

# DIRECTORS' REPORT

We are pleased to submit this Annual Report to the members of the Company, together with the audited financial statements for the financial year ended December 31, 2006.

## DIRECTORS

The directors in office at the date of this report are as follows:

Peter Seah Lim Huat  
Tang Kin Fei  
K Shanmugam  
Goh Geok Ling  
Richard Hale, OBE  
Yong Ying-I  
Evert Henkes  
Lee Suet Fern

## DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year in shares, debentures, warrants and share options in the Company and in related corporations are as follows:

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At beginning of the year	At end of the year	At 21/1/2007	At beginning of the year	At end of the year	At 21/1/2007
<b>Peter Seah Lim Huat</b>								
SembCorp Industries Ltd	Ordinary shares		140,000	280,000	280,000	–	–	–
	Options to subscribe for ordinary shares at							
	– \$S1.35 per share	20/4/2002 to 19/4/2006	140,000	–	–	–	–	–
	– \$S1.39 per share	8/5/2003 to 7/5/2007	70,000	70,000	70,000	–	–	–
	– \$S0.78 per share	18/10/2003 to 17/10/2007	70,000	70,000	70,000	–	–	–
	– \$S0.94 per share	3/6/2004 to 2/6/2008	70,000	70,000	70,000	–	–	–
	– \$S1.09 per share	19/11/2004 to 18/11/2008	70,000	70,000	70,000	–	–	–
	– \$S1.15 per share	18/5/2005 to 17/5/2009	70,000	70,000	70,000	–	–	–
	– \$S1.32 per share	23/11/2005 to 22/11/2009	70,000	70,000	70,000	–	–	–

## DIRECTORS' INTERESTS (cont'd)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At		At 21/1/2007	At		At 21/1/2007
			beginning of the year	At end of the year		beginning of the year	At end of the year	
<b>Peter Seah Lim Huat (cont'd)</b>								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at – S\$2.53 per share	2/7/2006 to 1/7/2010	70,000	70,000	70,000	–	–	–
	– S\$2.52 per share	22/11/2006 to 21/11/2010	70,000	70,000	70,000	–	–	–
	– S\$2.68 per share	10/6/2007 to 9/6/2011	–	140,000	140,000	–	–	–
<b>Tang Kin Fei</b>								
SembCorp Industries Ltd	Ordinary shares		688,355	1,121,105	1,427,355	–	–	–
	Options to subscribe for ordinary shares at – S\$2.06 per share	20/5/2001 to 19/5/2009	150,000	150,000	150,000	–	–	–
	– S\$1.79 per share	27/6/2001 to 26/6/2010	260,000	260,000	260,000	–	–	–
	– S\$1.35 per share	20/4/2002 to 19/4/2011	75,000	75,000	–	–	–	–
	– S\$1.39 per share	8/5/2003 to 7/5/2012	87,500	87,500	–	–	–	–
	– S\$0.78 per share	18/10/2003 to 17/10/2012	87,500	43,750	–	–	–	–
	– S\$0.94 per share	3/6/2004 to 2/6/2013	150,000	50,000	50,000	–	–	–
	– S\$1.09 per share	19/11/2004 to 18/11/2013	150,000	100,000	50,000	–	–	–
	– S\$1.15 per share	18/5/2005 to 17/5/2014	200,000	100,000	100,000	–	–	–
	– S\$1.32 per share	23/11/2005 to 22/11/2014	200,000	150,000	100,000	–	–	–

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## DIRECTORS' INTERESTS (cont'd)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At		At	At		
			beginning of the year	At end of the year	21/1/2007	beginning of the year	At end of the year	At 21/1/2007
<b>Tang Kin Fei (cont'd)</b>								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at							
	– \$52.53 per share	2/7/2006 to 1/7/2015	300,000	300,000	300,000	–	–	–
	– \$52.52 per share	22/11/2006 to 21/11/2015	300,000	300,000	300,000	–	–	–
	– \$52.68 per share	10/6/2007 to 9/6/2016	–	300,000	300,000	–	–	–
	Conditional award of:							
	– 100,000 performance shares to be delivered after 2005 (Note 1a)		Up to 200,000	–	–	–	–	–
	– 209,400 performance shares to be delivered after 2006 (Note 1b)		Up to 400,000	Up to 418,800	Up to 418,800	–	–	–
	– 419,200 performance shares to be delivered after 2007 (Note 2a)		Up to 600,000	Up to 628,800	Up to 628,800	–	–	–
	– 419,600 performance shares to be delivered after 2008 (Note 2b)		–	Up to 629,400	Up to 629,400	–	–	–
	– 68,772 restricted shares to be delivered after 2007 (Note 3)		–	Up to 89,404	Up to 89,404	–	–	–

