# Notes to the Financial Statements

Year Ended December 31, 2009

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on February 25, 2010.

## 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 include:

a. investment holding, as well as the corporate headquarter, which gives strategic direction and provides management services to its subsidiaries; and

b. production and supply of utilities services, terminalling and storage of petroleum products and chemicals.

The principal activities of key subsidiaries are as follows:

**i. Utilities**

This business focuses on the provision of energy, water and on-site logistics and services to customers including companies in energy intensive industry clusters. It operates in Singapore, the United Kingdom, China, Vietnam, the United Arab Emirates and Oman.

**ii. Marine**

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

**iii. Environment**

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 managing integrated industrial parks and townships in Asia.

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

## 2. Summary of Significant Accounting Policies

**a. Basis of Preparation**

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

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

The preparation of financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of accounting 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 estimates are revised and in any future periods affected.

## 2. Summary of Significant Accounting Policies *(cont'd)*

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

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 44.

With effect from January 1, 2009, the Group adopted the following new or amended FRS and Interpretations to FRS ("INT FRS") which are relevant to the Group's operations:

| | |
|---|---|
| FRS 1 (revised 2008) | Presentation of Financial Statements |
| FRS 23 (revised 2007) | Borrowing Costs |
| Amendments to FRS 107 | Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments |
| FRS 108 | Operating Segments |
| INT FRS 116 | Hedges of a Net Investment in a Foreign Operation |
| Improvements to FRSs | |

*i. Presentation of financial statements*

The Group applies revised FRS 1 Presentation of Financial Statements (2008), which became effective as of January 1, 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

*ii. Financial instruments: Disclosures*

The Group applies the amendments to FRS 107 Financial Instruments: Disclosures, which became effective as of January 1, 2009. As a result, the Group discloses:

a. how the fair value of its financial instruments are measured using the "three-level hierarchy" and provides additional disclosures about the relative reliability of the fair value measurements; and

b. the maximum amount of issued financial guarantees in the earliest time period for which the guarantees could be called upon in the contractual maturity analysis. Previously, the Group disclosed the maximum amount of issued financial guarantees in the contractual maturity analysis only if the Group assessed that it is probable that the guarantee would be called upon.

FRS 107 does not require comparative information to be restated and therefore, the contractual maturity analysis for the comparative period has not been represented. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

*iii. Determination and presentation of operating segments*

As of January 1, 2009, the Group determines and presents operating segments based on the information that is provided to the Group President & Chief Executive Officer ("CEO"), who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of FRS 108 Operating Segments. Previously operating segments were determined and presented in accordance with FRS 14 Segment Reporting. The new accounting policy in respect of operating segment disclosures is presented as set out in Note 2(x).

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies. 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.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### b. Consolidation

*i. Business Combinations*

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 net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the income statement in the period of the acquisition.

*ii. Subsidiaries*

Subsidiaries are those entities that are controlled by the Group.

Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity 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 entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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.

*iii. Acquisitions from Entities under Common Control*

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-interest 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 reserve.

*iv. Associates*

Associates are those entities 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 entity.

Associates 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.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### b. Consolidation *(cont'd)*

*iv. Associates (cont'd)*

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the income statement in the period of the acquisition. Where the audited financial statements are not available, the share of results is arrived at from unaudited management financial statements made up mainly to the end of the accounting year to December 31.

The results of the associates are included in the Company's income statement 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. Joint Ventures*

Joint ventures are those entities whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

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 entity.

For incorporated joint ventures, the Group accounts for the joint ventures using the equity method of accounting 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 net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the income statement in the period of the acquisition. Where the audited financial statements are not available, the share of results is arrived at from unaudited management financial statements made up mainly to the end of the accounting year to December 31.

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

*vi. Transactions Eliminated on Consolidation*

All significant intra-group balances, transactions, and unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*vii. Accounting for Subsidiaries, Associates and Joint Ventures*

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

## 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 to the respective functional currencies of Group entities at foreign exchange rates 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 income statement.

Foreign exchange differences arising from non-monetary items are recognised directly in other comprehensive income when non-monetary items' gains or losses are recognised directly in other comprehensive income. Conversely, when non-monetary items' gains or losses are recognised directly in the income statement, foreign exchange differences arising from these items are recognised directly in the income statement.

*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 foreign exchange rates.
- All resulting foreign exchange differences are taken to the currency translation reserve in the other comprehensive income.

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 the presentation currency 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 income statement as part of the gain or loss on disposal.

## 2. Summary of Significant Accounting Policies *(cont'd)*

**c. Foreign Currencies** *(cont'd)*

*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 income statement. Such exchange differences are reclassified to the foreign currency translation reserve in the consolidated statement of comprehensive income and are released to the consolidated income statement upon disposal of the investment as part of the gain or loss on disposal.

**d. Property, Plant and Equipment**

*i. Owned Assets*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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 any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located.

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 the revaluation reserve unless it offsets a previous decrease in value recognised in the income statement. A decrease in value is recognised in the income statement 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.

Certain items of property, plant and equipment are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the costs of the next overhaul and are separately depreciated in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to the income statement.

*iv. Disposals*

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

## 2. Summary of Significant Accounting Policies *(cont'd)*

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

*v. Finance Lease 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 income statement.

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

*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 is depreciated separately. The estimated useful lives are as follows:

| | |
|---|---|
| Leasehold land and wet berthage | 20 to 60 years or remaining period of lease |
| Land improvements | 20 to 60 years or remaining period of lease |
| Buildings | 10 to 50 years or remaining period of lease |
| Improvements to premises | 3 to 30 years |
| Quays and dry docks | 60 years or remaining period of lease |
| Floating docks | 20 years |
| Plant and machinery | 3 to 30 years |
| Marine vessels | 3 to 20 years |
| Furniture, fittings and office equipment | 1 to 10 years |
| Tools and workshop equipment | 3 to 10 years |
| Motor vehicles | 2 to 10 years |

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



## 2. Summary of Significant Accounting Policies *(cont'd)*

### e. Investment Properties

Investment properties comprise significant portions of office buildings and freehold land that are held for long-term rental yields or for capital appreciation, or both.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives ranging from 20 to 50 years. The assets' depreciation methods, useful lives and residual values are reviewed, if not insignificant, annually, and adjusted if appropriate. No depreciation is provided on the freehold land.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised as additions and the carrying amounts of the replaced components are written off to the income statement. The cost of maintenance, repairs and minor improvements is charged to the income statement when incurred.

On disposal of an investment property, the difference between the estimated net disposal proceeds and the carrying amount of the asset is recognised in the income statement.

### f. 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 acquired. Goodwill is stated at cost less accumulated impairment losses. Negative goodwill is recognised immediately in the income statement. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in investments in associates and joint ventures, respectively.

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).

*ii. Goodwill / Negative Goodwill Previously Written Off Against Reserves*

Goodwill that has previously been taken to reserves is not taken to the income statement 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 income statement 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 income statement 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 income statement as an expense as incurred.

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

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of 10 years.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### f. Intangible Assets *(cont'd)*

*iv. Other Intangible Assets*

Other intangible assets with a finite life are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill is recognised in the income statement 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 30 years.

Intangible assets of indefinite life or not yet available for use are stated at cost less accumulated impairment losses. 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.

### g. 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 Through Profit or Loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit and loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss.

*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(k)).

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.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### g. Financial Assets *(cont'd)*

*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 other comprehensive income. The exceptions are impairment losses and foreign exchange gains and losses on monetary items such as debt securities, which are recognised in the income statement. When these investments are derecognised, the cumulative gain or loss previously recognised directly in other comprehensive income, or part thereof, is recognised in the income statement. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the income statement.

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 recognised on the date that they are originated and derecognised when the rights to receive cash flows from the investments have expired or all risks and rewards of ownership have been substantially transferred.

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 other comprehensive income and there is objective evidence that the value of the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the excess of acquisition cost less any impairment loss on that financial asset previously recognised in the income statement, 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).

**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 once recognised in the income statement in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. Any subsequent increase in fair value of such assets is recognised directly in other comprehensive income. 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 income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### h. 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 income statement. 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(i).

### i. Hedging Activities

*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 income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss recognised in the income statement.

*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 other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the income statement. 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 other comprehensive income are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

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, then hedge accounting is discontinued prospectively. 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 income statement.

*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 income statement.

*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 income statement. 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 other comprehensive income. This amount is recognised in the consolidated income statement on disposal of the foreign operation.

*v. Separable Embedded Derivatives*

Changes in the fair value of separable embedded derivatives are recognised immediately in the income statement.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### j. 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 other comprehensive income, if any, of 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.

*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 payments from customers".

*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, the assets are written down.

### k. 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 income statement.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### l. Government Grants

*i. Deferred Asset Grants*

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

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

Income-related grants are credited to the income statement in the period to which they relate.

*ii. Jobs Credit Schemes*

Cash grants received from the government in relation to the Jobs Credit Scheme are recognised upon receipt. Such grants are provided to defray the wage costs incurred by the Group and are offset against staff costs in the financial statements.

### m. Impairment – Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax 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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. 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.

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.

*i. Calculation of Recoverable Amount*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 or cash-generating unit. 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 in respect of goodwill is not reversed, even if it relates to an impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or balance sheet date. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### 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 income statement over the period of the borrowings on an effective interest basis.

### o. Deferred Income

When the Group receives advance payments from customers in respect of connection and capacity charges for the supply and delivery of gas and utilities, the Group recognises the deferred income to the income statement 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.

When the Group receives a deferred income and a financial asset as consideration for providing construction services in a service concession arrangement, the Group recognises the deferred income as the difference between the fair value of the construction services provided and the fair value of the financial asset received. The fair value of the construction services provided is estimated as the value of construction services at an arm's length transaction between willing parties. The fair value of the financial asset received is estimated as the present value of the minimum guaranteed sum receivable from the grantor of the service concession which is discounted at the imputed rate of interest i.e. the prevailing rate of interest for a similar instrument of the grantor. Subsequent to initial recognition, the deferred income is measured at cost less accumulated amortisation.

### p. Employee Benefits

*i. Defined Contribution Plans*

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement 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.

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 income statement 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 income statement.

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 income statement, 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.

## 2. Summary of Significant Accounting Policies *(cont'd)*

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

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

For defined benefit plans, the actuarial cost charged to the income statement 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 employment service is provided.

