



(Pictured) Inside SembCorp Utilities' advanced combined cycle power plant, Phu My 3, in Vietnam.

# Sustainability

## **In this section**

- Corporate Governance
- Corporate Social Responsibility
- Enterprise Risk Management
- Financial Management
- Technology and Innovation
- Investor Relations
- Human Resources

We firmly believe that the integrity of our Board Members and employees, supported by a rigorous system of internal controls, will enable us to preserve long-term value for our shareholders.

SembCorp Industries is committed to maintaining high standards of corporate governance. Our corporate governance principles reflect our strong belief in protecting and enhancing shareholder value in a sustainable way. We firmly believe that the professionalism, integrity and commitment of our Board Members and employees, supported by a rigorous system of policies, practices and internal controls are the cornerstones that will enable us to preserve long-term value and returns for our shareholders.

In line with the objective of the Company to instill and enhance strong corporate governance practices across its group of companies, the Company has put in place a whistle-blowing policy and procedures which provide employees with well-defined and accessible channels within the Group through which employees may, in confidence, raise concerns about possible improprieties in matters of business activities, financial reporting or other matters. The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that retaliatory action will not be taken against any employee who has filed any complaint alleging possible improprieties.

Our efforts towards good corporate governance were recognised at the Securities Investors Association of Singapore's 2005 Investors' Choice Awards, where we were named one of Singapore's most transparent companies.

SembCorp Industries endorses the principles of the Code of Corporate Governance issued by the Singapore Exchange Securities Trading Ltd (SGX-ST). This report

outlines the Company's corporate governance processes and activities for the financial year with reference to the principles set out in the Code.

### **Board of Directors**

#### ***Effective Board to lead and effect controls (Principle 1)***

The Board's responsibility is to oversee the business, affairs and performance of the Company in the best interests of its shareholders. The Board focuses its activities on the key requirements of the Company such as:

- Providing entrepreneurial leadership and strategic direction to the Group, including approvals for major investments, divestments, restructurings, material contracts and matters of significance;
- Overseeing the businesses and affairs of the Group and monitoring the performance of Management against pre-agreed targets;
- Assuming full responsibility for the corporate governance framework of the Group and providing oversight in the proper conduct of the Group's businesses; and
- Being responsible to shareholders for the performance of the Group and ensuring adequate returns to shareholders.

A total of nine Board Meetings were held in the year and we achieved an average of 74% Board attendance. Four meetings were held in the year to review and approve the release of the quarterly results, discuss reports by Management on the performance of the Group, its plans and prospects and additional Board Meetings were also held to specifically consider other issues that had arisen during the year. Telephonic attendance and conference

via audio-visual communication at Board Meetings are allowed under the Company's Articles of Association.

In addition, the Board has adopted a set of internal controls that sets out approval limits for capital expenditure, investments and divestments, bank borrowings and cheque signatories arrangements at Board level. Approval sub-limits are also provided at Management level to facilitate operational efficiency.

To ensure the efficient discharge of its responsibilities and to provide independent oversight of Management, the Board has established a number of Board Committees,

including an Executive Committee, Audit Committee, Executive Resources & Compensation Committee, Nominating Committee, Budget Committee and Risk Committee. These key committees are primarily made up of independent and/or non-executive directors. Other ad hoc committees can be formed from time to time to look into specific areas as and when the need arises.

Membership in the different committees are carefully managed to ensure that there is equitable distribution of responsibilities among Board Members, to maximise the effectiveness of the Board and foster active participation and contribution. Diversity of experience and appropriate

#### The Board Members for 2005 were:

Name of Director	Position held on the Board	Date of first appointment to the Board	Date of last re-election as Director	Nature of Appointment
Peter Seah Lim Huat	Chairman	July 29, 1998	April 26, 2005	Non-executive/ Non-Independent
Tang Kin Fei	Director	May 1, 2005	N/A	Executive/ Non-Independent
K Shanmugam	Director	July 29, 1998	April 30, 2004	Non-executive/ Independent
Goh Geok Ling	Director	May 3, 2000	April 30, 2004	Non-executive/ Independent
Richard Hale, OBE	Director	Sept 1, 2000	April 30, 2004	Non-executive/ Independent
Yong Ying-I	Director	May 26, 2003	April 30, 2004	Non-executive/ Independent
Vichit Suraphongchai	Director	July 21, 2003	April 30, 2004	Non-executive/ Independent
Colin Au Fook Yew	Director	April 30, 2004	April 26, 2005	Non-executive/ Independent
Evert Henkes	Director	April 30, 2004	April 26, 2005	Non-executive/ Independent
Lee Suet Fern	Director	July 1, 2005	N/A	Non-executive/ Independent
Lua Cheng Eng	Director	July 29, 1998	April 26, 2005	Non-executive/ Independent

*(vacated office of Director on February 14, 2006)*

# Corporate Governance

skills are also considered. There is a need also to ensure that there are appropriate checks and balances between the different committees. Hence, membership of the Budget and Executive Committees, with their greater involvement in key businesses and executive decisions, and the membership of the Audit and Risk Committees with their respective oversight roles, is mutually exclusive.

## ***Strong and independent Board exercising objective judgement (Principle 2)***

### ***Audit Committee (Principle 11)***

The Board comprises 11 Directors, 10 of whom are non-executive Directors. The Board's Chairman is Mr Peter Seah Lim Huat. Mr Tang Kin Fei, who is the Group President & CEO, is the sole executive Director.

The Board is favourably composed of a majority of non-executive Directors, independent of management and independent in terms of character and judgement. This enables Management to benefit from external and objective perspectives on issues that are brought before the Board. The Directors consider that the Board is of the appropriate size and with the right mix of skills and experience given the size of the Company. The Board Members comprise business leaders, current or retired CEOs, professionals with financial backgrounds, two practising lawyers and members of the public sector. Reflecting the focus of the Group's business strategy to strengthen itself in key emerging markets, one-third of the Board today comprises Directors who are non-Singaporeans, namely Messrs Richard Hale, OBE, Vichit Suraphongchai, Colin Au Fook Yew and Evert Henkes. Profiles of the Directors are found on pages 24 to 25 of this Annual Report.

The Board does not believe it is possible to compile a list of criteria that are appropriate to characterise, under all circumstances, whether a non-executive director is independent. It is the approach and attitude of each non-executive director which is critical. The Board aims for diversity of knowledge and experience among its members in relation to the various businesses of the Group and the international nature of the Group. Through the

delegation of its authority to the Nominating Committee, the Board has applied its best efforts to ensure that the Directors appointed possess the background, experience and knowledge in technology, business, finance and management skills critical to the Company's businesses. Best efforts have also been made to ensure that each Director with his special contribution brings to the Board an independent and objective perspective, to enable balanced and well-considered decisions to be made.

The Nominating Committee (NC) considers non-executive Directors, Messrs Lua Cheng Eng and Colin Au Fook Yew to be independent directors regardless of their respective appointments as advisors on the Temasek Advisory Panel and a subsidiary of Temasek. Notwithstanding this, the NC views them as persons of high integrity who have demonstrated a manifest ability to exercise strong independent judgement in deliberations in the interests of the Company and in discharging their duties as directors. Mr Lua Cheng Eng vacated his office of director on February 14, 2006.

## **Board Committees**

The Company has six Board Committees:

- a) Executive Committee;
- b) Audit Committee;
- c) Budget Committee;
- d) Executive Resource & Compensation Committee;
- e) Nominating Committee; and
- f) Risk Committee

## ***Executive Committee (ExCo)***

The ExCo provides overall strategic direction to Management and approves policies and detailed strategies for the Group. It reviews and approves investments recommended by Management and recommends larger investments to the Board in accordance with the internal financial authority limits stipulated by the Board. The Committee also reviews and monitors the financial performance and progress of the Group. The ExCo held five meetings in the year with full attendance of its members.

The ExCo is chaired by Mr Peter Seah Lim Huat and its members are Mr Goh Geok Ling and Mr Colin Au Fook Yew. It generally met once a month, with full attendance of its members.

#### ***Audit Committee (AC)***

The AC was chaired by Mr Lua Cheng Eng and includes independent directors, Mr K Shanmugam, Mr Richard Hale, OBE and Mrs Lee Suet Fern as members. Mr Richard Hale, OBE took over as Chairman from Mr Lua Cheng Eng with effect from February 14, 2006. During the year under review, the AC held five meetings. Members of the AC participated actively at meetings either by attendance or through teleconferencing.

The AC assists the Board of Directors in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices of the Group and in respect of interested person transactions, its responsibility to act in the interest of the shareholders as a whole.

The main responsibility of the AC is to review with the external auditors, internal auditors and Management, the Company's policies and control procedures, interested person transactions as well as any matters or issues that affect the performance of the Group. The AC reviews the quarterly, half-yearly and annual results announcements as well as the financial statements of the Group and Company before they are submitted to the Board for approval. The AC also recommends the appointment of the Company's external auditors.

The Company has put in place a whistle blowing policy under which staff may raise concerns about possible improprieties in matters of financial reporting or other matters to the AC. This arrangement facilitates independent investigation of such matters for appropriate resolution.

The AC met with the external and internal auditors, without the presence of Management, during the year to review the cooperation and assistance given by Management to them.

The AC has reviewed the non-audit services provided by the external auditors to the Group, excluding its listed subsidiaries, SembCorp Logistics and SembCorp Marine, who have their respective audit committees. The AC is satisfied that the provision of the non-audit services by the external auditors did not impair their independence as external auditors.

#### ***Budget Committee (BC)***

The BC is chaired by Ms Yong Ying-I and also includes Dr Vichit Suraphongchai as a member.

The BC implemented a planning cycle focusing on different initiatives in each quarter. Activities involved the quarterly and half-yearly review of financial results in relation to the budget, strategic initiatives and a five-year outlook of each main subsidiary as well as the annual budget plans and initiatives.

#### ***Executive Resource & Compensation Committee (ERCC)***

The ERCC is chaired by Mr Peter Seah Lim Huat and its members are Mr Goh Geok Ling and Mr K Shanmugam.

The ERCC oversees executive compensation and development with the aim of building capable and committed Senior Management through focused management and progressive policies that can attract, motivate and retain talented executives to meet the current and future needs of the Company.

The ERCC reviews and approves remuneration and promotion of key executives as well as decides on issues pertaining to their development and succession. The ERCC also establishes guidelines on share options and other long-term incentive plans and approves the grant of such incentives to key executives. The underlying philosophy is to motivate executives to maximise operating and financial performance and shareholder value.

The ERCC also reviews the remuneration of its non-executive directors, executive director and senior executives, as well as major human resource management and compensation policies and practices of the Group.

# Corporate Governance

## Board Composition and Committees

Board Members	Executive Committee	Audit Committee	Budget Committee	Executive Resource & Compensation Committee	Nominating Committee	Risk Committee
Peter Seah Lim Huat	Chairman			Chairman	Chairman	
Tang Kin Fei						
K Shanmugam		Member		Member	Member	Member
Goh Geok Ling	Member			Member	Member	
Richard Hale, OBE <sup>1</sup>		Member				Member
Yong Ying-l			Chairman			
Vichit Suraphongchai			Member			
Colin Au Fook Yew	Member <sup>2</sup>					
Evert Henkes						
Lee Suet Fern		Member <sup>3</sup>				Member <sup>4</sup>
Lua Cheng Eng <sup>5</sup>		Chairman				Chairman

<sup>1</sup> Appointed as Chairman of AC and RC on February 14, 2006

<sup>2</sup> Appointed on November 1, 2005

<sup>3</sup> Appointed on July 1, 2005

<sup>4</sup> Appointed on July 13, 2005

<sup>5</sup> Vacated office of Director on February 14, 2006

The ERCC conducts, on an annual basis, a succession planning review of the CEO, all his direct reports and selected key positions in the Company. Potential internal and external candidates for succession are reviewed for different time horizons of immediate, medium-term and longer-term needs.

