

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

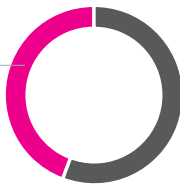
growth. Turnover was S\$3.6 billion, an 11% jump over 2005. Earnings before interest, tax, depreciation and amortisation (EBITDA) climbed 23% to S\$383.5 million, while profit after tax and minority interest (PATMI) grew 43% to S\$223.7 million, backed by strong performance from our UK operations and 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.

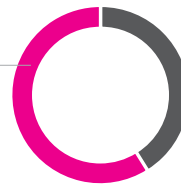
To cater to additional customer demand, we expanded the capacities of several of our water-related assets. In April, we expanded our demineralised water capacity by 5,000 cubic metres per day with a new effluent recovery plant, while another 5,000 cubic metres per day capacity was added to our high-grade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