Year Ended December 31, 2006

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:

			Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
Name of director and corporation in which interests held	Description of interests	Exercise period	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
Peter Seah Lim Huat								
SembCorp Industries Ltd	Ordinary shares		140,000	280,000	280,000	–	–	–
	Options to subscribe for ordinary shares at							
	– S$1.35 per share	20/4/2002 to 19/4/2006	140,000	–	–	–	–	–
	– S$1.39 per share	8/5/2003 to 7/5/2007	70,000	70,000	70,000	–	–	–
	– S$0.78 per share	18/10/2003 to 17/10/2007	70,000	70,000	70,000	–	–	–
	– S$0.94 per share	3/6/2004 to 2/6/2008	70,000	70,000	70,000	–	–	–
	– S$1.09 per share	19/11/2004 to 18/11/2008	70,000	70,000	70,000	–	–	–
	– S$1.15 per share	18/5/2005 to 17/5/2009	70,000	70,000	70,000	–	–	–
	– S$1.32 per share	23/11/2005 to 22/11/2009	70,000	70,000	70,000	–	–	–

DIRECTORS' INTERESTS *(cont'd)*

			Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
Name of director and corporation in which interests held	Description of interests	Exercise period	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
Peter Seah Lim Huat *(cont'd)*								
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	–	–	–
Tang Kin Fei								
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	–	–	–

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: At beginning of the year	At end of the year	At 21/1/2007	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
Tang Kin Fei *(cont'd)*								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at							
	– S$2.53 per share	2/7/2006 to 1/7/2015	300,000	300,000	300,000	–	–	–
	– S$2.52 per share	22/11/2006 to 21/11/2015	300,000	300,000	300,000	–	–	–
	– S$2.68 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)*

			Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
Name of director and corporation in which interests held	Description of interests	Exercise period	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
Tang Kin Fei *(cont'd)*								
SembCorp Marine Ltd	Options to subscribe for ordinary shares at							
	– S$2.96 per share	12/8/2006 to 11/8/2010	20,000	20,000	20,000	–	–	–
	– S$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.

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

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: At beginning of the year	At end of the year	At 21/1/2007	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
K Shanmugam *(cont'd)*								
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	–	–	–
Goh Geok Ling								
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: At beginning of the year	At end of the year	At 21/1/2007	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
Goh Geok Ling *(cont'd)*								
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	–	–	–
Richard Hale, OBE								
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	–	–	–

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: At beginning of the year	At end of the year	At 21/1/2007	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
Richard Hale, OBE *(cont'd)*								
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	–	–	–
Yong Ying-I								
SembCorp Industries Ltd	Ordinary shares		100,000	100,000	100,000	–	–	–
Evert Henkes								
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	–	–	–
Lee Suet Fern								
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 cancelled/ lapsed/ not accepted	Options outstanding at Dec 31, 2006	Number of options holders/ (including number of directors) at Dec 31, 2006	Exercise period
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)@	(620,000)	7,450,500	1,461 / (1)	10/06/2007 to 09/06/2016
		49,867,341	**8,746,500**	**(23,765,677)**	**(4,184,583)**	**30,663,581**		

* *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 granted	Aggregate options cancelled/ lapsed/ not accepted	Aggregate options exercised	Aggregate options outstanding
Directors					
Peter Seah Lim Huat	140,000	980,000	–	(280,000)	700,000
Tang Kin Fei	300,000	3,444,052	(607,759)[1]	(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)[2]	–	–
Evert Henkes	35,000	94,000	–	–	94,000
Lee Suet Fern	70,000	105,000	–	–	105,000
Other executives					
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[3]	–	378,500	(76,000)	(246,500)	56,000
Former directors of the Company	70,000	8,341,578	(2,129,578)	(5,529,500)	682,500
Total	**8,746,500**	**165,448,472**	**(68,907,362)**	**(65,877,529)**	**30,663,581**

Notes:

1. *Options lapsed due to replacement of 1999 options and expiry of earlier options.*
2. *Options not accepted due to civil service regulation.*
3. *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 cancelled/ lapsed/ not accepted	Options outstanding at Dec 31, 2006	Number of options holders/ (including number of directors) at Dec 31, 2006	Exercise period
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
		48,412,175	**9,875,075**	**(13,551,200)**	**(1,733,825)**	**43,002,225**		

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:

Performance shares participants	Conditional shares awarded during the year	Aggregate conditional shares awarded	Aggregate conditional shares released	Aggregate conditional shares lapsed	Aggregate conditional shares outstanding
Directors of the Company:					
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
	945,425	**6,047,395**	**(925,700)**	**(3,114,300)**	**2,007,395**

* *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:

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

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

STATEMENT BY DIRECTORS

In our opinion:

a. the financial statements set out on pages 108 to 205 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006, and of the results, changes in equity and cash flows of the Group for the year ended on that date; and

b. at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

PETER SEAH LIM HUAT
Chairman

TANG KIN FEI
Director

Singapore
February 16, 2007

Year Ended December 31, 2006

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT
MEMBERS OF THE COMPANY
SEMBCORP INDUSTRIES LTD

We have audited the accompanying financial statements of SembCorp Industries Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the balance sheets of the Group and of the Company as at December 31, 2006, the profit and loss account, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 108 to 205.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion:

a. the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act, and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006 and of the results, changes in equity and cash flows of the Group for the year ended on that date; and

b. the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG

KPMG
Certified Public Accountants

Singapore
February 16, 2007

As at December 31, 2006

BALANCE SHEETS

	Note	Group 2006 S$'000	Group 2005 S$'000	Company 2006 S$'000	Company 2005 S$'000
Equity attributable to shareholders of the Company:					
Share capital	3	**525,414**	436,603	**525,414**	436,603
Other reserves	5	**474,738**	419,286	**5,269**	316,062
Accumulated profits		**1,811,447**	1,143,729	**1,065,803**	542,643
		2,811,599	1,999,618	**1,596,486**	1,295,308
Minority interests		**648,186**	845,041	**–**	–
Total equity		**3,459,785**	2,844,659	**1,596,486**	1,295,308
Non-current assets					
Property, plant and equipment	6	**2,534,505**	2,627,380	**4,352**	997
Investments in subsidiaries	7	**–**	–	**1,464,045**	2,275,587
Interests in associates	8	**476,421**	294,755	**–**	–
Interests in joint ventures	9	**264,457**	431,711	**–**	–
Other financial assets	10	**359,255**	121,373	**–**	–
Long-term receivables and prepayments	11	**70,167**	146,152	**–**	–
Intangible assets	15	**109,912**	150,765	**90**	90
Deferred tax assets	16	**36,596**	26,285	**–**	–
		3,851,313	3,798,421	**1,468,487**	2,276,674
Current assets					
Inventories and work-in-progress	17	**1,273,898**	863,612	**–**	–
Trade and other receivables	18	**1,268,804**	1,315,508	**199,827**	84,808
Assets held for sale	20	**6,167**	52,230	**–**	–
Bank balances, fixed deposits and cash	21	**1,185,639**	1,231,281	**347,336**	10,503
		3,734,508	3,462,631	**547,163**	95,311
Current liabilities					
Trade and other payables	22	**1,646,928**	1,870,393	**257,015**	926,482
Excess of progress billings over work-in-progress	17	**545,370**	389,837	**–**	–
Provisions	26	**30,381**	639,900	**11,454**	–
Retirement benefit obligations	27	**–**	4,061	**–**	–
Current tax payable		**146,836**	104,683	**–**	–
Interest-bearing borrowings	28	**216,161**	149,383	**–**	–
		2,585,676	3,158,257	**268,469**	926,482
Net current assets/(liabilities)		**1,148,832**	304,374	**278,694**	(831,171)
		5,000,145	4,102,795	**1,747,181**	1,445,503
Non-current liabilities					
Deferred tax liabilities	16	**294,214**	220,095	**195**	195
Provisions	26	**14,028**	8,977	**500**	–
Retirement benefit obligations	27	**31,320**	42,035	**–**	–
Interest-bearing borrowings	28	**1,096,174**	908,686	**150,000**	150,000
Other long-term liabilities	29	**104,624**	78,343	**–**	–
		1,540,360	1,258,136	**150,695**	150,195
		3,459,785	2,844,659	**1,596,486**	1,295,308

The accompanying notes form an integral part of these financial statements.

Year Ended December 31, 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Group	
		2006	2005
	Note	S$'000	S$'000
Continuing operations			
Turnover	30	**7,485,853**	5,770,603
Cost of sales		**(6,820,304)**	(5,275,116)
Gross profit		**665,549**	495,487
Non-operating income (net)		**167,848**	125,137
General and administrative expenses		**(198,227)**	(199,503)
Finance costs	31	**(53,530)**	(51,477)
Share of results (net of tax) of:			
– associates		**67,390**	29,633
– joint ventures		**43,246**	23,342
Profit before income tax credit/(expense)		**692,276**	422,619
Income tax credit/(expense)	32	**14,099**	(78,611)
Profit from continuing operations		**706,375**	344,008
Discontinued operations			
Profit from discontinued operations (net of tax)	33	**453,445**	71,218
Profit for the year	34	**1,159,820**	415,226
Attributable to:			
Shareholders of the Company			
– Net profit from continuing operations		**582,894**	265,210
– Net profit from discontinued operations		**446,879**	38,085
		1,029,773	303,295
Minority interests		**130,047**	111,931
Profit for the year		**1,159,820**	415,226
Earnings per share (cents):	35		
Basic – continuing operations		**33.12**	14.99
Basic – discontinued operations		**25.39**	2.15
Basic		**58.51**	17.14
Diluted – continuing operations		**32.83**	14.83
Diluted – discontinued operations		**25.16**	2.13
Diluted		**57.99**	16.96

The accompanying notes form an integral part of these financial statements.

Year Ended December 31, 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to		
	Share capital	Share premium	Merger reserve
	S$'000	S$'000	S$'000
Group			
At January 1, 2006	436,603	313,618	29,201
Transfer to share capital (note 3(d))	313,618	(313,618)	–
Translation adjustments	–	–	–
Net fair value changes of available for sale financial assets, net of deferred taxes	–	–	–
Net fair value changes of cash flow hedges, net of deferred taxes	–	–	–
Share of hedging reserve of associates and joint venture companies	–	–	–
Realisation of reserve upon disposal of investments and changes in group structure	–	–	–
Net gain/(loss) recognised directly in equity	–	–	–
Profit for the year	–	–	–
Total gain/(loss) recognised for the year	–	–	–
Issue of shares under Share Option Plan	39,771	–	–
Issue of shares to minority shareholders of subsidiaries	–	–	–
Capital reduction paid to shareholders of the Company	(264,578)	–	–
Share-based payments	–	–	–
Transfer of revenue reserves to statutory reserve by associated companies	–	–	–
Final dividend paid of 6.5 cents per share less tax at 20% in respect of year 2005	–	–	–
Dividend paid to minority shareholders of subsidiaries	–	–	–
At December 31, 2006	525,414	–	29,201

An analysis of the movements in each category within "Other reserves" is presented in note 5(d).

The accompanying notes form an integral part of these financial statements.

shareholders of the Company

	Other reserves S$'000	Currency translation reserve S$'000	Accumulated profits S$'000	Total S$'000	Minority interests S$'000	Total equity S$'000
	62,275	14,192	1,143,729	1,999,618	845,041	2,844,659
	–	–	–	–	–	–
	–	(20,485)	–	(20,485)	(11,564)	(32,049)
	104,929	–	–	104,929	64,351	169,280
	35,431	–	–	35,431	(22)	35,409
	(37,713)	–	–	(37,713)	–	(37,713)
	274,626	(7,627)	(265,963)	1,036	(347,294)	(346,258)
	377,273	(28,112)	(265,963)	83,198	(294,529)	(211,331)
	–	–	1,029,773	1,029,773	130,047	1,159,820
	377,273	(28,112)	763,810	1,112,971	(164,482)	948,489
	–	–	–	39,771	–	39,771
	–	–	–	–	31,399	31,399
	–	–	–	(264,578)	–	(264,578)
	15,161	–	–	15,161	3,632	18,793
	4,748	–	(4,748)	–	–	–
	–	–	(91,344)	(91,344)	–	(91,344)
	–	–	–	–	(67,404)	(67,404)
	459,457	(13,920)	1,811,447	2,811,599	648,186	3,459,785

Year Ended December 31, 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to		
	Share capital S$'000	Share premium S$'000	Merger reserve S$'000
Group			
At January 1, 2005	456,623	296,628	29,201
Translation adjustments	–	–	–
Net fair value changes of available for sale financial assets, net of deferred taxes	–	–	–
Net fair value changes of cash flow hedges, net of deferred taxes	–	–	–
Share of reserve of associates and joint venture companies	–	–	–
Realisation of reserve upon disposal of investments and changes in group structure	–	–	–
Net gain/(loss) recognised directly in equity	–	–	–
Profit for the year	–	–	–
Total gain/(loss) recognised for the year	–	–	–
Issue of shares under Share Option Plan	7,518	39,020	–
Issue of shares to minority shareholders of subsidiaries	–	–	–
Capital reduction paid to shareholders of the Company	(27,538)	(22,030)	–
Capital reduction paid to minority shareholders of subsidiary	–	–	–
Share-based payments	–	–	–
Transfer of revenue reserves to statutory reserve by associated companies	–	–	–
Final dividend paid of 5.0 cents per share less tax at 20% in respect of year 2004	–	–	–
Dividend paid to minority shareholders of subsidiaries	–	–	–
At December 31, 2005	436,603	313,618	29,201

An analysis of the movements in each category within "Other reserves" is presented in note 5(d).

The accompanying notes form an integral part of these financial statements.

shareholders of the Company					
	Currency				
Other reserves	translation reserve	Accumulated profits	Total	Minority interests	Total equity
S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
48,974	31,463	1,084,869	1,947,758	852,495	2,800,253
–	(11,340)	–	(11,340)	1,407	(9,933)
25,634	–	–	25,634	12,725	38,359
(19,353)	–	–	(19,353)	(910)	(20,263)
3,450	–	–	3,450	2,083	5,533
(7,719)	(5,931)	(2,359)	(16,009)	735	(15,274)
2,012	(17,271)	(2,359)	(17,618)	16,040	(1,578)
–	–	303,295	303,295	111,931	415,226
2,012	(17,271)	300,936	285,677	127,971	413,648
–	–	–	46,538	–	46,538
–	–	–	–	37,665	37,665
–	–	(165,229)	(214,797)	–	(214,797)
–	–	–	–	(98,882)	(98,882)
7,821	–	–	7,821	2,053	9,874
3,468	–	(3,468)	–	(2,083)	(2,083)
–	–	(73,379)	(73,379)	–	(73,379)
–	–	–	–	(74,178)	(74,178)
62,275	14,192	1,143,729	1,999,618	845,041	2,844,659

Year Ended December 31, 2006

CONSOLIDATED STATEMENT OF CASH FLOWS

	Group	
	2006	2005
	S$'000	S$'000
Cash Flows from Operating Activities		
Profit for the year	**1,159,820**	415,226
Adjustments for:		
Dividend and interest income	**(54,107)**	(36,498)
Finance costs	**54,014**	53,861
Depreciation and amortisation	**170,348**	184,379
Share of results of associates and joint ventures	**(117,314)**	(78,311)
Profit on sale of property, plant and equipment	**(2,567)**	(11,357)
Gain on sale of investments	**(511,601)**	(58,689)
Allowance made/(written back) for doubtful debts and bad debts written off (net)	**223**	(5,715)
Changes in fair value of financial instruments and hedge items	**7,047**	10,488
Share-based expenses	**19,124**	10,144
Provision made/(written back) for onerous contract	**14,577**	(15,480)
Additional charge arising from final settlement on Solitaire	**57,000**	–
Allowance (written back)/made for impairment in value of assets	**(50,881)**	8,826
Allowance made for stock obsolescence and inventories written off	**224**	5,797
Income tax (credit)/expense (note 32)	**(10,875)**	92,430
Operating profit before working capital changes	**735,032**	575,101
Changes in working capital:		
Inventories and work-in-progress	**(527,141)**	(141,467)
Receivables	**(154,307)**	103,628
Payables	**589,751**	355,998
	643,335	893,260
Payment for Solitaire settlement	**(682,700)**	–
Income taxes paid	**(46,842)**	(44,982)
Net cash (outflow)/inflow from operating activities	**(86,207)**	848,278

The accompanying notes form an integral part of these financial statements.

	Group 2006 S$'000	Group 2005 S$'000
Cash Flows from Investing Activities		
Dividends and interest received	**97,785**	75,749
Cash flows on divestment of subsidiaries, net of cash	**492,022**	33,186
Proceeds from divestment of associates and joint ventures	**295,358**	65,275
Proceeds from divestment of investments	**75,725**	121,831
Proceeds from sale of property, plant and equipment	**13,055**	35,737
Acquisition of/additional interest in subsidiaries, net of cash acquired	**(7,314)**	(32,656)
Acquisition of/additional investments in associates and joint ventures	**(295,192)**	(48,733)
Acquisition of other long-term investments	**(120,464)**	–
Purchase of property, plant and equipment and other long-term assets	**(464,654)**	(371,109)
Net cash inflow/(outflow) from investing activities	**86,321**	(120,720)
Cash Flows from Financing Activities		
Proceeds from share issue	**39,771**	46,538
Proceeds from share issue to minority shareholders of subsidiaries	**31,399**	37,665
Proceeds from borrowings	**742,786**	579,447
Repayment of borrowings	**(412,121)**	(1,370,649)
Deferred income and grants received	**16,196**	3,836
Capital reduction paid to shareholders of the Company	**(264,578)**	(214,797)
Capital reduction paid to minority shareholders of a subsidiary	**–**	(98,882)
Dividends paid to shareholders of the Company	**(91,344)**	(164,701)
Dividends paid to minority shareholders of subsidiaries	**(67,404)**	(351,441)
Interest paid	**(51,371)**	(58,843)
Net cash outflow from financing activities	**(56,666)**	(1,591,827)
Net decrease in cash and cash equivalents	**(56,552)**	(864,269)
Cash and cash equivalents at beginning of the year	**1,231,281**	2,099,962
Effect of exchange rate changes on balances held in foreign currency	**(1,754)**	(4,412)
Cash and cash equivalents at end of the year (note 21)	**1,172,975**	1,231,281

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Attributable net assets of subsidiaries divested and acquired during the year are as follows:

	Group	
	2006	2005
	S$'000	S$'000
Disposals		
Non-current assets	**591,988**	23,315
Net current assets	**261,475**	52
Non-current liabilities	**(47,598)**	–
Minority interests	**(291,891)**	–
	513,974	23,367
Profit on disposal	**474,477**	9,131
Realisation of currency translation reserve	**(1,529)**	–
Goodwill written off on disposal	**–**	756
Total consideration receivable	**986,922**	33,254
Net cash at bank of subsidiaries disposed	**(494,900)**	(68)
Cash inflow on divestment	**492,022**	33,186
Acquisitions		
Non-current assets	**9,942**	14,412
Net current (liabilities)/assets	**(1,005)**	14,347
Non-current liabilities	**(3,599)**	(3,047)
Minority interests	**(362)**	(3,376)
Interest in subsidiaries previously accounted for as associates/other investments	**(858)**	(5,815)
Goodwill	**944**	1,320
Total consideration payable	**5,062**	17,841
Payment of deferred consideration	**–**	6,559
Payment for additional interest in subsidiaries	**–**	16,980
Net overdraft/(cash at bank) of subsidiaries acquired	**2,252**	(8,724)
Cash outflow on acquisitions	**7,314**	32,656

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the directors on February 16, 2007.

1. DOMICILE AND ACTIVITIES

SembCorp Industries Ltd (the "Company") is a company incorporated in the Republic of Singapore and has its registered office at 30 Hill Street #05-04, Singapore 179360.

The principal activities of the Company are those of an investment holding company, as well as the corporate headquarters, which gives strategic direction and provides management services to its subsidiaries. The principal activities of key subsidiaries are as follows:

i. Utilities

This business focuses on the provision of centralised utilities and energy. It offers industrial utilities and services such as energy, steam, industrial water and wastewater treatment to energy intensive users. It operates in Singapore, the United Kingdom, Vietnam, China and the United Arab Emirates. Its operations in engineering, construction and fabrication of offshore platforms, modules and floating production systems for oil and gas companies (offshore engineering) under the SMOE group were sold to SembCorp Marine Ltd in August 2006.

ii. Marine & Offshore Engineering

This business focuses principally on repair, building and conversion of ships and rigs, and offshore engineering.

iii. Environmental Management

The business provides integrated waste management services and undertakes waste-to-resource businesses in the Asia Pacific region.

iv. Industrial Parks

The business focuses principally on developing, marketing and operating industrial parks in Asia.

Logistics and Engineering & Construction businesses were divested during the year. Logistics business was in supply chain management and offshore logistics. It provided one-stop integrated logistics management services including automatic warehouse and inventory management. The business also operated offshore supply bases in Singapore and overseas. Engineering & Construction business was an engineering and construction service provider with principal activities ranging from turnkey construction, design consultancy, infrastructure development and project management. It was also involved in petrochemical, chemical and industrial process engineering and manufacturing of precast components.

Except for the divestment of Logistics and Engineering & Construction businesses, there have been no other significant changes in the principal activities of the Company or the Group during the financial year.

The immediate and ultimate holding company during the financial year up to November 2006 was Temasek Holdings (Private) Limited, a company incorporated in the Republic of Singapore.

The consolidated financial statements relate to the Company and its subsidiaries (referred to as the "Group") and the Group's interests in associates and joint ventures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements are presented in Singapore dollars and rounded to the nearest thousand ("S$'000"), unless otherwise indicated. They are prepared on the historical cost basis except where otherwise described in the accounting policies below.

The preparation of financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are discussed in note 43.

With effect from January 1, 2006, the Group adopted the following FRS and Interpretations to FRS ("INT FRS") which are relevant to the Group's operations:

FRS 19 Amendments	*Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosure*
FRS 39 Amendments	*Financial Instruments: Recognition and Measurement*
	■ *Cash flow hedge accounting of forecast intragroup transactions*
	■ *Fair value option*
	■ *Financial guarantee contracts*
FRS 104	*Insurance Contracts*
FRS 106	*Exploration for and Evaluation of Mineral Resources*
INT FRS 104	*Determining whether an Arrangement contains a Lease*
INT FRS 105	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
INT FRS 106	*Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies and did not give rise to any adjustments to the opening balances of accumulated profits of the prior and current years or changes to comparatives.

Except for the above changes, the accounting policies set out below have been applied consistently by the Group. The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

FRS yet to be adopted

The Group has not applied the following FRS and INT FRS that have been issued as of the balance sheet date but are not yet effective:

FRS 40	*Investment Property*
FRS 107	*Financial Instruments: Disclosures and the Amendment to FRS 1 Presentation of Financial Statements: Capital Disclosures*
INT FRS 107	*Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies*
INT FRS 108	*Scope of FRS 102 Share-based Payment*
INT FRS 109	*Reassessment of Embedded Derivatives*
INT FRS 110	*Interim Financial Reporting and Impairment*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

a. Basis of Preparation *(cont'd)*

FRS yet to be adopted *(cont'd)*

FRS 40, which becomes mandatory for the Group from January 1, 2007, permits investment property to be stated at either fair value or cost less accumulated depreciation and accumulated impairment losses. The Group will continue to state investment property at cost less accumulated depreciation and accumulated impairment losses.

