board presently comprises nine directors. The non-independent and non-executive directors are Messrs Choo Chiau Beng (Chairman), Teo Soon Hoe and Cheng Hong Kok. The majority of the Board comprises non-independent and non-executive directors, and they are Messrs Bertie Cheng, Geoffrey King, Timothy Ong, Goon Kok-Loon and Dr Audrey Chin.

Mr Koh Ban Heng is the sole Executive Director of the Company.

The NRC has reviewed the independence of each director for 2004 and in accordance with the Code's definition of independence, is satisfied that more than 50 per cent of the Board are independent directors as declared in this Report.

The NRC is of the view that the Board comprises directors capable of exercising objective judgment on the corporate affairs of the Company, independently of management. The NRC is also of the view that the directors as a group, possess core competencies such as finance, business, legal, human resource and managerial experience with industry knowledge and strategic planning experience.

The profiles and key information of the Board members are found in the Board of Directors' section of this Annual Report.

## Chairman and Chief Executive Officer (Principle 3)

The roles and responsibilities of the Chairman and CEO in the Company are separate. The Chairman, Mr Choo Chiau Beng, is a non-independent and non-executive director from the Keppel Group.

Table 3 Date of Directors' Last Re-election

Name	Age	Position	Date of Initial Appointment	Date of Last Re-election
Choo Chiau Beng	57	Chairman	3 May 1999	14 May 2003
Koh Ban Heng	56	Executive Director	21 August 2003	27 April 2004
Bertie Cheng Shao Shiong*	67	Director	18 July 1997	14 May 2003
Geoffrey John King*	57	Director	1 August 2000	14 May 2003
Timothy Ong Teck Mong	51	Director	1 August 2001	27 April 2004
Chin Wei-Li, Audrey Marie*	47	Director	1 August 2001	14 May 2002
Goon Kok-Loon	62	Director	30 July 2003	27 April 2004
Teo Soon Hoe	56	Director	3 May 1999	27 April 2004
Cheng Hong Kok	62	Director	3 May 1999	27 April 2004

\* Messrs Bertie Cheng Shao Shiong, Geoffrey John King and Dr Chin Wei-Li, Audrey Marie will retire at the AGM fixed for 27 April 2005 and offer themselves for re-election. They were selected by lot in accordance with Article 110 of the Articles of the Association of the Company.

## Senior Management

The senior management team assists the Board and Board committees in their oversight of the Group. The team comprises the CEO, the Chief Financial Officer, the Senior Vice-Presidents, the General Managers of the various functional groups and the Chief Information Officer.

The team meets weekly to review operational issues, business activities and policies of the Group. These meetings chaired by the CEO, ensure the smooth functioning of the Group.



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1. Shareholders registering for SPC AGM 2004  
2. Dialogue with shareholders

The CEO, Mr Koh Ban Heng, is an Executive Director with primary responsibility for the Company's business. Mr Choo and Mr Koh are not related.

The Chairman is primarily responsible for the Board while the Board has delegated the primary responsibility for the Company's business to the CEO.

The Chairman and the Board together approve the schedule of Board meetings before the financial year with additional meetings called, as and when required. Board agendas are prepared by the Company Secretary after consultation with the Chairman, the CEO and senior management.

**Board Membership (Principle 4)**

The NRC has the responsibility and objective of ensuring that there is a formal and transparent process in the nomination, appointment and re-appointment of directors to the Board. The NRC is also tasked to assess the effectiveness and contribution of the Board and its members, to the strategic growth and development of the Company.

The NRC is vested with the responsibility to ensure that the guidelines and spirit of the Code are followed.

Consistent with the Code, the Company's Articles of Association had from the outset, provided that one-third of the directors are to retire from office at its Annual General Meeting (AGM) every year.

Messrs Bertie Cheng, Geoffrey King and Dr Audrey Chin will retire at the AGM fixed for 27 April 2005 and offer themselves for re-election. They were selected by lot in accordance with Article 110 of the Articles of Association of the Company.

The NRC has reviewed directors with multiple directorships and is of the view that sufficient time and attention has been given to the affairs of the Company through attendance at Board and Board committee meetings and other meetings held on a less formal basis, including reviews by circulation.

The committee has encouraged directors to make every effort to attend Board and Board committee meetings and other meetings either physically, or through electronic communication.

Throughout the year, directors maintained dialogue with other Board members and management on matters within their purview, over and above their attendance at convened meetings.

