

Corporate Governance

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SPC continues to be committed to upholding the highest standards of corporate governance. The Company believes that sound corporate governance principles and practices will sustain and improve corporate performance, accountability, auditability, transparency and build trust and confidence in the SPC 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. In July 2005, the Ministry of Finance issued a new 'Code of Corporate Governance 2005'. The new Code supercedes the Code that was issued in March 2001 and will take effect from Annual General Meetings held on or after 1 January 2007. The Company conducted a review of the revisions and found that many key recommendations have been in practice and complied with.

SPC is pleased to share this corporate governance report (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 Code states that the Board's role is to provide entrepreneurial leadership, set strategic focus, and ensure that the necessary financial and human resources are in place for the Company to meet its objectives. The Board has to review management performance, establish effective framework controls, values and standards, and ensure that obligations to stakeholders are understood and met.

These guiding principles are entrenched in the Board's oversight and control of the businesses and corporate activities of the SPC Group.

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, fund raising proposals, investment and divestment proposals, strategic business initiatives and significant corporate actions of the Company.

The growth and development of the SPC Group through the material acquisitions in 2004 and its successful integration in 2005, coupled with the continued growth of the exploration and production activities in 2005, are the result of the Board and Board committee decisions, based on management recommendations. Such recommendations were subjected to rigorous 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 and Remuneration Committee (NRC) and the Audit Committee (AC).

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

The Board is scheduled to meet at least four times a year. Additional meetings are called when required. For the year 2005, a total of four board meetings were held.

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 SPC Group.
- (2) Substantial acquisitions and disposal of assets (including securities and business undertakings of the SPC 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.

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

Nominating and Remuneration Committee

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

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 the 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.

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

Table 2 Attendance at Board and Board Committee Meetings

The directors' attendance at Board and Board committee meetings held in 2005 are disclosed below:

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

In addition to scheduled and ad hoc board meetings, the Board and Board committees' consideration and approval of issues was obtained by way of circular Board and Board committee resolutions. Apart from attendance at the various formal meetings throughout 2005, the Board members kept in regular communication with management. The Board also participated in the Company's annual strategy workshop in 2005. The Board and where appropriate, the Board committees were consulted on urgent matters, in accordance with the delegation of authority and terms of reference of the committees. The Company's Articles of Association 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 SPC Group's businesses.

The new Code recommends a formal appointment letter for new directors, which sets out the director's duties and obligations. The Company has practiced the issuance of formal appointment letters to new directors. On the summary of director's duties and obligations, 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 issued to new directors and regularly updated to keep pace with the developments and amendments in Corporate Governance, best practices, 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 the SPC Group of companies. This is to ensure that sound corporate governance principles and processes prevail throughout the organisation. In addition, the Company conducts briefing sessions where necessary, to update its executives on the boards of SPC's subsidiaries, associated and joint venture companies on corporate governance.

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-executive independent directors, and they are Messrs Bertie Cheng, Geoffrey King, Timothy Ong, Goon Kok-Loon and Dr Audrey Chin. Following the guidelines of the Code, the chairmen of the AC and NRC are independent directors. Further, all of the four members of the NRC are non-executive directors of whom the majority are independent. The AC has four non-executive and independent directors.

Mr Koh Ban Heng is the sole Executive Director of the Company. The NRC has reviewed the independence of each director for 2005 and in accordance with the Code's definition of independence, is satisfied that more than 50 percent of the Board are independent directors.

The NRC is of the view that the Board comprises directors capable of exercising objective judgement 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 Annual Report section entitled 'Information on Directors'.

Chairman and Chief Executive Officer (Principle 3)

The roles and responsibilities of the Chairman and Chief Executive Officer (CEO) in the Company are separate. The Chairman, Mr Choo Chiau Beng, is a non-independent and non-executive director from the Keppel Group. The Chairman's performance of his role is consistent with the clarifications under the new Code.