FRS 107 and amended FRS 1, which become mandatory for the Group from January 1, 2007, will require additional disclosures with respect to the Group's financial instruments and share capital.

The initial application of these FRS and INT FRS is not expected to have any material impact on the Group's results.

The Group has not considered the impact of FRS issued after the balance sheet date.

b. Consolidation

i. Subsidiaries

Subsidiaries are those companies controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another company.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All business combinations are accounted for using the purchase method with effect from January 1, 2004 upon the adoption of FRS 103. Prior to January 1, 2004, business combinations were accounted for either by the purchase method, or if they were between entities under common control, by the historical cost method similar to the pooling-of-interest method.

Under the purchase method, the cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the profit and loss account in the period of the acquisition.

Business combinations that involve entities under common control are excluded from the scope of FRS 103. Such combinations are accounted at historical cost in a manner similar to the pooling of interests method, in the preparation of the consolidated financial statements. Under this method of accounting, the difference between the value of the share capital issued and the value of shares received is taken to the merger deficit/reserve.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

b. Consolidation *(cont'd)*

ii. Associates

Associates are companies in which the Group has significant influence, but not control, over the financial and operating policies.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group has significant influence over another company.

In the Group's financial statements, they are accounted for using the equity method of accounting from the day that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate (including any other unsecured receivables, that in substance, form part of the Group's net investment in the associate), recognition of further losses is discontinued unless the Group has incurred obligations or made payments on its behalf to satisfy obligations of the associate that the Group has guaranteed or otherwise committed on behalf of.

The excess of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the profit and loss account in the period of the acquisition.

iii. Joint Ventures

Joint ventures are those enterprises whose activities the Group has joint control over, established by contractual agreement.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group has joint control over the enterprise.

For incorporated joint ventures, the Group accounts for the joint ventures in the same manner as associates, from the date joint control commences until the day that the joint control ceases.

For unincorporated joint ventures, the proportionate share in the unincorporated joint ventures' individual income, expenses, assets and liabilities are included in financial statements of the Group with items of a similar nature on a line-by-line basis.

The excess of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the profit and loss account in the period of the acquisition.

iv. Accounting for Associates and Joint Ventures

Investments in associates and joint ventures are stated in the Company's balance sheet at cost less impairment losses.

The results of the associates and joint ventures are included in the Company's profit and loss account to the extent of dividends received and receivable, provided the Company's right to receive the dividend is established before the balance sheet date.

v. Transactions Eliminated on Consolidation

All significant intra-group transactions, balances and unrealised gains are eliminated on consolidation. Unrealised gains resulting from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

vi. Accounting Policies of Subsidiaries, Associates and Joint Ventures

Where necessary, accounting policies for subsidiaries and material associates and joint ventures have been adjusted on consolidation to be consistent with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

c. Foreign Currencies

i. Functional and Presentation Currency

Items included in the financial statements of each company in the Group are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The consolidated financial statements are presented in Singapore dollars, which is the Company's functional and presentation currency.

ii. Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency at foreign exchange rates ruling at the dates of the transactions. At each balance sheet date:

- Foreign currency monetary items are translated into the functional currency using foreign exchange rates ruling at that date.
- Non-monetary assets and liabilities measured at historical cost in foreign currencies are translated into the functional currency using foreign exchange rates at the dates of the transactions.
- Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Foreign exchange differences arising from the settlement or from translation of monetary items are recognised in the profit and loss account.

Foreign exchange differences arising from non-monetary items are recognised directly in equity when non-monetary items' gains or losses are recognised directly in equity. Conversely when non-monetary items' gains or losses are recognised directly in the profit and loss account, foreign exchange differences arising from these items are recognised directly in the profit and loss account.

iii. Foreign Operations

The results and financial positions of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at foreign exchange rates ruling at the date of the balance sheet,
- Revenues and expenses are translated at average rates, and
- All resulting foreign exchange differences are taken to the currency translation reserve.

Goodwill (except those relating to acquisitions of foreign operations prior to January 1, 2004) and fair value adjustments arising from the acquisition of foreign operations are translated to Singapore dollars for consolidation at the rates of exchange ruling at the balance sheet date. Goodwill arising from the acquisition of foreign operations prior to January 1, 2004 are translated at foreign exchange rates ruling at the dates of the transactions.

On disposal, accumulated currency translation differences are recognised in the consolidated profit and loss account as part of the gain or loss on disposal.

iv. Net Investment in a Foreign Operation

Exchange differences arising from monetary items that in substance form part of the company's net investment in a foreign operation are recognised in the company's profit and loss account. Such exchange differences are reclassified to currency translation reserve in the consolidated financial statements. Such exchange differences are released to the consolidated profit and loss account upon disposal of the investment as part of the gain or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

d. Property, Plant and Equipment

i. Owned Assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

ii. Revaluation Surplus

Any increase in revaluation is credited to revaluation reserve unless it offsets a previous decrease in value recognised in the profit and loss account. A decrease in value is recognised in the profit and loss account where it exceeds the increase previously recognised in the revaluation surplus of the same asset.

iii. Subsequent Expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

iv. Disposals

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

For property, plant and equipment carried at revalued amounts, any related revaluation surplus is transferred from the revaluation reserve to accumulated profits and is not taken into account in arriving at the gain or loss on disposal.

v. Finance Leased Assets

Finance leases are those leasing agreements that give rights approximating to ownership. Property, plant and equipment acquired by way of such leases is capitalised at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly to the profit and loss account.

Capitalised leased assets are depreciated over the shorter of the economic useful life of the asset and the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

d. Property, Plant and Equipment *(cont'd)*

vi. Provision for Restoration Costs

A provision is recognised for the costs expected to be incurred to dismantle, remove and restore the asset upon expiry of the lease agreement. The estimated costs form part of the cost of the property, plant and equipment and are depreciated over the useful life of the asset.

vii. Depreciation

Depreciation is calculated using the straight-line method to allocate the cost less its residual value so as to write off items of property, plant and equipment over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of an item are depreciated separately. The estimated useful lives are as follows:

Leasehold land and wet berthage	Lease period ranging from 20 to 60 years
Land improvements	Lease period ranging from 20 to 60 years
Buildings	50 years or lease period ranging from 10 to 50 years, if lower
Improvements to premises	1 to 10 years
Quays and dry docks	15 to 60 years
Floating docks	20 years
Plant and machinery	3 to 40 years
Marine vessels	3 to 25 years
Tools and workshop equipment	3 to 10 years
Motor vehicles	2 to 10 years
Furniture, fittings and office equipment	1 to 10 years

The assets' useful lives and residual values are reviewed, if not insignificant, annually, and adjusted if appropriate.

No depreciation is provided on freehold land and capital work-in-progress.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

e. Intangible Assets

i. Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets. Goodwill is stated at cost less impairment losses. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in investments in associates and joint ventures.

Goodwill arising from the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Goodwill is tested for impairment on an annual basis in accordance with note 2(m).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

e. Intangible Assets *(cont'd)*

ii. Goodwill/Negative Goodwill Previously Written Off Against Reserves

Goodwill that has previously been taken to reserves is not taken to the profit and loss account when (i) the business is disposed of or discontinued or (ii) the goodwill is impaired. Similarly, negative goodwill that has previously been taken to reserves is not taken to the profit and loss account when the business is disposed of or discontinued.

iii. Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss account as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful life of 10 years.

iv. Other Intangible Assets

Other intangible assets with finite life are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill is recognised in the profit and loss account as an expense as incurred. Other intangible assets are amortised on a straight-line basis from the date the asset is available for use and over its estimated useful lives ranging from 3 to 10 years.

Intangible assets of indefinite life or not available for use are stated at cost less impairment loss. Such intangible assets are tested for impairment annually in accordance with note 2(m).

v. Subsequent Expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

f. Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; held to maturity investments; loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The designation of financial assets at fair value through profit or loss is irrevocable.

i. Financial Assets at Fair Value

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if the Group manages such assets and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the profit and loss account when incurred. Assets in this category are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

f. Financial Assets *(cont'd)*

ii. Held to Maturity Investments

Where the Group has the positive intent and ability to hold investments to maturity, they are stated at amortised cost using the effective interest method less impairment losses. During the year, the Group did not hold any investments in this category.

iii. Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date for which they are classified as non-current assets. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Receivables with a short duration are not discounted. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(j)).

iv. Available-for-Sale Financial Assets

Other financial assets held by the Group that are either designated in this category or not classified in any other category, are classified as being available-for-sale. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. They are stated at fair value, with any resultant gain or loss being recognised directly in equity. The exceptions are impairment losses and foreign exchange gains and losses on monetary items such as debt securities, which are recognised in the profit and loss account. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the profit and loss account. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the profit and loss account.

Financial assets classified as held-for-trading or available-for-sale are recognised by the Group on the date it receives the financial asset, and derecognised on the date it delivers the financial asset. Other financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred substantially all risks and rewards of ownership.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss, which are recognised at fair value.

Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the value of the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the profit and loss account even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the profit and loss account is the excess of acquisition cost less any impairment loss on that financial asset previously recognised in the profit and loss account, over its current fair value.

The recoverable amount of the Group's investments in held-to-maturity securities is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

f. Financial Assets *(cont'd)*

Reversals of Impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the profit and loss account. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit and loss account.

g. Derivatives

Derivative financial instruments are used to manage exposures to foreign exchange, interest rate and commodity price risks arising from operational, financing and investment activities. Derivative financial instruments are not used for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are remeasured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as described in note 2(h).

h. Hedging

i. Fair Value Hedges

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), any gain or loss on the hedging instrument is recognised in the profit and loss account. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss recognised in the profit and loss account.

ii Cash Flow Hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised immediately in the profit and loss account. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the profit and loss account in the same period or periods during which the asset acquired or liability assumed affects the profit and loss account.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

h. Hedging *(cont'd)*

iii Hedge of Monetary Assets and Liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the profit and loss account.

iv Hedge of Net Investment in a Foreign Operation

The gain or loss on a financial instrument used to hedge a net investment in a foreign operation is recognised in the company's profit and loss account. On consolidation, only the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is reclassified to equity. This amount is recognised in the consolidated profit and loss account on disposal of the foreign operation.

v. Separable Embedded Derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in the profit and loss account.

i. Inventories

i. Finished Goods and Components

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity. Costs of inventories also include the transfer from equity, if any, gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any allowance for write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any allowance for write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

ii Long-term Contracts

The accounting policy for recognition of contract revenue is set out in note 2(u)(ii).

Long-term contracts-in-progress at the balance sheet date are recorded in the balance sheet at cost plus attributable profit less recognised losses, net of progress claims and allowance for foreseeable losses, and are presented in the balance sheet as "Work-in-progress" (as an asset) or "Excess of progress claims over work-in-progress" (as a liability), as applicable. Long-term contract costs include the cost of direct materials, direct labour and costs incurred in connection with the project. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Progress claims not yet paid by the customer are included in the balance sheet under "Trade receivables". Amounts received before progress claims are included in the balance sheet, as a liability, as "Advance payment from customers".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

i. Inventories *(cont'd)*

iii. Properties Held for Sale

Properties held for sale are stated at the lower of cost and net realisable value.

Cost includes the cost of real estate purchased, construction cost, finance cost and other direct expenditure and related overheads incurred during construction. Net realisable value represents the estimated selling price less the anticipated cost of disposal.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and if carrying values exceed these recoverable amounts, assets are written down.

j. Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the profit and loss account.

k. Deferred Asset Grants

Asset related grants are credited to a deferred asset grants account and are released to the profit and loss account on the straight-line basis over the estimated useful lives of the relevant assets.

Non-monetary government grants and assets received are valued at nominal amounts.

Income-related grants are credited to the profit and loss account in the period to which they relate.

l. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts which are repayable on demand. Bank overdrafts are shown within interest-bearing borrowings in current liabilities on the balance sheet.

m. Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is charged to the profit and loss account unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and as and when indicators of impairment occur.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

m. Impairment *(cont'd)*

i. Calculation of Recoverable Amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

ii. Reversals of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. However, an impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n. Liabilities and Interest-Bearing Liabilities

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

o. Deferred Income

Deferred income relates mainly to advance payments received from customers in respect of connection and capacity charges for the supply and delivery of gas and utilities. Deferred income is amortised on a straight-line basis over the period stipulated in the respective customer contract commencing from the date of supply and delivery of gas and utilities.

p. Employee Benefits

i. Defined Contribution Plans

Obligations for contributions to defined contribution plans are recognised as an expense in the profit and loss account as incurred.

ii. Defined Benefit Plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary on a regular basis using a relevant actuarial method. In the intervening years the calculation is updated based on information received from the actuary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

p. Employee Benefits *(cont'd)*

ii. Defined Benefit Plans *(cont'd)*

When the benefits of a plan change, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit and loss account.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognised in the profit and loss account, over the expected average remaining working lives of the employees participating in the plan, only to the extent that their cumulative amount exceeds 10% of the greater of the present value of the obligation and of the fair value of plan assets. Unrecognised actuarial gains and losses are reflected in the balance sheet.

For defined benefit plans, the actuarial cost charged to the profit and loss account consists of current service cost, interest cost, expected return on plan assets and past service cost as well as actuarial gains or losses to the extent that they are recognised. The past service cost for the enhancement of pension benefits is accounted for when such benefit vests or becomes a constructive obligation.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

iii. Short-term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The amount expected to be paid are accrued when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv. Staff Retirement Benefits

Retirement benefits payable to certain categories of employees upon their retirement are provided for in the financial statements based on their entitlement under the staff retirement benefit plan or, in respect of unionised employees of a subsidiary who joined on or before December 31, 1988, based on an agreement with the union.

The Group's net obligation in respect of retirement benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected future salary increase and is discounted to its present value and the fair value of any related assets is deducted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

p. Employee Benefits *(cont'd)*

v. Equity and Equity-Related Compensation Benefits

Share Option Plan

The share option programme allows the Group's employees to acquire shares of the Group companies. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. At each balance sheet date, the company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in employee expense and in a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transactions costs are credited to share capital when the options are exercised.

Performance Share Plan

The fair value of equity-related compensation is measured using the Monte Carlo Simulation method as at the date of grant. The method involves projecting future outcomes using statistical distributions of key random variables including the share price and the volatility of returns.

In estimating the fair value of the compensation cost, market-based performance conditions are taken into account. Therefore, for performance share grants with market-based performance conditions, the compensation cost is charged to the profit and loss account with a corresponding increase in equity on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the service period to which the performance period relates, irrespective of whether this performance condition is satisfied.

Restricted Stock Plan

Similar to the Performance Share Plan, the fair value of equity related compensation is measured using the Monte Carlo Simulation method as at the date of grant. The method involves projecting future outcomes using statistical distributions of key random variables including the share price and the volatility of returns. This model takes into the account the probability of achieving the performance conditions in the future.

For performance-based restricted share grants, the fair value of the compensation cost is measured at grant date and spread over the service period to which the performance criteria relates and the period during which the employees become unconditionally entitled to the shares. The compensation cost is charged to the profit and loss account with a corresponding increase in equity on a basis that fairly reflects the manner in which the benefits will accrue irrespective of whether this performance condition is satisfied.

At the balance sheet date, the company revises its estimates of the number of performance-based restricted shares that the employees are expected to receive based on the achievement of non-market performance conditions and the number of shares ultimately given. It recognises the impact of the revision of original estimates in employee expense and in a corresponding adjustment to equity over the remaining vesting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

q. Provisions

A provision is recognised in the balance sheet when there is a legal or constructive obligation as a result of a past event, the obligation can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

r. Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

s. Share Capital

i. Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new ordinary shares and share options are deducted against the share capital account.

Where the Company's ordinary shares are repurchased (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders and presented as "treasury shares" within equity, until they are cancelled, sold or reissued.

When treasury shares are cancelled, the cost of treasury shares is deducted against the share capital account, if the shares are purchased out of capital of the Company, or against the accumulated profits of the Company, if the shares are purchased out of profits of the Company.

When treasury shares are subsequently sold or reissued pursuant to the Share-based Incentive Plans, the cost of the treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised as a change in equity of the Company. No gain or loss is recognised in the profit and loss account.

Preference shares are classified as equity if it is non-redeemable. Preference shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

t. Dividend

Dividends on redeemable convertible preference share capital are recognised as liability on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

Dividends on redeemable convertible preference share capital classified as a liability are accounted for as finance costs. Dividends on ordinary shares and redeemable convertible preference share capital classified as equity are accounted for as movements in revenue reserve.

u. Revenue Recognition

i. Income on Goods Sold and Services Rendered

Revenue on goods sold is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the provision of consultancy services is recognised using the percentage of completion method. The percentage of completion is measured by reference to the percentage of cost incurred to-date to the estimated total costs for each project. Revenue on other service work is recognised when the work is completed. Revenue excludes goods and services or other sales taxes and is after deduction of any trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

ii. Contract Revenue

Revenue from repair work, engineering, overhaul, service work and marine and civil construction contracts is recognised based on percentage of completion. The percentage of completion is assessed by reference to surveys of work performed, or by reference to the percentage of costs incurred to-date to the estimated total costs for each contract, with due consideration made to include only those costs that reflect works performed.

When the outcome of a long-term contract can be estimated reliably, contract revenue and costs are recognised as income and expense respectively using the percentage of completion method. When the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that can probably be recovered and contract costs are recognised as an expense in the period in which they are incurred.

iii. Sale of Electricity and Gases

Revenue is billed and recognised upon delivery of electricity and gases.

iv. Dividend and Interest Income

Dividend income is recognised in the profit and loss account when the right to receive payment is established.

Interest income is recognised on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

v. Operating Leases

Where the Group has the use of assets under operating leases, payments made under the leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease payments made.

w. Finance Costs

Interest expense and similar charges are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale. The interest component of finance lease payments is recognised in the profit and loss account using the effective interest rate method.

x. Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

y. Assets (or Disposal Groups) Held For Sale

Non-current assets (or disposal groups) are classified as assets held for sale and measured at the lower of carrying amount and fair value less costs to sell if they are expected to be recovered principally through a sale transaction rather than through continuing use.

Any impairment losses on initial classification and subsequent measurement are recognised in the profit and loss account. Subsequent increases in fair value less costs to sell are recognised in the profit and loss account (not exceeding the accumulated impairment loss that has been previously recognised).

z. Discontinued Operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively for resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify. When an operation is classified as a discontinued operation, the comparative profit and loss account is restated as if the operation had been discontinued from the start of the comparative period.

aa. Financial Guarantee Contracts

Financial guarantee contracts are accounted for as insurance contracts. A provision is recognised based on the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the guarantee contract.

3. SHARE CAPITAL

	Note	No of ordinary shares 2006	2005
Issued and fully paid:			
At the beginning of the year		**1,746,411,878**	1,826,489,385
Exercise of share options	4(a)	**23,765,677**	30,074,945
Shares cancelled pursuant to a capital reduction exercise		**–**	(110,152,452)
At the end of the year		**1,770,177,555**	1,746,411,878

a. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

b. As at December 31, 2006, there were 30,663,581 (December 31, 2005: 49,867,341) unissued ordinary shares granted under the Company's Share Option Plan.

c. In 2005, the Company cancelled 110,152,452 ordinary shares at the price of S$1.95 per share pursuant to a capital reduction exercise.

d. On the date of commencement of the Companies (Amendment) Act 2005 on January 30, 2006:
   - The concept of authorised share capital was abolished;
   - Shares of the Company ceased to have par value;
   - The amount standing to the credit of the Company's share premium account of S$313,618,000 became part of the Company's share capital.

e. During the year, the Company reduced its capital by S$264,578,000 by way of a cash distribution of 15 cents per share, without deduction for tax, out of the Company's share capital account.

f. Movements of the share capital account during the year are set out in the Consolidated Statement of Changes in Equity.

4. 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.

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

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.

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.

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 plan. The share options 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.

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

As a result of the Capital Reduction and Cash Distribution exercise in 2006, the exercise prices of outstanding share options, the number of outstanding share awards under the Performance Share Plan and Restricted Stock Plan was adjusted on 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 Share Plans are as follows:

a. Share Option Plans

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 were settled by the issuance of new shares.

iv. The options granted expire after 5 years for non-executive directors and associated company's employees and 10 years for the employees of the Group.

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

a. Share Option Plans *(cont'd)*

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

* *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 are thus immediately exercisable.*

Options exercisable at Jan 1, 2006	Options exercisable at Dec 31, 2006	Proceeds on options exercised during the year credited to share capital	Exercise period
3,164,465	961,908	4,025	27/06/2001 to 26/06/2010
3,294,567	812,939	5,308	20/05/2001 to 19/05/2009
106,288	39,066	139	16/09/2001 to 15/09/2009
568,000	–	848	20/04/2002 to 19/04/2006
2,015,350	476,175	2,195	20/04/2002 to 19/04/2011
213,750	178,000	168	08/05/2003 to 07/05/2007
1,630,800	572,075	2,951	08/05/2003 to 07/05/2012
172,000	188,000	49	18/10/2003 to 17/10/2007
973,475	510,000	1,194	18/10/2003 to 17/10/2012
122,000	172,625	42	03/06/2004 to 02/06/2008
975,155	346,600	2,051	03/06/2004 to 02/06/2013
137,500	191,125	55	19/11/2004 to 18/11/2008
1,415,745	715,895	2,372	19/11/2004 to 18/11/2013
88,500	168,750	26	18/05/2005 to 17/05/2009
1,119,420	583,150	3,059	18/05/2005 to 17/05/2014
90,500	171,250	24	23/11/2005 to 22/11/2009
2,233,951	1,003,775	4,321	23/11/2005 to 22/11/2014
–	138,125	12	02/07/2006 to 01/07/2010
15,000	1,916,053	5,883	02/07/2006 to 01/07/2015
–	146,875	–	22/11/2006 to 21/11/2010
2,000	2,401,570	5,020	22/11/2006 to 21/11/2015
–	–	–	10/06/2007 to 09/06/2011
–	9,000@	29	10/06/2007 to 09/06/2016
18,338,466	**11,702,956**	**39,771**	

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

a. Share Option Plans *(cont'd)*

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 cancelled/ lapsed/ not accepted	Options outstanding at Dec 31, 2006
08/09/2000	S$0.70	75,000	–	–	(75,000)	–
08/09/2000	S$0.70	466,600	–	(163,000)	(5,600)	298,000
27/09/2001	S$0.66	145,000	–	(145,000)	–	–
27/09/2001	S$0.66	2,107,000	–	(1,586,550)	(10,250)	510,200
07/11/2002	S$0.90	475,000	–	(335,000)	–	140,000
07/11/2002	S$0.90	6,955,150	–	(3,606,950)	(145,750)	3,202,450
08/08/2003	S$0.99	667,000	–	(300,000)	–	367,000
08/08/2003	S$0.99	8,912,200	–	(3,374,550)	(226,000)	5,311,650
10/08/2004	S$1.04	800,000	–	(290,000)	–	510,000
10/08/2004	S$1.04	12,428,225	–	(3,015,050)	(444,975)	8,968,200
11/08/2005	S$2.96	530,000	–	(25,000)	–	505,000
11/08/2005	S$2.96	14,851,000	–	(710,100)	(735,250)	13,405,650
02/10/2006	S$3.33	–	560,000	–	–	560,000
02/10/2006	S$3.33	–	9,315,075	–	(91,000)	9,224,075
		48,412,175	**9,875,075**	**(13,551,200)**	**(1,733,825)**	**43,002,225**

SembCorp Industries Ltd's options exercised in 2006 resulted in 23,765,677 (2005: 30,074,945) ordinary shares being issued at a weighted average price of S$1.67 (2005: S$1.55). SembCorp Industries Ltd's options were exercised on a regular basis throughout the year. The weighted average share price during the year was S$3.39 (2005: S$2.44).