Pursuant to its annual review of the performance of the Board and its skills set, the NRC is of the view that the current Board has a good mix of capabilities, expertise and work experience to serve the Company and its shareholders.

The NRC continues to hold the view that additional directors could be invited to join and further strengthen the Board, taking into consideration the Company's strategic plan and vision.

### **Board Performance (Principle 5)**

The NRC reviewed the performance of the Board and of each director as well as each director's independence. The findings of the performance evaluation were presented to the Board by the NRC chairman, Mr Bertie Cheng, for discussion and endorsement.

The assessment parameters include overall contribution by each Board member, attendance and performance at Board and Board committee meetings, and knowledge of the industry and the Group's business activities.

In its review, the NRC used a variety of financial indicators to measure the Company's performance and took into account the business environment for the year 2004.

In the 2004 Board performance review, the Board was found to have taken positive and decisive steps in the acquisition of upstream and downstream assets which have contributed significantly to the growth and welfare of the Group.

The NRC as part of its review, took note of the continued in-depth and open discussions at Board and Board committee meetings.

### **Access to Information (Principle 6)**

SPC's management updates the Board regularly on the Group's businesses and performance through financial and other reports. Such updates and reports cover background and explanatory notes and include disclosure statements, documents, budgets and forecasts.

The Board is kept abreast of strategic business developments concerning the Group. Mr Koh Ban Heng, the CEO and Executive Director, presents quarterly highlights of the Group's performance at the Board Meetings.

The reports are also intended to keep directors advised of key concerns and issues affecting the oil and gas industry including the challenges faced by and opportunities open to the Group. Such information aids the Board in making informed, sound and appropriate decisions.

Board and Board committee papers are sent to directors approximately seven days prior to meetings for their review. SPC's management is also invited to attend and present their papers/updates at Board meetings and to discuss issues which the directors may raise. Directors have access to management and briefings or informal discussions on the Group's operations and business issues.

In addition, the Board has separate and independent access to the Company Secretary. The Company Secretary attended all Board meetings in the year 2004. The Company Secretary is also secretary to the ExCo and the NRC, and was the secretary for the NC and RSOC, prior to the merger into the NRC.

The Company Secretary has the responsibility to ensure that Board procedures are followed and that applicable rules and regulations established by the Board and Board committees are complied with. The Company Secretary is also responsible for ensuring compliance with all other rules and regulations relating to and which are applicable to the governance of the Company. In addition, the Company Secretary is regularly consulted by directors on legal and related affairs of the Company and the Group.

On Company matters, consistent with the delegation of authority of the Board, directors have the discretion, whether as a group or individually, to obtain or require independent professional advice.

**Table 4 Directors/Board Committees' Fees\***

Name	2003 Fee	2004 Proposed Fee <sup>#</sup>
Choo Chiau Beng	56,000	58,000
Koh Ban Heng <sup>π</sup>	-	-
Bertie Cheng Shao Shiong	40,000	38,000
Geoffrey John King	29,000	32,000
Timothy Ong Teck Mong	20,000	20,000
Chin Wei-Li, Audrey Marie	38,000	38,000
Goon Kok-Loon	13,000 <sup>»</sup>	32,000
Teo Soon Hoe	20,000	20,000
Cheng Hong Kok	25,000	26,000
<b>Total</b>	<b>258,000<sup>+</sup></b>	<b>264,000</b>

\* Excludes share options and share awards. Details on share options are disclosed in the Directors' Report.

# The total fee (rounded to the nearest thousand) is subject to shareholders' approval at the AGM for the financial year 2004.

π Compensated through his remuneration package.

» Pro-rated for services rendered in the financial year 2003.

+ Total fee includes fee of \$17,000 paid to Mr Leon Codron who completed his contract as CEO on 20 August 2003 and who resigned as Executive Director on 21 August 2003.

Note: The proposed basic director's fee of \$20,000 per annum remains unchanged (FY2003: \$20,000 per annum).

## Remuneration Matters

### Procedures for Developing Remuneration Policies (Principle 7)

#### Level and Mix of Remuneration (Principle 8)

#### Disclosure on Remuneration (Principle 9)

The Company believes in the importance of attracting, retaining and developing a pool of highly motivated staff to add value and grow the business successfully. The Company has a remuneration policy that motivates all participants to achieve stretched goals. This policy carries a higher degree of variability that aligns compensation to performance.

The CEO and Executive Director, Mr Koh Ban Heng's remuneration consists of a fixed salary component, a performance related bonus element, share options and/or share awards and fringe benefits, which align his interests with that of the shareholders.

