

Governance

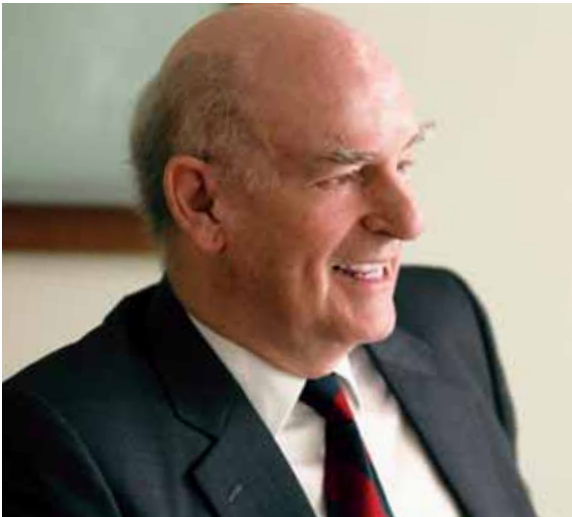
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BOARD OF DIRECTORS





(First row from left)
**PETER SEAH LIM HUAT, TANG KIN FEI,
GOH GEOK LING, K SHANMUGAM**

(Second row from left)
**RICHARD HALE, OBE, YONG YING-I,
EVERT HENKES, LEE SUET FERN**

PETER SEAH LIM HUAT

*Non-executive Chairman
Appointed July 29, 1998*

As Chairman, Mr Seah is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. Mr Seah heads the Board's Executive Committee, Executive Resource & Compensation Committee and Nominating Committee.

Currently, Mr Seah is also Chairman of ST Engineering and Singapore Computer Systems. His directorships include membership on the boards of Alliance Bank Malaysia, Bank of China, CapitaLand, Chartered Semiconductor Manufacturing, Global Crossing, PT Bank Internasional Indonesia Tbk, PT Indosat Tbk, Siam Commercial Bank, StarHub and STATS ChipPAC. In addition, Mr Seah is also on the boards of the Government of Singapore Investment Corporation and the National Kidney Foundation. He is a member of the Temasek Advisory Panel and serves as the Vice President of the Singapore Chinese Chamber of Commerce and Industry and Treasurer to the Singapore Business Federation. Mr Seah holds a B Admin (Honours) from the University of Singapore.

Past directorships in listed companies and major appointments 2004–2006:

- EDVB Management
- PSA International
- Singapore Technologies

TANG KIN FEI

*Group President & CEO
Appointed May 1, 2005*

Mr Tang joined the Group in 1987 and in 1998 was appointed President & CEO of SembCorp Utilities, where he was responsible for transforming the unit from a process engineering business into a leading centralised utilities and energy provider and expanding its presence overseas to China, the UAE, the UK and Vietnam.

A director of International Enterprise Singapore (IE) and chairman of IE's 2006 Finance & Investment Committee, Mr Tang lends his China business expertise as a member of its Network China Steering Committee. He is also a director of BIL International and an Advisory Committee member of the ENV-NTU Environmental Engineering Research Centre. Mr Tang holds a First Class Honours degree in Mechanical Engineering from the University of Singapore and underwent the Advanced Management Programme at INSEAD.

Past directorships in listed companies and major appointments 2004–2006:

- Camerlin Group
- SembCorp Logistics

GOH GEOK LING

*Non-executive Director
Appointed May 3, 2000*

Mr Goh serves on the Board's Executive, Executive Resource & Compensation and Nominating Committees.

He is Chairman of SembCorp Marine and sits on the boards of

02Micro International, DBS Bank, DBS Group Holdings and Venture Corporation. In addition, Mr Goh serves as a Member of the Board of Trustees of Nanyang Technological University. He holds a B Eng from the University of Sydney, Australia.

Past directorships in listed companies and major appointments 2004–2006:

- ASTI Holdings
- Plato Capital
- Singapore Technologies
- Tuas Power

K SHANMUGAM

*Non-executive Director
Appointed July 29, 1998*

Mr Shanmugam serves on the Board's Audit, Executive Resource & Compensation, Nominating and Risk Committees.

He is a senior partner and Head of Litigation at Allen & Gledhill and was appointed a Senior Counsel in 1998. Mr Shanmugam is also a Member of Parliament for Sembawang GRC. He is a board member of the Criminal Law Advisory Committee of Singapore. Mr Shanmugam holds an LLB (Honours, First Class) from the National University of Singapore.

Past directorships in listed companies and major appointments 2004–2006:

- Media Development Authority of Singapore

RICHARD HALE, OBE

*Non-executive Director
Appointed September 1, 2000*

Mr Hale heads the Board's Audit and Risk Committees.

Mr Hale is a non-executive director of CapitaLand, CapitaCommercial Trust Management, The Ascott Group and Wheelock Properties (Singapore). He was previously a director and CEO Singapore of The Hongkong and Shanghai Banking Corporation. Mr Hale was educated at Radley College, Abingdon, UK.

Past directorships in listed companies and major appointments 2004–2006:

- SembCorp Logistics
- Wildlife Reserves Singapore
- World-Wide Shipping Agency

YONG YING-I

*Non-executive Director
Appointed May 26, 2003*

Ms Yong is a member of the Board's Audit and Risk Committees.

She is Singapore's Permanent Secretary for Health and Chairman of the Singapore Workforce Development Agency. Ms Yong is also the Deputy Chairman of the Infocomm Development Authority of Singapore and serves on the boards of the Civil Service College, Singapore Symphonia Company and Singapore Totalisator Board. She holds an MBA from Harvard University Graduate School of Business, USA and an Economics degree from the University of Cambridge, UK.

EVERT HENKES

*Non-executive Director
Appointed April 30, 2004*

Mr Henkes has extensive experience in the petrochemical industry as former CEO of Shell Group's global chemical business. He is a director of Air Products and Chemicals, China National Offshore Oil Corporation, Outokumpu and Tate & Lyle. He holds a BSc from Cornell University, USA.

Past directorships in listed companies and major appointments 2004–2006:

- BPB

LEE SUET FERN

*Non-executive Director
Appointed July 1, 2005*

Mrs Lee is a member of the Board's Audit and Risk Committees.

The Senior Director of Stamford Law Corporation, Mrs Lee has extensive experience as a corporate law practitioner with a focus on mergers and acquisitions, equity and debt capital markets and restructurings in Singapore and the region. Mrs Lee currently serves on the boards of China Aviation Oil (Singapore) Corporation, ECS Holdings, International Capital Investment (formerly Jurong Engineering), Media Asia Entertainment Group, Richina Pacific, Sincere Watch (Hong Kong) and Transpac Industrial Holdings. She is also a director of the National Heritage Board, a member of the Board of Trustees of Nanyang Technological University and a member of the Accounting Advisory Board of

National University of Singapore Business School. Mrs Lee holds a double first in Law from Cambridge University, UK and is a member of the Honourable Society of Gray's Inn.

Past directorships in listed companies and major appointments 2004–2006:

- Chemical Industries (Far East)
- Continental Chemical Holdings
- FHTK Holdings
- Jackspeed Corporation
- SembCorp Logistics

KEY EXECUTIVES



(From left)
FRANCIS JOSEPH GOMEZ, MAUREEN LEONG,
HENG CHIANG GNEE, LIM JOKE MUI,
TANG KIN FEI, LOW SIN LENG, TAN KWI KIN,
DR PAUL GAVENS



TANG KIN FEI

Group President & CEO

Joined 1987

(Please see section on Board of Directors)

LIM JOKE MUI

Group Chief Financial Officer

Joined 2002

Mrs Lim is responsible for Corporate Finance & Treasury, Accounts, Tax, Information Technology and Risk Management of SembCorp Industries and oversees these functions across the Group. As Group CFO, she also handles investor relations matters for the Group. Mrs Lim is a director on the boards of various SembCorp Group companies.

She has more than 28 years of experience in corporate finance, accounting, tax and other corporate functions. During Mrs Lim's career with DBS Land, she managed large financing transactions via the equity and debt markets and was involved in corporate exercises, such as the merger of Pidemco and DBS Land to form CapitaLand, takeovers and initial public offerings.

She holds a B Acc degree from the University of Singapore.

LOW SIN LENG

Senior Executive Director

Group Strategic Relations

Joined 2000

Ms Low has new responsibility for Group Strategic Relations, which concentrates on building and maintaining strategic relations with key decision makers.

As Executive Chairman of SembCorp Parks Holdings, she spearheads the development of the Group's industrial properties. She is also Deputy Chairman of SembCorp Utilities and a director on the boards of various SembCorp Group companies.

Prior to joining SembCorp, she was the Executive Vice President of Singapore Power and served for 20 years in the Singapore Government Administrative Service holding several senior positions in the Ministries of Finance, Trade & Industry and Education.

She holds an MBA (High Distinction) from the Catholic University of Leuven, Belgium, a B Eng (Distinction) from the University of Alberta, Canada and attended Harvard University's Advanced Management Program.

MAUREEN LEONG

Executive Vice President

Group Performance

Management & Ventures

Joined 1994

Mrs Leong is newly responsible for performance management, mergers & acquisitions, project financing and corporate planning of the Group. Previously, she was Group CFO of

SembCorp Logistics from 2004 to 2006, after spending 10 years with SembCorp Utilities where she last held the position of CFO. She was the key driver behind the successful project financing of SembCorp's centralised utilities and energy businesses.

Mrs Leong has 30 years of experience in finance, tax and treasury management in various industries.

She holds a First Class Honours degree in Accountancy from the University of Singapore and is a Fellow Certified Public Accountant member of both the Institute of Certified Public Accountants of Singapore and CPA Australia.

TAN KWI KIN

Group President & CEO

SembCorp Marine

Joined 1966

Mr Tan is the Group President & CEO of SembCorp Marine and the Chairman of Jurong Shipyard, Sembawang Shipyard, PPL Shipyard, JPL Corporation, Bulk Trade, JPL Industries, Jurong Integrated Services and Jurong SML.

A veteran of the marine industry with four decades of experience, Mr Tan is respected for his "hands on" management style and business acumen. He rose through the ranks at Jurong Shipyard, having started his career as a Junior Engineer in the Design department in 1966 and was appointed its Managing Director in 1990. He was behind the successful merger of Jurong Shipyard and Sembawang Shipyard in 1997 as well

as the implementation of SembCorp Marine's global hub strategy, engineering acquisitions in Brazil and China.

He has a B Eng degree in Mechanical Engineering from Tokyo University, Japan.

HENG CHIANG GNEE

*President & CEO
SembCorp Environmental Management
Joined 1994*

Mr Heng is the President & CEO of SembCorp Environmental Management and is a director on the boards of various SembCorp Group companies. Prior to his appointment in 2005, he was Deputy President of SembCorp Marine.

He is Chairman of the Singapore Accreditation Council, the national authority for accreditation of conformity assessment bodies. Mr Heng is also a non-executive director of Infocomm Development Authority of Singapore and Institute of Technical Education.

