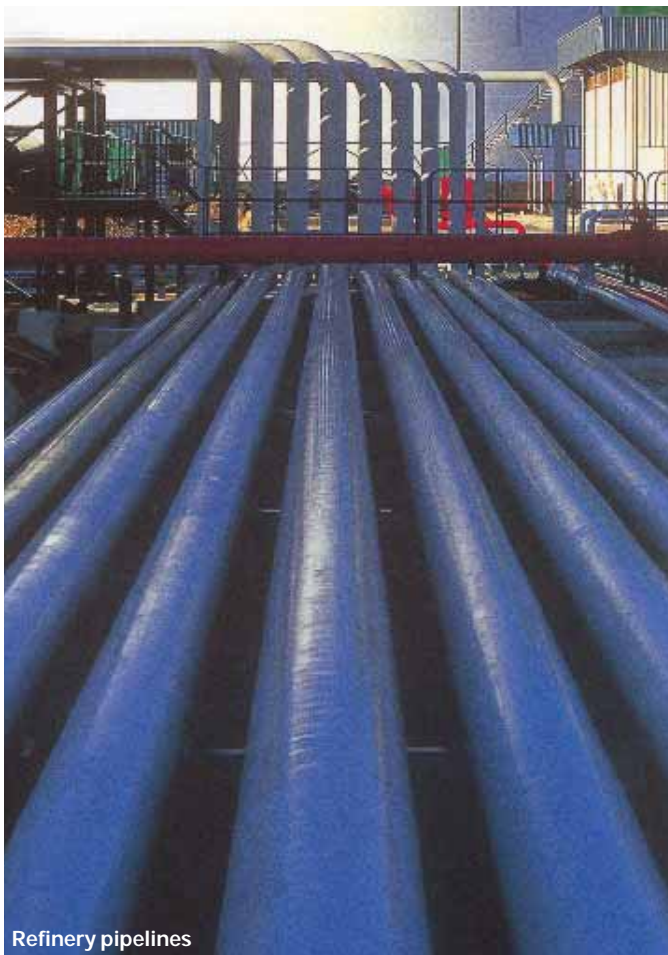


In 2006, SRC processed 29 different types of crudes and utilisation was above 96%.





Refinery pipelines



In 2006, SRC carried out an extensive planned maintenance of the RCC unit. This turnaround was completed in October and the refinery has since been operating at full capacity. The Group's share of its refining throughput at SRC was maintained at 51 million barrels for the year.

The downstream activities of crude and feedstock sourcing, refining, jet fuel sales, trading and sales of distillates, fuel oil and oil price risk management, terminalling of products as well as shipping and distribution logistics are entrusted to the RST BU.

In line with the Group's objective to be a safe and reliable supplier of quality refined petroleum products in the Asia-Pacific region, the BU continues to focus its efforts on ensuring that the Company's jointly-owned refinery, SRC, is operated safely and reliably. The BU comprises Crude and Refining unit, Aviation Sales unit, Distillates unit, Residue unit, Operations and Logistics unit and Risk Management and Derivatives Unit.

Crude and refining

The Group aims to fully capitalise on the strategic location of its refinery on Jurong Island and to this end, the Crude and Refining unit works toward developing short and long term opportunities and synergies with other companies located on the island. The unit also focuses on reviewing and evaluating expansion and upgrading opportunities for the refinery to ensure its relevance in light of changing emission standards and fuel specifications in Singapore and the region. Another primary focus of the unit is to work closely with SRC to source for crudes and feedstocks to achieve refining optimisation.

The global economy continued its rapid growth in 2006. Generally, the Asia-Pacific economies had enjoyed GDP growth

rates well above that of the more matured European and North American economies. In Asia, demand for petroleum products continued to be influenced by economic developments and demand-supply situations in China and India. In the last three to four years, due to a surge in demand for refined petroleum products from the Asian economies, regional refiners reported healthy refining margins. The high prices prevailing in 2006 did not constrain the demand for oil significantly. Although the oil markets were highly volatile in 2006, this was due more to geopolitical tensions, concerns over supply disruptions from natural causes and speculative trading activities than a fundamental supply and demand imbalance. OPEC's (Organisation of Petroleum Exporting Countries) rhetoric and actions fuelled the volatility further. Global oil demand was estimated to be around 85 million barrels per day in 2006.

Overall, the Group's refining performance for 2006 was comparable to 2005. While the year started with subdued product demand in the Asia-Pacific region due to high oil prices, high inventories and the withdrawal of fuel subsidies in several countries, demand started to pick up in the second half of the quarter. Heightened geopolitical tensions centred on Iran's nuclear programme, threats of shutdowns and disruptions to supplies from Nigeria and Iraq resulted in stronger demand for both crude and refined products. The pick up in refining margins in March 2006 boosted refining margins in the first quarter considerably.