## DIRECTORS' INTERESTS (cont'd)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At		At			
			beginning of the year	At end of the year	At 21/1/2007	beginning of the year	At end of the year	At 21/1/2007
<b>Tang Kin Fei (cont'd)</b>								
SembCorp Marine Ltd	Options to subscribe for ordinary shares at – \$2.96 per share	12/8/2006 to 11/8/2010	20,000	20,000	20,000	–	–	–
	– \$3.33 per share	3/10/2007 to 2/10/2011	–	70,000	70,000	–	–	–

Note 1: The actual number delivered will depend on the achievement of set targets over a 3-year period as indicated below. Achievement of targets below target level will mean no performance shares will be delivered, while achievement up to 200% will mean up to 2 times the number of conditional performance shares awarded could be delivered. The conditional award was adjusted for Capital Reduction and Cash Distribution exercise in 2006.

a. Period from 2003 to 2005@

b. Period from 2004 to 2006

@ For this period, 89,000 shares were awarded and the balance of the conditional awards has thus lapsed.

Note 2: The actual number delivered will depend on the achievement of set targets over a 3-year period as indicated below. Achievement of targets below target level will mean no performance shares will be delivered, while achievement up to 150% will mean up to 1.5 times the number of conditional performance shares awarded could be delivered. The conditional award was adjusted for Capital Reduction and Cash Distribution exercise in 2006.

a. Period from 2005 to 2007

b. Period from 2006 to 2008

Note 3: The actual number delivered will depend on the achievement of set targets at the end of the 2-year performance period from 2006 to 2007. Achievement of targets below target level will mean no restricted shares will be delivered, while achievement up to 130% will mean up to 1.3 times the number of conditional restricted shares awarded could be delivered. The conditional award was adjusted for Capital Reduction and Cash Distribution exercise in 2006.

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At		At			
			beginning of the year	At end of the year	At 21/1/2007	beginning of the year	At end of the year	At 21/1/2007
<b>K Shanmugam</b>								
SembCorp Industries Ltd	Ordinary shares		70,000	245,000	245,000	–	–	–
	Options to subscribe for ordinary shares at – \$1.35 per share	20/4/2002 to 19/4/2006	70,000	–	–	–	–	–
	– \$1.39 per share	8/5/2003 to 7/5/2007	35,000	8,750	8,750	–	–	–
	– \$0.78 per share	18/10/2003 to 17/10/2007	35,000	8,750	8,750	–	–	–
	– \$0.94 per share	3/6/2004 to 2/6/2008	35,000	17,500	17,500	–	–	–

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS (cont'd)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At		At	At		
			beginning of the year	At end of the year	21/1/2007	beginning of the year	At end of the year	At 21/1/2007
<b>K Shanmugam (cont'd)</b>								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at – S\$1.09 per share	19/11/2004 to 18/11/2008	35,000	17,500	17,500	–	–	–
	– S\$1.15 per share	18/5/2005 to 17/5/2009	35,000	26,250	26,250	–	–	–
	– S\$1.32 per share	23/11/2005 to 22/11/2009	35,000	26,250	26,250	–	–	–
	– S\$2.53 per share	2/7/2006 to 1/7/2010	35,000	35,000	35,000	–	–	–
	– S\$2.52 per share	22/11/2006 to 21/11/2010	35,000	35,000	35,000	–	–	–
	– S\$2.68 per share	10/6/2007 to 9/6/2011	–	70,000	70,000	–	–	–
<b>Goh Geok Ling</b>								
SembCorp Industries Ltd	Ordinary shares		232,100	282,100	282,100	47,000	47,000	47,000
	Options to subscribe for ordinary shares at – S\$1.35 per share	20/4/2002 to 19/4/2006	50,000	–	–	–	–	–
	– S\$1.39 per share	8/5/2003 to 7/5/2007	25,000	25,000	25,000	–	–	–
	– S\$0.78 per share	18/10/2003 to 17/10/2007	12,500	12,500	12,500	–	–	–
	– S\$0.94 per share	3/6/2004 to 2/6/2008	18,750	18,750	18,750	–	–	–
	– S\$1.09 per share	19/11/2004 to 18/11/2008	18,750	18,750	18,750	–	–	–
	– S\$1.15 per share	18/5/2005 to 17/5/2009	25,000	25,000	25,000	–	–	–