While the Chairman of the ERCC is not regarded as independent within the context of the definition of “independence” in SGX-ST’s Code of Corporate Governance, he is a non-executive director independent of Management with a clear separation of his role from Management in deliberations of the ERCC. The ERCC has access to expert professional advice on human resource matters whenever there is a need to consult externally. In its deliberations, the ERCC takes into consideration industry practices and norms in compensation. The CEO is not present during the discussions relating to his own compensation, terms and conditions of service or the review of his performance.

The ERCC held four meetings in the year and achieved an average of 83% attendance.

### ***Nominating Committee (NC)***

The NC is chaired by Mr Peter Seah Lim Huat and its members are Mr Goh Geok Ling and Mr K Shanmugam.

The primary purpose of the NC is to support and advise the Company, its major subsidiaries and, where applicable, associated companies by nominating suitable candidates who are best able to discharge their responsibilities as directors having regard to the law and the high standards of governance practiced by the Group and evaluating the balance of skills, knowledge and experience of these boards. Appointments to these boards are made on merit, and against objective criteria. The NC takes care to ensure that appointees have enough time available to devote to their directorship roles. The independence of each director is reviewed annually by the NC.

### ***Risk Committee (RC)***

In 2005, the RC was chaired by Mr Lua Cheng Eng and included independent directors, Mr Richard Hale, OBE, Mr K Shanmugam and Mrs Lee Suet Fern (appointed on July 13, 2005) as members. Mr Richard Hale, OBE took over as Chairman from Mr Lua Cheng Eng with effect from February 14, 2006. The primary role and function of the RC is to assist the Board of Directors in fulfilling its oversight responsibilities in risk management by reviewing:

- The adequacy and effectiveness of the risk management plans, systems, processes and procedures of the Group;
- Group-wide risk policies, guidelines and limits; and
- The risk portfolio and risk levels including the treatment of identified risks.

The RC held two meetings in the year. Members of the RC participated actively at meetings either by attendance or through teleconferencing.

### ***Management Committee***

During the year, the Company's Group President & CEO, Mr Tang Kin Fei, chaired monthly Management Committee meetings comprising all the CEOs and Senior Management executives in the Group. At these meetings, the operating and financial performance of each of the businesses is reviewed and directions given to the relevant management for follow-up action. Such forums provide useful platforms for feedback and review of market trends and specific developments in the competitive landscape affecting the Group's businesses.

The respective functional divisional heads in the Company also chair regular discussion forums for their respective key functional staff across the Group. Such discussion groups aim at ensuring consistency of policies and sharing of developments in the relevant areas of discipline across the Group. Examples include the Chief Financial Officers Forum by the Group Chief Financial Officer, the Group Legal Counsel Forum by the Director, Group Legal, the Group Human Resource Forum by the Director, Group Human Resource and the Chief Risk Officers Forum by the Group Chief Risk Officer.

### ***Chairman and Chief Executive Officer (Principle 3)***

There is a clear separation of the roles and responsibilities between the Chairman and the Group President & CEO of the Company. The Chairman, Mr Peter Seah Lim Huat and the Group President & CEO, Mr Tang Kin Fei are not related to each other.

The Chairman, who is non-executive, takes a leading role in the Company's drive to achieve and maintain a high standard of corporate governance with the full support of the Directors, Company Secretary and Management.

He is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. He acts independently in the best interests of the Company and shareholders. Meanwhile, the Group President & CEO is charged with the executive responsibility of running the Company's business. The Chairman facilitates the contribution of non-executive directors in particular and ensures constructive relations between executive and non-executive directors. He also ensures that the members of the Board work together with Management in constructive debate on various matters, including strategic and operational issues.

### ***Formal appointment and re-election of Directors (Principle 4)***

SembCorp Industries believes that all Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The boards of companies within the SembCorp Group are periodically renewed to ensure strong and sound leadership at the board level, enable a refreshing of talent as well as encourage the dynamics of an independent and balanced board. The Group President & CEO, while also a Board Member, is also subject to retirement and re-election by shareholders as part of board renewal. The nomination and election of Board Members is the prerogative and proper right of all shareholders.

The Board ensures the planned and progressive refreshing of its Members. The Company's Articles of Association require one-third of Directors to retire and subject



# Corporate Governance

themselves to re-election by shareholders at every Annual General Meeting (AGM) (“one-third rotation rule”). In other words, no Director stays in office for more than three years without being re-elected by shareholders. The NC reviews and considers the retirement and re-election of Directors prior to seeking shareholders’ approval at the AGM.

In addition, a newly-appointed Director will submit himself for retirement and election at the AGM immediately following his appointment. Thereafter, he is subject to the one-third rotation rule.

Mr Tang Kin Fei and Mrs Lee Suet Fern were appointed to the Board on May 1, 2005 and July 1, 2005 respectively. They will each submit themselves for retirement and re-election by shareholders at the forthcoming AGM.

At the forthcoming AGM, Messrs K Shanmugam, Goh Geok Ling and Richard Hale, OBE will each submit themselves for retirement and re-election by shareholders, pursuant to the one-third rotation rule.

## ***Board performance and conduct of its affairs*** ***Active participation and valuable contributions are key to overall effectiveness of the Board (Principle 5)***

Newly-appointed Directors are given briefings by Management, and facility visits to Strategic Business Units’ (SBU) premises are also arranged to enable them to acquire an understanding of the Group, its business activities and strategic directions. Existing Directors are also invited to participate in such facility visits and orientation programmes. Two in-depth orientation programmes and facility visits were conducted on February 18 and November 7, 2005 for Directors to familiarise them with the Company’s core businesses and strategic plans and objectives.

Changes to regulations and accounting standards are monitored closely by Management. To keep pace with regulatory changes, where these changes have an important bearing on the Company’s or Directors’ disclosure obligations, Directors are briefed either during Board meetings, or at specially-convened sessions,

including training sessions and seminars conducted by external professionals. The Company also sponsors its Directors to attend training courses and seminars on topics such as additions or changes in laws, regulations and accounting standards which are of relevance to the Group.

Informal reviews of the Board’s performance are undertaken on a continual basis by the Nominating Committee with inputs from the other Board Members and the Group President & CEO. The Board is constantly renewed to ensure strong, independent and sound leadership for the continued success of the business and the Company. The Board recognises the contribution of Directors, who over time, have developed deep insights into the Group’s businesses. As such, the Board would exercise its discretion to retain the services of such Directors.

## ***Full access to information and resources*** ***Directors have complete, adequate and timely information and resources (Principle 6)***

As a general rule, Board papers are sent to Directors a week before the board meeting so that the Directors have the relevant information for consideration and deliberation at Board Meetings. Managers who can provide additional insight into the matters at hand would also be present at the relevant time during the board meeting.

Management provides adequate and monthly management and other financial statements of the Company to the Board on business issues that require the Board’s decision, as well as ongoing reports relating to operational and financial performance of the Group. Where a physical Board Meeting is not possible, timely communication with members of the Board is effected through electronic means including electronic mail, teleconferencing and videoconferencing. Alternatively, Management arranges to personally meet and brief each Director before seeking the Board’s approval.

The Board has separate and independent access to the Group President & CEO, members of Senior Management and the Company Secretary at all times. Directors are also provided with the names and contact details of the Company's Senior Management and the Company Secretary to facilitate direct access to them. Where necessary, independent professional advice and consultations are made available to Directors, to ensure that full information and advice is available before important decisions are made by the Board. All the issues are actively debated by the Board and properly recorded.

Likewise, the AC also meets the external and internal auditors separately at least once a year, without the presence of the Group President & CEO and other Senior Management members, in order to have free and unfiltered access to information that it may require. The Company Secretary assists the Chairman with the preparation of meeting agenda and attends and prepares minutes of Board proceedings, ensuring good information flows within the Board and its Committees. She assists the Board on the compliance of the Company with its Memorandum and Articles of Association, laws and regulations, including requirements of the Companies Act, Securities Futures Act and the SGX-ST. She is also the primary channel of communication between the Company and the SGX-ST, the Accounting and Corporate Regulatory Authority and shareholders. The Company Secretary assists the Board to implement and upkeep good corporate governance and best practices across the Group.

#### **Competitive remuneration system**

***Remuneration of directors adequate and not excessive (Principle 7)***

***Competitive reward system to ensure highest performance and retention of best talents and key executives (Principle 8)***

#### ***Disclosure on remuneration (Principle 9)***

The Group President & CEO, as executive Director, does not receive director's fees. As a lead member of Management, his compensation consists of his salary, allowances, bonuses, performance share awards conditional upon his meeting certain performance targets

(details are available on page 166 of the Annual Report) and share options. Details on share options granted and their fair value are available on page 163 and page 213 of the Annual Report respectively.

Non-executive Directors have remuneration packages that consist of a director's fee component pursuant to the Company's Directors' Fee Policy, an attendance fee component and a share options component pursuant to the Company's Employee Share Plan. The company does not have a retirement remuneration plan for non-executive Directors. The Directors' Fee Policy is based on a scale of fees divided into basic retainer fees and additional fees for attendance and service on Board Committees. Details on share options granted and their fair value are available on page 163 and page 213 of the Annual Report respectively.

The basis of allocation of the number of share options takes into account a Director's contributions and additional responsibilities at Board Committees. The report on Directors' Remuneration is found on page 266 of the Annual Report. We believe that our Directors are adequately compensated in line with market norms.

The Directors' remuneration for 2005 is S\$643,083 (S\$635,166 in 2004) and is derived using the following rates:

<b>Type of appointment</b>	<b>S\$</b>
<hr/>	
i) Board of Directors	
– Basic fee	25,000
– Chairman's allowance	35,000
– Vice Chairman's allowance	20,000
ii) Executive Committee	
– Chairman's allowance	30,000
– Member's allowance	25,000
iii) Audit Committee	
– Chairman's allowance	30,000
– Member's allowance	20,000

# Corporate Governance

Type of appointment	S\$
iv) Risk Committee	
- Chairman's allowance	25,000
- Member's allowance	10,000
v) Executive Resource & Compensation Committee / Nominating Committee	
- Chairman's allowance	25,000
- Member's allowance	10,000
vi) Budget Committee	
- Chairman's allowance	25,000
- Member's allowance	10,000

*Notes:*

*Mr Tang Kin Fei, as an executive Director, did not receive director's fees.  
Ms Yong Ying-I, as a public sector nominee, receives a reduced allowance of \$10,000 for her chairmanship of the Budget Committee.*

Key executives are rewarded based on actual performance achieved relative to pre-agreed performance targets which include financial and non-financial performance indicators such as Economic Value Added (EVA), Total Shareholders' Return and promoting and maintaining Health, Safety and Environment issues. We believe that the current reward systems in the Group are in line with market norms and formulated to motivate executives to give their best to the Group. Rewards include both short-term and long-term share-based awards, which will further ensure the retention of the best talents and high performing executives in the Group.

The Group adopts an incentive compensation plan for key executives tied to the creation of EVA as well as to attainment of individual performance goals. Individual incentive compensation is linked to the EVA created by the Group and its subsidiaries.

A "bonus bank" is used to hold incentive compensation credited in any year. Typically, one-third of the available balance is paid out in cash each year, with the balance being carried forward to the following year. Such carried-forward balances of the bonus bank may either be reduced or increased in future, based on the yearly EVA performance of the Group and its subsidiaries.

In 2005, the ERCC, with advice and assistance from an independent compensation consultant, redesigned its approach to the share-based incentive awards, with particular focus on establishing new standards for share-based incentive grants. The redesigned share-based incentive grants took into account evolving practices at other major public-listed companies, as well as the Group's objective of further enhancing linkages between employee performance and the creation of shareholder value. The redesign was completed and implemented in 2005.

Rather than set out the names of the top key executives who are not also Directors of the Company, we have shown the number of key executives in remuneration bands of S\$250,000 from S\$100,000 onwards, of the key businesses' CEOs, including the CEO of Singapore Precision Industries, the Executive Chairman, SembCorp Parks Holdings, and the Group Chief Financial Officer. This should give a macro perspective of the remuneration profile in the Group, while maintaining the confidentiality of staff remuneration matters.