Refining, supply & trading

In the second quarter, strong product demand and the shutdown of regional refineries for turnaround activities continued to boost the recovery in refining margins. This, combined with the fear of supply disruptions from hurricanes in the US Gulf Coast and escalating geopolitical tensions and conflict, enabled the Group to achieve refining margins of above US\$8.00 per barrel, more than doubling the margins of the first quarter and was the best quarterly margin achieved in 2006.

In the third quarter, refining margins declined due to the perception that there was sufficient inventory of crude and refined products in the global oil system. Refineries that were shut down for turnaround activities were re-started and product supply resumed. This led to weaker margins and as a result, the Group achieved an average margin of about US\$4.00 per barrel for the third quarter. Although crude prices reached a historic high of US\$78.40 per barrel in July, this could not be sustained and prices dropped by about US\$20.00 per barrel by the end of the quarter.

In the last quarter, regional demand continued to slow down on account of the sliding crude and product prices. Slowing regional demand, coupled with the continued high inventories of crudes and refined products globally and the late northern winter all contributed to the weaker refining margin in the last quarter. The earlier expectations of another active hurricane season in the US Gulf Coast comparable to 2005 also gradually faded as the year came to a close.

In the second half of 2006, SRC carried out an extensive planned maintenance of the RCC unit. This turnaround was completed in October and the refinery has since been operating at full capacity. Despite this major turnaround, the Group's share of its refining throughput at SRC was maintained at 51 million barrels for the year. Although the operating environment was highly volatile, the Group was able to capitalise on the selection of relatively cheaper and heavier sour crudes throughout the year to optimise its refining margin. This coupled with the safe and reliable operation of SRC enabled the Group to achieve an average refining margin of more than US\$4.50 per barrel for the year.

For the Group to be able to drive the business forward and continuously add value, SPC must aim to ensure a safe and secure working environment across all its facilities. Key among the Group's installations and facilities is SRC which has to be operated reliably and to the highest safety standards to enable the other business units to capture optimal yields. SPC will continue to work with SRC to prioritise and implement all the identified safety and reliability projects. In 2006, SRC achieved six million man-hours without any loss time injury for employees and contractors, a reaffirmation of the safety culture that pervades the Group's activities.

SPC is also committed towards a cleaner environment and is embarking on several projects in SRC to ensure the refinery's emission levels are within regulatory standards.

Presently, SPC is focusing on clean fuel upgrading projects in SRC. Such projects will drive the Group further up the value chain and enhance its competitiveness.

For 2007, the IMF has forecasted that global GDP will continue to grow at 5% per annum. In tandem, global oil demand for 2007 is forecasted to grow by more than 1%. Most forecasters expect that the Asian economies will perform well in 2007 and this will continue to fuel the demand for energy. Regional demand for petroleum products is thus anticipated to remain robust and this, coupled with the projected tight refining capacity, will likely result in continued healthy refining margins for 2007.

Aviation sales

The Aviation Sales unit markets and supplies aviation fuel to airlines at four international airports in Singapore, Hong Kong, Bangkok and Taipei. SPC is reputed as a reliable supplier of quality aviation fuel in the Asia-Pacific region with more than 30 years of aviation fuel sales and marketing expertise.

Jet fuel sales in Singapore account for the largest segment of the Group's aviation volume. 2006 had been an excellent year for the commercial air transportation sector. Global air traffic grew strongly. Singapore Changi Airport, Asia's fifth busiest hub, handled a record 35 million passengers in 2006. Air passenger traffic in Southeast Asia saw double digit growth



The Group's presence and track record in the Asia-Pacific region enable it to meet the challenges of the fast growing and increasingly competitive aviation industry. The sale of aviation fuels will remain a core part of the Group's businesses.

due largely to a rise in leisure travel and the proliferation of low cost carriers.

The total fuel throughput at Singapore Changi Airport was approximately 80,700 barrels per day. In 2006, SPC's sales volume at Singapore Changi Airport was 15,700 barrels per day or 1.3% higher than 2005. SPC services 27 airline customers at this location.

At the Hong Kong International Airport, SPC achieved a sales volume of 2,700 barrels per day. Currently, SPC provides refuelling services to three airline customers at this location.

At the Bangkok International Airport, SPC achieved a slightly higher market share as compared to the previous year. The new Bangkok International Airport at Suvarnabhumi was opened on 28 September 2006 and SPC services five airlines at this location.

