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## CHAIRMAN'S SPEECH

46<sup>th</sup> AGM of the Shell Refining Company (Federation Of Malaya) Berhad  
19 May 2005, Bangunan Shell Malaysia, Kuala Lumpur

Tan Sri, Datuk – Datuk, Datin – Datin, Ladies and Gentlemen, Good morning and welcome to the 46<sup>th</sup> Annual General Meeting of Shell Refining Company (Federation of Malaya) Berhad.

My name is Jon Chadwick - I am the Chairman of your Company and I am delighted to be with you this morning. Today, I am joined by:

Your Senior Independent Director, Dato' Dr. Yahya

Your Managing Director, Raja Ahmad Murad

Your Independent Director, Tan Sri Saw

Your Independent Director, Dato' Jaffar Indot

Your Non Independent, Non Executive Director, Tuan Haji Mohzani

Your Non Independent, Non Executive Director, Mark Stevens

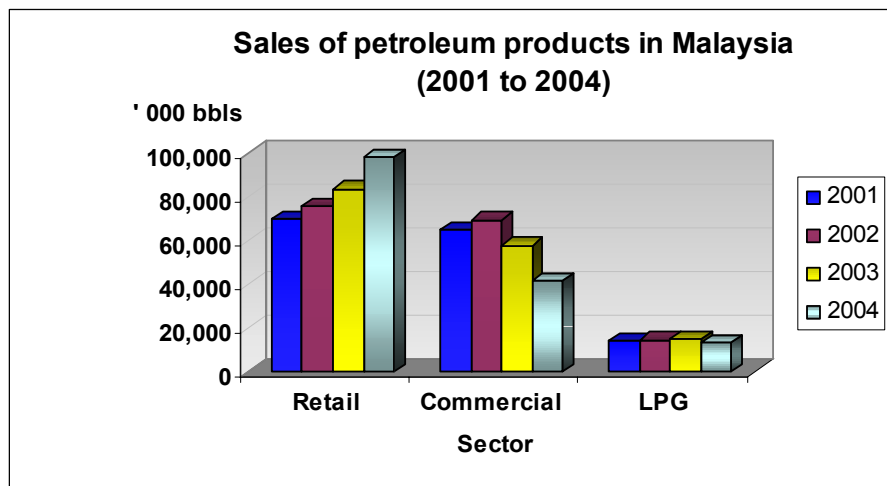
Your Company Secretaries – Suflan, Rodziah and Nordin.

On behalf of your Board of Directors, I am very pleased to present my annual review of Shell Refining Company – this time is the third time I am here in front of you and my report today is for the year ending 31st December 2004. Your Board and I are very proud of your Company's financial achievements during the year – it was a good year and in my review, I would like to explain some of the drivers underpinning your Company's performance.

Let me first take a look at some external factors. The world economy continued to improve during the course of 2004 as tensions in the Middle East eased. The GDP of the world's major industrial economies -- Europe, Japan and the United States -- exceeded that of 2003. Asia continued to see strong and broad-based growth led by the People's Republic of China. This business climate augured well for a steady pace of growth of the global economy in 2005.

In its 2004 National Budget, Malaysia's Government reiterated its focus on domestic business and industrial activities as the drivers of economic growth. The sound national Budget coupled with positive private sector efforts resulted in Malaysia achieving an enviable GDP growth of just above 7% in 2004. This is an achievement that Bank Negara Malaysia amongst others attributed to the efforts of Malaysia's private sector.

Lets take a look at last years demand for your Company's products.



