

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.

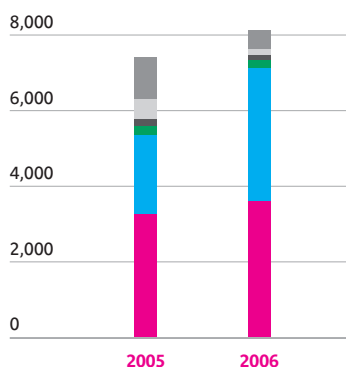
The decrease in turnover for Others/ Corporate segment was due to the disposal of Nirwana Gardens Resort in 2006 and the en-bloc sales of the Cairnhill properties in 2005.

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.

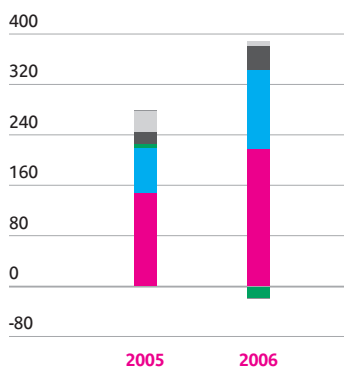
Excluding the payment for the Solitaire settlement of S\$682.7 million, net cash from operating activities was S\$596.5 million for 2006 as compared to S\$848.3 million for 2005. The decrease was attributed to the changes in working capital, as more projects were undertaken

by Marine & Offshore Engineering.

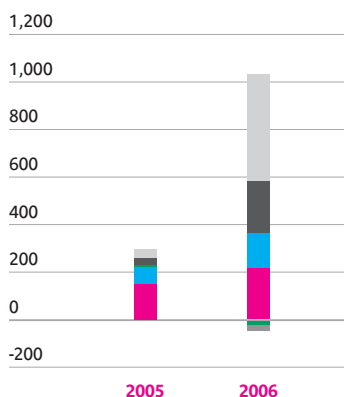
Net cash inflow from investing activities for 2006 was S\$86.3 million. The Group realised S\$863.1 million from the sale of investments. These included the sale of SembCorp Logistics Ltd, SembCorp Engineers and Constructors Pte Ltd, PT Batamindo Investment Cakrawala, PT Bintan Inti Industrial Estate 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.

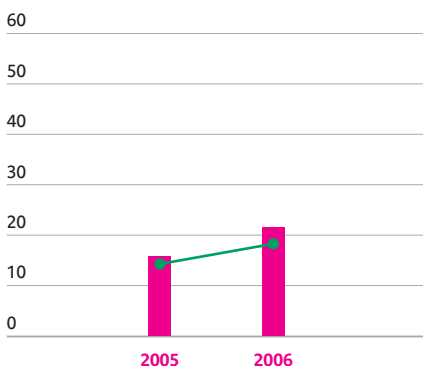
The increase in share capital was due to the transfer of share premium account to the share capital, arising from the amendments in the Companies (Amendment

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

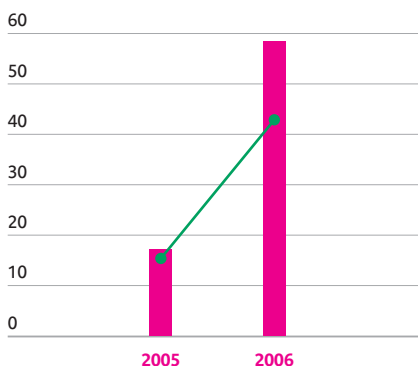
EPS AND ROE BEFORE EI 2005 2006

■ 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.

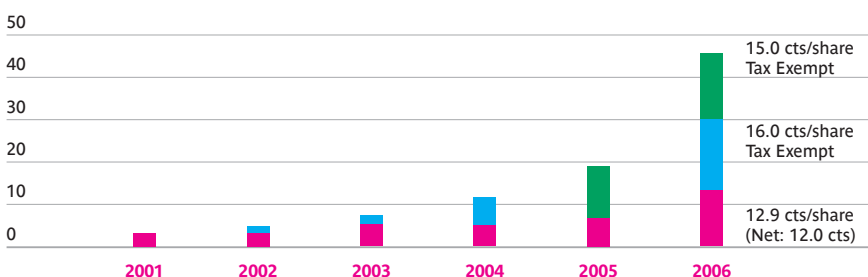
Arising from the sale of SembCorp Logistics Ltd, the Company paid a capital distribution of 15.0 cents per share in cash (without deduction for tax) out of the Company's share capital account. The cash