### Remuneration Band for Key Executives

Remuneration Band (S\$)	No. of employees
1,750,000 and above	2
1,500,000 to 1,749,999	1
1,250,000 to 1,499,999	1
1,000,000 to 1,249,999	1
750,000 to 999,999	1
500,000 to 749,999	1
250,000 to 499,999	-
100,000 to 249,999	-

### Internal control and risk management (Principle 12)

The Board and Management of the Company are fully committed towards establishing a robust system of internal controls and risk management. For more information on the progress of our Enterprise Risk Management system, please refer to page 126 of this Annual Report.

## **Internal audit**

### ***Independent internal audit function (Principle 13)***

The internal audit function of the Group is provided by the Group Internal Audit Department (GIA) which reports directly to the AC Chairman on audit matters and administratively to the Group President & CEO.

GIA adopts a risk-based methodology in defining its annual internal audit plan, which is reviewed and approved by the AC. The internal audits performed are aimed at assisting the Board and Management in the discharge of their corporate governance responsibilities, as well as to improve and promote effective and efficient business processes within the Group. To ensure that the internal audits are performed by competent professionals, GIA employs qualified staff and identifies and provides training and development opportunities to them so that their technical knowledge remains current and relevant.

## **Communication with shareholders**

### ***The Board is accountable to the shareholders (Principle 10)***

### ***Regular, effective and equal treatment of shareholders (Principle 14)***

The Company believes that shareholders should be given a fair and accurate view on the affairs of our Company on an ongoing basis. Shareholders are entitled to timely and complete information on financial data and material developments, as well as an understanding of our business directions and prospects.

All SembCorp Industries' price-sensitive information is disseminated to its shareholders via SGXNET so as to ensure all shareholders have access to material information at the same time. Disclosure is never done on a selective basis. Financial and other performance data is given for the Group as well by business unit or division where appropriate to allow our shareholders better insight into the Group's earnings drivers. During the release of earnings results, the press release on the results announcement is first released by SGXNET onto the SGX-ST website. Thereafter a briefing or teleconference by Management is held jointly for the media and analysts.

All materials used at the briefing, including the presentation slides, are made available on SGXNET as well as on the Company website at [www.sembcorp.com.sg](http://www.sembcorp.com.sg).

Following the release of earnings or price-sensitive developments, Investor Relations staff are available by e-mail or telephone to answer questions from shareholders and the media as long as the information requested does not conflict with the SGX-ST's rules of fair disclosure.

### ***Greater shareholder participation at General Meetings (Principle 15)***

The Company recognises that good corporate governance requires active participation of shareholders in decision-making at General Meetings of Shareholders. We encourage shareholder participation at General Meetings. Information on shareholders' meetings is disseminated through notices published in newspapers, as well as through reports or circulars sent to all shareholders. All registered shareholders are invited to participate in shareholder meetings. If they do not wish to attend in person, they can issue instructions to accept, reject or abstain on each individual item on the meeting agenda by giving instructions to their proxy. Each shareholder is allowed to appoint up to two proxies to vote on his behalf at the meeting.

The Company also allows CPF Investors to attend General Meetings as observers.

At General Meetings of shareholders, our Chairman, Group President & CEO as well as the AC Chairman would be present together with the Group Chief Financial Officer, the Company Secretary and our external auditors to answer shareholders' questions. Minutes of shareholders' meetings are available on request by registered shareholders.

For further details on SembCorp Industries' communications with its shareholders, see the Investor Relations section on page 136 of this Annual Report.

## **Dealings in securities**

The Company has adopted a Code of Compliance on

# Corporate Governance

Dealing in Securities, which prohibits dealings in the Company's securities by its officers during the period commencing two weeks prior to the announcement of the Company's quarterly results. Directors and executives are also expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

## **Interested person transactions**

Shareholders have adopted a Shareholders' Mandate (Mandate) in respect of interested person transactions of the Company. The Mandate sets out the levels and procedures to obtain approval for such transactions. Information regarding the Mandate is available on the Company's website, [www.sembcorp.com.sg](http://www.sembcorp.com.sg). All SBUs are required to be familiar with the Mandate and report any such transactions to the Company's Group Finance department (GF). GF maintains a register of the Company's interested person transactions to capture all interested person transactions in accordance with reporting requirements as stipulated by Chapter 9 of the SGX-ST Listing Manual. Information on interested person transactions for 2005 may be found on page 268.



(Pictured) Shareholders voting at our 2005 Annual General Meeting. SembCorp Industries recognises that good corporate governance requires shareholders' active participation in decision-making at General Meetings.





SembCorp Utilities' gas unit supplies compressed natural gas, an environmentally friendly alternative to petrol and diesel, from its refuelling station on Jurong Island, Singapore.



## We believe that integrating environmental, health and safety considerations into our business practices is not only the right thing to do, but also good for our business.

### **Our commitment**

SembCorp Industries recognises that in order for us to be a truly successful company, we must behave as a responsible corporate citizen and be committed to improving the world around us. This commitment shapes our present and future actions. We aim to manage our impact on the environment, safeguard the health and safety of our employees and contribute to the communities in which we operate.

In line with this, we believe that integrating environmental, health and safety considerations into our business practices is not only the right thing to do, but also good for our business. It helps us to manage risk better, lower costs through improved efficiency, increase our value as an investment and grow our business in an ethical and sustainable manner.

### **SembCorp Industries Environment, Health and Safety (EHS) Statement**

SembCorp Industries strives to be a leader – setting standards for the industry. We are committed to responsibly serving our community and safeguarding the environment. We aim to conduct all business operations in a manner that ensures the health and safety of our customers, employees, the communities in which we operate and our ecological system.

Understanding the importance of health, safety and the environment, we will:

- Assist the community by offering products, services and solutions that will better conserve and protect our environment
- Encourage conservation and recycling in an effort to increase participation in recycling and promote

environmental awareness among our staff and community

- Ensure safe operations, while minimising impacts on the environment and the communities in which we operate

As part of our ongoing efforts to improve our operations in a responsible and environmentally sustainable manner, we will also:

- Comply with existing environmental health and safety laws and legislation in all our operations
- Continue research, development and employee training and education in order to conduct business in a responsible manner
- Conduct careful review of all procedures to improve performance and quality, with constant consideration of environmental factors

## SembCorp Group's environmental business lines

Business	Activities	Countries of operation
SembCorp Utilities (SembUtilities)	Provision of natural gas, cogeneration of power and steam, power generation from natural gas and renewables, treatment of hazardous industrial waste, treatment and recycling of industrial wastewater	Singapore, China, UK
SembCorp Marine – JPL Industries	Recycling of copper slag from shipyard grit-blasting	Singapore
SembCorp Environmental Management	Operation of waste collection, recovery and sorting systems, medical waste incineration, paper recycling, construction waste recovery, biological waste treatment	Singapore, Australia, China, India
SembCorp Engineers and Constructors – Environmental Division	Design and construction of wastewater collection and treatment systems, building of waste management facilities	Singapore

Translating this commitment into action is a significant undertaking, but we have made good progress in 2005. Implementation of ISO 14001 and other EHS management systems continued during the year. In addition, a number of commendable safety, emission reduction and waste management initiatives were also launched across the Group. As a result we have managed to save resources, reduce our greenhouse gas emissions and make our workplaces safer.

2005 marked a significant year for our community involvement, with the launch of the Trailblazer-Wong Kok Siew Fund in aid of children, youth and education. Across the Group, SembCorp's businesses also continued efforts to aid those in tsunami-stricken areas, offering our facilities as collection points for donations, collecting proceeds and donating cash, food, medicine and clothing. Our employees also volunteered their time, money and care to a number of community development initiatives.

As we move into 2006 and beyond, we aim to build on our efforts in the past year, address issues that are important to our stakeholders and become a more responsible and sustainable company.

### Our approach

Our approach to incorporating environmental and social considerations into our business operations comprises four principles. Firstly, we actively invest in sustainable businesses that increase shareholder value. Secondly, we implement sound internationally recognised EHS management systems. Thirdly, we continually aim to enhance the environmental safety and impacts on health of our processes, products and services through integrating EHS measures into our business processes, as well as through ongoing feedback and innovation. Fourthly, we work closely with our partners and suppliers for mutual EHS improvement to effect a more far-reaching positive impact.

### Investing in sustainable businesses

With a view that environmental management issues are opportunities for business and not just risks to be managed, we have continued to invest in businesses that have a positive effect on the environment. *(See table above for details of our environmental business lines.)*

# Corporate Social Responsibility

In 2005, the SembCorp Group continued to grow its environmental business lines. Significant milestones and investments include:

- A £60 million (\$\$187 million) investment to build a new wood-burning power station at the Wilton International site, Teesside, UK. The plant will be one of the UK's largest biomass renewable energy projects.
- The commencement of operation of the new 42 megawatt gas-fired turbine for SembCorp Utilities UK (SembUtilities UK) Wilton Power Station. The new unit, which replaces an existing oil-fired boiler, uses the latest "dry low NOx" technology, enhancing the efficiency of the plant and reducing the emission of air pollutants.
- A US\$8 million (\$\$13 million) investment in a joint venture company to acquire, expand, own and operate an existing 10,000 cubic metres per day integrated wastewater treatment facility in ZhangJiaGang Free Trade Zone in Jiangsu Province, China.
- The commencement of operations of a 12,500 cubic metres per day wastewater treatment facility in Nanjing Chemical Industrial Park, China.

- The commercial launch of Singapore's first fleet of taxis running on compressed natural gas (CNG). The CNG was supplied by SembUtilities' subsidiary SembCorp Gas, marking a milestone in green fuel development in Singapore.

## ***EHS management systems in place***

Each business unit is responsible for managing its own EHS performance and initiatives. To this end, ISO 14001 has been well implemented throughout the Group, ensuring that proper environmental management systems are put in place and regularly monitored. In addition, a number of business units have gone beyond ISO 14001 certification by adopting complementary systems, specific to their business activities. When possible, we integrate our environmental, quality and safety measurement systems – achieving certification under ISO 9001, ISO 14001 and Occupational Health & Safety OHSAS 18001. We also abide by CP 79, Singapore's Code of Practice for Safety Management Systems for construction worksites. (See table below for certification systems in place in our business units.)

## **Certification systems in place in the SembCorp Group**

	ISO 14001	ISO 9001	OHSAS 18001
<b>SembCorp Utilities</b>			
SUT Sakra	●		
SembCorp Gas		●	
SMOE	●	●	●
<b>SembCorp Marine</b>			
Jurong Shipyard		●	●
Sembawang Shipyard	●	●	●
Jurong SML Shipyard		●	
PPL Shipyard		●	
PT Karimun Sembawang Shipyard (Indonesia)		●	

## Certification systems in place in the SembCorp Group

	ISO 14001	ISO 9001	OHSAS 18001
<b>SembCorp Logistics</b>			
Singapore Offshore Petroleum Services	●	●	●
ST Airport Services	●	●	●
Oil-Tex (Thailand)	●	●	●
ST Medical Services		●	
Government Business Group		●	
Freight Management Division		●	
Clementi Warehouse		●	
SembCorp Zenecon		●	
<b>SembCorp Environmental Management</b>			
SembCorp Environmental Management	●	●	●
SembWaste (Municipal)	●	●	●
SembWaste (Industrial / Commercial Waste)	●	●	●
SembWaste Cleantech	●	●	●
SembEnviro Tay Paper	●	●	●
SembVisy Recycling	●	●	●
Lim Chu Kang Depot	●	●	●
Materials Recovery Facility	●	●	●
SembSITA Australia	●	●	●
<b>SembCorp Engineers and Constructors</b>			
SembCorp Engineers and Constructors	●	●	●
SembCorp Simon-Carves	●	●	●
SembCorp Design & Construction	●	●	●
SembCorp (Tianjin) Construction Engineering	●	●	●
ST Architects and Engineers	●	●	
Construction Technology	●	●	●
Reliance Contractors	●	●	●
SembCorp Infrastructure (India)		●	
<b>Other Business Units</b>			
SembCorp Parks Management		●	
Batamindo Industrial Park	●	●	
Vietnam-Singapore Industrial Park		●	
Singapore Mint	●	●	
Island Leisure International		●	

# Corporate Social Responsibility

Other proactive measures used by the Group's operating units include SembCorp Marine (SembMarine) subsidiary Sembawang Shipyard's adoption of Det Norske Veritas' International Safety Rating System (ISRS). ISRS audits encompass 20 elements, including key EHS parameters such as accident investigation, emergency preparedness, materials and services management and planned inspections and maintenance. Sembawang Shipyard implemented ISRS in 1992 and has undergone yearly audits. In the 2005 audit, the yard maintained a rating of Level 9 on a ten-level scale.