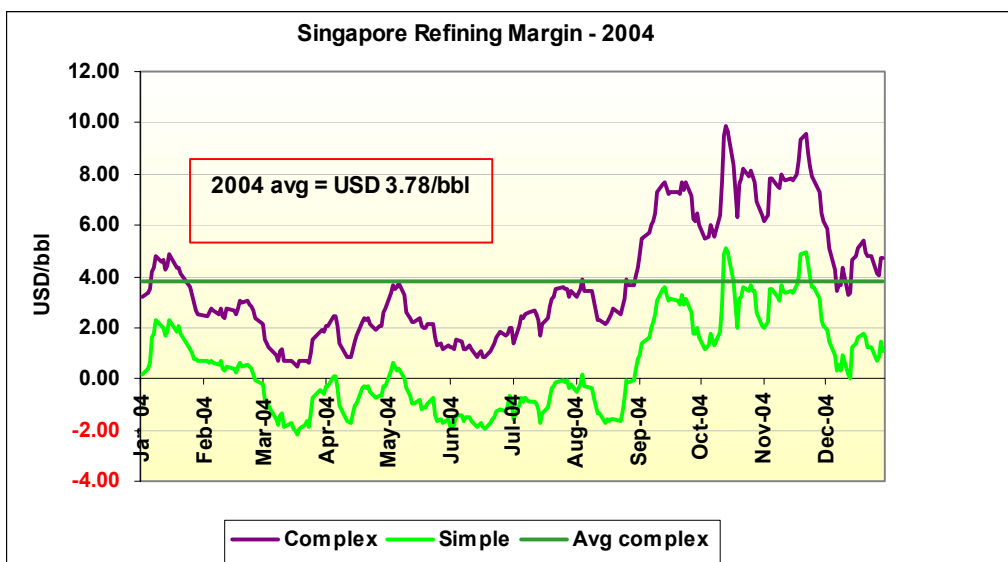
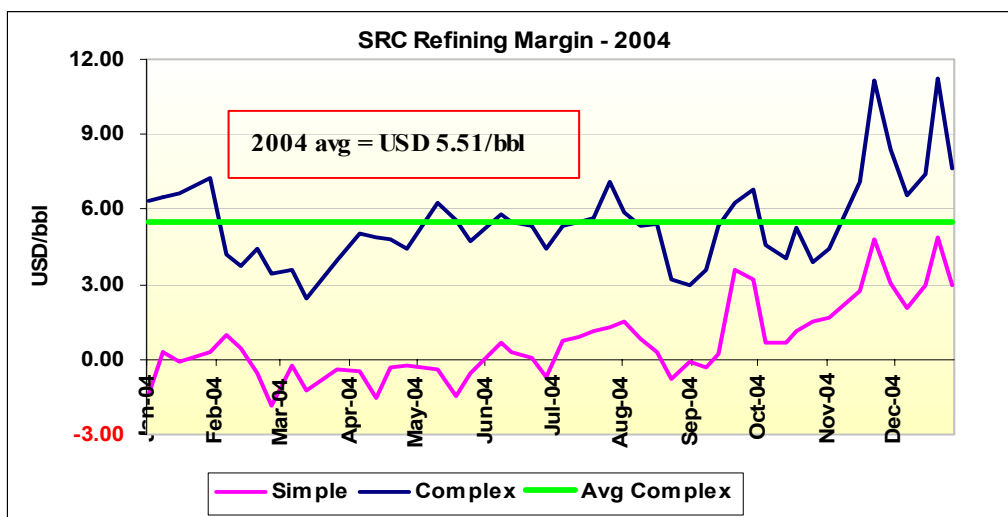
In total, overall domestic demand for petroleum products remained largely unchanged, dropping marginally by 0.9% compared to a decrease of 2% in 2003.

Refining margins, which are dependent on the relative movement of crude oil and product prices, were significantly stronger in 2004 compared to the previous year.

Throughout the year, local crude prices fluctuated between a minimum of USD 32 per barrel during the early part of the year to a maximum of USD 55 per barrel. The movement of the product prices, measured by Means of Platts Singapore ('MOPS'), showed a similar but stronger trend, with MOPS fluctuating between USD 36 per barrel to USD 64 per barrel.

Market analysts attributed the strong regional refining margins in 2004 to the sharp increase in China's demand as well as a continued supply deficit of finished oil products compared to demand in this region. During the year, several refineries in the Asia Pacific region experienced prolonged shutdown periods – in such an environment, it was incumbent on your Company's management to sustain high operational availability levels.