He holds a B Eng (First Class) degree in Marine Engineering from the University of Newcastle-Upon-Tyne, UK. He also has an MSc in Management from the Sloan School of Management, Massachusetts Institute of Technology, USA and attended Harvard University's Advanced Management Program.

FRANCIS JOSEPH GOMEZ

*Executive Vice President
SembCorp Utilities (Singapore)
Joined 1978*

Mr Gomez is in charge of the Singapore operations of SembCorp Utilities and is a director on the boards of various SembCorp Group companies.

He has substantial experience in conceptualising, developing and managing projects and assets in the energy and process industries and has worked extensively alongside representatives of major international firms and government sectors. He represented Singapore at the Asean Council on Petroleum's Trans-Asean Gas Pipeline meetings and was responsible for developing the master plan for the Asean Gas Network with other country representatives.

He holds a BSc (Honours) degree in Control Engineering from the University of Leeds, UK.

DR PAUL GAVENS

*Executive Vice President
SembCorp Utilities (UK)
Joined 2003*

Dr Gavens is Managing Director of SembCorp Utilities (UK) and a director on the boards of various SembCorp Group companies.

He began his career with ICI in 1977 as a research chemist but has worked in the energy and utilities area at Wilton International since 1984. During that time he was involved with the 1,875 megawatt Teesside Power

project and many of ICI's divestments during the 1990s. Dr Gavens is a Director of Industry Nature Conservation Association, a membership organisation providing environmental and ecological consultancy to businesses in the Tees Valley. He is also a Governor of Prior Pursglove College, a local sixth form college.

Dr Gavens holds a PhD degree in Chemistry from the University of Cambridge, UK.

We believe that good corporate governance is essential to the sustainability of the Group's businesses.

Under the guidance of its Board, SembCorp Industries is committed to achieving high standards of corporate governance to protect shareholder value. The Company recognises the important role that clearly defined corporate governance processes play in enhancing corporate accountability and sustainability.

This report outlines the Company's corporate governance processes and activities for the financial year with reference to the principles set out in the Singapore Code of Corporate Governance 2005 (Code), except as explained in this Report.

BOARD OF DIRECTORS

Effective Board to lead and effect controls (Principle 1)

The core responsibility of the directors is to exercise their business judgement to act in what they reasonably believe to be the best interests of the Company and for the creation of long-term value and return for shareholders. The Board is responsible for the Group's overall performance objectives, financial plans and annual budget, major investments, divestment and funding proposals, financial performance reviews, risk management and corporate governance practices.

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

Resource & Compensation Committee, Nominating Committee and Risk Committee. These committees are primarily made up of independent and/or non-executive directors. The respective roles and responsibilities of each Board Committee are included in this report. Special purpose committees are established as and when a need arises.

The composition of the Board Committees is managed to ensure an equitable distribution of responsibilities among Board Members, maximise the effectiveness of the Board and foster active participation and contribution. Diversity of experience and appropriate skills are considered along with the need to maintain appropriate checks and balances between the different committees. Hence, membership of the Executive Committee, with its greater involvement in key business and executive decisions, and membership of the Audit and Risk Committees, with their respective oversight roles, is mutually exclusive.

A total of eight Board meetings were held in the year, with an average of 79.5% Board attendance. To focus on a director's attendance at formal meetings alone may lead to a narrow view of a director's contribution. Contributions from each director can be made in many forms, such as bringing strategic relationships to the Group and providing guidance to Management or exchanging of views outside the formal environment of the Board and/or Board Committee meeting.

Four Board meetings were held in the year to review and approve the release of the quarterly results and discuss reports by Management on the performance of the Group, its plans and prospects. Additional Board meetings were also held to specifically consider other issues that had arisen during the year. The Board members are free to discuss and voice their concerns on proposals that are raised for the Board's consideration and approval. Telephonic attendance and conference via audio-visual communication at Board meetings are allowed under the Company's Articles of Association.

The Group has adopted a set of internal controls and guidelines that set out financial authorisation and approval limits for borrowings, including off balance sheet commitments, investments, acquisitions, disposals, capital and operating expenditures, requisitions and expenses. Under the financial authorisation and approval limits, Board approval is required where the value of a transaction exceeds certain financial thresholds.

The Executive Committee (ExCo) comprises Peter Seah Lim Huat as Chairman, and its Members are Goh Geok Ling and Colin Au Fook Yew, until the latter resigned on November 6, 2006. The ExCo held six meetings in the year with full attendance of its members.

The ExCo reviews and approves business opportunities, strategic investments, capital and operating expenditures and divestments, within the limits of authority delegated by the Board, and recommends larger investments, capital and operating expenditures and divestments to the Board for approval. In 2006, the Board decided that the ExCo had the responsibility of

evaluating and recommending the Group's annual operating and capital expenditure budgets to the Board, and the Board dissolved the Budget Committee.

Directors are briefed on changes to regulations and accounting standards from time to time either during Board meetings or at specially-convened sessions, including training sessions and seminars conducted by external professionals. The Company also sponsors its directors to attend training courses and seminars on topics, such as additions or changes in laws, regulations and accounting standards, that are relevant to the Group.

Newly-appointed directors are given comprehensive presentations by Management on the strategic direction and business activities of the Group. A formal letter is sent to newly appointed directors upon their appointment explaining the governance policies and practices of the Group and their duties and obligations as director. Facility visits to Strategic Business Units' (SBU) premises are also arranged to enable the newly-appointed directors to acquire an understanding of the Group's business operations. Existing directors are also invited to participate in such facility visits and orientation programmes. A facility visit to the Fujairah power and water plant was conducted on April 24 and 25, 2006.

Strong and independent Board exercising objective judgement (Principle 2)

The current Board comprises eight directors, six of whom are non-executive independent directors. The Board's non-executive Chairman is Mr Seah. Tang Kin Fei, who is the Group President & CEO, is

the sole executive director. Objectivity on issues deliberated by the Board is assured given that the majority of the Board comprises non-executive directors who are independent of Management and independent in terms of character and judgement.

The Nominating Committee (NC) ensures that the Board is the appropriate size and comprises members with a balance of skill and experience. The Board Members comprise business leaders, professionals with financial backgrounds, practising lawyers and a member of the public sector. Profiles of the directors are found on page 44 to 45.

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

Chairman and Chief Executive Officer (Principle 3)

To ensure an appropriate balance of power and authority, such that no one individual represents a considerable concentration of power, the role of the Chairman and the Group President & CEO is separate. The Chairman, Mr Seah and the Group President & CEO, Mr Tang, are not related to each other.

The Chairman, who is non-executive, facilitates and ensures active and comprehensive Board discussions on matters brought to the Board and monitors the

translation of the Board's decisions into executive action. Meanwhile, the Group President & CEO executes the Board's decisions and is responsible for implementing the Group's strategies and policies and the conduct of the Group's business.

Formal appointment and re-election of directors (Principle 4)

SembCorp Industries subscribes to the principle that all directors including the Group President & CEO shall retire and submit themselves for re-election at regular intervals, subject to continued satisfactory performance. The Company's Articles of Association require one-third of directors to retire and subject themselves to re-election by shareholders at every Annual General Meeting (AGM) (one-third rotation rule).

Prior to seeking shareholders' approval at the AGM, the NC reviews and considers the retirement and re-election of directors. In addition, a newly appointed director submits himself for retirement and election at the AGM immediately following his appointment. Thereafter, he is subject to the one-third rotation rule.

Every year, the NC reviews the independence of directors. The directors are required to complete and return a Director's Independency Questionnaire for review by the NC, which then assesses the independence of each director based on the criteria in the Code.

The boards of companies within the SembCorp Group are periodically renewed to ensure strong and sound leadership at the board level, enabling a refreshing of talent as well as encouraging the dynamics of an independent and balanced board. The NC supports and advises the Company, its major subsidiaries and, where applicable,

BOARD MEMBERS FOR 2006

Director	Position held on the Board	Date of first appointment to the Board	Date of last re-election as director	Nature of appointment
Peter Seah Lim Huat	Chairman	July 29, 1998	April 26, 2005*	Non-executive/Non-independent
Tang Kin Fei	Director	May 1, 2005	April 27, 2006	Executive/Non-independent
K Shanmugam	Director	July 29, 1998	April 27, 2006	Non-executive/Independent
Goh Geok Ling	Director	May 3, 2000	April 27, 2006	Non-executive/Independent
Richard Hale, OBE	Director	September 1, 2000	April 27, 2006	Non-executive/Independent
Yong Ying-I	Director	May 26, 2003	April 30, 2004*	Non-executive/Independent
Evert Henkes	Director	April 30, 2004	April 26, 2005*	Non-executive/Independent
Lee Suet Fern	Director	July 1, 2005	April 27, 2006	Non-executive/Independent
<i>Lua Cheng Eng</i>	<i>Director</i>	<i>July 29, 1998</i>	<i>April 26, 2005</i>	<i>Non-executive/Independent</i>
<i>Vacated office of Director on February 14, 2006</i>				
<i>Vichit Suraphongchai</i>	<i>Director</i>	<i>July 21, 2003</i>	<i>April 30, 2004</i>	<i>Non-executive/Independent</i>
<i>Resigned on May 8, 2006</i>				
<i>Colin Au Fook Yew</i>	<i>Director</i>	<i>April 30, 2004</i>	<i>April 26, 2005</i>	<i>Non-executive/Independent</i>
<i>Resigned on November 6, 2006</i>				

* Up for re-election at AGM

associated companies by nominating suitable board candidates who would maintain a board's balance of skills, knowledge and experience. Appointments to these boards are made on merit and against objective criteria. Candidates must be able to discharge their responsibilities as directors while upholding the highest standards of governance practiced by the Group. The NC takes care to ensure that appointees have enough time available to devote to their directorship roles.

Mr Seah chairs the NC, and the members are K Shanmugam and Mr Goh. The NC Chairman is regarded as non-independent, with reference to the definition of "independence" under the Code, and is associated with a substantial shareholder by virtue of his position on the Advisory Panel of Temasek Holdings (Private) Limited, a substantial shareholder of the Company. Notwithstanding this, the Board believes that the NC Chairman's

ability to exercise strong independent judgement in his deliberations and act in the best interests of the Company is not compromised, as his appointment on the Advisory Panel of Temasek Holdings is non-executive in nature and he is not involved in the day-to-day conduct of Temasek Holdings' business.

Pursuant to the one-third rotation rule, Mr Seah, Evert Henkes and Yong Ying-I will each submit themselves for retirement and subject to re-election by the shareholders at the forthcoming AGM.

