

SUSTAINABLE GROWTH

SembCorp Industries Annual Report 2006

SEMBCORP INDUSTRIES FINANCIAL CALENDAR

April 23, 2007	9th Annual General Meeting
April 25, 2007	Ex-dividend date for 2006 final dividend
May 8, 2007*	Announcement of First Quarter Results for the period ending March 31, 2007
May 15, 2007	Payment of 2006 dividend
August 7, 2007*	Announcement of First Half Results for the period ending June 30, 2007
November 6, 2007*	Announcement of Nine Months Results for the period ending September 30, 2007
February 2008*	Announcement of Full Year Results for the period ending December 31, 2007

* Provisional. Updates will be posted at www.sembcorp.com.sg

Phu My 3 BOT Power Company, SembCorp Utilities' joint venture power plant in Vietnam

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Front and back cover and pages 2-3: Fujairah water and power plant in the United Arab Emirates

On this page: SembCorp Utilities' wastewater treatment plant in Nanjing Chemical Industrial Park in China

MAJOR ACHIEVEMENTS IN 2006

- Divested SembCorp Logistics and SembCorp Engineering & Construction, sharpening our focus on the utilities and marine & offshore engineering businesses
- Acquired a 40% stake in a large water and power project in Fujairah, spearheading the expansion of our utilities business into the Middle East
- Sold SMOE and Sembawang Bethlehem to SembCorp Marine and Sembawang Shipyard, enabling the marine & offshore engineering business to better seize opportunities in rig building and offshore engineering



SembCorp Utilities on Jurong Island, Singapore

GROUP FINANCIAL HIGHLIGHTS

- Record PATMI at S\$1.03 billion, up 240%
- Strong earnings growth from continuing operations with PATMI before exceptional items up 52% from S\$245.1 million to S\$371.9 million
- Higher returns with return on equity at 18%
- Healthy balance sheet with net gearing at 0.04 times
- Economic value added at S\$924.7 million

	2006	2005	Change (%)
FOR THE YEAR (S\$ million)			
Turnover	8,107	7,409	9
EBITDA	1,207	633	91
Profit before income tax expense	1,149	508	126
Profit attributable to shareholders of the Company			
– before exceptional items	380	278	36
– after exceptional items	1,030	303	240
Capital expenditure	590	351	68
AT YEAR END (S\$ million)			
Shareholders' funds	2,812	2,000	41
Total assets	7,586	7,261	4
Net (debt)/cash	(137)	125	NM
Operating cash flow	(86)	848	NM
Free cash flow	461	968	-52
PER SHARE			
Earnings (cents)			
– before exceptional items	21.57	15.74	37
– after exceptional items	58.51	17.14	241
Net assets (S\$)	1.59	1.14	39
Net tangible assets (S\$)	1.52	1.06	43
Gross dividends (cents)	28.90	6.50	345
Gross dividend yield (%)*	7.5	2.4	213
FINANCIAL RATIOS			
Return on equity (%)			
– before exceptional items	18.2	14.2	28
– after exceptional items	42.8	15.3	180
Return on total assets (%)			
– before exceptional items	7.8	5.7	37
– after exceptional items	16.4	6.1	169
Interest cover (times)			
– before exceptional items	13	11	18
– after exceptional items	22	12	83
Net gearing (times)	0.04	Net Cash	NM
PRODUCTIVITY DATA (S\$ million)			
Economic value added	925	251	269

Note: Exceptional items refer to material and unusual items as disclosed on page 184 of the Statutory Reports.

* Based on the closing price of S\$3.84 for 2006 and S\$2.74 for 2005 respectively.

CORPORATE STRUCTURE

GROUP KEY EXECUTIVES

- TANG KIN FEI**
Group President & CEO
- LIM JOKE MUI**
Group Chief Financial Officer
- TAN KWI KIN**
Group President & CEO
SembCorp Marine
- FRANCIS JOSEPH GOMEZ**
Executive Vice President
SembCorp Utilities (Singapore)
- LOW SIN LENG**
Senior Executive Director
Group Strategic Relations
- HENG CHIANG GNEE**
President & CEO
SembCorp Environmental Management
- DR PAUL GAVENS**
Executive Vice President
SembCorp Utilities (UK)
- MAUREEN LEONG**
Executive Vice President
Group Performance Management & Ventures

CORPORATE HEADQUARTERS

GROWTH & PERFORMANCE

- LAU GAR NING**
Senior Vice President
Asset Management
- LEE SOON ENG**
Executive Vice President
Group Business Development
- SUJIT PARHAR**
Vice President
Group Business Development
- GRACE QUEK**
Senior Vice President
Group Corporate Planning
- NG SONG MENG**
Vice President
Group Mergers & Acquisitions
- CHIONH KEAT YEE**
Vice President
Performance Management

FACILITATION & GOVERNANCE

- HO SING**
Senior Vice President
Group Strategic Relations
- DANIEL GOH**
Senior Vice President
Group Strategic Relations
- KWONG SOOK MAY**
Company Secretary
- FOO FEI VOON**
Senior Vice President
Accounts
- RICHARD QUEK**
Director
Group Corporate Finance
- APRIL LEE**
Vice President
Group Corporate Relations
- LILLIAN LEE**
Director
Group Human Resource
- JASMINE TEO**
Senior Vice President
Group Information Technology
- LIM SUET BOEY**
Director
Group Legal
- MAGGIE YEO**
Senior Vice President
Group Reporting & Policies
- LEE SWEE CHEE**
Chief Risk Officer
Group Risk Management
- GOH HAN LENG**
Senior Vice President
Group Tax

INTERNAL AUDIT

- BENEDICT LEE**
Senior Vice President
Group Internal Audit

BUSINESS UNITS

UTILITIES

- FRANCIS JOSEPH GOMEZ**
Executive Vice President
SembCorp Utilities (Singapore)
- DR PAUL GAVENS**
Executive Vice President
SembCorp Utilities (UK)
- DR JEFFREY CHEN**
CEO
SembCorp Utilities Investment Management (Shanghai) (China)
- LAI SAW CHONG**
Executive Managing Director
Emirates SembCorp Water & Power Company (UAE)
- MAHABIR KUMAR SHARMA**
General Manager
SembCorp Gulf O&M (UAE)
- CHEW HOCK BENG**
Technical Director
Phu My 3 BOT Power Company (Vietnam)

MARINE & OFFSHORE ENGINEERING

- WONG WENG SUN**
President & COO
SembCorp Marine/
Managing Director
Jurong Shipyard
- ONG POH KWEE**
Deputy President
SembCorp Marine/
Managing Director
Sembawang Shipyard
- ONG TIAN KHIAM**
Managing Director
PPL Shipyard
- HO NEE SIN**
Managing Director
SMOE
- NG THIAM POH**
Deputy Chairman
Jurong SML Shipyard/
President Director
PT Karimun Sembawang Shipyard (Indonesia)
- CHANG KING**
Director & CEO
Mauá Jurong (Brazil)
- CHAN NAI ENG**
President & CEO
SembCorp-Sabine Shipyard (USA)
- LIU CHIN PENG**
Deputy General Manager
COSCO Shipyard Group (China)

ENVIRONMENTAL MANAGEMENT

- MICHAEL HO**
Chief Operating Officer
SembCorp Environmental Management
- TAN TZE SHANG**
Country Director
SembEnviro (China)
- JASON CHAN**
Chief Executive Officer
Jiangsu SembCorp Chunxing Alloy (China)
- ARUN KUMAR JAGGI**
Chief Executive Officer
SembRamky Environmental Management (India)
- PHILIPPE MAILLARD**
Managing Director
SembSITA Australia (Australia)

OTHERS

- LOW SIN LENG**
Executive Chairman
SembCorp Parks Holdings/
SembCorp Parks Management
- KELVIN TEO**
President & COO
SembCorp Parks Holdings
- MICHAEL NG**
President & CEO
Singapore Mint
- LIM KAH HING**
Managing Director
SembCorp Design & Construction

Growth is the aim of every organisation. For SembCorp, we want growth that is sustainable over time; only then can we continue delivering lasting value and attractive returns to our shareholders.

Putting plans into action, we have channelled our resources to businesses that are market leaders, capable of generating quality earnings and growth. That explains why SembCorp is now a focused utilities and marine & offshore engineering group with sound business fundamentals in place.

In addition, we also carefully identify, study and pursue expansion opportunities. We do this while adhering to rigorous investment guidelines and good corporate governance as well as maintaining financial discipline.

Such is SembCorp's approach to achieving sustainable growth.

UTILITIES:

FORGING NEW POWER BASES

Recurring income from long-term contracts gives us stable cash flows. With this stability and an eye on emerging markets, we aim to grow beachheads and extend our support to customers as they expand overseas.





MARINE & OFFSHORE ENGINEERING:

MEETING FUTURE NEEDS

By optimising capacity and harnessing advanced technology, we are raising the gears to meet the market's future needs.







ENVIRONMENTAL MANAGEMENT:

TRANSFORMING WASTE TO RESOURCE

Moving beyond waste collection to waste-to-resource and pre-disposal treatment, we are positioned to meet environmental demands for recovering resources from waste.



Recycled lead at Chongqing
SembCorp Chunxing Alloy in China

LETTER TO SHAREHOLDERS



PETER SEAH LIM HUAT (Left)
Chairman

TANG KIN FEI (Right)
Group President & CEO

SembCorp is now a focused utilities and marine group, poised for growth, with strong business fundamentals in each of our businesses.

Dear Shareholders,

2006 has been an exceptional year of performance and transformation for SembCorp Industries.

PERFORMANCE

We achieved record financial results. Our profit after tax and minority interest (PATMI) grew 240% over the previous year to S\$1.03 billion, while turnover for the Group increased to S\$8.1 billion. PATMI before exceptional items from the Group's continuing operations grew 52% to S\$371.9 million driven by the robust growth of our Utilities and Marine & Offshore Engineering businesses.

Excluding exceptional items, our return on equity was 18% compared to 14% in 2005 and our return on total assets was 8% compared to 6% in the previous year. Our economic value added was a healthy S\$924.7 million.

Beyond the delivery of a solid financial performance, significant milestones were further achieved in the past year to better position ourselves for the future. Our aim is to deliver lasting value and attractive returns to our shareholders. To this end, bold steps were taken to focus SembCorp on businesses that are market leaders and capable of delivering quality earnings and sustainable growth.

In 2006, both our Logistics and Engineering & Construction businesses

were divested. SembCorp Logistics was sold to Australia's Toll Holdings for S\$793 million, and SembCorp Engineers & Constructors was divested to Punj Lloyd of India for S\$38 million. Progress was also made towards streamlining our operations, with the rationalisation of our industrial park and leisure investments on the Indonesian Riau Islands of Batam and Bintan. These investments were consolidated under Gallant Venture, which was subsequently listed on the Singapore Exchange in June 2006.

Since our formation in 1998 from the merger of Singapore Technologies Industrial Corporation and Sembawang Corporation, our divestment programme has generated more than S\$4.3 billion of proceeds. Now substantially completed, it has undoubtedly unlocked significant value for our shareholders. More importantly, we believe that our management expertise and capital can now be focused on businesses that will enable SembCorp to continue delivering value and growth for many years to come.

In 2006, we reached a full and final settlement of the dispute between Sembawang Corporation and Allseas, relating to the conversion of the pipe-laying vessel *Solitaire*. Full payment was made in April 2006.

We believe that our businesses can deliver returns that are secure and growth that is sustainable in the long term.

STRATEGY

SembCorp is now a focused utilities and marine group, poised for growth, with strong business fundamentals in each of our businesses. Coupled with the reliability associated with the SembCorp brand and a disciplined approach towards investment and growth, we believe that our businesses can deliver returns that are secure and growth that is sustainable in the long term.

In our **Utilities** business, we have established a niche as a global leader for the provision of centralised utilities and services to multiple customers in energy intensive industry clusters, such as chemical and petrochemical hubs. We aim to replicate this model in key markets across the globe through strategic partnerships with our international customer base. In addition, we participate in projects that provide secure offtake and that give us potential to grow. Our strategy of establishing and growing beachheads in target markets is bearing fruit. The exceptional strength and growth of our facilities in Singapore and the UK reflect what we believe can be achieved in each of our new profit centres.

Backed by a solid 43-year track record and a global network of strategically located yards, our **Marine & Offshore Engineering** business is a global leader with a portfolio that encompasses various segments of the value chain in the global marine and offshore industry. From ship repair, shipbuilding, ship conversion, rig repair and rig building to topsides fabrication and offshore engineering,

we have a comprehensive portfolio that can support growth and healthy margins. For example, even as we enhance our capabilities in delivering offshore production facilities, we continue to grow and enlarge our baseload earnings from ship repair by serving and satisfying the needs of our customers. As we continuously improve and develop proprietary technologies, optimise production processes and enhance capacity, the strategies we adopt and the investments we make are all designed to achieve one aim – sustained growth and the maximisation of returns over the long term.

Our **Industrial Parks** business performed well. Over the years, SembCorp Parks Management has established its brand name in developing, marketing and operating industrial parks in China, Indonesia and Vietnam. Leveraging on our industrial park management and investment promotion expertise, more than 370 multi-national investors have been attracted to our parks to-date. We see growing potential for industrial park development in Asia, and we believe we can leverage on this business opportunity to grow.

The performance of our **Environmental Management** unit in 2006 was disappointing due to competitive pressures in its municipal waste collection business in Singapore. Nevertheless, we continue to nurture this fledgling business. We have intensified our focus on the development of pre-disposal treatment methods and waste-to-resource businesses. Appropriate

steps have also been taken to streamline the unit's operations.

We believe that we have opportunities for growth in our businesses. Backed by a strong balance sheet and favourable industry prospects, our company is in a better position than it has ever been to seize opportunities and grow.

STATUS AND OUTLOOK

In 2006, we continued to make progress in building a foundation for long-term growth.

In November, we completed the acquisition of 40% of an independent water and power plant in Fujairah (Fujairah I) in the UAE. Our first power and water investment in the Middle East, the project comprises the acquisition, ownership, operation and maintenance of an existing 535 megawatt power and 100 million imperial gallons per day seawater desalination plant as well as the expansion of a further 225 megawatts of power generation capacity. Fujairah I not only affords us a base from which to grow our utilities business in the booming Gulf region, but the success of our bid following a highly competitive bidding process testifies to our strong operating track record and competitive position in the global utilities arena. Together with our existing operations in China, Singapore, the UK and Vietnam, this strategic beachhead in the Middle East will provide the momentum for future growth and expansion of our utilities business.

During the year, good progress was also made in achieving organic growth of our Utilities' operations in Singapore and the UK. In Singapore, new contracts worth a total of S\$68 million per year were clinched. We also expanded our demineralised water, high-grade industrial water and wastewater

treatment capacities in tandem with customer demand. In terms of industrial wastewater treatment, our facilities worldwide now have a combined capacity of around 40,500 cubic metres per day, with a further 30,000 cubic metres per day in development. In the UK, new utilities and services contracts amounting to S\$136 million were secured, while Wilton 10, our 30 megawatt biomass power plant, is on schedule to start operation in the second half of 2007.

In August, we also undertook significant restructuring within the Group through the sale of SMOE and Sembawang Bethlehem to SembCorp Marine and its subsidiary Sembawang Shipyard. In enabling SembCorp Marine to optimise the use of the land at Admiralty in Singapore and on Batam Island in Indonesia, as well as the resources of SMOE, we are now able to operate more efficiently and seize more opportunities in rig building and semi-submersible projects as well as offshore engineering. With a credible track record in the conversion of Floating Production Storage and Offloading (FPSO)/Floating Storage Offloading/Floating Production Units, mega FPSO solutions, topsides and fixed platforms, we are well positioned to participate in the expected growth of the offshore production market. In addition, ship repair demand is expected to be strong especially in the specialised market of liquefied natural gas/liquefied petroleum gas tankers, very large crude carrier tankers and container vessels.

In September 2006, our Industrial Parks business celebrated the tenth anniversary of Vietnam Singapore Industrial Park (VSIP). Leveraging on its success, we embarked on the development of VSIP II, our second industrial park in Vietnam. During the year, our Environmental Management unit also

Backed by a strong balance sheet and favourable industry prospects, our company is in a better position than it has ever been to seize opportunities and grow.

invested in the waste-to-resource business when we partnered China's largest lead recycler, Jiangsu Chunxing Alloy in March to undertake the recovery and sale of processed lead from used lead acid batteries to battery manufacturers.

Barring unforeseen circumstances, the Group's overall operating performance in 2007 is expected to be better than that of 2006 on a comparable basis, which excludes net profits arising from exceptional items in 2006.

SHAREHOLDER RETURNS

The year has been rewarding for our shareholders. A total of S\$264.6 million, or 57% of the gain arising from the divestment of our stake in SembCorp Logistics, was returned to shareholders via a capital reduction of 15 cents per share paid in August.

In addition, our Board of Directors is proposing a final gross dividend of 28.9 cents per ordinary share (net: 28.0 cents) for 2006, amounting to five times the net dividend paid in 2005. This comprises a 12.9 cents per share ordinary dividend (net: 12.0 cents), representing a payout of 56% of net profit from operations and a 16.0 cents per share special dividend (1-tier). The special dividend together with the capital reduction (tax exempt) paid in August accounts for a payout of 84% from exceptional profits.

Together with a 37% appreciation in our share price during the year, the total

shareholder return (TSR) for 2006 was 44%, relative to the benchmark Straits Times Index's TSR of 27%. At the close of the year, our market capitalisation stood at S\$6.8 billion, a S\$2.0 billion increase compared to S\$4.8 billion at the end of 2005.