## *Embedding EHS measures in our operations*

Our EHS management is strengthened through the embedding of EHS measures in our operational processes and the setting of key targets.

These embedded EHS measures can take the form of controls put in place for products. An example of this is SembCorp Engineers and Constructors (SembE&C)'s Total Environmental Quality Score system, which integrates environmental considerations into the building design process. More than 50 criteria are applied to each SembE&C building project at the design stage. If the project does not achieve a minimum score (73 out of 100) it is sent back for review and re-design.

More often however, EHS measures are embedded in operational processes. For instance, Sembawang Shipyard has a host of in-house performance management systems including a Behaviour-based Safety Programme, an EHS Code of Conduct backed by fines for violations by workers and contractors, regular environmental audits and a red card / yellow card system for EHS violations. EHS data is also monitored and reviewed at a monthly Shipyard Industrial Safety & Health Committee meeting chaired by the yard's managing director, with an overall review on an annual basis.

Meanwhile, SembCorp Logistics (SembLog) subsidiaries, ST-Airport Services and Singapore Offshore Petroleum

Services, set a zero-target for accidents, injuries and spillages and practices "near-miss" and hazard reporting. In addition to proper safety monitoring and management, SembCorp's operations staff also undergo extensive safety training. For instance, SembUtilities staff and contractors undergo training in chemical safety, confined space entry, waste management, fire safety, first aid and hazardous material spill control. In addition, emergency drills and exercises are also regularly carried out to test emergency preparedness.

At SembE&C, each individual project conducts its own safety promotion activities such as job safety and hazard training, involving all levels of employees from line workers to senior managers.

Audits are also incorporated into our operations to strengthen the functioning of EHS management systems. For instance, SembUtilities identifies key strategic issues for the company such as greenhouse gas emissions and carries out annual environmental and risk assessments at applicable facilities.

## *Engaging employees*

To drive staff commitment and build an organisation-wide safety culture, employees are assessed on their EHS performance. For example, SembLog and SembE&C have a balance scorecard of EHS metrics to track and evaluate the performance of site employees and senior managers. Similarly, SembCorp Environmental Management (SembEnviro) promotes a "zero-accident" policy for all its vehicle operations. Operations staff who achieve this are recognised through in-house awards in addition to awards endorsed by the National Safety Council of Singapore.

SembCorp Industries also actively encourages staff at all levels to contribute ideas and suggestions from an operational perspective to improve workplace practices and products and services, including their environmental safety and impact on employee health.

Innovation and quality circles at SembUtilities, SembE&C, SembLog, SembCorp Parks Management, Batamindo Investment Cakrawala and Bintan Inti Industrial Estate, comprising cross-functional teams, provide a dynamic platform for sharing ideas and suggestions.

On a Group-wide level, outstanding solutions are also rewarded at our annual intra-Group Innovate, Discover, Engineer and Achieve (IDEA) Awards. Award-winning entries in 2005 included the recycling of industrial wastewater into highly purified water for industrial use; an innovative device for reducing injuries while shifting and aligning pipes; and a scheme for the utilisation of heat inertia from tripped boilers to continuously supply steam to customers without any interruption in the event of a trip at our Jurong Island cogeneration plant.

We also encourage employees to participate in national awards for EHS, leveraging on these to affirm the value of staff EHS contributions. In 2005, Sembawang Shipyard received the Ergonomic Solution Award from the Ministry of Manpower for ergonomic and safe solutions employed at the workplace for all employees. The shipyard also clinched silver and bronze awards at the Safety Innovation Team Convention for its innovative ideas for safe use of cable cranes and hull hooks.

#### ***Working with our partners***

We understand the importance of working closely with our clients, contractors and suppliers to manage the environmental and health impacts of our core business operations.

For instance, EHS accountability to customers is encompassed in Sembawang Shipyard's alliance partnerships with long-term customers such as Shell and BP. For work on vessels commissioned by these alliance partners, EHS performance is monitored on a per-ship basis and the data is presented to the alliance partner during the yard's Annual Alliance Review.

Sembawang Shipyard's Contractor of the Month award is another example of working with contractors to improve the safety of processes and work environments. The EHS performance of the contractor is the main criteria for selection of the award; half the cash prize of S\$10,000 must be used by the contractor to purchase personal protective equipment for its workers.

Both SembE&C and SembLog also include EHS criteria in their comprehensive vendor and partner selection systems. SembE&C's Partner of Choice scheme gives preference to vendors and sub-contractors who qualify under these criteria, offers a premium price to them and waives any performance bond. Meanwhile, SembLog's Core Vendor Selection Criteria screens vendors by certification in ISO 14001 and OHSAS 18001.

In addition to training its own employees in safety management, SembE&C also trains its sub-contractors to bring them on board to its zero-accident safety vision. Vendors and contractors are also invited to participate in seminars and training courses to ensure better understanding and adoption of the company's EHS policies.

#### **Our initiatives**

The following sections focus on SembCorp Industries' significant environmental, health, safety and social initiatives undertaken in 2005.

#### ***Energy conservation and clean air***

In 2005, SembUtilities Singapore successfully converted all of its boilers on Jurong Island from heavy fuel oil to natural gas. With this, the steam and power that we supply to customers in Singapore is now sourced entirely from a fuel that generates substantially less air emissions and no waste, compared to fossil fuels. In addition, the minimum turndown temperature of the boilers was lowered as a result, causing boiler efficiency to increase to 93.5%. Our customers also stand to enjoy cost savings of approximately S\$15 million per year, based on the price of fuel oil in 2005.

# Corporate Social Responsibility

At SembUtilities UK, we continued to supply our customers with steam and power produced from tallow, a form of renewable fuel. In 2005, we burnt approximately 78,000 tonnes of tallow (70,050 tonnes fuel oil equivalent). The project has been recognised as contributing towards the UK's goal of producing 20% of its energy from renewable sources by 2010.

SembUtilities UK furthered its foray into renewable energy by investing £60 million (S\$187 million) in a new wood-burning biomass power station, Wilton 10. Construction for this project began in October 2005. This pioneering facility is set to become one of the UK's largest biomass renewable energy projects, generating 30 megawatts of electricity. "Biomass" refers to renewable plant-derived organic matter – such as dedicated energy crops, trees and wood wastes – used in place of fossil fuels to generate energy or energy-related products. Wilton 10 will be fuelled by discarded wood from sawmills and forestry operations, as well as from specially grown energy crops cultivated within a 50 mile radius of the site. The cultivation of these energy crops will in itself mean the afforestation of 7,500 acres, the equivalent of around 3,000 football pitches, and will create wildlife havens throughout the region.

SembLog minimised its vehicular air emissions by purchasing three 40,000 litre mobile refuelling units for its transportation vehicles. The capacity is three times that of SembLog's current transportation vehicles and will cut down the number of refuelling trips made, thereby reducing emissions.

Sembawang Shipyard also achieved its goal of phasing out all ozone depleting substances from its fire-fighting systems in 2005 by converting to hydrochlorofluorocarbon-based (HCFC-based) systems instead of the more destructive halon-based fire extinguishers.

## **Water**

In 2005, SembUtilities continued its development of an ongoing industrial effluent recovery project on Jurong Island that aims to reclaim 52% of industrial effluent as demineralised water and to conserve Singapore's precious water resource. Approximately 6,240 cubic metres per day of industrial effluent is passed through a series of physical, chemical and biological treatment processes every day, removing all biodegradable components, which are then discharged safely.

To further our water conservation measures, rainwater is collected by SembLog in purpose-built tanks at two logistics centres for non-potable uses such as toilet flushing and cleaning. In addition, seawater is used to cool the air-conditioning system at one of our logistics centres. These measures have reduced our demand for processed water and led to significant cost savings.

## **Waste management and resources**

In 2005, Sembawang Shipyard achieved a cost recovery of approximately S\$5 million from its Waste Management Programme, which aims to reduce materials wastage and increase recycling. The programme involves waste segregation and recovery of materials from paint drums, zinc anodes, ferrous and non-ferrous metals.

Similarly, by making simple changes to our packaging practices, we managed to substantially reduce our materials usage and costs. SembLog reduced its materials use by standardising the sizes of packaging and storage materials such as containers, trays and pallets, as well as fabricating them in durable plastic.

As an enhancement to its waste collection services and to boost recycling, SembEnviro invested in dual-compartment waste collection trucks in 2005. Equipped with separate compartments that can store both waste and recyclables, these trucks enable daily recycling at residential facilities and help to minimise waste in Singapore.

### **Health and safety**

During the outbreak of dengue fever in October 2005, SembE&C worked with the Building Construction and Timber Industries Employees' Union representatives to visit work sites and teach workers dengue prevention techniques. Major work sites also established their own in-house pest control teams and worked in tandem with licensed pest control operators to prevent mosquito breeding. In addition, SembE&C appointed designated factory doctors for all construction sites and a resident industrial nurse at selected sites, to provide first aid and mitigate injury risk. With such robust safety measures in place, SembE&C received a Silver Award and nine Certificates of Merit under the Ministry of Manpower's 2005 Annual Safety Performance Awards.

SembUtilities UK received recognition for its health and safety excellence in September 2005. It was jointly awarded the British Safety Council's prestigious Sword of Honour award, together with six other major companies located at the Wilton International industrial site. The Sword, which recognises competence in managing health and safety risks and success in promoting an organisation-wide safety culture, is widely regarded as the global pinnacle of workplace health and safety achievement. SembUtilities UK and its six other co-applicants not only achieved the award at the first attempt, but also collectively became the first multi-company site to gain the award since its inception 26 years ago.

### **Nature conservation and environmental awareness**

In 2005, Sembawang Shipyard continued its long-term sponsorship of the annual Green Wave Environmental Care Competition for schools. The competition, which aims to promote awareness and a sense of personal responsibility for the environment amongst students, as well as encourage creative thinking for environmental improvement, attracted more than 1,000 participants in 2005. Students' projects covered a wide array of environmental concerns. Some 43 awards, including prizes of up to S\$10,000, were given out.

SembEnviro organised a Recycling Day at a local constituency to facilitate recycling efforts and build awareness within the community. As an incentive for participation, it offered to exchange recyclables for household essentials such as rice, instant noodles and tissue packs. A total of 13 tonnes of recyclables were collected during the event.

### **Community involvement**

In 2005, the SembCorp Group continued to support charitable, educational and cultural causes through direct donations and in-kind support. (See KPI 1: SembCorp Group's charitable giving & community on page 121).

In July 2005, SembCorp Industries and its subsidiaries launched the S\$1.2 million Trailblazer-Wong Kok Siew Fund, consolidating community giving efforts across the Group and building on the Group's community focus on children, youth and education. Pooling its resources and efforts under the Fund enables the Group to adopt a better coordinated and holistic approach to its charitable efforts and provides a focal point to galvanise greater support and attract donations from outside the SembCorp Group.

Key programmes under the fund include the following:

- **School Book Assistance Grant (SchoolBAG)** by SembMarine to assist low-income households with school children in purchasing textbooks, uniforms and stationery at the commencement of the school year.
- **Global Learning Journey** by Singapore Mint to educate school children about foreign countries in a creative way, using coins, educational exchanges and visits to foreign mints.
- **Jamiyah Children's Home** sponsorship by SembEnviro to support 77 less privileged children.