Table 3 Date Of Directors' Last Re-election

Name	Age	Position	Date of Initial Appointment	Date of Last Re-election
Choo Chiau Beng*	59	Chairman	3 May 1999	14 May 2003
Koh Ban Heng	58	Executive Director	21 August 2003	27 April 2004
Bertie Cheng Shao Shiong	69	Director	18 July 1997	27 April 2005
Geoffrey John King	59	Director	1 August 2000	27 April 2005
Timothy Ong Teck Mong	53	Director	1 August 2001	27 April 2004
Chin Wei-Li, Audrey Marie	49	Director	1 August 2001	27 April 2005
Goon Kok-Loon	64	Director	30 July 2003	27 April 2004
Teo Soon Hoe*	57	Director	3 May 1999	27 April 2004
Cheng Hong Kok*	64	Director	3 May 1999	27 April 2004

* Messrs Choo Chiau Beng, Teo Soon Hoe and Cheng Hong Kok will retire at the AGM fixed for 26 April 2006 and offer themselves for re-election. They were selected by lot in accordance with Article 110 of the Articles of Association of the Company.

Senior Management

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

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

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 agenda is prepared by the Company Secretary after consultation with the Chairman, the CEO and the management team.

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. Consistent with the Code, the chairman of the NRC is independent and is not associated with a substantial shareholder.

In addition, 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 Choo Chiau Beng, Teo Soon Hoe and Cheng Hong Kok, having been longest in office since their last election, will retire at the AGM fixed for 26 April 2006 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.



From top to bottom : The SPC Group encourages meaningful and effective shareholders' participation at its AGM.

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

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.

Pursuant to the terms of reference of the NRC, the NRC will evaluate the nomination of new candidates to the SPC Board. New candidates will be assessed on criteria such as background, academic and professional qualifications, experience and independence.

Board Performance (Principle 5)

The NRC annually reviews the performance of each director, the Board and their independence. A summary of the findings of the performance evaluation 2005 were presented to the Board by the NRC chairman, Mr Bertie Cheng, for discussion and endorsement.

The assessment parameters included overall contribution by each Board member, attendance and performance at Board and Board committee meetings, and knowledge of the industry and the SPC Group's business activities. The peer evaluation addressed issues such as whether a director continued to contribute effectively, the dedication and commitment demonstrated as well as whether insightful issues were raised. The evaluation parameters for the 2005 Board review were updated to incorporate the guidelines and directions of the revised Code.

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 2005. These included return on assets (ROA), return on capital employed, total shareholder's return (TSR), return on equity, return on investment, economic value added (EVA) and earnings per share (EPS) over a longer-term period.

In the 2005 Board performance review, it was found that non-executive directors had constructively challenged and assisted in developing proposals on strategy and reviewed the management's performance in meeting agreed goals and objectives. The directors were found to have made strong contributions to the Board. Directors scored well on areas such as industry awareness, providing valuable inputs, knowledge and understanding of finance and accounts, meeting preparation and raising insightful issues.

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 SPC 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 SPC Group. The CEO together with key management present quarterly highlights of the SPC Group's performance, developments and proposals at the board meetings. Directors affirmed in the 2005 Board evaluation survey, that timely, clear, concise and pertinent information concerning the Board agenda had been provided to directors.



SPC Chairman presides over the AGM and is accompanied by fellow Board Members and SPC Key Executives.

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 SPC 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 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 SPC Group's operations and business issues. The Board participated with management in the Company's strategy workshop in 2005.

In addition, the Board has separate and independent access to the Company Secretary who attended all board meetings in the year 2005. The Company Secretary is also secretary to the ExCo and the NRC.

The Company Secretary has the responsibility to ensure that Board procedures are followed, that applicable rules and regulations established by the Board and Board committees are complied with. The Board and Board committees acknowledged in the 2005 Board performance review that there were good information flows within the Board, Board committees and management. Directors were also invited from time to time to attend seminars pertaining to corporate governance and strategic business affairs.

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. The NRC has sought professional advice from independent consultants on remuneration matters.

Remuneration Matters

Procedures for Developing Remuneration Policies (Principle 7)

Level and Mix of Remuneration (Principle 8)

Disclosure on Remuneration (Principle 9)

SPC operates in a highly challenging business environment and requires committed and talented human resources to manage and grow its businesses for long term creation and enhancement of value to stakeholders. The Company has recognised the importance of motivating its employees through engagement, recognition and proper alignment of reward to performance. The remuneration policy is hence, designed to provide a higher degree of variability, combining appropriately, long and short term incentives. Such incentives are geared towards rewarding employees based on Company, group and individual contribution to performance.