Our balance sheet is healthy and the Group's business models generate strong operating cash flow. As such, we believe that we remain well placed to seize anticipated growth opportunities while continuing to return value to our shareholders through a progressive yet sustainable dividend policy. We also continue to review our capital structure and dividend policy with the aim of maximising value for our shareholders.

SUSTAINABILITY

It is worth emphasising that the growth we are committed to achieving is growth that is sustainable over the long term.

This means that it is vital that we maintain a balanced approach to achieving growth. First, even as we pursue expansion opportunities, we will continue to follow strict investment guidelines and maintain financial discipline. This will not only assist in focusing our project development efforts but will also ensure competitive returns and the management of risk. Second, it is our firm belief that high standards in governance and corporate responsibility go hand in hand with outstanding performance. It is only our adherence to a rigorous system

of policies, practices and internal controls that will ultimately enable us to deliver value and sustainable growth to our shareholders. At all levels, the commitment to good corporate governance must continue.

Our responsibilities also extend to society at large. In 2006, the cornerstone of our ongoing community efforts, the Trailblazer-Wong Kok Siew Fund, continued to support a wide range of programmes in Singapore for children and education as well as stroke victims. We also funded scholarships for children in Vietnam and contributed to the setting up of Ho Chi Minh City's first public children's library.

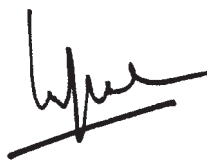
A NOTE OF THANKS

Building on these proven foundations, we believe that we can approach the future with confidence. This is not only because SembCorp is a robust and growing enterprise, but because we know that we can depend on the knowledge, skill, passion and commitment of SembCorp's employees, who provide the means for our development, performance and prospects. On behalf of the Board, we would like to pay tribute to their achievements in 2006 and thank them for the value they have created.

On February 14, 2006, Lua Cheng Eng, a Director since 1998, stepped down as Director and Chairman of the Audit and Risk Committees. He was succeeded as Chairman of the Audit and Risk Committees by Richard Hale, OBE, who is an independent director. We have benefited immeasurably from Cheng Eng's astute and judicious counsel and would like to record our deep appreciation to him. We would also like to thank Dr Vichit Suraphongchai and Colin Au Fook Yew, who resigned from our Board on May 8, 2006 and November 6, 2006 respectively,

for their contributions to SembCorp.

Our appreciation must also go to our customers and partners for their support. The entire SembCorp organisation is driven by a strong, shared commitment to be the partner of choice for customers in order to create value and sustainable growth for the people who trust us with their investments. With their support, we are confident that the coming years will see SembCorp creating more value and delivering sustainable growth. We look forward to an exciting future together.



PETER SEAH LIM HUAT
Chairman,
February 16, 2007



TANG KIN FEI
Group President & CEO,
February 16, 2007

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Performance





SIGNIFICANT EVENTS IN 2006

JANUARY

PPL Shipyard, a subsidiary of **SembCorp Marine** (SembMarine), secures a rig building contract worth US\$175 million from Aban Singapore.

SembMarine's **Sembawang Shipyard** wins an S\$88 million Floating Production Storage and Offloading (FPSO) conversion contract from Bergesen Worldwide Offshore.

FEBRUARY

PPL Shipyard secures repeat order from Norway's Sinvest to build a jack-up rig for US\$141.1 million.

SembCorp Industries appoints Michael Ng to the post of President & CEO of **Singapore Mint** and **Singapore Precision Industries**.

SembMarine appoints Goh Geok Ling as Chairman and Director of the Board, taking over from Lua Cheng Eng.

MARCH

SembCorp Industries sells its entire 60.01% stake in SembCorp Logistics to Australia's Toll Holdings for S\$793 million.

Jurong Shipyard secures order to build a second ultra-deepwater semi-submersible rig for Norway's PetroMena for US\$480 million.

SembCorp Environmental

Management (SembEnviro) enters the waste-to-resource conversion business and forms a used lead acid battery recycling joint venture, Jiangsu SembCorp Chunxing Alloy, with China's largest lead recycler.

SembCorp Industries concludes Sembawang Corporation's 10-year arbitration with Switzerland's Allseas relating to the conversion of the pipe-laying vessel *Solitaire* with a settlement of €350 million.

SembCorp Industries consolidates its industrial park and leisure investments on Indonesia's Bintan and Batam islands under Gallant Venture, subsequently listed on the Singapore Exchange.

APRIL

Jurong Shipyard wins a contract with JackInvest I to build a jack-up rig for US\$165.5 million.

PPL Shipyard signs contract with Awilco Offshore, which exercised its option for another jack-up rig for US\$142 million.

MAY

SembMarine acquires 110,400,000 shares in COSCO Corporation from Seletar Investments for S\$120.3 million.

SembMarine delivers *Deep Driller I* jack-up rig, built by **PPL Shipyard**, to Sinvest and divests its interest in the rig for a gain of S\$13.3 million.

SembCorp Industries divests stake in Nirwana Gardens Resort in Indonesia. The sale recorded a gain of approximately S\$14 million.

JUNE

SembCorp Industries sells 88% of its interest in SembCorp Engineers & Constructors to India's Punj Lloyd.

JULY

SembCorp Utilities acquires a 40% stake in the Fujairah Independent Water and Power Plant in the UAE, its largest investment to date and first in the Middle East.

SembEnviro acquires waste plastics recycling subsidiary, SembEnviro KK Asia, its second waste-to-resource investment in the year.

SembMarine acquires remaining 50% stake in **Jurong Marine Services (JMS)**, a joint venture providing harbour tug services, for S\$1.6 million, making JMS its 100% subsidiary.

SembMarine's **Mauá Jurong** shipyard in Brazil secures US\$550 million contract to construct a fixed gas production platform for Companhia Mexilhão do Brasil.

AUGUST

SembCorp Industries distributes S\$264.6 million to shareholders as a tax-free capital reduction of 15 cents per share arising from the gain from the divestment of SembCorp Logistics.

SembMarine and **Sembawang Shipyard** acquire SMOE and Sembawang Bethlehem for S\$183.73 million from **SembCorp Industries** to expand and grow the rig building and offshore engineering business.

SEPTEMBER

SembCorp Industries incorporates 100% captive insurance subsidiary, **SembCorp Captive Insurance**.

OCTOBER

SembCorp Industries sells its remaining 12% stake in the former SembCorp Engineers & Constructors to Punj Lloyd and exits the engineering and construction business. The business was sold for a total of S\$38 million.

Sembawang Shipyard wins a drillship upgrading contract worth S\$30 million with Neptune Marine Oil & Gas.

PPL Shipyard signs contract with Offshore Group Corp, which exercised its option for another jack-up rig for US\$155 million.

NOVEMBER

SembMarine sells 30,000,000 shares of COSCO Corporation for a gain of S\$25.7 million.

DECEMBER

Jurong Shipyard wins four contracts worth US\$738 million, for the construction of a heavy-lift jack-up barge for Saudi Aramco Overseas Company and a semi-submersible drilling unit for Noble Drilling and the conversion of two FPSOs for Tanker Pacific.

SembCorp Industries enters into an agreement to sell its interest in Wuxi Garden City Mall Hotel Company. The transaction yielded an exceptional gain of S\$83 million.

GROUP STRUCTURE

SEBMCORP INDUSTRIES

UTILITIES

SembCorp Utilities **100%**

SembCorp Utilities is a leading centralised utilities and energy business. It offers industrial utilities such as energy, steam, industrial water and wastewater treatment to energy intensive manufacturers. It operates in China, Singapore, UAE, UK and Vietnam.

Propylene Purification Unit/Singapore	100%
Sakra Island Carbon Dioxide/Singapore	30%
SembCorp Air Products (HYCO)/Singapore	60%
SembCorp Cogen/Singapore	100%
SembCorp Gas/Singapore	70%
SembCorp Power/Singapore	100%
SUT Division/Singapore	100%
SembCorp Gulf O&M/British Virgin Islands	100%
Nanjing SembCorp SUIWU/China	78.3%
NCIP SembCorp Water/China	70%
QianAn SembCorp Co-generation/China	65%
SembCorp Utilities Investment Management (Shanghai)/China	100%
Shanghai Cao Jing Co-generation/China	30%
Shenzhen Chiwan Sembawang Engineering/China	32%
Zhangjiagang SembCorp Water/China	80%
Emirates SembCorp Water & Power Company/UAE	40%
SembCorp Utilities (UK)/UK	100%
Phu My 3 BOT Power Company/Vietnam	33.3%

MARINE & OFFSHORE ENGINEERING

SembCorp Marine **61.5%**

SembCorp Marine is a global marine and offshore engineering group renowned for its ship repair, rig building and offshore engineering expertise. It has 14 yards in Brazil, China, Indonesia, Singapore and the USA.

Jurong Shipyard/Singapore	100%
Jurong SML/Singapore	100%
PPL Shipyard/Singapore	85%
Sembawang Shipyard/Singapore	100%
SMOE/Singapore	100%
Mauá Jurong/Brazil	35%
COSCO Shipyard Group/China	30%
PT Karimun Sembawang Shipyard/Indonesia	100%
PT SMOE Indonesia/Indonesia	90%
SembCorp-Sabine Shipyard/USA	85%

ENVIRONMENTAL MANAGEMENT

SembCorp Environmental Management **100%**

A premier environmental services company, SembCorp Environmental Management operates in Australia, China, India and Singapore. Its business focus includes pre-disposal treatment and waste-to-resource.

SembEnviro KK Asia/Singapore	90%
SembEnviro Tay Paper/Singapore	60%
SembVISY Recycling MRF/Singapore	60%
SembWaste/Singapore	100%
SembSITA Australia/Australia	40%
Chongqing SembCorp Chunxing Alloy/China	50%
Jiangsu SembCorp Chunxing Alloy/China	50%
Shanghai SEI SembCorp Enviro-Solutions/China	40%
Shanghai SembEnviro Reliance/China	60%
SembRamky Environmental Management/India	51%

OTHERS

SembCorp Parks Holdings **100%**

Gallant Venture/Singapore	26.8%
Vietnam Singapore Industrial Park Joint Venture Company/Vietnam	40.4%
Wuxi-Singapore Industrial Park/China	45.4%

SembCorp Parks Management **56%**

Singapore Precision Industries **100%**

Singapore Mint/Singapore	100%
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SembCorp Design and Construction **100%**

As of December 31, 2006

SembCorp is focused on businesses that are market leaders and capable of delivering quality earnings and sustainable growth.

BUSINESS DESCRIPTION

SembCorp Industries is a Singapore-listed company with assets totalling more than S\$7 billion. The Group is primarily involved in the following businesses:

- Utilities
- Marine & Offshore Engineering
- Environmental Management

The Utilities business unit provides industrial utilities and services to energy-intensive manufacturers. With operations in Singapore, the UK, China, the UAE and Vietnam, its activities include power generation, steam production and distribution, water and wastewater treatment, natural gas supply and associated industrial site services.

The Marine & Offshore Engineering business unit operates a global network of shipyards in Singapore, China, Indonesia, Brazil and the USA to provide integrated solutions in ship repair, shipbuilding, ship conversion, rig building, topsides fabrication and offshore engineering.

The Environmental Management business unit provides integrated environmental solutions to industries, municipalities and governments in Singapore, Australia, China and India. Its activities include collection, recycling and reuse of waste, industrial and commercial cleaning, pre-disposal waste treatment and waste-to-resource conversion.

OBJECTIVE AND STRATEGIES

SembCorp Industries' aim is to provide shareholder value by excelling in businesses that deliver stable earnings, while having the ability to sustain growth over the long term.

The Group pursues overall growth through five strategic directions:

Focus on key businesses

With the structural changes and divestments completed in 2006, SembCorp is focused on businesses that are market leaders and capable of delivering quality earnings and sustainable growth. Our Utilities and Marine & Offshore Engineering businesses offer strong fundamentals. Coupled with our disciplined approach towards investment and growth, we believe that focusing on these key businesses will enable us to continue delivering value and growth to our shareholders.

Build upon business models

We have developed and will continue to build on the strong business models we have in each of our businesses.

In Utilities, we have established a niche as a global leader for the provision of centralised utilities and services to multiple customers in energy-intensive clusters such as chemical and petrochemical hubs. We aim to replicate our success in key markets around the globe through

establishing and growing beachheads in target markets. We do this by entering into strategic partnerships with our international customers and through selective investments in projects that provide secure offtake and that give us the potential to grow. Our Marine & Offshore Engineering business is a global leader with a portfolio that encompasses various segments of the value chain in the global marine and offshore industry. This comprehensive portfolio supports growth and healthy margins.

Move up the value chain

We believe that only businesses with a clear competitive edge and leading market positions can deliver sustainable growth. To this end, we continue to move up the value chain in each of our businesses so as to secure healthy returns and maintain our market leadership.

We operate reliable facilities offering competitive utilities in industrial clusters. Furthermore, we have developed unique operational and technological capabilities, such as the treatment of high chemical oxygen demand wastewater from multiple sources. Together with the continuous improvement and development of proprietary technologies and designs for rigs and vessels in our Marine & Offshore Engineering business and our focus on pre-disposal waste treatment and waste-to-resource conversion in our Environmental Management business, we set ourselves apart from the competition.

Develop new income streams

We are committed to developing businesses to generate new income streams. We seek to expand in tandem with demand through strategic partnership with our customers.

To provide a platform for future growth, we continually identify and develop a pipeline of greenfield and brownfield investments. We also aim to build leading positions in growth markets through selective acquisitions and partnerships.

Leverage on strong brand name

We are organised to enable our businesses to better capitalise on the strength and reliability associated with the SembCorp brand. By anticipating the needs of our customers and leveraging on Group strength and sector expertise to deliver innovative and effective solutions that enable our customers to do their business better, the performance of our businesses reinforce the strength of our brand.

GROUP REVIEW

AT A GLANCE	2006	2005	Change (%)
Turnover (S\$ million)	8,107.1	7,409.2	9
EBITDA (S\$ million)	1,207.1	632.8	91
EBIT (S\$ million)	1,036.8	448.4	131
PATMI from continuing operations (S\$ million)	371.9	245.1	52
PATMI before EI (S\$ million)	379.6	278.5	36
PATMI after EI (S\$ million)	1,029.8	303.3	240
ROE (%)	43	15	187

OVERVIEW

The Group achieved a robust performance, posting a record profit after tax and minority interest (PATMI) of S\$1.03 billion for 2006, a growth of 240% over the previous year. Turnover from continuing operations increased by 30% to S\$7.5 billion. PATMI before exceptional items (EI) from continuing operations rose by 52% to S\$371.9 million.

The Group recorded exceptional gains of S\$650.2 million for 2006. These comprised the net gain on the sale of subsidiaries and other financial assets, tax benefits relating to the compensation and related legal costs incurred in the Solitaire arbitration and write back of impairment for property, plant and equipment. These were partially offset by an additional charge arising from the final settlement of the Solitaire legal case and loss from the sale of a subsidiary.

TURNOVER

The Utilities and Marine & Offshore Engineering business units together contributed

95% of Group turnover from continuing operations of S\$7.5 billion in 2006. Turnover from overseas businesses increased by 32% to S\$4.0 billion, accounting for 54% of Group turnover in 2006.

Utilities' turnover increased by 10% to S\$3.6 billion. Its Singapore and UK operations continued to do well, as prices for high sulphur fuel oil and power remained high.

Turnover for Marine & Offshore Engineering increased by 68% to S\$3.5 billion. This was mainly due to strong growth in its rig building and ship repair businesses.

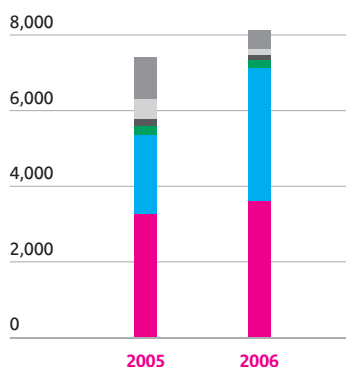
The decrease in turnover for Others/ Corporate segment was due to the disposal of Nirwana Gardens Resort in 2006 and the en-bloc sales of the Cairnhill properties in 2005.

EARNINGS

The Group achieved a strong growth of 36% in PATMI before exceptional items, driven mainly by the Utilities and Marine & Offshore Engineering business units. Our Environmental Management business unit recorded a loss for the year.

Utilities' PATMI before exceptional items in 2006 was higher by 52% over 2005, primarily due to strong performance from its UK operations and positive contribution from its former Offshore Engineering unit. The company took over the operations of the Fujairah water and power plant in the UAE in September 2006. Utilities also divested its Offshore Engineering unit and recorded a gain on sale amounting to S\$8.0 million. However, the performance of its Singapore operations was impacted by an extended major inspection and repair of a gas turbine in its cogeneration plant.

The Group's share of the increased PATMI of the Marine & Offshore Engineering business unit was due to higher operating



TURNOVER (S\$ million)		2005	2006
Continuing operations			
Utilities		3,262	3,590
Marine & Offshore Engineering		2,102	3,539
Environmental Management		217	210
Others/Corporate		190	147
Discontinued operations			
Logistics		542	133
Engineering & Construction		1,096	488
		7,409	8,107

margins from the unit's rig building and ship repair businesses, gain on sale of investments as well as better contribution from its associates.

The poor performance by Environmental Management in 2006 was due to an impairment made for plant and equipment and a provision for contracts relating to the Singapore municipal waste collection sector.

The improvement in Others/Corporate PATMI in 2006 was due to the share of increased profit from associates and joint ventures in our industrial parks business, write back of provision on recovery of a loan and higher dividend income received from investments.

CASH FLOW AND LIQUIDITY

As at December 31, 2006, the Group had cash and cash equivalents of S\$1.2 billion.