The amount expected to be paid is 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.

*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 transaction costs are credited to reserve for own shares when the options are exercised and treasury shares are issued, or credited to share capital when new shares are issued.




## 2. Summary of Significant Accounting Policies *(cont'd)*

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


*v. Equity and Equity-Related Compensation Benefits (cont'd)*

Performance Share Plan

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

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 income statement 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 stocks 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 the original estimates in employee expense and in a corresponding adjustment to equity over the remaining vesting period.

In the Company's separate financial statements, the fair value of options, performance shares and restricted stocks granted to employees of its subsidiaries is recognised as an increase in the cost of the Company's investment in subsidiaries, with a corresponding increase in equity over the vesting period.

*vi. Cash-Related Compensation Benefits*

Sembcorp Challenge Bonus

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the share price of the Company. The Group recognises a provision when contractually obliged to pay or where there is a past practice that has created a constructive obligation to pay.

The compensation cost is measured at the fair value of the liability at each balance sheet 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 bonus. The liability takes into account the probability of achieving the performance conditions in the future.

Until the liability is settled, the Group will re-measure the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognised in the income statement for the period.

## 2. Summary of Significant Accounting Policies *(cont'd)*

**q. Provisions**

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

**r. Income Tax Expense**

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

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 in respect of 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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**

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, net of any tax effects.

Where the Company's ordinary shares are repurchased (treasury shares), the consideration paid, excluding any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders and presented as "reserve for own 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.

## 2. Summary of Significant Accounting Policies *(cont'd)*

**s. Share Capital** *(cont'd)*

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 reserve for own shares 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 income statement.

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.

**t. Dividend**

Dividends on redeemable convertible preference share capital are recognised as a 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 ratio of costs incurred to-date to the estimated total costs for each contract, with due consideration given to the inclusion of only those costs that reflect work 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 from the sale of electricity, utilities and gases is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when electricity, utilities and gases are delivered based on contractual terms stipulated in respective agreements with customers.

## 2. Summary of Significant Accounting Policies *(cont'd)*

**u. Revenue Recognition** *(cont'd)*

*iv. Service Concession Arrangement*

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts. Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

*v. Dividend and Interest Income*

Dividend income is recognised in the income statement when the right to receive payment is established.

Interest income is recognised as it accrues, using the effective interest method.

*vi. Rental Income*

Rental income receivable under operating leases is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of total rental income, over the term of the lease.

**v. Leases**

*i. Operating Lease*

*When entities within the Group are lessees of an operating lease*

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

*When entities within the Group are lessors of an operating lease*

Assets subject to operating leases are included in investment properties and are stated at cost less accumulated depreciation and impairment losses. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

*ii. Finance Lease*

*When entities within the Group are lessors of a finance lease*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

**w. Finance Costs**

Interest expense and similar charges are expensed in the income statement 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 income statement using the effective interest rate method.

## 2. Summary of Significant Accounting Policies *(cont'd)*

**x. Segment Reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group President & CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**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 income statement. Subsequent increases in fair value less costs to sell are recognised in the income statement (not exceeding the accumulated impairment loss that has been previously recognised).

**z. Financial Guarantee Contracts**

Financial guarantee contracts are accounted for as insurance contracts and treated as contingent liabilities until such time as they become probable that the Company will be required to make a payment under the guarantee. A provision is recognised based on the Group'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

| | Group and Company | |
|---|---|---|
| | No. of ordinary shares | |
| | **2009** | **2008** |
| Issued and fully paid: | | |
| At the beginning of the year | **1,785,351,540** | 1,783,782,546 |
| Exercise of share options | **–** | 1,568,994 |
| At the end of the year | **1,785,351,540** | 1,785,351,540 |

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, 2009, there were 7,717,411 (2008: 10,533,580) unissued ordinary shares granted under the Company's Share Option Plan.

c. 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 5, 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

The Share Option Plan and Restricted Stock Plan are the incentive schemes for directors and employees of the Group whereas the Performance Share Plan is 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. From 2007 onwards, no share options were granted as share options were entirely replaced with restricted stocks of an equivalent fair value.

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.

## 4. Share-based Incentive Plans *(cont'd)*

Other information regarding Share Plans is 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 Limited ("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. After the first 12 months of lock-out period, the Group imposed a further vesting of 4 years for managers and above for retention purposes.

iii. In 2009, all options were settled by the issuance of treasury shares.

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

## 4. Share-based Incentive Plans *(cont'd)*

### a. Share Option Plan *(cont'd)*

At the end of the 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**
**2009**

| Date of grant of options | Exercise price per share | Options outstanding at Jan 1, 2009 | Options exercised | Options cancelled / lapsed / not accepted | Options outstanding at Dec 31, 2009 | Options exercisable at Jan 1, 2009 | Options exercisable at Dec 31, 2009 | Proceeds on options exercised during the year credited to share capital S$'000 | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| 26/06/2000 | S$1.63 | 225,323 | – | (36,600) | 188,723 | 225,323 | 188,723 | – | 27/06/2001 to 26/06/2010 |
| 24/07/2000 | S$1.90 | 175,175 | (27,870) | (147,305) | – | 175,175 | – | – | 20/05/2001 to 19/05/2009 |
| 24/07/2000 | S$1.76 | 34,065 | (34,065) | – | – | 34,065 | – | – | 16/09/2001 to 15/09/2009 |
| 19/04/2001 | S$1.19 | 169,350 | (8,000) | (38,600) | 122,750 | 169,350 | 122,750 | – | 20/04/2002 to 19/04/2011 |
| 07/05/2002 | S$1.23 | 222,125 | (21,000) | (12,000) | 189,125 | 222,125 | 189,125 | – | 08/05/2003 to 07/05/2012 |
| 17/10/2002 | S$0.62 | 95,875 | (1,625) | (3,000) | 91,250 | 95,875 | 91,250 | – | 18/10/2003 to 17/10/2012 |
| 02/06/2003 | S$0.78 | 116,100 | (10,875) | – | 105,225 | 116,100 | 105,225 | – | 03/06/2004 to 02/06/2013 |
| 18/11/2003 | S$0.93 | 157,750 | (27,625) | – | 130,125 | 157,750 | 130,125 | – | 19/11/2004 to 18/11/2013 |
| 17/05/2004 | S$0.99 | 68,750 | (68,250) | (500) | – | 68,750 | – | – | 18/05/2005 to 17/05/2009 |
| 17/05/2004 | S$0.99 | 611,650 | (319,375) | – | 292,275 | 611,650 | 292,275 | – | 18/05/2005 to 17/05/2014 |
| 22/11/2004 | S$1.16 | 88,250 | (85,750) | (2,500) | – | 88,250 | – | – | 23/11/2005 to 22/11/2009 |
| 22/11/2004 | S$1.16 | 851,900 | (473,625) | (2,000) | 376,275 | 851,900 | 376,275 | – | 23/11/2005 to 22/11/2014 |
| 01/07/2005 | S$2.37 | 105,000 | (13,125) | – | 91,875 | 65,625 | 91,875 | – | 02/07/2006 to 01/07/2010 |
| 01/07/2005 | S$2.37 | 1,683,197 | (271,495) | (94,750) | 1,316,952 | 929,572 | 1,316,952 | – | 02/07/2006 to 01/07/2015 |
| 21/11/2005 | S$2.36 | 148,750 | (13,125) | – | 135,625 | 100,625 | 135,625 | – | 22/11/2006 to 21/11/2010 |
| 21/11/2005 | S$2.36 | 1,998,870 | (325,419) | (123,375) | 1,550,076 | 1,224,870 | 1,550,076 | – | 22/11/2006 to 21/11/2015 |
| 09/06/2006 | S$2.52 | 402,500 | (17,500) | – | 385,000 | 175,000 | 271,250 | – | 10/06/2007 to 09/06/2011 |
| 09/06/2006 | S$2.52 | 3,378,950 | (414,315) | (222,500) | 2,742,135 | 1,481,700 | 1,955,385 | – | 10/06/2007 to 09/06/2016 |
| | | **10,533,580** | **(2,133,039)** | **(683,130)** | **7,717,411** | **6,793,705** | **6,816,911** | **–** | |

