

Chairman's Statement



A strong balance sheet, robust enterprise risk management processes, and heightened corporate governance practices will ensure the continued success of SPC even as the Group becomes more proactive in corporate social responsibility, and environmental, health, safety and security issues.

Dear Shareholders,

2008 marked a year of extremes.

The year started on a promising note with positive prospects for continuing global economic growth despite the unfolding financial crisis in the US. The major concern of most economists and policy makers in the first half-year was inflation as commodity prices continued their relentless climb. Oil prices broke new highs in the first half-year. The price of the benchmark West Texas Intermediate (WTI) crude surged to an all-time high of US\$147.27 per barrel by July.

The second half-year, however, presented a sharp contrast. The fast and unrelenting contraction in economic activities brought the global economy to a rapid downward slide by the end of 2008. The US financial crisis spread rapidly and morphed into a worldwide financial, credit and economic crisis. Policy makers around

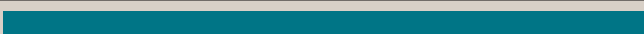

13.1%

Return On Equity

\$229.7m

PATMI

Revenue (\$ million)

2008		11,124
2007		8,767

the world have launched a slew of fiscal and monetary stimulus packages to counter the recession.

2008 in Review

SPC's fortunes in 2008 mirrored the dramatic changes of the global economy. In the first half-year, refining margins were robust on the back of healthy demand. The Group achieved an average refining margin of US\$10.00 per barrel for the first half-year and recorded a PATMI (profit after tax and minority interests) of \$278.7 million. The increased turbulence in the global financial markets in the second half of the year however took its toll on consumer confidence and affected demand. This, coupled with the unwinding of positions by market players, severely impacted the performance of the SPC Group. As the global economy weakened, demand for oil softened, and prices fell sharply. By the end of 2008, oil prices

had fallen by more than US\$100 per barrel from their record highs in July. Under these conditions, the Group's refining margin for the second half-year averaged US\$1.00 per barrel.

Downstream Earnings

Downstream profitability during 2008 was impacted by the fall in demand and the severe plunge in oil prices towards the end of the year. Although the turnover of \$10.8 billion surpassed the 2007 turnover of \$8.6 billion by 25.2%, operating profit for 2008 was lower at \$157.6 million compared to the operating profit of \$523.2 million for 2007. This reflected the lower average refining margins recorded for the year as well as the write-down in the value of oil inventory at year end.

The Singapore Refining Company (SRC) successfully completed its scheduled maintenance programme of the Catalytic Reformer and the

Hydrocracker upgrading units in the second quarter of the year. This exercise was completed safely and smoothly. The revamp of SRC's hydro-desulphuriser unit to produce ultra-low sulphur diesel, which commenced in mid-2007, has progressed on schedule.

SPC's island-wide service station network continued to find new ways to better serve the motoring public, expanding its base of loyal customers during the year. The Singapore retail market was marked by frequent pump price adjustments to reflect volatile oil price movements, cost inflation and other operating conditions. SPC introduced another original retailing initiative by launching Singapore's first ever "Drive Thru" ATM and "Drive Thru" take-away food outlet at its Upper East Coast station in January 2008.

SPC is financially resilient to seize any opportunities that may arise. The Group will continue to invest prudently to benefit from an eventual recovery of the global economy.

E&P's Growing Portfolio

2008 was a year of notable progress for SPC's upstream business. Turnover from Exploration and Production (E&P) activities was \$329.2 million, up 126.8% from a year before with an operating profit of \$156.0 million for the year.

Despite the challenging operating environment, SPC continued to extend its E&P footprint to include its first onshore exploration block, the Mahakam Hilir PSC in Indonesia. SPC holds 100% operatorship for this acreage.

During the year, SPC established its Shekou branch office to operate and manage SPC's upstream assets in China. To date, SPC holds interests in three acreages in China, namely Block 26/18 in the Pearl River Mouth Basin (as operator), and Blocks 04/36 and 05/36 in Bohai Bay. SPC's

100% interest in Block 26/18 is the Company's first operatorship since venturing into the upstream sector in 2000. Reinforcing this portfolio is SPC's oil production from its Bohai Bay assets, Blocks 04/36 and 05/36, which are currently SPC's largest producing assets.