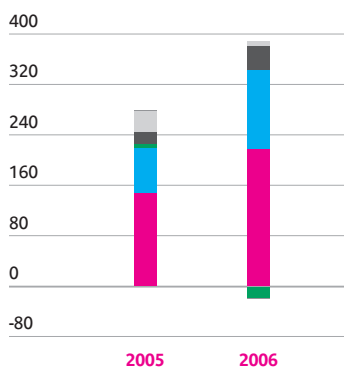
Excluding the payment for the Solitaire settlement of S\$682.7 million, net cash from operating activities was S\$596.5 million for 2006 as compared to S\$848.3 million for 2005. The decrease was attributed to the changes in working capital, as more projects were undertaken

by Marine & Offshore Engineering.

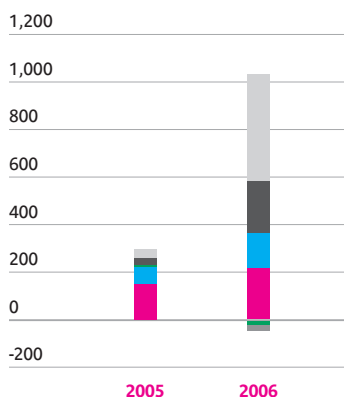
Net cash inflow from investing activities for 2006 was S\$86.3 million. The Group realised S\$863.1 million from the sale of investments. These included the sale of SembCorp Logistics Ltd, SembCorp Engineers and Constructors Pte Ltd, PT Batamindo Investment Cakrawala, PT Bintan Inti Industrial Estate and some COSCO Corporation (S) Ltd shares. The Group spent S\$880.3 million on acquisition, expansion and operational capital expenditure. These included investments in Gallant Venture Ltd and COSCO Corporation (S) Ltd.

Net cash outflow from financing activities for 2005 related mainly to the payment made by the Company and its subsidiary, SembCorp Logistics Ltd, for the special interim dividend and capital reduction exercise. The Group also reduced its external borrowings.

Free cash flow, defined as operating cash flow plus investing cash flow adjusted for the expansion capital expenditure, was S\$460.9 million as at December 31, 2006. The free cash flow was lower than 2005 due to the payment of the Solitaire settlement in 2006.



PATMI BEFORE EI (\$ million)	2005	2006
Continuing operations		
Utilities	147	223
Marine & Offshore Engineering	73	129
Environmental Management	5	(18)
Others/Corporate	19	38
Discontinued operations		
Logistics	33	8
Engineering & Construction	1	(0.3)
	278	380



PATMI AFTER EI (\$ million)	2005	2006
Continuing operations		
Utilities	156	223
Marine & Offshore Engineering	74	147
Environmental Management	5	(16)
Others/Corporate	30	229
Discontinued operations		
Logistics	37	471
Engineering & Construction	1	(24)
	303	1,030

FINANCIAL POSITION

Group shareholders' funds increased from S\$2.0 billion at December 31, 2005 to S\$2.8 billion at December 31, 2006.

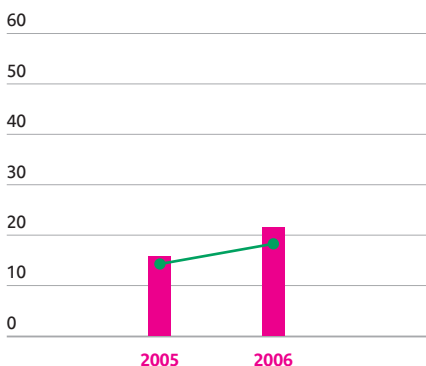
The increase was due to retained profits for the year and fair value adjustments for other financial assets partially offset by the capital distribution paid to shareholders.

The increase in share capital was due to the transfer of share premium account to the share capital, arising from the amendments in the Companies (Amendment)

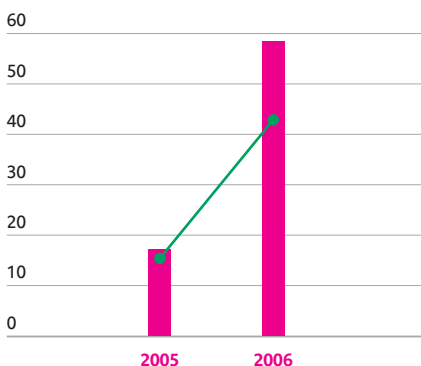
Act 2005, reduced by the capital distribution paid to shareholders. The decrease in minority interests was due to the sale of SembCorp Logistics Ltd.

The increase in interests in associates and the corresponding decrease in interests in joint ventures was mainly due to the Group's rationalisation of its Riau investments (previously held under joint ventures) through the consolidation of these investments under Gallant Venture Ltd, an associate listed on the Singapore Exchange. The increase in

EPS AND ROE BEFORE EI	2005	2006
Earnings Per Share (cents)	15.7	21.6
Return On Equity (%)	14.2	18.2



EPS AND ROE AFTER EI	2005	2006
Earnings Per Share (cents)	17.1	58.5
Return On Equity (%)	15.3	42.8



other financial assets was mainly due to the additional investment and fair value adjustments for COSCO Corporation (S) Ltd shares held by SembCorp Marine Ltd.

Inventories and work-in-progress increased due to more rig building and conversion projects undertaken by Marine & Offshore Engineering. Provisions decreased as the Group made payment for the full and final settlement of the Solitaire arbitration.

SHAREHOLDER RETURNS

Excluding the exceptional items, return on equity improved to 18.2% in 2006 from 14.2% in 2005, and earnings per share increased to 21.6 cents in 2006 from 15.7 cents in 2005.

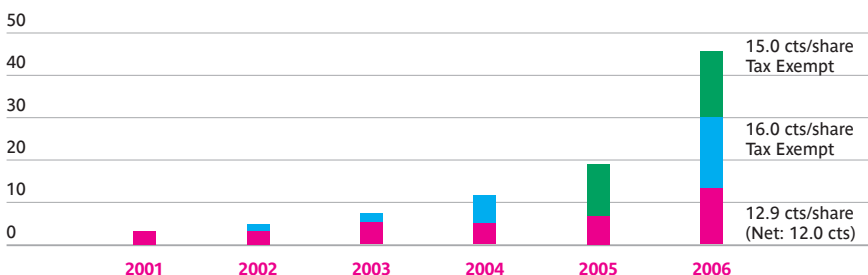
Arising from the sale of SembCorp Logistics Ltd, the Company paid a capital distribution of 15.0 cents per share in cash (without deduction for tax) out of the Company's share capital account. The cash

distribution of S\$264.6 million was paid on August 22, 2006.

Subject to the approval by the shareholders at the next annual general meeting, a final dividend of 28.9 cents per ordinary share (net: 28.0 cents) has been proposed for the financial year ended December 31, 2006. This comprises a 12.9 cents per share ordinary dividend (net: 12.0 cents), representing a payout of 56% of net profit from operations, and a 16.0 cents per share special 1-tier dividend. The special dividend together with the 15.0 cents per share capital distribution (tax exempt) paid in August 2006 accounts for a payout of 84% from exceptional items. Including the capital distribution, the total payout amounts to S\$760.2 million or 74% of the PATMI for 2006. This represents a dividend yield of 11.4% based on the closing share price of S\$3.84 on December 29, 2006.

**DIVIDENDS
AND CAPITAL
REDUCTION (cents/share)**

	2001	2002	2003	2004	2005	2006
■ Ordinary Dividends	3.0	3.0	5.0	5.00	6.5	12.9
■ Special Dividends	–	1.5	2.0	6.25	–	16.0
■ Capital Reduction	–	–	–	–	11.7	15.0
	3.0	4.5	7.0	11.25	18.2	43.9



CRITICAL ACCOUNTING POLICIES

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

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

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

FRS 19 Amendments	Employee Benefits – Actuarial gains and losses, Group plans and Disclosure
FRS 39 Amendments	Financial Instruments: Recognition and Measurement <ul style="list-style-type: none"> ■ Cash flow hedge accounting of forecast intragroup transactions ■ Fair value option ■ Financial guarantee contracts
FRS 104	Insurance Contracts
FRS 106	Exploration for and Evaluation of Mineral Resources
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
INT FRS 106	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The following are two critical accounting policies that form the basis upon which the financial statements are prepared:

Revenue recognition

Revenue on goods sold is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from repair work, engineering, overhaul, service work, and marine and civil construction contracts is recognised based on the percentage of completion method. The stage of completion is assessed by reference to surveys of work performed or by reference to the percentage of costs incurred to date to the estimated total costs for each contract, with due consideration made to include only those costs that reflect work performed. Revenue on other service work is recognised when the work is completed. Revenue on sale of electricity and gases is billed and recognised upon delivery.

Impairment of assets

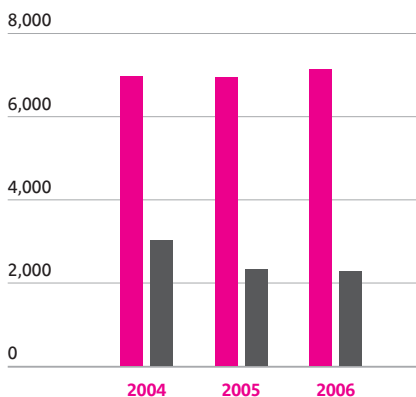
The recoverability or realisable value of the Group's assets is assessed in accordance with the various FRS. The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and as and when indicators of impairment occur.

The rest of the significant accounting policies are set out in Note 2 in the Notes to the Financial Statements on page 118.

LOAN FACILITIES AND UTILISATION (\$ million)

	2004	2005	2006
Facilities	6,970	6,944	7,140
Utilisation	3,077	2,312	2,280



FACILITIES

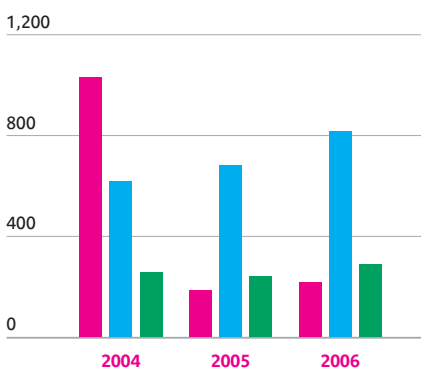
The Group consolidates and diversifies its sources of funding by building on existing bilateral banking relationships and developing new ones. The Group also accesses capital markets as and when appropriate. The Group maintained a 70:30 ratio for its sources of funding from bilateral banking facilities and capital market access. Available credit facilities amounted to S\$4.9 billion (2005: S\$4.6 billion) with unfunded facilities lower at S\$2.3 billion (2005: S\$2.7 billion), due to the disposal of a subsidiary.

BORROWINGS

Our focus is on maintaining an efficient and optimal mix of committed and uncommitted facilities and fixed and floating rate borrowings. The Group remains committed to adhering to prudent financial ratios

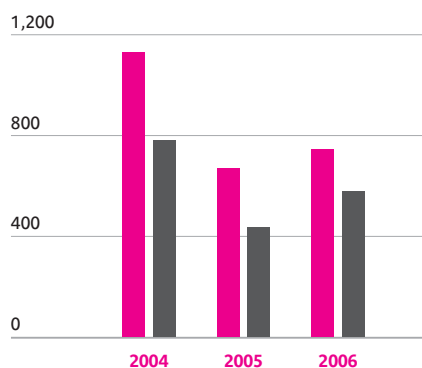
**DEBT MATURITY
PROFILE
(\$ million)**

	2004	2005	2006
■ < 1 year	1,031	185	218
■ 1–5 years	618	681	816
■ > 5 years	257	240	288



**FIXED VS FLOATING
RATE PROFILE
(\$ million)**

	2004	2005	2006
■ Fixed	1,128	670	746
■ Floating	778	436	576



and reducing the cost of funding. As at December 31, 2006, gross borrowings amounted to S\$1.3 billion of which 87% (2005: 90%) was committed funding. Of the overall debt portfolio, 56% (2005: 61%) was not exposed to interest rate fluctuations. The Group seeks to limit its interest rate exposure by adopting a prudent debt structure while balancing this with funding cost considerations. The weighted average cost of funding was higher at 3.9% (2005: 3.4%), due to a rising interest rate environment. Interest cover ratio remained healthy at 22.4 times (2005: 11.7 times).

The current maturity profile of the Group's debt continues to favour the longer dated maturities, which reduces the impact of refinancing risk. As at end 2006, the portion of Group debt maturing within one year was 16%, to allow for maximum

flexibility to pay down short-term debts with available cash.

TREASURY MANAGEMENT

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

FINANCING AND TREASURY HIGHLIGHTS

	2006 S\$ million	%	2005 S\$ million	%	2004 S\$ million	%
Source of funding						
<i>Funded bank facilities, capital markets and available funds</i>						
Funded facilities available for drawdown	4,791		4,277		4,664	
Cash and cash equivalents	1,186		1,231		2,100	
Total facilities and available funds	5,977		5,508		6,764	
Amount drawn down	1,310		1,077		1,788	
Unutilised funded facilities and funds available	4,667		4,431		4,976	
<i>Unfunded bank facilities</i>						
Unfunded facilities available for drawdown	2,349		2,667		2,306	
Amount drawn down	970		1,235		1,289	
Unutilised unfunded facilities available	1,379		1,432		1,017	
Total unutilised facilities and funds available	6,046		5,863		5,993	
<i>Committed facilities</i>						
Committed facilities available	1,151		997		1,381	
Amount drawn	1,151	87	997	90	1,281	67
Funding profile						
<i>Maturity profile</i>						
Due within one year	219	16	185	17	1,031	54
Due between one to five years	816	62	681	61	618	32
Due after five years	288	22	240	22	257	14
	1,323	100	1,106	100	1,906	100
<i>Debt mix</i>						
Floating rate debt	577	44	436	39	778	41
Fixed rate debt	746	56	670	61	1,128	59
	1,323	100	1,106	100	1,906	100
<i>Currency denomination of debt</i>						
SGD	1,014	77	829	75	1,510	79
USD	32	2	24	2	118	6
GBP	257	19	209	19	212	11
Others	20	2	45	4	65	4
	1,323	100	1,106	100	1,906	100

FINANCING AND TREASURY HIGHLIGHTS

	2006		2005		2004	
	S\$ million	%	S\$ million	%	S\$ million	%
Debt ratios						
Interest cover ratio						
Earnings before interest, tax, depreciation and amortisation	1,207		633		1,088	
Interest on borrowings	54		54		75	
Interest cover (times)	22.4		11.7		14.5	
Debt/Equity ratio						
Non-recourse project financing	538	41	399	36	513	27
Long-term debt	622	47	546	49	472	25
Short-term debt	163	12	161	15	921	48
	1,323	100	1,106	100	1,906	100
Less: Cash and cash equivalents	(1,186)		(1,231)		(2,100)	
Net debt/(cash)	137		(125)		(194)	
Net (cash) excluding project financing	(238)		(394)		(575)	
Net gearing excluding project financing (times)	Net cash		Net cash		Net cash	
Net gearing including project financing (times)	0.04		Net cash		Net cash	
Cost of funding						
Floating		3.59		2.73		2.78
Fixed		3.98		3.78		4.57
Weighted average cost of funds		3.85		3.41		3.67

UTILITIES REVIEW

AT A GLANCE	2006	2005	Change (%)
Turnover (S\$ million)	3,628.8	3,280.5	11
EBITDA (S\$ million)	383.5	313.0	23
EBIT (S\$ million)	292.7	223.0	31
PATMI after EI (S\$ million)	223.7	156.1	43
ROE (%)	27	22	23

COMPETITIVE EDGE

- A global leader of the niche business of providing centralised utilities and services to multiple customers in industrial clusters
- First mover advantage on Singapore's Jurong Island as well as in emerging industrial cluster developments through strategic investments in target markets
- Solid track record of operating multi-utility facilities in energy-intensive industrial clusters, where the highest level of reliability is required, and unique operational and technological capabilities in the treatment of wastewater from multiple sources
- Provision of an integrated offer comprising the full spectrum of third-party utilities and services tailored to customer needs
- Strong strategic relationships and partnerships with multinational customers and local governments

OPERATIONS REVIEW

SembCorp Utilities (SembUtilities) enjoyed another year of good performance in 2006, showing both top-line and bottom-line

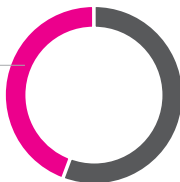
growth. Turnover was S\$3.6 billion, an 11% jump over 2005. Earnings before interest, tax, depreciation and amortisation (EBITDA) climbed 23% to S\$383.5 million, while profit after tax and minority interest (PATMI) grew 43% to S\$223.7 million, backed by strong performance from our UK operations and positive contribution from Utilities' former Offshore Engineering unit. Excluding exceptional items, our Utilities business contributed 59% of Group PATMI. Return on equity remained strong at 27%, higher than 22% in 2005.

Singapore

Our Singapore operations posted healthy performance in 2006. We commenced the supply of utilities to new customers Tate & Lyle and Denka and also supplied additional utilities to Sumitomo Chemical during the year. On the back of continued growth on Jurong Island, new contracts worth S\$68 million per year were signed in 2006. This included a 20-year contract with Lucite International to provide a range of 15 utilities and services to its upcoming methyl methacrylate manufacturing facility. This will be the broadest range of utilities and services taken up by any single customer of SembCorp in Singapore. A 10-year contract to supply additional utilities to an existing customer and eight new natural gas supply contracts were also secured during the year.

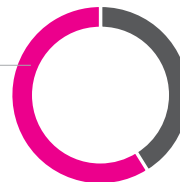
To cater to additional customer demand, we expanded the capacities of several of our water-related assets. In April, we expanded our demineralised water capacity by 5,000 cubic metres per day with a new effluent recovery plant, while another 5,000 cubic metres per day capacity was added to our high-grade industrial water plant

44.3%



**CONTRIBUTION
TO GROUP TURNOVER**

58.9%



**CONTRIBUTION
TO GROUP PATMI BEFORE EI**

in June. We also increased our wastewater treatment capacity by 1,300 cubic metres per day with the completion of a wastewater treatment plant in August.