## 4. Share-based Incentive Plans *(cont'd)*

### a. Share Option Plan *(cont'd)*

**Sembcorp Industries Ltd**
**Ordinary shares**
**2008**

| Date of grant of options | Exercise price per share | Options outstanding at Jan 1, 2008 | Options exercised* | Options cancelled / lapsed / not accepted | Options outstanding at Dec 31, 2008 | Options exercisable at Jan 1, 2008 | Options exercisable at Dec 31, 2008 | Proceeds on options exercised during the year credited to share capital S$'000 | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| 26/06/2000 | S$1.63 | 305,953 | (3,030) | (77,600) | 225,323 | 305,953 | 225,323 | – | 27/06/2001 to 26/06/2010 |
| 24/07/2000 | S$1.90 | 350,948 | (115,750) | (60,023) | 175,175 | 350,948 | 175,175 | 84 | 20/05/2001 to 19/05/2009 |
| 24/07/2000 | S$1.76 | 39,064 | – | (4,999) | 34,065 | 39,064 | 34,065 | – | 16/09/2001 to 15/09/2009 |
| 19/04/2001 | S$1.19 | 230,650 | (6,000) | (55,300) | 169,350 | 230,650 | 169,350 | 4 | 20/04/2002 to 19/04/2011 |
| 07/05/2002 | S$1.23 | 294,250 | (7,875) | (64,250) | 222,125 | 294,250 | 222,125 | 10 | 08/05/2003 to 07/05/2012 |
| 17/10/2002 | S$0.62 | 150,625 | (12,375) | (42,375) | 95,875 | 150,625 | 95,875 | 5 | 18/10/2003 to 17/10/2012 |
| 02/06/2003 | S$0.78 | 36,750 | (23,750) | (13,000) | – | 36,750 | – | – | 03/06/2004 to 02/06/2008 |
| 02/06/2003 | S$0.78 | 376,350 | (185,375) | (74,875) | 116,100 | 376,350 | 116,100 | 65 | 03/06/2004 to 02/06/2013 |
| 18/11/2003 | S$0.93 | 63,000 | (56,250) | (6,750) | – | 63,000 | – | 8 | 19/11/2004 to 18/11/2008 |
| 18/11/2003 | S$0.93 | 608,875 | (373,500) | (77,625) | 157,750 | 608,875 | 157,750 | 198 | 19/11/2004 to 18/11/2013 |
| 17/05/2004 | S$0.99 | 79,000 | (10,250) | – | 68,750 | 32,750 | 68,750 | 107 | 18/05/2005 to 17/05/2009 |
| 17/05/2004 | S$0.99 | 1,181,427 | (469,652) | (100,125) | 611,650 | 464,552 | 611,650 | – | 18/05/2005 to 17/05/2014 |
| 22/11/2004 | S$1.16 | 107,250 | (19,000) | – | 88,250 | 60,500 | 88,250 | 303 | 23/11/2005 to 22/11/2009 |
| 22/11/2004 | S$1.16 | 1,494,400 | (463,875) | (178,625) | 851,900 | 774,525 | 851,900 | 10 | 23/11/2005 to 22/11/2014 |
| 01/07/2005 | S$2.37 | 122,500 | (17,500) | – | 105,000 | 26,250 | 65,625 | – | 02/07/2006 to 01/07/2010 |
| 01/07/2005 | S$2.37 | 2,371,647 | (577,450) | (111,000) | 1,683,197 | 736,897 | 929,572 | 589 | 02/07/2006 to 01/07/2015 |
| 21/11/2005 | S$2.36 | 183,750 | (35,000) | – | 148,750 | 70,000 | 100,625 | 21 | 22/11/2006 to 21/11/2010 |
| 21/11/2005 | S$2.36 | 2,742,320 | (600,325) | (143,125) | 1,998,870 | 1,057,820 | 1,224,870 | 966 | 22/11/2006 to 21/11/2015 |
| 09/06/2006 | S$2.52 | 472,500 | (70,000) | – | 402,500 | 78,750 | 175,000 | – | 10/06/2007 to 09/06/2011 |
| 09/06/2006 | S$2.52 | 4,299,470 | (729,020) | (191,500) | 3,378,950 | 1,233,095 | 1,481,700 | 393 | 10/06/2007 to 09/06/2016 |
| | | **15,510,729** | **(3,775,977)** | **(1,201,172)** | **10,533,580** | **6,991,604** | **6,793,705** | **2,763** | |

* In 2008, 1,568,994 options were settled by the issuance of new shares and the rest by issuance of treasury shares.

## 4. Share-based Incentive Plans *(cont'd)*

### a. Share Option Plan *(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**
**2009**

| Date of grant of options | Exercise price per share | Options outstanding at Jan 1, 2009 | Options exercised | Options cancelled / lapsed / not accepted | Options outstanding at Dec 31, 2009 | Options exercisable at Jan 1, 2009 | Options exercisable at Dec 31, 2009 | Exercise period |
|---|---|---|---|---|---|---|---|---|
| 08/09/2000 | S$0.50 | 191,170 | – | – | 191,170 | 191,170 | 191,170 | 08/09/2001 to 07/09/2010 |
| 27/09/2001 | S$0.47 | 178,710 | (79,100) | – | 99,610 | 178,710 | 99,610 | 28/09/2002 to 27/09/2011 |
| 07/11/2002 | S$0.64 | 335,700 | (14,650) | (12,600) | 308,450 | 335,700 | 308,450 | 08/11/2003 to 07/11/2012 |
| 08/08/2003 | S$0.71 | 1,015,270 | (113,250) | (23,800) | 878,220 | 1,015,270 | 878,220 | 09/08/2004 to 08/08/2013 |
| 10/08/2004 | S$0.74 | 52,500 | (52,500) | – | – | 52,500 | – | 11/08/2005 to 10/08/2009 |
| 10/08/2004 | S$0.74 | 3,586,885 | (956,607) | (32,000) | 2,598,278 | 3,586,885 | 2,598,278 | 11/08/2005 to 10/08/2014 |
| 11/08/2005 | S$2.11 | 250,250 | (47,250) | – | 203,000 | 147,000 | 203,000 | 12/08/2006 to 11/08/2010 |
| 11/08/2005 | S$2.11 | 9,703,475 | (2,589,438) | (78,250) | 7,035,787 | 5,348,775 | 7,035,787 | 12/08/2006 to 11/08/2015 |
| 02/10/2006 | S$2.38 | 649,250 | (61,250) | – | 588,000 | 281,750 | 453,250 | 03/10/2007 to 02/10/2011 |
| 02/10/2006 | S$2.38 | 9,955,834 | (1,450,621) | (169,560) | 8,335,653 | 4,318,857 | 5,774,379 | 03/10/2007 to 02/10/2016 |
| | | **25,919,044** | **(5,364,666)** | **(316,210)** | **20,238,168** | **15,456,617** | **17,542,144** | |

**Sembcorp Marine Ltd**
**Ordinary shares**
**2008**

| Date of grant of options | Exercise price per share | Options outstanding at Jan 1, 2008 | Options exercised | Options cancelled / lapsed / not accepted | Options outstanding at Dec 31, 2008 | Options exercisable at Jan 1, 2008 | Options exercisable at Dec 31, 2008 | Exercise period |
|---|---|---|---|---|---|---|---|---|
| 08/09/2000 | S$0.50 | 198,870 | (7,700) | – | 191,170 | 198,870 | 191,170 | 08/09/2001 to 07/09/2010 |
| 27/09/2001 | S$0.47 | 259,280 | (80,570) | – | 178,710 | 259,280 | 178,710 | 28/09/2002 to 27/09/2011 |
| 07/11/2002 | S$0.64 | 513,650 | (177,250) | (700) | 335,700 | 513,650 | 335,700 | 08/11/2003 to 07/11/2012 |
| 08/08/2003 | S$0.71 | 142,800 | (142,800) | – | – | 142,800 | – | 09/08/2004 to 08/08/2008 |
| 08/08/2003 | S$0.71 | 2,130,490 | (1,106,820) | (8,400) | 1,015,270 | 2,130,490 | 1,015,270 | 09/08/2004 to 08/08/2013 |
| 10/08/2004 | S$0.74 | 430,500 | (378,000) | – | 52,500 | 280,000 | 52,500 | 11/08/2005 to 10/08/2009 |
| 10/08/2004 | S$0.74 | 6,856,205 | (3,154,220) | (115,100) | 3,586,885 | 2,412,955 | 3,586,885 | 11/08/2005 to 10/08/2014 |
| 11/08/2005 | S$2.11 | 365,750 | (115,500) | – | 250,250 | 134,750 | 147,000 | 12/08/2006 to 11/08/2010 |
| 11/08/2005 | S$2.11 | 12,635,335 | (2,609,460) | (322,400) | 9,703,475 | 3,582,935 | 5,348,775 | 12/08/2006 to 11/08/2015 |
| 02/10/2006 | S$2.38 | 724,500 | (75,250) | – | 649,250 | 136,500 | 281,750 | 03/10/2007 to 02/10/2011 |
| 02/10/2006 | S$2.38 | 11,319,490 | (894,585) | (469,071) | 9,955,834 | 2,388,059 | 4,318,857 | 03/10/2007 to 02/10/2016 |
| | | **35,576,870** | **(8,742,155)** | **(915,671)** | **25,919,044** | **12,180,289** | **15,456,617** | |

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.

## 4. Share-based Incentive Plans *(cont'd)*

### a. Share Option Plan *(cont'd)*

Sembcorp Industries Ltd's options exercised in 2009 were all settled by way of issuance of treasury shares. Out of the options exercised in 2008, 1,568,994 ordinary shares were issued at a weighted average share price of S$1.76 per ordinary share. Sembcorp Industries Ltd's options were exercised on a regular basis throughout the year. The weighted average share price during the year was S$3.02 (2008: S$3.88).

Sembcorp Marine Ltd's options exercised in 2009 resulted in 5,364,666 (2008: 8,742,155) ordinary shares being issued at a weighted average share price of S$1.87 (2008: S$1.34) per ordinary share. Sembcorp Marine Ltd's options were exercised on a regular basis throughout the year. The weighted average share price during the year was S$2.67 (2008: S$3.33).

Fair Value of Share Options

The fair value of services received is measured by reference to the fair value of share options granted.

### 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.

The performance levels were calibrated based on Wealth Added and Total Shareholder Return. A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Performance shares to be delivered will range between 0% to 150% of the conditional performance shares awarded.

In 2009, the Performance Share Plan was enhanced to create alignment between senior management and other employees at the time of vesting by introducing a plan trigger. Under this trigger mechanism, the performance shares for the performance period 2009 to 2011 will be vested to the senior management participants only if the restricted stocks for the performance period 2010 to 2011 are vested, subject to the achievement of the performance conditions for the respective performance periods.

Senior management participants are required to hold a minimum percentage of the shares released to them under the 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.



## 4. Share-based Incentive Plans *(cont'd)*

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

i. Sembcorp Industries Ltd Performance Shares

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

| Performance shares participants | Conditional performance shares awarded during the year | Aggregate original conditional performance shares awarded | Aggregate additional conditional performance shares awarded due to modification | Aggregate conditional performance shares released | Aggregate conditional performance shares lapsed | Aggregate conditional performance shares outstanding |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| **Director of the Company:** | | | | | | |
| Tang Kin Fei | 400,000 | 2,640,000 | 73,720 | (1,201,034) | (518,364) | 1,208,240 |
| **Key executives of the Group** | 570,000 | 6,125,000 | 69,989 | (1,630,795) | (3,313,404) | 1,432,622 |
| | **970,000** | **8,765,000** | **143,709** | **(2,831,829)** | **(3,831,768)** | **2,640,862** |
| **2008** | | | | | | |
| **Director of the Company:** | | | | | | |
| Tang Kin Fei | 400,000 | 2,240,000 | 73,720 | (931,240) | (359,914) | 1,236,484 |
| **Key executives of the Group** | 550,000 | 5,555,000 | 69,989 | (1,423,859) | (2,878,682) | 1,504,280 |
| | **950,000** | **7,795,000** | **143,709** | **(2,355,099)** | **(3,238,596)** | **2,740,764** |

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2006 to 2008, a total of 476,730 (2008: 1,176,549) performance shares were released via the issuance of treasury shares.

In 2008, there were additional 395,750 performance shares awarded for the over-achievement of the performance targets.

The total number of performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at end 2009, was 2,640,862 (2008: 2,740,764). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 3,961,293 (2008: 4,111,146) performance shares.