SembCorp Marine Ltd's options exercised in 2006 resulted in 13,551,200 (2005: 22,749,985) ordinary shares being issued at a weighted average price of S$1.04 (2005: S$0.84). SembCorp Marine Ltd's options were exercised on a regular basis throughout the year. The weighted average share price during the year was S$3.12 (2005: S$2.51).

Fair Value of Share Options

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted.

SembCorp Industries Ltd Share Options

The fair value of a SembCorp Industries Ltd share option granted on June 9, 2006, determined using the Binomial model, was S$0.60 per share.

The significant inputs into the model for SembCorp Industries Ltd share options were share price of S$2.93 on the grant date, exercise price of S$2.83, expected option life of 2.5 to 5.5 years, expected share price volatility ranging from 28.2% to 31.4%, expected dividend yield of 2.9% and risk-free interest rates ranging from 2.8% to 3.2%.

Options exercisable at Jan 1, 2006	Options exercisable at Dec 31, 2006	Exercise period
75,000	–	08/09/2001 to 07/09/2005
466,600	298,000	08/09/2001 to 07/09/2010
145,000	–	28/09/2002 to 27/09/2006
2,107,000	510,200	28/09/2002 to 27/09/2011
356,250	140,000	08/11/2003 to 07/11/2007
5,216,363	3,202,450	08/11/2003 to 07/11/2012
333,500	307,750	09/08/2004 to 08/08/2008
4,456,100	3,990,925	09/08/2004 to 08/08/2013
200,000	327,500	11/08/2005 to 10/08/2009
3,107,056	4,497,475	11/08/2005 to 10/08/2014
–	276,250	12/08/2006 to 11/08/2010
–	3,460,913	12/08/2006 to 11/08/2015
–	–	03/10/2007 to 02/10/2011
–	–	03/10/2007 to 02/10/2016
16,462,869	**17,011,463**	

SembCorp Marine Ltd Share Options
The fair value of a SembCorp Marine Ltd share option granted on October 2, 2006, determined using the Binomial model, was S$0.61 per share.

The significant inputs into the model for SembCorp Marine Ltd share options were share price of S$3.40 on the grant date, exercise price of S$3.33, expected option life of 1.5 to 4.5 years, expected share price volatility ranging from 25.6% to 28.5%, expected dividend yield of 2.8% and risk-free interest rates ranging from 1.5% to 4.4%.

The expected life of these options is based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. The expected volatility is based on the historical volatility over the most recent period that is commensurate with the expected life of the option. There are no market conditions associated with the share option grants. Service conditions and non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

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.

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

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

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.

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 Ltd Performance Shares

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

Performance shares participants	Conditional shares awarded during the year	Aggregate conditional shares awarded	Aggregate conditional shares released	Aggregate conditional shares lapsed	Aggregate conditional shares outstanding
Directors of the Company:					
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
	945,425	6,047,395	(925,700)	(3,114,300)	2,007,395

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

In accordance with the rules of the 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.

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

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

i. SembCorp Industries Ltd Performance Shares *(cont'd)*

During the year, a total of 338,200 performance shares were released by the Committee to the participants for the performance period 2003 to 2005. Of the total, 293,700 performance shares were released in the form of existing shares transferred to such participants and 44,500 via the release of cash-in-lieu of shares at a market value of S$3.31 per share on March 28, 2006. In addition, due to the divestment of a subsidiary, the Committee also approved the release of 16,900 performances shares for the performance period 2004 to 2006 and 40,000 performance shares for the period 2005 to 2007, which was prorated for the completed performance period. The share awards were released in the form of cash-in-lieu of shares at a market value of S$2.94 per share on June 5, 2006.

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) are as follows:

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

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.

During the year, a total of 444,000 SembCorp Marine Ltd's performance shares were released by the Committee in the form of existing shares transferred to such participants for the performance period 2003 to 2005.

Fair value of performance shares

The fair values of the performance shares are estimated using a Monte Carlo simulation methodology at the grant dates. The fair values of performance share granted during the year are as follows:

	Fair value of SembCorp Industries Ltd Performance Share granted on March 14, 2006	Fair value of SembCorp Marine Ltd Performance Share granted on October 2, 2006
Fair value at measurement date	S$2.32	S$2.20
Assumptions under the Monte Carlo model		
Share price	S$3.24	S$3.38
Expected volatility:		
SembCorp Industries Ltd/SembCorp Marine Ltd	23.7%	23.3%
Morgan Stanley Capital International ("MSCI")		
AC Asia Pacific excluding Japan Industrials Index	13.8%	14.2%
Correlation with MSCI	20.0%	28.3%
Risk-free interest rate	3.3%	2.9%
Expected dividend	2.9%	3.7%

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

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

Fair value of performance share *(cont'd)*

The expected volatility is based on the historical volatility over the most recent period that is commensurate with the expected life of the performance shares.

For performance shares, awarded prior to January 1, 2005, an initial estimate is made of the cost of compensation and based on the number of shares expected to be awarded at the end of the performance period, valued at market price at the date of the grant of the award. During the current financial year, the Group charged S$1,410,000 (2005: S$4,010,000) to the profit and loss account in respect of performance shares awarded prior to January 1, 2005 based on the market values of the shares at the reporting date. The balance of S$2,985,000 (2005: S$5,352,000) in liabilities as at December 31, 2006 represents the compensation cost for performance shares granted prior to 2005. The final measure of compensation cost is based on the number of shares ultimately awarded and the market price at the date the performance criteria are met.

For performance shares awarded from January 1, 2005 onwards, the Group has charged S$2,679,000 (2005: S$1,708,000) based on the fair value of performance shares at the grant date.

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 of eventually replacing share options as a long-term incentive plan. The share options grants to this group of employees were reduced by 50%, and these were replaced by restricted stocks of an equivalent fair value, as proposed 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 Ltd 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, an 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.

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

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

i. SembCorp Industries Ltd Restricted Stocks *(cont'd)*

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.

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.

Fair value of restricted stock

The fair values of the restricted stock are estimated using a Monte Carlo simulation methodology at the grant dates.

The fair values of restricted stock granted during the year are as follows:

	Fair value of SembCorp Industries Ltd Restricted Stock granted on June 9, 2006	Fair value of SembCorp Marine Ltd Restricted Stock granted on October 2, 2006
Fair value at measurement date	S$2.61	S$2.70
Assumptions under the Monte Carlo model		
Share price	S$2.93	S$3.38
Expected volatility:		
SembCorp Industries Ltd/SembCorp Marine Ltd	25.5%	23.3%
Straits Times Index ("STI")	10.6%	9.7%
Correlation with STI	45.83%	24.5%
Risk-free interest rate	2.8%–3.1%	2.9%–3.0%
Expected dividend	2.9%	3.7%

The expected volatility is based on the historical volatility over the most recent period that commensurates with the expected life of the restricted stocks.

During the year, the Group charged S$2,489,000 based on the fair value of restricted stocks at the grant date.

5. OTHER RESERVES

		Group		Company	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Share premium	a	–	313,618	–	313,618
Merger reserve	b	**29,201**	29,201	–	–
Currency translation reserve	c	**(13,920)**	14,192	–	–
Other reserves	d	**459,457**	62,275	**5,269**	2,444
		474,738	419,286	**5,269**	316,062

5. OTHER RESERVES *(cont'd)*

a. Share Premium

The application of the share premium account was governed by Section 69 of the Singapore Companies Act, Chapter 50. Pursuant to the Companies (Amendment) Act 2005 that came into effect on January 30, 2006, the amount in the share premium account became part of the Company's share capital.

b. Merger Reserve

Merger reserve represents the difference between the value of shares issued by the Company in exchange for the value of shares acquired in respect of the acquisition of subsidiaries accounted for under the pooling of interests method.

c. Currency Translation Reserve

The currency translation reserve comprises:

i. foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Company;

ii. exchange differences on monetary items which form part of the Group's net investment in foreign operations; and

iii. gains or losses on instruments used to hedge the Company's net investment in foreign operations that are determined to be effective hedges.

d. Other Reserves

	Group					Company
	Capital reserve S$'000	Share-based payments reserve S$'000	Fair value reserve S$'000	Hedging reserve S$'000	Total S$'000	Share-based payments reserve S$'000
At January 1, 2006	41,691	12,353	31,720	(23,489)	62,275	2,444
Net fair value changes of available-for-sale financial assets, net of deferred taxes	–	–	104,929	–	104,929	–
Net fair value changes of cash flow hedges, net of deferred taxes	–	–	–	35,431	35,431	–
Share of hedging reserve of associates and joint venture companies	–	–	–	(37,713)	(37,713)	–
Share-based payments	–	15,161	–	–	15,161	2,825
Realisation of reserve upon disposal of investments and changes in group structure	299,468	(8,607)	(15,730)	(505)	274,626	–
Transfer of revenue reserve to statutory reserve by associated companies	4,748	–	–	–	4,748	–
At December 31, 2006	345,907	18,907	120,919	(26,276)	459,457	5,269

5. OTHER RESERVES *(cont'd)*

d. Other Reserves *(cont'd)*

	Group					Company
		Share-based				Share-based
	Capital	payments	Fair value	Hedging		payments
	reserve	reserve	reserve	reserve	Total	reserve
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
At January 1, 2005	37,521	4,532	14,014	(7,093)	48,974	528
Net fair value changes of available-for-sale financial assets, net of deferred taxes	–	–	25,634	–	25,634	–
Net fair value changes of cash flow hedges, net of deferred taxes	–	–	–	(19,353)	(19,353)	–
Share of reserve of associates and joint venture companies	493	–	–	2,957	3,450	–
Share-based payments	–	7,821	–	–	7,821	1,916
Realisation of reserve upon disposal of investments and changes in group structure	209	–	(7,928)	–	(7,719)	–
Transfer of revenue reserves to statutory reserve by associated companies	3,468	–	–	–	3,468	–
At December 31, 2005	41,691	12,353	31,720	(23,489)	62,275	2,444

Other reserves include:

i. Capital reserve comprises capitalisation of accumulated profits for issue of bonus shares, capital reserve (net of goodwill) on consolidation and equity accounting, capital redemption reserve and convertible loan stock reserve.

ii. Share-based payments reserve comprises the cumulative value of services received from employees recorded on grant of equity-settled share options, performance shares and performance based restricted shares. The expense for service received is recognised over the performance period and/or vesting period. The amount in the share-based payments reserve is retained when the option is exercised or expired.

iii. Fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investments are derecognised.

iv. Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold and freehold land, buildings and wet berthage S$'000	Improvements to premises S$'000	Quays and dry docks S$'000	Plant and machinery S$'000
Cost				
Balance at January 1, 2006	1,022,847	125,661	324,103	2,093,896
Translation adjustments	(11,500)	(776)	(70)	(15,958)
Additions	28,877	3,128	633	161,269
Acquisition of subsidiaries	6,247	135	–	2,837
Reclassification	15,112	(1,876)	3,602	47,164
Disposals/Write-offs	(5,793)	(1,500)	(72)	(24,237)
Disposal of subsidiaries	(239,297)	(84,424)	–	(143,390)
Balance at December 31, 2006	816,493	40,348	328,196	2,121,581
Accumulated Depreciation and Impairment Losses				
Balance at January 1, 2006	399,087	71,115	118,090	718,686
Translation adjustments	(7,204)	(115)	(4)	(4,205)
Depreciation for the year	25,661	3,336	7,139	115,710
Reclassification	1,180	(892)	–	(1,423)
Disposals/Write-offs	(1,049)	(952)	–	(16,759)
Disposal of subsidiaries	(62,985)	(55,156)	–	(114,219)
Allowance (reversed)/made for impairment – net	(83,315)	218	–	13,576
Balance at December 31, 2006	271,375	17,554	125,225	711,366
Carrying Amount				
At December 31, 2006	545,118	22,794	202,971	1,410,215

During the year, property, plant and equipment of net book value amounting to S$39,935,000 and S$2,065,000 were reclassed from asset held for sale and intangible assets respectively.

Marine vessels S$'000	Tools and workshop equipment S$'000	Furniture, fittings and office equipment S$'000	Motor vehicles S$'000	Capital work-in-progress S$'000	Total S$'000
10,441	34,104	150,019	70,310	321,028	4,152,409
(101)	(493)	(1,446)	(337)	(2,143)	(32,824)
216	6,306	11,433	4,292	248,030	464,184
102	70	48	480	–	9,919
46,102	–	(37)	1,192	(69,282)	41,977
(85)	(1,567)	(5,719)	(10,861)	(4,572)	(54,406)
(2,788)	–	(55,455)	(11,382)	(216,431)	(753,167)
53,887	38,420	98,843	53,694	276,630	3,828,092
7,684	27,195	127,462	49,787	5,923	1,525,029
(15)	(302)	(989)	(197)	–	(13,031)
3,131	2,985	9,989	1,660	–	169,611
–	–	330	782	–	(23)
(85)	(1,500)	(5,309)	(9,902)	(1,370)	(36,926)
(835)	–	(49,109)	(8,128)	(2,749)	(293,181)
–	–	4	7,659	3,966	(57,892)
9,880	28,378	82,378	41,661	5,770	1,293,587
44,007	10,042	16,465	12,033	270,860	2,534,505

6. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

Group *(cont'd)*

	Leasehold and freehold land, buildings and wet berthage S$'000	Improvements to premises S$'000	Quays and dry docks S$'000	Plant and machinery S$'000
Cost				
Balance at January 1, 2005	986,079	102,902	332,902	2,061,845
Translation adjustments	(2,177)	99	–	(21,881)
Additions	17,819	6,348	73	79,768
Acquisition of subsidiaries	10,003	261	904	446
Reclassification	24,463	16,461	–	20,372
Disposals/Write-offs	(13,340)	(410)	(9,776)	(46,654)
Balance at December 31, 2005	1,022,847	125,661	324,103	2,093,896
Accumulated Depreciation and Impairment Losses				
Balance at January 1, 2005	341,585	65,035	120,218	639,206
Translation adjustments	3,244	61	–	(1,891)
Depreciation for the year	28,477	5,598	7,275	119,175
Reclassification	22,390	599	–	1,681
Disposals/Write-offs	(2,135)	(268)	(9,403)	(39,726)
Allowance made for impairment – net	5,526	90	–	241
Balance at December 31, 2005	399,087	71,115	118,090	718,686
Carrying Amount				
At December 31, 2005	623,760	54,546	206,013	1,375,210

i. Property, plant and equipment with the following net book values have been pledged to secure loan facilities granted to subsidiaries:

	2006 S$'000	2005 S$'000
Freehold land and buildings	54,102	174,091
Leasehold land and buildings	20,857	52,442
Plant and machinery	679,417	693,720
Capital work-in-progress	211,080	65,993
Other assets	1,974	3,551
	967,430	989,797

ii. Assets with net book value of S$3,382,000 (2005: S$2,107,000) were acquired under finance lease.

iii. Included in the cost of leasehold land and buildings, quays and dry docks and plant and machinery are amounts of S$120,866,000, S$100,900,000 and S$667,000 respectively which were stated at valuation. The revaluation was done on a one off basis prior to January 1, 1997.

Marine vessels S$'000	Tools and workshop equipment S$'000	Furniture, fittings and office equipment S$'000	Motor vehicles S$'000	Capital work-in-progress S$'000	Total S$'000
22,545	30,908	141,148	67,590	115,560	3,861,479
(94)	157	(562)	(52)	(272)	(24,782)
1,551	3,281	13,359	6,837	236,812	365,848
–	–	313	297	518	12,742
4,419	557	(690)	(394)	(27,871)	37,317
(17,980)	(799)	(3,549)	(3,968)	(3,719)	(100,195)
10,441	34,104	150,019	70,310	321,028	4,152,409
6,052	25,181	119,871	48,270	4,216	1,369,634
(78)	199	(593)	(2)	–	940
1,288	2,589	11,712	5,239	–	181,353
4,207	13	(461)	(225)	1,710	29,914
(4,119)	(787)	(3,120)	(3,495)	(3)	(63,056)
334	–	53	–	–	6,244
7,684	27,195	127,462	49,787	5,923	1,525,029
2,757	6,909	22,557	20,523	315,105	2,627,380

iv. During the year, interest and direct staff costs amounting to S$2,979,000 (2005: S$425,000) and S$455,000 (2005: S$869,000), respectively were capitalised as capital work-in-progress.

v. The net movement of impairment losses relates primarily to the following:

a. As a result of the change in the recoverable amount of the hotel and shopping mall of a subsidiary, the Group reversed the impairment loss for leasehold land and building by S$84,008,000 to the net selling prices;

b. Due to expected losses from its new muncipal waste collection contracts, a subsidiary recognised impairment losses of S$9,948,000 to write down its operating assets. The carrying amount of these assets was reduced to their recoverable amount, which was based on their value in use, calculated based on projections of future cash flows from its new municipal contracts over a period of 8 years and discounted to present value at 7.1%; and

6. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

Group *(cont'd)*

c. Due to continual losses incurred, a subsidiary recognised impairment losses of S$9,965,000 to write down its coal-fired cogeneration plant in China. The carrying amount of the assets was reduced to their recoverable amount, which was based on their value in use, calculated over the remaining terms of the co-operative joint venture of 22 years and discounted to present value at 6.9%.

Company

	Leasehold building S$'000	Leasehold improvements S$'000	Motor vehicles S$'000	Furniture, fittings and equipment S$'000	Capital work-in-progress S$'000	Total S$'000
Cost						
Balance at January 1, 2006	312	255	214	3,203	–	3,984
Additions	–	1,801	324	1,951	620	4,696
Disposals/write-offs	–	–	(214)	(102)	–	(316)
Balance at December 31, 2006	312	2,056	324	5,052	620	8,364
Accumulated Depreciation and Impairment Losses						
Balance at January 1, 2006	5	223	214	2,545	–	2,987
Depreciation for the year	5	444	5	887	–	1,341
Disposals/write-offs	–	–	(214)	(102)	–	(316)
Balance at December 31, 2006	10	667	5	3,330	–	4,012
Carrying Amount						
At December 31, 2006	302	1,389	319	1,722	620	4,352

	Leasehold building S$'000	Leasehold improvements S$'000	Motor vehicles S$'000	Furniture, fittings and equipment S$'000	Total S$'000
Cost					
Balance at January 1, 2005	–	255	214	2,768	3,237
Additions	312	–	–	480	792
Disposals/write-offs	–	–	–	(45)	(45)
Balance at December 31, 2005	312	255	214	3,203	3,984
Accumulated Depreciation and Impairment Losses					
Balance at January 1, 2005	–	139	175	2,104	2,418
Depreciation for the year	5	84	39	483	611
Disposals/write-offs	–	–	–	(42)	(42)
Balance at December 31, 2005	5	223	214	2,545	2,987
Carrying Amount					
At December 31, 2005	307	32	–	658	997

7. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	S$'000	S$'000
At cost:		
Quoted equity shares	**705,432**	1,543,469
Unquoted equity shares	**501,113**	591,192
Preference shares	**257,500**	342,500
	1,464,045	2,477,161
Allowances for impairment losses	**–**	(201,574)
Carrying value	**1,464,045**	2,275,587

Details of subsidiaries are set out in note 45 to the financial statements.

During the year, the Company divested its stake in SembCorp Logistics Ltd and SembCorp Engineers and Constructors Pte Ltd. Details of the divestments are set out in note 33 to the financial statements.

8. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	S$'000	S$'000
Interests in associates	**476,421**	294,755

Carrying value as at year end include goodwill on acquisition is as follows:

	Group	
	2006	2005
	S$'000	S$'000
Balance at beginning of the year	**–**	6,970
Disposal of an associate	**–**	(756)
Impairment during the year	**–**	(6,214)
Balance at end of the year	**–**	–

The fair value of the equity interest of a listed associate, with a carrying amount of S$223,834,000, amounts to S$637,351,000 based on the last transacted market price in 2006.

In 2005, due to the continual losses incurred by an associate, management assessed the recoverable amount of the associate's assets and goodwill attributed to the associate. Based on management's assessment of the recoverable amount, which was based on the value in use, an impairment of S$6,214,000 was recognised in "General and administrative expenses" of the profit and loss account.

8. INTERESTS IN ASSOCIATES *(cont'd)*

Summarised financial information of associates is as follows:

	2006	2005
	S$'000	S$'000
Results		
Turnover	**2,182,059**	1,826,843
Profit after taxation	**213,127**	155,606
Assets and liabilities		
Total assets	**5,836,863**	2,076,223
Total liabilities	**3,947,238**	1,250,289

The summarised financial information relating to associates disclosed above is not adjusted for the percentage of ownership held by the Group.

The Group's interest in an associate has been pledged to banks to secure credit facilities granted to the associate.

In 2005, the Group had not recognised losses relating to certain associates where its share of losses exceed the Group's carrying amount of its investment in those associates. The Group's cumulative share of unrecognised losses as at December 31, 2005 was S$58,982,000, of which S$673,000 was the share of the losses for 2005. The Group had no obligation in respect of these losses. The associates have been disposed of in 2006.

In 2006, an associate of a subsidiary entered into interest rate swap (IRS) contracts to swap the floating rate of its loan into a fixed rate commitment, for a duration of up to 14 years. Cash flow hedge accounting has been applied and accordingly the mark-to-market loss of the IRS was taken to reserves.

Details of significant associates are set out in note 46 to the financial statements.

9. INTERESTS IN JOINT VENTURES

	Group	
	2006	2005
	S$'000	S$'000
Interests in joint ventures	**264,457**	431,711

The carrying value as at year end includes goodwill on acquisition as follows:

	Group	
	2006	2005
	S$'000	S$'000
Balance at beginning of the year	**2,230**	2,371
Translation during the year	**(172)**	(141)
Additions	**5,512**	–
Balance at end of the year	**7,570**	2,230

9. INTERESTS IN JOINT VENTURES *(cont'd)*

Summarised financial information of joint ventures, representing the Group's share, is as follows:

	Group's share	
	2006	2005
	S$'000	S$'000
Results		
Turnover	**410,543**	707,055
Expenses	**(357,280)**	(658,997)
Profit before taxation	**53,263**	48,058
Taxation	**(7,531)**	(15,036)
Profit after taxation	**45,732**	33,022
Assets and liabilities		
Non-current assets	**459,912**	736,372
Current assets	**162,861**	245,043
Current liabilities	**(104,487)**	(192,548)
Non-current liabilities	**(261,399)**	(353,132)
Minority interests	**–**	(6,254)
Net assets	**256,887**	429,481
Capital commitments	**5,295**	15,994

The Group's interest in a joint venture with a carrying amount of S$54,360,000 (2005: S$59,432,000) as at December 31, 2006 has been pledged to banks to secure credit facilities granted to the joint venture entity.

Details of significant joint ventures are set out in note 46 to the financial statements.