BOARD PERFORMANCE AND CONDUCT OF ITS AFFAIRS

Active participation and valuable contributions are key to overall effectiveness of the Board (Principle 5)

Informal assessment of the Board's performance is undertaken by the NC with inputs from the other Board Members and the Group President & CEO. The Board is

BOARD AND COMMITTEE COMPOSITION

Board Member	Executive Committee	Audit Committee	Budget Committee ¹	Executive Resource & Compensation Committee	Nominating Committee	Risk Committee
Peter Seah Lim Huat	Chairman			Chairman	Chairman	
Tang Kin Fei						
K Shanmugam		Member		Member	Member	Member
Goh Geok Ling	Member			Member	Member	
Richard Hale ² , OBE		Chairman				Chairman
Yong Ying-I ³		Member	Chairman			Member
Evert Henkes						
Lee Suet Fern		Member				Member
Lua Cheng Eng ⁴		Chairman				Chairman
Vichit Suraphongchai ⁵			Member			
Colin Au Fook Yew ⁶	Member					

¹ Dissolved on July 18, 2006. Duties have been assumed by Executive Committee

² Appointed as Chairman of Audit and Risk Committees on February 14, 2006

³ Appointed as Member of Audit and Risk Committees on July 18, 2006 and November 20, 2006 respectively

⁴ Vacated office of Director on February 14, 2006

⁵ Resigned as Director and Member of Budget Committee on May 8, 2006

⁶ Resigned as Director and Member of Executive Committee on November 6, 2006

periodically renewed to ensure strong, independent and sound leadership for the continued success of the business and the Company. The Board recognises the contribution of directors who, over time, have developed deep insights into the Group's businesses. As such, the Board would exercise its discretion to retain the services of such directors.

The NC feels that the financial indicators, set out in the Code as guides for the evaluation of directors are more a measure of the Management's performance and therefore are less applicable to directors. The NC believes that Board performance is ultimately reflected in the long-term performance of the Group.

The NC and Executive Resource & Compensation Committee (ERCC) held two meetings in the year and achieved an average of 83.3% attendance.

FULL ACCESS TO INFORMATION AND RESOURCES

Directors have complete, adequate and timely information and resources (Principle 6)

The Management provides adequate management and operation reports and financial statements of the Group to the Board on a regular basis. As a general rule, Board and Board Committee papers are sent to directors at least four days before the meeting so that the directors may better understand the matters prior to the meeting and discussion may be focused on questions that the Board or Committee has about the matters. Senior management who can provide insight into the matters at hand would be present at the relevant time during the meetings.

Quarterly financial highlights of the Group performance and developments are

presented at Board meetings. The Group President & CEO, Group Chief Financial Officer and senior management are also present to address queries the Board may have. The Company Secretary assists the Chairman with the preparation of meeting agenda and administers, attends and prepares minutes of Board proceedings, ensuring good information flow within the Board and its Committees. She assists the Board on the compliance of the Group with its Memorandum and Articles of Association, laws and regulations, including requirements of the Companies Act, Securities Futures Act and the SGX-ST. She is also the primary channel of communication between the Company and the SGX-ST, the Accounting and Corporate Regulatory Authority and shareholders. The Management also assists the Board to implement and strengthen good corporate governance practices and processes across the Group.

The Board has separate and independent access to the Group President & CEO, senior management, Company Secretary and internal and external auditors at all times. Directors are also provided with the names and contact details of the Company's senior management and the Company Secretary to facilitate direct access to them. The Board exercises its discretion to seek independent professional advice if deemed necessary to ensure that full information and advice is available before important decisions are made.

COMPETITIVE REMUNERATION SYSTEM

Remuneration of directors adequate and not excessive (Principle 7)

The ERCC is chaired by Mr Seah and its members are Mr Goh and Mr Shanmugam. The ERCC is responsible for ensuring a

formal procedure for developing and reviewing policies on compensation and development of the Group's senior management. It assists the Board to ensure that competitive remuneration policies and practices are in place to attract, motivate and retain talented executives. The ERCC also reviews the remuneration of the non-executive directors and executive director.

The ERCC reviews the leadership pipeline for the organisation and development of its senior staff and assesses their strengths and development needs based on the Group's leadership competencies framework. The ERCC also reviews the succession plans for key positions in the Group.

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

The ERCC also establishes guidelines on share options, share awards and other long-term incentive plans and approves the grant of such incentives to key executives. The underlying philosophy is to motivate executives to maximise operating and financial performance and shareholder value as well as to align the interests of the executives and shareholders.

Whenever there is a need to consult externally the ERCC has access to expert professional advice on human resource matters. In its deliberations, the ERCC takes into consideration industry practices and norms of compensation. The Group President & CEO is not present during the discussions relating to his own compensation, terms

and conditions of service or the review of his performance.

While the Chairman of the ERCC is not regarded as independent within the context of the definition of “independence” in the Code, he is a non-executive director independent of Management with a clear separation of his role from Management in deliberations of the ERCC. No ERCC member or any director is involved in deliberations in respect of any remuneration, compensation, options or any form of benefits to be granted to himself.

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

The Group President & CEO, as executive director, does not receive director’s fees. As a lead member of Management, his compensation consists of his salary, allowances, bonuses, share options, performance share awards and restricted stock awards conditional upon meeting certain performance targets. Details on the share option grants, performance share awards and restricted stock awards and the performance targets are available from page 97 to 104 and page 135 to 145.

Non-executive directors have remuneration packages that consist of a director’s fee component pursuant to the Company’s Directors’ Fee Policy, an attendance fee component and a share options component pursuant to the Company’s Employee Share Plan. The Company does not have a retirement remuneration plan for non-executive directors. The Directors’ Fee Policy is based on a scale of fees divided into basic retainer fees and additional fees for attendance and service on Board Committees. The basis of allocation of

the number of share options takes into account a director’s contribution and additional responsibilities on Board Committees. Details on share options granted to the non-executive directors and their fair value are available on page 100 and 140 respectively.

Key executives are rewarded based on actual performance relative to pre-agreed performance targets, which include financial and non-financial performance indicators such as Economic Value Added (EVA), total shareholder return and promoting and maintaining health, safety and environment issues. The Group believes that the current reward systems are in line with market norms and formulated to motivate executives to give their best to the Group. Rewards include both short-term and long-term share-based awards, which would further ensure the retention of the most talented and high performing executives in the Group.

The Group has an incentive compensation plan for key executives that is tied to the creation of EVA as well as to attainment of individual and Group performance goals. 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.

Disclosure on remuneration (Principle 9)

To retain and motivate high calibre directors from Singapore and overseas to help the Group particularly in its overseas expansion, the Company needs to compensate its

directors in keeping with international standards. This is reviewed regularly. The directors' fees are subject to the approval of shareholders at the AGM. The report on directors' remuneration is found on page 206.

The directors' fees were S\$895,332 in 2006 (S\$643,083 in 2005) and were derived using the following rates:

DIRECTORS' FEES BY TYPE OF APPOINTMENT

	S\$
Board of Directors	
– Basic fee	50,000
– Chairman's allowance	45,000
– Vice Chairman's allowance	25,000
Executive Committee	
– Chairman's allowance	40,000
– Member's allowance	25,000
Audit Committee	
– Chairman's allowance	40,000
– Member's allowance	25,000
Budget Committee	
– Chairman's allowance	25,000
– Member's allowance	15,000
Executive Resource & Compensation Committee/Nominating Committee	
– Chairman's allowance	25,000
– Member's allowance	15,000
Risk Committee	
– Chairman's allowance	25,000
– Member's allowance	15,000

Notes:

Tang Kin Fei, as an executive director, did not receive director's fees.

Yong Ying-I, as a public sector nominee, received a reduced allowance for her directorship and membership of the Board and Audit, Budget and Risk Committees.

The Executive Resource & Compensation Committee and the Nominating Committee have the same members, who receive one payment for service on both committees.

The directors also receive attendance fees of S\$2,000 (in-country) and S\$10,000 (out-country) for each Board Meeting; and S\$1,000 (in-country) and S\$10,000 (out-country) for each Committee Meeting.

Rather than setting out the names of the top key executives who are not directors of the Company, the remuneration table shows the number of key executives in remuneration bands of S\$250,000 from S\$100,000 upwards. These key executives are the CEOs of the subsidiaries, namely SembCorp Marine and SembCorp Environmental Management, as well as Executive Chairman of SembCorp Parks Holdings, Executive Vice President of SembCorp Utilities, Executive Vice President of SembCorp Utilities (UK), Group Chief Financial Officer and Executive Vice President, Group Performance Management & Ventures. This gives a macro perspective of the remuneration profile in the Group while maintaining the confidentiality of staff remuneration.

REMUNERATION BANDS FOR KEY EXECUTIVES

Remuneration band (S\$)	No. of employees
1,750,000 and above	3
1,500,000 to 1,749,999	–
1,250,000 to 1,499,999	–
1,000,000 to 1,249,999	1
750,000 to 999,999	2
500,000 to 749,999	1
250,000 to 499,999	–
100,000 to 249,999	–

The Board is accountable to the shareholders (Principle 10)

SembCorp is committed to open and honest communication with shareholders at all times. Shareholders are provided with quarterly and annual financial reports in a timely manner. The date of the release of quarterly results is disclosed a week prior to the date of announcement through SGXNET.

Audit Committee (AC) (Principle 11)

The Audit Committee (AC) comprises four independent directors and is chaired by Richard Hale, OBE, who took over as AC Chairman from Lua Cheng Eng from February 14, 2006. The other members are Mr Shanmugam, Lee Suet Fern and Ms Yong, who joined on July 18, 2006. During the year, the AC held six meetings. All members of the AC participated actively at meetings either by attendance or through teleconferencing.

The AC assists the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices of the Group.

The main responsibilities of the AC are to review the Company's policies and control procedures with the external auditors, internal auditors and Management and act in the interest of the shareholders in respect of interested person transactions as well as any matters or issues that affect the performance of the Group. The AC reviews the quarterly, half-yearly and annual result announcements as well as the financial statements of the Group and Company before they are submitted to the Board for approval.

Annually, the AC also reviews and recommends the appointment of the Company's external auditors. The AC meets the external and internal auditors at least once a year without the presence of Management.

The AC has the authority to investigate any matter within its terms of reference. It has full access to Management and received their co-operation in the year.

Having reviewed the nature and extent of non-audit services provided by the external auditors to the Group for the year–

excluding SembCorp Marine, a listed subsidiary that has its own audit committee–the AC is satisfied that the provision of non-audit services by the external auditors did not impair their independence as external auditors. Details of the non-audit fees payable to the external auditors are found on page 183.

It is the Company's objective to instil and enhance strong corporate governance practices across the Group. In pursuit of this objective, the Company has a whistle-blowing policy to encourage all employees within the Group to report any possible impropriety in financial reporting or other matters that they may encounter to the AC or any other committee established by the AC for such purpose. The Company does not condone any retaliatory action taken against any employee that has filed any complaint alleging possible impropriety and may institute disciplinary action against any person found to have taken retaliatory action.

Internal control and risk management (Principle 12)

The Board and Management of the Company are fully committed to a robust system of internal controls and risk management.

The Risk Committee (RC) is chaired by Mr Hale, OBE and includes independent directors, Mr Shanmugam, Mrs Lee and Ms Yong as members. The primary role and function of the RC is to assist the Board in fulfilling its oversight responsibility of risk management by reviewing the adequacy and effectiveness of the risk management plans, systems, processes and procedures of the Group; the Group-wide risk policies, guidelines and limits and the risk portfolio and risk levels including the treatment of identified risks.