Non-executive directors receive annual cash fees and are eligible to participate in the SPC Share Option Scheme 2000 and the new share plans discussed below.

Non-executive directors do not have any service contracts with the Company. Their terms of appointment are governed by the Company's Articles of Association and the requirements of the SGX-ST Listing Manual.

With the current public scrutiny and awareness of the key role played by directors and management in maintaining high standards of corporate governance, the NRC focused on ensuring that SPC's remuneration policy was fair, competitive and commensurate with the roles and contributions of directors and employees in the growth and development of the Group.

**Table 5 Remuneration of Key Executives**

for the year ended 31 December 2004

Remuneration Band & Name of Key Executive	Base/Fixed Salary	Variable or Performance Related Income/ Bonuses	Benefits-in-Kind	Director's Fees	Share Options <sup>#</sup>
<i>\$1,250,000 to \$1,499,999</i>					
Nil					
<i>\$1,000,000 to \$1,249,999</i>					
Nil					
<i>\$750,000 to \$999,999</i>					
Koh Ban Heng	57%	30%	0%		13%
<i>\$500,000 to \$749,999</i>					
Jee-Theng Tony Tan	64%	25%	0%		11%*
<i>\$250,000 to \$499,999</i>					
Chris Keong Poh Guan	63%	26%	0%		11%*
Lee Chiang Huat	60%	29%	0%		11%*
Woo Siew Cheng	59%	30%	0%		11%*
Helen Chong (nee Chia Foong Lan)	60%	27%	0%		13%*

# Options are determined based on the Black-Scholes valuation method expressed as a percentage of total remuneration.

\* Share options granted in 2004 were in respect of the Group's performance for 2003. No share options were granted for the Group's 2004 performance.

The fees payable to the Chairman and each director (other than the Executive Director) is determined by the number of appointments held on the Board and the various Board committees. A breakdown, showing the level and mix of each director's remuneration proposed for the year 2004 is disclosed in Table 4. The table includes the remuneration paid to directors for the year 2003.

The remuneration of key executives is disclosed in Table 5.

The NRC has from time to time utilised external consultants to review and recommend changes to remuneration policies in the Group. In March 2004, SPC retained consultants to review SPC's long-term incentive schemes and directors' fees.

Pursuant to the consultant's recommendation, new share plans were adopted to align the interests of the Board and SPC employees with those of the shareholders. This recommendation was approved by shareholders at the Extraordinary General Meeting held on 27 April 2004.

The new share plans are intended to complement the SPC Share Option Scheme 2000 and increase the Company's flexibility and effectiveness in its continuing efforts to reward, retain and motivate employees to achieve superior performance. These share plans are intended to further strengthen the Company's competitiveness in attracting and retaining superior local and foreign talent.

The Company has a remuneration policy for employees which aligns remuneration to performance. The remuneration package comprises a fixed component and a variable annual bonus component. The fixed component is the base salary and the contractual Annual Wage Supplement of one month. The annual variable component (AVC), made up of an annual performance bonus and a long term share option and/or share grant in any year is dependent on the Company, division and individual performance. In line with the national agenda to encourage wage restructuring for companies to be competitive, the Company introduced a second variable element into its remuneration package in 2004.

This monthly variable component (MVC) builds flexibility into the Company's compensation scheme and enables the Company to respond quickly to the different phases of the economic cycle.

The Company's two share plans (collectively the Share Plans) are the Singapore Petroleum Company Restricted Share Plan (SPC RSP) and the Singapore Petroleum Company Performance Share Plan (SPC PSP).

The Share Plans are intended to incentivise participants to excel in their performance and encourage greater dedication and loyalty to the Company. Through the Share Plans, the Company is able to recognise and reward past contributions and services and motivate participants to continue to strive for the Group's long-term growth targets and objectives. The Share Plans also aim to foster an ownership culture within the Group which aligns the interests of participants with the interests of shareholders.

The Share Plans use methods fairly common among successful multi-national companies to incentivise and motivate employees to achieve pre-determined targets which create and enhance economic value for shareholders and thus are more effective than cash bonuses in motivating employees to work towards stretched goals.

The Share Plans contemplate the award of fully paid shares, when and after pre-determined performance and service conditions over the medium term are accomplished.

The SPC RSP is intended to be broad-based and serves to enhance the Company's overall compensation packages in order to attract talent. The SPC PSP is targeted at executives in key positions who are able to drive the growth of the Company through innovation, creativity and superior performance.