## 4. Share-based Incentive Plans *(cont'd)*

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

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:

| | 2009 | 2008 |
|---|---|---|
| **Conditional performance shares awarded during the year** | **545,000** | 790,000 |
| Aggregate original conditional performance shares awarded | **6,560,500** | 5,215,000 |
| Aggregate conditional performance shares released | **(3,594,500)** | (2,721,900) |
| Aggregate conditional performance shares lapsed | **(1,193,000)** | (425,600) |
| **Aggregate conditional performance shares outstanding** | **2,315,000** | 2,610,000 |

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

In 2008, there were additional 542,500 performance shares awarded for the over-achievement of the performance targets.

The total number of Sembcorp Marine Ltd's performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at end 2009 was 2,315,000 (2008: 2,610,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 3,472,500 (2008: 3,915,000) performance shares.

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 shares granted during the year are as follows:

| | Fair value of Sembcorp Industries Ltd performance shares granted on April 9, 2009 | Fair value of Sembcorp Industries Ltd performance shares granted on April 7, 2008 | Fair value of Sembcorp Marine Ltd performance shares granted on April 13, 2009 | Fair value of Sembcorp Marine Ltd performance shares granted on April 7, 2008 |
|---|---|---|---|---|
| Fair value at measurement date | S$2.14 | S$2.08 | S$2.28 | S$2.65 |
| **Assumptions under the Monte Carlo model** | | | | |
| Share price | S$2.67 | S$4.26 | S$2.26 | S$3.77 |
| Expected volatility: | | | | |
| Sembcorp Industries Ltd / Sembcorp Marine Ltd | 39.9% | 32.4% | 50.3% | 30.9% |
| Morgan Stanley Capital International ("MSCI") | | | | |
| AC Asia Pacific excluding Japan Industrials Index | 33.9% | 21.9% | 33.9% | 21.9% |
| Correlation with MSCI | 77.5% | 60.6% | 76.2% | 61.3% |
| Risk-free interest rate | 0.7% | 1.1% | 0.7% | 1.1% |
| Expected dividend | 5.8% | 4.7% | 5.3% | 5.0% |



## 4. Share-based Incentive Plans *(cont'd)*

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

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

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

During the year, the Group charged S$4,284,000 (2008: S$5,981,000) to the income statement based on the fair value of the performance shares at the grant date being expensed over the vesting period.

### c. Restricted Stock Plan

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 for the restricted stocks are calibrated based on Return on Total Assets and Total Shareholder Return for awards granted before 2009 and Return on Total Assets (excluding Sembcorp Marine Ltd) and Earnings Before Interest and Taxes (excluding Sembcorp Marine Ltd) for awards granted in 2009.

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 will range from 0% to 150% of the conditional restricted stocks awarded.

The managerial participants of the Group will be awarded restricted stocks under the Restricted Stock Plan, while the non-managerial participants of the Group will receive their awards in an equivalent cash value. This cash-settled notional restricted stocks award for non-managerial participants is known as the Sembcorp Challenge Bonus.

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 period of three years after the performance period, during which one-third of the awarded shares are released each year to managerial participants. Non-managerial participants will receive the equivalent in cash at the end of the two-year performance cycle, with no further vesting conditions.

Senior management participants are required to hold a minimum percentage of the shares released to them under the 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.

## 4. Share-based Incentive Plans *(cont'd)*

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

i. Sembcorp Industries Ltd Restricted Stocks

The details of restricted stocks of Sembcorp Industries Ltd awarded during the year since commencement of the Restricted Stock Plan (aggregate) are as follows:

| Restricted stocks participants | Conditional restricted stocks awarded during the year | Aggregate original conditional restricted stocks awarded | Aggregate additional conditional restricted stocks awarded due to modification | Aggregate conditional restricted stocks released | Aggregate conditional restricted stocks lapsed | Aggregate conditional restricted stocks outstanding |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| **Directors of the Company:** | | | | | | |
| Peter Seah Lim Huat | 23,500 | 70,500 | 484 | (5,197) | (8,394) | 57,393 |
| Tang Kin Fei | 126,000 | 444,000 | 6,785 | (88,695) | (45,009) | 338,138 |
| Goh Geok Ling | 13,700 | 41,100 | 282 | (3,030) | (4,894) | 33,458 |
| Richard Hale, OBE | 17,000 | 51,000 | 350 | (3,760) | (6,072) | 41,518 |
| Evert Henkes | 7,000 | 21,000 | 144 | (1,548) | (2,500) | 17,096 |
| Lee Suet Fern | 13,700 | 41,100 | 282 | (3,030) | (4,894) | 33,458 |
| Bobby Chin Yoke Choong | 11,000 | 11,000 | – | – | – | 11,000 |
| **Other executives of the Group** | 2,012,500 | 6,740,600 | 93,425 | (1,082,459) | (1,503,517) | 4,506,785 |
| | **2,224,400** | **7,420,300** | **101,752** | **(1,187,719)** | **(1,575,280)** | **5,038,846** |
| **2008** | | | | | | |
| **Directors of the Company:** | | | | | | |
| Peter Seah Lim Huat | 23,500 | 47,000 | 484 | – | – | 47,484 |
| Tang Kin Fei | 126,000 | 318,000 | 6,785 | (30,416) | – | 315,426 |
| Goh Geok Ling | 13,700 | 27,400 | 282 | – | – | 27,682 |
| Richard Hale, OBE | 17,000 | 34,000 | 350 | – | – | 34,350 |
| Evert Henkes | 7,000 | 14,000 | 144 | – | – | 14,144 |
| Lee Suet Fern | 13,700 | 27,400 | 282 | – | – | 27,682 |
| **Other executives of the Group** | 1,977,300 | 4,728,100 | 93,425 | (409,185) | (508,255) | 4,162,821 |
| | **2,178,200** | **5,195,900** | **101,752** | **(439,601)** | **(508,255)** | **4,629,589** |

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2007 to 2008, a total of 392,617 restricted stocks were released. For awards in relation to the performance period 2006 to 2007, a total of 355,501 (2008: 439,601) restricted stocks were released in 2009. The restricted stocks were released via the issuance of treasury shares.

In 2008, additional 279,793 restricted stocks were awarded for the over-achievement of the performance targets for the performance period 2006 to 2007.

The total number of restricted stocks outstanding, including award(s) achieved but not released, as at end 2009, was 5,038,846 (2008: 4,629,589). Of this, the total number of restricted stocks in awards granted conditionally and representing 100% of targets to be achieved, but not released was 4,077,962 (2008: 3,900,597). Based on the multiplying factor, the actual release of the conditional awards could range from zero to a maximum of 6,116,943 (2008: 5,491,236) restricted stocks.

## 4. Share-based Incentive Plans *(cont'd)*

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

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

Sembcorp Challenge Bonus

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2007 to 2008, a total of S$584,000, equivalent to 252,989 notional restricted stocks, were paid.

A total of 600,000 (2008: 600,000) notional restricted stocks of Sembcorp Industries Ltd's shares were awarded in 2009 for the Sembcorp Challenge Bonus.

The total number of notional restricted stocks in awards for the Sembcorp Challenge Bonus granted conditionally and representing 100% of targets to be achieved, but not released as at end 2009, was 1,200,000 (2008: 1,157,248). Based on the multiplying factor, the number of notional restricted stocks to be converted into the funding pool could range from zero to a maximum of 1,800,000 (2008: 1,624,422).

ii. Restricted stocks of a listed subsidiary

The details of restricted stocks of Sembcorp Marine Ltd awarded during the year since commencement of the Restricted Stock Plan (aggregate) are as follows:

| Restricted stocks participants | Conditional restricted stocks awarded during the year | Aggregate original conditional restricted stocks awarded | Aggregate additional conditional restricted stocks awarded due to bonus issue | Aggregate conditional restricted stocks released | Aggregate conditional restricted stocks lapsed | Aggregate conditional restricted stocks outstanding |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| **Directors of the Company:** | | | | | | |
| Tang Kin Fei | 17,000 | 42,500 | 5,400 | (8,190) | – | 45,380 |
| Goh Geok Ling | 29,000 | 73,000 | 8,800 | (13,347) | – | 77,693 |
| Richard Hale, OBE | 22,000 | 22,000 | – | – | – | 22,000 |
| **Other participants** | 3,358,330 | 11,123,170 | 1,629,952 | (3,372,147) | (764,302) | 10,261,889 |
| | **3,426,330** | **11,260,670** | **1,644,152** | **(3,393,684)** | **(764,302)** | **10,406,962** |
| **2008** | | | | | | |
| **Directors of the Company:** | | | | | | |
| Tang Kin Fei | 12,000 | 25,500 | 5,400 | – | – | 30,900 |
| Goh Geok Ling | 22,000 | 44,000 | 8,800 | – | – | 52,800 |
| **Other participants** | 3,539,000 | 7,764,840 | 1,629,952 | (708,128) | (485,406) | 8,679,151 |
| | **3,573,000** | **7,834,340** | **1,644,152** | **(708,128)** | **(485,406)** | **8,762,851** |

With the Sembcorp Marine Ltd's committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2007 to 2008, a total of 1,956,117 Sembcorp Marine Ltd's restricted stocks were released via the issuance of treasury shares. For awards in relation to the performance period 2006 to 2007, a total of 729,439 (2008: 708,128) restricted stocks were released in 2009.

## 4. Share-based Incentive Plans *(cont'd)*

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

ii. Restricted stocks of a listed subsidiary *(cont'd)*

In 2009, additional 1,182,233 (2008: 477,893) restricted stocks were awarded for the over-achievement of the performance targets for the performance period 2007 to 2008.

The total number of Sembcorp Marine Ltd's restricted stocks outstanding, including award(s) achieved but not released, as at end of 2009, was 10,406,962 (2008: 8,762,851). Of this, the total number of restricted stocks in awards granted conditionally and representing 100% of targets to be achieved, but not released was 6,709,730 (2008: 7,422,586). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 10,064,595 (2008: 10,339,522) restricted stocks.

Challenge Bonus of a listed subsidiary

With the committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2007 to 2008, a total of S$1,679,000, equivalent to 1,203,602 notional restricted stocks were paid.