When other refineries in the region were shutting down, I am pleased to report that the management of your Company "kept our Port Dickson factory running" and running well delivering an exemplary and enviable uptime performance.



Behind me you will be able to review two charts displaying Refining Margins realized during 2004. There are just two things that I would like to highlight to you from these charts.

- a) Firstly, Complex refineries enjoyed materially higher margins than simple hydro-skimming facilities throughout the year, and
- b) Secondly, Complex refining margins in Malaysia averaged USD 1.73 /bbl higher than those realised in Singapore

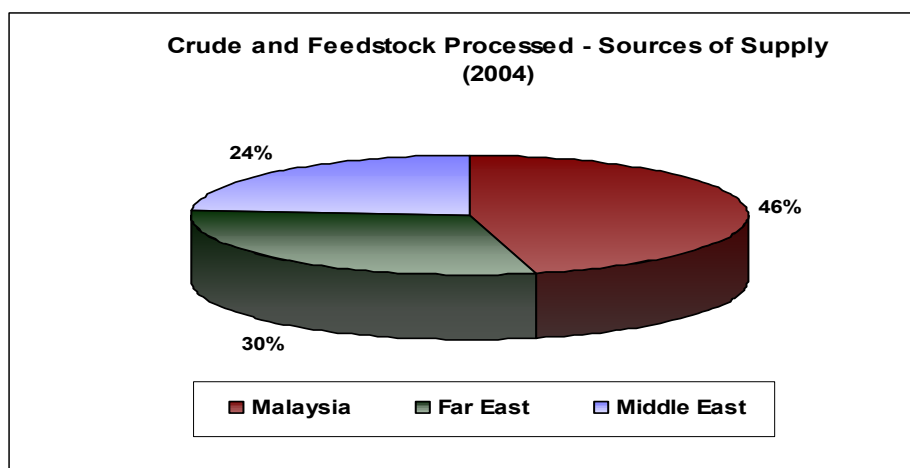
We can say with the benefit of hindsight that the shareholders decision to invest in the Long Residue Catalytic Cracker in the 1990's was a wise and far-sighted one – had shareholders declined to proceed with such an investment - one which converted our simple refinery into a high tech Complex one we would not have experienced sustained positive margins until Q4 last year.

Let's now move on to your Company's operational performance. And in doing so, let me spend a few minutes discussing things that were more within your management's and your Board's control.

In 2004, your Company's Port Dickson refinery recorded an operational availability of 94.7% maintaining the excellent uptime performance recorded in the previous year.

Your Company successfully completed two planned shutdowns during the year to facilitate statutory inspection and maintenance of our Complex 1 unit in March 2004 for 16 days, and of the Platformer-2 unit in September 2004 for 14 days. With the strong commitment of the refinery staff at Port Dickson to maximise plant uptime, we managed to process a total of 40.5 million barrels of crude oil and condensate during the year. Ladies and gentlemen – I must concede that our refinery is not the biggest in the world but I challenge any other refinery to beat our recent efficiency track record.

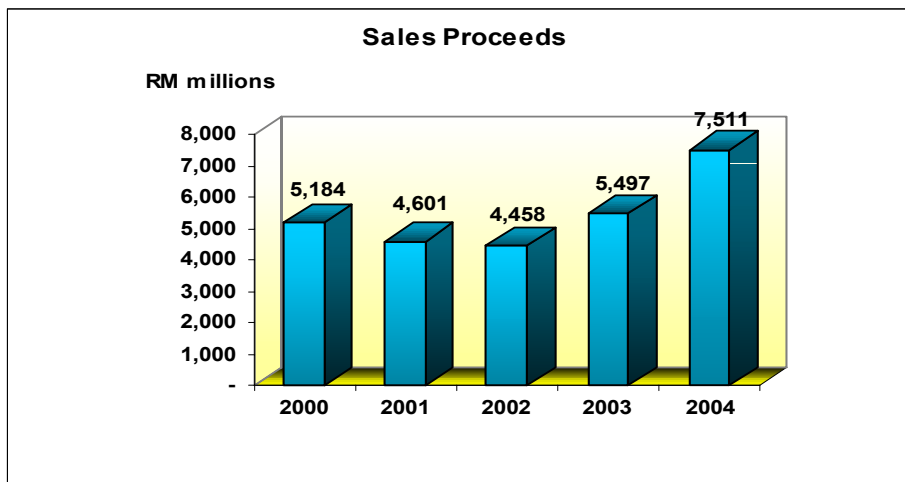
Malaysian crude and condensate continued to remain the primary intake into the refinery and it formed 46% of the refinery intake diet, with the remainder of the feedstock coming from the Far East and the Middle East.