10. OTHER FINANCIAL ASSETS

	Group	
	2006	2005
	S$'000	S$'000
a. Non-current Assets		
Assets available-for-sale:		
– Equity shares	**353,131**	105,812
– Unit trusts and funds	**6,124**	6,555
– Preference shares	**–**	9,006
	359,255	121,373

10. OTHER FINANCIAL ASSETS *(cont'd)*

		Group	
		2006	2005
	Note	S$'000	S$'000
b. Current Assets			
Assets available-for-sale:			
– Equity shares		–	2,891
Derivative financial instruments:			
Fair value through profit or loss:			
– Foreign exchange swap contracts		**381**	225
– Forward foreign exchange contracts		**–**	12
– Others		**334**	–
Cash flow hedges:			
– Interest rate swaps		**6,753**	4,446
– Forward foreign exchange contracts		**–**	279
– Power sale and purchase option contracts		**19,218**	–
	18	**26,686**	7,853

11. LONG-TERM RECEIVABLES AND PREPAYMENTS

		Group	
		2006	2005
	Note	S$'000	S$'000
Long-term trade receivables	12	**–**	11,783
Lease receivables due after 12 months	13	**39,952**	46,910
Loan receivables (unsecured)		**5,526**	3,500
Amount due from related parties	14	**279**	4,849
Prepayments	(a)	**29,060**	26,677
Recoverables	(b)	**2,344**	57,401
		77,161	151,120
Less: allowance for doubtful receivables		**(6,994)**	(4,968)
		70,167	146,152

a. **Prepayments**
Prepayments relate primarily to:

i. Connection fees prepaid under the Generation Connection and Use of System Agreement for the use of the transmission lines; and

ii. Service fees prepaid under the Gasoil Supply and Storage Agreement for the usage of the tank.

Prepayments are charged to the profit and loss account on a straight-line basis over the period of prepayments.

b. **Recoverables**
In 2005, recoverables related primarily to costs incurred by a subsidiary on behalf of a customer for the construction of a warehouse. The subsidiary was divested during the year.

12. TRADE RECEIVABLES

		Group	
		2006	2005
	Note	S$'000	S$'000
Trade receivables including work completed but unbilled		**653,435**	784,245
Allowance for doubtful receivables		**(22,505)**	(38,898)
		630,930	745,347
Trade receivables due within 1 year	18	**(630,930)**	(733,564)
	11	**–**	11,783

Included in trade receivables are retention monies on contracts amounting to S$805,000 (2005: S$45,804,000).

13. LEASE RECEIVABLES

	Note	Minimum lease payment S$'000	Estimated residual value S$'000	Total gross investment in lease S$'000	Unearned interest income S$'000	Net value of lease receivables S$'000
Group						
2006						
Within 1 year		7,686	–	7,686	(1,824)	5,862
After 1 year but within 5 years		25,313	3,000	28,313	(4,608)	23,705
After 5 years		12,657	4,500	17,157	(910)	16,247
		45,656	7,500	53,156	(7,342)	45,814
Amount due within 1 year	18	(7,686)	–	(7,686)	1,824	(5,862)
	11	37,970	7,500	45,470	(5,518)	39,952
2005						
Within 1 year		8,128	–	8,128	(2,092)	6,036
After 1 year but within 5 years		27,670	3,000	30,670	(5,755)	24,915
After 5 years		19,298	4,500	23,798	(1,803)	21,995
		55,096	7,500	62,596	(9,650)	52,946
Amount due within 1 year	18	(8,128)	–	(8,128)	2,092	(6,036)
	11	46,968	7,500	54,468	(7,558)	46,910

Under the terms of the lease agreements, no contingent rents are recognised. These lease receivables relate mainly to leases of marine vessels, whereby the lessees have the option to purchase the marine vessels during the term of the leases.

14. AMOUNTS DUE FROM RELATED PARTIES

		Ultimate holding company		Associates	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Group					
Amounts due from:					
Trade		–	–	**16,018**	17,417
Loans		–	–	**22,253**	32,694
Non-trade		–	164	**5,483**	49,474
		–	164	**43,754**	99,585
Allowance for doubtful receivables		–	(164)	**(20,531)**	(75,324)
		–	–	**23,223**	24,261
Amount due within 1 year	18	–	–	**(22,944)**	(20,848)
	11	–	–	**279**	3,413

i. The long-term loans to associates and joint ventures are unsecured and not expected to be repaid in the next 12 months. Included in loans to associates, joint ventures and related companies are amounts of S$410,000 (2005: S$39,221,000) which bear interest at 2% (2005: 2% to 5.25%) per annum.

ii. Included in loans due from joint ventures was 1% unsecured loan stocks 1999 of S$5,250,000 which may, at the option of a subsidiary, be converted at a certain ratio into shares in whole or in part at any time prior to the maturity date provided that all the stockholders shall convert the stocks at the same time.

iii. The Company ceased to be the subsidiary of Temasek Holdings (Private) Limited ("Temasek") on December 1, 2006. Accordingly, with effect from December 1, 2006, all balances with the subsidiaries of Temasek and the corresponding allowance for doubtful receivables were reclassified as "Trade and other receivables".

		Subsidiaries		Associates	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Company					
Amounts due from:					
Non-trade		**12,905**	12,065	–	1
Loans		–	2,302	–	–
	18	**12,905**	14,367	–	1

i. The non-trade amounts due from subsidiaries are unsecured, repayable on demand and interest-free, except for an amount of S$790,000 (2005: S$114,000) which bears an interest rate of 2.87% per annum (2005: 0.1% per annum).

ii. The loans due from subsidiaries were unsecured and bore interest at 2.38% per annum.

Joint ventures		Related companies		Minority shareholders of subsidiaries		Total	
2006	2005	2006	2005	2006	2005	2006	2005
S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
3,977	4,673	**8**	31,921	**55**	1,320	**20,058**	55,331
–	25,630	**–**	14,102	**–**	–	**22,253**	72,426
13,878	15,036	**–**	875	**103**	2,024	**19,464**	67,573
17,855	45,339	**8**	46,898	**158**	3,344	**61,775**	195,330
(13,225)	(18,543)	**–**	(848)	**–**	–	**(33,756)**	(94,879)
4,630	26,796	**8**	46,050	**158**	3,344	**28,019**	100,451
(4,630)	(26,331)	**(8)**	(45,079)	**(158)**	(3,344)	**(27,740)**	(95,602)
–	465	**–**	971	**–**	–	**279**	4,849

Joint ventures		Related companies		Total	
2006	2005	2006	2005	2006	2005
S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
–	56	**–**	320	**12,905**	12,442
–	–	**–**	–	**–**	2,302
–	56	**–**	320	**12,905**	14,744

15. INTANGIBLE ASSETS

Group

	Note	Goodwill S$'000	Others S$'000	Total S$'000
Cost				
Balance at January 1, 2006		143,694	26,355	170,049
Translation adjustments		(4)	(342)	(346)
Additions during the year		4,339	952	5,291
Acquisition of subsidiaries		944	–	944
Reclassification to other category of assets		–	(3,915)	(3,915)
Write-offs	34(b)	(489)	(9)	(498)
Disposals		–	(92)	(92)
Disposal of subsidiaries		(41,262)	(18,367)	(59,629)
Balance at December 31, 2006		107,222	4,582	111,804
Accumulated Amortisation and Impairment Losses				
Balance at January 1, 2006		826	18,458	19,284
Translation adjustments		(4)	(126)	(130)
Amortisation charge for the year	34(b)	–	606	606
Reclassification to other category of assets		–	(64)	(64)
Disposal		–	(76)	(76)
Disposal of subsidiaries		(822)	(16,906)	(17,728)
Balance at December 31, 2006		–	1,892	1,892
Carrying Amount				
At December 31, 2006		107,222	2,690	109,912
Cost				
Balance at January 1, 2005		142,450	20,433	162,883
Translation adjustments		(13)	424	411
Additions during the year		93	5,261	5,354
Write-offs	34(b)	(156)	(221)	(377)
Acquisition of subsidiaries		1,320	458	1,778
Balance at December 31, 2005		143,694	26,355	170,049
Accumulated Amortisation and Impairment Losses				
Balance at January 1, 2005		20	16,447	16,467
Translation adjustments		(27)	161	134
Amortisation charge for the year	34(b)	–	1,530	1,530
Allowance for impairment	34(b)	833	320	1,153
Balance at December 31, 2005		826	18,458	19,284
Carrying Amount				
At December 31, 2005		142,868	7,897	150,765

15. INTANGIBLE ASSETS *(cont'd)*

Group *(cont'd)*

Impairment Testing for Goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

		Group	
		2006	2005
Cash-generating Unit ("CGU")	Note	S$'000	S$'000
SUT Division	a	**18,867**	18,867
SembCorp Cogen Pte Ltd	b	**26,378**	26,378
SembCorp Gas Pte Ltd	c	**41,986**	41,986
SembRamky Environmental Management Private Limited	d	**4,394**	4,394
SembCorp Simon-Carves Limited	e	**–**	32,169
ST Airport Pte Ltd	e	**–**	7,453
Multiple units of insignificant goodwill		**15,597**	12,447
		107,222	143,694

The recoverable amounts are determined based on calculations of the value in use. These calculations use cash flow projections based on the financial budget for 2007 approved by the management. Management has applied past experience in operating the business to forecast the performance. Discount rates ranging from 6.3% to 7.1% have been used. At the balance sheet date, based on the following key assumptions, management believes that the recoverable amounts exceed their carrying amounts:

a. SUT Division

i. There are no significant changes to the customer base, hence the annual fixed revenue and gross profit margin remains stable relative to the previous year; and

ii. Cash flows beyond the budget period are estimated based on the long-term offtake contracts with its existing customers in the captive market in which it operates.

15. INTANGIBLE ASSETS *(cont'd)*

Group *(cont'd)*

Impairment Testing for Goodwill *(cont'd)*

b. SembCorp Cogen Pte Ltd

i. There are no significant changes in market demand and supply for electricity and electricity spark spread compared to the previous year;

ii. Required plant maintenance and its associated maintenance costs have been accounted for in the forecast of the plant's gross profit margin for 2007;

iii. Expected capital expenditure for replenishment of parts has also been accounted for in the forecast in accordance with plant maintenance program; and

iv. Cash flows beyond the budget period are estimated based on plant availability and load factors as well as changes in operating costs due to normal wear and tear, maintenance cycles and inflation.

c. SembCorp Gas Pte Ltd

i. Depreciating USD/SGD exchange rate and appreciating HSFO prices compared to the previous year;

ii. Gross profit margin is expected to remain stable as the pricing on both customer and supplier contracts are pegged to HSFO prices; and

iii. Cash flows beyond the budget period are estimated based on the contracted sales and purchase quantities of gas over the remaining period of the existing contracts with the major customers and the gas supplier.

d. SembRamky Environmental Management Private Limited

i. These calculations use cash flow projections based on management's 10-year financial projection of the company;

ii. Sales volume to grow by 10% per annum for the 1st year, 8% per annum for the 2nd to 9th year and 21% per annum for the 10th year; and

iii. Waste disposal fees to increase annually at the rate of 2% to 3% per annum generally.

e. These CGUs were divested during the year.

Company

The intangible assets of the Company relate to corporate club memberships.

16. DEFERRED TAX

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the year are as follows:

Group

	At Jan 1, 2006 S$'000	Charged/ (credited) to profit and loss account (note 32) S$'000	Charged/ (credited) to equity S$'000	Acquisition/ (disposal) of subsidiary S$'000	Translation adjustments S$'000	At Dec 31, 2006 S$'000
2006						
Deferred tax liabilities						
Property, plant and equipment	205,824	39,938	–	(3,523)	(693)	241,546
Interest in associates	2,792	(844)	–	–	–	1,948
Other financial assets	12,470	–	36,229	–	–	48,699
Trade and other receivables	520	1,436	–	(103)	(1)	1,852
Other items	5,868	(1,141)	35	536	(8)	5,290
Total prior to offsetting of balances	227,474	39,389	36,264	(3,090)	(702)	299,335
Total after offsetting of balances*	**220,095**					**294,214**
Deferred tax assets						
Property, plant and equipment	(3,992)	(3,480)	–	3,583	5	(3,884)
Inventories	(1,473)	92	–	1,371	–	(10)
Trade receivables	(2,087)	642	–	525	3	(917)
Trade and other payables	(814)	781	–	33	–	–
Tax losses	(6,966)	4,229	–	28	90	(2,619)
Provisions	(15,725)	423	–	1,247	(213)	(14,268)
Other items	(2,607)	(14,331)	(3,308)	227	–	(20,019)
Total prior to offsetting of balances	(33,664)	(11,644)	(3,308)	7,014	(115)	(41,717)
Total after offsetting of balances*	**(26,285)**					**(36,596)**

16. DEFERRED TAX *(cont'd)*

Group *(cont'd)*

	At Jan 1, 2005 S$'000	Charged/ (credited) to profit and loss account (note 32) S$'000	Charged/ (credited) to equity S$'000	Acquisition/ (disposal) of subsidiary S$'000	Translation adjustments S$'000	At Dec 31, 2005 S$'000
2005						
Deferred tax liabilities						
Property, plant and equipment	163,428	40,961	–	3,949	(2,514)	205,824
Interest in associates	4,147	(1,355)	–	–	–	2,792
Other financial assets	–	–	12,470	–	–	12,470
Trade and other receivables	87	455	–	–	(22)	520
Other items	3,512	2,356	–	–	–	5,868
Total prior to offsetting of balances	171,174	42,417	12,470	3,949	(2,536)	227,474
Total after offsetting of balances*	**150,648**					**220,095**
Deferred tax assets						
Property, plant and equipment	(4,512)	390	–	–	130	(3,992)
Inventories	(1,231)	(242)	–	–	–	(1,473)
Trade receivables	(2,324)	237	–	–	–	(2,087)
Trade and other payables	(1,687)	852	–	–	21	(814)
Tax losses	(4,926)	(1,193)	–	(903)	56	(6,966)
Provisions	(23,988)	7,011	–	–	1,252	(15,725)
Other items	(950)	(1,657)	–	–	–	(2,607)
Total prior to offsetting of balances	(39,618)	5,398	–	(903)	1,459	(33,664)
Total after offsetting of balances*	**(19,092)**					**(26,285)**

* *Deferred tax liabilities and assets are set off when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority.*

Company

The deferred tax liabilities as at December 31, 2006 and 2005 relate to temporary differences on property, plant and equipment.

16. DEFERRED TAX *(cont'd)*

The following items have not been included in the computation of deferred tax assets:

	Group		Company	
	2006	2005	2006	2005
	S$'000	S$'000	S$'000	S$'000
Deductible temporary differences	**11,862**	67,152	**–**	–
Tax losses	**83,566**	230,267	**–**	–
Capital allowances	**40,684**	91,146	**–**	–
	136,112	388,565	**–**	–

Of the above tax losses, tax losses of the Group amounting to S$45,567,000 (2005: S$107,360,000) will expire between 2007 and 2012 (2005: 2006 and 2020). The deductible temporary differences and capital allowances do not expire under current tax legislation.

Deferred tax assets have not been recognised under the following circumstances:

a. Where they are qualified for offset against the tax liabilities of member companies within the Group under the Loss Transfer System of Group Relief but the terms of the transfer have not been ascertained as at year end; and

b. Where it is uncertain that future taxable profit will be available against which the Group can utilise the benefits.

17. INVENTORIES AND WORK-IN-PROGRESS

		Group	
		2006	2005
	Note	S$'000	S$'000
Raw materials		**71,949**	70,690
Finished goods		**43,165**	71,583
		115,114	142,273
Allowance for inventory obsolescence		**(7,938)**	(16,558)
		107,176	125,715
Work-in-progress	a	**1,166,722**	735,182
		1,273,898	860,897
Properties held for sale, at cost	b	**–**	4,013
Allowance for foreseeable losses		**–**	(1,298)
		–	2,715
		1,273,898	863,612

17. INVENTORIES AND WORK-IN-PROGRESS *(cont'd)*

	Group	
	2006	2005
	S$'000	S$'000
a. Work-in-progress:		
Costs and attributable profits	**3,365,282**	4,580,823
Allowance for foreseeable losses	**(340)**	(32,362)
	3,364,942	4,548,461
Progress billings	**(2,743,590)**	(4,203,116)
	621,352	345,345
Comprising:		
Work-in-progress	**1,166,722**	735,182
Excess of progress billings over work-in-progress	**(545,370)**	(389,837)
	621,352	345,345

b. The properties were sold in 2006.

18. TRADE AND OTHER RECEIVABLES

		Group		Company	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Trade receivables	12	**630,930**	733,564	**–**	–
Current portion of finance lease	13	**5,862**	6,036	**–**	–
Amount due from related parties	14	**27,740**	95,602	**12,905**	14,744
Other receivables, deposits and prepayments	19	**572,093**	468,839	**186,922**	70,064
Other financial assets	10	**26,686**	7,853	**–**	–
Advance to suppliers		**5,493**	3,614	**–**	–
		1,268,804	1,315,508	**199,827**	84,808

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

		Group		Company	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Deposits		**7,780**	9,811	**717**	292
Prepayments		**44,036**	42,126	**511**	848
Tax recoverable		**250,822**	121,161	**184,889**	66,939
Sundry receivables	a	**77,026**	115,145	**865**	845
Unbilled receivables	b	**186,528**	192,283	**–**	–
Loan receivables		**22,188**	13,484	**–**	–
Recoverable		**6,337**	8,104	**–**	–
Interest receivable		**1,167**	880	**–**	–
Dividend receivables		**–**	–	**–**	1,200
		595,884	502,994	**186,982**	70,124
Allowance for doubtful receivables		**(23,791)**	(34,155)	**(60)**	(60)
	18	**572,093**	468,839	**186,922**	70,064

a. In 2005, sundry receivables included an amount of S$25,811 in respect of loans to directors of the subsidiaries and associates which were granted in accordance with employee loan schemes approved by the members of the subsidiaries and associates.

b. Unbilled receivables represent revenue accrued for sale of utilities services, electricity, gas and other related products.

20. ASSETS HELD FOR SALE

a. In 2005, the asset held for sale was a vessel, which was acquired in June 2004 when a subsidiary exercised its rights as mortgagee to take possession of the asset when the owners defaulted on their payment under financing terms granted in respect of the vessel's repairs.

   This amount has been reclassified as property, plant and equipment during the year as the offer to buy the vessel has not been materialised. Based on an independent external valuation, a further impairment loss of S$6,127,000 (2005: S$963,000) to write down the cost to its recoverable amount has been recognised in the "Non-operating expenses" of the profit and loss account.

b. The asset held for sale in 2006 relates to a leasehold property at 9 Tampines Street 92 Singapore 528871 owned by a wholly-owned subsidiary. In December 2006, the subsidiary entered into a Sale and Leaseback Agreement for the sale of the property. The Sale and Leaseback Agreement was completed on February 2, 2007.

21. BANK BALANCES, FIXED DEPOSITS AND CASH

		Group		Company	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Bank balances, fixed deposits and cash		**1,185,639**	1,231,281	**347,336**	10,503
Bank overdrafts	28	**(12,664)**	–	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows		**1,172,975**	1,231,281	**347,336**	10,503

The use of subsidiaries' cash and cash equivalents of S$163,660,000 (2005: S$129,466,000) is restricted to working capital purposes and repayments of loan in accordance with the terms stipulated in the loan agreement entered by the subsidiary with its bankers.

22. TRADE AND OTHER PAYABLES

		Group		Company	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Trade payables		**874,002**	771,881	**–**	–
Advance payments from customers		**16,550**	63,158	**–**	–
Other financial liabilities	23	**24,641**	39,712	**–**	–
Amount due to related parties	24	**14,808**	30,984	**229,557**	912,037
Other payables and accrued charges	25	**716,927**	964,658	**27,458**	14,445
		1,646,928	1,870,393	**257,015**	926,482

23. OTHER FINANCIAL LIABILITIES

		Group	
		2006	2005
	Note	S$'000	S$'000
a. Current Liabilities			
Derivative financial instruments:			
Fair value through profit or loss:			
– Interest rate swaps		**579**	2,020
– Forward foreign exchange contracts		**7,594**	7,417
– Foreign exchange swap contracts		**–**	3,436
– Commodity contracts		**309**	–
Cash flow hedges:			
– Interest rate swaps		**–**	3,956
– Forward foreign exchange contracts		**2,696**	2,341
– Fuel oil swap contracts		**13,463**	7,156
– Power sale and purchase option contracts		**–**	13,386
	22	**24,641**	39,712
b. Non-current Liabilities			
Derivative financial instruments:			
Fair value through profit or loss:			
– Interest rate swaps		**431**	599
Cash flow hedges:			
– Forward foreign exchange contracts		**245**	8
– Fuel oil swap contracts		**458**	–
	29	**1,134**	607

24. AMOUNTS DUE TO RELATED PARTIES

		Associates		Joint ventures	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Group					
Amounts due to:					
Trade		**384**	2,055	**1,004**	254
Non-trade		**3,339**	3,958	**5,535**	3,615
Loans		**9**	2,805	**–**	1,506
		3,732	8,818	**6,539**	5,375
Amounts due after 1 year	29	**–**	–	**–**	–
	22	**3,732**	8,818	**6,539**	5,375

		Subsidiaries		Associates	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Company					
Amounts due to:					
Non-trade		**39,256**	701,993	**301**	–
Loans		**190,000**	210,000	**–**	–
	22	**229,256**	911,993	**301**	–

The Company ceased to be the subsidiary of Temasek Holdings (Private) Limited ("Temasek") on December 1, 2006. Accordingly, with effect from December 1, 2006, all balances with the subsidiaries of Temasek were reclassified as "Trade and other payables".

25. OTHER PAYABLES AND ACCRUED CHARGES

		Group		Company	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Accrued operating expenses		**586,045**	739,390	**22,302**	12,992
Deposits		**12,151**	20,637	**–**	–
Accrued interest payable		**8,147**	10,956	**441**	441
Other payables		**110,584**	193,675	**4,715**	1,012
	22	**716,927**	964,658	**27,458**	14,445

Related companies		Minority shareholders of subsidiaries		Total	
2006	2005	2006	2005	2006	2005
S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
–	1,742	**182**	1,457	**1,570**	5,508
–	538	**2,513**	1,996	**11,387**	10,107
–	–	**9,086**	22,661	**9,095**	26,972
–	2,280	**11,781**	26,114	**22,052**	42,587
–	–	**(7,244)**	(11,603)	**(7,244)**	(11,603)
–	2,280	**4,537**	14,511	**14,808**	30,984

Joint ventures		Related companies		Total	
2006	2005	2006	2005	2006	2005
S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
–	–	**–**	44	**39,557**	702,037
–	–	**–**	–	**190,000**	210,000
–	–	**–**	44	**229,557**	912,037

26. PROVISIONS

	Loan undertakings S$'000	Obligations relating to disposal of business S$'000	Claims S$'000	Onerous contracts S$'000	Restoration costs S$'000	Others S$'000	Total S$'000
Group							
Balance at beginning of year	14,498	1,437	616,930	–	8,977	7,035	648,877
Translation adjustments	–	–	(3)	–	(77)	(1)	(81)
Provisions (written back)/made during the year, net	(1,175)	11,454	68,265	14,577	500	(1,199)	92,422
Provisions utilised during the year	(45)	–	(682,699)	(2,240)	–	(28)	(685,012)
Disposal of subsidiaries	(3,175)	(1,437)	(775)	–	(4,030)	(2,380)	(11,797)
Balance at end of year	10,103	11,454	1,718	12,337	5,370	3,427	44,409
Provisions due:							
– within 1 year	10,103	11,454	1,718	3,679	–	3,427	30,381
– after 1 year	–	–	–	8,658	5,370	–	14,028
	10,103	11,454	1,718	12,337	5,370	3,427	44,409

	Obligations relating to disposal of business S$'000	Restoration costs S$'000	Total S$'000
Company			
Balance at beginning of year	–	–	–
Provisions made during the year, net	11,454	500	11,954
Provisions utilised during the year	–	–	–
Balance at end of year	11,454	500	11,954
Provisions due:			
– within 1 year	11,454		11,454
– after 1 year	–	500	500
	11,454	500	11,954

Loan Undertakings
This relates to the Group's share of loan undertakings of associates and subsidiaries.

