# FINANCIAL REVIEW

**Income Statement Review**

The achievement of $8.8 billion revenue in 2007 was a record high for the SPC Group. This was an improvement of about $200 million over the previous revenue of $8.6 billion in 2006.

The year saw continuing robust demand from China, India and increasingly from the Middle-East where an investment and construction boom fuelled demand. Global refining capacity remained constrained amid geopolitical tensions and supply uncertainties. Coupled with speculative hedge fund activities global crude and product prices climbed to unprecedented highs. The Group's total crude and product sales volume was 78.3 million barrels in 2007, marginally lower than the 80.3 million barrels in 2006. Realisations were higher at an average US$74.37 per barrel compared to US$66.69 per barrel for 2006.

The Group's activities are segmented into Downstream and Exploration & Production (E&P) businesses. With the principal operations headquartered in Singapore, Downstream continued to be the main contributor to the Group and recorded $8.6 billion and $523.2 million respectively in segmental revenue and operating profit. The E&P segment enlarged its footprint into China and Australia during the year. With first oil production from the Indonesian Oyong field and additional production from China's Bohai fields, E&P segmental revenue increased from $49.2 million in 2006 to $145.1 million in 2007, while the segmental operating profit increased from $14.6 million in 2006 to $52.4 million in 2007. Refer to Note 37 to the Financial Statements for details of the Group's segment information.

Gross profit of $747.1 million in 2007 was an unprecedented record achievement for the Group, 45.5% higher than the gross profit of $513.6 million in the previous year. Despite the scheduled maintenance of SRC CDU No. 1 during the second quarter, the refinery achieved an overall average utilisation of more than 97%. An average refining margin of about US$7.00 per barrel was achieved for the year. The Group managed to capture high margin sales and trading volumes despite the highly volatile oil market. As oil prices ended higher at the end of the year, the Group was not required to provide for inventory write-down as at year end 2007.

Along with business expansion, the Group maintained effective control over operating expenses amid rising costs. Operations, selling and marketing, as well as general administrative expenses increased 2.9% from 2006 to $194.7 million in 2007. A one-off divestment gain of $17.7 million was also recorded from the disposal of overseas business ventures in the first half-year.

Finance income increased 12.3% from the previous year to $13.4 million due to higher deposits while finance expenses increased 13.3% to $38.6 million due to higher borrowings. The Group's borrowings were mainly denominated in US dollar on a short-term floating basis to match specific funding requirements which were mainly working capital in nature. With US dollar rates on the down trend and a weakening US dollar, the Group will maintain the bulk of its borrowings in US dollar as a hedge against the weak dollar.

The Group's share of results of associates and joint ventures totalled $13.5 million in 2007, an improvement over $11.3 million in 2006.

The Group ended the year with a higher profit before tax of $581.4 million, an increase of 71.8% over $338.5 million for the preceding year. Tax expenses were higher on the back of higher pretax profits and also higher taxes for Exploration & Production revenue.

2007 marked the Group's best performance to date with a record PATMI of $508.3 million. Basic earnings per share improved 78.5% to 98.79 cents. Diluted earnings per share after taking into account the dilution effect of share options under the SPC Share Option Scheme also improved 78.8% to 98.74 cents.

## Balance Sheet Review

The Group's total assets increased 37.2% from the previous year to $4.3 billion as at 31 December 2007. The record performance and high oil prices as at year end contributed to the higher cash and bank balances, trade receivables and inventories. Non-current assets also increased with further investments in refining assets and the acquisition of upstream exploration and production acreages.

The Group's total liabilities of $2.5 billion as at 31 December 2007 comprised mainly higher trade payables and higher short-term borrowings for working capital requirements and investments.

Shareholders equity of $1.8 billion at year-end was 14.0% higher compared to $1.6 billion as at 31 December 2006, due mainly to higher retained earnings. During the year, the Group paid an interim dividend of 20 cents per share amounting to $103.1 million (see Note 33). The Group bought back 1,412,000 ordinary shares and treated these as treasury shares for the SPC Share Plans. As at the end of the year, the Group held 1,598,000 treasury shares out of the issued share capital of 516,306,357 ordinary shares.

As at year end 2007, the Group's current ratio (current assets over current liabilities) and net gearing ratio (net borrowings over shareholders equity) were 1.17 and 0.20 respectively, compared to 1.36 and 0.01 respectively for the previous year.

## Cash Flow Review

Changes in the cash flow reflected the operating, investing and financing activities of the Group during the financial year. During the year, the Group generated $386.9 million operating cash flow from its strong performance and working capital management of higher trade receivables, trade payables and inventories which were due to the high oil prices. The Group invested $392.8 million in refining and Exploration & Production assets. The financing activities included increased short-term borrowings to fund working capital requirements and investment activities, as well as dividend and interest payments. A Multicurrency Term Note was also established during the year to position the Group for ready access to the capital market when required.