## DIRECTORS' INTERESTS (cont'd)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At		At	At		
			beginning of the year	At end of the year	21/1/2007	beginning of the year	At end of the year	21/1/2007
<b>Goh Geok Ling (cont'd)</b>								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at – S\$1.32 per share	23/11/2005 to 22/11/2009	25,000	25,000	25,000	–	–	–
	– S\$2.53 per share	2/7/2006 to 1/7/2010	35,000	35,000	35,000	–	–	–
	– S\$2.52 per share	22/11/2006 to 21/11/2010	35,000	35,000	35,000	–	–	–
	– S\$2.68 per share	10/6/2007 to 9/6/2011	–	70,000	70,000	–	–	–
SembCorp Marine Ltd	Options to subscribe for ordinary shares at – S\$3.33 per share	3/10/2007 to 2/10/2011	–	140,000	140,000	–	–	–
<b>Richard Hale, OBE</b>								
SembCorp Industries Ltd	Ordinary shares		58,750	118,750	118,750	–	–	–
	Options to subscribe for ordinary shares at – S\$1.35 per share	20/4/2002 to 19/4/2006	60,000	–	–	–	–	–
	– S\$1.39 per share	8/5/2003 to 7/5/2007	17,500	17,500	17,500	–	–	–
	– S\$0.78 per share	18/10/2003 to 17/10/2007	17,500	17,500	17,500	–	–	–
	– S\$0.94 per share	3/6/2004 to 2/6/2008	26,250	26,250	26,250	–	–	–
	– S\$1.09 per share	19/11/2004 to 18/11/2008	26,250	26,250	26,250	–	–	–
	– S\$1.15 per share	18/5/2005 to 17/5/2009	35,000	35,000	35,000	–	–	–

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## DIRECTORS' INTERESTS (cont'd)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At beginning of the year	At end of the year	At 21/1/2007	At beginning of the year	At end of the year	At 21/1/2007
<b>Richard Hale, OBE (cont'd)</b>								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at – S\$1.32 per share	23/11/2005 to 22/11/2009	35,000	35,000	35,000	–	–	–
	– S\$2.53 per share	2/7/2006 to 1/7/2010	35,000	35,000	35,000	–	–	–
	– S\$2.52 per share	22/11/2006 to 21/11/2010	35,000	35,000	35,000	–	–	–
	– S\$2.68 per share	10/6/2007 to 9/6/2011	–	140,000	140,000	–	–	–
<b>Yong Ying-I</b>								
SembCorp Industries Ltd	Ordinary shares		100,000	100,000	100,000	–	–	–
<b>Evert Henkes</b>								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at – S\$1.15 per share	18/5/2005 to 17/5/2009	12,000	12,000	12,000	–	–	–
	– S\$1.32 per share	23/11/2005 to 22/11/2009	12,000	12,000	12,000	–	–	–
	– S\$2.53 per share	2/7/2006 to 1/7/2010	17,500	17,500	17,500	–	–	–
	– S\$2.52 per share	22/11/2006 to 21/11/2010	17,500	17,500	17,500	–	–	–
	– S\$2.68 per share	10/6/2007 to 9/6/2011	–	35,000	35,000	–	–	–
<b>Lee Suet Fern</b>								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at – S\$2.52 per share	22/11/2006 to 21/11/2010	35,000	35,000	35,000	–	–	–
	– S\$2.68 per share	10/6/2007 to 9/6/2011	–	70,000	70,000	–	–	–



Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning or at the end of the financial year.

Except as disclosed under the “Share-based Incentive Plans” section of this report, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Except as disclosed in note 34(b) and 38 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

### SHARE-BASED INCENTIVE PLANS

The Company’s Share Option Plan, Performance Share Plan and Restricted Stock Plan (collectively, the “Share Plans”) were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on June 3, 2000.