Obligations Relating to Disposal of Business
This mainly relates to the disposal of business in which the Group and Company retains certain obligations in respect of contracts pursuant to the Sale and Purchase Agreement.

Claims
The provision relates mainly to the Group's exposure to the Solitaire arbitration and obligations arising from contractual and commercial arrangements in a subsidiary's operations, based on the best estimate of the outflow considering both contractual and commercial factors. During the year, the amount relating to the Solitaire arbitration was utilised in full when the Group made payment for the full and final settlement.

26. PROVISIONS *(cont'd)*

Onerous contracts

The provision for onerous contracts relates to the Group's exposure to the unavoidable cost of meeting its obligations under the contracts, which exceeds the expected benefits to be derived by the Group. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contracts.

Restoration costs

Restoration costs relating to cost of dismantling and removing assets and restoring the premises to its original condition as stipulated in the operating lease agreements. The subsidiaries expect to incur the liability upon termination of the lease.

Others

This relates mainly to provisions for:

i. Losses and other claims in respect of customers' inventories managed by a subsidiary. The subsidiary was divested during the year; and

ii. Warranty in respect of a completed project. The provision is based on estimates made from historical warranty data associated with similar projects.

27. RETIREMENT BENEFIT OBLIGATIONS

		Group	
		2006	2005
	Note	S$'000	S$'000
Provision for retirement gratuities	a	**3,303**	3,581
Defined benefit obligations	b	**28,017**	42,515
		31,320	46,096
Current		**–**	4,061
Non-current		**31,320**	42,035
		31,320	46,096

a. Provision for Retirement Gratuities

	Group	
	2006	2005
	S$'000	S$'000
Balance at beginning of the year	**3,581**	3,708
Translation adjustments	**(60)**	5
Provision made during the year, net of amount written back	**288**	379
Provision utilised	**(338)**	(511)
Disposal of subsidiaries	**(168)**	–
Balance at end of the year	**3,303**	3,581

27. RETIREMENT BENEFIT OBLIGATIONS *(cont'd)*

b. Defined Benefit Obligations

One of the Group's two subsidiaries in the United Kingdom that in 2005 provided pension arrangement to its employees through a defined benefit plan, was divested during the year. The defined benefit plan and the related costs are assessed in accordance with the advice of professionally qualified actuaries. The pension scheme is funded by the payment of contributions to separately administered trust funds.

Details of the plans are as follows:

	Group	
	2006	2005
	S$'000	S$'000
Present value of unfunded obligations	–	46,346
Present value of funded obligations	**259,498**	330,861
Total present value of obligations	**259,498**	377,207
Fair value of plan assets	**(239,537)**	(273,272)
Present value of net obligations	**19,961**	103,935
Actuarial gains/(losses) not recognised in accordance with FRS 19	**8,056**	(61,420)
Net liability recognised in the balance sheet	**28,017**	42,515

The fair value of plan assets at the balance sheet is analysed as follows:

	Group	
	2006	2005
	S$'000	S$'000
Equity instruments	**167,796**	226,140
Debt instruments	**28,886**	37,047
Other assets	**42,855**	10,085
	239,537	273,272

The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by the Group.

Changes in the present value of defined benefit obligations are as follows:

	Group	
	2006	2005
	S$'000	S$'000
Opening defined benefit obligations	**377,207**	318,764
Translation difference	**4,816**	(22,347)
Service cost	**5,642**	9,132
Interest cost	**12,356**	15,570
Actuarial (gains)/losses	**(19,938)**	60,127
Benefits paid	**(3,620)**	(5,702)
Employee contributions	**643**	1,663
Obligations transferred on disposal of subsidiary	**(117,608)**	–
	259,498	377,207

27. RETIREMENT BENEFIT OBLIGATIONS *(cont'd)*

b. Defined Benefit Obligations *(cont'd)*

Changes in the present value of plan assets are as follows:

	Group	
	2006	2005
	S$'000	S$'000
Opening fair value of plan assets	**273,272**	227,517
Translation difference	**4,954**	(15,310)
Expected return	**15,883**	15,438
Actuarial losses	**6,848**	33,627
Contributions by employer	**14,758**	16,039
Benefits paid	**(3,620)**	(5,702)
Member contributions	**643**	1,663
Obligations transferred on disposal of subsidiary	**(73,201)**	–
	239,537	273,272

Expenses recognised in the profit and loss account are as follows:

	Group	
	2006	2005
	S$'000	S$'000
Current service costs	**6,803**	9,132
Interest on obligation	**14,546**	15,570
Expected return on plan assets	**(15,883)**	(15,438)
Actuarial losses	**938**	1,494
	6,404	10,758

The expense is recognised in the following line items in the profit and loss account:

	Group	
	2006	2005
	S$'000	S$'000
Cost of sales	**5,087**	6,786
Administrative expenses	**1,317**	3,972
	6,404	10,758
Actual (loss)/return in value of plan assets	**(9,107)**	7,131

27. RETIREMENT BENEFIT OBLIGATIONS *(cont'd)*

b. Defined Benefit Obligations *(cont'd)*

Principal actuarial assumptions

Principal actuarial assumptions as at the balance sheet date:

	Group	
	2006	2005
	%	%
Discount rate at December 31	**5.1**	4.7–4.8
Expected return on plan assets at December 31	**6.9**	6.5–6.8
Future annual salary increases	**4.4**	3.9–4.4
Future pension increases	**2.9**	2.9–3.5

Past service cost and net actuarial results are amortised over the estimated service life of the employees under plan benefits. The estimated service life for pension plans is 14 years (2005: 13 years).

Assumptions regarding future mortality are based on published statistics and mortality tables. The expected life expectancy of an individual retiring at age 65 is 20 (2005: 20) for male and 23 (2005: 23) for female.

The history of existing plans as of December 31, 2006 is as follows:

	Group				
	2006	2005	2004	2003	2002
	S$'000	S$'000	S$'000	S$'000	S$'000
Present value of funded obligations	**259,498**	259,598	224,690	180,838	–
Fair value of plan assets	**(239,537)**	(201,898)	(166,914)	(136,778)	–
Deficit in the plan	**19,961**	57,700	57,776	44,060	–

The Group expects to pay S$628,000 in contributions to defined benefit plans in 2007.

28. INTEREST-BEARING BORROWINGS

		Group		Company	
		2006	2005	2006	2005
	Note	S$'000	S$'000	S$'000	S$'000
Current liabilities					
Bank overdrafts	21	**12,664**	–	**–**	–
Secured term loans	a	**81,579**	44,192	**–**	–
Unsecured term loans	b	**120,581**	42,402	**–**	–
Finance lease liabilities	c	**1,337**	743	**–**	–
Convertible bond	d	**–**	62,046	**–**	–
		216,161	149,383	**–**	–
Non-current liabilities					
Secured term loans	a	**593,503**	393,568	**–**	–
Unsecured term loans	b	**501,706**	514,179	**150,000**	150,000
Finance lease liabilities	c	**965**	939	**–**	–
		1,096,174	908,686	**150,000**	150,000
		1,312,335	1,058,069	**150,000**	150,000

Maturity of liabilities (excluding finance lease liabilities)

	Group		Company	
	2006	2005	2006	2005
	S$'000	S$'000	S$'000	S$'000
Within 1 year	**214,824**	148,640	**–**	–
After 1 year but within 5 years	**871,079**	679,013	**150,000**	150,000
After 5 years	**224,130**	228,734	**–**	–
Total borrowings	**1,310,033**	1,056,387	**150,000**	150,000

a. **The secured loans are collaterised by the following assets:**

	Group Net Book Value	
	2006	2005
	S$'000	S$'000
Property, plant and equipment	**967,430**	989,797
Trade receivables	**–**	9,739
Other current assets	**–**	6,562
	967,430	1,006,098

28. INTEREST-BEARING BORROWINGS *(cont'd)*

b. Unsecured Term Loans

Included in the unsecured term loans are medium term notes of the Group as follows:

- In 2004, a wholly-owned subsidiary of the Company, SembCorp Financial Services Pte Ltd (the "Issuer"), established a S$1.5 billion Multicurrency Multi-Issuer Debt Issuance Programme (the "Programme"). Pursuant to this, the Company, together with the Issuer and other certain subsidiaries of the Company ("Issuing Subsidiaries"), may from time to time issue debt under the Programme. The obligations of the Issuing Subsidiaries under the notes will be fully guaranteed by the Company. The Programme has not been utilised as at December 31, 2006.

  The Programme replaced the S$2.0 billion Multicurrency Debt Issuance Programme established by the Company ("the Existing Programme") in October 2000. No further debt issuances will be made by the Company under its Existing Programme, and the outstanding debt issuances of S$150 million will be allowed to mature on June 6, 2008. Upon maturity of the outstanding debt issued, the Existing Programme will be terminated.

- In 2004, a subsidiary, SembCorp Marine Ltd ("SCM") established a S$500 million Multicurrency Multi-Issuer Debt Issuance Programme (the "Programme") pursuant to which the subsidiary, together with its subsidiaries Jurong Shipyard Pte Ltd and Sembawang Shipyard Pte Ltd ("Issuing SCM Subsidiaries"), may from time to time issue the notes. The obligations of Issuing SCM Subsidiaries under the Notes will be fully guaranteed by SCM.

  The first series of S$150 million 5-year fixed rate notes issued by SCM on September 27, 2004, is redeemable at par on September 26, 2009 and bears fixed interest rate of 3.0% per annum and are listed on the Singapore Exchange Securities Trading Limited.

- On August 30, 2006, a subsidiary of SCM issued S$60 million fixed rate notes. The 1-year fixed rate notes are redeemable at par on August 30, 2007, bear fixed interest rate of 3.71% per annum and are listed on the Singapore Exchange Securities Trading Limited.

c. Finance Lease Liabilities

The Group has obligations under finance leases that are payable as follows:

	2006			2005		
	Payments S$'000	Interest S$'000	Principal S$'000	Payments S$'000	Interest S$'000	Principal S$'000
Group						
Within 1 year	**1,417**	**80**	**1,337**	798	55	743
After 1 year but within 5 years	**1,048**	**83**	**965**	1,051	112	939
Total	**2,465**	**163**	**2,302**	1,849	167	1,682

Under the terms of the lease agreements, no contingent rents are payable. The interest rates range from 5.16% to 6.16% (2005: 2.5% to 15.48%) per annum.

28. INTEREST-BEARING BORROWINGS *(cont'd)*

d. Convertible Bond

A subsidiary entered into a Convertible Bond Agreement ("Agreement") with a related party of a minority shareholder (lender) to convert its term loan liability amounting to S$62,046,000 into a convertible bond in 2005. The convertible bond bears interest at 1.5% above 3 months SIBOR and the lender has the right to convert in whole or in part the bond to shares in the subsidiary at anytime before December 31, 2009, the due date of the bond. The subsidiary, together with its liability for the convertible bond, was divested during the year.

29. OTHER LONG-TERM LIABILITIES

		Group	
		2006	2005
	Note	S$'000	S$'000
Deferred income	a	**31,743**	41,939
Deferred grants	b	**27,574**	9,626
Other long-term payables	c	**3,035**	14,568
Other financial liabilities	23	**1,134**	607
Amount due to related parties	24	**7,244**	11,603
Share of net liability of an associate	8	**33,894**	–
		104,624	78,343

a. Deferred income relates mainly to advance payments received from customers in respect of connection and capacity charges for the supply and delivery of gas and utilities.

b. Deferred grants relate to government grants for capital assets.

c. Other long-term payables relate primarily to retention monies of subsidiaries.

30. TURNOVER

	Note	Group 2006 S$'000	Group 2005 S$'000
Continuing Operations:			
Sale of gas, water, electricity and services		**3,443,085**	2,944,395
Ship repair, building, conversion and related services		**3,480,172**	2,010,709
Construction and engineering related activities		**211,577**	317,543
Environmental management and related services		**210,133**	216,592
Others		**140,886**	281,364
		7,485,853	5,770,603
Discontinued Operations:			
Construction and engineering related activities		**488,000**	1,096,465
Integrated logistics and related services		**133,250**	542,149
	33	**621,250**	1,638,614
		8,107,103	7,409,217

31. FINANCE COSTS

	Note	Group 2006 S$'000	Group 2005 S$'000
Finance costs			
Interest paid and payable to			
– associates and joint ventures		**74**	13
– bank loans and others		**49,613**	53,495
Amortisation of capitalised transaction costs and transactions costs written off		**5,452**	4,905
Interest rate swap – fair value through profit or loss		**(1,609)**	(6,936)
Finance costs from continuing operations		**53,530**	51,477
Finance costs			
– continuing operations		**53,530**	51,477
– discontinued operations	33	**484**	2,384
		54,014	53,861

32. INCOME TAX CREDIT/(EXPENSE)

	Note	Group 2006 S$'000	Group 2005 S$'000
Current tax (credit)/expense			
Current year		**(60,750)**	22,801
Under provided in prior years		**18,906**	9,352
		(41,844)	32,153
Deferred tax expense			
Movements in temporary differences		**22,583**	54,261
Under/(over) provided in prior years		**5,162**	(7,803)
		27,745	46,458
Income tax (credit)/expense from continuing operations		**(14,099)**	78,611
Income tax (credit)/expense			
– continuing operations		**(14,099)**	78,611
– discontinued operations	33	**3,224**	13,819
Total income tax (credit)/expense		**(10,875)**	92,430

Reconciliation of effective tax rate

	Group 2006 S$'000	Group 2005 S$'000
Group		
Profit for the year	**1,159,820**	415,226
(Less)/Add: total income tax (credit)/expense		
– continuing operations	**(14,099)**	78,611
– discontinued operations	**3,224**	13,819
Less: share of results of associates and joint ventures		
– continuing operations	**(110,636)**	(52,975)
– discontinued operations	**(6,678)**	(25,336)
Profit before share of results of associates and joint ventures, and income tax expense	**1,031,631**	429,345
Income tax using Singapore tax rate of 20% (2005: 20%)	**206,325**	85,869
Effect of different tax rates in other countries	**10,843**	7,529
Tax incentives and income not subjected to tax	**(146,843)**	(53,321)
Expenses not deductible for tax purposes	**57,800**	41,374
Utilisation of tax losses	**(25,269)**	(4,367)
Under provided in prior years	**23,657**	2,131
Deferred tax benefit not recognised	**8,178**	20,994
Group tax relief	**(142,824)**	(7,358)
Others	**(2,742)**	(421)
Income tax (credit)/expense	**(10,875)**	92,430

33. DISCONTINUED OPERATIONS

On April 3, 2006, the Group completed the divestment of its entire 60.01% stake in SembCorp Logistics Ltd. On June 2, 2006 and October 7, 2006, the Group divested its 88% and 12% stake respectively in SembCorp Engineers and Constructors Pte Ltd. These divestments are in line with the Group's aim to sharpen its strategic focus on a smaller stable of core businesses.

The analysis of the results from discontinued operations is as follows:

	Note	2006 S$'000	2005 S$'000
Turnover	30	**621,250**	1,638,614
Cost of sales		**(578,239)**	(1,494,502)
Gross profit		**43,011**	144,112
General and administrative expenses		**(33,611)**	(111,798)
Non-operating income (net)		**1,876**	29,771
Finance costs	31	**(484)**	(2,384)
Share of results (net of tax) of:			
– associates		**4,192**	15,656
– joint ventures		**2,486**	9,680
Profit before income tax expense		**17,470**	85,037
Income tax expense	32	**(3,224)**	(13,819)
Profit after income tax expense before gain on divestment of discontinued operations		**14,246**	71,218
Gain on divestment of discontinued operations		**439,199**	–
Profit for the year from discontinued operations		**453,445**	71,218

The impact of the discontinued operations on the consolidated cash flows of the Group is as follows:

	2006 S$'000	2005 S$'000
Net cash flows from operating activities	**106,825**	79,312
Net cash flows from investing activities	**(4,072)**	114,717
Net cash flows from financing activities	**(39,862)**	(1,167,830)
Net cash flows from discontinued operations	**62,891**	(973,801)

34. PROFIT FOR THE YEAR

The following items have been included in arriving at profit for the year:

		Group	
		2006	2005
	Note	S$'000	S$'000
a. Staff costs			
Staff costs		**639,025**	636,219
Included in staff costs are:			
Share-based payments		**19,124**	10,144
Contributions to:			
– defined benefit plan		**8,104**	11,314
– defined contribution plan		**25,837**	28,933
b. Other expenses			
Allowance made/(written back) for impairment losses			
– property, plant and equipment	6	**(57,892)**	6,244
– interests in associates		**–**	6,334
– other financial assets		**–**	(1,947)
– inventories		**220**	5,620
– doubtful debts		**(363)**	(14,721)
– intangible assets	15	**–**	1,153
– asset held for sale		**6,127**	963
Amortisation of intangible assets	15	**606**	1,530
Audit fees paid/payable			
– auditors of the Company		**1,272**	1,226
– other auditors		**1,758**	1,627
Non-audit fees paid/payable			
– auditors of the Company		**217**	638
– other auditors		**167**	611
Depreciation of property, plant and equipment		**169,679**	182,849
Professional fee paid to directors or a firm in which a director is a member		**1,023**	609
Operating lease expenses		**33,710**	51,921
Property, plant and equipment written off		**884**	2,293
Inventory written off		**4**	177
Intangible assets written off	15	**498**	377
Bad debts written off		**586**	9,006

34. PROFIT FOR THE YEAR *(cont'd)*

	Group 2006 S$'000	Group 2005 S$'000
c. Non-operating income (net)		
Net exchange loss	**(4,312)**	(17,781)
Grants received		
– income related	**71**	79
Gross dividend income	**5,239**	1,709
Interest income		
– related companies	**2,354**	2,497
– associates and joint ventures	**5,542**	2,893
– banks and others	**40,972**	29,399
Gain/(loss) from disposal of		
– property, plant and equipment (net)	**2,567**	11,357
– subsidiaries	**474,477**	8,575
– associates	**2,559**	37,599
– joint ventures	**5,250**	(463)
– other financial assets	**29,315**	12,978
d. Material and unusual items included in:		
Non-operating income (net)		
Gain on divestment of investments	**498,924**	56,119
Realised gain/(unrealised loss) in foreign exchange relating to an amount accumulated in connection with Solitaire arbitration	**9,213**	(30,758)
Recovery of doubtful recoverables	**–**	4,549
General and administrative expenses		
Reversal of impairment for property, plant and equipment	**83,069**	–
Additional charge arising from final settlement on Solitaire	**(66,213)**	–
Allowance (made)/written back for doubtful receivables (net)	**(7,176)**	19,654
Allowance for impairment of goodwill relating to interests in associates	**–**	(6,214)
	517,817	43,350
Income tax credit*/(expense) on material and unusual items above	**144,275**	(8,875)
Net material and unusual items before minority interests	**662,092**	34,475
Less: Minority interests	**(11,868)**	(9,655)
	650,224	24,820

* *Included in income tax credit for 2006 is tax benefit arising from utilisation of the tax losses attributable to the Solitaire legal case of S$153.2 million.*

35. EARNINGS PER SHARE

	Group 2006 S$'000	Group 2005 S$'000
a. Basic earnings per share		
Basic earnings per share is based on:		
i. Profit attributable to shareholders of the Company		
– from continuing operations	**582,894**	265,210
– from discontinued operations	**446,879**	38,085
	1,029,773	303,295

	No. of shares '000	No. of shares '000
ii. Weighted average number of ordinary shares :		
Issued ordinary shares at beginning of the year	**1,746,412**	1,826,489
Weighted average number of shares issued under Share Option Plan	**13,629**	16,611
Weighted average number of shares cancelled pursuant to capital reduction	**–**	(73,472)
Weighted average number of ordinary shares	**1,760,041**	1,769,628

	Group 2006 S$'000	Group 2005 S$'000
b. Diluted earnings per share		
Diluted earnings per share is based on:		
i. Profit attributable to shareholders of the Company		
– from continuing operations	**582,894**	265,210
– from discontinued operations	**446,879**	38,085
	1,029,773	303,295

ii. Weighted average number of ordinary shares

For the purpose of calculating the diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from the exercise of all outstanding share options granted to employees where such shares would be issued at a price lower than the fair value (average share price during the financial year). The difference between the weighted average number of shares to be issued at the exercise prices under the options and the weighted average number of shares that would have been issued at the fair value based on assumed proceeds from the issue of these shares are treated as ordinary shares issued for no consideration. The number of such shares issued for no consideration is added to the number of ordinary shares outstanding in the computation of diluted earnings per share. No adjustment is made to the profit attributable to shareholders of the Company.

35. EARNINGS PER SHARE *(cont'd)*

b. Diluted earnings per share *(cont'd)*

ii. Weighted average number of ordinary shares *(cont'd)*

The weighted average number of ordinary shares adjusted for the unissued ordinary shares under the Share Option Plan was arrived at as follows:

	Group	
	2006	2005
	No. of shares	No. of shares
	'000	'000
Weighted average number of shares issued used in the calculation of basic earnings per share	**1,760,041**	1,769,628
Weighted average number of unissued ordinary shares under Share Option Plan	**38,859**	49,152
Number of shares that would have been issued at fair value	**(23,273)**	(30,829)
Weighted average number of ordinary shares	**1,775,627**	1,787,951

36. DIVIDENDS AND CAPITAL DISTRIBUTION

On April 3, 2006, the directors approved a distribution to shareholders via capital distribution of 15 cents per share following the divestment of its 60.01% stake in SembCorp Logistics Ltd. This capital distribution amounting to S$264.6 million was paid to shareholders in August 2006.

Subject to the approval by the shareholders at the next Annual General Meeting, the directors have proposed a total gross dividend of 28.9 cents (net 28.0 cents) per share comprising a final gross ordinary dividend of 4.9 cents (net 4.0 cents) per share; ordinary 1-tier dividend of 8.0 cents per share and special 1-tier dividend of 16.0 cents per share (2005: a final gross ordinary dividend of 6.5 cents (net 5.2 cents) per share) amounting to an estimated net dividend of S$495,649,000 (2005: S$91,344,000) in respect of the financial year ended December 31, 2006, based on the share capital as at that date.

The proposed dividend has not been included as a liability in the financial statements.

37. SIGNIFICANT ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Except for the divestment of SembCorp Logistics Ltd and SembCorp Engineers and Constructors Pte Ltd, there have been no other significant acquisitions and disposals of subsidiaries during the year. The effect of these disposals is set out in Note 33 to the financial statements.

The effect of acquisitions and disposals of subsidiaries' net assets is set out in the consolidated statement of cash flows.