One of SembCorp Cogen's two gas turbines underwent a mandatory major inspection from June to August 2006. In the first quarter of 2007, a major inspection of the other turbine was completed and some equipment repairs were also undertaken.

To focus on growing our centralised utilities and energy businesses, Utilities' Offshore Engineering subsidiary, SMOE, was sold to SembCorp Marine in August for S\$55 million, and a gain of S\$8 million was recorded.

UK

Our operations in the UK continued to deliver strong performance and growth in 2006. We secured new and renewed contracts worth a total of S\$166 million, including a 15-year power and steam contract for SABIC's (previously Huntsman Petrochemicals UK) low density polyethylene plant, which is due to begin operation in the fourth quarter of 2007, and a five-year asset protection contract from BASF. Factors that contributed to our performance included high energy prices in the UK, favourable supply contracts and the ability of our power plant to use multiple fuels. We also continued to benefit from the sale of levy

exemption certificates (LEC) and carbon allowances during the year.

Wilton 10, our 30 megawatt biomass power plant is expected to start commercial operation in the second half of 2007. The plant—which will run on renewable fuels such as energy crops, recycled timber, sawmill chips and forestry residues—is eligible to earn both renewable obligation certificates (ROC) and LECs in addition to income from the sale of electricity.

Other markets

In 2006, we continued to make progress in growing and developing the facilities that we have established in key industrial sites in China. In July, we completed the first phase expansion of our wastewater treatment plant in Zhangjiagang Free Trade Zone. The expansion, undertaken to meet increased customer demand on the site, doubled the capacity of the facility to 20,000 cubic metres per day. Our wastewater treatment plant in Zhangjiagang was selected by the Jiangsu government as a showcase for the exemplary treatment of industrial wastewater that has high chemical oxygen demand.

In Nanjing Chemical Industrial Park, a 3,000 cubic metres per day wastewater pre-treatment facility was built by Nanjing SembCorp SUIWU to meet the on-site needs of a key multi-national customer. The facility started commercial operation in October.

During the year, we also commenced construction of NCIP SembCorp Water's 100,000 cubic metres per day water treatment plant. The facility is on track for commercial operation in mid-2007.

Our 30%-owned Shanghai Cao Jing Cogeneration plant, with a power capacity of 660 megawatts and steam capacity of 728 tonnes per hour, had its first full year of commercial operation in 2006. Due to a shortage of natural gas in China, the gas-fired cogeneration plant did not receive the required amount of natural gas to run according to plan. Nevertheless, the joint venture ended the year with a small profit, as sufficient gas was received for one of its gas turbines to run for the last seven months of the year and some cost savings were achieved.

Our Vietnam operation, Phu My 3 continued to perform well in 2006, driven by the rapid industrialisation of Vietnam and the consequent growing demand for electricity.

New beachhead in the Middle East

In 2006, we made inroads into the Middle East market, one of the most dynamic regions undergoing industrial development today, through our new beachhead in the United Arab Emirates (UAE). We acquired a 40% stake in an independent water and power plant in Fujairah (Fujairah I) following a competitive bid. Our partner in this project is the Abu Dhabi Water and Electricity Authority (ADWEA), which holds the 60% majority stake in the joint venture. The financial close of the US\$1,726 million project was achieved in November 2006. The project is funded through a non-recourse project finance loan and an equity bridge loan as well as operating cash flows from the plant.

Fujairah I has an existing net power capacity of 535 megawatts and a desalination capacity of 100 million imperial gallons per day. The operation and maintenance of the plant is provided by SembCorp Gulf O&M Company, a wholly-owned subsidiary of SembUtilities. From September 2006, when we took over the management of the plant, until the end of December 2006, the facility achieved no lost time accidents and surpassed the contractual plant availability. We are currently increasing the facility's power capacity by a new-build expansion that will add 225 megawatts, raising the total generation capacity to 760 megawatts in the first quarter of 2009.

Having secured a 22-year water and power purchase agreement for the plant, and with a long-term operation and maintenance agreement in place, we believe that this business will provide us with stable and recurring income. Furthermore, it presents us with a springboard from which we can identify opportunities and develop our centralised utilities business in the Gulf region. Strategically located on the Gulf of Oman, Fujairah is the world's second largest bunkering port after Singapore and is a potential industrial hub.

MARKET REVIEW AND OUTLOOK

Our Singapore operations are expected to benefit from a positive petrochemical outlook for Singapore and a potential stream of new investments and expansions on Jurong Island in the medium term. In particular, Shell's announcement to build a new mono-ethylene glycol plant on Jurong Island and an ethylene cracker on the neighbouring island of Pulau Bukom is expected to lead to significant spin-offs for the local petrochemical industry, including

the attraction of downstream companies to Jurong Island. In 2006, the Singapore Economic Development Board stated that it targets S\$40 billion in cumulative investments on Jurong Island by 2010.

In anticipation of growing customer demand, we are currently evaluating various expansion options. We have also commenced the construction of a very high pressure boiler with a capacity of 400 tonnes per hour, which is scheduled to be completed by the second quarter of 2008. In addition to the expansion that was completed in 2006, this will augment our capacity and ensure the reliability of supply to our customers. We remain interested in the potential sale of the local power generation companies by Temasek Holdings and continue to explore other utility-related business opportunities.

Our UK operations are expected to continue to perform well, underpinned by favourable supply contracts that are locked in place until end 2007/early 2008. With Wilton 10 coming onstream in the second half of 2007, we expect additional income from the sale of electricity as well as ROCs, LECs and carbon allowances. There continue to be growth opportunities in the UK, with potential new investments coming onstream. Ensus Group has chosen Wilton International as the site of its first bioethanol production facility. The facility, to be Europe's largest, is designed to produce 400 million litres of ethanol when it commences operation in the fourth quarter of 2008. Although we have secured contracts to supply utilities services to the facility, these are subject to Ensus securing funding for its project. Our UK team also continues to seek suitable acquisitions in Europe.

Our operations in Zhangjiagang Free Trade Zone are progressing well. In 2006,

the free trade zone signed up 12 new companies, bringing the total number of companies on the site to 55. Total investments into Nanjing Chemical Industrial Park grew from 24 billion yuan to 30 billion yuan during the year. Construction of our water treatment plant in the industrial park is expected to be completed by mid-2007. With additional demand expected from new customers, we are also embarking on a 30,000 cubic metres per day expansion of our wastewater treatment capacity in Nanjing, scheduled for completion in 2008. Shanghai is still facing a natural gas shortage, and the performance of our cogeneration plant will continue to be contingent on the quantity of allocated gas in 2007.

We expect our one-third-owned Phu My 3 power plant in Vietnam to continue to perform well in 2007. Electricity of Vietnam has projected that an installed capacity of 18,000 to 19,000 megawatts of electricity will be needed in Vietnam by 2010. In view of strong projected domestic power demand, we also continue to explore opportunities for growth in the country, including a potential 700 megawatt power plant in Ho Chi Minh City.

In the UAE, to meet the predicted future increases in the demand for power and water in the country, the ADWEA has solicited bids for a 40% stake in Fujairah's second independent water and power plant, which will be situated in the vicinity of Fujairah I. We have successfully pre-qualified to bid for the greenfield project, which involves a combined power and desalination plant with 2,000 megawatts of power capacity and 130 million imperial gallons per day of desalination capacity.

Overall, SembUtilities is expected to continue to perform well in 2007.

MARINE & OFFSHORE ENGINEERING REVIEW

AT A GLANCE	2006	2005	Change (%)
Turnover (S\$ million)	3,545.0	2,119.3	67
EBITDA (S\$ million)	273.8	162.6	68
EBIT (S\$ million)	225.6	124.5	81
PATMI after EI (S\$ million)	238.4	121.4	96
ROE (%)	20	12	67

COMPETITIVE EDGE

- A leading marine and offshore engineering group with an established reputation among international ship owners, rig owners and oil majors for more than 40 years
- Comprehensive portfolio encompassing the full spectrum of integrated solutions from ship repair, shipbuilding, ship conversion, rig repair, rig building, topsides fabrication to offshore engineering
- Proven track record for quality and timely delivery and the ability to handle complex turnkey projects and repairs while meeting high standards for health, safety, security and environment
- Global network of shipyards strategically located along major shipping routes
- Development and ownership of proprietary designs for rigs and container vessels
- Partner alliance arrangements that provide a stable client base

OPERATIONS REVIEW

SembCorp Marine (SembMarine) delivered a strong performance in 2006. Turnover grew 67% from S\$2.1 billion to S\$3.5 billion, while earnings before interest, tax, depreciation and amortisation (EBITDA) rose 68% from S\$162.6 million to S\$273.8 million. Profit after tax and minority interest (PATMI) increased 96% from S\$121.4 million, reaching a record of S\$238.4 million, mainly due to better operating margins from its rig building and ship repair businesses and increased contribution from its associates.

Gross profit and operating margins improved in 2006. For the year, gross profit margin stood at 8.3% and operating margin at 6.4%. Return on equity climbed to 20% from 12% in 2005, surpassing Management's target of 15% for the year.

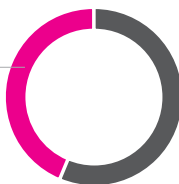
Contracts secured in 2006 amounted to S\$3.1 billion. The total orderbook as at February 2007 was S\$7.1 billion, with completions and deliveries scheduled until 2010.

Ship repair

Turnover contributed by the ship repair segment increased 15% to S\$612.1 million. A total of 314 vessels docked at SembMarine's yards for ship repair in 2006 compared to 309 in 2005. Revenue per vessel edged up from S\$1.72 million per vessel to S\$1.95 million.

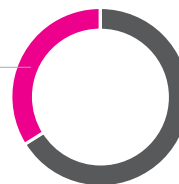
High value repairs to oil tankers, container vessels and Liquefied Natural Gas (LNG)/Liquefied Petroleum Gas (LPG) tankers as well as Floating Production Storage and Offloading (FPSO) upgrading continued to dominate the vessel mix, accounting for 68% of the segment's revenue.

43.7%



**CONTRIBUTION
TO GROUP TURNOVER**

33.9%



**CONTRIBUTION
TO GROUP PATMI BEFORE EI**

Long-term strategic alliances continued to provide steady and growing baseload. Together with our regular customers, they accounted for more than 82% of our ship repair turnover.

Shipbuilding

In 2006, the shipbuilding segment completed and delivered three 2,646 Twenty-Foot Equivalent Units (TEU) container ships for Wan Hai Lines and one for Reederei Laeisz as well as 15 units of floating pontoons, lifting turnover by 12% to S\$210.6 million.

Two tankers for Kuwait Oil, two additional container ships for Wan Hai Lines and another container ship for Reederei Laeisz are expected to be completed in 2007.

Ship conversion and offshore

Turnover for the ship conversion and offshore segment registered a modest growth of 3% to S\$913.4 million. Projects completed during the year included the installation and integration of topsides for the *P-50* project, marine hull conversion and fabrication of topsides and compressor modules for the *P-54* project, *PRA-1* FPSO conversion and *BW Enterprise* FPSO conversion.

Other projects underway include four FPSO/Floating Storage Offloading (FSO) conversions, one heavy lift derrick for a pipe-laying vessel, topsides for ConocoPhillips, *P-54* integration and commissioning and a semi-submersible rig conversion.

Rig building

SembMarine maintained its position as the number two rig builder in the world.

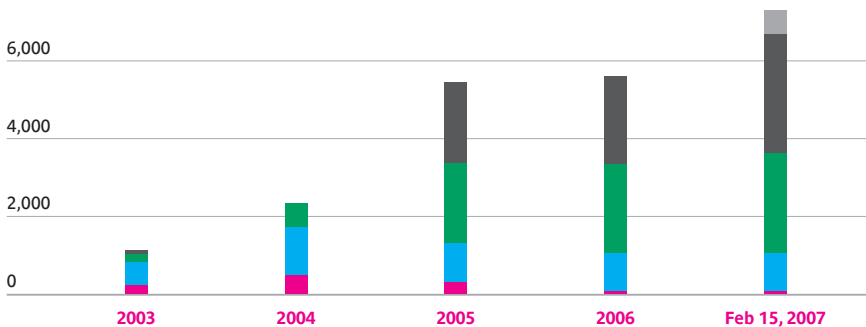
The rig building segment registered the highest growth in turnover, leaping 353% to S\$1.7 billion. In 2006, we completed and delivered jack-up rigs *Deep Driller I* and *WilPower*, now operated and deployed by Reliance Industries in India and Arabian Drilling Company in Saudi Arabia respectively. A lower semi-submersible hull for Atlantia Offshore was also delivered during the year.

Growing rig building and offshore engineering

In order to enhance our capabilities and capacity to grow our rig building and offshore engineering business, SembMarine acquired SMOE and Sembawang Bethlehem from SembCorp Utilities and SembCorp Industries respectively in August 2006 for a total of S\$183.7 million, including the assumption of a net loan of approximately S\$117.0 million.

Following the acquisition, the land adjacent to Sembawang Shipyard in Singapore, which spans 86 hectares and is furnished with a fabrication yard, and the 30-hectare fabrication yard in Batam in Indonesia have been brought under SembMarine, allowing our Marine & Offshore Engineering business to optimise its capacity and resources. Furthermore, the acquisition of SMOE was timely as its expertise and track record in

NET ORDERBOOK (\$ million)	2003	2004	2005	2006	Feb 15, 2007
Shipbuilding	228	487	298	86	86
Ship Conversion and Offshore	584	1,212	992	948	948
Jack-up Rigs	192	589	2,018	2,240	2,530
Semi-submersible Rigs	77	–	2,033	2,198	3,000
Offshore Platforms	–	–	–	–	581
	1,081	2,288	5,341	5,472	7,145



As at February 15, 2007

offshore production facilities will enable SembMarine to expand its capabilities and capacity in anticipation of the expected growth in the offshore production market.

MARKET REVIEW AND OUTLOOK

The market outlook for all sectors in the marine and offshore industry remains strong with the industry expected to continue to benefit from robust freight rates and growing energy demand on a global basis. The International Energy Agency expects global demand for oil to grow by 1.7% in 2007, with almost 40% of the projected increase in consumption in 2007 to come from Asia.

In view of dock capacity constraints, the demand for ship repair is expected to remain buoyant especially in the specialised market of LNG/LPG tankers, Very Large Crude Carrier (VLCC) tankers and container

vessels. Continued growth in the repair market is expected in tandem with the increasing number of vessels worldwide.

The prospects for sustained exploration and production activities remain robust, with continued strength in demand for FPSO/FSO vessels and offshore platforms. Near 100% utilisation rates, high charter rates as well as ageing rig fleets are fundamentals that are expected to provide the basis for a strong rig building market. Meanwhile, worldwide exploration and production activities are expected to continue to expand at a swift pace. Consequently, spending on exploration and production, which saw an increase of 21.3% at US\$261 billion in 2006, is expected to rise. The International Maritime Associates estimated that as at November 2006, 108 production floaters were being planned or under study.

ENVIRONMENTAL MANAGEMENT REVIEW

AT A GLANCE	2006	2005	Change (%)
Turnover (S\$ million)	211.9	218.7	(3)
EBITDA (S\$ million)	(21.7)	4.2	NM
EBIT (S\$ million)	(28.1)	(4.5)	(524)
PATMI after EI (S\$ million)	(16.8)	4.7	NM
ROE (%)	(13)	3	NM

COMPETITIVE EDGE

- Ability to offer comprehensive integrated services in the municipal, industrial, commercial, healthcare, recovery and treatment sectors
- Proven management systems and technology for waste management
- Development and ownership of differentiating technology and know-how, including treatment methods and waste-to-resource technologies
- Strong partnerships with key local players in growing regional markets

OPERATIONS REVIEW

In 2006, SembCorp Environmental Management (SembEnviro) focused on streamlining its operations and executing a strategy to develop pre-disposal treatment methods and waste-to-resource businesses. However, increased competitive pressures in the Singapore municipal waste collection sector significantly weakened the performance of the unit during the year.

SembEnviro's turnover was S\$211.9 million and its earnings before interest, tax,

depreciation and amortisation (EBITDA) was negative S\$21.7 million compared to S\$4.2 million in 2005. Profit after tax and minority interest (PATMI) was a loss of S\$16.8 million, due to an impairment of S\$21 million made for plant and equipment and a provision for contracts relating to the Singapore municipal waste collection sector. Out of five municipalities served previously, SembEnviro secured four in bids held in 2005. Given intense competition and lower than expected recycling rates at source, the four contracts, lasting seven to eight years starting mid-2006, were assessed to be loss making. Hence an impairment provision for the duration of the four contracts was made in the third quarter of 2006. Aside from municipal, the other sectors of our business in Singapore are similarly operating in a highly competitive environment.

On the other hand, our operations in Australia performed well. Our associate, SITA Environmental Solutions successfully acquired two composting facilities through SITA-CEC Environmental Solutions, enhancing our position as the leader in green recovery in Australia. Acquired for S\$25.3 million, the facilities convert municipal, commercial and industrial waste into green compost and recover materials for reuse, using the Bedminster biotechnology. Located in Cairns, Queensland and Port Stephens, New South Wales, the facilities have capacities of 90,000 tonnes per year and 35,000 tonnes per year. SITA-CEC Environmental Solutions is a 50:50 joint venture between SITA and the CEC Group.

In December 2006, our subsidiary in India, SembRamky Environmental Management acquired an additional biomedical waste treatment facility in Kalyani, West Bengal

for S\$1.7 million. We now operate seven biomedical waste treatment facilities in India, with a total installed capacity of 14 tonnes per day.