The RC held four meetings in 2006 and achieved an average of 85.4% attendance.

For more information on the progress of the Company's Enterprise Risk Management system, please refer to page 62.

INTERNAL AUDIT

Independent internal audit function (Principle 13)

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

GIA adopts a risk-based methodology in defining its annual internal audit plan, which is reviewed and approved by the AC. The internal audits performed are aimed at assisting the Board and Management in the discharge of their corporate governance responsibilities as well as improving and promoting effective and efficient business processes within the Group. To ensure that the internal audits are performed by competent professionals, GIA employs qualified staff and identifies and provides training and development opportunities for them so that their technical knowledge remains current and relevant. GIA is guided by the standards for the professional practice of internal auditing developed by the Institute of Internal Audit Inc. and has incorporated these standards into its audit practices.

COMMUNICATION WITH SHAREHOLDERS

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

All SembCorp Industries' price-sensitive information is disseminated to its shareholders via SGXNET. Disclosure is

never done on a selective basis. Financial and other performance data is given for the Group as well as for business units, where appropriate, to give shareholders a better insight into the Group's performance. For the release of financial statements, the press release of the results announcement is first released by SGXNET onto the SGX-ST website. Thereafter, a briefing or teleconference by Management is jointly held for the media and analysts. All materials used at the briefing, including the presentation slides, are made available on SGXNET as well as on the Company website at www.sembcorp.com.sg.

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

In compliance with the revised SGX-ST Listing Rule 705, a negative assurance statement was issued by the Board to confirm that, to the best of its knowledge, nothing had come to the attention of the Board, which may render the Company's third quarter and nine months unaudited financial results ended September 30, 2006 to be false or misleading.

Greater shareholder participation at General Meetings (Principle 15)

The Company encourages shareholder participation at general meetings. Information on shareholder meetings is disseminated through notices published in local newspapers as well as through reports or circulars sent to all shareholders. All registered shareholders are invited to participate in shareholder meetings. The

Company's Articles of Association allow all shareholders the same right to appoint up to two proxies to attend and vote on the behalf of the shareholders.

The Company also allows CPF investors to attend general meetings as observers.

At General Meetings, the Board and Management are present to address questions from shareholders. The external auditors are also present to assist the Board. Minutes of shareholder meetings are available on request for registered shareholders.

For further details on SembCorp Industries' communications with its shareholders, see the Investor Relations section on page 68.

DEALINGS IN SECURITIES

The Company has adopted a Code of Compliance on Dealing in Securities, which prohibits dealings in the Company's securities by its directors and senior management for two weeks prior to the announcement of the Company's quarterly results. Directors and senior management are also expected to observe insider trading laws at all times even when dealing in the Company's securities within the permitted trading period.

INTERESTED PERSON TRANSACTIONS

Shareholders have adopted a Shareholders Mandate (Mandate) in respect of interested person transactions of the Company. The Mandate defines the levels and procedures to obtain approval for such transactions. Information regarding the Mandate is available on the Company's website, www.sembcorp.com.sg. All SBUs are required to be familiar with the Mandate and report any such transaction

to the Company. The Group Reporting and Policies Department maintains a register of the Company's interested person transactions in accordance with the reporting requirements stipulated by Chapter 9 of the SGX-ST Listing Manual. Information on interested person transactions for 2006 may be found on page 207.



SembCorp Utilities at Wilton International
in the United Kingdom

RISK MANAGEMENT & MITIGATION STRATEGIES

The Group is fully committed to its robust system of internal controls and risk management.

The Group manages risk under an overall strategy determined by the Board of Directors and supported by the Board Risk Committee and an Internal Audit department. Formed in August 2003 to assist the Board of Directors, the Board Risk Committee, comprising four directors, reviews and enhances the effectiveness of the Group's risk management plans, systems, processes and procedures. The Board Risk Committee also reviews the Group-wide risk policies, guidelines and limits as well as the risk exposure and risk treatment plans.

ENTERPRISE RISK MANAGEMENT

In 2003, the Group Risk Management Department was formed to develop a coherent Enterprise Risk Management framework for implementation across the Group under the direction of the Board and Management. In line with the Group's commitment to deliver sustainable value, the objective of this risk framework is to provide a comprehensive approach to identifying and managing the risks that our businesses face. This framework applies to the action of all employees of the Group and is implemented at each operating unit. Within this framework, critical and major risks of the Group and the operating units are identified and assessed to determine the appropriate type of risk treatment plans to be implemented and are monitored at the Group level as well as by each Strategic Business Unit (SBU).

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

- Identification and assessment of all risks
- Formulation of risk management strategies
- Design and implementation of risk management action plans to execute risk management strategies
- Monitoring and reporting of risk management performance and risk exposure levels
- Continuous improvement of risk management action plans and capabilities

These processes are put in place to manage and monitor the Group risk management activities on a regular and timely basis.

SYSTEM OF FINANCIAL DISCIPLINE

Since 2003, a systematic approach has been in place for SembCorp Industries and its subsidiaries to ensure financial discipline across the Group. We have set up a self-check, review and certification process called the System of Financial Discipline for all subsidiaries to confirm their commitment to and compliance with a prudent financial discipline framework. The framework provides for management at various levels in the SBUs to systematically review and ensure compliance with the requirements of new accounting standards and the treatment of transactions and ensures that acceptable accounting policies

are followed. It allows early identification of areas of potential exposure that can be addressed to minimise adverse impact to the Group as well as ensure the adequacy of provisions made in the accounts.

SBU operating and finance heads are required to review, report and ensure adequate provisioning for project losses, asset impairment, significant long outstanding debtors, significant inter-company balances, contingent liabilities, fraud incidents and any transactions and/or events with material impact or potential material impact on the SBU's financial results. These financial impacts (if any) are reported on a quarterly basis to SembCorp Industries and accounted for in the interim accounts of the respective SBU.

SBUs are also required to complete the review and certification of financial discipline for revenue recognition, cost recognition, profit or loss recognition, recognition of liabilities, recognition of assets, consolidation and internal controls.

WHISTLE-BLOWING

Since 2005, SembCorp Industries has had a whistle-blowing policy and procedures, which provide employees with well-defined and accessible channels within the Group through which they may, in confidence, raise concerns about possible improprieties in matters of business activities, financial reporting or other matters to the Audit Committee. This arrangement facilitates independent investigation of such matters for appropriate resolution.

INTERNAL AUDIT

The Group also has an Internal Audit department, which focuses on providing an independent resource and perspective to both the Board and the Audit Committee

on the processes and controls that help to mitigate major risks.

The Group has the following types of risks:

- a. Financial risk
- b. Operational risk
- c. Investment risk
- d. Compliance and legal risk
- e. Interested person transaction risk
- f. Human resource risk

MITIGATION STRATEGIES

a. Financial risk management

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 operational, 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.

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.

Foreign exchange risk

The Group operates globally and is exposed to foreign currency exchange rate movement primarily for US dollar, pound sterling, euro, Australian dollar and Chinese yuan currencies on sales and purchases of assets and liabilities, which arise from daily operations. 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.

Commodity risk

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

Credit risk

The Group monitors its exposure to credit risk 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.

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.

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.

b. Operational risk management

Operational risk, which is inherent in all business activities, is the risk of potential financial loss and/or business instability arising from failures in internal controls, operational processes or the systems that support them.

It is recognised that operational risk can never be entirely eliminated and that the cost of minimising it may outweigh the potential benefits. Accordingly, the Group manages operational risk by focusing on risk management and incident management. The Group has also put in place operating manuals, standard operating procedures, delegation of authority guidelines and a regular reporting framework, which encompasses operational and financial reporting. The framework provides for management at various levels in the SBUs to systematically review and ensure compliance with the requirements of new accounting standards and the treatment of transactions and ensures that acceptable accounting policies are followed. It allows early identification of areas of potential exposure, which can be addressed to minimise adverse impact to the Group as well as ensuring the adequacy of provisions made in the accounts. To reinforce the implementation of the Group's risk strategy by the operating units, independent checks on risk issues are undertaken by the Internal Audit function. Where appropriate, this is supported by risk transfer mechanisms such as insurance.

Insurance

With regards to insuring against catastrophic risk events, it is not practicable to insure every risk event to the fullest extent as the insurance market may lack the capacity,

both as to breadth and cost of coverage, and in some cases external insurance is simply unavailable or is not available at an economic price. The Group regularly reviews both the type and amount of insurance coverage that it buys, bearing in mind the availability of such cover, its price and the likelihood and magnitude of the risks involved.

During the year, the Group established a wholly-owned captive insurance subsidiary, SembCorp Captive Insurance Pte Ltd, to carry out general insurance under section 8 of the Insurance Act (Cap. 142) and to insure certain risks of the group that the Management deems to be more effectively insured by the Captive. Marsh Management Services Pte Ltd has been appointed as the captive management company. The Group has also arranged a global insurance programme for property damage, business interruption and public liability for the Group's operations in Singapore and the UK and maintains insurance levels determined to be appropriate in the light of the cost of cover and risk profiles of the businesses.

The Captive essentially participates in the property damage and business interruption portion of this global insurance programme as a reinsurer, with the Captive retaining maximum exposure of S\$2.5 million for each and every loss with an annual maximum of S\$5 million in aggregate in excess of the existing retentions of the business entities within the Group.

c. Investment risk management

The Group's capital investment decision process is guided by investment parameters instituted on a Group-wide basis. All investments are subject to rigorous scrutiny to ensure that they meet the relevant hurdle rates of return and country limits,

and all of the relevant risk factors, such as operating currency and liquidity risks, are taken into consideration.

In addition, the Board requires that each major investment proposal submitted to the Board for decision is accompanied by a comprehensive risk assessment and Management's proposed mitigation strategies.

d. Compliance and legal risk management

The Group's operations are subject to regulation and future changes in regulation that could adversely affect results, particularly in the areas of competition law, taxation policy, consumer protection and environmental law. The responsibility of compliance with applicable laws and regulations lies with the respective operating business heads, and oversight of the discharge of their responsibilities is provided by Group Legal Department.

Legal risk is the risk that the business activities of the Group have unintended or unexpected legal consequences. It includes risks arising from:

- Actual or potential violation of laws or regulations (which may attract a civil or criminal fine or penalty)
- Inadequate documentation, legal or regulatory incapacity, insufficient authority of a counterparty and uncertainty about the validity or enforceability of a contract in a counterparty insolvency
- Failure to protect the Group's property (including its interests in its premises and its intellectual property such as the SembCorp Industries and related logos, brand names and products)
- The possibility of civil claims (including acts or other events that may lead to litigation or other disputes)

The Group identifies and manages legal risk through effective use of its internal and external legal advisers. The internal Legal department assists in identifying, monitoring and providing the support necessary to identify and manage legal risks across the Group.

e. Interested person transaction risk management

In respect of transactions entered into by the Group, its subsidiaries and associated companies that are "entities at risk" (the EAR Group), with its Interested Persons (namely its controlling shareholders, Chief Executive Officer, Directors and their respective associates), the Group is guided by and complies with the provisions of Chapter 9 of the Singapore Exchange Securities Trading Limited's Listing Manual, to ensure that such Interested Person Transactions (IPT) are entered into on an arm's length basis and on normal commercial terms, which are generally no more favourable than those extended to unrelated third parties.