The Executive Resource & Compensation Committee (the “Committee”) of the Company has been designated as the Committee responsible for the administration of the Share Plans. The Committee comprises the following members, all of whom are directors:

Peter Seah Lim Huat (Chairman)  
Goh Geok Ling  
K Shanmugam

The Share Option Plan is the incentive scheme for directors and employees of the Company and its subsidiaries (the “Group”) whereas the Performance Share Plan and Restricted Stock Plan are aimed primarily at key executives of the Group.

The Share Plans are intended to attract, retain and incentivise participants to higher standards of performance and encourage greater dedication and loyalty by enabling the Company to give recognition to past contributions and services; as well as motivating participants to contribute to the long-term prosperity of the Group.

The Share Option Plan provides the Company with means whereby non-executive directors and employees of the Group, and certain categories of persons who can make significant contributions through their close working relationship with the Group, such as non-executive directors and employees of the Company’s associated company, are given an opportunity to participate in the equity of the Company.

The Performance Share Plan and Restricted Stock Plan award fully paid shares to participants to achieve pre-determined targets that create and enhance economic values for shareholders of the Company, and/or to accomplish time-based service conditions. Awards will be released to participants as fully-paid shares, or their equivalent cash value or combinations thereof, free-of-charge, provided that the conditions of the awards are achieved and subject to approval by the Committee.

Awards granted under the Performance Share Plan are released at the end of the performance period only when the pre-determined targets have been achieved. Awards granted under the Restricted Stock Plan vest only after satisfactory completion of time-based service conditions, or where the award is performance related, after a further period of service beyond the performance target completion date. No minimum vesting period is prescribed under the Restricted Stock Plan and the length of the vesting period in respect of each award will be determined on a case-by-case basis.

The shares are settled by physical delivery of shares by way of issuance of new shares or existing shares procured by the Company for transfer to the employees or cash in lieu of the shares.



### **SHARE-BASED INCENTIVE PLANS** *(cont'd)*

In 2005, the Committee, with the 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 Company's objective of further enhancing linkages between employee performance and long-term shareholder value creation objectives. The redesign was completed and implemented in 2005.

In 2006, performance share awards granted were based on the same type of criteria as those issued in 2005.

In 2006, as part of the redesigned approach, restricted stocks were awarded to managerial employees of the Group, with the objective to eventually replace share options as a long-term incentive for them. The share option grants to this group of employees were reduced by 50%, and these were replaced by restricted stocks of an equivalent fair value, as recommended by the independent compensation consultant and approved by the Committee.

As a result of the Capital Reduction and Cash Distribution exercise in 2006, the exercise prices of outstanding share options, number of outstanding share awards under the Performance Share Plan and Restricted Stock Plan were adjusted with effect from August 8, 2006. Such adjustments were recommended by an independent compensation consultant and approved by the Committee, in accordance with the rules of the Share Option Plan, Performance Share Plan and Restricted Stock Plan. The adjustments did not result in any incremental fair value and the effects of these modifications are insignificant to the financial statements of the Group and the Company.

Other information regarding the Share Plans are as follows:

#### **a. Share Option Plan**

Under the rules of the Share Option Plan, participants who ceased to be employed by the Group or the associated company by reason of ill health, injury or disability, redundancy, retirement at or after the legal retirement age, retirement before the legal retirement age, death, etc, or any other event approved by the Committee, may be allowed by the Committee to retain their unexercised options. The Committee may determine the number of shares comprised in that option which may be exercised and the period during which such option shall be exercisable, being a period not later than the expiry of the exercise period in respect of that option. Such option may be exercised at any time notwithstanding that the date of exercise of such option falls on a date prior to the first day of the exercise period in respect of such option.

Other information regarding the Share Option Plan is as follows:

- i. The exercise price of the options can be set at market price or a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant. Market price is the volume-weighted average price for the shares on the Singapore Exchange over the three consecutive trading days prior to grant date of that option. For all options granted to date, the exercise prices are set at market price.
- ii. The options can be exercised 12 months after the grant for market price options and 24 months for discounted options. Further vesting period for the exercise of the options may be set. The Group imposed a further vesting over 4 years for managers and above for retention purposes.
- iii. In 2006, all options are settled by issuance of new shares.
- iv. The options granted expire after 5 years for non-executive directors, associated company's employees and 10 years for the employees of the Group.