A total of 1,130,050 (2008: 957,400) notional restricted stocks of Sembcorp Marine Ltd's shares were awarded in 2009 for the Sembcorp Marine Challenge Bonus.

The total number of notional restricted stocks in awards for the Sembcorp Marine Challenge Bonus granted conditionally and representing 100% of targets to be achieved, but not released as at end 2009, was 1,928,700 (2008: 1,866,248). Based on the multiplying factor, the number of notional restricted stocks to be converted into the funding pool could range from zero to a maximum of 2,893,050 (2008: 2,606,642).

Fair value of restricted stocks

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

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

| | Fair value of Sembcorp Industries Ltd restricted stocks granted on April 9, 2009 | Fair value of Sembcorp Industries Ltd restricted stocks granted on April 7, 2008 and August 1, 2008 | Fair value of Sembcorp Marine Ltd restricted stocks granted on April 13, 2009 | Fair value of Sembcorp Marine Ltd restricted stocks granted on April 7, 2008 |
|---|---|---|---|---|
| Fair value at measurement date | S$2.28 | S$3.07 | S$1.98 | S$3.06 |
| **Assumptions under the Monte Carlo model** | | | | |
| Share price | S$2.67 | S$4.26 | S$2.26 | S$3.77 |
| Expected volatility: | | | | |
| Sembcorp Industries Ltd / Sembcorp Marine Ltd | 39.9% | 32.4% | 50.3% | 30.9% |
| Straits Times Index ("STI") | NA | 15.9% | NA | 15.9% |
| Correlation with STI | NA | 69.7% | NA | 47.6% |
| Risk-free interest rate | 0.4%–1.0% | 0.9%–1.3% | 0.4%–1.0% | 0.9%–1.3% |
| Expected dividend | 5.8% | 4.7% | 5.3% | 5.0% |



## 4. Share-based Incentive Plans *(cont'd)*

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

Fair value of restricted stocks *(cont'd)*

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

During the year, the Group charged S$18,200,000 (2008: S$14,293,000) to the income statement based on the fair value of restricted stocks at the grant date being expensed over the vesting period.

Fair value of Sembcorp Challenge Bonus

During the year, the Group charged S$4,491,000 (2008: S$7,820,000) to the income statement based on the market values of the shares at the balance sheet date. The fair value of the compensation cost is based on the notional number of restricted stocks awarded for Sembcorp Challenge Bonus and the market price at the vesting date.

## 5. Surplus / (Deficit) in Other Reserves

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| Reserve for own shares | (a) | **(21,236)** | (34,731) | **(21,236)** | (34,731) |
| Currency translation reserve | (b) | **(120,110)** | (121,650) | **–** | – |
| Other reserves | (c) | **344,915** | 114,000 | **20,405** | 22,620 |
| | | **203,569** | (42,381) | **(831)** | (12,111) |

**a. Reserve for Own Shares**

At December 31, 2009, the Company held 5,122,674 (2008: 8,377,867) of its own uncancelled shares as treasury shares.

**b. 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 presentation currency of the Group;

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.

## 5. Surplus / (Deficit) in Other Reserves *(cont'd)*

### c. Other Reserves

| | Group | | | | | | Company |
|---|---|---|---|---|---|---|---|
| | Capital reserve S$'000 | Merger reserve S$'000 | Share-based payments reserve S$'000 | Fair value reserve S$'000 | Hedging reserve S$'000 | Total S$'000 | Share-based payments reserve S$'000 |
| At January 1, 2009 | 307,880 | 29,201 | 27,086 | 13,952 | (264,119) | 114,000 | 22,620 |
| Share-based payments | – | – | 17,573 | – | – | 17,573 | 7,502 |
| Treasury shares transferred to employees | – | – | (9,667) | – | – | (9,667) | (9,717) |
| Treasury shares held by a subsidiary | 18,638 | – | (12,231) | – | – | 6,407 | – |
| Realisation of reserve upon disposal of investments and changes in group structure | (421) | – | (85) | – | – | (506) | – |
| Net changes in fair value of cash flow hedges | – | – | – | – | 102,300 | 102,300 | – |
| Net change in fair value of cash flow hedges transferred to profit or loss | – | – | – | – | 18,323 | 18,323 | – |
| Net change in fair value of cash flow hedges transferred to initial carrying value of hedged items | – | – | – | – | (22) | (22) | – |
| Net change in fair value of available-for-sale financial assets | – | – | – | 12,042 | – | 12,042 | – |
| Net change in fair value of available-for-sale financial assets transferred to profit or loss | – | – | – | 8,657 | – | 8,657 | – |
| Transfer of revenue reserve to capital reserve | 6,891 | – | – | – | – | 6,891 | – |
| Share of other comprehensive income of associates and joint ventures | – | – | – | – | 68,917 | 68,917 | – |
| At December 31, 2009 | 332,988 | 29,201 | 22,676 | 34,651 | (74,601) | 344,915 | 20,405 |

## 5. Surplus / (Deficit) in Other Reserves *(cont'd)*

### c. Other Reserves *(cont'd)*

| | Group | | | | | | Company |
|---|---|---|---|---|---|---|---|
| | Capital reserve S$'000 | Merger reserve S$'000 | Share-based payments reserve S$'000 | Fair value reserve S$'000 | Hedging reserve S$'000 | Total S$'000 | Share-based payments reserve S$'000 |
| At January 1, 2008 | 342,252 | 29,201 | 37,525 | 293,223 | (25,370) | 676,831 | 23,699 |
| Share-based payments | – | – | 18,134 | – | – | 18,134 | 11,008 |
| Treasury shares transferred to employees | – | – | (12,087) | – | – | (12,087) | (12,087) |
| Treasury shares held by subsidiary | (34,379) | – | (16,603) | – | – | (50,982) | – |
| Realisation of reserve upon disposal of investments and changes in group structure | 7 | – | 117 | 257 | – | 381 | – |
| Net change in fair value of cash flow hedges | – | – | – | – | (136,496) | (136,496) | – |
| Net change in fair value of cash flow hedges transferred to profit or loss | – | – | – | – | (13,231) | (13,231) | – |
| Net change in fair value of available-for-sale financial assets | – | – | – | (278,803) | – | (278,803) | – |
| Net change in fair value of available-for-sale financial assets transferred to profit or loss | – | – | – | (725) | – | (725) | – |
| Share of other comprehensive loss of associates and joint ventures | – | – | – | – | (89,022) | (89,022) | – |
| At December 31, 2008 | 307,880 | 29,201 | 27,086 | 13,952 | (264,119) | 114,000 | 22,620 |

Other reserves include:

i. Capital reserve comprises capitalisation of accumulated profits for the issue of bonus shares, capital reserve (net of goodwill) on consolidation and equity accounting, capital redemption reserve, convertible loan stock reserve and transfer from revenue reserve in accordance with the regulations of the foreign jurisdiction in which the Group's subsidiaries, associates and joint ventures operate.

ii. 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-interest method.

## 5. Surplus / (Deficit) in Other Reserves *(cont'd)*

### c. Other Reserves *(cont'd)*

iii. 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 stocks. 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 expires.

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

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

## 6. Property, Plant and Equipment

| | Note | 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 | Marine vessels S$'000 | Tools and workshop equipment S$'000 | Furniture, fittings and office equipment S$'000 | Motor vehicles S$'000 | Capital work-in-progress S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | | | |
| **Cost / Valuation** | | | | | | | | | | | |
| Balance at January 1, 2009 | | 727,479 | 39,152 | 328,479 | 2,343,186 | 15,856 | 39,612 | 112,136 | 56,412 | 291,594 | 3,953,906 |
| Translation adjustments | | (1,875) | (4) | (8) | 33,367 | – | (18) | (241) | 92 | 295 | 31,608 |
| Additions | | 13,490 | 193 | 26 | 38,068 | 414 | 2,121 | 5,704 | 4,923 | 342,484 | 407,423 |
| Reclassification | | 54,702 | 8 | 1,369 | 235,397 | – | 144 | 3,931 | 433 | (295,984) | – |
| Transfer to investment properties | 7 | (1,450) | – | – | – | – | – | (3) | – | – | (1,453) |
| Transfer to assets held for sale | 21 | (731) | – | – | – | – | – | – | – | – | (731) |
| Disposals / Write-offs | | (4,259) | (380) | (72) | (35,251) | (51) | (5,477) | (9,194) | (7,201) | (2,008) | (63,893) |
| Disposal of subsidiaries | | – | – | – | – | – | (148) | (16) | (260) | – | (424) |
| Balance at December 31, 2009 | | 787,356 | 38,969 | 329,794 | 2,614,767 | 16,219 | 36,234 | 112,317 | 54,399 | 336,381 | 4,326,436 |
| | | | | | | | | | | | |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | | | | |
| Balance at January 1, 2009 | | 241,088 | 21,276 | 139,636 | 879,397 | 7,934 | 31,173 | 92,378 | 42,447 | – | 1,455,329 |
| Translation adjustments | | (708) | (1) | (4) | 7,332 | – | (18) | (307) | 83 | (132) | 6,245 |
| Depreciation for the year | 35(b) | 28,800 | 1,726 | 8,717 | 140,659 | 760 | 3,550 | 9,844 | 4,448 | – | 198,504 |
| Reclassification | | (20) | 1 | 686 | 1,640 | – | (1,390) | 68 | (985) | – | – |
| Transfer to investment properties | 7 | (639) | – | – | – | – | – | (3) | – | – | (642) |
| Transfer to assets held for sale | 21 | (134) | – | – | – | – | – | – | – | – | (134) |
| Disposals / Write-offs | | (1,528) | (263) | (71) | (21,363) | (20) | (4,434) | (8,608) | (4,382) | – | (40,669) |
| Disposal of subsidiaries | | – | – | – | – | – | (84) | (8) | (81) | – | (173) |
| Allowance made for impairment – net | 35(b) | 5,650 | 226 | – | 5,002 | – | – | 21 | (3) | 3,004 | 13,900 |
| Balance at December 31, 2009 | | 272,509 | 22,965 | 148,964 | 1,012,667 | 8,674 | 28,797 | 93,385 | 41,527 | 2,872 | 1,632,360 |
| | | | | | | | | | | | |
| **Carrying Amount** | | | | | | | | | | | |
| At December 31, 2009 | | 514,847 | 16,004 | 180,830 | 1,602,100 | 7,545 | 7,437 | 18,932 | 12,872 | 333,509 | 2,694,076 |