The number of new shares to be issued under the New Plans and the SPC SOS 2000 will be subject to the existing maximum limit of 15 per cent of the Company's total issued share capital, previously approved by shareholders.

The Share Plans were approved by shareholders of the Company on 27 April 2004 and will be in force for a period up to 10 years unless extended for further period(s) with the approval of shareholders at a general meeting and subject to any other relevant approvals that may be required. No shares were issued and vested pursuant to the Share Plans in 2004.

The grants of share options under the SPC Share Option Scheme 2000 (the Scheme) to employees are based on the individual's balanced scorecard (BSC) and competency ratings. The annual grant of share options to qualifying non-executive directors and employees was considered by the NRC (formerly the RSOC) in January 2004 and offered in February 2004.

The Scheme was approved by shareholders of the Company on 16 May 2000 and will be in force for a period up to 10 years unless extended for further period(s) with the approval of shareholders at a general meeting and subject to any other relevant approvals that may be required. An option granted under the Scheme may, except in certain special circumstances, be exercised at any time after a vesting period of two years but no later than the expiry date. Options granted under the Scheme are made to all eligible employees of the Group. With the implementation of the Share Plans, share options will not be offered to employees and non-executive directors for the financial year 2004.

Employees and non-executive directors must exercise the options offered within ten years and five years respectively, from the date of offer. The share options may be exercised in full or in respect of lots of 100 shares or multiple(s) thereof, on the payment of the subscription price. The subscription price is based on the average last done price for the shares of the Company traded on SGX-ST for the last three market days preceding the date of offer.



SPC encourages meaningful and effective shareholders' participation at its AGM

The NRC may at its discretion fix the subscription price at a discount not exceeding 20 per cent of the market price and provided that the discounted subscription price shall not in any event be less than the par value of the shares. None of the share options offered had been granted at a discount.

In the year 2004, the Company granted a total of 3,266,000 share options in one tranche under the Scheme. The options granted to employees and non-executive directors were based on the Group's full year 2003 performance and represented approximately 0.76 per cent of the Company's issued share capital as at 31 December 2004. There were 3,923,000 shares issued in 2004 by virtue of the exercise of options. Options to take up 157,000 shares lapsed during the financial year.

Based on the Black-Scholes model, the fair value of the share options accepted by the employees in 2004 was estimated to be \$0.34 per share option. The estimated fair value of share options for non-executive directors accepted in 2004 was \$0.28 per share option. The fair value of all share options accepted for 2004 was \$1,098,920 representing approximately 1.9 per cent of the Group's 2003 profit after tax attributable to members of the Company.

At the end of the financial year 2004, there were 6,906,000 share options granted as shown in Table 6. Information on share options accepted by the directors in 2004 is detailed in the Directors' Report.

None of the employees and non-executive directors received five per cent or more of the total number of share options available under the Scheme.

Mr Koh Ban Heng, the CEO and Executive Director, was also granted share options pursuant to his employment by the Company. Generally, the qualifying non-executive directors have each been granted share options calculated as a 0.5 factor of the applicable director fees and divided by the Black-Scholes option value for each share option grant.

To facilitate the administration of share options, the Company implemented a web-based employee share option system to handle the offer, acceptance and exercise of SPC share options.

Table 6 Details of Share Options

Date of Grant	Number of Share Options				Subscription Price	Date of Expiry
	As at 1.1.04 or later date of Grant	Exercised	Lapsed/ Cancelled	As at 31.12.04		
28.8.2000	610,000	(371,000)	-	239,000	\$0.78	27 August 2010
17.4.2001	612,000	(573,000)	-	39,000	\$0.68	16 April 2011
19.9.2001	1,227,000	(1,162,000)	-	65,000	\$0.68	18 September 2011
3.4.2002	1,602,000	(1,032,000)	(19,000)	551,000	\$0.75	2 April 2012
30.10.2002	1,537,000	(785,000)	(43,000)	709,000	\$0.87	29 October 2012
17.2.2003	2,132,000	-	(49,000)	2,083,000	\$0.92	16 February 2013
4.2.2004	3,266,000	-	(46,000)	3,220,000	\$1.57	3 February 2014
	10,986,000	(3,923,000)	(157,000)	6,906,000		

## Accountability and Audit

### Accountability (Principle 10)

In addition to the Company's continuing disclosure obligations under the SGX-ST Listing Manual, the Board has embraced the provisions of the Code in regard to accountability to shareholders.