At Taipei Chiang Kai Shek International Airport, SPC achieved a sales volume of 1,000 barrels per day. This market remains very competitive.

Jet fuel sales continue to be a key contributor to the Group's revenue.

The growth of low cost carriers will present further opportunities for the Group to grow its share of this sector. The unit is at

all times aware of the full spectrum of risks in doing business in this competitive sector and will take appropriate measures to mitigate the risks identified. It expects that it will be able to grow its share of this market in line with the expected growth in global air transportation.

Distillates

The Distillates unit is responsible for the sales and trading of naphtha, motor gasoline (petrol), gasoil (diesel) and jet fuel (kerosene).

The trading environment in 2006 was challenging due mainly to the continued price volatilities in all the product segments. Changes in regional product specifications towards cleaner fuels afforded the unit more opportunities to engage in profitable trading transactions. The unit managed to capture positive trading margins in this fast-changing market by monitoring the market closely and taking full advantage of its network to capitalise from these changes. The Distillates unit achieved a turnover volume of 33.3 million barrels in 2006.

More countries in the Asia-Pacific region are expected to continue to tighten fuel specifications and emission standards. These changes will provide the Group with niche trading opportunities. The Group will continue to monitor the changes in these countries and augment its operations to keep pace with the evolving marketplace.



Residue

The Residue unit is responsible for fuel oil trading and marine sales activities. Fuel oil of various specifications, including standard bunker grades, is sourced directly from SRC as well as from the Group's extensive network of global oil traders. The unit utilises its operational expertise, storage facilities and trading network to build and maintain SPC's reputation as a fuel oil and bunker player with a premium brand in the Singapore market.

During the year, the Singapore fuel oil market was constantly in an over-supply situation as cargoes from the Middle-East and Europe flooded the market. Demand was relatively thin with China switching to cleaner natural gas and curbing its demand for most of the year. Despite these weak fundamentals, the market witnessed fuel oil prices soaring to a record high of US\$350 per metric tonne. In 2006, average fuel oil price was about 20% above 2005. The surplus fuel oil in Singapore was eventually channelled into the bunker market which had another record year. Singapore maintained its status as the world's top bunkering location with a throughput volume of 28.4 million metric tonnes, an increase of 11.4% above 2005. The competition for a slice of this lucrative market and the increase in storage facilities had attracted more players in 2006.

The additional storage capacity and proliferation of bunker players augur well for the continued growth of the bunker fuel market in Singapore. For Singapore to maintain its reputation as a global bunker port, it is important that fuel

SPC will build on its status as a reliable and quality bunker fuels supplier to deepen its reach in the international shipping industry.

quality supplied be compliant with international standards. During the year, the Group achieved the quality standards of MARPOL (Marine Pollution) 73/78 Annex VI, and the specifications of ISO:9217 2005. In September 2006, the Maritime and Port Authority announced a new certification process for bunker suppliers. All bunker suppliers in Singapore will be required to be certified in accordance with this standard by 1 June 2007 in order to have their bunker licences renewed. In November 2006, SPC was the first company to successfully receive its QMBS (Quality Management for Bunker Supply Chain) SS 524:2006.

Going forward, there will be continuing pressures to improve product specifications and meet stringent environmental standards. The Residue unit will ensure that the Group continues to be a safe and reliable supplier of quality bunker fuels in the Singapore market.

Operations and logistics

The Company owns a storage terminal for petroleum products at Pulau Sebarok to support its marine bunker operations and trading and marketing activities. The 220,000 cubic metres terminal consisting of 13 tanks is equipped with a deepwater jetty up to 160,000 tonnes displacement. A smaller jetty for barges up to 10,000 tonnes displacement is also available. The terminal is equipped with a comprehensive laboratory and is highly automated to provide quick turnaround for tanker and barge operations. In 2006, the terminal handled a throughput of 2.7 million tonnes (2.9 million cubic metres).



Pulau Sebarok oil storage tank

Risk management and derivatives

The Risk Management and Derivatives unit is responsible for the management of the Company's crude oil inventory and refining margin price risks.

The unit applies the Value-at-Risk methodology to determine the Group's risk parameters and risk appetite. In 2006, the unit hedged against the volatile price risks for its physical crude oil and refined product inventory by engaging in Over-the-Counter crude oil and refined products futures, swaps and options contracts. These transactions were normally of short-term tenures ranging from three to twelve months and were done in tandem with identified physical barrels.

The environment will remain volatile in 2007. The unit will continue to proactively fine-tune its hedging strategies to better manage the Group's oil inventory and refining margin price risks.