## SHARE-BASED INCENTIVE PLANS (cont'd)

### a. Share Option Plan (cont'd)

#### v. SembCorp Industries Share Option Plan

At the end of the financial year, details of the options granted under the Share Option Plan on unissued ordinary shares of the Company are as follows:

#### SembCorp Industries Ltd Ordinary Shares

Date of grant of options	Exercise price per share*	Options outstanding at Jan 1, 2006	Options granted	Options exercised	Options		Number of options holders/ (including number of directors) at		Exercise period
					cancelled/ lapsed/ not accepted	Options outstanding at Dec 31, 2006	Dec 31, 2006	Dec 31, 2006	
26/06/2000	S\$1.79	3,164,465	–	(2,127,957)	(74,600)	961,908	95 / (1)	27/06/2001 to 26/06/2010	
24/07/2000	S\$2.06	3,294,567	–	(2,443,545)	(38,083)	812,939	63 / (1)	20/05/2001 to 19/05/2009	
24/07/2000	S\$1.92	106,288	–	(67,222)	–	39,066	3 / (–)	16/09/2001 to 15/09/2009	
19/04/2001	S\$1.35	568,000	–	(565,000)	(3,000)	–	– / (–)	20/04/2002 to 19/04/2006	
19/04/2001	S\$1.35	2,015,350	–	(1,472,950)	(66,225)	476,175	74 / (–)	20/04/2002 to 19/04/2011	
07/05/2002	S\$1.39	293,750	–	(115,750)	–	178,000	7 / (4)	08/05/2003 to 07/05/2007	
07/05/2002	S\$1.39	2,635,300	–	(1,937,350)	(125,875)	572,075	146 / (–)	08/05/2003 to 07/05/2012	
17/10/2002	S\$0.78	240,000	–	(52,000)	–	188,000	7 / (4)	18/10/2003 to 17/10/2007	
17/10/2002	S\$0.78	1,985,850	–	(1,346,475)	(129,375)	510,000	128 / (–)	18/10/2003 to 17/10/2012	
02/06/2003	S\$0.94	266,250	–	(39,000)	–	227,250	13 / (4)	03/06/2004 to 02/06/2008	
02/06/2003	S\$0.94	3,174,155	–	(1,918,930)	(214,000)	1,041,225	290 / (1)	03/06/2004 to 02/06/2013	
18/11/2003	S\$1.09	290,500	–	(44,750)	–	245,750	15 / (4)	19/11/2004 to 18/11/2008	
18/11/2003	S\$1.09	3,617,245	–	(1,969,675)	(250,925)	1,396,645	303 / (1)	19/11/2004 to 18/11/2013	
17/05/2004	S\$1.15	310,500	–	(20,000)	(24,250)	266,250	15 / (5)	18/05/2005 to 17/05/2009	
17/05/2004	S\$1.15	4,967,670	–	(2,393,520)	(379,000)	2,195,150	367 / (1)	18/05/2005 to 17/05/2014	
22/11/2004	S\$1.32	312,500	–	(16,125)	(27,625)	268,750	15 / (5)	23/11/2005 to 22/11/2009	
22/11/2004	S\$1.32	6,046,951	–	(3,002,426)	(423,000)	2,621,525	398 / (1)	23/11/2005 to 22/11/2014	
01/07/2005	S\$2.53	300,000	–	(4,375)	(13,125)	282,500	7 / (5)	02/07/2006 to 01/07/2010	
01/07/2005	S\$2.53	7,783,000	–	(2,259,572)	(761,875)	4,761,553	903 / (1)	02/07/2006 to 01/07/2015	
21/11/2005	S\$2.52	335,000	–	–	(17,500)	317,500	8 / (6)	22/11/2006 to 21/11/2010	
21/11/2005	S\$2.52	8,160,000	–	(1,958,055)	(876,125)	5,325,820	1,116 / (1)	22/11/2006 to 21/11/2015	
09/06/2006	S\$2.68	–	665,000	–	(140,000)	525,000	6 / (6)	10/06/2007 to 09/06/2011	
09/06/2006	S\$2.68	–	8,081,500	(11,000) <sup>@</sup>	(620,000)	7,450,500	1,461 / (1)	10/06/2007 to 09/06/2016	
		<b>49,867,341</b>	<b>8,746,500</b>	<b>(23,765,677)</b>	<b>(4,184,583)</b>	<b>30,663,581</b>			

\* The exercise prices for outstanding share options granted prior to August 8, 2006 were adjusted as a result of the Capital Reduction and Cash Distribution exercise in 2006.

@ The share options have been retained and thus immediately exercisable.