38. RELATED PARTIES

Group

a. Related party transactions

The Group had the following significant transactions with related parties during the year:

	Group	
	2006	2005
	S$'000	S$'000
Related Companies		
Sales	**791,038**	788,566
Purchases including rental	**7,836**	29,645
Associates and Joint Ventures		
Sales	**21,196**	15,645
Purchases including rental	**353,700**	352,571

b. Compensation of key management personnel

In 2006, Directors of the Company, CEOs of our subsidiaries, namely SembCorp Marine Ltd, SembCorp Environmental Management Pte Ltd, Executive Chairman of SembCorp Parks Holdings Ltd, Executive Vice President of SembCorp Utilities Pte Ltd, Executive Vice President/Managing Director of SembCorp Utilities UK, Group Chief Financial Officer, Executive Vice President of Group Performance Management & Ventures are considered to be key management personnel in accordance with FRS 24– Related Party Disclosures. These persons have the authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation is as follows:

	Group	
	2006	2005
	S$'000	S$'000
Directors' remuneration	**3,223**	6,320[@]
Other key management personnel remuneration	**7,643**	6,580
	10,866	12,900
Fair value of share-based compensation	**3,348**	2,231

@ *In 2005, a payout was made to the estate of the late Wong Kok Siew, a former key executive and executive director of the Board, in accordance with his terms and conditions of employment. This payout was approved by the Executive Resource & Compensation Committee.*

Remuneration includes salary (which includes employer CPF, allowances, fees and other emoluments) and bonus (which includes AWS, discretionary bonus, performance targets bonus, performance shares and restricted stocks released during the year).

In addition to the above, the Company provides medical benefits to all employees, which include key management personnel.

38. RELATED PARTIES *(cont'd)*

Group *(cont'd)*

b. Compensation of key management personnel *(cont'd)*

The Group adopts an incentive compensation plan, which is tied to the creation of Economic Value Added ("EVA"), as well as to attainment of individual and Group performance goals for its key executives. 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.

The fair value of share-based compensation relates to share options, performance shares and restricted stocks granted during the year. The amount charged to the profit and loss account is determined in accordance with FRS 102 Share-based Payment.

Company

a. The Company provided a corporate guarantee to a subsidiary, SembCorp Cogen Pte Ltd ("SembCogen") which on January 15, 1999, entered into a long-term contract ("End User Agreement") with a fellow subsidiary, SembCorp Gas Pte Ltd ("SembGas") to purchase natural gas over the period of 22 years.

   Under the End User Guarantee Agreement ("EUGA"), the Company and one of its subsidiaries, SembCorp Utilities Pte Ltd issued corporate guarantee in favour of SembGas for 70% and 30% respectively of SembCogen's obligations under the End User Agreement.

b. The Company has provided financial guarantees for the indebtedness of other companies within the Group; the Company considers these to be insurance arrangements and treats them as contingent liabilities. Details of the guarantees are set out in note 40 to the financial statements.

c. In 2005, the Company provided a lease guarantee to the landlord of a subsidiary, amounting to approximately S$36 million, representing the expected rental payment for the remaining 16 years under the tenancy agreement. The subsidiary was disposed of in 2006.

39. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks, including changes in interest rates, foreign exchange rates and commodity prices as well as credit risk.

As part of the Group's Enterprise Risk Management framework, Group treasury policies and financial authority limits are documented and reviewed periodically. The 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 interest rate, foreign exchange and commodity price risks arising from operating, financing and investment activities. Transactions such as swaps, options and contracts for difference hedge the Group against fluctuations in the market prices of the underlying instruments. The Group monitors and hedges, where appropriate, its exposure to fluctuations in interest rates, foreign exchange rates and commodity prices. Exposures to foreign currency risks are also hedged naturally where possible.

The financial authority limits seek to limit and mitigate operational risk by setting out the threshold of approvals required for the entry into contractual obligations and investments.

39. FINANCIAL INSTRUMENTS

a. Interest rate risk

The Group's policy is to maintain an efficient and optimal interest cost structure using a mix of fixed and variable rate debts and long– and short-term borrowings. The Group enters into interest rate swaps to minimise its interest rate risk. In accordance with the Group's policy, the duration of such interest rate swaps does not exceed the tenor of the underlying debt.

b. Foreign currency risk

Sales and purchases of assets and liabilities of entities in the Group, which arise from daily operations, are normally denominated in the functional currency of the entities concerned. However, as the Group's operations are located globally, the Group is exposed to foreign currency exchange rate movements primarily for US dollar, Pound sterling, euro, Australian dollar and Chinese yuan. Such risks are hedged either by forward foreign exchange contracts in respect of actual or forecasted currency exposures or hedged naturally by a matching sale or purchase of a matching asset or liability of the same currency and amount.

c. Commodity risk

The Group hedges against fluctuations in commodity prices that affect revenue and cost. Exposures are managed via swaps, options, contracts for difference, fixed price and forward contracts.

A contract for difference is entered into with a counterparty at a strike price, with or without fixing the quantity in advance, to hedge against adverse price movements on the sale of electricity. Exposure to price fluctuations arising on the purchase of fuel is managed via fuel oil swaps, where the price of fuel is indexed to a benchmark fuel price index, for example Singapore High Sulphur Fuel Oil (HSFO) 180-CST.

For precious metal commodities, such as gold, exposures to fluctuations in price are hedged through the use of forward contracts or options that fix the purchases at an agreed price. The quantum of commitment is based on actual or forecasted requirements.

d. Credit risk

The Group monitors its exposure to credit risks arising from sales to trade customers on an on-going basis, and credit evaluations are done on customers that require credit.

The Group only deals with pre-approved non-trade customers and financial institutions with a good credit rating and imposes a cap on the amount to be transacted with any of these counterparties so as to reduce its concentration risk. To minimise the Group's counterparty risk, the Group enters into derivative transactions only with creditworthy institutions. Cash and fixed deposits are placed with banks and financial institutions which are regulated.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

e. Working capital management

The Group manages its working capital requirements with the view to minimise cost and maintain a healthy level of liquidity appropriate to the operating environment and expected cash flow of the Group. Working capital requirements are maintained within the credit facilities established and are adequate and available to the Group to meet its obligations.

39. FINANCIAL INSTRUMENTS *(cont'd)*

f. Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at balance sheet date and the periods in which they are repriced.

	Note	Effective interest rate %	Total S$'000	Within 1 year S$'000	Between 1 to 5 years S$'000	After 5 years S$'000
Group						
2006						
Financial assets						
Lease receivables	13	4.23	45,814	5,862	23,705	16,247
Balances with related parties		0.98	4,773	4,773	–	–
Loan receivables		3.80	18,743	18,743	–	–
Other receivables		2.52	14,067	14,067	–	–
Fixed deposits and bank balances		3.34	1,176,693	1,176,693	–	–
			1,260,090	1,220,138	23,705	16,247
Financial liabilities						
Secured term loans:						
– Floating rate loans		4.86	(624,763)	(624,763)	–	–
– Effect of interest rate swaps		0.02	–	359,234	(250,442)	(108,792)
			(624,763)	(265,529)	(250,442)	(108,792)
– Fixed rate loans		4.00	(59,074)	(12,000)	(44,000)	(3,074)
Total secured term loans			(683,837)	(277,529)	(294,442)	(111,866)
Unsecured term loans:						
– Floating rate loans		4.10	(204,328)	(204,328)	–	–
– Effect of interest rate swaps		-0.99	–	200,000	(200,000)	–
			(204,328)	(4,328)	(200,000)	–
– Fixed rate loans		4.29	(118,164)	(118,118)	(46)	–
– Medium term notes		3.57	(299,795)	–	(299,795)	–
Total unsecured term loans	28		(622,287)	(122,446)	(499,841)	–
Bank overdrafts	28	5.95	(12,664)	(12,664)	–	–
Lease liabilities	28	5.46	(2,302)	(431)	(1,871)	–
Balances with related parties		3.64	(8,093)	(849)	–	(7,244)
			(1,329,183)	(413,919)	(796,154)	(119,110)

39. FINANCIAL INSTRUMENTS *(cont'd)*

f. Effective interest rates and repricing analysis *(cont'd)*

	Note	Effective interest rate %	Total S$'000	Within 1 year S$'000	Between 1 to 5 years S$'000	After 5 years S$'000
Group						
2005						
Financial assets						
Lease receivables	13	3.85	52,946	6,036	24,915	21,995
Balances with related parties		2.28	39,221	38,756	465	–
Trade receivables		4.05	10,250	10,250	–	–
Other receivables		2.26	14,813	14,813	–	–
Cash and cash equivalents		2.40	1,199,734	1,199,734	–	–
			1,316,964	1,269,589	25,380	21,995
Financial liabilities						
Secured term loans:						
– Floating rate loans		4.81	(444,366)	(439,121)	(5,245)	–
– Effect of interest rate swaps		0.66	–	318,371	(193,112)	(125,259)
			(444,366)	(120,750)	(198,357)	(125,259)
– Fixed rate loans		5.45	(1,050)	(1,050)	–	–
Total secured term loans			(445,416)	(121,800)	(198,357)	(125,259)
Unsecured term loans:						
– Floating rate loans		3.32	(239,361)	(239,361)	–	–
– Effect of interest rate swaps		-0.11	–	200,000	(200,000)	–
			(239,361)	(39,361)	(200,000)	–
– Fixed rate loans		4.43	(17,500)	(4,000)	(13,500)	–
– Medium term notes		3.57	(299,720)	–	(299,720)	–
Total unsecured term loans	28		(556,581)	(43,361)	(513,220)	–
Convertible bond	28	3.52	(62,046)	(62,046)	–	–
Lease liabilities	28	11.28	(1,682)	(743)	(939)	–
Balances with related parties		4.08	(22,220)	(13,555)	–	(8,665)
Bill payables		5.50	(13,881)	(13,881)	–	–
			(1,101,826)	(255,386)	(712,516)	(133,924)

39. FINANCIAL INSTRUMENTS *(cont'd)*

f. Effective interest rates and repricing analysis *(cont'd)*

	Effective interest rate %	Total S$'000	Within 1 year S$'000	Between 1 to 5 years S$'000	After 5 years S$'000
Company					
2006					
Financial assets					
Balances with related parties	2.87	790	790	–	–
Cash and cash equivalents	2.86	347,336	347,336	–	–
		348,126	348,126	–	–
Financial liabilities					
Balances with related parties	3.62	(190,312)	(190,312)	–	–
Medium-term notes	4.13	(150,000)	–	(150,000)	–
		(340,312)	(190,312)	(150,000)	–
2005					
Financial assets					
Balances with related parties	2.38	2,416	2,416	–	–
Cash and cash equivalents	2.74	10,503	10,503	–	–
		12,919	12,919	–	–
Financial liabilities					
Balances with related parties	0.93	(813,568)	(813,568)	–	–
Medium-term notes	4.13	(150,000)	–	(150,000)	–
		(963,568)	(813,568)	(150,000)	–

g. Sensitivity analysis

In managing its interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, any prolonged adverse changes in foreign exchange and interest rates would have an impact on consolidated earnings.

It is estimated that a one percentage point increase/decrease in interest rate would increase/decrease the Group's profit before tax by approximately S$8,942,000 (2005: S$9,723,000). In computing the effect of changes in interest rates, the effect of interest rate swaps has been considered.

39. FINANCIAL INSTRUMENTS *(cont'd)*

h. Estimation of fair values

Securities

Fair value is based on quoted market prices (bid price) at the balance sheet date without any deduction for transaction costs. If the market for a quoted financial asset is not active and for unquoted financial asset, the Group establishes fair value by using valuation techniques.

Derivatives

Forward exchange contracts are either marked to market using listed market prices at the balance sheet date or by discounting the difference between the contractual forward price and the current spot rate.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair value of fuel oil swaps contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward fuel oil price.

Contracts for differences are accounted for based on the difference between contracted price entered with the counterparty and the reference price. Fair value for contracts for differences cannot be reliably measured as the financial instrument does not have quoted market prices in an active market. The gains and losses for contracts for differences are taken to the profit and loss account upon settlement.

The electricity forward sale with option to buyback contracts is entered with a single counterparty for fixed volume and its fair value is determined based on forward sale and forecasted spot purchase prices quoted in the market as at balance sheet date.

Interest-bearing loans and borrowings

The fair value is calculated based on discounted expected future principal and interest cash flows at the market rate of interest at reporting date.

Finance lease liabilities

The fair value of finance lease liabilities is estimated as the present value of future cash flows, discounted at market interest rates determined by reference to similar lease agreements.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market-related data at the balance sheet date.

39. FINANCIAL INSTRUMENTS *(cont'd)*

h. Estimation of fair values *(cont'd)*

i. Recognised Financial Instruments

The aggregate net fair values of financial assets and liabilities which do not approximate the carrying value in the balance sheet as at December 31 are represented in the following table:

	Carrying amount 2006 S$'000	Fair value 2006 S$'000	Carrying amount 2005 S$'000	Fair value 2005 S$'000
Group				
Financial Liabilities				
Medium-term notes	**(299,795)**	**(298,201)**	(299,720)	(302,124)
Unrecognised gain/(loss)		**1,594**		(2,404)
Company				
Financial Liabilities				
Medium-term notes	**(150,000)**	**(150,931)**	(150,000)	(152,404)
Unrecognised loss		**(931)**		(2,404)

The fair value of the medium-term notes is based on their listed market prices.

ii. Notional Amount

The notional amount of financial instruments as at December 31 are:

	Notional amount 2006 S$'000	Notional amount 2005 S$'000
Group		
Foreign exchange contracts		
– Bought contracts	**177,536**	1,074,924
– Sold contracts	**–**	510,115
Foreign exchange swap agreements	**1,107,300**	402,531
Interest rate swap agreements	**691,631**	698,845
Fuel oil swap agreements	**122,566**	168,434
Commodity contracts	**7,372**	–
	2,106,405	2,854,849

The notional quantity of power hedges with option to buy back at spot purchase price is 1,313,000 (2005: 972,000) megawatt hours.

The maturities of the financial instruments are disclosed in Note 10 and Note 23.

40. CONTINGENT LIABILITIES (UNSECURED)

	Group	
	2006	2005
	S$'000	S$'000
Guarantees given to banks to secure banking facilities provided to:		
– Associates and joint ventures	**387,801**	266,911
– Others	**564**	164,241
Performance guarantees granted on behalf of associates and joint ventures	**130,433**	56,571

Included in guarantees given to banks to secure banking facilities provided to associates and joint ventures are:

a. In consideration of a consortium of banks making available to an associate, Emirates SembCorp Water & Power Company P.J.S.C ("ESWPC") (a private joint stock company incorporated under the laws of the United Arab Emirates and the Emirate of Fujairah), a US$88 million equity bridge loan facility ("EBL"), SembCorp Utilities Pte Ltd ("SCU") guarantees the payment of all sums relating to EBL by ESWPC to the banks. The aggregate liability of SCU, including outstanding interest, shall not exceed an amount of US$90.64 million. The final maturity date for the EBL would be the earliest of (i) April 30, 2009, (ii) 2 years 7 months after date of the loan agreement, or (iii) Project Commercial Operation Date.

b. In consideration of the contracting banks entering into the interest rate swap hedging agreement relating to EBL ("EBH") with ESWPC, SCU guarantees all amounts falling due on the EBH, payable by ESWPC to the banks. The aggregate liability of SCU shall not exceed an amount of US$6.5 million. The maturity date for these hedging agreements is February 1, 2009.

Company

a. The Company has provided guarantees to banks to secure banking facilities provided to a wholly-owned subsidiary, SembCorp Financial Services Pte Ltd. These financial guarantee contracts are accounted for as insurance contracts.

   The principal risk to which the Company is exposed is credit risk in connection with the guarantee contracts it has issued. The credit risk represents the loss that would be recognised upon a default by the parties to which the guarantees were given on behalf of. To mitigate these risks, management continually monitors the risks and has established processes including performing credit evaluations of the parties it is providing the guarantee on behalf of.

   There are no terms and conditions attached to the guarantee contracts that would have a material effect on the amount, timing and uncertainty of the Company's future cash flows.

   Estimates of the Company's obligation arising from financial guarantee contracts may be affected by future events, which cannot be predicted with any certainty. The assumptions made may well vary from actual experience so that the actual liability may vary considerably from the best estimates. As of balance sheet date, there is no provision made in respect of the obligations.

   Intra-group financial guarantees comprise guarantees granted by the Company to banks in respect of banking facilities amounts to S$1,317 million (2005: S$1,067 million), of which S$200 million (2005: S$201 million) was drawn down. The financial guarantees will expire when the loan has been paid and discharged and/or when the banking facilities is no longer available to the subsidiary.

40. CONTINGENT LIABILITIES (UNSECURED) *(cont'd)*

Company *(cont'd)*

b. In 2005, the Company has also provided guarantee to a bank to secure banking facilities provided to a former subsidiary, amounting to approximately S$3 million. During the year, the former subsidiary has fully repaid the loan and the guarantee was discharged on February 12, 2007.

c. The Company provided a corporate guarantee to a subsidiary, SembCorp Cogen Pte Ltd ("SembCogen") which on January 15, 1999, entered into a long-term contract ("End User Agreement") with a fellow subsidiary, SembCorp Gas Pte Ltd ("SembGas") to purchase natural gas over the period of 22 years. Under the End User Guarantee Agreement ("EUGA"), the Company and one of its subsidiaries, SembCorp Utilities Pte Ltd, issued corporate guarantee in favour of SembGas for 70% and 30% respectively of SembCogen's obligations under the End User Agreement.

41. COMMITMENTS

	Group	
	2006	2005
	S$'000	S$'000
Commitments not provided for in the financial statements are as follows:		
Capital expenditure for:		
Commitments in respect of contracts placed	**87,003**	125,177
Amounts approved by directors but not contracted	**89,596**	171,184
Uncalled capital and commitments to subscribe for additional shares in investments	**147,828**	68,454
	324,427	364,815

At the balance sheet date, commitments in respect of payments for non-cancellable operating leases with a term of more than one year are as follows:

	Group		Company	
	2006	2005	2006	2005
	S$'000	S$'000	S$'000	S$'000
Lease payments due:				
Within 1 year	**28,641**	64,066	**2,278**	882
Between 1 and 5 years	**66,323**	152,439	**759**	246
After 5 years	**80,500**	113,443	**–**	–
	175,464	329,948	**3,037**	1,128

a. A subsidiary, SembGas, entered into a long-term Gas Sales Agreement ("GSA") with Perusahaan Pertambangan Minyak Dan Gas Bumi Negara ("Pertamina") to purchase a total estimate of 2.6 TCF (Trillion Cubic Feet) of natural gas over a period of 22 years from January 1999.

SembGas has also entered into long-term End User Agreements with Tuas Power Ltd, SembCogen, Esso Singapore Pte Ltd, Ellba Eastern Pte Ltd and Shell Eastern Petroleum Pte Ltd to on-sell a total of 340 mmscfd (million standard cubic feet per day) of gas to them, respectively. The End User Agreements contain provisions, which specifically deal with, inter alia, SembGas' liability for shortfalls in deliveries of gas and relief from such liability in certain circumstances.

42. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined on mutually agreed terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

i. Business Segments

The Group comprises the following main business segments:

Utilities' principal activities are in provision of centralised utilities and energy. It offers industrial utilities and services such as energy, steam, industrial water and wastewater treatment to energy intensive users. It operates in Singapore, the United Kingdom, Vietnam, China and the United Arab Emirates. Its operations in engineering, construction and fabrication of offshore platforms, modules and floating production systems for oil and gas companies (offshore engineering) under the SMOE group was sold to SembCorp Marine Ltd in August 2006.

Marine & Offshore Engineering segment focuses on repair, building and conversion of ships and rigs, and offshore engineering.

Environmental Management segment provides integrated waste management services and undertakes waste-to-resource businesses in the Asia Pacific region.

Others/Corporate segment comprises businesses relating to minting, hotels and industrial parks and design and construction activities; and the corporate companies.

The Group sold its businesses in SembCorp Logistics Ltd (Logistics segment) and SembCorp Engineers and Constructors Pte Ltd (Engineering and Construction segment) in April 2006 and June 2006 respectively. The Logistics segment provided one-stop logistics management services, parts and components management, automated warehouse operations, preservation and packaging technologies and hazardous goods management. Engineering and Construction segment was engaged in turnkey construction, design consultancy, infrastructure development and project management.

ii. Geographical Segments

The Group operates in three principal geographical areas, Singapore, Europe and Rest of Asia. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

42. SEGMENT REPORTING *(cont'd)*

a. Business Segments

	Continuing Operations			
	Utilities S$'000	Marine & Offshore Engineering S$'000	Environmental Management S$'000	Others/ Corporate S$'000
2006				
Turnover				
External sales	3,589,752	3,538,845	210,133	147,123
Inter-segment sales	39,057	6,204	1,749	13,335
Total	3,628,809	3,545,049	211,882	160,458
Results				
Segment results	292,685	256,374	(28,142)	67,967
Interest income	13,950	19,530	709	36,488
Interest expense	(44,885)	(10,549)	(1,877)	(20,610)
	261,750	265,355	(29,310)	83,845
Share of results of associates	4,596	35,947	10,540	16,307
Share of results of joint ventures	30,950	3,439	930	7,927
	297,296	304,741	(17,840)	108,079
Income tax (expense)/credit	(58,735)	(57,056)	505	129,385
Minority interests	(14,838)	(100,956)	528	(8,215)
Net profit/(loss) for the year	223,723	146,729	(16,807)	229,249
Assets				
Segment assets	2,578,410	3,277,271	170,932	1,079,054
Investment in associates	–	141,224	51,590	283,607
Investment in joint ventures	158,636	22,005	29,080	54,736
Tax assets	35,333	2,185	6,177	243,723
Total assets	2,772,379	3,442,685	257,779	1,661,120
Liabilities				
Segment liabilities	1,588,151	1,887,423	129,902	627,652
Tax liabilities	202,935	169,415	4,751	63,949
Total liabilities	1,791,086	2,056,838	134,653	691,601
Capital expenditure	298,458	126,278	23,211	12,342
Significant non-cash items				
Depreciation and amortisation	90,775	49,292	6,443	18,088
Other non-cash items (including provisions, loss on disposal and exchange differences)	11,301	5,441	18,343	121,137

		Discontinued Operations				
			Engineering and			
Elimination	Sub-total	Logistics	Construction	Sub-total	Elimination	Total operations
S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
–	7,485,853	133,250	488,000	621,250	–	8,107,103
(60,345)	–	150	48	198	(198)	–
(60,345)	7,485,853	133,400	488,048	621,448	(198)	8,107,103
–	588,884	472,112	(24,219)	447,893	–	1,036,777
(24,391)	46,286	2,270	671	2,941	(359)	48,868
24,391	(53,530)	(108)	(735)	(843)	359	(54,014)
–	581,640	474,274	(24,283)	449,991	–	1,031,631
–	67,390	4,199	(7)	4,192	–	71,582
–	43,246	2,486	–	2,486	–	45,732
–	692,276	480,959	(24,290)	456,669	–	1,148,945
–	14,099	(3,156)	(68)	(3,224)	–	10,875
–	(123,481)	(6,546)	(20)	(6,566)	–	(130,047)
–	582,894	471,257	(24,378)	446,879	–	1,029,773
(548,142)	6,557,525	–	–	–	–	6,557,525
–	476,421	–	–	–	–	476,421
–	264,457	–	–	–	–	264,457
–	287,418	–	–	–	–	287,418
(548,142)	7,585,821	–	–	–	–	7,585,821
(548,142)	3,684,986	–	–	–	–	3,684,986
–	441,050	–	–	–	–	441,050
(548,142)	4,126,036	–	–	–	–	4,126,036
–	460,289	3,798	1,192	4,990	–	465,279
–	164,598	3,260	2,490	5,750	–	170,348
–	156,222	836	6,247	7,083	–	163,305