The flexibility of your Company's complex refinery proved highly valuable throughout the year, as we were able to process a wide range of crude feedstock streams and produce a wide

variety of higher margin products. This kind of flexibility is something we are not shy of exercising on a very regular basis.

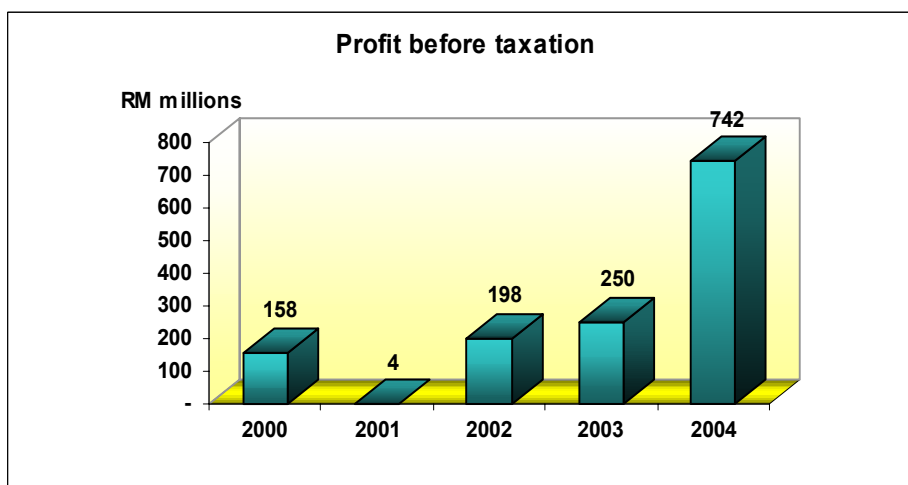
Looking at your Company's sales performance, sales proceeds rose by a remarkable 37% to RM 7,511 million in 2004 from RM 5,497 million in 2003, supported by markedly higher product prices; - this is by far the highest annual proceeds level in your Company's history!



The Long Residue Catalytic Cracker (or LRCC as we often call it) unit proved its value by giving us the opportunity to produce higher margin products; the LRCC is the only facility of its kind in any refinery in Malaysia.

Your Company's financial performance in 2004 was by far its best ever.

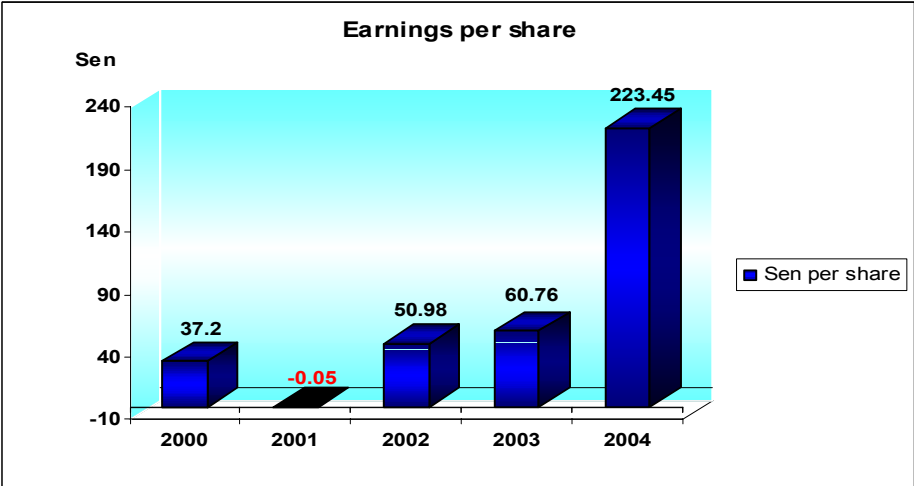
Our 2004 net profit after tax amounted to a record RM 670 million, representing an increase of RM 488 million or 268% above the previous record of RM 182 million achieved in the previous year, 2003. The combined strengths of robust refining margins, which your Company's management maximised whenever it could, and outstanding operational performance contributed to your Company's commendable financial performance in 2004.