In 2005, the Group also continued in its efforts to help people in tsunami-stricken areas. SembEnviro raised S\$11,682 and collected over 16 tonnes of clothing,



# Corporate Social Responsibility

whilst SembE&C donated S\$17,260 and containers full of clothing, medication, dried food and drinking water to the Singapore Red Cross Society's disaster relief efforts. In addition, SembLog opened up two of its logistics centres as collection points for public donations and was awarded a commendation from the National Volunteer and Philanthropic Council for 'Significant Contributions to the Relief and Reconstruction Efforts after the Asian Tsunami Disaster'. SembCorp Parks Management's (SembParks) PT Bintan Inti Industrial Estate and its tenant, PT Tunaskarya, jointly carried out a donation drive in aid of tsunami victims in Aceh and North Sumatra.

Our employees also volunteered their time to the community in various ways. For example, SembLog volunteers helped to sort and pack food and gift items for the needy as part of the Boys' Brigade Sharity Gift Box scheme. During the dengue fever outbreak in Singapore, 11 SembEnviro employees volunteered to participate in the National Environment Agency's "carpet-combing" exercise for dengue fever prevention in the community.

Our contributions also extended to communities in Vietnam and Indonesia, where SembParks operates its industrial parks. Batamindo Industrial Park (BIP) sponsored scholarships to 605 students from the nearby community worth S\$36,075, whilst the Vietnam-Singapore Industrial Park (VSIP) sponsored scholarships for 40 students totalling S\$30,000. In addition, BIP also donated food and medical aid worth S\$33,483 to needy recipients in its community, whilst VSIP donated S\$5,000 to the Vietnam Red Cross.

## **Our performance**

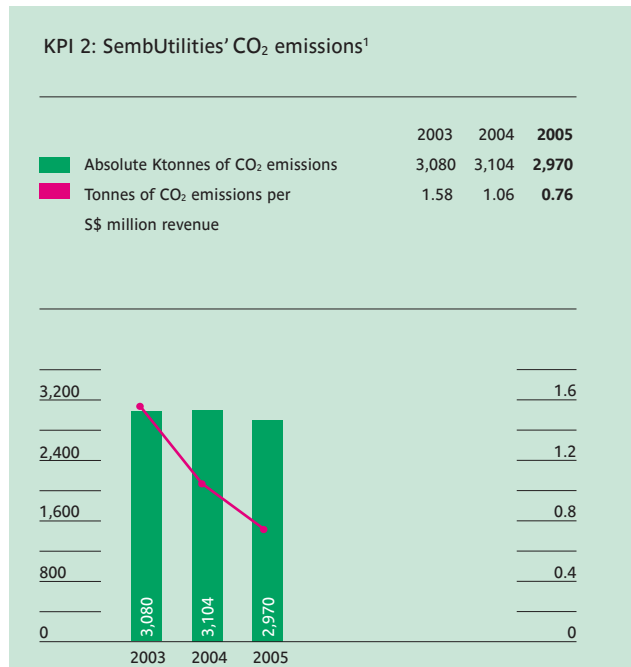
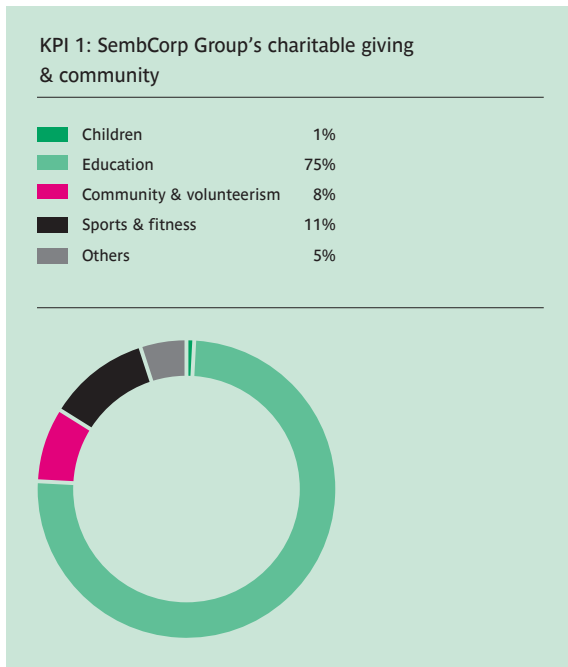
In addition to the key initiatives above, in 2005 we continued to monitor our environmental, safety and community performance quantitatively through the use of Key Performance Indicators (KPIs). Due to the diverse nature of our operations, separate KPIs specific to each of our five main business units were applied, in addition to a Group-wide KPI for charitable giving. Our scorecards are presented on pages 121 to 123.

**KPI 1: SembCorp Industries – Charitable giving & community**

The total amount of charitable donations by the SembCorp Group in 2005 was S\$2.3 million, compared with S\$1.1 million in 2004. Through these donations we actively support charities, philanthropic efforts, educational events, welfare groups, community events and underprivileged people.

**KPI 2: SembUtilities – CO<sub>2</sub> emissions**

Carbon dioxide (CO<sub>2</sub>) from SembUtilities' worldwide power generation activities is one of our major remaining emissions and hence is one of our KPI. We have achieved good reduction in CO<sub>2</sub> emissions per million dollar sales over the last few years. In 2005, we continued to reduce our emissions by using natural gas in place of fuel oil in selected boilers and by obtaining energy from renewables.



<sup>1</sup> Data from SembUtilities majority owned operations worldwide

# Corporate Social Responsibility

## KPI 3: SembMarine's Sembawang Shipyard – Accident frequency rate

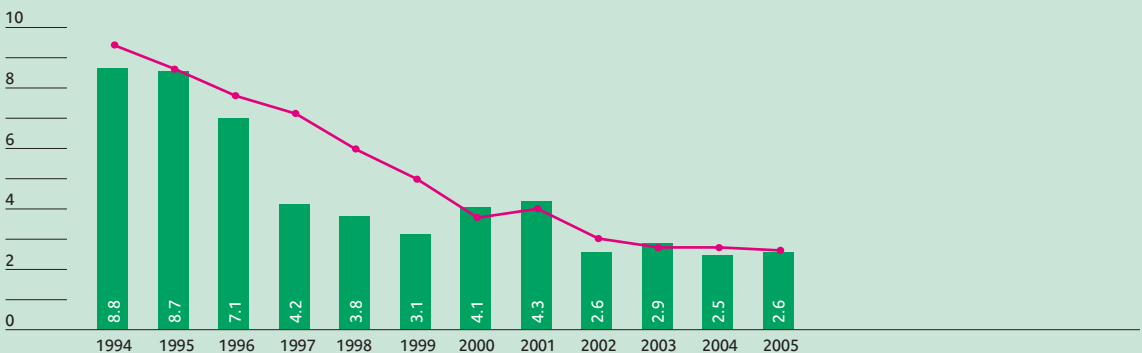
Safety has always been a key priority of SembMarine's shipyards. Our Environment, Health and Safety Management System at Sembawang Shipyard has been in place since the 1970s and a Behavior Based Safety system, since 2001. We are profiling the accident frequency rate as the KPI for Sembawang Shipyard.

## KPI 4: SembLog's ST-Airport Services – Fuel spillages

ST-Airport Services' core business includes the transport, storage and delivery of large quantities of aviation fuel. Product spillage can cause water and ground contamination, increase fire risk and result in other negative impacts. To minimise this risk, we have put in place a comprehensive management system consisting of procedures and monitoring programmes to prevent fuel spillage. Hence we are profiling fuel spillages as the KPI for these operations. We have achieved our target of zero spills every year since beginning operations in 1996.

KPI 3: Sembawang Shipyard's accident frequency rate  
(Number of lost time accidents per million man hours' work)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sembawang Shipyard's accident frequency rate	8.8	8.7	7.1	4.2	3.8	3.1	4.1	4.3	2.6	2.9	2.5	2.6
Ministry of Manpower industry target	9.6	8.8	7.9	7.3	6.1	5.1	3.8	4.1	3.1	2.8	2.8	2.7

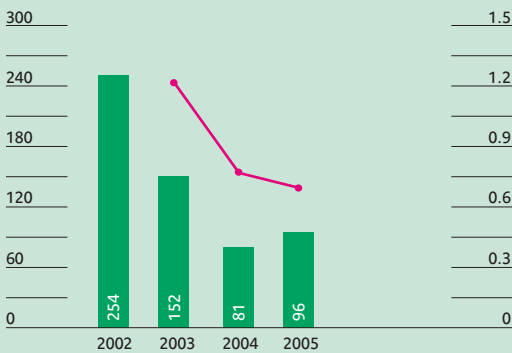


**KPI 5: SembEnviro –  
Vehicle accident rate**

With a fleet of more than 300 vehicles on the road 365 days a year, road safety is of utmost importance to SembEnviro. We have been monitoring our vehicle accident rate KPI closely and have put in place a number of initiatives to reduce accidents. Our efforts to improve safety have led to a drop in the accident-to-kilometre (km) travelled ratio to 0.68 accidents to every 100,000 km travelled in 2005, well within our target of less than one accident per 100,000 km.

KPI 5: SembEnviro’s vehicle accident rate  
(Number of accidents per year)

	2002	2003	2004	2005
Accidents	254	152	81	96
Accidents per 100,000 km travelled	-	1.25	0.78	0.68

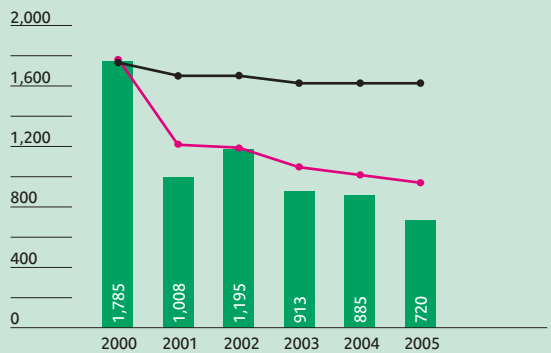


**KPI 6: SembE&C –  
Water consumption**

Reducing the consumption of water, a precious resource in Singapore, has been an integral part of our environmental management system for many years. SembE&C continued to reduce its water consumption per million dollar of sales in 2005 and remains committed to reducing the amount of water utilised for our construction activities and processes.

KPI 6: SembE&C’s water consumption  
(m³ per S\$ million sales)

- Average water consumption
- SembE&C’s moving average
- SembE&C’s target







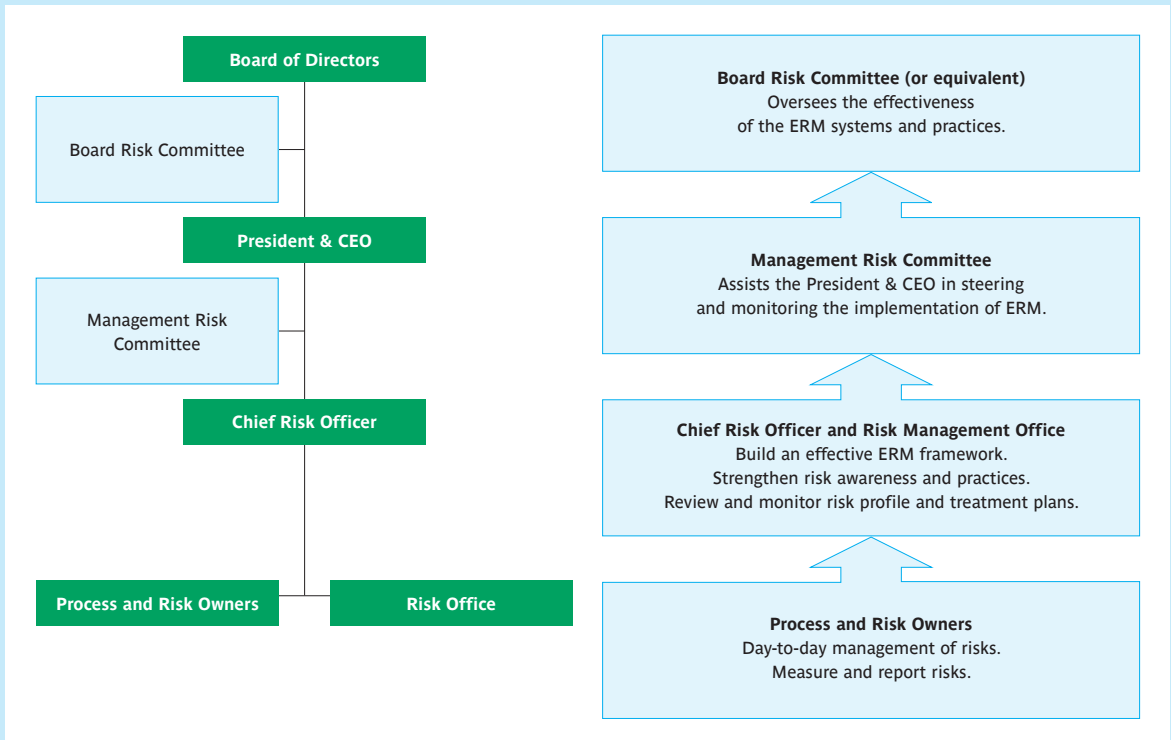
(Pictured) Advanced firefighting machines employed by SembCorp Utilities UK's rapid response emergency team, who is on constant standby to assure onsite safety.