The Group has internal control procedures to ensure that transactions carried out with Interested Persons comply with the provisions of Chapter 9 and SembCorp Industries' Shareholders' Mandate. This Mandate is renewed on an annual basis and will be updated at the extraordinary general meeting to be convened on April 23, 2007. These internal control procedures are intended to ensure that IPT are conducted at arm's length and on normal commercial terms that are not prejudicial to the interests of minority shareholders.

The Group maintains a register of all IPT, recording the basis, including the quotations obtained to support such basis, on which

they are entered into. The Group's annual internal audit plan incorporates a review of all IPT for the relevant financial year.

The Audit Committee periodically reviews Internal Audit's IPT reports to ascertain that the guidelines and procedures on IPT have been complied with. The review includes the examination of the nature of the IPT and its supporting documents or other such information deemed necessary by the Audit Committee. If a member of the Audit Committee has an interest in an IPT, he or she abstains from participating in the review and approval process of that IPT.

f. Human resource risk management

In order to develop, support and market the products and services offered by the Group, it is necessary to hire and retain skilled employees with particular expertise. The implementation of the Group's strategic business plans could be undermined by failure to recruit or retain key personnel, the unexpected loss of key senior employees or failure in the Company's succession planning.

In this respect, the Group places great emphasis on establishing comprehensive human resource policies for the recruitment, compensation and development of staff. This ensures that the Group's human assets are nurtured and retained, so that the ability to maintain a skilled workforce and the Group's competitive edge is preserved. The Board Executive Resource & Compensation Committee has oversight of the Group's remuneration policies and oversees management, development and succession plans for key Management positions.

We are committed to provide meaningful information to enable all capital market players to make informed investment decisions.

As 2006 marked a watershed year for SembCorp, the investor relations team focused on communicating to the market how SembCorp has transformed from a company with 15 businesses at its formation in 1998 to a group focused on utilities and marine & offshore engineering. In addition, we directed the financial community's attention to the improvement of our risk profile, with the full and final settlement of the long-standing Solitaire arbitration in 2006. We also continued to communicate the Group's strategy as well as its investment proposition of stability and growth. Our businesses, backed by long-term contracts and a strong orderbook, offer quality earnings as well as growth potential. We are well positioned to tap key markets and capitalise on emerging and favourable industry growth trends, such as those in the offshore oil and gas sector and in the outsourcing of utilities.

COMMUNICATION WITH THE FINANCIAL COMMUNITY

We continued to maintain open communication channels with the financial community. During the year, we held over 150 one-on-one and group meetings with shareholders, analysts and potential investors. These included non-deal marketing roadshows in major financial centres. In Asia, we covered Hong Kong and Tokyo; in the USA, Boston; and in Europe, London,

Frankfurt, Edinburgh and other cities. We also participated in three investor conferences during the year: the Citigroup Asean Mini Conference in New York, the 13th Annual CLSA Investor Forum in Hong Kong and Morgan Stanley's Asia Pacific Summit 2006 in Singapore.

In September, we organised an educational session on our UK utilities operations with a special focus on green energy initiatives. The session was conducted in Singapore by the senior management of SembCorp Utilities UK and was attended by both sell-side and buy-side participants.

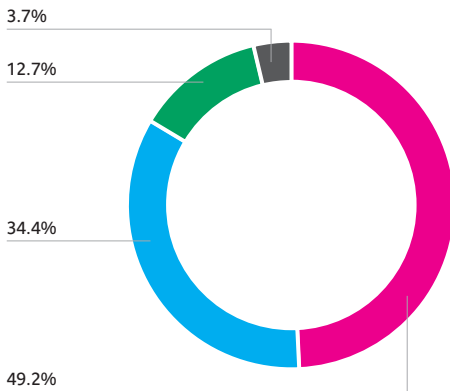
TOTAL SHAREHOLDER RETURN

SembCorp Industries' shares continued to perform well in 2006. Our shares began the year at S\$2.80 and closed at S\$3.84 on the last trading day of the year. This represents a share price return of 37% and a total shareholder return of 44%, outperforming the Straits Times Index's total return of 27%.

The share price averaged S\$3.32, closed at a low of S\$2.77 on June 14 and hit a high of S\$3.98 on December 11. Daily turnover averaged 3.4 million shares in 2006.

SHAREHOLDER INFORMATION

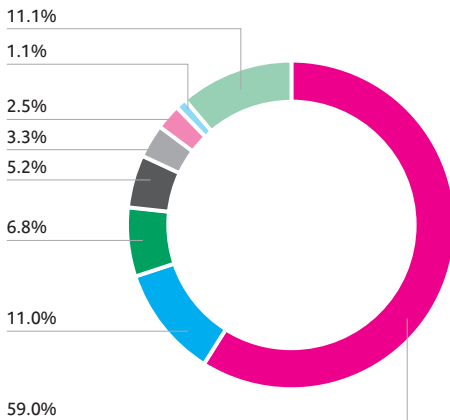
As at December 29, 2006, other than Temasek Holdings, institutional shareholders collectively remained the largest shareholder group, holding 34.4% of issued share



SHARE OWNERSHIP BY INVESTOR CATEGORY

- Strategic
- Institutional
- Retail and shareholders holding less than 100,000 shares
- Others

As at December 29, 2006



SHARE OWNERSHIP BY GEOGRAPHICAL DISTRIBUTION

- Singapore
- UK
- USA
- Hong Kong
- Other Europe (excluding UK and Germany)
- Germany
- Japan
- Others*

* Includes shares held in countries not listed above and individual shareholdings of less than 100,000 shares

As at December 29, 2006

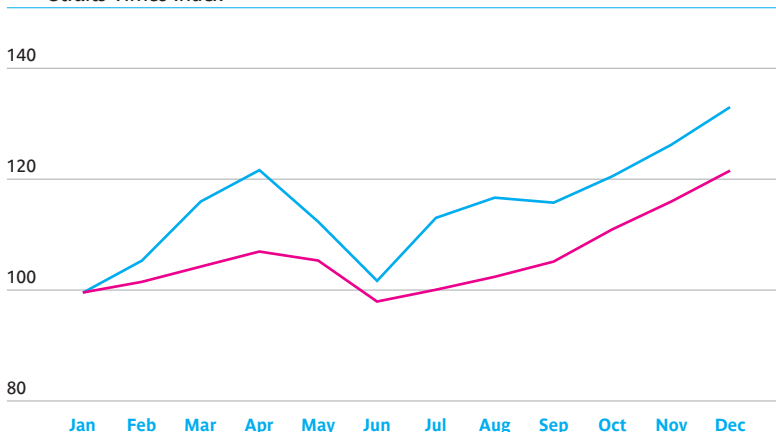
capital or 67.5% of free float, compared to 60.0% of free float in 2005. Retail shareholders, including shareholders holding less than 100,000 shares, and others held the remaining 16.4% of issued share capital or 32.5% of free float.

In terms of geographical distribution, other than the stake held by Temasek Holdings, the UK accounts for the largest

number of shares held, with 11.0% of issued share capital, followed by Singapore at 9.8% and the USA at 6.8%. The UK also accounted for the highest growth in shareholding, which increased from 9.0% to 11.0% of issued share capital. This was followed by Hong Kong, which increased from 4.6% to 5.4% of issued share capital.

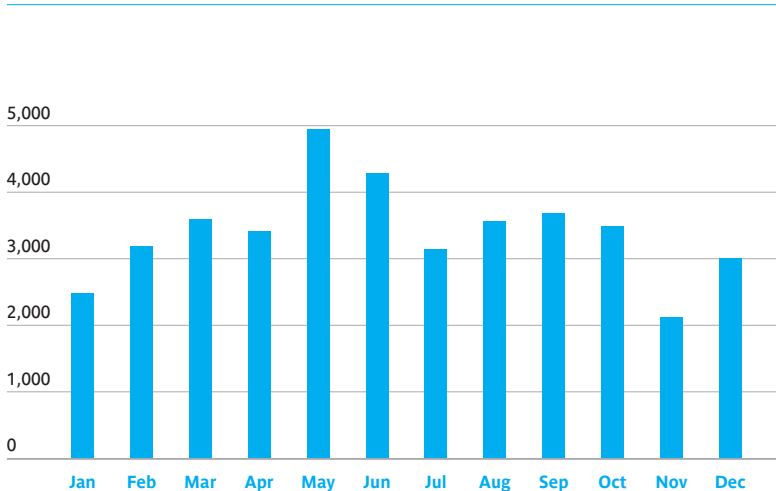
AVERAGE MONTHLY SEMBCORP INDUSTRIES SHARE PRICE AND STRAITS TIMES INDEX IN 2006 (REBASED)

— SembCorp Industries' average closing share price
— Straits Times Index



	Share Price (S\$)	Straits Times Index
January	2.87	2,391.83
February	3.04	2,439.63
March	3.34	2,502.31
April	3.50	2,567.33
May	3.23	2,529.12
June	2.93	2,354.91
July	3.26	2,404.80
August	3.36	2,458.83
September	3.33	2,524.92
October	3.47	2,660.96
November	3.63	2,779.41
December	3.82	2,913.07

AVERAGE MONTHLY TRADE VOLUME OF SEMBCORP INDUSTRIES' SHARES IN 2006 ('000)



	Volume ('000)
January	2,469
February	3,173
March	3,591
April	3,407
May	4,931
June	4,277
July	3,142
August	3,555
September	3,670
October	3,474
November	2,109
December	2,996



Jack-up rig built by SembCorp Marine's shipyard in Singapore

SembCorp recognises that investing in our people is critical to our success and sustainability as a company.

At SembCorp, we place great emphasis on managing employees as a vital resource and as key stakeholders, and this year was no exception. Measures were taken to improve people development, with new programmes to train, develop and build managers. We also strengthened employee engagement, with a new employee feedback system coming on-line, and the extension of our restricted stock incentive plan to employees other than senior management for the first time.

PEOPLE DEVELOPMENT

SembCorp recognises that investing in our people is critical to our success and sustainability as a company. In Singapore, SembCorp Industries continued to hold the *People Developer* award, Singapore's quality standard for human resource development for organisations that nurture their staff for better business results. SembCorp Utilities in the UK also retained the prestigious *Investors in People* standard in 2006, following a rigorous audit.

Our operations staff are encouraged to continually upgrade their technical competence to keep pace with the evolving environment as well as technological advancements, ensuring that SembCorp maintains its competitive advantage. Besides structured training, informal learning sessions, such as internal employee meetings on workplace health and safety, are also encouraged. In 2006, S\$5.5 million was devoted to train employees on a broad range

of technical, supervisory and professional skills relevant to their areas of work, with each employee receiving an average of 35 hours of training.