The CEO, an Executive Director, is remunerated as a member of management and does not receive director's fee. The Executive Director's compensation consists of a monthly fixed salary, an Annual Wage Supplement (AWS), a performance bonus and share awards which aligns his interest to that of the Company.

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.

Management and employees are subject to an intensive annual performance assessment programme. The review is based on pre-determined corporate goals and utilises the balanced scorecard (BSC) matrix. This matrix sets financial, customer, internal process and capability goals. Competencies are covered in the assessment process as well.

The NRC is the steward of this review and uses the findings to assess the contributions of the Executive Director and the management team in the growth and development of the SPC Group. The NRC plays a key role in determining SPC's remuneration policy so as to ensure that the remuneration and pay composition are competitive and commensurate with roles and contributions.

Non-executive directors are paid an annual basic retainer fee with additional fees for serving on Board committees. They are participants in the Restricted Share Plan (RSP) of the Company. Non-executive directors are encouraged to hold the awarded shares for the duration of their term as Board members. A breakdown, showing each director's fee proposed for the year 2005 is disclosed in Table 4. The table includes the fee paid to directors for the year 2004.

Table 4 Directors/Board Committees' Fees*

Name	2004	2005[#]
Choo Chiau Beng	58,000	58,000
Koh Ban Heng [†]	-	-
Bertie Cheng Shao Shiong	38,000	38,000
Geoffrey John King	32,000	32,000
Timothy Ong Teck Mong	20,000	20,000
Chin Wei-Li, Audrey Marie	38,000	38,000
Goon Kok-Loon	32,000	32,000
Teo Soon Hoe	20,000	20,000
Cheng Hong Kok	26,000	26,000
Total	264,000	264,000

* Excludes share options and awards under the Restricted Share Plan which 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 2005.

† The Executive Director is compensated in his executive compensation package.

Note: The proposed basic director's fee is \$20,000 per annum (2004: \$20,000 per annum).

Details of awards of share options and shares under the SPC Share Option Scheme 2000 (the Scheme) and the RSP and Performance Share Plan (PSP) (collectively, the Share Plans) to the CEO/Executive Director and non-executive directors are described in the Directors' Report.

The remuneration of key executives is disclosed in Table 5.

Table 5 Remuneration of Key Executives for the year ended 31 December 2005

Remuneration Band & Name of Key Executive	Base/Fixed Salary (%)	Variable or Performance Related Income/Bonuses (%)	Benefits-in-Kind (%)	Director's Fees	Share Options in 2005*	Restricted Share Plan# (%)	Performance Share Plan[†]
\$1,750,000 to \$1,999,999 Koh Ban Heng	32	56	0	0	0	12	0
\$1,500,000 to \$1,749,999 Nil							
\$1,250,000 to \$1,499,999 Nil							
\$1,000,000 to \$1,249,999 Nil							
\$750,000 to \$999,999 Jee-Theng Tony Tan	46	44	0	0	0	10	0
Lee Chiang Huat	40	49	0	0	0	11	0
Chris Keong Poh Guan	40	49	0	0	0	11	0
\$500,000 to \$749,999 Woo Siew Cheng	40	49	0	0	0	11	0
Helen Chong (nee Chia Foong Lan)	40	48	0	0	0	12	0

* In 2005, no share options were issued pursuant to the SPC Share Option Scheme 2000.

The 2004 RSP awards were released after performance conditions were fulfilled. The first tranche vested in February 2005. The second tranche vested after the end of the financial year 2005, in February 2006. The third tranche is targeted to vest in 2007.

The 2005 RSP awards were granted subject to the fulfillment of performance and service conditions.

[†] The 2004 and 2005 PSP awards were granted in November 2004 and February 2006 respectively. The performance shares will be released upon fulfillment of pre-determined performance targets for a three-year cycle.