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

| | Note | 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 | Marine vessels S$'000 | Tools and workshop equipment S$'000 | Furniture, fittings and office equipment S$'000 | Motor vehicles S$'000 | Capital work-in-progress S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | | | |
| **Cost / Valuation** | | | | | | | | | | | |
| Balance at January 1, 2008 | | 668,125 | 39,500 | 327,595 | 2,431,107 | 8,042 | 39,052 | 107,591 | 56,130 | 296,764 | 3,973,906 |
| Translation adjustments | | (9,836) | (589) | – | (174,904) | – | – | (9) | (711) | (37,943) | (223,992) |
| Additions | | 61,063 | 263 | – | 53,018 | 7,814 | 1,916 | 8,769 | 3,775 | 225,087 | 361,705 |
| Reclassification | | 27,505 | 240 | 884 | 156,874 | 345 | – | 2,392 | 160 | (188,400) | – |
| Disposals / Write-offs | | (5,333) | (262) | – | (100,098) | (345) | (1,356) | (6,467) | (2,661) | (87) | (116,609) |
| Disposal of subsidiaries | | (14,045) | – | – | (22,811) | – | – | (140) | (281) | (3,827) | (41,104) |
| Balance at December 31, 2008 | | 727,479 | 39,152 | 328,479 | 2,343,186 | 15,856 | 39,612 | 112,136 | 56,412 | 291,594 | 3,953,906 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | | | | |
| Balance at January 1, 2008 | | 231,858 | 19,427 | 131,989 | 822,694 | 7,354 | 28,664 | 87,132 | 43,079 | – | 1,372,197 |
| Translation adjustments | | (1,590) | (301) | 2 | (44,876) | – | 14 | 89 | (532) | – | (47,194) |
| Depreciation for the year | 35(b) | 22,147 | 2,125 | 7,592 | 144,676 | 583 | 3,836 | 9,720 | 3,177 | – | 193,856 |
| Reclassification | | (2,752) | 90 | 53 | 1,220 | 185 | – | 1,726 | (522) | – | – |
| Disposals / Write-offs | | (4,946) | (65) | – | (37,263) | (188) | (1,341) | (6,205) | (2,571) | – | (52,579) |
| Disposal of subsidiaries | | (3,629) | – | – | (14,861) | – | – | (84) | (184) | – | (18,758) |
| Allowance made for impairment – net | 35(b) | – | – | – | 7,807 | – | – | – | – | – | 7,807 |
| Balance at December 31, 2008 | | 241,088 | 21,276 | 139,636 | 879,397 | 7,934 | 31,173 | 92,378 | 42,447 | – | 1,455,329 |
| **Carrying Amount** | | | | | | | | | | | |
| At December 31, 2008 | | 486,391 | 17,876 | 188,843 | 1,463,789 | 7,922 | 8,439 | 19,758 | 13,965 | 291,594 | 2,498,577 |

## 6. Property, Plant and Equipment *(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 | Furniture, fittings and office equipment S$'000 | Motor vehicles S$'000 | Capital work-in-progress S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | | |
| **Cost** | | | | | | | | |
| Balance at January 1, 2009 | 17,142 | 2,111 | 8,280 | 417,755 | 8,320 | 348 | 66,755 | 520,711 |
| Additions | 2,793 | 67 | – | 1,106 | 604 | 527 | 25,774 | 30,871 |
| Reclassification | – | 15 | – | 74,478 | 900 | 54 | (75,447) | – |
| Disposals / Write-offs | (103) | – | – | (465) | (47) | – | (115) | (730) |
| Balance at December 31, 2009 | 19,832 | 2,193 | 8,280 | 492,874 | 9,777 | 929 | 16,967 | 550,852 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | |
| Balance at January 1, 2009 | 883 | 2,043 | 407 | 26,130 | 5,686 | 159 | – | 35,308 |
| Depreciation for the year | 920 | 56 | 407 | 29,696 | 1,776 | 121 | – | 32,976 |
| Disposals / Write-offs | (2) | – | – | (58) | (47) | – | – | (107) |
| Balance at December 31, 2009 | 1,801 | 2,099 | 814 | 55,768 | 7,415 | 280 | – | 68,177 |
| **Carrying Amount** | | | | | | | | |
| At December 31, 2009 | 18,031 | 94 | 7,466 | 437,106 | 2,362 | 649 | 16,967 | 482,675 |
| **Company** | | | | | | | | |
| **Cost** | | | | | | | | |
| Balance at January 1, 2008 | 312 | 2,019 | – | – | 6,134 | 324 | – | 8,789 |
| Additions | – | 92 | – | 11,455 | 1,414 | – | 54,105 | 67,066 |
| Reclassification | – | – | – | 23,982 | – | – | (23,982) | – |
| Disposals / Write-offs | (1) | – | – | (2,097) | (302) | – | – | (2,400) |
| Acquisition | 16,831 | – | 8,280 | 384,415 | 1,074 | 24 | 36,632 | 447,256 |
| Balance at December 31, 2008 | 17,142 | 2,111 | 8,280 | 417,755 | 8,320 | 348 | 66,755 | 520,711 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | |
| Balance at January 1, 2008 | 15 | 1,534 | – | – | 3,748 | 70 | – | 5,367 |
| Depreciation for the year | 868 | 509 | 407 | 26,130 | 2,059 | 89 | – | 30,062 |
| Disposals / Write-offs | – | – | – | – | (121) | – | – | (121) |
| Balance at December 31, 2008 | 883 | 2,043 | 407 | 26,130 | 5,686 | 159 | – | 35,308 |
| **Carrying Amount** | | | | | | | | |
| At December 31, 2008 | 16,259 | 68 | 7,873 | 391,625 | 2,634 | 189 | 66,755 | 485,403 |

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

**Group**

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

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Freehold land and buildings | **27,758** | 25,111 |
| Leasehold land and buildings | **106,617** | 11,737 |
| Plant and machinery | **854,385** | 756,964 |
| Capital work-in-progress | **43,378** | 121,181 |
| Other assets | **1,992** | 736 |
| | **1,034,130** | 915,729 |

ii. Assets with net book value of S$1,383,000 (2008: S$1,587,000) 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 and determined by firms of professional valuers. Also included in the cost of quays and dry docks is an amount of S$25,152,000 which was stated at Directors' valuation. These revaluations were done on a one-off basis prior to January 1, 1997.

iv. During the year, interest and direct staff costs amounting to S$1,037,000 (2008: S$1,076,000) and S$982,000 (2008: S$1,849,000), respectively were capitalised as capital work-in-progress.

v. **Change in estimates**
During the year ended December 31, 2009, the Group revised its estimates for the useful lives of certain assets within leasehold and freehold land, buildings and wet berthage, quays and dry docks and marine vessels after conducting an operational review of their useful lives. As a result, there was a change in the expected useful lives of these assets. The effect of these changes on depreciation expense in current and future periods on assets currently held is as follows:

| | 2009 | 2010 | 2011 | 2012 | 2013 | Later |
|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| (Decrease) / increase in depreciation expense and (increase) / decrease in profit before tax | (1,240) | 7,031 | 7,189 | 8,772 | 9,116 | (31,220) |

## 7. Investment Properties

| | | Group | |
|---|---|---|---|
| | | 2009 | 2008 |
| | Note | S$'000 | S$'000 |
| **Cost** | | | |
| Balance at January 1 | | **44,408** | 48,664 |
| Translation adjustments | | **842** | (3,939) |
| Transfer from property, plant and equipment | 6 | **1,453** | – |
| Disposals | | **–** | (317) |
| Balance at December 31 | | **46,703** | 44,408 |
| **Accumulated Depreciation and Impairment Losses** | | | |
| Balance at January 1 | | **18,449** | 17,373 |
| Transfer from property, plant and equipment | 6 | **642** | – |
| Depreciation for the year | 35(b) | **1,009** | 1,007 |
| Allowance made for impairment – net | 35(b) | **–** | 69 |
| Balance at December 31 | | **20,100** | 18,449 |
| **Carrying Amount** | | | |
| At December 31 | | **26,603** | 25,959 |

Investment properties with net book value of S$10,293,000 (2008: S$9,451,000) have been pledged to secure loan facilities granted to a subsidiary.

The fair value of the investment properties as at the balance sheet date is S$56,212,000 (2008: S$51,900,000). The fair value, determined by independent professional valuers, is based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the fair values are determined by considering the aggregate of the estimated cash flow expected to be received from renting out the properties. A yield that reflects the specific risks inherent in the cash flows then is applied to the net annual cash flows to obtain the fair values.

## 8. Investments in Subsidiaries

| | Company | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| At cost and carrying value: | | |
| Quoted equity shares | **713,048** | 713,048 |
| Unquoted equity shares | **453,912** | 503,951 |
| Preference shares | **257,500** | 257,500 |
| Share-based payments reserve | **11,046** | 12,071 |
| | **1,435,506** | 1,486,570 |

The fair value of the equity interest of the listed subsidiary with carrying amount of S$713,048,000 (2008: S$713,048,000), amounts to S$4,681,871,827 (2008: S$2,125,822,884) based on the last transacted market price as at December 31, 2009 (December 31, 2008).

Details of subsidiaries are set out in Note 48 to the financial statements.

## 9. Interests in Associates

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Interests in associates | **618,829** | 564,388 |

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

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Balance at beginning and end of the year | **55** | 55 |

The fair value of the equity interest of a listed associate, with a carrying amount of S$201,689,000 (2008: S$204,426,000), amounts to S$181,773,000 (2008: S$69,247,000) based on the last transacted market price as at December 31, 2009 (December 31, 2008).

Summarised financial information of associates is as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| **Combined results** | | |
| Turnover | **3,781,982** | 3,340,714 |
| Profit for the year | **177,972** | 362,736 |
| **Combined assets and liabilities** | | |
| Total assets | **10,093,670** | 10,293,602 |
| Total liabilities | **7,216,412** | 8,067,968 |

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 2008, as the Group had provided guarantees to the banks in respect of the bank loans taken up by the associate, the Group had accordingly taken up its share of the net liability of the associate to the extent of the Group's legal obligation of S$139.6 million (Note 26). The bank loans were subsequently settled by the Group during the financial year.

Details of the significant associates are set out in Note 49 to the financial statements.