42. SEGMENT REPORTING *(cont'd)*

a. Business Segments *(cont'd)*

	Continuing Operations			
	Utilities S$'000	Marine & Offshore Engineering S$'000	Environmental Management S$'000	Others/ Corporate S$'000
2005				
Turnover				
External sales	3,261,939	2,102,173	216,592	189,899
Inter-segment sales	18,600	17,106	2,101	20,912
Total	3,280,539	2,119,279	218,693	210,811
Results				
Segment results	223,027	127,057	(2,064)	47,289
Interest income	7,209	15,614	139	23,377
Interest expense	(41,523)	(4,785)	(1,026)	(24,670)
	188,713	137,886	(2,951)	45,996
Share of results of associates	713	15,999	8,253	4,668
Share of results of joint ventures	18,783	1,011	–	3,548
	208,209	154,896	5,302	54,212
Income tax expense	(38,387)	(31,437)	(245)	(8,542)
Minority interests	(13,765)	(49,118)	(360)	(15,555)
Net profit for the year	156,057	74,341	4,697	30,115
Assets				
Segment assets	2,413,467	2,212,686	158,853	1,088,009
Investment in associates	–	104,688	56,270	55,711
Investment in joint ventures	148,981	18,957	–	196,198
Tax assets	26,400	1,368	4,104	90,438
Total assets	2,588,848	2,337,699	219,227	1,430,356
Liabilities				
Segment liabilities	1,606,964	1,107,591	58,282	1,190,902
Tax liabilities	149,663	101,687	3,909	49,327
Total liabilities	1,756,627	1,209,278	62,191	1,240,229
Capital expenditure	160,629	139,586	6,363	37,448
Significant non-cash items				
Depreciation and amortisation	89,943	39,516	8,756	23,641
Other non-cash items (including provisions, loss on disposal and exchange differences)	14,249	13,136	5,347	8,008

		Discontinued Operations				
			Engineering and			
Elimination	Sub-total	Logistics	Construction	Sub-total	Elimination	Total operations
S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
–	5,770,603	542,149	1,096,465	1,638,614	–	7,409,217
(58,719)	–	305	40	345	(345)	–
(58,719)	5,770,603	542,454	1,096,505	1,638,959	(345)	7,409,217
–	395,309	52,755	354	53,109	–	448,418
(20,527)	25,812	8,538	1,095	9,633	(657)	34,788
20,527	(51,477)	(2,299)	(742)	(3,041)	657	(53,861)
–	369,644	58,994	707	59,701	–	429,345
–	29,633	14,343	1,313	15,656	–	45,289
–	23,342	9,680	–	9,680	–	33,022
–	422,619	83,017	2,020	85,037	–	507,656
–	(78,611)	(12,643)	(1,176)	(13,819)	–	(92,430)
–	(78,798)	(33,011)	(122)	(33,133)	–	(111,931)
–	265,210	37,363	722	38,085	–	303,295
(574,085)	5,298,930	611,705	508,994	1,120,699	(32,489)	6,387,140
–	216,669	75,754	2,332	78,086	–	294,755
–	364,136	67,575	–	67,575	–	431,711
–	122,310	10,526	14,610	25,136	–	147,446
(574,085)	6,002,045	765,560	525,936	1,291,496	(32,489)	7,261,052
(574,085)	3,389,654	272,717	461,733	734,450	(32,489)	4,091,615
–	304,586	12,677	7,515	20,192	–	324,778
(574,085)	3,694,240	285,394	469,248	754,642	(32,489)	4,416,393
–	344,026	19,053	8,123	27,176	–	371,202
–	161,856	12,738	9,785	22,523	–	184,379
–	40,740	8,061	21,420	29,481	–	70,221

42. SEGMENT REPORTING *(cont'd)*

b. Geographical Segments

	Singapore S$'000	Rest of Asia S$'000	Europe S$'000	Others S$'000	Discontinued Operations S$'000	Consolidated S$'000
2006						
Revenue from external customers	3,438,967	899,667	2,727,348	419,673	621,448	8,107,103
Total assets	5,944,168	618,845	831,465	191,343	–	7,585,821
Segment assets	5,404,613	202,537	819,699	130,676	–	6,557,525
Capital expenditure	284,879	42,081	132,669	660	4,990	465,279
2005						
Revenue from external customers	2,698,794	698,188	2,002,606	370,670	1,638,959	7,409,217
Total assets	4,466,112	752,587	635,027	115,830	1,291,496	7,261,052
Segment assets	4,130,271	464,811	620,728	50,631	1,120,699	6,387,140
Capital expenditure	208,036	67,392	68,598	–	27,176	371,202

43. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosure made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Information on other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

a. Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Information about the assumptions and their risk factors relating to goodwill impairment are disclosed in Note 15.

43. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(cont'd)*

Key sources of estimation uncertainty *(cont'd)*

b. Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computation for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income taxes and deferred tax provisions in the period in which such determination is made.

As at December 31, 2006, management has provided S$48 million for potential tax exposure relating to certain prior year's transactions. The taxability of these transactions is under on-going discussions. The ultimate amount of tax liability may be lower than the amount provided.

c. Pension assumptions

The Group has decided on certain principal actuarial assumptions, as detailed in note 27, in estimating its pension liability as at the balance sheet date. If there were adverse changes to these actuarial assumptions, then the Group's unrecognised actuarial losses would increase with the risk that they would fall outside the corridor and would need to be recognised in the profit and loss account.

d. Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 1 to 60 years. The carrying amount of the Group's property, plant and equipment are set out in note 6. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Critical accounting judgements in applying the Group accounting policies

In the process of applying the Group's accounting policies, management has made certain judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

a. Revenue recognition policy

The Group recognised revenue on construction contract, ship and rig repair, building and conversion based on the percentage of completion method in proportion to the stage of completion. The percentage of completion is assessed by reference to surveys of work performed. Significant judgement is required in determining the appropriate stage of completion and estimating a reasonable contribution margin for revenue and costs recognition.

b. Impairment of investments and financial assets

The Group follows the guidance of FRS 39 Financial Instruments: Recognition and Measurement on determining when an investment or financial asset is other than temporarily impaired. This determination requires significant judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of an investment and financial asset is less than its cost; and the financial health of and near-term business outlook for the investment of financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

44. COMPARATIVE INFORMATION

Certain comparatives in the financial statements have been changed from the previous year to be consistent with current year presentation.

45. SUBSIDIARIES

Details of significant subsidiaries are as follows:

	Name of significant subsidiaries	Country of incorporation	Effective equity held by the Group 2006 %	Effective equity held by the Group 2005 %
	Utilities			
	SembCorp Utilities Pte Ltd	Singapore	**100**	100
	SembCorp Cogen Pte Ltd	Singapore	**100**	100
	SembCorp Gas Pte Ltd	Singapore	**70**	70
*	SembCorp Utilities (UK) Limited	United Kingdom	**100**	100
	Marine & Offshore Engineering			
^	SembCorp Marine Ltd	Singapore	**61.50**	62.07
^	Jurong Shipyard Pte Ltd	Singapore	**61.50**	62.07
^	PPL Shipyard Pte Ltd	Singapore	**52.28**	52.76
^	Sembawang Shipyard Pte Ltd	Singapore	**61.50**	62.07
	Environmental Management			
	SembCorp Environmental Management Pte. Ltd.	Singapore	**100**	100
	SembWaste Pte Ltd	Singapore	**100**	100
	Others			
**	SembCorp Parks Holdings Ltd	Singapore	**100**	100
	SembCorp Design and Construction Pte Ltd	Singapore	**100**	100
	SembCorp Financial Services Pte Ltd	Singapore	**100**	100
	Singapore Precision Industries Pte Ltd	Singapore	**100**	100
	Discontinued Operations			
	SembCorp Logistics Ltd	Singapore	**–**	60.03
	SembCorp Engineers and Constructors Pte Ltd	Singapore	**–**	100

KPMG Singapore is the auditor of the significant Singapore incorporated subsidiaries and other member firms of KPMG International are auditors of the significant foreign incorporated subsidiaries, except as denoted below:

* *Audited by Ernst & Young LLP*

^ *The consolidated financial statements of SembCorp Marine Ltd, a company listed on Singapore Exchange, and its subsidiaries are audited by Ernst & Young, Singapore*

** *The consolidated financial statements of SembCorp Parks Holdings Ltd and its subsidiaries are audited by Ernst & Young, Singapore*

46. ASSOCIATES AND JOINT VENTURES

Details of significant associates and joint ventures are as follows:

	Name of significant associates and joint ventures	Country of incorporation	Effective equity held by the Group 2006 %	2005 %
	Utilities			
^	Phu My 3 BOT Power Company Ltd	Vietnam	**33.33**	33.33
@	Shanghai Cao Jing Cogeneration Co. Ltd	People's Republic of China	**30.00**	30.00
#	Shenzhen Chiwan Sembawang Engineering Co Ltd	People's Republic of China	**32.00**	32.00
	Marine & Offshore Engineering			
*	COSCO Shipyard Group	People's Republic of China	**18.45**	18.62
	Environmental Management			
^^	SembSITA Pacific Pte Ltd	Singapore	**40.00**	40.00
	Others			
**	Gallant Venture Ltd	Singapore	**26.84**	–
^	Vietnam Singapore Industrial Park JV Co Ltd	Vietnam	**40.44**	40.44

During the year, the Group rationalised its Riau investments, which were previously held under joint ventures, through the consolidation of these investments under an associate, Gallant Venture Ltd, an entity listed on SGX-SESDAQ.

The auditors of significant associates and joint ventures are as follows:

^ *Audited by Ernst & Young Vietnam Limited*

@ *Audited by Deloitte Touche Tohmatsu CPA Ltd*

Audited by PriceWaterhouseCoopers Zhong Tian CPAS Limited Company

* *Audited by Reanda CPA, China*

^^ *Audited by Ernst & Young, Singapore*

** *The consolidated financial statements of Gallant Venture Ltd, a company listed on SGX–SESDAQ, and its subsidiaries are audited by Foo, Kon & Tan Grant Thornton*

SUPPLEMENTARY INFORMATION

(UNDER SGX-ST LISTING MANUAL REQUIREMENTS)

A. Directors' Remuneration

Summary compensation table for the year ended December 31, 2006

Name of Director	Salary[1] S$	Taxable income from exercise of share options[2] S$	Bonus[3] S$	Directors' fees S$	Total S$	No of share options granted by the Company during the year[4]	Note
Peter Seah Lim Huat	–	280,000	–	184,000	464,000	140,000	4a
Tang Kin Fei	641,097	734,688	1,686,451	–	3,062,236	300,000	4b
K Shanmugam	–	391,650	–	119,000	510,650	70,000	4a
Goh Geok Ling	–	100,000	–	114,000	214,000	70,000	4a
Richard Hale, OBE	–	110,400	–	133,875	244,275	140,000	4a
Yong Ying-I	–	–	–	10,000	10,000	70,000	4c
Evert Henkes	–	–	–	101,000	101,000	35,000	4a
Lee Suet Fern	–	–	–	113,000	113,000	70,000	4a
Lua Cheng Eng *(Vacated on 14/02/2006)*	–	669,200	–	14,375	683,575		
Dr Vichit Suraphongchai *(Resigned on 08/05/2006)*	–	–	–	23,020	23,020		
Colin Au Fook Yew *(Resigned on 06/11/2006)*	–	24,434	–	83,062	107,496		
	641,097	2,310,372	1,686,451	895,332	5,533,252		

Note:

1. The salary amount shown is inclusive of allowances, employer CPF, all fees other than directors' fee, and other emoluments.

2. Taxable income for Lua Cheng Eng is from exercise of SembCorp Marine and the Company's share options during the year. Taxable income for Peter Seah Lim Huat, Tang Kin Fei, K Shanmugan, Goh Geok Ling, Richard Hale, OBE and Colin Au Fook Yew are from exercise of the Company's share options during the year. These relate to taxable gains and are not charged to the profit and loss account.

3. The bonus amount shown includes employer CPF, AWS, discretionary bonus, performance target bonus and performance shares released during the year.

4. a. Exercise period is June 10, 2007 to June 9, 2011 and exercise price is S$2.68 per share.
   b. Exercise period is June 10, 2007 to June 9, 2016 and exercise price is S$2.68 per share.
   c. Option not accepted.

Details on the share options, performance shares and restricted stocks granted to the directors are set out in the Share-based Incentive Plans of the Directors' Report.

(UNDER SGX-ST LISTING MANUAL REQUIREMENTS)

B. Interested Person Transactions

Interested person transactions carried out during the financial year which fall under Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") are as follows:

	Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual (excluding transactions less than S$100,000) 2006 S$'000
Sale of goods and services	
Temasek Holdings (Private) Limited and its Associates	
– Tuas Power Ltd/PowerSeraya Limited[1]	551,267
– Temasek Capital (Private) Limited and its Associates	6,322
– MediaCorp Pte Ltd and its Associates	4,515
– Singapore Technologies Telemedia Pte Ltd and its Associates	3,465
– PSA International Pte Ltd and its Associates	2,448
– Wildlife Reserves Singapore Pte Ltd and its Associates	1,675
– Senoko Power Ltd	811
– Singapore Power Ltd and its Associates	798
– National University Hospital (S) Pte Ltd and its Associates	450
– Surbana Corporation Pte Ltd and its Associates	391
	572,142
Singapore Petroleum Company Limited and its Associates	27,201
Singapore Airlines Limited and its Associates	10,904
Starhub Ltd and its Associates	3,285
Singapore Food Industries Ltd and its Associates	998
SNP Corporation Ltd and its Associates	783
SIA Engineering Company Limited and its Associates	635
	615,948
Purchase of goods and services	
Temasek Holdings (Private) Limited and its Associates	
– Temasek Capital (Private) Limited and its Associates[2]	514,182
– Singapore Power Ltd and its Associates	3,343
	517,525
Treasury (Balances as at December 31, 2006)	
Placement of funds	
Singapore Technologies Pte Ltd and its Associates	11,219
Total interested person transactions	1,144,692

Note:

1. This relates mainly to the sale of gas by SembCorp Gas Pte Ltd to Tuas Power Ltd and PowerSeraya Limited for the generation of electricity.

2. This relates mainly to the purchase of gas by SembCorp Cogen Pte Ltd from SembCorp Gas Pte Ltd for the generation of electricity.

There were no transactions which were not conducted under the shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual during the period January 1, 2006 to December 31, 2006.

Year Ended December 31, 2006

EVA STATEMENT

	Note	2006 S$'000	2005 S$'000
Net Operating Profit Before Income Tax Expense		**1,031,631**	429,345
Adjust for:			
Share of associates and joint ventures profits		**140,399**	100,942
Interest expense	1	**54,819**	68,626
Others	2	**(9,147)**	28,059
Adjusted Profit before Interest and Tax		**1,217,702**	626,972
Cash Operating Taxes	3	**4,300**	(82,451)
Net Operating Profit after Tax (NOPAT)		**1,222,002**	544,521
Average Capital Employed	4	**4,819,462**	5,275,539
Weighted Average Cost of Capital	5	**6.2%**	5.6%
Capital Charge		**297,303**	293,511
Economic Value Added (EVA)		**924,699**	251,010
Minority share of EVA		**(85,529)**	(60,805)
EVA attributable to shareholders		**839,170**	190,205
Less: Unusual items (UI) Gains	6	**457,381**	74,379
EVA attributable to shareholders (exclude UI)		**381,789**	115,826

Notes:

1. Interest expense includes imputed interest on present value of operating leases and capitalised interest charged to profit and loss upon disposal of the assets.

2. Other adjustments include recovery of investment costs, timing difference of allowances made for/(writeback) of doubtful debts, inventory obsolescence and goodwill written off/amortised/impaired and construction-in-progress.

3. The reported current tax is adjusted for the statutory tax impact of interest expense.

4. Monthly average total assets less non interest-bearing liabilities plus timing provision, goodwill written off/amortised/impaired and present value of operating leases.

	2006 S$'000	2005 S$'000
Major Capital Components:		
Fixed assets	**2,600,009**	2,767,608
Investments	**1,020,765**	1,294,420
Other long term assets	**128,344**	166,709
Net working capital and long term liabilities	**1,070,344**	1,046,802
Average Capital Employed	**4,819,462**	5,275,539

Notes *(cont'd)*:

5. The Weighted Average Cost of Capital is calculated in accordance with SembCorp Industries Ltd Group EVA Policy as follows:

    i. Cost of Equity using Capital Asset Pricing Model with market risk premium at 6.0% (2005: 6.0%);

    ii. Risk-free rate of 3.31% (2005: 2.62%) based on yield-to-maturity of Singapore Government 10 years Bonds;

    iii. Ungeared beta ranging from 0.5 to 1.0 (2005: 0.5 to 1.0) based on SembCorp Industries risk categorisation; and

    iv. Cost of Debt rate at 4.04% (2005: 3.03%) using 5-year Singapore Dollar Swap Offered Rate plus 75 basis points (2005: 5-year Singapore Dollar Swap Offered Rate plus 75 basis points).

6. Unusual items (UI) refer to divestment of subsidiaries, associates, joint ventures, long-term investments and disposal of major fixed assets.

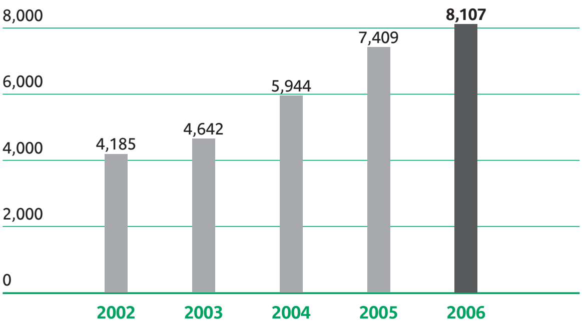
FIVE-YEAR PERFORMANCE

FINANCIALS

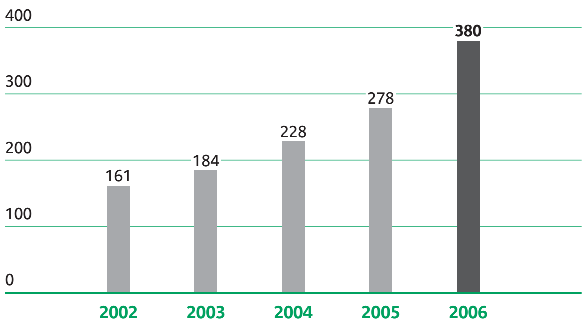
	2002	2003	2004	2005	2006
For the year (S$ million)					
Turnover	4,185	4,642	5,944	7,409	**8,107**
EBITDA	473	559	1,088	633	**1,207**
Profit before income tax expense	291	471	982	508	**1,149**
Profit attributable to Shareholders of the Company (PATMI):					
– before exceptional items	161	184	228	278	**380**
– after exceptional items	172	285	391	303	**1,030**
At year end (S$ million)					
Property, plant and equipment	2,164	2,514	2,492	2,627	**2,535**
Other non-current assets	1,421	1,414	1,220	1,171	**1,316**
Net current assets	79	51	245	305	**1,149**
Non-current liabilities	(1,525)	(1,595)	(1,156)	(1,258)	**(1,540)**
Net assets	2,139	2,384	2,801	2,845	**3,460**
Share capital and reserves	1,504	1,716	1,958	2,000	**2,812**
Minority interests	635	668	843	845	**648**
Total Equity	2,139	2,384	2,801	2,845	**3,460**
Per share					
Earnings (cents)					
– before exceptional items	8.96	10.09	12.49	15.74	**21.57**
– after exceptional items	9.52	15.66	21.47	17.14	**58.51**
Net tangible assets (cents)	80.71	88.16	98.69	105.74	**152.18**
Gross dividend (cents)	4.50	7.00	11.25	6.50	**28.90**
Gross dividend yield (%) *	5.70	5.60	6.90	2.40	**7.50**
Financial ratios					
Return on equity (%)	13.6	17.7	21.1	15.3	**42.8**
Return on total assets (%)	5.4	7.3	13.5	6.1	**16.4**
Interest cover (times)	5.0	7.1	14.5	11.7	**22.4**
Net gearing (times)	0.6	0.6	Net Cash	Net Cash	**0.04**

* *Based on the closing share price for respective years.*

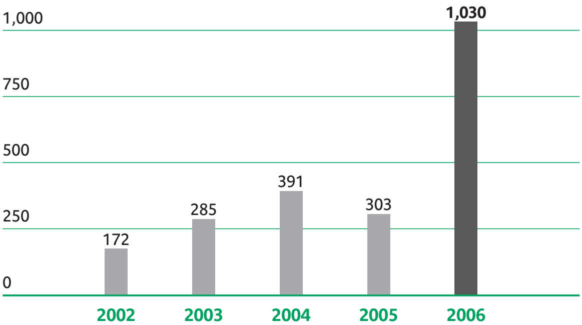
TURNOVER (S$ million)



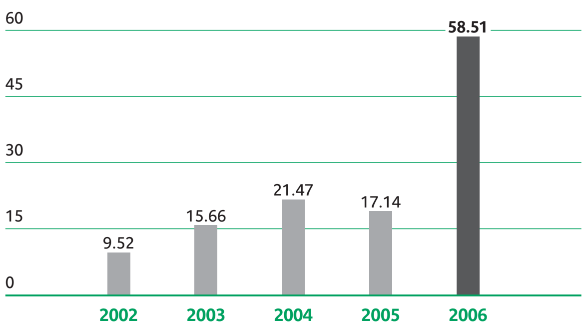
PATMI BEFORE EI (S$ million)



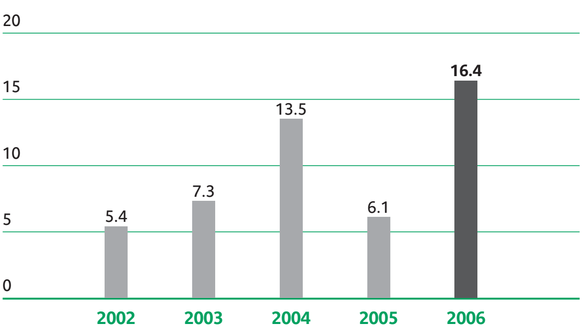
PATMI AFTER EI (S$ million)



EARNINGS PER SHARE AFTER EI (cents)



RETURN ON TOTAL ASSETS AFTER EI (%)



FIVE-YEAR PERFORMANCE

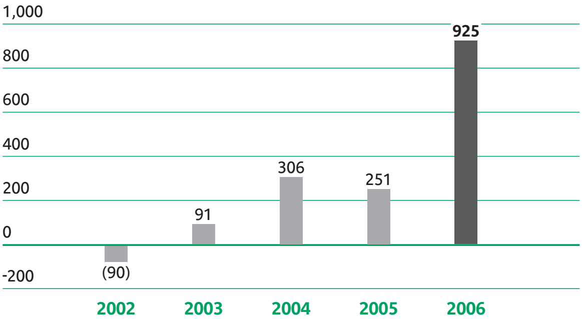
ECONOMIC VALUE ADDED

	2002	2003	2004	2005	2006
	S$ million	S$ million	S$ million	S$ million	S$ million
Net Operating Profit after Tax (NOPAT)	333	383	645	545	**1,222**
Average Capital Employed	5,176	5,195	5,472	5,276	**4,819**
Capital Charge	423	292	340	294	**297**
Economic Value Added (EVA)	(90)	91	306	251	**925**