Transforming through innovation

In 2006, advances were made in the development of innovative pre-disposal treatment methods and waste-to-resource businesses. In Singapore, we began construction of an 800 tonnes per day pre-disposal treatment facility that will allow us to extract recyclable content from waste. This will help to reduce the quantity of waste to be incinerated, lowering the cost of waste disposal, while improving the yield of recyclable materials.

In March 2006, SembEnviro established an S\$80 million 50:50 partnership with the Chunxing Alloy Group. Chunxing Alloy is an established name in lead recycling in China and the only waste metal recycling company among the first group of companies selected for China's national recycling economy pilot programme. The waste-to-resource joint venture undertakes the recovery and sale of used lead acid batteries (ULAB) to battery manufacturers in China and will cater to the country's rapidly rising demand for lead to support its growing automotive and motorised bicycle industries. Still in the initial stages, the joint venture has commenced operations with two plants in Chongqing and Xuzhou. Progressively, more plants will be added in 2007 and 2008.

SembEnviro also embarked on waste plastics recycling, its second waste-to-resource project in the year. It acquired a 90% stake in SembEnviro KK Asia, a Singapore plastics recycler for S\$3.4 million. The joint venture recovers plastic resin

from waste plastics for sale throughout the region. The company has the capacity to recycle up to 50,000 tonnes per year in its facility.

MARKET REVIEW AND OUTLOOK

The Singapore waste collection business for all types of wastes is expected to remain highly competitive. Our 800 tonnes per day pre-disposal treatment facility is scheduled to commence operation in the second half of 2007. Overseas, our Australian associate, SITA Environmental Solutions is expected to continue to perform well. We will also selectively pursue opportunities for growth through our current joint ventures in Australia, China and India.

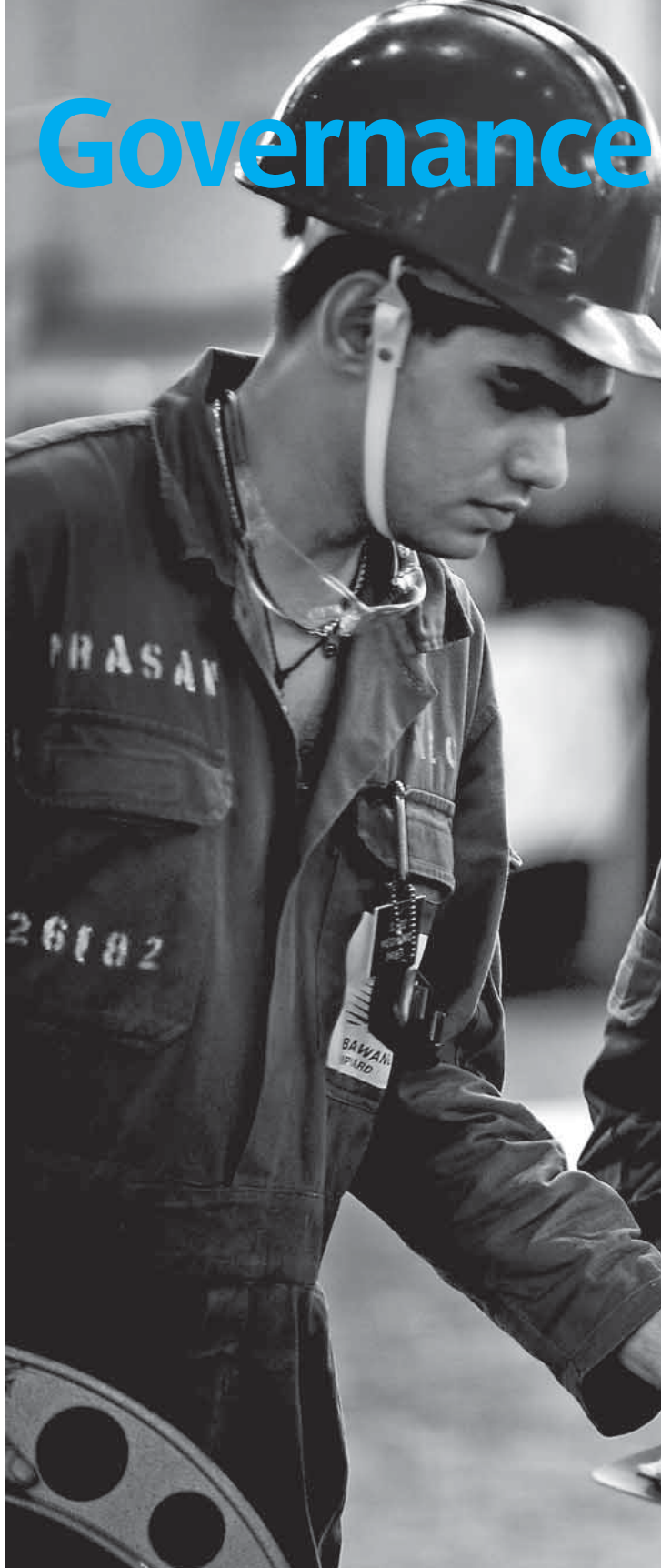
In the year ahead, our priority is to advance the waste-to-resource businesses that we have established in the past year. The outlook for ULAB recycling in China continues to be strong, underpinned by China's increasing automotive and motorised bicycle population and the government's drive to encourage the recycling economy.

Barring unforeseen circumstances, SembEnviro's performance in 2007 is expected to improve over that of 2006.

Governance

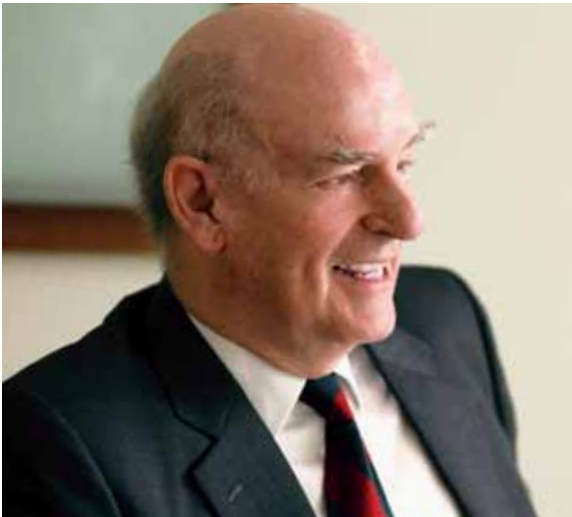
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BOARD OF DIRECTORS





(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.

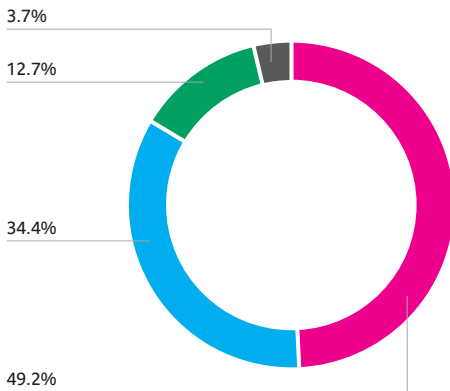
TOTAL SHAREHOLDER RETURN

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

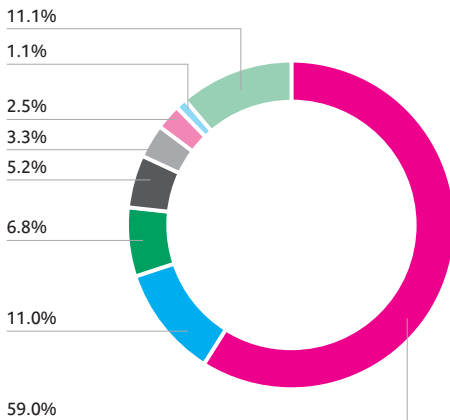
As at December 29, 2006, other than Temasek Holdings, institutional shareholders collectively remained the largest shareholder group, holding 34.4% of issued share



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

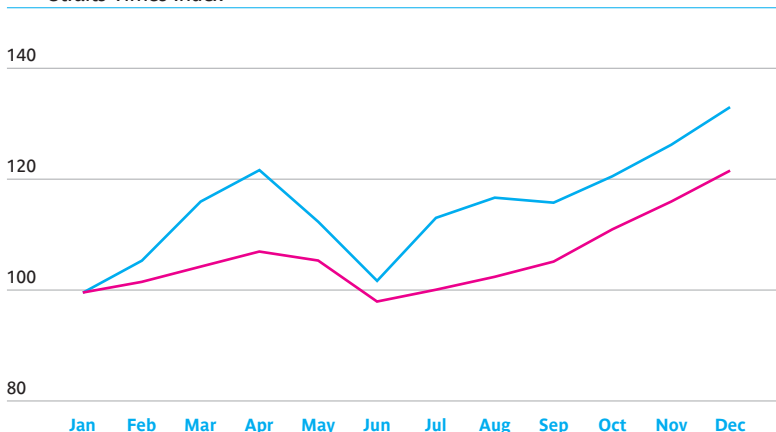
capital or 67.5% of free float, compared to 60.0% of free float in 2005. Retail shareholders, including shareholders holding less than 100,000 shares, and others held the remaining 16.4% of issued share capital or 32.5% of free float.

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.

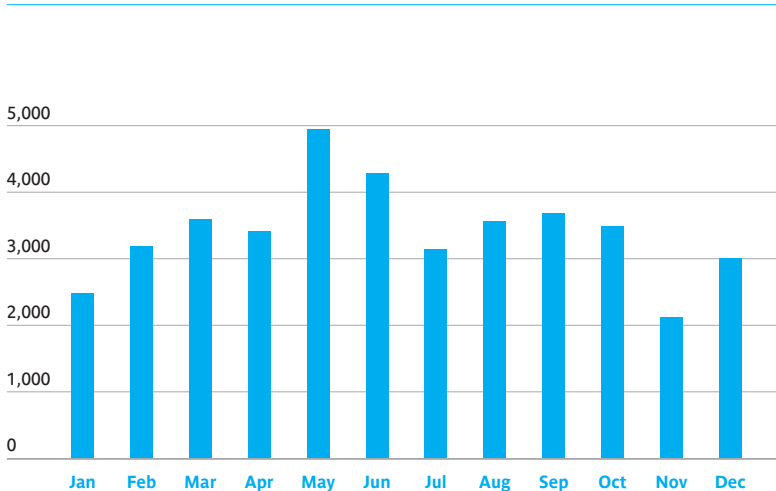
AVERAGE MONTHLY SEMBCORP INDUSTRIES SHARE PRICE AND STRAITS TIMES INDEX IN 2006 (REBASED)

— 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.

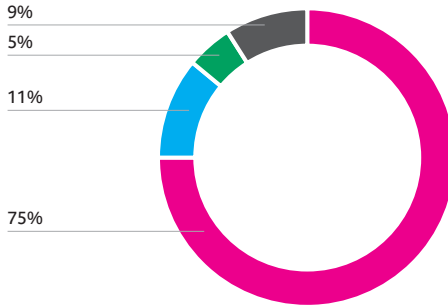
In April, we conducted an organisational culture survey at our corporate headquarters. The aim of this exercise was to provide insight into staff perceptions of the overall culture and climate of our organisation.

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.

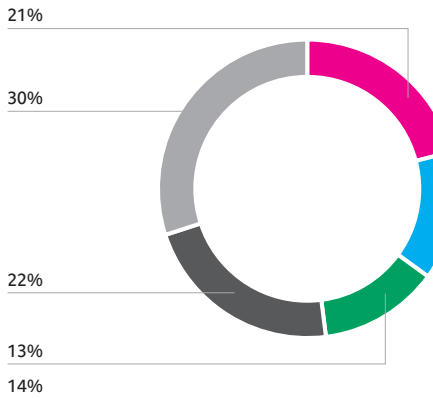
We continue to reward employees who contribute to the growth of SembCorp Industries by giving them an opportunity to earn equity in SembCorp. Share options are granted to all eligible staff, excluding employees of subsidiaries with share option plans of their own. We believe this scheme fosters a sense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



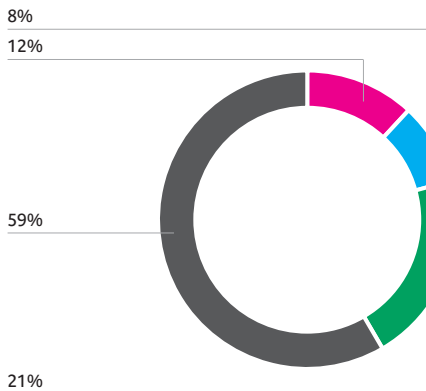
STAFF DISTRIBUTION BY GEOGRAPHICAL AREA

- 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

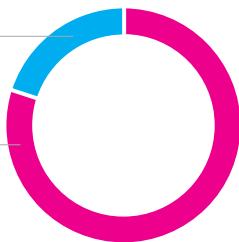
** All figures are based on Group permanent headcount*

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.

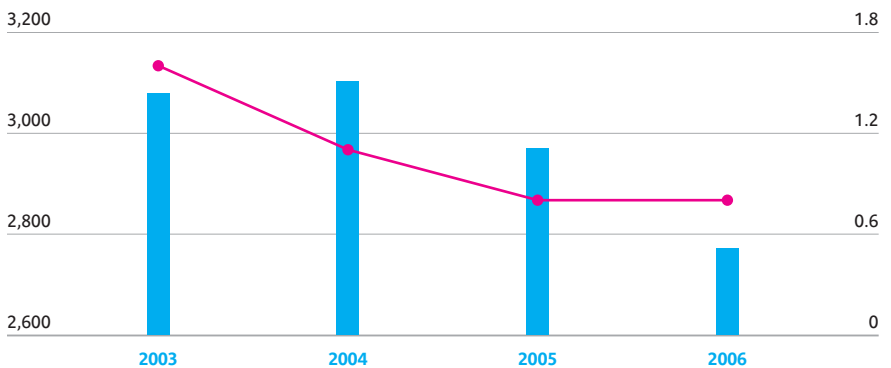
Energy from renewables

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.

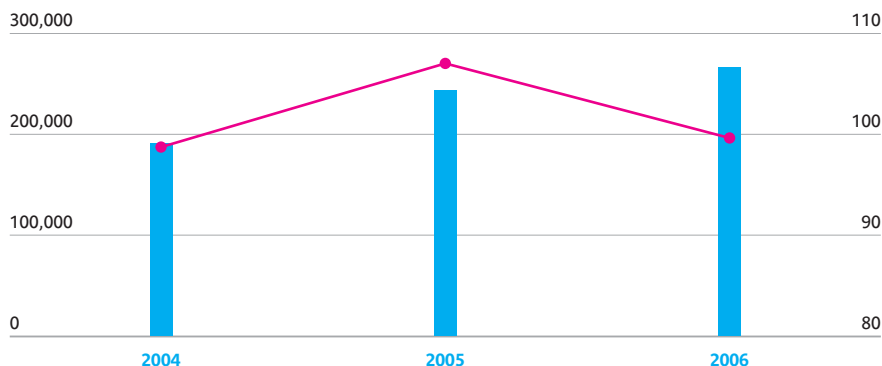
We also recognise that reducing our energy usage can also contribute to lessening our climate change impact. This year, we have achieved a significant reduction of electricity use per million dollars of revenue at our Singapore Utilities operations, as shown in the chart on the facing page.

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.

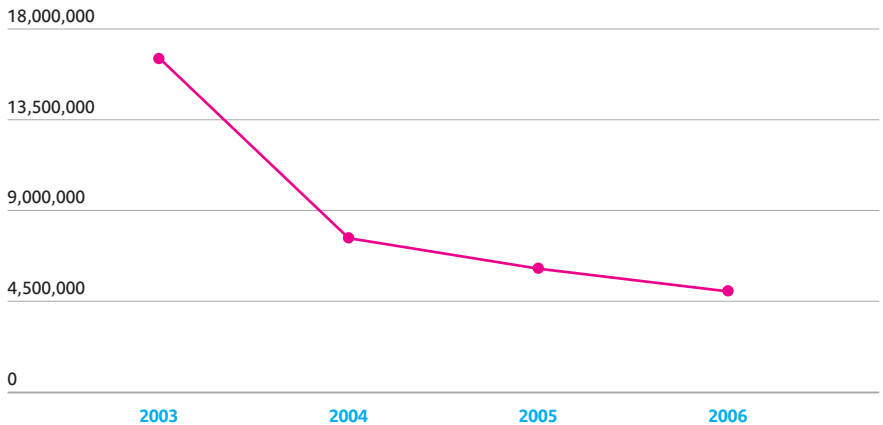
Industrial wastewater treatment

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

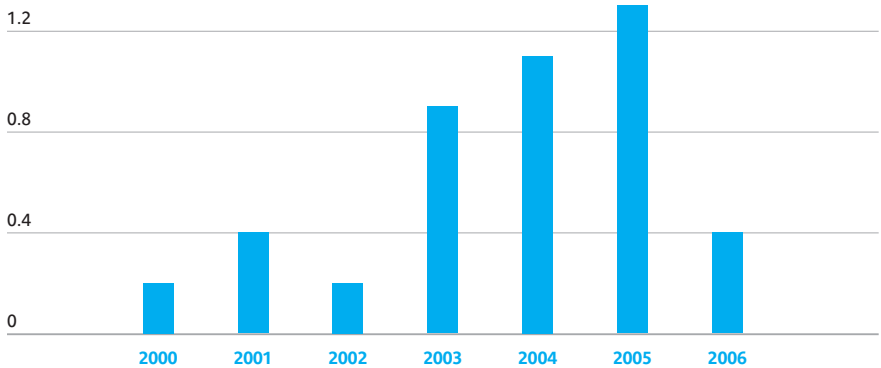
In 2006, we made further progress to embed health and safety measures in our Utilities operations on Jurong Island.