## Each SBU is to embed the ERM framework into its business processes and ensure that risks are proactively addressed and managed in a timely and effective manner.

Under the direction of the Board and Management of SembCorp Industries, a coherent Enterprise Risk Management (ERM) framework has been developed for implementation across the Group. In line with our commitment to deliver sustainable value, the objective of this framework is to provide an integrated and systematic approach for evaluating and managing the risks that our businesses are facing.

The implementation of the ERM programme in the Strategic Business Units (SBUs) is our focus and priority. Each SBU, led by its President & CEO, is to embed the ERM framework into its business processes and ensure that risks are proactively addressed and managed in a timely and effective manner.

### SembCorp Industries' ERM oversight structure



The status of ERM implementation in the SBUs is regularly monitored and reported to the SembCorp Industries Board Risk Committee. Progress is tracked against the following guidelines to ensure the effectiveness of risk management processes and systems:

- a) Formation of the SBU board risk committee (or equivalent) and supporting risk management structures;
- b) Senior management commitment and support in all risk management initiatives, including the implementation of measures for risk management performance;
- c) Adequacy and effectiveness of resources committed towards risk management as well as the level of training and awareness across the SBU;
- d) Establishment of a system of check and balance, including external party reviews where necessary;
- e) Compliance with established risk management policies, procedures and guidelines and
- f) Regular review by external and internal auditors of the effectiveness of material internal controls, including financial, operational, compliance controls and risk management systems and processes.

#### **ERM oversight structure**

SBUs are required to set up respective board and management risk committees to provide necessary oversight and steer the implementation of ERM.

#### **Our risk management process**

A systematic and on-going process for identifying, evaluating, controlling and reporting risk comprises the following key elements:

- a) Assessment of business risks;
- b) Formulation of risk management strategies;
- c) Design and implementation of risk management action plans to execute risk management strategies;
- d) Monitoring and reporting of risk management performance and risk levels and
- e) Continuous improvement of risk management action plans and capabilities.

In addition, strategic terms of reference have been developed by individual SBUs to ensure that new business undertakings are focused and within acceptable risk and return guidelines.

Managers are assigned and made accountable for addressing risks under their control. Following established guidelines, they formulate risk management policies and procedures, and develop risk treatment plans to manage and mitigate the risks.

Key risk exposure and risk treatment plans are monitored and reported to the SBU management and board for review and assessment.

This ERM framework is one that will continue to be improved upon as we fully integrate risk management into our key business processes. Our ultimate aim is that risk management would form an integral part of our Group culture.



# The Group's continuous efforts to improve our cashflow generation resulted in significant improvement in cashflow from operations to S\$828 million.

### Facilities

The Group consolidates and diversifies its sources of funding by building on its existing and developing new bilateral banking relationships. The Group also accesses the capital markets as and when appropriate. As at end of 2005, the Group's undrawn credit facilities amounted to S\$4.6 billion, consisting of 60% bilateral banking facilities and the remaining 40% accessible from the capital markets.

### Cashflow

The Group's continued efforts towards the improvement of our cashflow generation resulted in significant improvement in cashflow from operations to S\$828 million (2004: S\$494 million). Strong core operational performance, down payments from customers together with improved management of debt collection and credit terms as well as divestment proceeds contributed to the improvement in cashflow generation. Accordingly, the gross borrowings of the Group reduced from S\$1.9 billion to S\$1.1 billion by end 2005. Taking into account cash and cash equivalents, the Group remained in a net cash position of S\$125 million (2004: S\$195 million) after paying down S\$845 million of short-term debt during the year.

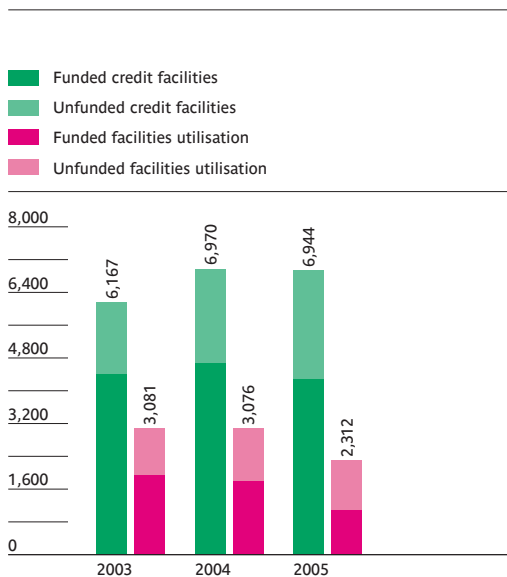
### Borrowings

Our focus remains on the maintenance of an efficient and optimal mix of committed and uncommitted facilities, fixed and floating rate borrowings, prudent financial ratios and the reduction of the cost of funding. As at December 31, 2005, gross borrowings amounted to S\$1.1 billion. Of this, committed funding comprised 90% (2004: 67%) of the Group's gross borrowings and 61% (2004: 59%) of the overall debt portfolio was not exposed

to interest rate fluctuations. The Group continually seeks to limit its interest rate exposure by adopting a prudent debt structure, whilst balancing this with funding cost considerations. The weighted average cost of funding was lower at 3.4% in 2005 (2004: 3.7%). Interest cover ratio remained healthy at 12.4 times (2004: 14.9 times).

The current maturity profile of the Group favours the longer dated maturities, which reduces the impact of refinancing risks. As at end 2005, the Group's debt maturing within one year was reduced to 10% (2004: 54%).

Credit Facilities & Utilisation (S\$ million)



### Treasury management

The Group's financing and treasury activities continues to be mainly centralised within SembCorp Financial Services (SFS), the funding vehicle of the Group. SFS on-lends funds borrowed by it to companies within the Group. SFS also actively manages the cash within the Group by taking in surplus funds from those with excess cash and lending to those with funding requirements. Such proactive cash management continues to be an efficient and cost-effective way of financing the Group's requirements.

### Risk management

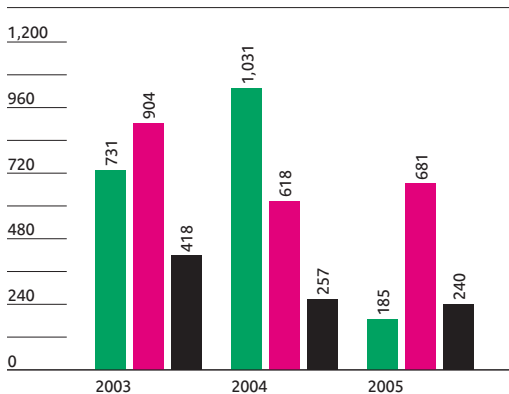
As part of the Group's Enterprise Risk Management framework, our subsidiaries adopted the Group Treasury Policies and Financial Authority Limits. The Group Treasury Policies set out the parameters for management of Group liquidity, counterparty risk, foreign exchange and derivative transactions and financing. The Group utilises various financial instruments to manage exposures to foreign exchange, interest rate and commodity price risks arising

from operational, financing and investment activities. Such transactions hedge the Group against fluctuations in the market prices of the underlying instruments.

The Financial Authority Limits seek to limit and mitigate operational risks by setting out the threshold of approvals required for the entry into contractual obligations and investments.

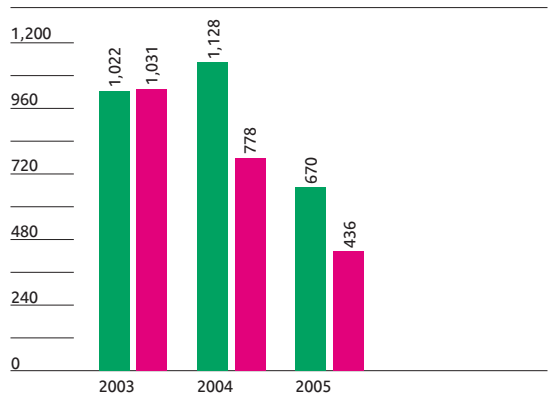
Debt maturity profile (S\$ million)

- < 1 year
- 1-5 years
- > 5 years



Fixed vs floating rate profile (S\$ million)

- Fixed
- Floating



# Financial Management

## Financing & Treasury Highlights

	Group					
	2005		2004		2003	
	S\$ million	%	S\$ million	%	S\$ million	%
<b>Source of funding</b>						
<b>Funded bank facilities, capital markets and available funds</b>						
Funded facilities available for draw down	4,277		4,664		4,664	
Cash and cash equivalents	1,209		2,100		679	
Total facilities and available funds	5,486		6,763		5,343	
Amount drawn down	1,077		1,788		1,815	
Unutilised funded facilities and funds available	4,409		4,976		3,527	
<b>Unfunded bank facilities</b>						
Unfunded facilities available for draw down	2,667		2,306		1,763	
Amount drawn	1,235		1,289		1,151	
Unutilised unfunded facilities available	1,432		1,018		612	
Total unutilised facilities and funds available	5,841		5,993		4,139	
<b>Committed facilities</b>						
Committed facilities available	997		1,381		1,549	
Amount drawn	997		1,281		1,549	
<b>Funding profile</b>						
<b>Maturity profile</b>						
Due within one year	185	17	1,031	54	731	36
Due between one to five years	681	62	618	32	904	44
Due after five years	240	22	257	13	418	20
	1,106	100	1,906	100	2,053	100
<b>Debt mix</b>						
Floating Rate Debt	436	39	778	41	1,031	50
Fixed Rate Debt	670	61	1,128	59	1,022	50
	1,106	100	1,906	100	2,053	100
<b>Currency denomination of debt</b>						
SGD	829	75	1,510	79	1,634	80
USD	24	2	118	6	132	6
GBP	209	19	212	11	209	10
Others	45	4	65	3	77	4
	1,106	100	1,906	100	2,053	100

## Financing & Treasury Highlights

	Group					
	2005		2004		2003	
	S\$ million	%	S\$ million	%	S\$ million	%
<b>Debt ratios</b>						
<b>Interest cover ratio</b>						
Net profit before interest, tax , depreciation and amortisation	666		1,117		583	
Interest on borrowings	54		75		79	
Interest cover (times)	12.4		14.9		7.4	
<b>Debt/Equity Ratio</b>						
Non-recourse Project Financing	399	36	513	27	814	40
Long-term debt	546	49	472	25	579	28
Short-term debt	161	15	921	48	660	32
	1,106	100	1,906	100	2,053	100
Less : Cash and cash equivalents	(1,231)		(2,100)		(679)	
Net (Cash)/ Debt	(125)		(194)		1,374	
Net (Cash)/ Debt excluding project financing	(392)		(575)		762	
Net gearing excluding project financing (times)	Net cash		Net cash		0.3	
Net gearing including project financing (times)	Net cash		Net cash		0.6	
<b>Cost of funding</b>						
Floating		2.73		2.78		2.71
Fixed		3.78		4.57		4.43
Weighted average cost of funds		3.41		3.67		3.69

# We believe that harnessing technology and innovation to adapt and succeed in a changing marketplace is key to the Group's growth.