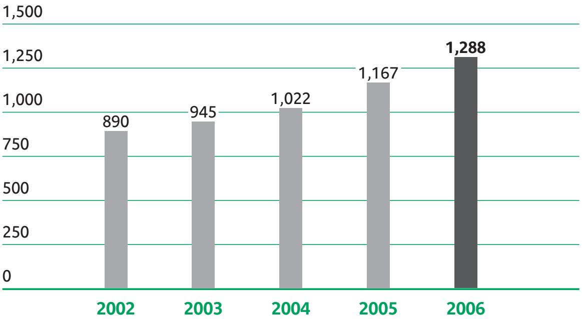
PRODUCTIVITY DATA

	2002	2003	2004	2005	2006
Average staff strength	13,168	12,430	13,301	14,862	**13,199**
Employment costs (S$ million)	579	540	573	621	**624**
Sales per employee (S$'000)	318	373	447	491	**612**
Profit after tax per employee (S$'000)	18	31	69	28	**88**
Economic Value Added (S$ million)	(90)	91	306	251	**925**
Economic Value Added spread (%)	(1.7)	1.8	5.6	4.8	**19.2**
Economic Value Added per employee (S$'000)	(6.84)	7.32	22.98	16.89	**70.06**
Value added (S$ million)	890	945	1,022	1,167	**1,288**
Value added per employee (S$'000)	68	76	77	79	**98**
Value added per employment costs (S$)	1.54	1.75	1.79	1.88	**2.06**
Value added per dollar investment in fixed assets (S$)	0.32	0.27	0.29	0.3	**0.35**
Value added per dollar sales (S$)	0.22	0.21	0.17	0.16	**0.16**

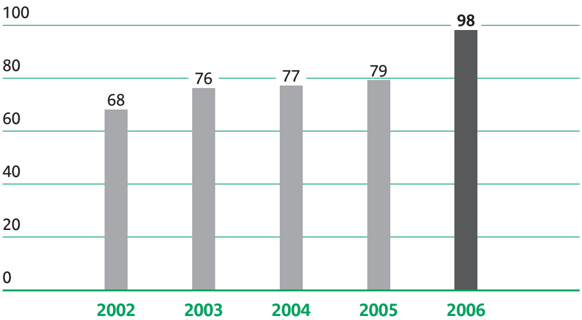
ECONOMIC VALUE ADDED (S$ million)



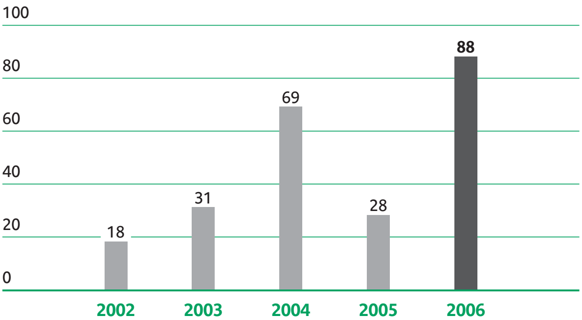
VALUE ADDED (S$ million)



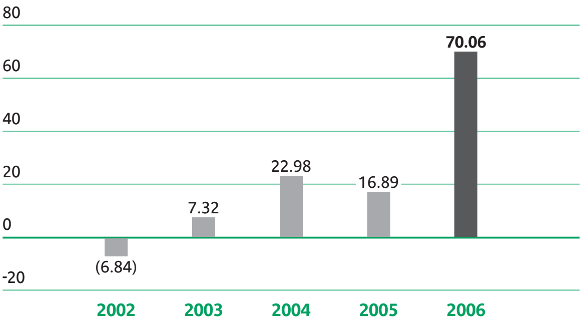
VALUE ADDED PER EMPLOYEE (S$'000)



PROFIT AFTER TAX PER EMPLOYEE (S$'000)



ECONOMIC VALUE ADDED PER EMPLOYEE (S$'000)



FIVE-YEAR PERFORMANCE

REVIEW BY BUSINESSES

	2002		2003		2004		2005		2006	
	S$ million	%	S$ million	%	S$ million	%	S$ million	%	S$ million	%
Turnover by Activity										
Continuing operations:										
Utilities	1,072	26	1,933	42	2,909	49	3,262	44	**3,590**	**44**
Marine & Offshore Engineering	1,007	24	1,062	23	1,351	23	2,102	28	**3,539**	**43**
Environmental Management	135	3	190	4	200	3	217	3	**210**	**3**
Others/Corporate	684	16	189	4	161	3	190	3	**147**	**2**
	2,898	69	3,374	73	4,621	78	5,771	78	**7,486**	**92**
Discontinued operations:										
Logistics	429	10	465	10	500	8	542	7	**133**	**2**
Engineering & Construction	858	21	803	17	823	14	1,096	15	**488**	**6**
Total	4,185	100	4,642	100	5,944	100	7,409	100	**8,107**	**100**
Profit attributable to Shareholders of the Company (PATMI) by Activity										
Continuing operations:										
Utilities	54	31	98	35	108	28	147	49	**223**	**22**
Marine & Offshore Engineering	53	31	49	17	60	15	73	24	**129**	**12**
Environmental Management	9	5	13	4	14	4	5	2	**(18)**	**(2)**
Others/Corporate	3	2	(33)	(11)	(19)	(5)	19	6	**38**	**4**
	119	69	127	45	163	42	244	81	**372**	**36**
Discontinued operations:										
Logistics	41	24	56	20	64	16	33	11	**8**	**1**
Engineering & Construction	1	1	1	0	1	0	1	0	**(0)**	**(0)**
	161	94	184	65	228	58	278	92	**380**	**37**
Exceptional items	11	6	101	35	163	42	25	8	**650**	**63**
Total	172	100	285	100	391	100	303	100	**1,030**	**100**

VALUE ADDED STATEMENTS

	2002	2003	2004	2005	2006
	S$ million	S$ million	S$ million	S$ million	S$ million
Value added from					
Turnover	3,997	4,565	5,867	7,304	**8,074**
Less: bought in materials and services	(3,107)	(3,620)	(4,845)	(6,137)	**(6,786)**
Gross value added	890	945	1,022	1,167	**1,288**
Investment, interest and other income	311	266	1,264	240	**778**
Share of associates' profit	26	108	121	53	**87**
Share of joint ventures' profit	37	37	35	48	**53**
Other non-operating expenses	(59)	(41)	(554)	(74)	**(172)**
	1,205	1,315	1,888	1,434	**2,034**
Distribution					
To employees in wages, salaries and benefits	579	540	573	621	**624**
To government in income and other taxes	66	103	110	137	**36**
To providers of capital on:					
Interest paid on borrowings	76	72	73	54	**53**
Dividends to shareholders	43	28	91	73	**91**
	764	743	847	885	**804**
Retained in Business					
Depreciation and amortisation	168	164	170	174	**163**
Retained profits	153	270	302	235	**909**
Minority interests	88	97	526	112	**130**
	409	531	998	521	**1,202**
Other non-operating expenses	32	41	43	28	**28**
	441	572	1,041	549	**1,230**
Total Distribution	1,205	1,315	1,888	1,434	**2,034**

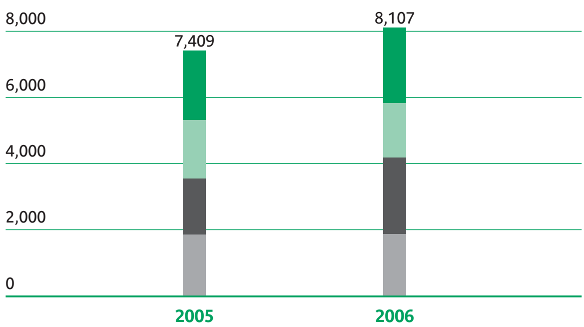
The figures above reflect core businesses only.

QUARTERLY PERFORMANCE

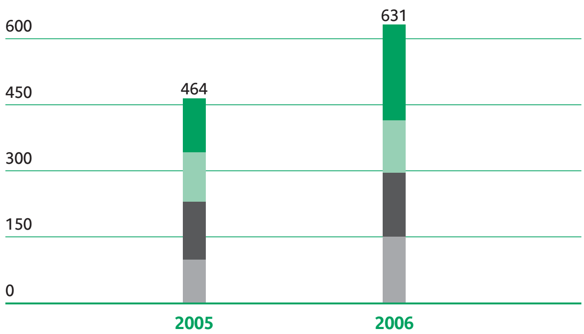
GROUP QUARTERLY RESULTS

	Quarter 1 S$ million	Quarter 2 S$ million	Quarter 3 S$ million	Quarter 4 S$ million	Full Year S$ million
Turnover					
2006	**1,856**	**2,322**	**1,647**	**2,282**	**8,107**
2005	1,855	1,686	1,776	2,092	7,409
Profit before income tax expense (PBT) and exceptional items					
2006	**150**	**146**	**118**	**217**	**631**
2005	98	131	113	122	464
Profit before income tax expense (PBT)					
2006	**548**	**146**	**117**	**338**	**1,149**
2005	115	139	112	142	508
Profit attributable to Shareholders of the Company (PATMI) and before exceptional items					
2006	**83**	**91**	**78**	**128**	**380**
2005	59	73	66	80	278
Profit attributable to Shareholders of the Company (PATMI)					
2006	**481**	**86**	**77**	**386**	**1,030**
2005	72	74	66	91	303

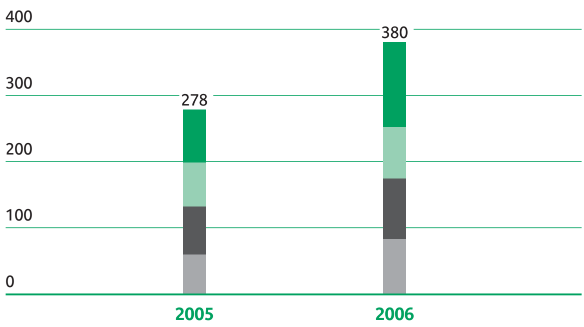
TURNOVER (S$ million)	2005	2006
Quarter 4	2,092	**2,282**
Quarter 3	1,776	**1,647**
Quarter 2	1,686	**2,322**
Quarter 1	1,855	**1,856**
	7,409	8,107



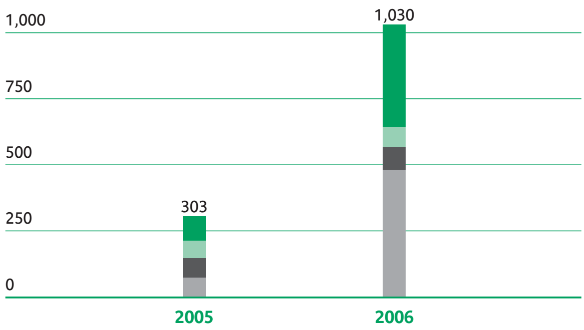
PBT BEFORE EI (S$ million)	2005	2006
Quarter 4	122	**217**
Quarter 3	113	**118**
Quarter 2	131	**146**
Quarter 1	98	**150**
	464	631



PATMI BEFORE EI (S$ million)	2005	2006
Quarter 4	80	**128**
Quarter 3	66	**78**
Quarter 2	73	**91**
Quarter 1	59	**83**
	278	380



PATMI AFTER EI (S$ million)	2005	2006
Quarter 4	91	**386**
Quarter 3	66	**77**
Quarter 2	74	**86**
Quarter 1	72	**481**
	303	1,030



SHAREHOLDERS' INFORMATION

STATISTICS OF SHAREHOLDERS AS OF FEBRUARY 21, 2007

Issued and fully Paid-up Capital: S$530,521,498.94
Number of Issued Shares: 1,773,187,337
Number of Shareholders: 21,332
Class of Shares: Ordinary Shares with equal voting rights

SHAREHOLDINGS HELD BY THE PUBLIC

Based on information available to the Company as of February 21, 2007, 50.15% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by SGX-ST is complied with.

Substantial Shareholder	Direct Interest	Indirect Interest	Total Interest	%
Temasek Holdings (Private) Limited	871,200,328	12,718,760*	883,919,088	49.85

* *Temasek is deemed to be interested in the 12,718,760 shares held by its other subsidiaries*

TOP 20 SHAREHOLDERS AS OF FEBRUARY 21, 2007

No.	Name	No. of Shares held	%
1	Temasek Holdings (Private) Ltd	871,200,328	49.13
2	DBS Nominees Pte Ltd	230,430,954	13.00
3	DBSN Services Pte Ltd	164,778,439	9.29
4	Citibank Nominees Singapore Pte Ltd	118,911,700	6.71
5	HSBC (Singapore) Nominees Pte Ltd	88,493,470	4.99
6	United Overseas Bank Nominees Pte Ltd	51,145,750	2.88
7	Raffles Nominees Pte Ltd	48,901,742	2.76
8	Morgan Stanley Asia (S'pore)	24,461,217	1.38
9	Startree Investments Pte Ltd	9,400,000	0.53
10	OCBC Nominees Singapore Pte Ltd	8,865,982	0.50
11	Merrill Lynch (Singapore) Pte Ltd	3,765,634	0.21
12	DB Nominees (S) Pte Ltd	3,657,231	0.21
13	Royal Bank of Canada (Asia) Ltd	2,347,000	0.13
14	Oversea Chinese Bank Nominees Pte Ltd	2,208,217	0.12
15	The Asia Life Assurance Society Ltd – Par Fund	1,886,580	0.11
16	Phillip Securities Pte Ltd	1,673,618	0.09
17	DBS Vickers Securities (S) Pte Ltd	1,541,110	0.09
18	UOB Kay Hian Pte Ltd	1,470,176	0.08
19	Tang Kin Fei	1,427,355	0.08
20	Capital Intelligence Limited	1,200,000	0.07
		1,637,766,503	92.36

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	3,118	14.62	1,836,682	0.10
1,000 – 10,000	15,918	74.62	54,174,139	3.06
10,001 – 1,000,000	2,276	10.67	79,410,013	4.48
1,000,001 and above	20	0.09	1,637,766,503	92.36
	21,332	100.00	1,773,187,337	100.00

CORPORATE INFORMATION

REGISTERED OFFICE
30 Hill Street #05-04
Singapore 179360
Tel: (65) 6723 3113
Fax: (65) 6822 3254
www.sembcorp.com.sg

BOARD OF DIRECTORS
Peter Seah Lim Huat
Chairman

Tang Kin Fei
Group President & CEO

K Shanmugam
Goh Geok Ling
Richard Hale, OBE
Yong Ying-I
Evert Henkes
Lee Suet Fern

EXECUTIVE COMMITTEE
Peter Seah Lim Huat
Chairman

Goh Geok Ling

AUDIT COMMITTEE
Richard Hale, OBE
Chairman

K Shanmugam
Lee Suet Fern
Yong Ying-I

EXECUTIVE RESOURCE & COMPENSATION COMMITTEE
Peter Seah Lim Huat
Chairman

Goh Geok Ling
K Shanmugam

NOMINATING COMMITTEE
Peter Seah Lim Huat
Chairman

Goh Geok Ling
K Shanmugam

RISK COMMITTEE
Richard Hale, OBE
Chairman

K Shanmugam
Lee Suet Fern
Yong Ying-I

COMPANY SECRETARY
Kwong Sook May

REGISTRAR
M & C Services
138 Robinson Road #17-00
The Corporate Office
Singapore 068906
Tel: (65) 6227 6660
Fax: (65) 6225 1452

BANKERS
Citibank NA
3 Temasek Avenue #17-00
Centennial Tower
Singapore 039190

DBS Group
6 Shenton Way
DBS Building
Singapore 068809

Mizuho Corporate Bank Ltd
168 Robinson Road #13-00
Capital Tower
Singapore 068912

Oversea-Chinese Banking Corporation
65 Chulia Street
OCBC Centre
Singapore 049513

Standard Chartered Bank
6 Battery Road
Singapore 049909

Sumitomo Mitsui Banking Corporation
3 Temasek Avenue #06-01
Centennial Tower
Singapore 039190

The Bank of Tokyo-Mitsubishi UFJ
9 Raffles Place #01-01
Republic Plaza
Singapore 048619

The Hongkong and
Shanghai Banking Corporation
21 Collyer Quay #14-01
HSBC Building
Singapore 049320

United Overseas Bank
80 Raffles Place
UOB Plaza
Singapore 048624

AUDITORS
KPMG
Certified Public Accountants
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

Partner-in-Charge: Phuoc Tran
(Appointed during the financial year
ended December 31, 2005)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Ninth Annual General Meeting of the Company will be held at The Auditorium, NTUC Centre, Level 7, One Marina Boulevard, Singapore 018989 on Monday, April 23, 2007 at 11.00 am for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts for the year ended December 31, 2006 and the Auditors' Report thereon. **Resolution 1**

2. To declare gross final dividends of 28.9 cents per share for the year ended December 31, 2006 as follows: **Resolution 2**

   - a final ordinary franked gross dividend of 4.9 cents per share less income tax;
   - a final ordinary exempt 1-tier dividend of 8 cents per share; and
   - a final special exempt 1-tier dividend of 16 cents per share.

3. To re-elect the following Directors, each of whom will retire by rotation pursuant to Article 93 of the Company's Articles of Association and who, being eligible, will offer themselves for re-election:

   a. Peter Seah Lim Huat **Resolution 3**
   b. Evert Henkes **Resolution 4**
   c. Yong Ying-I *(Independent Member of Audit Committee)* **Resolution 5**

4. To approve the sum of S$895,332 as Directors' Fees for the year ended December 31, 2006 (2005: S$643,083). **Resolution 6**

5. To re-appoint KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 7**

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions which will be proposed as Ordinary Resolutions:

6. That authority be and is hereby given to the Directors of the Company to: **Resolution 8**

a. i. issue shares in the capital of the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or

ii. make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

b. (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20% of the issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited ("**SGX-ST**")) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares shall be based on the number of issued shares in the capital of the Company at the time this Resolution is passed, after adjusting for:

i. new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

ii. any subsequent consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and

(4) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

7. That approval be and is hereby given to the Directors to: **Resolution 9**

a. offer and grant options in accordance with the provisions of the SembCorp Industries Share Option Plan (the "**Share Option Plan**") and/or to grant awards in accordance with the provisions of the SembCorp Industries Performance Share Plan (the "**Performance Share Plan**") and/or the SembCorp Industries Restricted Stock Plan (the "**Restricted Stock Plan**") (the Share Option Plan, the Performance Share Plan and the Restricted Stock Plan, together the "**Share Plans**"); and

b. allot and issue from time to time such number of ordinary shares in the capital of the Company as may be required to be issued pursuant to the exercise of options under the Share Option Plan and/or such number of fully paid shares as may be required to be issued pursuant to the vesting of awards under the Performance Share Plan and/or the Restricted Stock Plan,

provided that the aggregate number of ordinary shares to be issued pursuant to the Share Plans shall not exceed 15% of the total number of issued shares in the capital of the Company from time to time.

8. To transact any other business.

By Order of the Board

Kwong Sook May
Company Secretary
March 14, 2007

Explanatory Notes:
Resolution 3 to 5 – Detailed information on these Directors can be found under Board of Directors and Corporate Governance Report in the Annual Report 2006.

If re-elected, Ms Yong Ying-I will remain as a member of the Audit Committee. Ms Yong Ying-I is an independent Director.

NOTICE OF ANNUAL GENERAL MEETING

STATEMENT PURSUANT TO ARTICLE 55 OF THE ARTICLES OF ASSOCIATION OF THE COMPANY:

Resolution 8 – is to empower the Directors to issue shares in the capital of the Company and to make or grant instruments (such as warrants or debentures) convertible into shares, and to issue shares in pursuance of such instruments, up to a number not exceeding in total 50% of the issued shares in the capital of the Company, with a sub-limit of 20% for issues other than on a *pro rata* basis to shareholders. For the purpose of determining the aggregate number of shares that may be issued, the percentage of issued shares shall be based on the number of issued shares in the capital of the Company at the time that Resolution 8 is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time that Resolution 8 is passed, and (b) any subsequent consolidation or subdivision of shares.

Resolution 9 – is to empower the Directors to offer and grant options and/or grant awards and to issue ordinary shares in the capital of the Company pursuant to the SembCorp Industries Share Option Plan, the SembCorp Industries Performance Share Plan and the SembCorp Industries Restricted Stock Plan (collectively, the "**Share Plans**") provided that the aggregate number of ordinary shares issued pursuant to the Share Plans shall not exceed 15% of the total number of issued shares in the capital of the Company for the time being. Approval for the adoption of the Share Plans was given by shareholders at an Extraordinary General Meeting of the Company held on June 5, 2000 and modified at the Extraordinary General Meeting of the Company held on April 26, 2005. The grant of options and awards under the respective Share Plans will be made in accordance with their respective provisions.

Note:

1. *A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.*
2. *The instrument appointing a proxy must be lodged at the registered office of the Company at 30 Hill Street, #05-04 Singapore 179360 not later than 48 hours before the time appointed for the Annual General Meeting.*

NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATE

NOTICE IS HEREBY GIVEN that the Register of Members and Share Transfer Books of the Company will be closed on April 30, 2007 to determine the shareholders' entitlements to the proposed dividend. Duly completed transfers of shares received by the Company's Share Registrar, M & C Services Private Limited at 138 Robinson Road #17-00, The Corporate Office, Singapore 068906, up to 5.00 pm on April 27, 2007 (the "**Book Closure Date**") will be registered to determine shareholders' entitlements to the proposed dividend. Subject as aforesaid, shareholders whose securities accounts with The Central Depository (Pte) Limited are credited with ordinary shares in the capital of the Company as at 5.00 pm on the Book Closure Date will be entitled to the dividend.

The proposed dividend, if approved by the members at the Annual General Meeting, will be paid on May 15, 2007.

Glue and seal along the edge

IMPORTANT

1. *For investors who have used their CPF monies to buy SembCorp Industries Ltd's shares, this report is forwarded to them at the request of their CPF Approved Nominees solely FOR INFORMATION ONLY.*
2. *This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.*

PROXY FORM

SEMBCORP INDUSTRIES LTD
Co Regn No. 199802418D
(Incorporated in the Republic of Singapore)

NINTH ANNUAL GENERAL MEETING

I/We, ________________________________ (Name), ________________ (NRIC No.)

of ____ (Address)

being a member/members of SEMBCORP INDUSTRIES LTD hereby appoint:

Name	Address	NRIC/Passport No.	% of Shareholdings
and/or (delete as appropriate)			

as my/our proxy/proxies to attend and vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting of the Company to be held on Monday, April 23, 2007 at 11.00 am at The Auditorium, NTUC Centre, Level 7, One Marina Boulevard, Singapore 018989 and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the Resolutions as set out in the Notice of Annual General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the Annual General Meeting.)

	Resolutions	For	Against
	ORDINARY BUSINESS		
1.	To adopt the Directors' Report and Accounts		
2.	To declare Final Dividends		
3.	To re-elect Peter Seah Lim Huat		
4.	To re-elect Evert Henkes		
5.	To re-elect Yong Ying-I		
6.	To approve Directors' Fees		
7.	To re-appoint KPMG as Auditors and to fix their Remuneration		
	SPECIAL BUSINESS		
8.	To approve the renewal of Share Issue Mandate		
9.	To authorise the Directors to grant options and/or grant awards and issue shares under the SembCorp Industries' Share Plans		

Total Number of Shares Held

Signature(s) or Common Seal of member(s)

Date

Glue and seal along the edge

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.

2. A member entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote instead of him. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.

3. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 30 Hill Street #05-04 Singapore 179360 not less than 48 hours before the time appointed for the Annual General Meeting.

1st FOLD

4. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.

5. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

6. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register 48 hours before the time appointed for holding the Annual General Meeting as certified by the Central Depository (Pte) Limited to the Company.

2nd FOLD

SembCorp Industries

Affix Postage Stamp

The Company Secretary
SembCorp Industries Ltd
30 Hill Street #05-04
Singapore 179360

3rd FOLD