Staff are also given opportunities to widen their operational expertise through overseas postings. For instance, SembCorp Utilities and SembCorp Environmental Management sent seven staff to China and three to Vietnam, while one employee from SembCorp Utilities was posted from China to Singapore. Following our acquisition of a power and water plant in Fujairah, UAE, a team of nine staff from SembCorp Utilities and SembCorp Industries in Singapore was posted there.

LEADERSHIP DEVELOPMENT AND TALENT IDENTIFICATION

We further strengthened our leadership development in 2006, with the implementation of several new initiatives within SembCorp Industries and our unlisted subsidiaries.

With the adoption of 360-degree feedback assessments for senior management this year, feedback from superiors, subordinates, peers and other partners such as customers contributed to more holistic assessments and helped us to better build on the competencies of our leadership team. This strengthening of the appraisal process for senior management also aids our succession planning for key positions.

Two new specialised training programmes for managers were also launched. An intensive

two-day behavioural analysis and communication workshop for all heads of department was held to aid them in managing others and forming productive working relationships. In addition, a year-long skills-based programme for new managers was introduced to prepare them for the complex transition to a managerial position.

Besides our commitment to training and nurturing the abilities of our employees, we also plan for our future leadership pipeline through the continuous identification and grooming of young talented people. In 2006, SembCorp awarded a total of eight scholarships to outstanding GCE 'A' level students in Singapore, who will join us on completion of their studies. Into its 17th year, the SembCorp Scholarship programme currently manages 53 scholars (31 working and 22 studying) across various business units and in various stages of their studies and careers.

EMPLOYEE ENGAGEMENT

Employee engagement plays a significant role in organisational performance, as engaged employees are more committed to the productivity, quality and growth of the organisation. They are also instrumental in contributing to the development of working environments where people behave in an ethical and accountable manner. With the goal of increasing employee engagement, several initiatives were rolled out across SembCorp Industries, SembCorp Utilities and SembCorp Environmental Management in 2006.

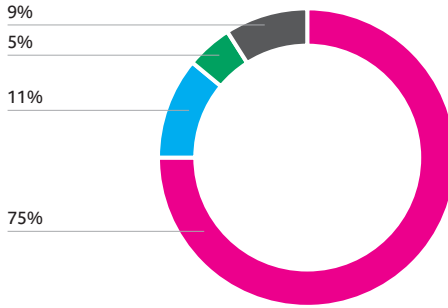
In April, we conducted an organisational culture survey at our corporate headquarters. The aim of this exercise was to provide insight into staff perceptions of the overall culture and climate of our organisation.

The participation rate was an encouraging 65%. Workshops, which included staff from SembCorp Utilities and SembCorp Environmental Management, were then conducted to validate the findings and for staff to put forth further feedback and suggestions. A number of these ideas have since been implemented or are being considered.

One early result of the workshops was the introduction of an accessible and confidential feedback portal, available to all corporate staff, on the staff intranet homepage. While we had previously maintained informal channels for employee feedback, the portal has raised awareness of the various channels and also clearly demonstrates that we welcome feedback. Employees can submit feedback or suggestions on any subject via e-mail from the portal. They can also submit feedback anonymously by fax or post if they prefer. All feedback is acknowledged, treated confidentially and responded to within five days. Any feedback left unaddressed for two weeks is automatically brought to the attention of the Group President & CEO.

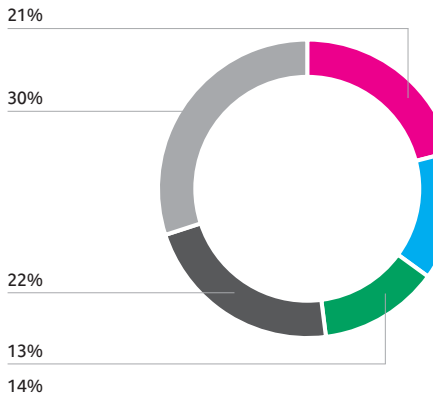
We continue to reward employees who contribute to the growth of SembCorp Industries by giving them an opportunity to earn equity in SembCorp. Share options are granted to all eligible staff, excluding employees of subsidiaries with share option plans of their own. We believe this scheme fosters a sense of ownership and identification with the company.

In addition to this, in 2006 the company extended its restricted stock incentive plan to managerial employees. This marked the first time that restricted stock awards have been granted to employees other than senior management.



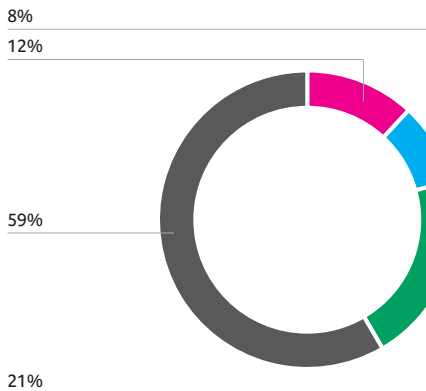
**STAFF DISTRIBUTION
BY GEOGRAPHICAL AREA**

- Singapore
- Southeast and South Asia
- North Asia
- Europe, Americas and the Middle East



**STAFF DISTRIBUTION
BY AGE**

- 29 & below
- 30-34
- 35-39
- 40-49
- 50 & above



**EDUCATIONAL
QUALIFICATIONS OF STAFF**

- Degree - Engineering/Technical
- Degree - Non-Engineering/Non-Technical
- Other - Engineering/Technical
- Other - Non-Engineering/Non-Technical

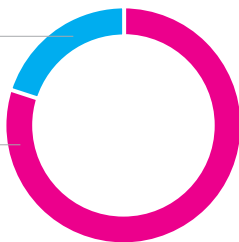
** All figures are based on Group permanent headcount*

20%

80%

GENDER DISTRIBUTION

Male
Female



Under the restricted stock incentive plan, fully paid shares are awarded to participants who achieve pre-determined targets that create and enhance economic value for shareholders of the company and fulfil time-based service conditions.

The table below shows the share options and restricted stock awards offered in 2006:

SHARE OPTIONS AND RESTRICTED STOCK AWARDS IN 2006

Category	No. of employees	
	Employee share options	Restricted stock awards
Non-executive Directors	8	0
Senior Management	54	46
Employees	1,551	368
Total	1,613	414

In addition to share-based incentive schemes, SembCorp also strives to foster a vibrant employee culture as part of our employee engagement efforts. One way we do this is through employee recreational activities. In particular, we encourage sports and outdoor activities as they build camaraderie and promote a well-rounded

lifestyle. For example, in Singapore, the SembCorp Recreation Club has organised activities such as cycling, hiking trips to nature reserves and a games carnival for staff and their families. It also supports staff teams in sports such as dragon-boating.

ETHICAL CONDUCT

To ensure integrity among employees, SembCorp's Employee Code of Conduct expressly prohibits dishonest conduct such as falsifying information. The code is posted on the enterprise-wide intranet so that all employees are aware of it. In pursuit of integrity in the workplace, our whistle-blowing policy encourages employees to promptly report any potentially illegal, improper or unethical conduct at their workplace or in connection with their work. The policy also affirms that we do not condone retaliatory action against employees who have filed feedback alleging possible improprieties.

STAFF PROFILE

In line with our business profile, one-third of our 7,751 permanent staff hold engineering or technical qualifications. Seventy-five per cent of the staff are based in Singapore. We offer fair opportunities to female employees, and our gender ratio of male to female staff is consistent at roughly 80:20 across all levels of seniority, from the non-executive level all the way to management. We also promote fair opportunity policies for older members of the workforce within the Group, and 30% of our workforce is aged 50 and older. In this light, SembCorp Environmental Management was nominated for *Best Mature Workforce Practices* category for this year's HRM (Human Resource Magazine) Awards in Singapore.

CORPORATE SOCIAL RESPONSIBILITY

In 2006, we have taken a number of steps to move our businesses towards more environmentally and socially responsible practices.

This report details SembCorp's environmental and socially responsible practices and performance for the year. As our listed Marine & Offshore Engineering business separately reports such activities in its own annual report, the scope of this report covers our wholly-owned Utilities and Environmental Management businesses. We have focused in particular on our Singapore operations, which substantially

account for our Group profit and turnover. Information from our operations in the UK has also been included.

In this section, we focus primarily on environment, health and safety (EHS) as well as community involvement. Our people development initiatives and practices are separately covered in the Human Resources section of this Annual Report (see page 72). We recognise that

SEMBCORP INDUSTRIES ENVIRONMENT, HEALTH AND SAFETY STATEMENT

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

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

- Assist the community by offering products, services and solutions that will better conserve and protect our environment
- Encourage conservation and recycling in an effort to increase participation in recycling and promote environmental awareness among our staff and community
- Ensure safe operations, while minimising impacts on the environment and the communities in which we operate

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

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

the information contained in this report is not yet comprehensive. However this report nonetheless constitutes one of a series of steps towards our ultimate aim of working towards triple bottom line reporting.

OUR COMMITMENT

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

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

OUR APPROACH

Our approach to incorporating EHS considerations into our business operations is based on four principles: investment in green business lines, implementation of sound internationally recognised EHS management systems, integration of EHS measures into our business processes and coordination with our business partners and suppliers on EHS improvements.

Firstly, we actively invest in green business lines, which form a part of our core operations. We do not see these as mere add-ons, but as financially viable businesses that will give us a

SEMBCORP'S GREEN BUSINESS LINES

Renewable energy

- Wilton 10, a 30-megawatt wood-fuelled power station and one of the UK's largest renewable energy projects

Power generation

- Efficient combined heat-and-power (cogeneration) plants in China, Singapore, the UAE and the UK

Natural gas

- First commercial importer and retailer of natural gas in Singapore
- Supplier of compressed natural gas to Singapore's transport sector

Water and wastewater treatment

- Industrial water reclamation, wastewater treatment and recycling plants in China and Singapore

Recycling and waste-to-resource

- Recovery of processed lead from used lead acid batteries
- Recovery of plastic resin and resin pellets from waste plastics
- Recycling and trading of waste paper

competitive edge in an increasingly resource-scarce world.

Secondly, we implement sound and internationally recognised EHS management systems. Each of our businesses is responsible for managing its own EHS performance and initiatives. When possible, we integrate our environmental, quality and safety measurement systems and have achieved certification under ISO 9001, ISO 14001 and Occupational Health & Safety OHSAS 18001.

Thirdly, we continually aim to enhance the environmental friendliness and safety of our processes, products and services through integrating EHS measures into our business processes as well as through

**CERTIFICATION SYSTEMS IN PLACE AT OUR UTILITIES
AND ENVIRONMENTAL MANAGEMENT BUSINESSES**

	ISO 9001	ISO 14001	OHSAS 18001
SembCorp Utilities			
SUT Division		X	
SembCorp Gas	X		
SembCorp Environmental Management	X	X	X

ongoing feedback and innovation. Audits are incorporated into our operations to strengthen the functioning of the EHS management systems. To drive staff commitment and build an organisation-wide safety culture, employees are assessed on their EHS performance.

We also actively encourage staff at all levels to contribute ideas and suggestions from an operational perspective to improve workplace practices and products and services, including their environmental safety and impact on employee health. Outstanding solutions are rewarded at our annual intra-Group Innovate, Discover, Engineer and Achieve (IDEA) Awards.

