

Chairman's Statement



□ The Group intends to develop its existing E&P assets to capitalise on the high oil and gas prices, and seek more assets to grow its presence in this sector. In the Downstream sector, the upgrading of its refining capabilities and the strengthening of the SPC brand equity will bring the Group closer to achieving its vision.

Dear Shareholders,

We are pleased to report that SPC has delivered once again, an impressive set of results in 2005, well exceeding the record set last year. The Group chalked up historic highs in sales revenues and PATMI (profit after tax and minority interests) of \$7.5 billion and \$403.6 million respectively, in an expanding global economy in 2005.

The 2004 acquisition of additional refining capacity in SRC (Singapore Refining Company Private Limited) proved pivotal in enabling the Group to refine more crude and market more products in 2005. The refinery operated safely and reliably throughout the year at optimal throughput rates to meet strong demand. SPC was not only able to optimise its production but was able to capture high margins to make 2005 the record year.

2005 in Review

Integration and Investments

Following the landmark refinery and retail acquisitions in 2004, the Group turned its efforts in 2005 towards integrating these investments with its existing operations. The Group delivered on these efforts in record time while ensuring that reliability and customer service continued to be at the highest levels.

As a result of the additional refining capacity, SPC's crude and feedstock volume increased from 40 million barrels to 50 million barrels in 2005.

SPC is focused on value creation and enhancement in its refining activities and has initiated front end engineering and design studies for a potential Clean Fuels Project at SRC. This project would entail manufacturing gasoline products with lower benzene and sulphur content and Ultra-Low Sulphur Diesel (ULSD) of Euro IV specifications. The Group would be able to move up the value chain and meet the tighter product specifications in the future. The Group has made a good start in 2005 by introducing ULSD to its retail network and commercial and industrial customers in Singapore, ahead of regulatory deadlines.

The re-branding and integration of the newly acquired service stations was completed well within budget and ahead of the target deadline. Since April 2005, the SPC retail network of 39 stations carrying the distinctive SPC logo and well recognised pylon can be seen islandwide. SPC's brand visibility and popularity were clearly borne out when the distinctive leaping lion logo was voted as one of the top three design icons in the Singapore competition, 'Design 40' Awards, in November 2005.



Left : Ocean Sovereign Rig at the Oyong Development Field, Sampang PSC, located in Offshore Madura island, Indonesia.
Right : SRC is ISO 9001 and ISO 14001 certified and consistently ranked in the top quartile of refiners in Asia Pacific.

SPC is committed to expanding its E&P (Exploration and Production) business. This would over time, translate into meaningful and sustainable earnings contribution to the bottomline. In pursuit of this goal, the Group invested a further US\$70 million in E&P assets in 2005.

Financial Performance

SPC's consolidated sales revenue for 2005 was \$7.5 billion, a 50.3 percent increase over the 2004 turnover of \$5 billion. The record turnover was due to higher oil prices and higher sales volume. The higher oil prices enabled the Group to achieve a 40 percent higher average realisation for its crude and product sales. With the additional refining capacity, crude and product sales volume totalled 81.2 million barrels in 2005, representing an increase of 9.9 percent from the volume of 73.9 million barrels for 2004.

With the SPC business units focused on capturing value and capitalising on opportunities from the favourable operating environment, the Group managed to achieve a profit from operations of \$448.9 million for 2005, a 55.3 percent increase over the operating profit of \$289.1 million for 2004. Downstream activities contributed \$424.8 million while the E&P sector contributed \$22.1 million to operating profits.

Convertible Bond

SPC's share performed strongly throughout the year. In terms of Total Shareholder Return, SPC chalked up a return of 33 percent for 2005. With the strong share price performance, holders of the SPC US\$184.4 million convertible bonds issued in 2004 were able to commence conversions in 2005.

The bonds are expected to be fully converted by March 2006. The successful conclusion of this exercise will enhance the Group's equity base by \$311.6 million and this enlarged capital will provide the Group with the resources to fund further investments.

Strategic Focus

Strategic issues concerning the Group and its future continue to be the focus of the Board and management. The annual Strategy Workshop was held in September 2005 and all Board members and management participated actively to chart the growth and development of the Group. This Workshop will continue to be an important element in the Board's oversight of the Group.

Outlook

The global economy is expected to remain buoyant in 2006. Total global oil demand as a result is projected to grow to 85 million barrels a day. It is estimated that refining capacity utilisation rates averaged above 90 percent globally for 2004 and 2005. Spare capacity is therefore anticipated to remain tight in the next few years.

The Group intends to develop its existing E&P assets to capitalise on the high oil and gas prices, and seek more assets to grow its presence in this sector. In the Downstream sector, the upgrading of its refining capabilities and the strengthening of the SPC brand equity will bring the Group closer to achieving its vision.

SPC therefore expects the operating environment in 2006 will continue to be favourable for the Group.



Operating 24 hours daily, SPC service stations provide one-stop convenience to the motoring public.

Corporate Governance

High standards of corporate governance are by now, intrinsic in SPC's culture. We are pleased to note that for the third consecutive year, the Company was awarded a Corporate Governance Award by the Securities Investors Association of Singapore.

During the year, the Group launched a Whistleblower Policy to further enhance its corporate governance standards. This Policy aims to establish a process whereby employees and external parties are encouraged to report suspected wrongdoings or other reportable conduct relating to the affairs of the Group.

The issue of BCP (Business Continuity Planning) was one of the many risk management issues that the Enterprise Risk Management Committee examined in 2005. Simulations and assessment of staff readiness to operate under different BCP scenarios will be carried out to stress test and improve the Group's BCP preparedness.

Share Awards

In 2005, the Group effected share awards under the Group's two share based performance schemes. These schemes are essential to incentivise performance to an even higher level and will further align the interests of the employees and shareholders in enhancing long term value for the Group.

Rewarding Shareholders

In recognition of the record year, the Board is pleased to recommend a record first and final dividend of 32 cents per share consisting of an ordinary dividend of 20 cents and a special dividend of 12 cents for shareholders' approval at the Annual General Meeting in April 2006.

Appreciation

The record performance in 2005 would not have been possible without the excellent teamwork, passion and dedication of SPC and SRC staff. The Board therefore wishes to extend its appreciation to the SPC and SRC teams for their sterling achievements in 2005 and looks forward to their continued commitment.

It is also my pleasure to thank all my fellow Board members for the wisdom and guidance rendered so unstintingly throughout a challenging year.

Finally, I would like to thank our shareholders, customers and business partners for their steadfast support, confidence and trust in SPC.

Yours sincerely,
Choo Chiau Beng

CHOO CHIAU BENG

Chairman

For and on behalf of the Board

16 February 2006