At SembCorp Industries, we believe that harnessing technology and innovation to adapt and succeed in a changing marketplace is key to the Group's growth. Keeping abreast of technology and constantly thinking out of the box to improve our products, services and business models allows us to sharpen our competitive edge, provide better value to customers and establish a safer and greener environment for our employees.

This feature highlights two ways we put this into practice in 2005. Firstly, we engaged our staff in our ongoing drive to build a Group-wide culture of creativity and innovation, through the fifth run of our annual in-house Group-wide innovation awards. Secondly, we entered the new field of energy generation from renewables, investing in new conversion technology for SembCorp Utilities UK (SembUtilities UK) groundbreaking wood-burning biomass plant in the UK.

### **Fostering a culture of innovation – The IDEA Awards**

A key initiative to engage our staff to leverage their operational experience for innovation is our in-house innovation awards, the IDEA Awards. IDEA – short for Innovate, Discover, Engineer and Achieve – aims to showcase innovations within the Group, encourage ideas, promote creativity and to establish a repository for sharing of novel ideas.

Since its inception in 2000, participation has grown steadily – from 27 applicants in 2001 to 43 in 2005. Since the Awards began, innovations submitted have resulted in an estimated S\$3 million in cost savings and S\$27 million in increased revenue. Along with this have come substantial improvements in workplace safety, environmental protection, reliability and added value for our customers. The 2005 Grand Winners of the IDEA Awards included:

- **SembCorp Utilities (SembUtilities) Singapore's utilisation of heat inertia**  
Innovative modifications were made at SembUtilities' cogeneration plant to utilise heat inertia from tripped boilers to maintain steam supply in the event of an electrical trip.

- **SembCorp Marine (SembMarine) subsidiary Jurong Shipyard's portable safe high-speed valve overhauling and grinding device**

A cross-functional team from the shipyard designed a lightweight, innovative device for a much faster, safer and more accurate valve overhauling. Four months after implementation, the use of the tool had already provided an estimated cost savings of \$63,000.

- **SembUtilities Singapore's effluent recovery project**

SembUtilities' SUT Division undertook two years of extensive research and development leading to its establishment of a new industrial effluent recovery plant, which will reclaim effluent to boost SembUtilities' demineralised water supply.

- **SembMarine subsidiary Sembawang Shipyard's "Handy Safe" hand tool**

Staff from Sembawang Shipyard designed a simple, elegant hand tool consisting of a handle and spring loaded stopper to limit hand contact and safety hazards in manual shifting, lifting and aligning of pipes.

### Leveraging technology for greener energy – Wilton 10

2005 marked SembUtilities UK first large-scale foray into power generation from renewable fuels, with its £60 million investment in Wilton 10, a stand alone wood-burning power plant. Set to be one of the UK's largest biomass energy projects, the new plant will supply over 30 megawatts of electricity, enough to power around 30,000 homes.

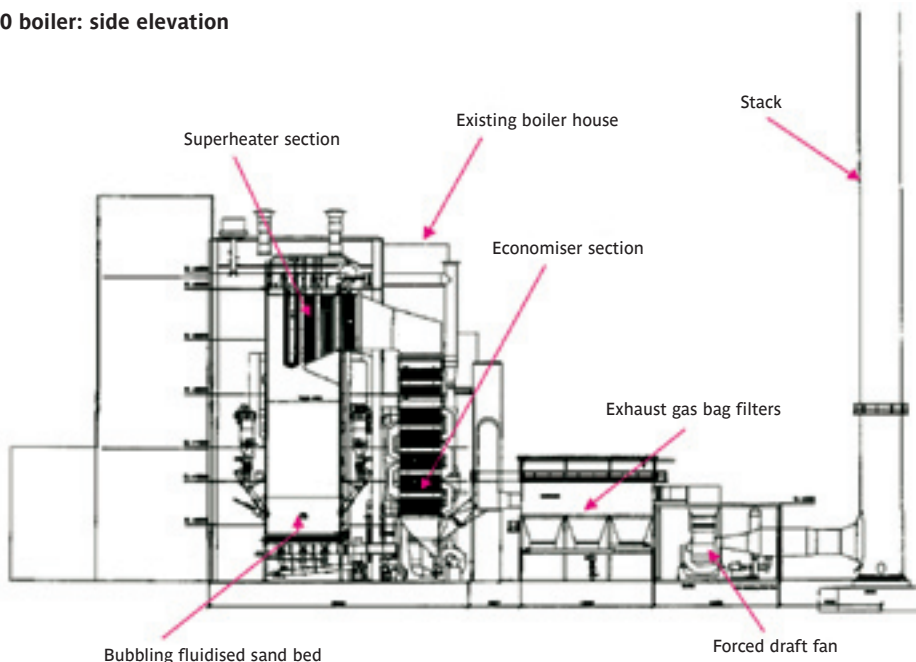
Cost-effective and environmentally compatible power generation from biomass benefits from newer energy conversion technologies compared to the conventional coal-fired combustors. In building Wilton 10, SembUtilities UK applied bubbling fluidised-bed combustion technology, which is particularly efficient when firing fuels with low heating value and high moisture and ash content, or fuels that are difficult to handle with very low levels of emissions. This has met the UK Environment Agency's requirements for Best

Available Technology, a term used to describe the most effective and advanced facilities or techniques which prevent or reduce emissions and any impact on the environment.

The plant will be fueled by wood from a variety of sources including recycled and green wood and specially-grown short rotation coppice, a sustainable energy crop. A test burn of short rotation coppice delivered from the UK was performed in Finland specifically for the Wilton 10 project.

Said Paul Gavens, SembUtilities UK's Executive Vice-President, "Renewable energy presents an entirely new business opportunity for this region and one that we're keen to be a part of. We believe this investment will transform our operations and offers us a great platform from which we can move forward to a brighter, greener future."

### Wilton 10 boiler: side elevation







(Pictured) Site visit by analysts to SembCorp Utilities on Jurong Island, Singapore, in October. We organise regular site visits for financial analysts to our facilities and operations around the world.



# We consider timely, transparent and honest communication with our shareholders and the financial community as integral to instilling confidence in our company.

At SembCorp Industries, we believe that proactive, timely and quality communication with investors and financial analysts is integral to helping the Company achieve a fair valuation of its shares. Our investor relations team is committed to providing meaningful information that would enable all capital market players to make informed investment decisions.

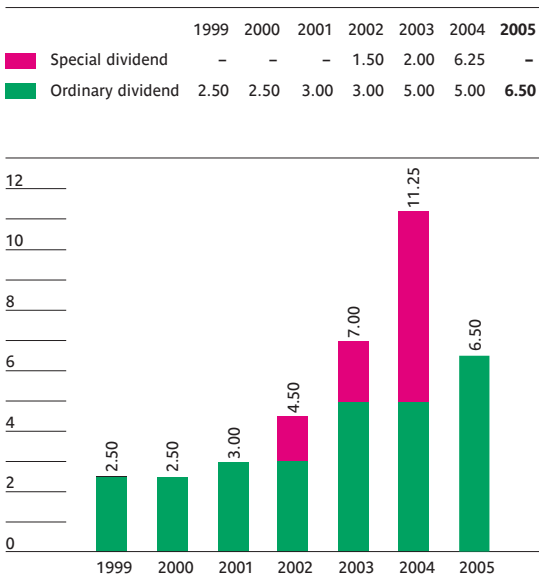
### Communicating growth and sustainability of earnings

In 2005, over 150 one-on-one and group meetings were held with shareholders, analysts and potential

investors. These were ideal opportunities to convey our investment proposition – growth upside from favourable fundamentals in the oil and gas and petrochemical sectors and sustainability of earnings due to our strong market positions, long-term partnerships with customers and unique integrated utilities business model.

During the year, non-deal marketing roadshows were conducted in Milan, Edinburgh, London, Hong Kong and Tokyo to reinforce SembCorp Industries' investment proposition and update shareholders and investors on key

Dividend per share from 1999 to 2005 (cents)



developments in our Company. We also participated in the JP Morgan 10<sup>th</sup> Annual Asia Pacific Equity Conference in New York in September.

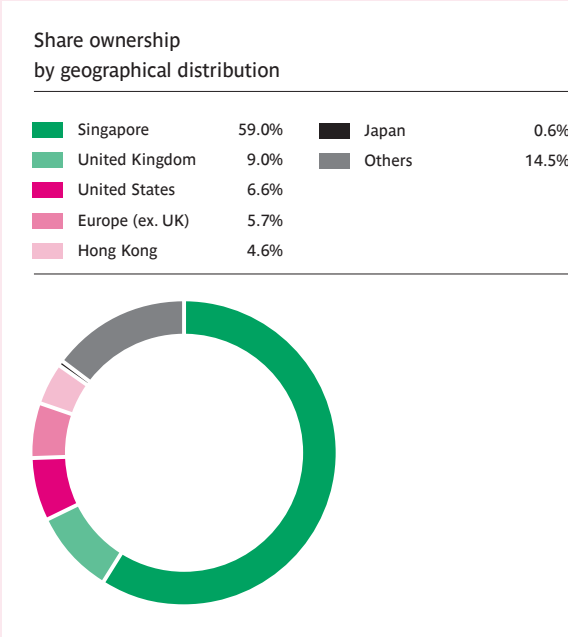
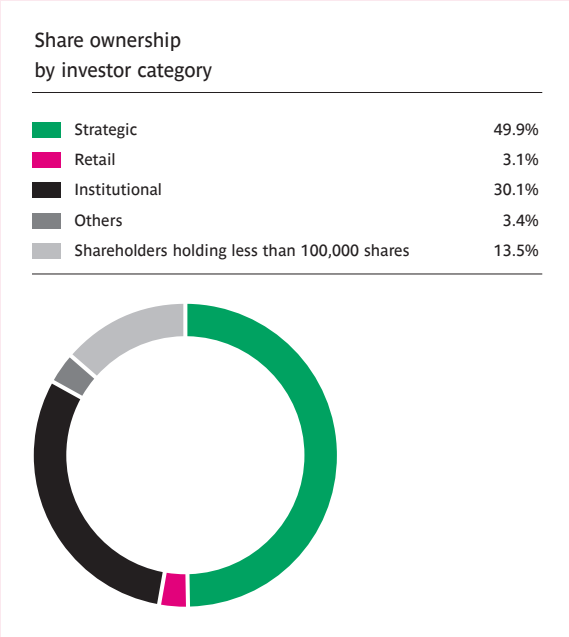
The focal point of our investor relations activities in 2005 centred on improving the financial market’s appreciation of our Utilities business and its sustainability. By communicating intensively and openly, our aim was to enable the financial community to evaluate and assess our business and strategy appropriately. Educational sessions or “teach-ins” on our Utilities business were organised for sell-side analysts, as well as for institutional investors, arranged jointly with their brokers. These sessions provided insights on trends and developments in the industry and established a dialogue for investors and analysts with senior management from our operations. We organised a tour showcasing our integrated utilities facilities on Jurong Island for sell-side analysts in October 2005. We further arranged for Singapore-based sector analysts to visit our operations at Wilton International, Teesside, UK.

That site tour included an in-depth introduction to renewable energy and its future potential by senior management from our UK operations. We believe that site tours such as these as well as interaction with our front-line colleagues are valuable in gaining a better understanding of our business and operating environment.