## 10. Interests in Joint Ventures

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Interests in joint ventures | **311,721** | 280,816 |

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

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Balance at beginning of the year | **1,919** | 2,074 |
| Translation during the year | **(64)** | (155) |
| Balance at end of the year | **1,855** | 1,919 |

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

| | Group's share | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| **Combined results** | | |
| Turnover | **346,182** | 330,568 |
| Expenses | **(275,145)** | (281,350) |
| Profit before income tax | **71,037** | 49,218 |
| Income tax expense | **(5,124)** | (3,994) |
| Profit for the year | **65,913** | 45,224 |
| **Combined assets and liabilities** | | |
| Non-current assets | **419,666** | 456,958 |
| Current assets | **285,516** | 327,449 |
| Current liabilities | **(140,186)** | (210,825) |
| Non-current liabilities | **(269,570)** | (310,525) |
| Minority interest | **(1,120)** | (836) |
| Net assets | **294,306** | 262,221 |
| **Capital commitments** | **4,932** | 12,394 |

The Group's interest in a joint venture with a carrying amount of S$54,015,000 (2008: S$50,088,000) as at the balance sheet date 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 49 to the financial statements.

## 11. Other Financial Assets

| | Note | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|---|
| **a. Non-current Assets** | | | |
| Available-for-sale financial assets: | | | |
| – Equity shares | | **170,420** | 143,169 |
| – Unit trusts and funds | | **1,528** | 2,878 |
| | | **171,948** | 146,047 |
| Financial assets at fair value through profit or loss: | | | |
| – Forward foreign exchange contracts | | **110** | – |
| – Equity shares | | **35** | 33 |
| Cash flow hedges: | | | |
| – Forward foreign exchange contracts | | **71** | – |
| – Interest rate swaps | | **20,279** | – |
| – Fuel oil swaps | | **1,481** | – |
| | | **193,924** | 146,080 |
| **b. Current Assets** | | | |
| Financial assets at fair value through profit or loss: | | | |
| – Forward foreign exchange contracts | | **1,707** | 52 |
| – Foreign exchange swap contracts | | **655** | 2,386 |
| – Others | | **–** | 1 |
| Cash flow hedges: | | | |
| – Interest rate swaps | | **629** | – |
| – Forward foreign exchange contracts | | **1,416** | 1,823 |
| – Fuel oil swaps | | **20,874** | – |
| – Forward electricity sale | | **1,647** | 25,507 |
| | 19 | **26,928** | 29,769 |

## 12. Long-Term Receivables and Prepayments

| | Note | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|---|
| Long-term trade receivables | 13 | **196** | 1,968 | **–** | – |
| Service concession receivables | (a) | **231,481** | 167,146 | **–** | – |
| Finance lease receivables due after 12 months | 14 | **14,505** | 18,025 | **–** | – |
| Amount due from related parties | 15 | **79,807** | 21,099 | **–** | – |
| Prepayments | (b) | **23,358** | 22,922 | **821** | 940 |
| Staff loans | | **199** | 233 | **–** | – |
| Recoverables | | **8** | 8 | **–** | – |
| | | **349,554** | 231,401 | **821** | 940 |

## 12. Long-Term Receivables and Prepayments *(cont'd)*

**a. Service concession receivables**

This relates to a 25-year agreement between a subsidiary and PUB (grantor) to design, build and operate a NEWater plant. The construction of the new plant started in April 2008 of which the plant will treat and convert feedwater to NEWater starting from May 2010. At the end of the concession period, the subsidiary will transfer the plant to the grantor. This arrangement falls within the scope of INT FRS 112.

Under the terms of the agreement, the subsidiary will receive a minimum guaranteed sum from the grantor in exchange for services performed. The subsidiary recognised this service concession receivable as it has a contractual right under the concession arrangement. The financial receivable is measured on initial recognition at its fair value.

**b. Prepayments**

Prepayments relate primarily to:

**Group**

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.

**Company**

i. Prepayments relate to connection and capacity charges prepaid for the use of pipelines and piperacks.

ii. Prepayments are charged to the income statement on a straight-line basis over the period of prepayments.

## 13. Trade Receivables

| | Note | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|---|
| Trade receivables including work completed but unbilled | | **327,005** | 596,024 | **26,489** | 15,280 |
| Allowance for doubtful receivables | | **(16,442)** | (16,740) | **–** | – |
| | | **310,563** | 579,284 | **26,489** | 15,280 |
| Trade receivables due within 1 year | 19 | **(310,367)** | (577,316) | **(26,489)** | (15,280) |
| | 12 | **196** | 1,968 | **–** | – |

In 2008, included in trade receivables of the Group were retention monies on contracts amounting to S$755,000. The retention monies were fully recovered by the Group during the financial year.

## 14. Finance 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** | | | | | | |
| **2009** | | | | | | |
| Within 1 year | | 4,218 | – | 4,218 | (698) | 3,520 |
| After 1 year but within 5 years | | 12,657 | 3,000 | 15,657 | (1,152) | 14,505 |
| | | 16,875 | 3,000 | 19,875 | (1,850) | 18,025 |
| Amount due within 1 year | 19 | (4,218) | – | (4,218) | 698 | (3,520) |
| | 12 | 12,657 | 3,000 | 15,657 | (1,152) | 14,505 |
| **2008** | | | | | | |
| Within 1 year | | 4,218 | – | 4,218 | (844) | 3,374 |
| After 1 year but within 5 years | | 16,875 | 3,000 | 19,875 | (1,850) | 18,025 |
| | | 21,093 | 3,000 | 24,093 | (2,694) | 21,399 |
| Amount due within 1 year | 19 | (4,218) | – | (4,218) | 844 | (3,374) |
| | 12 | 16,875 | 3,000 | 19,875 | (1,850) | 18,025 |

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.

## 15. Amounts Due from Related Parties

| | Note | Associates 2009 S$'000 | Associates 2008 S$'000 | Joint ventures 2009 S$'000 | Joint ventures 2008 S$'000 | Related companies 2009 S$'000 | Related companies 2008 S$'000 | Minority shareholders of subsidiaries 2009 S$'000 | Minority shareholders of subsidiaries 2008 S$'000 | Total 2009 S$'000 | Total 2008 S$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | | | |
| Amounts due from: | | | | | | | | | | | |
| Trade | | **6,063** | 9,124 | **1,540** | 1,685 | **1** | – | **43** | – | **7,647** | 10,809 |
| Non-trade | | **3,135** | 2,811 | **15,900** | 13,927 | **–** | – | **–** | – | **19,035** | 16,738 |
| Loans | | **64,678** | 5,887 | **20,560** | 20,816 | **–** | – | **–** | – | **85,238** | 26,703 |
| | | **73,876** | 17,822 | **38,000** | 36,428 | **1** | – | **43** | – | **111,920** | 54,250 |
| Allowance for doubtful receivables | | **(10,491)** | (13,827) | **(13,219)** | (13,219) | **–** | – | **–** | – | **(23,710)** | (27,046) |
| | | **63,385** | 3,995 | **24,781** | 23,209 | **1** | – | **43** | – | **88,210** | 27,204 |
| Amount due within 1 year | 19 | **(4,138)** | (3,712) | **(4,221)** | (2,393) | **(1)** | – | **(43)** | – | **(8,403)** | (6,105) |
| | 12 | **59,247** | 283 | **20,560** | 20,816 | **–** | – | **–** | – | **79,807** | 21,099 |

The long-term loans to associates and joint ventures are unsecured and not expected to be repaid in the next 12 months.

## 15. Amounts Due from Related Parties *(cont'd)*

| | | Subsidiaries | | Associates | | Joint ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Company** | | | | | | | | | |
| Amounts due from related parties | | **30,818** | 8,333 | **627** | 190 | **107** | 581 | **31,552** | 9,104 |
| Allowance for doubtful receivables | | **–** | (187) | **–** | – | **–** | – | **–** | (187) |
| | 19 | **30,818** | 8,146 | **627** | 190 | **107** | 581 | **31,552** | 8,917 |

The amounts due from subsidiaries are unsecured, repayable on demand and interest-free, except for an amount of S$178,000 in 2008 which bore an effective interest rate of 2.17% per annum.

## 16. Intangible Assets

| | Note | Goodwill S$'000 | Others S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **Cost** | | | | |
| Balance at January 1, 2009 | | 110,060 | 8,290 | 118,350 |
| Translation adjustments | | (54) | (131) | (185) |
| Additions | | – | 18 | 18 |
| Disposal of subsidiaries | | (110) | – | (110) |
| Disposals | | – | (165) | (165) |
| Transfer to assets held for sale | 21 | – | (60) | (60) |
| Write-offs | 35(b) | – | (42) | (42) |
| Balance at December 31, 2009 | | 109,896 | 7,910 | 117,806 |
| **Accumulated Amortisation and Impairment Losses** | | | | |
| Balance at January 1, 2009 | | 110 | 3,469 | 3,579 |
| Translation adjustments | | – | (34) | (34) |
| Amortisation charge for the year | 35(b) | – | 199 | 199 |
| Disposal of subsidiaries | | (110) | – | (110) |
| Disposals | | – | (67) | (67) |
| Balance at December 31, 2009 | | – | 3,567 | 3,567 |
| **Carrying Amount** | | | | |
| At December 31, 2009 | | 109,896 | 4,343 | 114,239 |

## 16. Intangible Assets *(cont'd)*

| | Note | Goodwill S$'000 | Others S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **Cost** | | | | |
| Balance at January 1, 2008 | | 105,440 | 8,163 | 113,603 |
| Translation adjustments | | 47 | 213 | 260 |
| Additions | | 4,573 | 1,865 | 6,438 |
| Disposal of subsidiaries | | – | (1,668) | (1,668) |
| Write-offs | 35(b) | – | (283) | (283) |
| Balance at December 31, 2008 | | 110,060 | 8,290 | 118,350 |
| **Accumulated Amortisation and Impairment Losses** | | | | |
| Balance at January 1, 2008 | | 110 | 3,983 | 4,093 |
| Translation adjustments | | – | 47 | 47 |
| Amortisation charge for the year | 35(b) | – | 102 | 102 |
| Disposal of subsidiaries | | – | (480) | (480) |
| Write-offs | 35(b) | – | (183) | (183) |
| Balance at December 31, 2008 | | 110 | 3,469 | 3,579 |
| **Carrying Amount** | | | | |
| At December 31, 2008 | | 109,950 | 4,821 | 114,771 |

| | Goodwill S$'000 | Corporate club membership S$'000 | Total S$'000 |
|---|---|---|---|
| **Company** | | | |
| Balance at January 1, 2008 | – | 90 | 90 |
| Acquisition | 18,946 | – | 18,946 |
| Balance at December 31, 2008 and December 31, 2009 | 18,946 | 90 | 19,036 |

The Company's goodwill related to goodwill of SUT on the acquisition of the SUT Division in 2008.

