

Financial review

Income Statement Review

The Group recorded sales revenue of \$8.6 billion for 2006, a 14.7% improvement over the previous year. Crude and product prices reached record highs during the year and the Group achieved an average sale realisation of US\$66.69 per barrel, an increase of 19.8% compared to the average realisation of US\$55.68 per barrel for 2005. The total crude and product sales volume handled for the year was 80.3 million barrels, marginally lower than the previous year's volume of 81.2 million barrels.

The Downstream business segment contributed \$8.5 billion in revenues and \$338.2 million in segment results, while the E&P segment contributed \$49.2 million in revenues and \$14.6 million in segment results. The main business operations remained in Singapore, even as the Downstream and E&P activities continue the expansion of business activities into China, Indonesia and other geographical areas. Details of the Group's segment information are provided in Note 38 of the Financial Statements.

The Group's gross profit of \$513.6 million in 2006 was 10.5% lower than the corresponding gross profit of \$573.9 million achieved in 2005. The highly volatile operating environment witnessed the rise of crude and product prices to their peaks in July 2006. However as a result of slowing regional demand growth and high inventories due partly to the late northern winter, oil prices declined and were lower by more than 20% at year-end. High refining margins which averaged US\$6.00 per barrel in the first half of the year trended sharply downwards to an average US\$3.00 per barrel in the second half of the year. The gross profit recorded at year-end included a write-down of inventories to a net realisable value of \$11.5 million.

Higher cash balances and higher deposit rates during the year contributed to a 99.9% increase in the finance income of \$11.9 million over the corresponding year.

The Group's operation expenses of \$66.7 million in 2006 included \$11.0 million of expenditure on exploration wells that were written off, resulting in a 25.1% increase in the 2006 operating expenses compared to the operating expenses of \$53.3 million in 2005. The increased general administration, selling and marketing expenses of \$122.6 million in 2006 were due to higher depreciation charges, utilities costs and rental. A recovery of \$13.4 million from the China Aviation Oil trade receivable contributed to the lower corresponding expenses of \$96.7 million in 2005.

The Group reported higher finance expenses of \$34.1 million in 2006 compared to \$22.7 million in 2005. The average USD short-term interest rates increased from 4.51% in 2005 to 5.79% in 2006. The higher borrowing rates and additional working capital requirements resulted in an increase of \$10.2 million in interest expenses.

The Group's short-term borrowings are on a floating rate basis and where appropriate, interest rate derivatives such as interest rate caps and swaps would be used to hedge against adverse rate movements. The borrowings are mainly in Singapore dollars or US dollars depending on the specific funding requirements. Depending on the outlook for these currencies and where appropriate, the Group manages and hedges the foreign exchange exposures and risks arising from such borrowings.

The share of results of associates and joint ventures totaled \$11.3 million in 2006 for the Group, compared to \$6.9 million in 2005, due to improved performance turned in by these entities.

Profits before tax of \$338.5 million for the year was 22.9% lower compared to 2005 results. The tax expenses were however higher at \$53.9 million as the Group's investment allowances were fully utilised in 2005. More details of the taxation information are provided in Note 10 of the Financial Statements.

The Group recorded a PATMI of \$284.6 million despite the highly volatile operating environment in 2006. Basic earnings per share (EPS) was 55.33 cents and diluted EPS was 55.23 cents. The diluted EPS had taken into account the dilution effect of the convertible bonds and share options under the SPC Share Option Scheme 2000. Details are provided in Note 11 of the Financial Statements.

Balance Sheet Review

The Group's total assets of \$3.1 billion as at 31 December 2006 was a slight increase compared to \$3.0 billion as at 31 December 2005.

The higher sales turnover in 2006 resulted in higher year-end balances of cash and cash equivalents as well as trade receivables than the previous year. The inventory value at year-end was however lower due to the write-down of inventories to net realisable value.

The Group's liabilities of \$1.6 billion as at 31 December 2006 remain largely unchanged from the previous year. Short-term borrowings were increased during the year for working capital requirements and to fund additional exploration expenditure and investments. The increase was offset by the full conversion of the Group's 5-year convertible bonds to equity.

Shareholders' equity of \$1.6 billion at year-end was 10.1% higher compared to \$1.4 billion as at 31 December 2005. The increase was mainly due to the conversion of convertible bonds to equity and the contribution of the current year's profitable operations. During the year, the Group also bought back 1,860,000 of its ordinary shares. These were held as treasury shares as at the year-end and would be utilised for the Group's share-based incentives scheme.

For 2006, the Group's current ratio (current assets over current liabilities) and net gearing ratio (net borrowings over shareholders equity) were 1.36 and 0.01 respectively, compared to 1.27 and 0.12 respectively for the previous year.

Cash Flow Review

The cash flow changes reflected the operating, investing and financing activities of the Group during the financial year. The Group's normal operational activities generated \$374.8 million in cash flow. During 2006, the Group invested \$119.1 million in additional property, plant and equipment and exploration assets. The financing cash outflow of \$146.9 million was mainly for dividends payment and interest during the year.