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

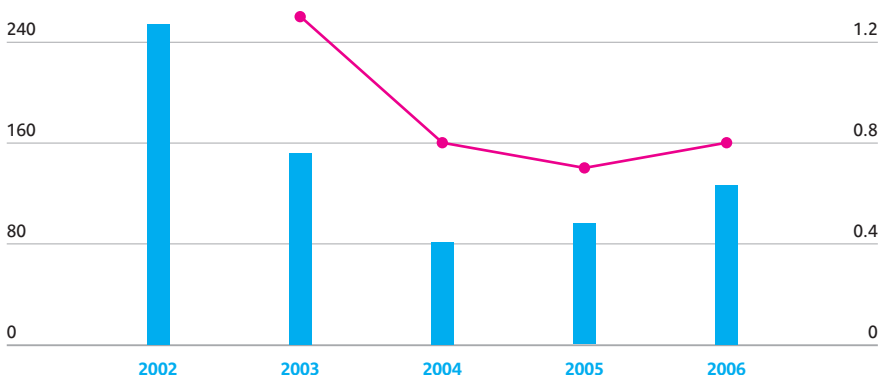
possible with everyone—including partners and suppliers—playing his or her respective role. On-site injuries have declined sharply, as may be seen from the chart above.

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.

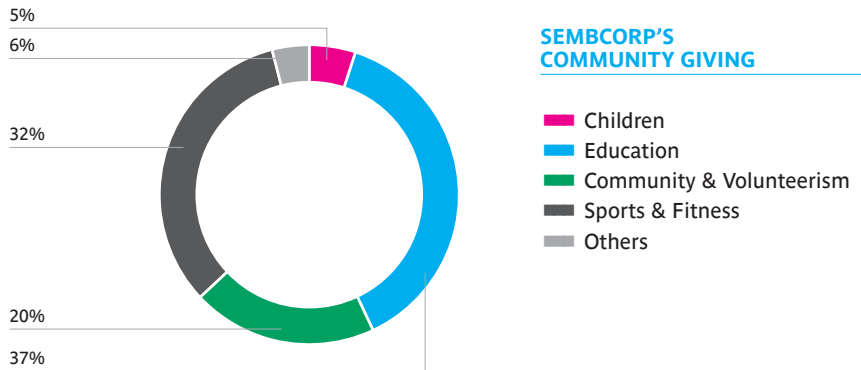
Road safety

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

Confidence



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DIRECTORS' REPORT

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

DIRECTORS

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

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

DIRECTORS' INTERESTS

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

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

DIRECTORS' INTERESTS (cont'd)

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS (cont'd)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children			Other shareholdings in which director is deemed to have an interest		
			At		At	At		
			beginning of the year	At end of the year	21/1/2007	beginning of the year	At end of the year	At 21/1/2007
Tang Kin Fei (cont'd)								
SembCorp Industries Ltd	Options to subscribe for ordinary shares at – S\$2.53 per share	2/7/2006 to 1/7/2015	300,000	300,000	300,000	–	–	–
	– S\$2.52 per share	22/11/2006 to 21/11/2015	300,000	300,000	300,000	–	–	–
	– S\$2.68 per share	10/6/2007 to 9/6/2016	–	300,000	300,000	–	–	–
	Conditional award of:							
	– 100,000 performance shares to be delivered after 2005 (Note 1a)		Up to 200,000	–	–	–	–	–
	– 209,400 performance shares to be delivered after 2006 (Note 1b)		Up to 400,000	Up to 418,800	Up to 418,800	–	–	–
	– 419,200 performance shares to be delivered after 2007 (Note 2a)		Up to 600,000	Up to 628,800	Up to 628,800	–	–	–
	– 419,600 performance shares to be delivered after 2008 (Note 2b)		–	Up to 629,400	Up to 629,400	–	–	–
	– 68,772 restricted shares to be delivered after 2007 (Note 3)		–	Up to 89,404	Up to 89,404	–	–	–

DIRECTORS' INTERESTS (cont'd)

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

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

a. Period from 2003 to 2005@

b. Period from 2004 to 2006

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

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

a. Period from 2005 to 2007

b. Period from 2006 to 2008

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS (cont'd)

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


DIRECTORS' INTERESTS (cont'd)

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS (cont'd)

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



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

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

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

SHARE-BASED INCENTIVE PLANS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other information regarding the Share Plans are as follows:

a. Share Option Plan

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

Other information regarding the Share Option Plan is as follows:

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

SHARE-BASED INCENTIVE PLANS (cont'd)

a. Share Option Plan (cont'd)

v. SembCorp Industries Share Option Plan

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

SembCorp Industries Ltd Ordinary Shares

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

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

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

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

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

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

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

Notes:

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

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

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

SHARE-BASED INCENTIVE PLANS (cont'd)

a. Share Option Plan (cont'd)

vi. Share options of a listed subsidiary

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

SembCorp Marine Ltd Ordinary Shares

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

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

b. Performance Share Plan

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

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

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

SHARE-BASED INCENTIVE PLANS (cont'd)

b. Performance Share Plan (cont'd)

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

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

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

i. SembCorp Industries Performance Shares

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

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

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

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

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

ii. Performance shares of a listed subsidiary

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

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

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

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

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

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

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

c. Restricted Stock Plan

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

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

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

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

i. SembCorp Industries Restricted Stocks

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

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

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

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

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

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

ii. Restricted stocks of a listed subsidiary

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

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

d. Maximum Number of Shares Issuable

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

AUDIT COMMITTEE

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

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

K Shanmugam

Lee Suet Fern

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

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

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

The Audit Committee also reviewed the following:

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

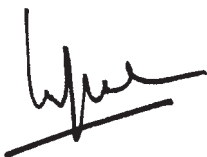
The Audit Committee has full access to the management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external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

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

AUDITORS

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

On behalf of the Board of Directors



PETER SEAH LIM HUAT
Chairman



TANG KIN FEI
Director

Singapore
February 16, 2007

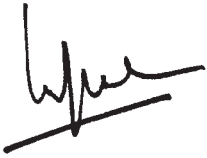
STATEMENT BY DIRECTORS

In our opinion:

- a. the financial statements set out on pages 108 to 205 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006, and of the results, changes in equity and cash flows of the Group for the year ended on that date; and
- b. at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

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

On behalf of the Board of Directors



PETER SEAH LIM HUAT
Chairman



TANG KIN FEI
Director

Singapore
February 16, 2007

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT MEMBERS OF THE COMPANY SEMBCORP INDUSTRIES LTD

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

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion:

- a. the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act, and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006 and of the results, changes in equity and cash flows of the Group for the year ended on that date; and
- b. the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG

Certified Public Accountants

Singapore
February 16, 2007

As at December 31, 2006

BALANCE SHEETS

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

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

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

Year Ended December 31, 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to

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

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

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

shareholders of the Company

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

Year Ended December 31, 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

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

shareholders of the Company

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

Year Ended December 31, 2006

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

These notes form an integral part of the financial statements.

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

1. DOMICILE AND ACTIVITIES

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

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

i. Utilities

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

ii. Marine & Offshore Engineering

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

iii. Environmental Management

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

iv. Industrial Parks

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

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

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

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

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

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

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

FRS 19 Amendments	<i>Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosure</i>
FRS 39 Amendments	<i>Financial Instruments: Recognition and Measurement</i>
	<ul style="list-style-type: none"> ■ <i>Cash flow hedge accounting of forecast intragroup transactions</i> ■ <i>Fair value option</i> ■ <i>Financial guarantee contracts</i>
FRS 104	<i>Insurance Contracts</i>
FRS 106	<i>Exploration for and Evaluation of Mineral Resources</i>
INT FRS 104	<i>Determining whether an Arrangement contains a Lease</i>
INT FRS 105	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
INT FRS 106	<i>Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment</i>

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

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

FRS yet to be adopted

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

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

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

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

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

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

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

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

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

b. Consolidation

i. Subsidiaries

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

b. Consolidation (cont'd)

ii. Associates

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

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

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

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

iii. Joint Ventures

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

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

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

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

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

iv. Accounting for Associates and Joint Ventures

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

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

v. Transactions Eliminated on Consolidation

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

vi. Accounting Policies of Subsidiaries, Associates and Joint Ventures

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

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

c. Foreign Currencies

i. Functional and Presentation Currency

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

ii. Foreign Currency Transactions and Balances

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

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

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

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

iii. Foreign Operations

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

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

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

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

iv. Net Investment in a Foreign Operation

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

NOTES TO THE FINANCIAL STATEMENTS

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

d. Property, Plant and Equipment

i. Owned Assets

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

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

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

ii. Revaluation Surplus

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

iii. Subsequent Expenditure

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

iv. Disposals

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

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

v. Finance Leased Assets

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

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

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

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

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

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

vi. Provision for Restoration Costs

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

vii. Depreciation

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

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

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

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

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

e. Intangible Assets

i. Goodwill

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

e. Intangible Assets (cont'd)

ii. Goodwill/Negative Goodwill Previously Written Off Against Reserves

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

iii. Research and Development

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

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

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

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

iv. Other Intangible Assets

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

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

v. Subsequent Expenditure

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

f. Financial Assets

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

i. Financial Assets at Fair Value

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

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

f. Financial Assets (cont'd)

ii. Held to Maturity Investments

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

iii. Loans and Receivables

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

iv. Available-for-Sale Financial Assets

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

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

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

Impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

f. Financial Assets (cont'd)

Reversals of Impairment

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

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

g. Derivatives

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

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

h. Hedging

i. Fair Value Hedges

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

ii Cash Flow Hedges

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

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

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

h. Hedging (cont'd)

iii Hedge of Monetary Assets and Liabilities

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

iv Hedge of Net Investment in a Foreign Operation

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

v. Separable Embedded Derivatives

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

i. Inventories

i. Finished Goods and Components

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

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

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

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

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

ii Long-term Contracts

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

i. Inventories (cont'd)

iii. Properties Held for Sale

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

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

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

j. Trade Receivables

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

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

k. Deferred Asset Grants

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

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

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

l. Cash and Cash Equivalents

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

m. Impairment

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

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

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

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

m. Impairment (cont'd)

i. Calculation of Recoverable Amount

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

ii. Reversals of Impairment

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

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

n. Liabilities and Interest-Bearing Liabilities

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

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

o. Deferred Income

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

p. Employee Benefits

i. Defined Contribution Plans

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

ii. Defined Benefit Plans

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

NOTES TO THE FINANCIAL STATEMENTS

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

p. Employee Benefits (cont'd)

ii. Defined Benefit Plans (cont'd)

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

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

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

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

iii. Short-term Employee Benefits

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

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

iv. Staff Retirement Benefits

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

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

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

p. **Employee Benefits** *(cont'd)*

v. **Equity and Equity-Related Compensation Benefits**

Share Option Plan

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

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

Performance Share Plan

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

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

Restricted Stock Plan

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

q. Provisions

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

r. Income Tax Expense

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

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

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

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

s. Share Capital

i. Share Capital

Ordinary shares are classified as equity.

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

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

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

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

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

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

t. Dividend

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

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

u. Revenue Recognition

i. Income on Goods Sold and Services Rendered

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

ii. Contract Revenue

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

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

iii. Sale of Electricity and Gases

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

iv. Dividend and Interest Income

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

Interest income is recognised on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

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

v. Operating Leases

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

w. Finance Costs

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

x. Segment Reporting

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

y. Assets (or Disposal Groups) Held For Sale

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

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

z. Discontinued Operation

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

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

aa. Financial Guarantee Contracts

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

3. SHARE CAPITAL

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

- a. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.
- b. As at December 31, 2006, there were 30,663,581 (December 31, 2005: 49,867,341) unissued ordinary shares granted under the Company's Share Option Plan.
- c. In 2005, the Company cancelled 110,152,452 ordinary shares at the price of S\$1.95 per share pursuant to a capital reduction exercise.
- d. On the date of commencement of the Companies (Amendment) Act 2005 on January 30, 2006:
 - The concept of authorised share capital was abolished;
 - Shares of the Company ceased to have par value;
 - The amount standing to the credit of the Company's share premium account of S\$313,618,000 became part of the Company's share capital.
- e. During the year, the Company reduced its capital by S\$264,578,000 by way of a cash distribution of 15 cents per share, without deduction for tax, out of the Company's share capital account.
- f. Movements of the share capital account during the year are set out in the Consolidated Statement of Changes in Equity.

4. SHARE-BASED INCENTIVE PLANS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

Other information regarding Share Plans are as follows:

a. Share Option Plans

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

Other information regarding the Share Option Plan is as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

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

a. Share Option Plans (cont'd)

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

SembCorp Industries Ltd

Ordinary shares

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

a. Share Option Plans (cont'd)

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

SembCorp Marine Ltd

Ordinary shares

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

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

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

Fair Value of Share Options

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

SembCorp Industries Ltd Share Options

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

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

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

SembCorp Marine Ltd Share Options

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

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

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

b. Performance Share Plan

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

NOTES TO THE FINANCIAL STATEMENTS

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

b. Performance Share Plan (cont'd)

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

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

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

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

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

i. SembCorp Industries Ltd Performance Shares

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

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

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

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

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

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

b. Performance Share Plan (cont'd)

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

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

ii. Performance shares of a listed subsidiary

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

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

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

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

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

Fair value of performance shares

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

c. Restricted Stock Plan

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

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

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

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

i. SembCorp Industries Ltd Restricted Stocks

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

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

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

c. Restricted Stock Plan (cont'd)

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

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

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

ii. Restricted stocks of a listed subsidiary

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

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

Fair value of restricted stock

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

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

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

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

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

5. OTHER RESERVES

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

NOTES TO THE FINANCIAL STATEMENTS

5. OTHER RESERVES (cont'd)

a. Share Premium

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

b. Merger Reserve

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

c. Currency Translation Reserve

The currency translation reserve comprises:

- i. foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Company;
- ii. exchange differences on monetary items which form part of the Group's net investment in foreign operations; and
- iii. gains or losses on instruments used to hedge the Company's net investment in foreign operations that are determined to be effective hedges.

d. Other Reserves

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

5. OTHER RESERVES (cont'd)

d. Other Reserves (cont'd)

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

Other reserves include:

- i. Capital reserve comprises capitalisation of accumulated profits for issue of bonus shares, capital reserve (net of goodwill) on consolidation and equity accounting, capital redemption reserve and convertible loan stock reserve.
- ii. Share-based payments reserve comprises the cumulative value of services received from employees recorded on grant of equity-settled share options, performance shares and performance based restricted shares. The expense for service received is recognised over the performance period and/or vesting period. The amount in the share-based payments reserve is retained when the option is exercised or expired.
- iii. Fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investments are derecognised.
- iv. Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT Group

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Group (cont'd)

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

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

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

- ii. Assets with net book value of S\$3,382,000 (2005: S\$2,107,000) were acquired under finance lease.
- iii. Included in the cost of leasehold land and buildings, quays and dry docks and plant and machinery are amounts of S\$120,866,000, S\$100,900,000 and S\$667,000 respectively which were stated at valuation. The revaluation was done on a one off basis prior to January 1, 1997.

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

- iv. During the year, interest and direct staff costs amounting to S\$2,979,000 (2005: S\$425,000) and S\$455,000 (2005: S\$869,000), respectively were capitalised as capital work-in-progress.
- v. The net movement of impairment losses relates primarily to the following:
 - a. As a result of the change in the recoverable amount of the hotel and shopping mall of a subsidiary, the Group reversed the impairment loss for leasehold land and building by S\$84,008,000 to the net selling prices;
 - b. Due to expected losses from its new municipal waste collection contracts, a subsidiary recognised impairment losses of S\$9,948,000 to write down its operating assets. The carrying amount of these assets was reduced to their recoverable amount, which was based on their value in use, calculated based on projections of future cash flows from its new municipal contracts over a period of 8 years and discounted to present value at 7.1%; and

NOTES TO THE FINANCIAL STATEMENTS

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

Group (cont'd)

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

Company

	Leasehold building S\$'000	Leasehold improvements S\$'000	Motor vehicles S\$'000	Furniture, fittings and equipment S\$'000	Capital work-in-progress S\$'000	Total S\$'000
Cost						
Balance at January 1, 2006	312	255	214	3,203	–	3,984
Additions	–	1,801	324	1,951	620	4,696
Disposals/write-offs	–	–	(214)	(102)	–	(316)
Balance at December 31, 2006	312	2,056	324	5,052	620	8,364
Accumulated Depreciation and Impairment Losses						
Balance at January 1, 2006	5	223	214	2,545	–	2,987
Depreciation for the year	5	444	5	887	–	1,341
Disposals/write-offs	–	–	(214)	(102)	–	(316)
Balance at December 31, 2006	10	667	5	3,330	–	4,012
Carrying Amount						
At December 31, 2006	302	1,389	319	1,722	620	4,352
	Leasehold building S\$'000	Leasehold improvements S\$'000	Motor vehicles S\$'000	Furniture, fittings and equipment S\$'000	Total S\$'000	
Cost						
Balance at January 1, 2005	–	255	214	2,768	3,237	
Additions	312	–	–	480	792	
Disposals/write-offs	–	–	–	(45)	(45)	
Balance at December 31, 2005	312	255	214	3,203	3,984	
Accumulated Depreciation and Impairment Losses						
Balance at January 1, 2005	–	139	175	2,104	2,418	
Depreciation for the year	5	84	39	483	611	
Disposals/write-offs	–	–	–	(42)	(42)	
Balance at December 31, 2005	5	223	214	2,545	2,987	
Carrying Amount						
At December 31, 2005	307	32	–	658	997	

7. INVESTMENTS IN SUBSIDIARIES

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

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

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

8. INTERESTS IN ASSOCIATES

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Summarised financial information of associates is as follows:

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

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

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

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

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

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

9. INTERESTS IN JOINT VENTURES

	Group	
	2006	2005
	S\$'000	S\$'000
Interests in joint ventures	<u>264,457</u>	<u>431,711</u>

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

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

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

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

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

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

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

10. OTHER FINANCIAL ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS

10. OTHER FINANCIAL ASSETS (cont'd)

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

11. LONG-TERM RECEIVABLES AND PREPAYMENTS

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

a. Prepayments

Prepayments relate primarily to:

- i. Connection fees prepaid under the Generation Connection and Use of System Agreement for the use of the transmission lines; and
- ii. Service fees prepaid under the Gasoil Supply and Storage Agreement for the usage of the tank.

