

Chairman's statement

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Dear Shareholders,

On behalf of the Board of Directors, I am pleased to report that the SPC Group chalked up record revenue of \$8.6 billion for 2006, an improvement of 14.7% over the 2005 turnover of \$7.5 billion. This was achieved against a backdrop of high and volatile oil prices throughout the year. The benchmark WTI (West Texas Intermediate) crude reached a peak price of US\$78.40 per barrel in July. However the high prices could not be sustained and by the third quarter, crude prices declined by about US\$20 per barrel with WTI dropping to US\$54.86 per barrel at year end. Refining margins also fluctuated in a wide band during the year. Despite such a volatile operating environment, the Group recorded a PATMI (Profit After Tax and Minority Interests) of \$284.6 million for the year. This represents a healthy return on average equity of 19% and is the second highest PATMI the Group has achieved.

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In striving to meet its fundamental objectives, 2006 saw the Group pursuing new business initiatives, forging new alliances, leveraging growth platform and expanding our geographic footprint in key markets.

2006 in review

Demand for energy continued to be strong as global GDP (Gross Domestic Product) registered another year of 5% growth in 2006. Asian consumption of energy was led by China and India whose GDP grew by 10% and 9% respectively. Oil and refined petroleum products continued to make up the bulk of energy consumption. Global oil demand in 2006 was estimated to be around 85 million barrels per day.

During the year, SPC's jointly-owned refinery, the Singapore Refining Company Private Limited (SRC) successfully carried out a major planned maintenance of the Residue Catalytic Cracker (RCC) unit. Notwithstanding the slight reduction in crude volumes processed for the year as a result of the scheduled turnaround, the Group achieved an average refining margin of more than US\$4.50 per barrel in an environment characterised by robust demand for refined petroleum products and tightness in regional refining capacity.

With a well-planned and co-ordinated turnaround programme for the RCC unit, the Group was able to achieve a sustained high utilisation rate at SRC throughout the year with crude runs maintained at 51 million barrels for the full year.

The availability of quality products from the refinery had allowed the Group's trading and marketing divisions to turn in strong operating performances in 2006. In the retail service station business, the Group continued to leverage its network of 39 service stations and its customer retention programme to deepen its existing relationships with its corporate and retail customers. In October 2006, SPC established a wholly-owned lubricant marketing company in Guangzhou, China, to strengthen its lubricant marketing and distribution activities in that country.

On exploration and production (E&P), the Group continued to direct its efforts towards the acquisition of assets. The Group further widened its E&P portfolio with the acquisition of a new Petroleum Production Sharing Contract (PSC) for Block 101-100/04 in Vietnam and the increase of its equity interest in Block B in Cambodia. In February 2007, SPC was awarded an exploration permit for Block T06-3 in Australia.

On asset development, the Group and its partners have pushed ahead with plans to commence oil production from the Oyong field in the Sampang PSC in Indonesia. The Group also participated in the drilling of a total of six exploration wells resulting in promising discoveries in three of these wells.

Financial performance

The Group's revenue of \$8.6 billion was a record high. In an environment of high oil prices, the Group achieved an average realisation of US\$66.69 per barrel on crude and refined product sales. This was 19.8% higher than the realisation of US\$55.68 per barrel for 2005. Sales volume for the year was maintained at 80.3 million barrels despite the shutdown of the RCC unit in the second half of the year.

Despite the volatile operating environment which witnessed wide swings in crude and product prices during the year, the Group turned in a PATMI of \$284.6 million, its second highest on record. Downstream activities which constituted the bulk of the Group's revenue, contributed \$8,525.0 million

The outlook for the Group remains positive as regional refining capacity additions are expected to be constrained by high construction costs and the shortage of skilled manpower. The International Monetary Fund (IMF) has projected that global GDP growth would be around 5% for 2007. Asian economies are also projected to stay on a strong growth path led by China and India. Demand for refined petroleum products is thus anticipated to remain robust and this, coupled with the projected tight refining capacity, is expected to result in continued healthy refining margins in 2007.

in turnover and \$338.2 million in operating profits, while E&P activities contributed \$49.2 million in turnover and \$14.6 million in operating profits.

Looking beyond

In an increasingly challenging operating environment, the Board has placed greater importance on strategic issues that would set the long-term direction of the Group. The Board attended and participated in a strategy workshop in July last year.

The Group also focused its efforts to ensure that all its plants and facilities, including its retail network are operated safely and reliably. In 2006, SRC achieved six million man-hours without any loss time injury for employees and contractors. Environment, Health, Safety and Security (EHSS) issues will continue to be a pivotal corporate priority.

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In E&P, with most of the facilities and equipment already installed, first oil production from the Oyong field is expected in 2007. The Group continues to pursue acquisition or farm-in opportunities for new acreages and producing assets to augment the Group's E&P portfolio.

In the Downstream business, the Group will be looking to strengthen its refining capabilities with further upgrading and enhancements. This will ensure its refinery's facilities remain relevant as the region's fuel specifications are progressively tightened in the next few years.

Corporate governance

High corporate governance standards are now intrinsic in any activity that the Group undertakes. The Group continuously reviews and improves its corporate policies, geared towards achieving and maintaining a high standard of corporate governance. The Group garnered a Merit award for Corporate Governance from the Securities Investors Association (Singapore), its fourth consecutive win since 2003.

With the introduction of the Competition Act in 2006, the Company conducted several briefings, workshops and seminars to ensure that its staff are fully cognisant of the need to comply with this landmark legislation in Singapore.

The Board has continued to emphasise proper and sound risk management practices in all of the Group's activities. During the year, the Group continued to test and refine various elements of its Business Continuity Plan and Disaster Recovery processes. The Group is currently reviewing its Crisis Management Plan.

Share buyback

The Board has determined that it would be cost effective and efficient to utilise treasury shares to fulfill the Group's share-based schemes which award fully paid shares as part of its long-term remuneration package. In line with this approach, the Group purchased 1.86 million shares from the market in December 2006 under the Share Buyback Mandate of which 90% has been applied towards share vesting under the SPC Restricted Share Plan and SPC Performance Share Plan in 2007.

Dividends

The Board has recommended a one-tier tax-exempt dividend payout of a first and final dividend of 35 cents per share consisting of an ordinary dividend of 20 cents and a special dividend of 15 cents for shareholders' approval at the forthcoming Annual General Meeting (AGM). This payout, if approved, would be 9% higher than the total dividend of 32 cents for 2005 and represents 63% of the Group's PATMI.

Gratitude

It remains for me to thank all stakeholders who have helped the Group achieve a set of good results for the year. The Board acknowledges that the dedication and motivation of a fully committed and talented team of staff is of paramount importance to the Group. Both the SPC and SRC teams have gone beyond just doing a good job and the Board wishes to extend its appreciation and looks forward to another year of partnership and excellence.

I would also like to extend my gratitude to my fellow Board members for their wisdom and counsel during the year.

Last but not least, I would like to thank all our shareholders, customers and business partners for their continuing support of the Group's activities and initiatives.

Yours sincerely,



Choo Chiau Beng

Chairman

For and on behalf of the Board

28 February 2007