SPC's remuneration policy for employees aligns remuneration to performance and is reflected in the fixed component and the variable performance based incentive schemes. This approach is applied to all levels of employees. The proportion of variable rewards to fixed salary varies with the job roles and scope. The fixed component is made up of the base salary and the AWS of one month. To equip the Company with even greater flexibility to respond quickly to the different phases of the economic cycle, a portion of the base salary has been set aside as a variable element. This is in line with the national wage philosophy.

The variable performance based component is made up of an annual performance bonus and a long term incentive of share options and/or share grants.

To ensure that SPC's remuneration practices remain competitive, the NRC has from time to time engaged external consultants to advise and recommend the latest trends and best practices in remuneration philosophy.

SPC's two Share Plans are the RSP and the PSP. The Share Plans are intended to incentivise employees to take accountability and ownership of the Company so as to motivate them to excel in performance and capitalise on every opportunity to create value and in turn, regard themselves as stake-owners in the Company. The Share Plans also strengthen the Company's competitiveness in attracting and retaining local and foreign talents.

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

The Share Plans contemplate the award of fully paid shares, after pre-determined performance and service conditions over the medium term have been fulfilled.

The RSP is broad-based and serves to encourage an ownership culture amongst employees. Employees are awarded contingent restricted shares on pre-determined corporate targets and the release of an award is determined by the extent to which these targets are achieved as well as the contributions and performance of the individual participant in achieving these targets. The restricted shares award is vested annually over a period of three years from the year immediately following the financial year of the award.

Performance Shares are offered to the CEO and key executives who are responsible for directing, strengthening and growing the Company. The participants are offered performance shares based on a set of pre-determined financial performance targets covering a three-year period. The targets are stretched at levels well beyond business plan targets so as to motivate and drive the participants to grow the Company through innovation, creativity and to capitalise on value generating opportunities for the Company. The performance measures are EVA improvement, EPS growth and relative TSR benched against the regional oil and energy index.

The number of new shares to be issued under the Share Plans and the Scheme will be subject to the existing maximum limit of 15 percent of the Company's total issued share capital, approved by shareholders.

The Share Plans will be in force for a period of up to 10 years unless extended for further periods with the approval of shareholders at general meeting and subject to any other relevant approvals that may be required.

In February 2005, 394,600 shares, equivalent to approximately one-third of the first award, were issued and vested pursuant to the RSP, representing approximately 0.079% of the Company's issued share capital as at 31 December 2005. The balance two-thirds of the award comprising 761,400 shares is targeted to be vested over the subsequent two years. This award was in consideration of performance for 2004.

As at 31 December 2005, 27,800 share awards lapsed due to attrition.

The first contingent award of shares under the PSP was made in November 2004. The second contingent award of performance shares was made in February 2006. The vesting of the performance share awards are conditional on the SPC Group achieving a set of pre-determined stretched performance targets covering a three-year period. The final award, if any, will be delivered to participants in 2007 and 2008 respectively.

The grants of share options under the Scheme to employees would also be based on the individual's BSC and competency ratings. No share options were granted to employees in 2005.

The Scheme was approved by shareholders of the Company on 16 May 2000 and will be in force for a period up to ten years unless extended for further periods 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 SPC Group.

At the end of 2005, there were 4,083,000 options outstanding, details of which are shown in the Notes to the Financial Statements. None of the employees and non-executive directors received five percent or more of the total number of share options available under the Scheme.

To facilitate the offer and administration of the Share Plans, the Company implemented a web-based system to handle the award of shares. The system also caters to the administration and exercise of share options offered in past years.

Details of awards under the Share Plans for the financial year ended 31 December 2005 are described in Note 30(b) of the Notes to the Financial Statements.

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 as well as the presentation of a balanced and understandable assessment of the Company's performance, position and prospects..

The Company provides timely and balanced financial information as well as SGXNet announcements of important transactions to its shareholders to facilitate the building of greater trust and confidence in the Company.

The Company continued to report quarterly financial results in the year 2005. These results are available on the Company's website. Information on new initiatives of the SPC Group 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.

In June 2005, the Company launched a Whistleblower Policy for the SPC Group. This policy aims to encourage employees and relevant external parties to report in good faith, suspected reportable conduct by establishing clearly defined channels and processes for authorised persons of the SPC Group to receive and review protected reports and to take appropriate actions while maintaining confidentiality of the information and the identities of the persons involved in reviews initiated under this policy. The Policy also aims at protecting, to the extent reasonably practicable, the whistleblower and persons involved in reviews initiated under this policy, against reprisals. This policy forms part of the SPC Code of Conduct policy.