Fourthly, we work closely with our partners and suppliers for mutual EHS improvement to effect a more far-reaching positive impact.

**OVERVIEW OF KEY SUSTAINABILITY
DEVELOPMENTS IN 2006**

In 2006, major steps were taken to transform SembCorp into a more focused group. These included the divestment of our Engineering & Construction and Logistics businesses, as well as the transfer of Utilities' Offshore Engineering business to our listed Marine & Offshore Engineering subsidiary. Following these changes, SembCorp is now clearly focused on Utilities, Marine & Offshore

Engineering and Environmental Management. In addition, individual businesses have also implemented organisational changes to increase synergy and operating efficiency. These significant changes have given rise to the need for a review of our current EHS policies and management systems.

Notwithstanding this, in 2006, we have taken a number of steps to move our businesses towards more environmentally and socially responsible practices. We have continued with our green business lines as components of our core businesses and have also taken measures to improve the environmental friendliness of our production processes. These measures include converting all of our Singapore boilers to run on natural gas, developing a new effluent recovery plant on Jurong Island and building a wood-fired power plant in the UK, which will be deemed carbon neutral.

In the area of health and safety, we have launched a dynamic programme at our Singapore Utilities operations to reduce our injuries, spills, non-compliances, hazardous releases and unplanned shutdowns to zero. A high level of staff commitment to this programme has resulted in a dramatic improvement in on-site health and safety.

Our community involvement continued under the auspices of the Trailblazer-Wong Kok Siew Fund. In addition, we held

a group-wide corporate social responsibility (CSR) event in September 2006 to raise funds for the Children's Cancer Foundation.

MANAGING OUR KEY CONCERNS

Based on an evaluation of the greatest potential impact of our Utilities and Environmental Management businesses, we have identified several key concerns for these businesses: clean air and climate change, water, waste as well as health and safety. Along with these, we also maintain an ongoing commitment towards charity and the community. Our initiatives to monitor and manage these key concerns are discussed in the paragraphs below.

CLEAN AIR AND CLIMATE CHANGE

As SembCorp is in the power generation business, our impact on climate change and clean air is a key concern for us. We strive to limit and manage our environmental impact in this regard through improving the efficiency and environmental friendliness of our power plants and fuels and also through the monitoring of our emissions and energy use.

Efficient power generation

In carrying out our power generation business, we leverage on technology for greater efficiency and lower emissions.

Our plants in China, Singapore, the UAE and Vietnam make use of combined cycle gas turbine technology, where waste heat from gas turbines is used to make steam to generate additional electricity via steam turbines. This enables us to generate more electricity from the fuel input.

In addition, we operate combined heat-and-power or cogeneration plants in China, Singapore, the UAE¹ and the UK.

Cogeneration refers to the production of both electricity and heat from a single fuel at a facility located near the consumer. Considered the most efficient use of fuel, cogeneration further improves the overall recovery of heat and also saves the fuel that would otherwise be used to produce heat or steam in a separate unit. Cogeneration plants also generate substantially lower emissions compared to conventional power plants.

A pioneer in cogeneration in Singapore, SembCorp's natural gas-fired cogeneration plant, which produces both electricity and steam for sale to customers, remains Singapore's largest and most efficient today.

Natural gas

SembCorp is Singapore's first commercial importer and retailer of natural gas. Considered the cleanest of all fossil fuels, natural gas produces virtually no particulate waste when combusted and less greenhouse gases per unit of energy released compared to coal or oil.

In 2006, our Utilities operations in Singapore successfully converted all boilers to run on natural gas as a primary fuel, with fuel oil as a backup. Prior to this conversion, our five boilers were running on 1% sulphur fuel oil. As a result of the conversion, our greenhouse gas emissions have been reduced and boiler efficiency has increased to about 93.5%, from an original design efficiency of 90% to 91%. With the clean-burning nature of natural gas, the need for boiler maintenance has also been reduced.

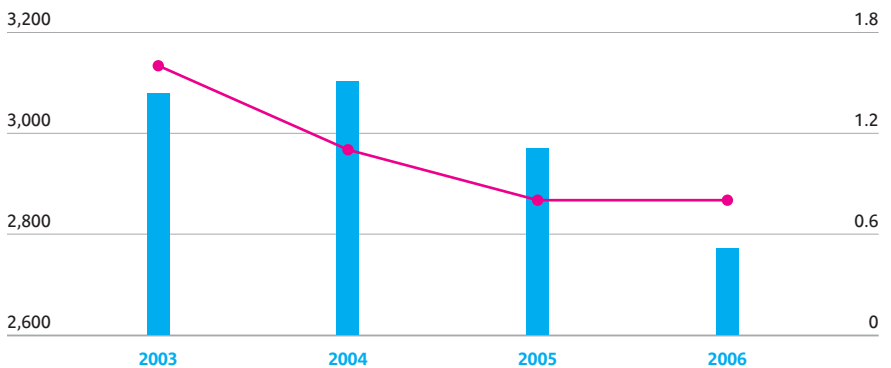
Energy from renewables

The use of renewable and recycled resources for power generation generates

¹ In our UAE plant, extracted heat in the form of steam is further used for seawater desalination

UTILITIES' CO₂ EMISSIONS*

	2003	2004	2005	2006
Absolute CO ₂ emissions (Ktonnes)	3,080	3,104	2,970	2,772
CO ₂ emissions per million dollars of revenue (Ktonnes/\$ million)	1.6	1.1	0.8	0.8



* Data covers continuing operations in Singapore and the UK

less emission of greenhouse gases compared to fossil fuels. The use of biomass is also generally classed as a carbon-neutral process because the carbon dioxide released during the generation of energy is balanced by that absorbed by plants during their growth.

In 2006, SembCorp's UK Utilities operations continued construction of a wood-fuelled biomass power plant, Wilton 10, in the northeast of England. The 30-megawatt wood-fuelled power station is set to become one of the UK's largest renewable energy projects. The plant is expected to come on-line in the second half of 2007.

Emissions & energy usage monitoring

In 2006, we significantly reduced the absolute amount of carbon dioxide emitted by our Utilities operations in Singapore

and the UK. We will continue our efforts to reduce our carbon dioxide emissions going forward.

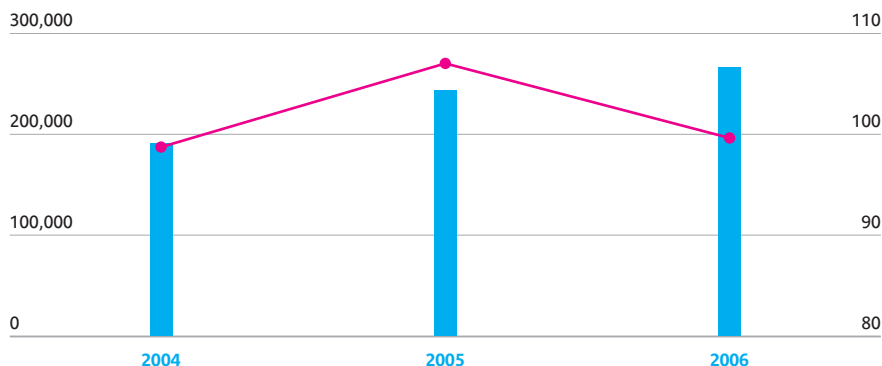
We also recognise that reducing our energy usage can also contribute to lessening our climate change impact. This year, we have achieved a significant reduction of electricity use per million dollars of revenue at our Singapore Utilities operations, as shown in the chart on the facing page.

WATER

At SembCorp, we limit our negative impact on water resources through our business of industrial wastewater treatment, which also serves as a renewable source for the production of industrial water products for our customers. In addition, we also monitor our consumption of water for our utilities operations.

UTILITIES' ELECTRICITY USE*

	2004	2005	2006
Electricity use per hour (MWh)	191,093	243,745	266,243
Electricity use per million dollars of revenue (MWh per S\$ million)	98.7	107	99.6



* Data covers continuing operations in Singapore

Production of industrial process waters from recycled industrial effluent

SembCorp's Utilities arm provides a full range of water-related utilities services to predominantly industrial clients. In providing our clients with industrial process waters, we reuse and recycle water in order to reduce the total withdrawals made on fresh water supplies and lessen discharges to sewerage systems and waterways. Today, our demineralised water supply is substantially derived from recycled water. In Singapore, SembCorp was also the first local company to produce high purity demineralised water by reclaiming secondary effluents from dynamically complex industrial wastewater.

In 2006, we started a new effluent recovery plant, which recycles up to 5,000 cubic metres of effluent water per day to produce demineralised water.

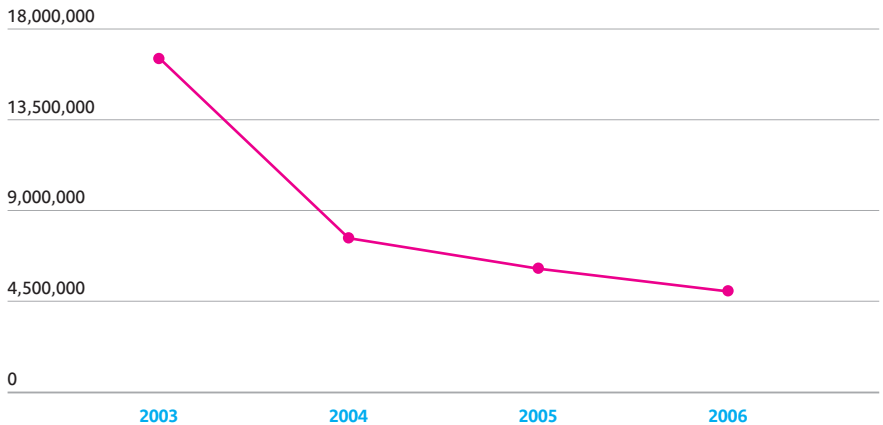
Industrial wastewater treatment

In addition, our wastewater treatment activities reduce our clients' water-related environmental impact. Industrial wastewater is traditionally considered difficult to treat due to its dynamic complexity. SembCorp, with industrial wastewater treatment plants in Singapore's Jurong Island, as well as Nanjing and Zhangjiagang in China, has the specialised expertise needed to treat such effluents to meet environmental limits. These solutions have reduced the impact of effluent discharge into the sea, thereby benefiting the environment.

In 2006, we treated over one million cubic metres of industrial wastewater in Singapore alone. In addition, we developed a new 1,272 cubic metres per day plant in Singapore to treat high chemical oxygen demand (COD) wastewater. Our ability to operate this plant, which provides the

**UTILITIES'
WATER CONSUMPTION***

	2003	2004	2005	2006
— Water (m ³)	16,831,646	7,598,227	6,033,033	4,869,127



* Data covers water usage by the cogeneration plant and centralised utilities facility at Sakra in Singapore

specialised treatment required for high COD wastewater, further demonstrates our broad expertise in industrial wastewater treatment.