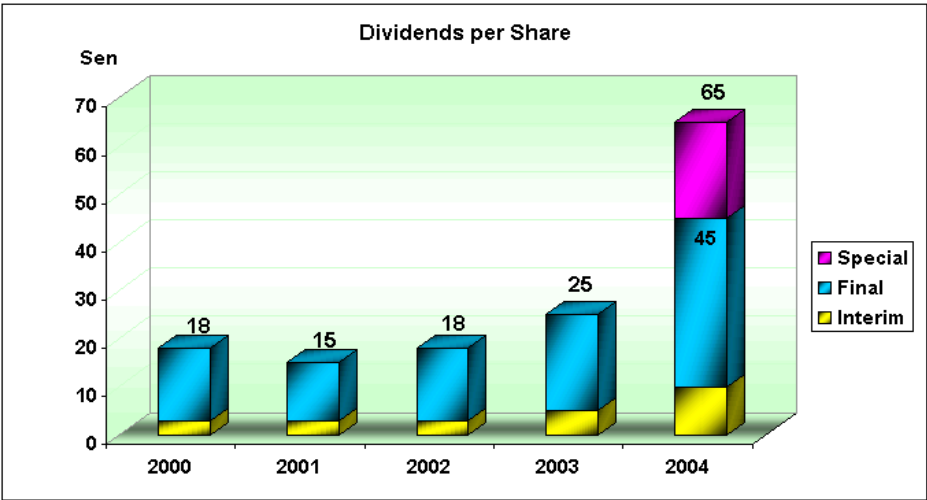
During the year we also benefited from a pre-tax stockholding gain of RM 112 million due to an overall increase in oil prices during the year (compared to a gain of RM 17 million in 2003);

however this stockholding effect accounted for only 15% of the Company's total 2004 pre-tax net income. I hope this convinces you that only a small proportion of your Company's profitability last year was due to oil price increases.

Earnings per share in 2004 rose to a record 223 sen from 61 sen in the previous year.



Your Board of Directors has recommended a final dividend of 35 sen per share, making a total gross dividend for year 2004 of 65 sen per share. This includes two special interim dividends of 10 sen each. These special interim dividends were unanimously agreed by your Board – we wanted our shareholders to share in the benefits of the Company's success during the course of the year.



The total dividend of 65 sen per share represents a 160% increase over the 2003 total gross dividend of 25 sen per share. The total dividend payable in respect of 2004 is the highest your Company has ever declared, comfortably exceeding the previous record of 37 sen per share, which we paid in 1998.

2004 dividend payment performance was linked to the Company's significant cash generation throughout the year. I hope shareholders agree that the share price has performed well in the last year and that dividend levels are more than satisfactory. I look forward to Shareholders formal endorsement of the Board's Final Dividend proposal later on during this AGM.

Regarding dividend policy, it is the Board's firm intention to sustain for the foreseeable future an annual dividend level of at least 45 sen per share.

That is all I intend to say regarding 2004 performance.

I would now like to spend a few minutes to reflect on the first quarter 2005 results that your Company's Board announced to Bursa Malaysia. For those of you who have read about the results. I hope you are pleased with this most recent news. For those of you who have not read the results then allow me to explain.