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 SPC Group's Interested Person Transactions (IPT) and quarterly, half-yearly and full year financial statements. The AC reviewed the external auditor's 2005 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 2006, 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. Amongst other issues, the SPC Group's internal controls were discussed. Internal controls would include the Company's financial, operational and compliance controls, and systems established by the management. The external and internal auditors reported that the SPC 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 2005 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 five persons, including the General Manager, Internal Audit. The General Manager, Internal Audit 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 SPC Group's overall system of internal controls and procedures functioned effectively during the year under review.

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

Audit Committee

The AC comprises 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 standards 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 reports received pursuant to the provisions of the SPC Whistleblower Policy and undertake the proceedings as prescribed.
- (5) Review with the external and internal auditors their respective audit plans, scope, reports, findings and actions taken by management on the findings.
- (6) Serve as an independent party to review the financial statements presented by management to shareholders, regulators and the general public.
- (7) Review the independence of the external auditors annually and recommend the appointment and remuneration of the external auditors.
- (8) 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.
- (9) Investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

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 is committed to providing regular, effective and fair communication to its shareholders and investing public. To this end, the SPC Group has an investor relations and communications unit that actively plans, manages and handles communications with the investing public. In 2005 the SPC Group conducted frequent and regular meetings and briefings for the investing community to keep them abreast of the SPC Group's performance and initiatives.

Disclosure of information by the SPC Group is made through communication channels such as corporate announcements via the SGX-ST's SGXNet broadcast network, the publication of the Annual Report and circulars to shareholders and the holding of shareholders' meetings including the AGM. In addition, SPC publishes the SPC Group's corporate announcements and publications on its corporate website to ensure that the latest corporate information is available to all interested persons.

All results, corporate announcements and shareholder reports are issued promptly and within the prescribed periods. 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. These voluntary efforts are in line with the Company's commitment to open and fair communication with stakeholders.

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.

With the Companies (Amendment) Act 2005 taking effect on 30 January 2006, the Company is proposing consequential amendments and updates of its Articles of Association to incorporate the legislative revisions at the Extraordinary General Meeting to be convened immediately after the Company's forthcoming AGM.

Each year, the Chairman presides over the AGM and is accompanied by fellow Board members, the CEO, the Chief Financial Officer, the Company Secretary, the Internal Auditor and other key executives. The Company's external auditors, Messrs PricewaterhouseCoopers are also present to address queries from the shareholders. The chairmen of the AC and NRC have consistently attended the Company's AGMs.

At the Meeting, the Chairman discusses the progress and performance of the SPC 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. The Company's practice is consistent with the Code's recommendation that companies avoid 'bundling' resolutions unless the resolutions are interdependent and linked so as to form one significant proposal.

Minutes of general meetings of the Company are available to shareholders upon their requests as provided under the Companies Act.

Dealing in Securities

The SPC 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 SPC Group's quarterly and half yearly results and one month before the announcement of the SPC 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.

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 SPC Group operate within the agreed risk parameters and that these risks are effectively and efficiently mitigated.

The ERM Committee (ERMC) comprises members of 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 the corporate risk profile is reviewed annually. The Company has developed a Crisis Management Plan and a Business Continuity Plan.

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 set trading limits.

Four ERMC meetings were held in 2005. SPC's annual risk profile was discussed extensively and revised in accordance with SPC's enlarged scope of business.

Code of Conduct and Practices

SPC recognises the importance of fairness, integrity and professionalism in the conduct of its business activities. It has entrenched these values in the SPC Code of Conduct policy.

Employees are expected to embrace and practise these values in their everyday conduct and especially with customers, suppliers and the public.

Employees are to act in the best interests of the SPC Group and avoid situations that may present a potential conflict of their interests.

The policy also addresses the issues of dealings in securities, insider trading and compliance with the relevant legislations. Directors and employees are regularly reminded to observe best conduct practices, particularly in securities trading.