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

b. Recoverables

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

12. TRADE RECEIVABLES

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

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

13. LEASE RECEIVABLES

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. AMOUNTS DUE FROM RELATED PARTIES

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

- i. The long-term loans to associates and joint ventures are unsecured and not expected to be repaid in the next 12 months. Included in loans to associates, joint ventures and related companies are amounts of S\$410,000 (2005: S\$39,221,000) which bear interest at 2% (2005: 2% to 5.25%) per annum.
- ii. Included in loans due from joint ventures was 1% unsecured loan stocks 1999 of S\$5,250,000 which may, at the option of a subsidiary, be converted at a certain ratio into shares in whole or in part at any time prior to the maturity date provided that all the stockholders shall convert the stocks at the same time.
- iii. The Company ceased to be the subsidiary of Temasek Holdings (Private) Limited (“Temasek”) on December 1, 2006. Accordingly, with effect from December 1, 2006, all balances with the subsidiaries of Temasek and the corresponding allowance for doubtful receivables were reclassified as “Trade and other receivables”.

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

- i. The non-trade amounts due from subsidiaries are unsecured, repayable on demand and interest-free, except for an amount of S\$790,000 (2005: S\$114,000) which bears an interest rate of 2.87% per annum (2005: 0.1% per annum).
- ii. The loans due from subsidiaries were unsecured and bore interest at 2.38% per annum.

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS

Group

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

15. INTANGIBLE ASSETS (cont'd)

Group (cont'd)

Impairment Testing for Goodwill

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

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

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

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

a. SUT Division

- i. There are no significant changes to the customer base, hence the annual fixed revenue and gross profit margin remains stable relative to the previous year; and
- ii. Cash flows beyond the budget period are estimated based on the long-term offtake contracts with its existing customers in the captive market in which it operates.

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS *(cont'd)*

Group *(cont'd)*

Impairment Testing for Goodwill *(cont'd)*

b. SembCorp Cogen Pte Ltd

- i. There are no significant changes in market demand and supply for electricity and electricity spark spread compared to the previous year;
- ii. Required plant maintenance and its associated maintenance costs have been accounted for in the forecast of the plant's gross profit margin for 2007;
- iii. Expected capital expenditure for replenishment of parts has also been accounted for in the forecast in accordance with plant maintenance program; and
- iv. Cash flows beyond the budget period are estimated based on plant availability and load factors as well as changes in operating costs due to normal wear and tear, maintenance cycles and inflation.

c. SembCorp Gas Pte Ltd

- i. Depreciating USD/SGD exchange rate and appreciating HSFO prices compared to the previous year;
- ii. Gross profit margin is expected to remain stable as the pricing on both customer and supplier contracts are pegged to HSFO prices; and
- iii. Cash flows beyond the budget period are estimated based on the contracted sales and purchase quantities of gas over the remaining period of the existing contracts with the major customers and the gas supplier.

d. SembRamky Environmental Management Private Limited

- i. These calculations use cash flow projections based on management's 10-year financial projection of the company;
- ii. Sales volume to grow by 10% per annum for the 1st year, 8% per annum for the 2nd to 9th year and 21% per annum for the 10th year; and
- iii. Waste disposal fees to increase annually at the rate of 2% to 3% per annum generally.

e. These CGUs were divested during the year.

Company

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

16. DEFERRED TAX

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

Group

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

NOTES TO THE FINANCIAL STATEMENTS

16. DEFERRED TAX (cont'd)

Group (cont'd)

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

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

Company

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

16. DEFERRED TAX (cont'd)

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

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

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

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

- Where they are qualified for offset against the tax liabilities of member companies within the Group under the Loss Transfer System of Group Relief but the terms of the transfer have not been ascertained as at year end; and
- Where it is uncertain that future taxable profit will be available against which the Group can utilise the benefits.

17. INVENTORIES AND WORK-IN-PROGRESS

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

b. The properties were sold in 2006.

18. TRADE AND OTHER RECEIVABLES

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

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

- a. In 2005, sundry receivables included an amount of S\$25,811 in respect of loans to directors of the subsidiaries and associates which were granted in accordance with employee loan schemes approved by the members of the subsidiaries and associates.
- b. Unbilled receivables represent revenue accrued for sale of utilities services, electricity, gas and other related products.

NOTES TO THE FINANCIAL STATEMENTS

20. ASSETS HELD FOR SALE

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

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

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

21. BANK BALANCES, FIXED DEPOSITS AND CASH

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

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

22. TRADE AND OTHER PAYABLES

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

23. OTHER FINANCIAL LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS

24. AMOUNTS DUE TO RELATED PARTIES

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

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

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

25. OTHER PAYABLES AND ACCRUED CHARGES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

26. PROVISIONS

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

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

Loan Undertakings

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

Obligations Relating to Disposal of Business

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

Claims

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

26. PROVISIONS (cont'd)

Onerous contracts

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

Restoration costs

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

Others

This relates mainly to provisions for:

- i. Losses and other claims in respect of customers' inventories managed by a subsidiary. The subsidiary was divested during the year; and
- ii. Warranty in respect of a completed project. The provision is based on estimates made from historical warranty data associated with similar projects.

27. RETIREMENT BENEFIT OBLIGATIONS

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

a. Provision for Retirement Gratuities

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

NOTES TO THE FINANCIAL STATEMENTS

27. RETIREMENT BENEFIT OBLIGATIONS (cont'd)

b. Defined Benefit Obligations

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

Details of the plans are as follows:

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

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

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

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

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

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

27. RETIREMENT BENEFIT OBLIGATIONS (cont'd)

b. Defined Benefit Obligations (cont'd)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Principal actuarial assumptions

Principal actuarial assumptions as at the balance sheet date:

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

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

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

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

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

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

28. INTEREST-BEARING BORROWINGS

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

Maturity of liabilities (excluding finance lease liabilities)

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

a. The secured loans are collateralised by the following assets:

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

NOTES TO THE FINANCIAL STATEMENTS

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

b. Unsecured Term Loans

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

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

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

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

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

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

c. Finance Lease Liabilities

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

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

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

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

d. Convertible Bond

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

29. OTHER LONG-TERM LIABILITIES

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

- Deferred income relates mainly to advance payments received from customers in respect of connection and capacity charges for the supply and delivery of gas and utilities.
- Deferred grants relate to government grants for capital assets.
- Other long-term payables relate primarily to retention monies of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

30. TURNOVER

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

31. FINANCE COSTS

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

32. INCOME TAX CREDIT/(EXPENSE)

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

Reconciliation of effective tax rate

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

NOTES TO THE FINANCIAL STATEMENTS

33. DISCONTINUED OPERATIONS

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

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

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

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

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

34. PROFIT FOR THE YEAR

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

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

NOTES TO THE FINANCIAL STATEMENTS

34. PROFIT FOR THE YEAR (cont'd)

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

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

35. EARNINGS PER SHARE

	Group	
	2006	2005
	S\$'000	S\$'000
a. Basic earnings per share		
Basic earnings per share is based on:		
i. Profit attributable to shareholders of the Company		
– from continuing operations	582,894	265,210
– from discontinued operations	446,879	38,085
	1,029,773	303,295
	No. of shares	No. of shares
	'000	'000
ii. Weighted average number of ordinary shares :		
Issued ordinary shares at beginning of the year	1,746,412	1,826,489
Weighted average number of shares issued under Share Option Plan	13,629	16,611
Weighted average number of shares cancelled pursuant to capital reduction	–	(73,472)
Weighted average number of ordinary shares	1,760,041	1,769,628
	Group	
	2006	2005
	S\$'000	S\$'000
b. Diluted earnings per share		
Diluted earnings per share is based on:		
i. Profit attributable to shareholders of the Company		
– from continuing operations	582,894	265,210
– from discontinued operations	446,879	38,085
	1,029,773	303,295
ii. Weighted average number of ordinary shares		
For the purpose of calculating the diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from the exercise of all outstanding share options granted to employees where such shares would be issued at a price lower than the fair value (average share price during the financial year). The difference between the weighted average number of shares to be issued at the exercise prices under the options and the weighted average number of shares that would have been issued at the fair value based on assumed proceeds from the issue of these shares are treated as ordinary shares issued for no consideration. The number of such shares issued for no consideration is added to the number of ordinary shares outstanding in the computation of diluted earnings per share. No adjustment is made to the profit attributable to shareholders of the Company.		

NOTES TO THE FINANCIAL STATEMENTS

35. EARNINGS PER SHARE (cont'd)

b. Diluted earnings per share (cont'd)

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

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

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

36. DIVIDENDS AND CAPITAL DISTRIBUTION

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

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

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

37. SIGNIFICANT ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

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

38. RELATED PARTIES

Group

a. Related party transactions

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

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

b. Compensation of key management personnel

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

The key management personnel compensation is as follows:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

38. RELATED PARTIES *(cont'd)*

Group *(cont'd)*

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

The Group adopts an incentive compensation plan, which is tied to the creation of Economic Value Added ("EVA"), as well as to attainment of individual and Group performance goals for its key executives. A "bonus bank" is used to hold incentive compensation credited in any year. Typically, one-third of the available balance is paid out in cash each year, with the balance being carried forward to the following year. Such carried forward balances of the bonus bank may either be reduced or increased in future, based on the yearly EVA performance of the Group and its subsidiaries.

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

Company

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

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

- b. The Company has provided financial guarantees for the indebtedness of other companies within the Group; the Company considers these to be insurance arrangements and treats them as contingent liabilities. Details of the guarantees are set out in note 40 to the financial statements.
- c. In 2005, the Company provided a lease guarantee to the landlord of a subsidiary, amounting to approximately S\$36 million, representing the expected rental payment for the remaining 16 years under the tenancy agreement. The subsidiary was disposed of in 2006.

39. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

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

As part of the Group's Enterprise Risk Management framework, Group treasury policies and financial authority limits are documented and reviewed periodically. The policies set out the parameters for management of Group liquidity, counterparty risk, foreign exchange and derivative transactions and financing.

The Group utilises various financial instruments to manage exposures to interest rate, foreign exchange and commodity price risks arising from operating, financing and investment activities. Transactions such as swaps, options and contracts for difference hedge the Group against fluctuations in the market prices of the underlying instruments. The Group monitors and hedges, where appropriate, its exposure to fluctuations in interest rates, foreign exchange rates and commodity prices. Exposures to foreign currency risks are also hedged naturally where possible.

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

39. FINANCIAL INSTRUMENTS

a. Interest rate risk

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

b. Foreign currency risk

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

c. Commodity risk

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

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

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

d. Credit risk

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

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

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

e. Working capital management

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

NOTES TO THE FINANCIAL STATEMENTS

39. FINANCIAL INSTRUMENTS (cont'd)

f. Effective interest rates and repricing analysis

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

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

39. FINANCIAL INSTRUMENTS (cont'd)

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

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

NOTES TO THE FINANCIAL STATEMENTS

39. FINANCIAL INSTRUMENTS (cont'd)

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

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

g. Sensitivity analysis

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

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

39. FINANCIAL INSTRUMENTS *(cont'd)*

h. Estimation of fair values

Securities

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

Derivatives

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

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

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

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

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

Interest-bearing loans and borrowings

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

Finance lease liabilities

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

Other financial assets and liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

39. FINANCIAL INSTRUMENTS (cont'd)

h. Estimation of fair values (cont'd)

i. Recognised Financial Instruments

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

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

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

ii. Notional Amount

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

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

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

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

40. CONTINGENT LIABILITIES (UNSECURED)

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

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

- a. In consideration of a consortium of banks making available to an associate, Emirates SembCorp Water & Power Company P.J.S.C (“ESWPC”) (a private joint stock company incorporated under the laws of the United Arab Emirates and the Emirate of Fujairah), a US\$88 million equity bridge loan facility (“EBL”), SembCorp Utilities Pte Ltd (“SCU”) guarantees the payment of all sums relating to EBL by ESWPC to the banks. The aggregate liability of SCU, including outstanding interest, shall not exceed an amount of US\$90.64 million. The final maturity date for the EBL would be the earliest of (i) April 30, 2009, (ii) 2 years 7 months after date of the loan agreement, or (iii) Project Commercial Operation Date.
- b. In consideration of the contracting banks entering into the interest rate swap hedging agreement relating to EBL (“EBH”) with ESWPC, SCU guarantees all amounts falling due on the EBH, payable by ESWPC to the banks. The aggregate liability of SCU shall not exceed an amount of US\$6.5 million. The maturity date for these hedging agreements is February 1, 2009.

Company

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Company (cont'd)

- b. In 2005, the Company has also provided guarantee to a bank to secure banking facilities provided to a former subsidiary, amounting to approximately S\$3 million. During the year, the former subsidiary has fully repaid the loan and the guarantee was discharged on February 12, 2007.
- c. The Company provided a corporate guarantee to a subsidiary, SembCorp Cogen Pte Ltd ("SembCogen") which on January 15, 1999, entered into a long-term contract ("End User Agreement") with a fellow subsidiary, SembCorp Gas Pte Ltd ("SembGas") to purchase natural gas over the period of 22 years. Under the End User Guarantee Agreement ("EUGA"), the Company and one of its subsidiaries, SembCorp Utilities Pte Ltd, issued corporate guarantee in favour of SembGas for 70% and 30% respectively of SembCogen's obligations under the End User Agreement.

41. COMMITMENTS

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

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

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

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

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

42. SEGMENT REPORTING

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

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

i. Business Segments

The Group comprises the following main business segments:

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

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

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

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

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

ii. Geographical Segments

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

NOTES TO THE FINANCIAL STATEMENTS

42. SEGMENT REPORTING (cont'd)

a. Business Segments

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

Discontinued Operations

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

NOTES TO THE FINANCIAL STATEMENTS

42. SEGMENT REPORTING (cont'd)

a. Business Segments (cont'd)

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

Discontinued Operations

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

NOTES TO THE FINANCIAL STATEMENTS

42. SEGMENT REPORTING *(cont'd)*

b. Geographical Segments

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

43. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

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

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

a. Impairment of goodwill

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

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

Key sources of estimation uncertainty (cont'd)

b. Income taxes

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

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

c. Pension assumptions

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

d. Depreciation of property, plant and equipment

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

Critical accounting judgements in applying the Group accounting policies

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

a. Revenue recognition policy

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

b. Impairment of investments and financial assets

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

44. COMPARATIVE INFORMATION

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

NOTES TO THE FINANCIAL STATEMENTS

45. SUBSIDIARIES

Details of significant subsidiaries are as follows:

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

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

* Audited by Ernst & Young LLP

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

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

46. ASSOCIATES AND JOINT VENTURES

Details of significant associates and joint ventures are as follows:

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

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

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

[^] Audited by Ernst & Young Vietnam Limited

[@] Audited by Deloitte Touche Tohmatsu CPA Ltd

[#] Audited by PriceWaterhouseCoopers Zhong Tian CPAS Limited Company

^{*} Audited by Reanda CPA, China

^{^^} Audited by Ernst & Young, Singapore

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

SUPPLEMENTARY INFORMATION

(UNDER SGX-ST LISTING MANUAL REQUIREMENTS)

A. Directors' Remuneration

Summary compensation table for the year ended December 31, 2006

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

Note:

- The salary amount shown is inclusive of allowances, employer CPF, all fees other than directors' fee, and other emoluments.
- Taxable income for Lua Cheng Eng is from exercise of SembCorp Marine and the Company's share options during the year. Taxable income for Peter Seah Lim Huat, Tang Kin Fei, K Shanmugam, Goh Geok Ling, Richard Hale, OBE and Colin Au Fook Yew are from exercise of the Company's share options during the year. These relate to taxable gains and are not charged to the profit and loss account.
- The bonus amount shown includes employer CPF, AWS, discretionary bonus, performance target bonus and performance shares released during the year.
- Exercise period is June 10, 2007 to June 9, 2011 and exercise price is S\$2.68 per share.
 - Exercise period is June 10, 2007 to June 9, 2016 and exercise price is S\$2.68 per share.
 - Option not accepted.

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

(UNDER SGX-ST LISTING MANUAL REQUIREMENTS)

B. Interested Person Transactions

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

Aggregate value of all interested person transactions
conducted under a shareholders' mandate
pursuant to Rule 920 of the SGX-ST Listing Manual
(excluding transactions less than S\$100,000)

2006

S\$'000

Sale of goods and services

Temasek Holdings (Private) Limited and its Associates	
– Tuas Power Ltd/PowerSeraya Limited ¹	551,267
– Temasek Capital (Private) Limited and its Associates	6,322
– MediaCorp Pte Ltd and its Associates	4,515
– Singapore Technologies Telemedia Pte Ltd and its Associates	3,465
– PSA International Pte Ltd and its Associates	2,448
– Wildlife Reserves Singapore Pte Ltd and its Associates	1,675
– Senoko Power Ltd	811
– Singapore Power Ltd and its Associates	798
– National University Hospital (S) Pte Ltd and its Associates	450
– Surbana Corporation Pte Ltd and its Associates	391
	572,142
Singapore Petroleum Company Limited and its Associates	27,201
Singapore Airlines Limited and its Associates	10,904
Starhub Ltd and its Associates	3,285
Singapore Food Industries Ltd and its Associates	998
SNP Corporation Ltd and its Associates	783
SIA Engineering Company Limited and its Associates	635
	615,948

Purchase of goods and services

Temasek Holdings (Private) Limited and its Associates	
– Temasek Capital (Private) Limited and its Associates ²	514,182
– Singapore Power Ltd and its Associates	3,343
	517,525

Treasury (Balances as at December 31, 2006)

Placement of funds

Singapore Technologies Pte Ltd and its Associates	11,219
Total interested person transactions	1,144,692

Note:

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

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

EVA STATEMENT

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

Notes:

- Interest expense includes imputed interest on present value of operating leases and capitalised interest charged to profit and loss upon disposal of the assets.
- Other adjustments include recovery of investment costs, timing difference of allowances made for/(writeback) of doubtful debts, inventory obsolescence and goodwill written off/amortised/impaired and construction-in-progress.
- The reported current tax is adjusted for the statutory tax impact of interest expense.
- Monthly average total assets less non interest-bearing liabilities plus timing provision, goodwill written off/amortised/impaired and present value of operating leases.