The Company provides timely and balanced financial information to its shareholders to facilitate the building of greater trust and confidence in the Company and to assist their investment decisions.

The Company continued to report quarterly financial results in the year 2004. These results are available on the Company's website. Information on new initiatives of the Company is first disseminated via SGX-ST's SGXNet followed by a news release.

### Audit Committee (Principle 11)

The AC assists the Board in fulfilling its fiduciary responsibilities relating to corporate accountability to the shareholders of the Company.

The AC reviews and ensures compliance with the requirements of the SGX-ST Listing Manual pertaining to the AC's functions and follows the guidelines set out in the Code when performing its duties and responsibilities, wherever possible.

The AC maintains open lines of communication among the Board members, management, the Company's external and internal auditors, to exchange views and information as well as to affirm their respective roles and responsibilities.

The AC is supported in its functions by the internal and external auditors. During the year, the AC reviewed the Group's Interested Person Transactions (IPT) and quarterly, half-yearly and full year financial statements. The AC reviewed the external auditor's 2004 statutory audit plan, scope, findings and management's responses to the findings.

Pursuant to the requirements of the Code, the AC reviewed and is satisfied with the independence and the objectivity of the Company's external auditors, Messrs PricewaterhouseCoopers, and recommended to the Board their re-appointment as external auditors for the year 2005, at a fee to be determined at a later date.

The AC reviewed the internal audit plans and the quarterly internal audit summary reports and ensured the adequacy of the internal audit function.

At the year-end, the AC met with the external and internal auditors without the presence of management. The external and internal auditors reported that the Group's overall system of internal controls and procedures were functioning effectively.

Save as disclosed in the Notes to the Financial Statements on IPT, there are no material contracts involving the interests of the CEO, each director or the controlling shareholders and their subsidiaries.

Management reported that the methods and procedures for determining IPT had not changed since the date of the last AGM, at which time the shareholders' mandate for IPT was last renewed. Management accordingly recommended that the Company not appoint an independent financial advisor to review the IPT methods and procedures. Pursuant to the provisions under SGX-ST Listing Rule 920(1), the AC concurred with management's recommendations.

#### **Internal Controls (Principle 12)**

The Company's internal and external auditors conducted their 2004 review in accordance with their respective audit plans on the effectiveness of the Company's system of internal controls including financial, operational and compliance controls. Audit findings, recommendations and actions taken by management on the recommendations were reported to the AC.

#### **Internal Audit (Principle 13)**

The Company has an Internal Audit Department (IAD) comprising of four persons, including the Internal Audit Manager. The Internal Audit Manager reports directly to the chairperson of the AC on audit matters and to the CEO on administrative matters.

During the year, the IAD conducted its audit reviews based on the approved internal audit plans. Upon completion of each audit assignment, the IAD reported its findings and recommendations to management who would respond on the actions to be taken. The IAD submitted quarterly internal audit summary reports to the AC on the status of the audit plan and on major audit findings and actions taken by management on the findings. The IAD reported that the Group's overall system of internal controls and procedures functioned effectively during the year under review.

The Internal Audit Manager is a member of the Singapore branch of the Institute of Internal Auditors Inc (IIA), which has its headquarters in the United States. The Internal Audit Manager is guided by the Standards for Professional Practice of Internal Auditing developed by the IIA.

#### **Audit Committee**

The AC has four independent directors, and they are Dr Audrey Chin (chairperson), Messrs Bertie Cheng, Geoffrey King and Goon Kok-Loon. The AC members amongst them, have substantial financial experience and legal qualifications.

The AC meets at least four times a year and holds additional meetings when required, in order to assist the Board to fulfill its fiduciary and statutory responsibilities relating to financial management and corporate accountability to the shareholders of SPC.

In addition to its principal functions, the AC also plays a role in raising, developing and sustaining the high standard of corporate governance of the Company.

The AC's main functions are summarised as follows:

- (1) Review and ensure compliance with the requirements of the SGX-ST Listing Manual pertaining to the AC's functions.
- (2) Follow the guidelines set out in the Code when performing its duties and responsibilities, wherever possible.
- (3) Review Interested Person Transactions.
- (4) Review with the external and internal auditors their respective audit plans, scope, reports, findings and actions taken by management on the findings.
- (5) Serve as an independent party to review the financial statements presented by management to shareholders, regulators and the general public.
- (6) Review the independence of the external auditors annually and recommend the appointment and remuneration of the external auditors.
- (7) Maintain, by holding regular meetings, open lines of communication among the Board members, the external auditors and the internal auditors to exchange views and information as well as to affirm their respective roles and responsibilities.