**SHARE-BASED INCENTIVE PLANS** (cont'd)**a. Share Option Plan** (cont'd)

## v. SembCorp Industries Share Option Plan (cont'd)

The details of options of the Company granted during the year and awarded/exercised since commencement of the Scheme (aggregate) to December 31, 2006 were as follows:

Option participants	Options granted during the year	Aggregate options			
		Aggregate options granted	cancelled/lapsed/not accepted	Aggregate options exercised	Aggregate options outstanding
<b>Directors</b>					
Peter Seah Lim Huat	140,000	980,000	–	(280,000)	700,000
Tang Kin Fei	300,000	3,444,052	(607,759) <sup>1</sup>	(920,043)	1,916,250
K Shanmugam	70,000	490,000	–	(245,000)	245,000
Goh Geok Ling	70,000	370,000	–	(105,000)	265,000
Richard Hale, OBE	140,000	490,000	–	(122,500)	367,500
Yong Ying-I	70,000	235,000	(235,000) <sup>2</sup>	–	–
Evert Henkes	35,000	94,000	–	–	94,000
Lee Suet Fern	70,000	105,000	–	–	105,000
<b>Other executives</b>					
Group	7,781,500	149,771,742	(65,662,425)	(57,916,986)	26,192,331
Associated company	–	748,600	(196,600)	(512,000)	40,000
Parent Group <sup>3</sup>	–	378,500	(76,000)	(246,500)	56,000
<b>Former directors of the Company</b>					
	70,000	8,341,578	(2,129,578)	(5,529,500)	682,500
<b>Total</b>	<b>8,746,500</b>	<b>165,448,472</b>	<b>(68,907,362)</b>	<b>(65,877,529)</b>	<b>30,663,581</b>

## Notes:

- Options lapsed due to replacement of 1999 options and expiry of earlier options.
- Options not accepted due to civil service regulation.
- Parent Group refers to former employees of Singapore Technologies Pte Ltd. No options were granted to former employees of Singapore Technologies Pte Ltd since 2005.

Since the commencement of the Share Option Plan, no options have been granted to the controlling shareholders of the Company or their associates. No participant under the Share Option Plan has been granted 5% or more of the total options available. No options have been offered at a discount.

The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any company.

## SHARE-BASED INCENTIVE PLANS (cont'd)

### a. Share Option Plan (cont'd)

#### vi. Share options of a listed subsidiary

At the end of the financial year, details of the options granted under the Share Option Plan on unissued ordinary shares of SembCorp Marine Ltd are as follows:

#### SembCorp Marine Ltd Ordinary Shares

Date of grant of options	Exercise price per share	Options outstanding at Jan 1, 2006	Options granted	Options exercised	Options		Number of options holders/ (including number of directors) at		Exercise period
					cancelled/ lapsed/ not accepted	Options outstanding at Dec 31, 2006	Dec 31, 2006	Dec 31, 2006	
08/09/2000	S\$0.70	75,000	–	–	(75,000)	–	– / (–)	08/09/2001 to 07/09/2005	
08/09/2000	S\$0.70	466,600	–	(163,000)	(5,600)	298,000	45 / (–)	08/09/2001 to 07/09/2010	
27/09/2001	S\$0.66	145,000	–	(145,000)	–	–	– / (–)	28/09/2002 to 27/09/2006	
27/09/2001	S\$0.66	2,107,000	–	(1,586,550)	(10,250)	510,200	148 / (–)	28/09/2002 to 27/09/2011	
07/11/2002	S\$0.90	475,000	–	(335,000)	–	140,000	2 / (–)	08/11/2003 to 07/11/2007	
07/11/2002	S\$0.90	6,955,150	–	(3,606,950)	(145,750)	3,202,450	582 / (–)	08/11/2003 to 07/11/2012	
08/08/2003	S\$0.99	667,000	–	(300,000)	–	367,000	4 / (–)	09/08/2004 to 08/08/2008	
08/08/2003	S\$0.99	8,912,200	–	(3,374,550)	(226,000)	5,311,650	884 / (–)	09/08/2004 to 08/08/2013	
10/08/2004	S\$1.04	800,000	–	(290,000)	–	510,000	6 / (–)	11/08/2005 to 10/08/2009	
10/08/2004	S\$1.04	12,428,225	–	(3,015,050)	(444,975)	8,968,200	1,001 / (–)	11/08/2005 to 10/08/2014	
11/08/2005	S\$2.96	530,000	–	(25,000)	–	505,000	7 / (1)	12/08/2006 to 11/08/2010	
11/08/2005	S\$2.96	14,851,000	–	(710,100)	(735,250)	13,405,650	1,080 / (–)	12/08/2006 to 11/08/2015	
02/10/2006	S\$3.33	–	560,000	–	–	560,000	8 / (2)	03/10/2007 to 02/10/2011	
02/10/2006	S\$3.33	–	9,315,075	–	(91,000)	9,224,075	1,268 / (–)	03/10/2007 to 02/10/2016	
		<b>48,412,175</b>	<b>9,875,075</b>	<b>(13,551,200)</b>	<b>(1,733,825)</b>	<b>43,002,225</b>			