It is pleasing to note that your Company recorded its highest ever quarterly profit level; a net income after tax of RM 195 million. This is an unprecedented achievement for the Company surpassing record quarterly profits set in four consecutive quarters in 2004! For the fifth consecutive quarter your Company has reported a record net income after tax!!

The excellent financial result for the quarter was mainly due to a combination of excellent operational performance, including uptime, sound refining margins and stockholding gains.

Directly as a result of this tremendous first quarter financial performance, your Board agreed yesterday to pay a special interim dividend of 10 sen gross per share. I'd like to be crystal clear with shareholders that this is a "one-off", explicitly linked to the record Quarter One 2005 results. I know I sound like a worn record because this is the third such special interim dividend we've announced in the last twelve months. But your Board is unanimous in the view that such exceptional and such sustained financial performance coupled with a highly loyal shareholder base demands that our shareholders are rewarded with such special interim dividends on a very timely basis.

I would like to re-iterate to our shareholders today that this "once-off" special interim dividend is related specifically to your Company's excellent Quarter 1 2005 results and is separate from to the 65 sen we are recommending in total for year 2004.

Please be assured of your Board's sustained determination to further enhance your Company's profitability. We are not sitting on our laurels – we are not standing still – but we want more of the same.

The development of your Company's share price during 2004 was pleasing; your Company's Board is acutely aware that we cannot 'stand still' and we are confident that further performance initiatives to be pursued by your Company's Board will result in attractive profitability levels.

Your Company's success is in no small way attributable to the implementation of our three-pronged business strategy that revolves around the core element of PEOPLE:



- Firstly - Productivity Improvement - Aimed at decreasing the number of man-hours required to run the refinery in a highly efficient, safe and structured manner.
- Secondly - Margin Uplift - Aimed at continuous efforts to enhance margins and offset the impact of adverse market forces.
- Thirdly - Cost Leadership - Aimed at driving cost efficiency without compromising on margin and integrity/safety of the plant and your Company's people and our contractor staff.

These three strategies and their associated activities associated were incorporated in your Company's Business Plan. They are now firmly embedded into your Company's annual business planning process.

Not only have your Company's financial results in the last three years been encouraging your Company has also set a number of records and won various awards and accolades.

As you have heard, your Company recorded its best ever financial performance in 2004. Your Company also won the Best Environmental Reporting category at the National Annual Corporate Report Award (NACRA) for 2003 for the third year in a row.

Your Company secured Best Practice award at the Natl. Award for Best Practice in Mgmt Accounting (NafMA) and was recognized for its exemplary Health, Safety, Security and Environment performance through external awards and certifications.

I hope we have demonstrated to you that a good business is one that is a safe business and one that reports transparently – we are a company which is welcomed in its community and at the same time one which delivers shareholder value.

A great deal was accomplished in 2004. And whether it is our ability to capitalise on positive market conditions or our capacity to weather challenging conditions, one critical success factor deserves a special mention - Our People. It is thanks to the relentless efforts and unwavering commitment of your Company's management and staff that we are here today, looking back at 2004 as an eminently satisfactory financial year.

## **We're focused on People !**

People have been, are, and will continue to be our strength. To state the obvious they are our most important asset and we will continue to ensure excellence among our people through greater efforts to develop and upgrade their professional and personal competencies.

As you may have detected I am rather proud of the staff who work for your Company. Several of them are with us today. It will probably embarrass them but I would like to ask them to stand up so that you may know who they are. They've done a great job!!

Ladies and gentlemen, let me now turn to the outlook for the future.

## **Your Company is well-placed to face future challenges !**

We are cautiously optimistic that strong refining margins will be realised in the near future. While the market for the oil and gas sector remains volatile, steady growth in the world economy and increasing stability in other global issues in 2005 could see sustained demand for your Company's products. We are confident that Malaysia's domestic economy will continue to grow in 2005 and in the years ahead.

In July 2004, your Company's major shareholder, Shell Overseas Holdings Limited, completed the sale of 72 million ordinary shares or a 24% shareholding in our Company, to institutional and private investors.