**Delivering a Total Shareholder Return**

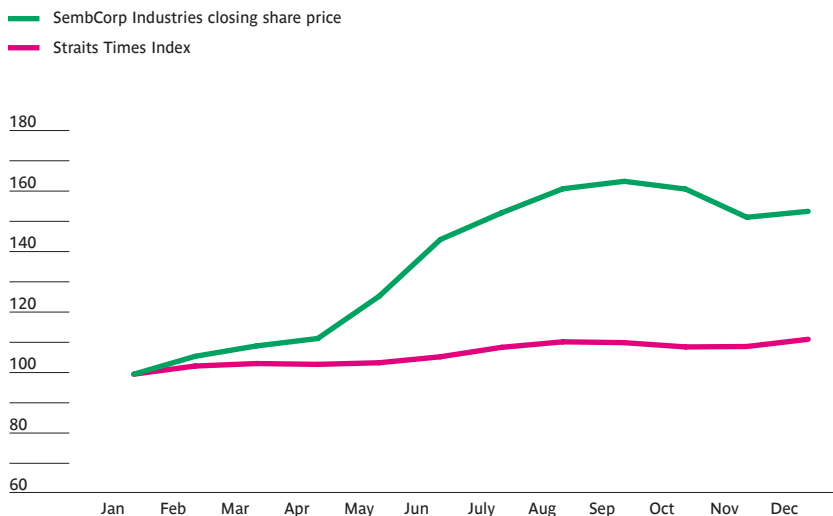
SembCorp Industries shares performed well in 2005. Our shares began the year at S\$1.65 and closed at S\$2.74 on the last trading day of the year. This represents a share price return of 56% adjusted for the capital reduction and a total return of 66% including dividends. SembCorp Industries was the fourth best performing member of the Straits Times Index in 2005, outperforming the benchmark by 43%.

Interest in the stock remained robust. Daily turnover increased to an average of 4.6 million shares in the last 12 months, compared to 4.0 million shares in 2004.



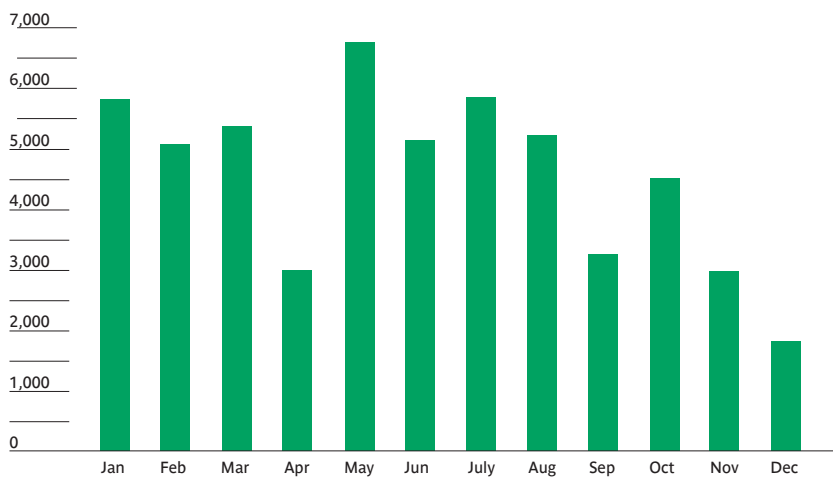
# Investor Relations

Average monthly SembCorp Industries share price and Straits Times Index (STI) in 2005 (rebased)



Month	Share Price (S\$)	ST Index
January	1.76	2,082.26
February	1.87	2,139.22
March	1.93	2,156.65
April	1.97	2,150.94
May	2.22	2,162.26
June	2.56	2,204.01
July	2.72	2,270.33
August	2.86	2,308.88
September	2.90	2,303.06
October	2.86	2,273.09
November	2.69	2,276.02
December	2.72	2,326.64

Average monthly trade volume of SembCorp Industries shares in 2005 ('000)



Month	Volume ('000)
January	5,888.65
February	5,142.39
March	5,437.18
April	3,028.95
May	6,840.45
June	5,202.73
July	5,925.33
August	5,284.14
September	3,291.50
October	4,562.90
November	3,000.10
December	1,842.19

For the year, our shares averaged S\$2.43, hitting a low of S\$1.62 on January 4 and a high of S\$3.12 on October 10.

On June 10, we completed our capital reduction by paying our shareholders a total of S\$214.8 million. The rationale for the exercise was to return surplus capital to investors and to improve our Return On Equity and Earnings Per Share. The exercise reduced our issued share capital by 6% or 110.0 million shares to 1,733.0 million. The reduction was done proportionately, such that all shareholders maintained their proportionate stake in SembCorp Industries.

We believe that favourable industry fundamentals, an improved understanding of our Utilities business and enhanced efforts to reach a wider range of investors have all contributed to the positive performance of our share price in 2005.

#### **Proposed dividend for 2005**

The Board of Directors has proposed a gross ordinary dividend of 6.5 cents per share less tax for 2005, subject to shareholders' approval at the Annual General Meeting on April 27, 2006. This will result in a payout of S\$90.8 million<sup>1</sup> or 33% and a dividend yield of 2.4% based on the closing share price on December 30, 2005.

#### **Gaining more interest from institutional investors**

2005 saw strong interest from institutional shareholders who continued to increase their shareholdings and dominate our free float. Institutional shareholders held 30% of issued share capital or 60% of our free float, compared to 53% the year before. Foreign investors accounted for the increase, particularly from US and Hong Kong institutions. US institutions increased their shareholdings from 10% to 12% of free float while institutions from Hong Kong increased their share from 5% to 7%. We believe that our roadshows have helped us to attain more visibility among investors.

#### **Maintaining open channels of communication**

##### **Results announcements**

Combined press and analysts conferences were held for the release of our half year and full year results. These were webcast live and archived for six months on our website [www.sembcorp.com.sg](http://www.sembcorp.com.sg). Conference calls were organised for the first quarter and third quarter results. All accompanying presentation materials, financial statements and press releases can be found on our website.

##### **SGX-MAS Research Incentive Scheme**

We continued to support and participate in the SGX-MAS Research Incentive Scheme, organised by the Singapore Exchange and the Monetary Authority of Singapore. The scheme allows the investing public to access free independent research reports on SembCorp Industries written by Philip Securities and Net Research.

##### **Annual General Meeting**

The Seventh Annual General Meeting was held on April 26, 2005 at the Theatre, 60 Admiralty Road West. The meeting was well attended by shareholders, with over 150 investors in attendance. The event afforded the opportunity for shareholders to clarify matters about the Company and communicate directly with the Board of Directors and senior management. The Annual General Meeting was followed by an Extraordinary General Meeting, specially convened to seek approval for the capital reduction exercise – which was subsequently approved by shareholders.

##### **Calendar of quarterly results announcement\***

First Quarter	May 8, 2006	Monday
First Half	August 7, 2006	Monday
Third Quarter	November 6, 2006	Monday
Full Year 2006	February 2007	

*Note:*

<sup>1</sup> Based on shareholding as at December 31, 2005.

\* Dates subject to change





At SembCorp, team sports help to promote staff fitness and bonding outside of work. Pictured is SembCorp Utilities' women's rowing team at the 6<sup>th</sup> Jurong Island Dragon Boat Race held in July 2005.

# As the Group continues to expand globally, it is vital that each location is staffed with a strong team.

### Employee profile

As of end December 2005, the SembCorp Group employed 12,338 permanent staff and another 5,387 contract staff in 12 countries.

### People development

One of our manpower priorities in 2005 was to ensure the availability of quality human resources to support the Group's growth. As the Group continues to expand globally, it is vital that each location is staffed with a strong team.

In addition to actively recruiting talented people from all over the world, we also staff our international locations through overseas postings and job rotations. Through these placements, we aim to cultivate a global mindset among our staff and equip them with the necessary exposure to manage international operations.

A concurrent effort in talent building in SembCorp involves the continuous identification and grooming of talented people. Last year, under the SembCorp Scholarship Programme, we sponsored the tertiary studies of six promising students who had done well in both academic studies and co-curricular activities. Into its 16<sup>th</sup> year, the SembCorp Scholarship Programme is currently managing 57 scholars at various stages of career and studies, to be groomed as future leaders of SembCorp. Among these, two have also been sponsored for executive development to the MIT Sloan Fellows Programme in Innovation and Global Leadership in the USA.

As a People Developer organisation, SembCorp Industries continuously works towards aligning our people to the company's needs and systems. The People Developer Standard is Singapore's quality standard for human resource development that recognises organisations which bring

out the best in people for better business results. Last year, we devoted S\$4.4 million to train employees on a broad range of technical, supervisory and professional skills relevant to their area of work. Each employee received an average of 36 training hours, which was comparable to 2004.

### Ethical conduct

At SembCorp, we are committed to conducting business with honesty, trustworthiness, dedication and responsibility. As articulated in our core values, we aim to be truthful and fair in all our dealings and to respect the laws of the countries we operate in and the confidentiality of information provided by our clients and employees.

To ensure integrity and professional conduct among employees, we have an Employee Code of Conduct that, among other things, expressly prohibits dishonest conduct, such as falsifying or giving false information. The Code of Conduct is posted on the enterprise-wide intranet.

In further pursuit of integrity in the workplace, in May 2005 we formalised a whistle-blowing policy that encourages employees to promptly report any potentially illegal, improper or unethical conduct that they become aware of at their workplace or in connection with their work. The whistle-blowing policy also affirms that retaliatory action against employees who have filed complaints alleging possible improprieties will not be condoned. We also have established guidelines and procedures for the handling of employee grievances to ensure that no employee is disadvantaged in any disagreement. We recognise that no organisation is perfect, and encourage employees to raise issues and problems for our attention. We address the issues and strive to work towards a favourable outcome for both the employee and the company.

### Corporate headquarters reorganisation

2005 was a transition year for the Group headquarters. The corporate departments of SembCorp Utilities (SembUtilities) were integrated with the Group headquarters for greater synergy and efficiency of common resources and operations. The reorganisation saw 76 SembUtilities corporate employees being transferred to SembCorp Industries. At the same time, internal policies relating to Finance, Human Resources and IT were reviewed and standardised, and administrative efficiency was increased through the consolidation of systems onto a common web-based platform.

### Share ownership

We continue to reward employees who have contributed to the growth of SembCorp Industries by giving them an opportunity to have a personal equity interest in the company. Share options are granted to all eligible staff, excluding employees of subsidiaries with share option plans of their own. We believe that through this scheme,

a sense of ownership and identification with the company can be fostered.

In 2005, share options were offered in two tranches:

#### Share options offered in July 2005

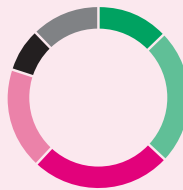
Category	Headcount
Senior Management	83
Non-Executive Directors	9
Employees	2,240
<b>Total</b>	<b>2,332</b>

#### Share options offered in November 2005

Category	Headcount
Senior Management	80
Non-Executive Directors	10
Employees	2,208
<b>Total</b>	<b>2,298</b>

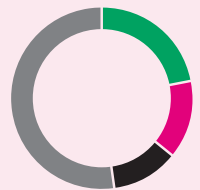
#### Staff distribution by core businesses\*

Utilities	13%
Marine Engineering	24%
Logistics	25%
Environmental Engineering	18%
Engineering & Construction	8%
Others	12%



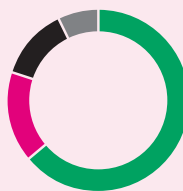
#### Educational qualifications\*

Engineering & Technical (tertiary & above)	22%
Engineering & Technical (other qualifications)	14%
Other Non-engineering & Non-technical (tertiary & above)	12%
Other Non-engineering & Non-technical (other qualifications)	52%



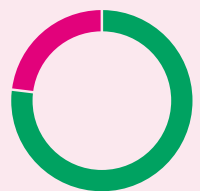
#### Staff distribution by countries\*

Singapore	64%
Southeast and South Asia	16%
North Asia	13%
Europe, Americas and the Middle East	7%



#### Gender distribution

Male	77%
Female	23%



\*These statistics are based on total permanent headcount as of end 2005