Desalination

In addition to recycling wastewater, we have strong capabilities in the desalination of water. In the UAE, SembCorp's Utilities business co-owns a combined water and power plant in Fujairah. This encompasses a desalination plant, which at 450,000 cubic metres per day is one of the largest in the world. In arid regions such as the Middle East, desalination provides a renewable source for both industrial and potable water.

In Fujairah, our desalination activities also mean that the water necessary for our on-site power generation facilities is obtained from renewable sources.

Water usage

We also are mindful of the impact of our own water consumption for business use and of the need to monitor and limit this. This year, we are able to report water use by our Singapore Utilities' operations' Sakra centralised utilities facility and cogeneration plant. The graph above shows that their water consumption has declined steadily over the last few years.

WASTE

At SembCorp, we endeavour to reduce landfill and incineration through reducing waste.

Supporting national recycling efforts

Our Environmental Management arm, which is Singapore's largest environmental management player, supports national

recycling goals. It provides collection of separated recyclables as part of its waste collection service to municipal customers. We also operate a materials recovery facility, where recyclable items from waste may be sorted for recycling, as well as a plant for the recovery of construction and demolition waste.

MATERIALS RECYCLED BY OUR ENVIRONMENTAL MANAGEMENT BUSINESS

- Paper
- Glass
- Timber
- Plastics
- Metals

Practicing recycling

To reduce the waste that we generate, we practice recycling both in our offices as well as at our operations sites.

For instance, at SembCorp's offices in Singapore, paper recycling bins are placed in convenient locations to raise employee awareness and encourage paper recycling. Meanwhile, our Utilities operations in the UK recycles items from its sites such as commercial and industrial waste, fluorescent tubes, heavy fuel oil and waste electrical and electronic equipment items.

Reducing our production of waste

We have also improved our industrial operations to reduce the generation of waste that would go to landfill or incineration. For instance, our Utilities arm reduced the waste sludge extracted from its integrated wastewater treatment plant at Jurong Island by 80%, through technical improvements to the plant to convert aerobic biomass to anaerobic biomass.

Investments in ULAB and plastics recycling

In 2006, we also made investments in waste-to-resource recycling ventures in China and Singapore. Our Environmental Management arm bought a stake in China's largest used lead acid battery (ULAB) recycling company. In addition, we also bought a majority stake in a Singapore company that produces plastic resin and resin pellets from waste plastics.

HEALTH AND SAFETY

At SembCorp, we recognise that promoting health and safety is part of our responsibility to our employees and to the community. Key concerns are on-site safety for our Utilities operations and road safety for our Environmental Management operations.

On-site safety

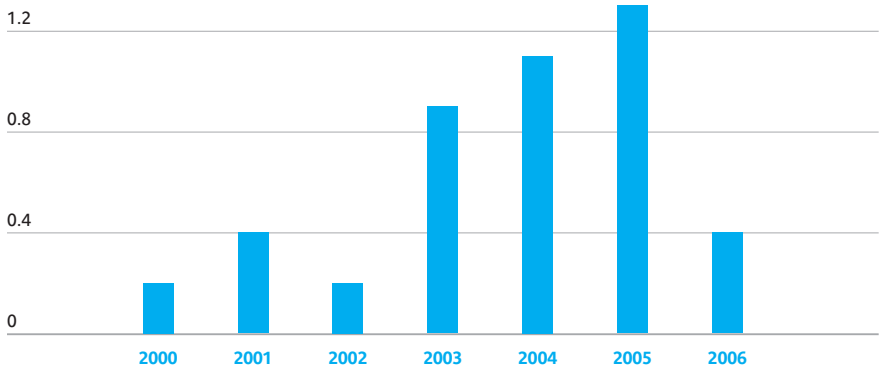
In 2006, we made further progress to embed health and safety measures in our Utilities operations on Jurong Island.

We launched the *SCU 5/0* campaign, which encompasses the five goals of zero injury, zero spill, zero non-compliance, zero hazardous release and zero unplanned shutdown. Providing a common platform and a rallying point across all of our Utilities operating sites in Singapore, the programme requires all employees to identify hazards and gaps in activities carried out at their workplaces and eliminate them.

Recognising that staff awareness and commitment is crucial to the success of *SCU 5/0*, we backed the campaign with comprehensive internal communications. These included a programme launch by top Utilities line managers at a high profile staff event, clear communication of the

**UTILITIES' TOTAL
RECORDABLE INJURIES***

	2000	2001	2002	2003	2004	2005	2006
Recordable injuries per 200,000 man hours' work ¹	0.2	0.4	0.2	0.9	1.1	1.3	0.4



* Data covers Utilities operations in Singapore and the UK

¹ Formula as per Occupational Safety & Health Administration guidelines. Total recordable injuries include lost time injuries, restricted work cases and medical treatment cases

aims of SCU 5/0 and their importance to business success and high visibility of the SCU 5/0 logo on-site as well as on commemorative T-shirts and stored-value cash cards. We also require operations employees to carry a copy of their personal SCU 5/0 records whenever they are on site.

To further emphasise the importance of this programme, the SCU 5/0 results are tracked by the EHS department and presented at monthly management meetings and staff communication sessions. Staff performance appraisals and bonuses are also tied to SCU 5/0 results.

The campaign has proven to be a success. Employees have demonstrated a conscious effort to pay greater attention to work processes and to work together as a team to achieve the 5 Zeros. Every employee is fully aware that the goal of 5 Zeros is only

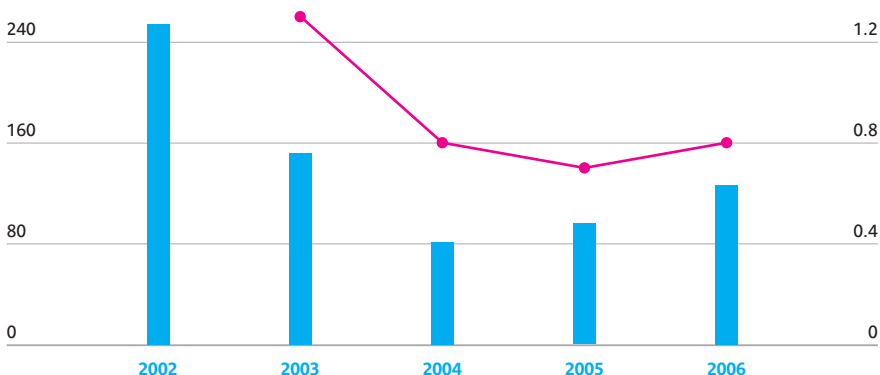
possible with everyone—including partners and suppliers—playing his or her respective role. On-site injuries have declined sharply, as may be seen from the chart above.

In tandem with the SCU 5/0 programme, we devised a formula to measure the price of non-conformance, which imputes a monetary cost to lapses relating to the 5 Zeros. Since implementation of the campaign in 2006, the price of non-conformance has dipped substantially compared to 2005.

In 2006, beyond the SCU 5/0 programme, our Singapore Utilities operations sought to promote health and safety through a Safety and Housekeeping Challenge across its six sites on Jurong Island. Every month, plant managers inspect each other's sites and allocate scores for each site's safety and housekeeping efforts. Monthly, a challenge trophy named after

ENVIRONMENTAL MANAGEMENT'S VEHICLE ACCIDENT RATE*

	2002	2003	2004	2005	2006
Number of accidents	254	152	81	96	127
Vehicle accident rate per 100,000 km	–	1.3	0.8	0.7	0.8



* Data covers operations in Singapore

the head of Utilities' Singapore operations is awarded to the highest-scoring site, and at the end of the year, the site that has won it most often is allowed to keep the trophy. This challenge has created healthy competition among the staff, increased staff awareness of safety and improved housekeeping efforts at all sites.

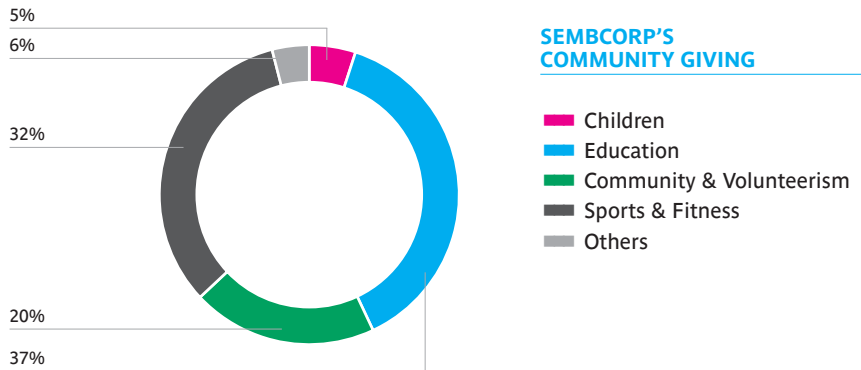
Road safety

In 2006, we continued to monitor the road safety of our environmental management operations. The vehicular accident rate per 100,000 kilometres travelled rose from 0.7 in 2005 to 0.8 in 2006. This is of concern for us. We continue to work with the Singapore Traffic Police on yearly educational programmes for our drivers which supplement our in-company continuous improvement programmes, and will endeavour to improve our vehicular safety going forward.

COMMUNITY

At SembCorp, we recognise that sustainability is primarily about carrying out our business operations responsibly and managing our EHS impacts. However, aside from this, we also recognise that companies can make a positive impact in the community by giving financial and other resources towards meaningful causes. In 2006, we continued to support charitable, educational and cultural causes through direct donations and in-kind support amounting to S\$1.5 million as shown in the chart on page 86.

Central to our community efforts is the Trailblazer-Wong Kok Siew Fund, the charitable fund we administer that aims to support children, education, medical research and stroke assistance. The fund started with an initial S\$1.2 million and is supplemented by ongoing donations from SembCorp companies.



Since it was founded just over a year ago, the fund has donated over S\$1 million towards its key objectives. These initiatives included core programmes championed by our individual businesses, such as SembCorp Marine's School Book Assistance Grant Scheme, SembCorp Environmental Management's support of the Jamiyah Children's Home as well as community involvement among children and the youth by the Woodlands Wellington Football club, which is sponsored by a division of SembCorp Utilities. The fund has also supported organisations involved with assisting stroke patients in Singapore.

In addition, we tapped the fund to make a positive contribution to overseas communities in which SembCorp operates. In Vietnam, we sponsored books, shelves, computers and a specialised librarian training course to set up the first children's library in Ho Chi Minh City. We also funded scholarships to 250 schoolchildren in Binh Duong Province, where our industrial park is located.

Apart from the activities associated with the fund, we also aim to organise a Group-

wide CSR event yearly. In 2006, we organised a fundraising effort in aid of the Children's Cancer Foundation (CCF) in Singapore. A team of 42 employees took part in a 24-hour 70-kilometre walk around Singapore to raise funds. Their efforts were augmented by more than 2,000 employees, associates, friends and staff from our overseas operations, who went on a 5-kilometre walk-a-jog. More than S\$420,000 was raised for the children through the fund-raising walks, an appeal for donations and the sale of CCF Tulip Hearts Day merchandise by our employee volunteers.



SembCorp Utilities' wastewater treatment plant
in Zhangjiagang Free Trade Zone in China