## Dealing in Securities

The Group has adopted the SGX-ST's best practices guide with regard to dealings in the securities of the Company. Directors and employees are advised not to deal in SPC's securities during the period commencing two weeks before the Group's quarterly and half yearly results and one month before the announcement of the Group's full year results and ending on the date of the announcement. Furthermore when the Company is involved in major corporate activities such as investment or divestment that could be price-sensitive in relation to the Company's securities, officers involved are advised not to deal in the Company's securities.

The AC annually reviews the adequacy of the internal audit function and is of the view that it is adequately resourced. The AC is also of the view that the internal audit function is of appropriate standing within the Company and continued to maintain its independence during the year under review.

## Communication with Shareholders

### Regular, Effective and Fair Communication with Shareholders (Principle 14)

The SPC Group recognises the importance of dialogue with the investing public. It maintains regular, effective and fair communication with shareholders and stock analysts through several channels which include corporate announcements and quarterly, half-yearly and full-year financial reports via SGX-ST's SGXNet broadcast network, the publication of the Annual Report and the AGM. In addition, the Company prepares supplementary financial messages for publication in Keppel Corporation Limited's summary financial booklets.

All results, corporate announcements and shareholder reports are issued promptly and within the mandatory period and these are also made available on the Company's website. In addition to the issue of the Notice of AGM together with the Annual Report, the Notice is also advertised in a major local newspaper and posted on the Company's website.

In the spirit of corporate transparency, SPC voluntarily issues SGXNet announcements of important transactions, notwithstanding that some of these transactions may not require disclosure. In addition, presentations and explanations are provided to all interested shareholders, media groups and analysts for a better appreciation of such transactions. These voluntary efforts are in line with the Company's commitment to fair communication to stakeholders.

The Group also has an investor relations and communications unit that plans, manages and handles communication with the investing public and attends to their enquiries.

### Greater Shareholder Participation (Principle 15)

The Company is guided by the provisions of the Code with regard to communication with shareholders.

The Company's shareholders are given timely notice of the Company's AGM and accordingly, the opportunity for personal representation at the Meeting. The Company's Articles of Association allows a member of the Company to vote in absentia by appointing a proxy to attend and vote on his behalf while the Singapore Companies Act provides a corporate shareholder with the option to appoint a corporate representative to attend and vote on its behalf.

Each year, the Chairman presides over the AGM and is accompanied by fellow Board members, the CEO, the Chief Financial Officer, the Company Secretary, Senior Vice-Presidents, the Internal Audit Manager and the Company's external auditors, Messrs PricewaterhouseCoopers.

At the Meeting, the Chairman discusses the progress and performance of the Group and encourages meaningful and effective shareholders' participation. Directors and management also endeavour to address all issues raised.

The Company adopts separate resolutions on each distinct issue presented to shareholders and voting is taken systematically with proper recording of the votes cast and the resolutions adopted.



At SPC's AGM, voting is taken systematically with proper recording of the votes cast and the resolutions adopted

## Enterprise Risk Management

Enterprise Risk Management (ERM) is an integral part of the Company's corporate governance framework. Risk control plays an important part of the Company's decision making process. The objectives of ERM are to identify, measure and monitor enterprise wide risks, to ensure that the Company and the Group operate within the agreed risk parameters and that these risks are effectively and efficiently mitigated.

The ERM Committee (ERMC) comprises members of senior management under the leadership of the CEO. Under its terms of reference, the responsibilities of the ERMC are summarised as follows:

- (1) Review and report to the ExCo on the risk profile of the Company.
- (2) Review risk mitigation efforts, its costs and highlight to the ExCo the residual risk of the Company.
- (3) Recommend to the ExCo the risk parameters within which the Company should operate.
- (4) Identify and develop policies and make recommendations to eliminate or control risks to improve the risk profile.
- (5) Monitor the implementation of ExCo's decisions on the mitigation efforts and risk parameters.

The ERMC meets quarterly and corporate risk profile is reviewed annually, which resulted in updates to its risk profile due to factors such as the high refining margins and the acquisition of BP's downstream assets in Singapore. The Company has also developed a Crisis Management Plan and has a Business Continuity Plan in place.

The Company has internal controls in place to ensure that oil trading activities are within authorised limits and adhere to the Company's policies and procedures. The Mark To Market Committee meets regularly, ensuring that the Company does not violate its trading limits.