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

### b. Performance Share Plan

Under the Performance Share Plan, the awards granted conditional on performance targets are set based on medium-term corporate objectives at the start of each rolling three-year performance qualifying period. A specific number of performance shares shall be awarded at the end of the three-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset.

In 2005, the Committee, 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 Company's objective of further enhancing linkages between employee performance and long-term shareholder value creation objectives. The redesign was completed and implemented in 2005.

For awards granted before 2005, participants who do not achieve at least 80% of the targets set at the end of the performance period will not be granted the performance shares. If the achievement of the target exceeds 100%, more performance shares than the original award could be delivered up to a maximum of 200% of the original award.

**SHARE-BASED INCENTIVE PLANS** (cont'd)**b. Performance Share Plan** (cont'd)

In the 2005 performance share award, the performance criteria were changed and performance levels were re-calibrated based on the new measures, namely Wealth Added and Total Shareholders Return. For each performance measure, three distinct performance levels were set. A minimum of threshold performance must be achieved to trigger an Achievement Factor, which in turn determines the number of shares to be finally awarded. Based on the new criteria, performance shares to be delivered for awards granted in 2005 will range between 0% to 150% of the original award.

In 2006, performance share awards granted were based on the same type of criteria as those issued in 2005.

Participants are also required to hold a minimum percentage of the shares released to them under the Performance Share Plan and Restricted Stock Plan to maintain a beneficial ownership stake in the Group, for the duration of their employment or tenure with the Group. A maximum cap is set based on a multiple of the individual participant's Annual Base Salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.

**i. SembCorp Industries Performance Shares**

The details of performance shares of SembCorp Industries Ltd awarded during the year since commencement of the Performance Share Plan (aggregate) were as follows:

	Conditional shares awarded during the year	Aggregate conditional shares awarded	Aggregate conditional shares released	Aggregate conditional shares lapsed	Aggregate conditional shares outstanding
<b>Performance shares participants</b>					
<b>Directors of the Company:</b>					
Tang Kin Fei	419,600	1,488,200	(145,000)	(295,000)	1,048,200
Former director of the Company*	–	1,780,000	(341,600)	(1,438,400)	–
Key executives of the Group	525,825	2,779,195	(439,100)	(1,380,900)	959,195
	<b>945,425</b>	<b>6,047,395</b>	<b>(925,700)</b>	<b>(3,114,300)</b>	<b>2,007,395</b>

\* Former director of the Company refers to the late Wong Kok Siew.

In accordance with the rules of Performance Share Plan and the advice of the independent compensation consultant and, with the Committee's approval, additional 92,395 shares were awarded to the holders of the outstanding awards as a result of the Capital Reduction and Cash Distribution exercise in August 2006. The number of additional shares awarded was based on an adjustment factor to maintain the parity of the award's economic values before and after modification date. The effect of these modifications is insignificant to the financial statements of the Group and the Company.

The total number of performance shares in awards granted conditionally and representing 100% of targets achieved, but not released as at end 2006, was 2,007,395. Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 3,194,318 performance shares.

**ii. Performance shares of a listed subsidiary**

The details of performance shares of SembCorp Marine Ltd awarded during the year since commencement of the Performance Share Plan (aggregate) were as follows:

<b>Conditional shares awarded during the year</b>	<b>600,000</b>
Aggregate conditional shares awarded	3,695,000
Aggregate conditional shares released	(1,186,400)
Aggregate conditional shares lapsed	(553,600)
<b>Aggregate conditional shares outstanding</b>	<b>1,955,000</b>

## SHARE-BASED INCENTIVE PLANS *(cont'd)*

### b. Performance Share Plan *(cont'd)*

#### ii. Performance shares of a listed subsidiary *(cont'd)*

No performance shares of SembCorp Marine Ltd were awarded to the directors of the Company.

