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Crude & Products Trading

The Crude & Products Trading (CPT) Group comprises the Crude Supply & Trading, Distillates and Residue units, and was the result of the restructuring of the Refining, Supply & Trading Group. The restructure provides a more focused platform to optimise SPC's trading performance by managing the increased volatility in oil prices, crude purchases, products trading, and counterparty risks amid intense competitive pressures.

Crude Supply & Trading

The Crude, Supply and Trading unit is responsible for the supply, trading and marketing of crudes, crude vessels chartering, shipping and cargo operations, managing refining margins as well as freight and crude inventory price risks.

A key responsibility of the unit is to secure a regular supply of crudes for processing at SPC's 50%-owned refinery, SRC. Working closely with

SRC and applying the latest analytical tools and models, the unit acquires high value crudes to optimise refining margins. Each year, the unit evaluates more than 50 different crude types from the Middle East, West Africa, Europe, Mediterranean, Latin America, North Asia and Southeast Asia. In 2008, the unit sourced about 25 different crude types for the refinery. During the year, SPC imported 48 million barrels of crude to be processed at SRC.

2008 had been an extremely volatile year in the oil markets. Despite a challenging trading environment, the unit secured high value crudes for the refinery. The team also actively managed the vessel chartering and operations to minimise crude transportation costs in a volatile freight market. The unit also traded crudes to increase profitability and enhance the Company's overall performance.

The Crude Supply and Trading unit commenced the marketing of SPC's own crude production in 2008. This activity enabled the Group to capture optimum value for its E&P crude production. The Cao Fei Dian crude from the Bohai Bay production blocks in China was marketed to end-users in the Asia-Pacific region during the year.

The unit manages the Company's crude oil inventory and refining margin price risks through strategic and consistent hedging. The unit also manages the Company's exposure to volatile oil price movements and optimises refining performance amid the current uncertainties in the global economy. In 2008, SPC hedged against volatile price risks for its physical crude and refined products inventory through "Over-The-Counter" crude and refined products commodity

derivatives. The tenure for such hedges typically ranges from 3 to 12 months and closely mirrors the Group's exposure in physical oil barrels.

Distillates

The Distillates unit is responsible for the sale and trading of naphtha, motor gasoline (petrol), gasoil (diesel) and jet (aviation) fuel. The unit sourced the bulk of these products from SRC while a smaller portion was sourced through the unit's trading activities.

The trading environment in the first half of 2008 was challenging but favourable due to strong demand and limited supply. Despite the strong upward trend for oil prices, products demand continued to be robust especially from market players with excess storage facilities. In the second half of 2008, the trading environment turned difficult due to the global financial crisis, which

constrained credit availabilities and increased counterparty risks.

Despite these challenging conditions, the Distillates unit continued to monitor the markets meticulously and extract full value from its supply chain network. The unit achieved positive results on a turnover volume of about 33 million barrels in 2008.

The global financial crisis affected the demand for oil products worldwide. Demand for distillate products is expected to be weak for most of 2009. To stay resilient and sustain its performance and contribution under the current operating environment, the Distillates unit will continue to monitor developments in the oil and credit markets to capture trading margins.



CPT is responsible for the sourcing and trading of crudes, feedstocks and finished petroleum products.

Operations Review Downstream

Residue

The Residue unit combines fuel oil trading and marine sales activities to optimise returns through a synergistic two-pronged approach. While SPC's fuel oil volume is sourced mainly from SRC, a significant portion is also procured from external sources such as national oil companies, international oil majors and trading houses. The unit leverages SPC's operational abilities and storage facilities to enhance its trading capabilities.

The fuel oil market was characterised by extreme oil price volatility in 2008. Increased commercial storage facilities provided a competitive trading environment, which was apparent in the first half of 2008 where ample product supplies were unevenly matched with limited sales outlets. Fuel oil prices peaked in July but spiralled downwards in the second half of 2008. Tightened bank credit facilities affected traders and shippers' capability to transact smoothly. SPC exercised vigilance to manage any possible counterparty payment defaults. SPC also continued to create value through increased blending activities while maintaining quality supplies. The synergy between cargoes trading and marine sales activities generated positive

contributions to the SPC Group. SPC performed well above the industry average performance indicators under the Maritime Port Authority of Singapore (MPA) scorecard for bunkers supply.

The unit will continue to meet the challenges of volatile fuel oil prices amid slowing demand. Nonetheless, with MPA's vision to transform Singapore into a maritime knowledge hub, the Singapore bunkers market will grow in relevance for marine sales and trading activities in the long run.

During the year, there was also continuing momentum to improve product specifications to address environmental issues. The Residue unit will continue to be mindful of these issues and strive to contribute positively to the environment.



SPC has been supplying bunker fuels since its early days, in tandem with Singapore's growth as a maritime hub.