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



Notes (cont'd):

5. The Weighted Average Cost of Capital is calculated in accordance with SembCorp Industries Ltd Group EVA Policy as follows:
 - i. Cost of Equity using Capital Asset Pricing Model with market risk premium at 6.0% (2005: 6.0%);
 - ii. Risk-free rate of 3.31% (2005: 2.62%) based on yield-to-maturity of Singapore Government 10 years Bonds;
 - iii. Ungeared beta ranging from 0.5 to 1.0 (2005: 0.5 to 1.0) based on SembCorp Industries risk categorisation; and
 - iv. Cost of Debt rate at 4.04% (2005: 3.03%) using 5-year Singapore Dollar Swap Offered Rate plus 75 basis points (2005: 5-year Singapore Dollar Swap Offered Rate plus 75 basis points).
6. Unusual items (UI) refer to divestment of subsidiaries, associates, joint ventures, long-term investments and disposal of major fixed assets.

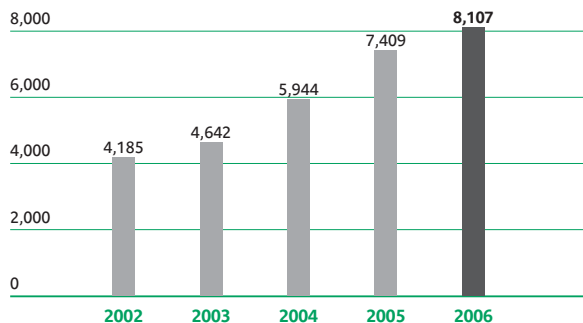
FIVE-YEAR PERFORMANCE

FINANCIALS

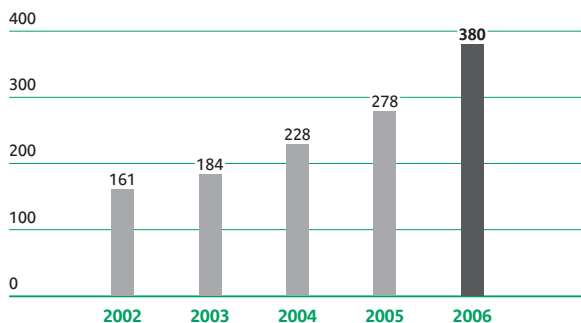
	2002	2003	2004	2005	2006
For the year (\$ million)					
Turnover	4,185	4,642	5,944	7,409	8,107
EBITDA	473	559	1,088	633	1,207
Profit before income tax expense	291	471	982	508	1,149
Profit attributable to Shareholders of the Company (PATMI):					
– before exceptional items	161	184	228	278	380
– after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

* Based on the closing share price for respective years.

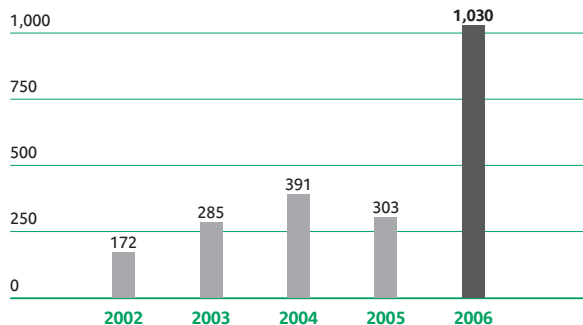
TURNOVER (\$ million)



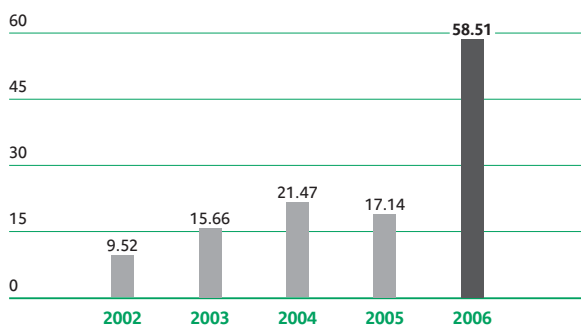
PATMI BEFORE EI (\$ million)



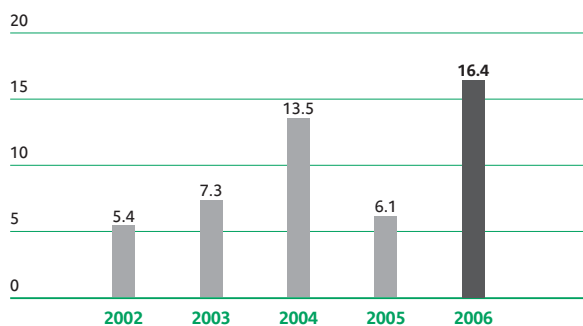
PATMI AFTER EI (\$ million)



EARNINGS PER SHARE AFTER EI (cents)



RETURN ON TOTAL ASSETS AFTER EI (%)



FIVE-YEAR PERFORMANCE

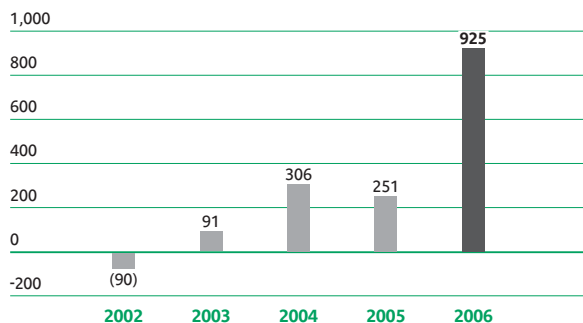
ECONOMIC VALUE ADDED

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

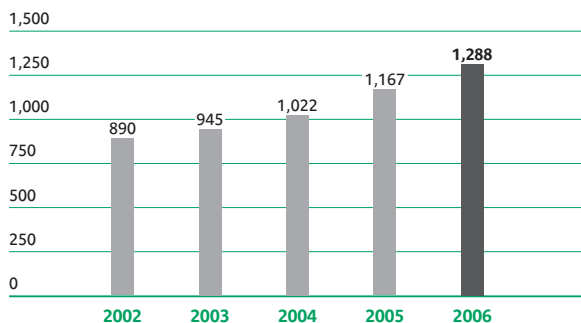
PRODUCTIVITY DATA

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

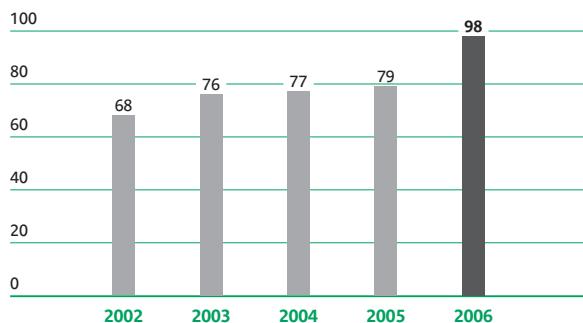
ECONOMIC VALUE ADDED (\$\$ million)



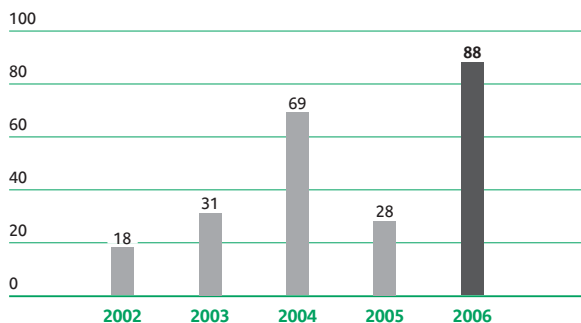
VALUE ADDED (\$\$ million)



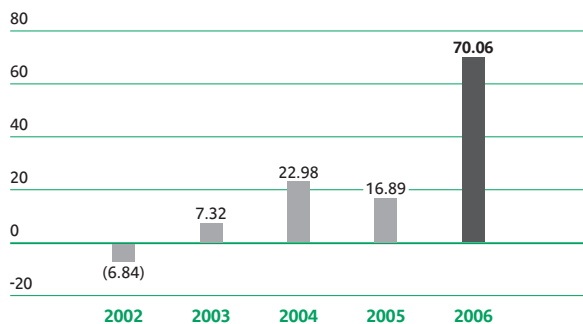
VALUE ADDED PER EMPLOYEE (\$\$'000)



PROFIT AFTER TAX PER EMPLOYEE (\$\$'000)



ECONOMIC VALUE ADDED PER EMPLOYEE (\$\$'000)



FIVE-YEAR PERFORMANCE

REVIEW BY BUSINESSES

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

VALUE ADDED STATEMENTS

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

The figures above reflect core businesses only.

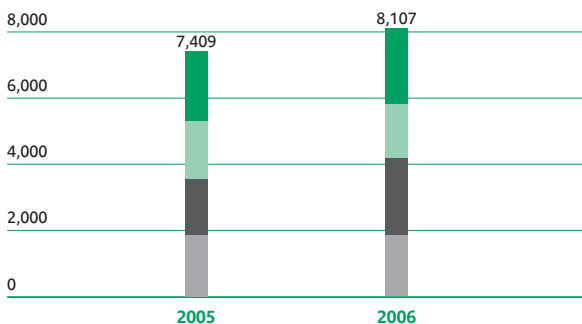
QUARTERLY PERFORMANCE

GROUP QUARTERLY RESULTS

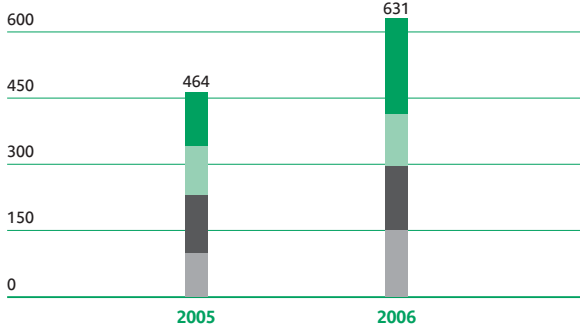
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full Year
	S\$ million	S\$ million	S\$ million	S\$ million	S\$ million
Turnover					
2006	1,856	2,322	1,647	2,282	8,107
2005	1,855	1,686	1,776	2,092	7,409
Profit before income tax expense (PBT) and exceptional items					
2006	150	146	118	217	631
2005	98	131	113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

TURNOVER (\$ million)

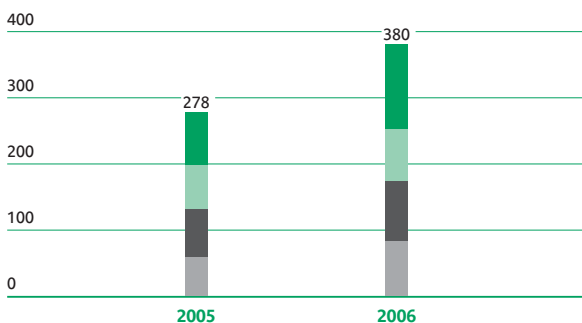
	2005	2006
Quarter 4	2,092	2,282
Quarter 3	1,776	1,647
Quarter 2	1,686	2,322
Quarter 1	1,855	1,856
	7,409	8,107


PBT BEFORE EI (\$ million)

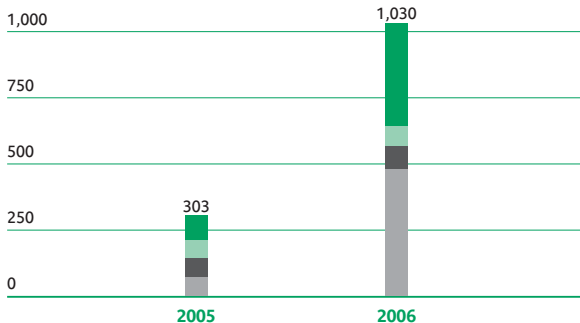
	2005	2006
Quarter 4	122	217
Quarter 3	113	118
Quarter 2	131	146
Quarter 1	98	150
	464	631


PATMI BEFORE EI (\$ million)

	2005	2006
Quarter 4	80	128
Quarter 3	66	78
Quarter 2	73	91
Quarter 1	59	83
	278	380


PATMI AFTER EI (\$ million)

	2005	2006
Quarter 4	91	386
Quarter 3	66	77
Quarter 2	74	86
Quarter 1	72	481
	303	1,030



SHAREHOLDERS' INFORMATION

STATISTICS OF SHAREHOLDERS AS OF FEBRUARY 21, 2007

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

SHAREHOLDINGS HELD BY THE PUBLIC

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

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

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

TOP 20 SHAREHOLDERS AS OF FEBRUARY 21, 2007

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

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

REGISTERED OFFICE

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

BOARD OF DIRECTORS

Peter Seah Lim Huat
Chairman

Tang Kin Fei
Group President & CEO

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

EXECUTIVE COMMITTEE

Peter Seah Lim Huat
Chairman

Goh Geok Ling

AUDIT COMMITTEE

Richard Hale, OBE
Chairman

K Shanmugam
Lee Suet Fern
Yong Ying-I

EXECUTIVE RESOURCE & COMPENSATION COMMITTEE

Peter Seah Lim Huat
Chairman

Goh Geok Ling
K Shanmugam

NOMINATING COMMITTEE

Peter Seah Lim Huat
Chairman

Goh Geok Ling
K Shanmugam

RISK COMMITTEE

Richard Hale, OBE
Chairman

K Shanmugam
Lee Suet Fern
Yong Ying-I

COMPANY SECRETARY

Kwong Sook May

REGISTRAR

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

BANKERS

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

DBS Group
6 Shenton Way
DBS Building
Singapore 068809

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

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

Standard Chartered Bank
6 Battery Road
Singapore 049909

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

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

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

United Overseas Bank
80 Raffles Place
UOB Plaza
Singapore 048624

AUDITORS

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

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

NOTICE OF ANNUAL GENERAL MEETING

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

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts for the year ended December 31, 2006 and the Auditors' Report thereon. **Resolution 1**
2. To declare gross final dividends of 28.9 cents per share for the year ended December 31, 2006 as follows: **Resolution 2**
 - a final ordinary franked gross dividend of 4.9 cents per share less income tax;
 - a final ordinary exempt 1-tier dividend of 8 cents per share; and
 - a final special exempt 1-tier dividend of 16 cents per share.
3. To re-elect the following Directors, each of whom will retire by rotation pursuant to Article 93 of the Company's Articles of Association and who, being eligible, will offer themselves for re-election:
 - a. Peter Seah Lim Huat **Resolution 3**
 - b. Evert Henkes **Resolution 4**
 - c. Yong Ying-I (*Independent Member of Audit Committee*) **Resolution 5**
4. To approve the sum of S\$895,332 as Directors' Fees for the year ended December 31, 2006 (2005: S\$643,083). **Resolution 6**
5. To re-appoint KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 7**

SPECIAL BUSINESS

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

6. That authority be and is hereby given to the Directors of the Company to:
 - a. i. issue shares in the capital of the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or
 - ii. make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and
- b. (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

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

- (2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited (“SGX-ST”)) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares shall be based on the number of issued shares in the capital of the Company at the time this Resolution is passed, after adjusting for:
 - i. new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and
 - ii. any subsequent consolidation or subdivision of shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and
- (4) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

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

Resolution 9

- a. offer and grant options in accordance with the provisions of the SembCorp Industries Share Option Plan (the “**Share Option Plan**”) and/or to grant awards in accordance with the provisions of the SembCorp Industries Performance Share Plan (the “**Performance Share Plan**”) and/or the SembCorp Industries Restricted Stock Plan (the “**Restricted Stock Plan**”) (the Share Option Plan, the Performance Share Plan and the Restricted Stock Plan, together the “**Share Plans**”); and
- b. allot and issue from time to time such number of ordinary shares in the capital of the Company as may be required to be issued pursuant to the exercise of options under the Share Option Plan and/or such number of fully paid shares as may be required to be issued pursuant to the vesting of awards under the Performance Share Plan and/or the Restricted Stock Plan,

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

8. To transact any other business.

By Order of the Board

Kwong Sook May
Company Secretary
March 14, 2007

Explanatory Notes:

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

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

NOTICE OF ANNUAL GENERAL MEETING

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

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

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

Note:

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

NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATE

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

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

IMPORTANT

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

SEMBCORP INDUSTRIES LTD

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

NINTH ANNUAL GENERAL MEETING

I/We, _____ (Name), _____ (NRIC No.)

of _____ (Address)

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

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

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

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

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

Total Number of Shares Held

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

Date

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.
2. A member entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote instead of him. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.
3. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 30 Hill Street #05-04 Singapore 179360 not less than 48 hours before the time appointed for the Annual General Meeting.

1st FOLD

4. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.
5. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
6. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register 48 hours before the time appointed for holding the Annual General Meeting as certified by the Central Depository (Pte) Limited to the Company.

2nd FOLD



Affix
Postage
Stamp

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

3rd FOLD