The total number of SembCorp Marine Ltd's performance shares in awards granted conditionally and representing 100% of targets achieved, but not released as at end 2006, was 1,955,000. Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 3,222,500 performance shares.

### c. Restricted Stock Plan

In 2006, as part of the redesigned approach, restricted stocks were awarded to managerial employees of the Group, with the objective to eventually replace share options as a long-term incentive plan. The share option grants to this group of employees were reduced by 50%, and these were replaced by restricted stocks of an equivalent fair value, as recommended by the independent compensation consultant and approved by the Committee.

Under the Restricted Stock Plan, the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria are set and performance levels for the restricted stocks are calibrated based on Return on Total Assets and Total Shareholders Return. For each performance measure, three distinct performance levels are set. A minimum threshold performance must be achieved to trigger an Achievement Factor, which in turn determines the number of shares to be finally awarded. Based on the criteria, restricted stocks to be delivered for awards granted in 2006 will range from 0% to 130% of the original award.

A specific number of restricted stocks shall be awarded at the end of the two-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset. There is a further vesting of three years after the performance period, during which one-third of the awarded shares are released each year.

Senior management participants are also required to hold a minimum percentage of the shares released to them under the Restricted Stock Plan and Performance Share Plan to maintain a beneficial ownership stake in the Group, for the duration of their employment or tenure with the Group. A maximum cap is set based on a multiple of the individual participant's Annual Base Salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.

#### i. SembCorp Industries Restricted Stocks

A total of 1,049,800 restricted stocks of SembCorp Industries Ltd's shares were awarded on June 9, 2006 for the performance period 2006 to 2007.

In accordance with the rules of Restricted Stock Plan and the advice of the independent compensation consultant, and with the Committee's approval, additional 42,808 restricted stocks were awarded to the holders of the outstanding awards as a result of the Capital Reduction and Cash Distribution exercise in August 2006. The number of additional shares awarded was based on an adjustment factor to maintain the parity of the award's economic values before and after modification date. The effect of these modifications is insignificant to the financial statements of the Group and the Company.

68,772 restricted stocks were awarded to Tang Kin Fei, Group President & CEO of the Group and Director of the Company for the performance period 2006 to 2007.

The total number of restricted stocks in awards granted conditionally and representing 100% of targets achieved, but not released as at end 2006, was 1,025,857. Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 1,333,614 restricted stocks.

**SHARE-BASED INCENTIVE PLANS** *(cont'd)*

**c. Restricted Stock Plan** *(cont'd)*

ii. Restricted stocks of a listed subsidiary

A total of 1,222,400 restricted stocks of SembCorp Marine Ltd's shares were awarded on October 2, 2006 for the performance period 2006 to 2007. No restricted stocks of SembCorp Marine Ltd were awarded to the directors of the Company.

The total number of SembCorp Marine Ltd's restricted stocks in awards granted conditionally and representing 100% of targets achieved, but not released as at end 2006, was 1,222,400. Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 1,589,120 restricted stocks.

**d. Maximum Number of Shares Issuable**

The maximum number of performance shares and restricted stocks which could be delivered, when aggregated with the number of new shares issued and issuable in respect of all options granted, is within the 15% limit of the share capital of the Company on the day preceding the relevant date of the grant.

**AUDIT COMMITTEE**

The members of the Audit Committee during the year and at the date of this report are:

Richard Hale, OBE (Chairman) (Appointed chairman on February 14, 2006)

K Shanmugam

Lee Suet Fern

Yong Ying-I (Appointed on July 19, 2006)

The Audit Committee held six meetings during the financial year. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee performed the functions specified in Section 201B of the Singapore Companies Act, the Listing Manual of the Singapore Exchange, and the Code of Corporate Governance.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the external and internal auditors;
- financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

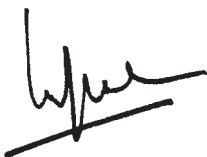
The Audit Committee has full access to the management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

## AUDITORS

The auditors, KPMG, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors



**PETER SEAH LIM HUAT**  
Chairman



**TANG KIN FEI**  
Director

Singapore  
February 16, 2007