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

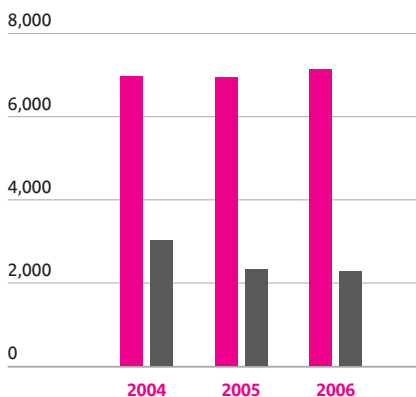
The recoverability or realisable value of the Group's assets is assessed in accordance with the various FRS. The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable 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

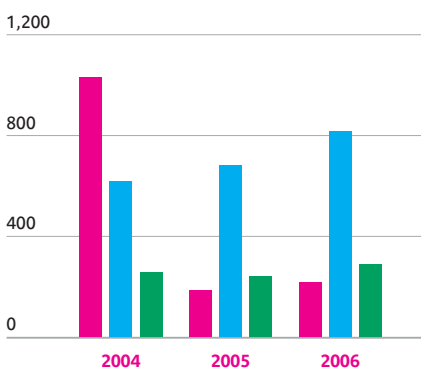
The Group consolidates and diversifies its sources of funding by building on existing bilateral banking relationships and developing new ones. The Group also accesses capital markets as and when appropriate. The Group maintained a 70:30 ratio for its sources of funding from bilateral banking facilities 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
(S\$ 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
(S\$ 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

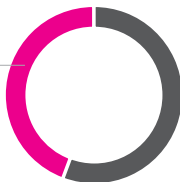
growth. Turnover was S\$3.6 billion, an 11% jump over 2005. Earnings before interest, tax, depreciation and amortisation (EBITDA) climbed 23% to S\$383.5 million, while profit after tax and minority interest (PATMI) grew 43% to S\$223.7 million, backed by strong performance from our UK operations and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

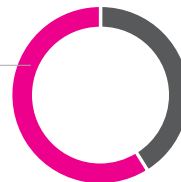
To cater to additional customer demand, we expanded the capacities of several of our water-related assets. In April, we expanded our demineralised water capacity by 5,000 cubic metres per day with a new effluent recovery plant, while another 5,000 cubic metres per day capacity was added to our high-grade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

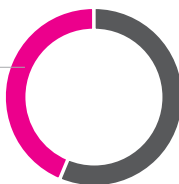
Contracts secured in 2006 amounted to S\$3.1 billion. The total orderbook as at February 2007 was S\$7.1 billion, with completions and deliveries scheduled until 2010.

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.

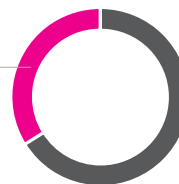
High value repairs to oil tankers, container vessels and Liquefied Natural Gas (LNG)/Liquefied Petroleum Gas (LPG) tankers as well as Floating Production Storage and Offloading (FPSO) upgrading continued to dominate the vessel mix, accounting for 68% of the segment's revenue.

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.

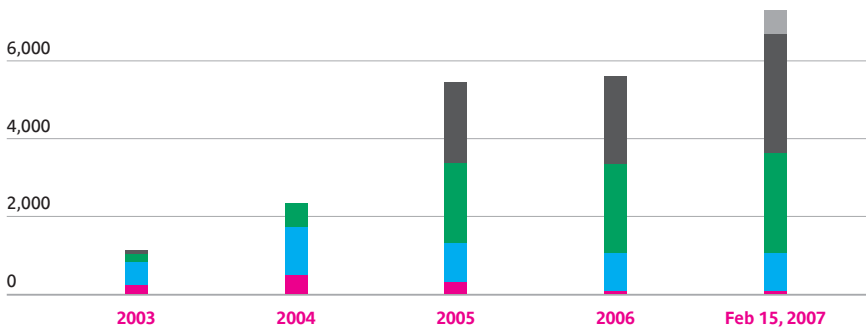
The rig building segment registered the highest growth in turnover, leaping 353% to S\$1.7 billion. In 2006, we completed and delivered jack-up rigs *Deep Driller I* and *WilPower*, now operated and deployed by Reliance Industries in India and Arabian Drilling Company in Saudi Arabia respectively. A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