While the decision was part of Shell's active portfolio management strategy, I believe the retention of its 51% stake reflects its firm commitment to the objectives of your Company. It is pleasing that your Company's share price continued to rise markedly after the sale. I also note liquidity in the shares of your Company is markedly higher – ten times higher – following Shell Overseas Holding's divestment.

The sale of the shares has also provided an opportunity for local investors to own a quality stock in Malaysia's oil and gas sector underpinned by sound operating and financial performance over the last four decades. On our part, your Company's Board and Management will continue to pursue operational excellence, pro-active margin improvements and strategic cost reductions as the way.

Our strong 2004 performance demonstrates we are firmly on track towards our goal of becoming the top performing and the most admired refinery in Asia. Your Company directors,

management and staff will continue to pursue every possible measure to deliver on this objective and enhance shareholder value.

Towards the end of next month, we will start to undertake the second statutory turnaround for the Long Residue Catalytic Cracker unit...the first one was undertaken in 2002. The Complex 2 unit, comprising of a crude distiller and a platformer, is also scheduled for a concurrent shutdown.

These meticulously planned activities are aimed at maintaining and enhancing the long-term reliability and integrity of your Company's core processing assets. Detailed preparatory work has been completed and we will invest the effort and the resources necessary to ensure the turnaround is successful. Your Company's Managing Director, Raja Ahmad Murad, and his team, are determined to execute this job flawlessly.

I would like to re-iterate that your Board's firm intention is to pay an annual dividend of at least 45 sen per share for the foreseeable future. And as you heard me say earlier on for this year we now intend paying at least an additional 10 sen per share.

Your Board is also determined that shareholder value enhancements will continue to be pursued.

You may have read in the newspapers last week, that your Company signed a financial agreement with The Bank of Tokyo-Mitsubishi to secure a syndicated term loan facility of US\$ 140 Million (or RM 532 Million) to prepay in full the outstanding balance of an existing syndicated term loan facility of US\$ 360 Million (or RM 1,368 Million) and this at much better interest rate terms than we paid on the previous loan.

We are very pleased with the excellent terms we agreed with The Bank of Tokyo-Mitsubishi, which include competitive pricing while other favourable terms and conditions remain virtually unchanged from those applicable to the previous facility.

The Board of Directors and the Management Team of your Company are committed to continuously enhance shareholder value and this new term loan facility, which brings materially reduced financing costs and increased profitability to your Company and to you, the shareholders, is testimony to our resolve and focus in achieving an optimal capital and financing structure for the Company.

I would also like to highlight to you this morning that all eight of your Directors will be standing for re-election at this AGM for varying reasons. I believe this reflects high standards of corporate governance, enhanced transparency and it demonstrates regulatory compliance. I look forward to you, as shareholders, resoundingly supporting the re-election of my team of Directors and I. This will allow us to continue with our efforts to deliver the results that we have set for ourselves and your Company.

I realise that the subject of Director remuneration is a sensitive one and you will note that one of the resolutions at this AGM is a proposal to increase the remuneration of your three Independent Directors.

During 2004, we undertook a thorough review and the increases proposed are eminently justified - we need to pay our Directors competitively. The increased remuneration level is linked to attendance at Audit Committee Meetings and General Meetings – I believe this is right and it recognizes the heightened responsibilities modern day Corporate Governance standards place on Independent Directors. I commend the remuneration proposals to you and, as your Chairman, I ask for your support on this resolution today.

On behalf of the Company, I would like to thank your Board of Directors, your management, the staff, contractors and all our stakeholders for your perseverance, dedication, effort and loyalty. I also thank you – our shareholders for your loyalty over the years – and I much appreciated the many kind letters of encouragement and thanks you have recently sent to me. We have had a commendable and a truly rewarding year. We look forward to a continued bright future for Shell Refining Company.

I thank you for your time and your consideration. Sekian – Terima Kasih.

Datuk Jon Chadwick  
Chairman