The SPC Group will continue to invest in upstream oil and gas assets in line with its vision to be a strong, integrated oil and gas company, and develop its existing acreages to ensure sustainable growth and diversified earnings.

Financial Performance

The Group recorded revenues of \$11.1 billion, a 26.9% increase over the previous year and a PATMI of \$229.7 million, achieving a return on equity of 13.1%. Earnings per share amounted to 44.61 cents for 2008.

Dividends

In August, SPC paid an interim dividend of 20 cents per share on the back of its first half 2008 earnings. The Board is recommending a final dividend of eight cents per share. Together with the interim payment of 20 cents per share, the total dividend for 2008 would therefore amount to 28 cents per share. These dividends are on the one-tier tax exempt basis.

Share Buyback

Motivating and retaining staff has been a crucial component of the Group's long-term growth strategy. As part of the incentive for staff to pursue a lifelong career in SPC, the Group has in place a share award programme. Towards fulfilling this programme, the Group bought back 2.1 million shares as treasury shares in 2008 under the Share Buyback Mandate.

Corporate Sustainability

The current economic contraction is seen by many as the most serious economic crisis since the Great Depression. It is therefore likely that the global recession could be prolonged. The Group will need to uphold a sustainable business strategy in the current uncertain operating environment. In these exceptionally challenging times, the Group needs to be especially vigilant about its corporate sustainability.

A strong balance sheet, robust enterprise risk management processes, and heightened corporate governance practices will ensure the continued success of SPC even as the Group becomes more proactive in corporate social responsibility (CSR), and environment, health, safety and security (EHSS) issues.

Maintaining Financial Resilience

The Group is financially robust with a low gearing. It has the necessary financial resources to meet the challenges ahead. SPC will maintain tight fiscal discipline to ensure that the Group emerges stronger from this global crisis.

Accolades

While the year had been one of sharp contrasts, there were nevertheless many successes that the Group could celebrate. The Group continued to steer a steady course in the area of corporate governance, investor relations, risk management and CSR, winning various accolades in the process. SPC was recognised for its sound corporate governance for the sixth consecutive time, winning the SIAS (Securities Investors Association of Singapore) award for corporate governance. It was also recognised for its investor relations efforts. This resulted in a first ever investor relations award during the year. Other awards included a joint third placing for the Best Managed Board

Award for 2007 and the Energy Company of the Year (Gold Award) for the second time.

Outlook For The Industry

The fortunes of the oil industry are closely tied to global economic growth and progress. The current crisis has resulted in high unemployment and erosion of business and consumer confidence.

These economic issues may therefore take a while to resolve despite the barrage of economic stimulus packages unveiled. Projects and planned investments in the oil industry have been curtailed, delayed or cancelled as the demand for oil products declined as a result of the global economic slowdown. The Group will continue to review all its capital investments and operating expenditures to ensure that these expenditures make economic sense in the current difficult environment.

In Appreciation

As the Company weathers the difficult challenges ahead, I am reassured that SPC has a strong leadership team to steer the Group through these tumultuous times.

SPC has over the years built a robust corporate governance and risk management framework, and is positioned to overcome the difficulties ahead. The Group is also financially resilient to seize any opportunities that may arise. The Group will continue to invest prudently to benefit from an eventual recovery of the global economy.

2009 marks SPC's 40th anniversary. We are proud that in just four decades, SPC has grown into a multi-national enterprise with a multi-talented team, ready to bring it to the next level as an integrated oil and gas company. Much of this past success was due to the competence, passion and teamwork of

the SPC and SRC staff and dedicated Board members. As we continue our journey to build and grow SPC amid trying times, I wish to extend my heartfelt appreciation to fellow Board Members for their counsel and guidance. I would also like to thank our shareholders, customers and business partners, for their continuing support and confidence.



Choo Chiau Beng

Chairman

4 March 2009