**Impairment Testing for Goodwill**

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

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

| | | Group | |
|---|---|---|---|
| | Note | 2009 S$'000 | 2008 S$'000 |
| **Cash-Generating Unit ("CGU")** | | | |
| SUT Division | (a) | **18,946** | 18,946 |
| 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 |
| Multiple units of insignificant goodwill | | **18,192** | 18,246 |
| | | **109,896** | 109,950 |

## 16. Intangible Assets *(cont'd)*

**Impairment Testing for Goodwill** *(cont'd)*

The recoverable amounts are determined based on calculations of the value-in-use. These calculations use cash flow projections from years 2010 to 2018, of which the first five years are based on financial budgets / forecasts approved by management and that for the remaining years are based on the same cash flows since 2014. Management has applied past experience in operating the business to forecast the performance and believes that this cash flow projection period was justified in consideration of the long-term nature of CGUs' businesses. Zero terminal value is assumed and discount rates ranging from 5.44% to 6.00% 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. Market demand and supply for industrial utilities and services are updated for changes during the 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.

b. **Sembcorp Cogen Pte Ltd**
   i. Demand and supply for electricity and electricity margin are updated for changes in market conditions;
   ii. Required plant maintenance and its associated maintenance costs have been accounted for in the forecast of the plant's gross profit margin;
   iii. Expected capital expenditure for replenishment of parts has also been accounted for in the forecast in accordance with plant maintenance programme; 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. Appreciating USD / SGD exchange rate and High Sulphur Fuel Oil ("HSFO") prices compared to the current financial year;
   ii. Gross profit margin is expected to remain stable as the pricing of both customer and supplier contracts are pegged to HSFO prices;
   iii. Expected capital expenditure for plant refurbishment has been included in the forecast in accordance with plant maintenance programme; and
   iv. Cash flows beyond the budget period are estimated based on the contracted sale and purchase quantities of gas over the remaining period of the existing contracts with major customers and gas supplier.

d. **SembRamky Environmental Management Private Limited**
   These calculations use cash flow projections based on management's 5-year financial forecast of the company. The forecasted revenue and operating expenses are based on past performance and its expectation of market development.

## 17. Deferred Tax Assets and Liabilities

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

| | At Jan 1, 2009 S$'000 | Recognised in income statement (Note 34) S$'000 | Recognised in equity S$'000 | Translation adjustments S$'000 | At Dec 31, 2009 S$'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2009** | | | | | |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | 275,958 | 13,990 | – | 6,810 | 296,758 |
| Interest in associates | 6,054 | (3,566) | – | – | 2,488 |
| Other financial assets | 52,299 | – | 18,048 | 637 | 70,984 |
| Trade and other receivables | 337 | 31 | – | – | 368 |
| Trade and other payables | – | 295 | – | 69 | 364 |
| Other items | 6,921 | 350 | – | 480 | 7,751 |
| Total | 341,569 | 11,100 | 18,048 | 7,996 | 378,713 |
| **Deferred tax assets** | | | | | |
| Property, plant and equipment | (321) | 84 | – | – | (237) |
| Inventories | (22) | 22 | – | – | – |
| Trade receivables | (1,599) | 1,600 | – | (1) | – |
| Trade and other payables | (653) | 243 | (487) | – | (897) |
| Tax losses | (647) | 497 | – | – | (150) |
| Provisions | (13,083) | (1,183) | – | (771) | (15,037) |
| Other items | (88,501) | (20) | 14,308 | (199) | (74,412) |
| Total | (104,826) | 1,243 | 13,821 | (971) | (90,733) |

| | At Jan 1, 2008 S$'000 | Recognised in income statement (Note 34) S$'000 | Recognised in equity S$'000 | Translation adjustments S$'000 | At Dec 31, 2008 S$'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2008** | | | | | |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | 260,322 | 48,094 | – | (32,458) | 275,958 |
| Interest in associates | 5,091 | 963 | – | – | 6,054 |
| Other financial assets | 116,439 | 625 | (62,843) | (1,922) | 52,299 |
| Trade and other receivables | 277 | 60 | – | – | 337 |
| Other items | 7,723 | 1,304 | – | (2,106) | 6,921 |
| Total | 389,852 | 51,046 | (62,843) | (36,486) | 341,569 |
| **Deferred tax assets** | | | | | |
| Property, plant and equipment | (3,508) | 157 | – | 3,030 | (321) |
| Inventories | (22) | – | – | – | (22) |
| Trade receivables | (282) | (1,317) | – | – | (1,599) |
| Trade and other payables | (528) | (125) | – | – | (653) |
| Tax losses | (1,162) | 555 | – | (40) | (647) |
| Provisions | (15,318) | (2,860) | – | 5,095 | (13,083) |
| Other items | (21,288) | 1,345 | (68,343) | (215) | (88,501) |
| Total | (42,108) | (2,245) | (68,343) | 7,870 | (104,826) |

## 17. Deferred Tax Assets and Liabilities *(cont'd)*

| | At Jan 1, 2008 S$'000 | Recognised in income statement S$'000 | Acquisition S$'000 | At Dec 31, 2008 S$'000 | Recognised in income statement S$'000 | At Dec 31, 2009 S$'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2008 & 2009** | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| Property, plant and equipment | 195 | 5,809 | 44,667 | 50,671 | 6,177 | 56,848 |

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. The amounts determined after appropriate offsetting included in the balance sheet are as follows:

| | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|
| Deferred tax liabilities | **315,505** | 271,960 | **56,848** | 50,671 |
| Deferred tax assets | **(27,525)** | (35,217) | **–** | – |
| | **287,980** | 236,743 | **56,848** | 50,671 |

Deferred tax assets have not been recognised in respect of the following items:

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| Deductible temporary differences | **17,404** | 33,715 |
| Tax losses | **38,920** | 35,874 |
| Capital allowances | **26,110** | 27,368 |
| | **82,434** | 96,957 |

Of the above tax losses, tax losses of the Group amounting to S$13,697,000 (2008: S$12,439,000) will expire between 2010 and 2014 (2008: 2009 and 2013). The deductible temporary differences and capital allowances do not expire under current tax legislation.

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

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

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

## 18. Inventories and Work-In-Progress

| | Note | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|---|
| Raw materials | | **104,352** | 97,768 | **4,330** | 4,582 |
| Finished goods | | **83,570** | 69,488 | **5,005** | 4,771 |
| | | **187,922** | 167,256 | **9,335** | 9,353 |
| Allowance for inventory obsolescence | | **(9,005)** | (8,370) | **–** | – |
| | | **178,917** | 158,886 | **9,335** | 9,353 |
| Work-in-progress | (a) | **1,236,338** | 790,960 | **–** | – |
| | | **1,415,255** | 949,846 | **9,335** | 9,353 |
| a. Work-in-progress: | | | | | |
| Costs and attributable profits | | **5,274,160** | 3,651,155 | **1,343** | 1,343 |
| Allowance for foreseeable losses | | **(300)** | (4,254) | **–** | – |
| | | **5,273,860** | 3,646,901 | **1,343** | 1,343 |
| Progress billings | | **(4,754,931)** | (3,830,974) | **(1,343)** | (1,343) |
| | | **518,929** | (184,073) | **–** | – |
| Comprising: | | | | | |
| Work-in-progress | | **1,236,338** | 790,960 | **–** | – |
| Excess of progress billings over work-in-progress | | **(717,409)** | (975,033) | **–** | – |
| | | **518,929** | (184,073) | **–** | – |

## 19. Trade and Other Receivables

| | Note | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|---|
| Trade receivables | 13 | **310,367** | 577,316 | **26,489** | 15,280 |
| Current portion of finance lease | 14 | **3,520** | 3,374 | **–** | – |
| Amount due from related parties | 15 | **8,403** | 6,105 | **31,552** | 8,917 |
| Other receivables, deposits and prepayments | 20 | **630,694** | 595,385 | **193,799** | 193,182 |
| Other financial assets | 11 | **26,928** | 29,769 | **–** | – |
| Advance to suppliers | | **571** | 7,152 | **–** | – |
| | | **980,483** | 1,219,101 | **251,840** | 217,379 |

## 20. Other Receivables, Deposits and Prepayments

| | Note | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|---|
| Deposits | | **6,247** | 7,356 | **1,106** | 1,124 |
| Prepayments | | **48,632** | 34,196 | **6,185** | 2,391 |
| Tax recoverable | | **229,756** | 259,896 | **152,645** | 175,394 |
| Sundry receivables | | **60,803** | 81,761 | **800** | 467 |
| Unbilled receivables | | **283,645** | 207,593 | **31,192** | 13,294 |
| Loan receivables | | **4,281** | 7,234 | **–** | – |
| Recoverable | | **3,170** | 6,300 | **2,192** | 572 |
| Interest receivable | | **311** | 601 | **–** | – |
| | | **636,845** | 604,937 | **194,120** | 193,242 |
| Allowance for doubtful receivables | | **(6,151)** | (9,552) | **(321)** | (60) |
| | 19 | **630,694** | 595,385 | **193,799** | 193,182 |

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

## 21. Assets Held For Sale

| | Note | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|---|
| Property, plant and equipment | 6 | **597** | – |
| Other intangible asset | 16 | **60** | – |
| | | **657** | – |

## 22. Cash and Cash Equivalents

| | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|
| Cash and cash equivalents in the consolidated statement of cash flows | **2,597,512** | 2,400,954 | **261,367** | 45,541 |

Included in the Group's cash and cash equivalents at the balance sheet date are amounts of S$4.7 million (2008: S$7.5 million) held in countries with foreign exchange control restrictions.

Included in the Company's cash and cash equivalents at the balance sheet date are amounts of S$255.5 million (2008: S$43 million) placed with a bank via a subsidiary.

## 23. Trade and Other Payables

| | Note | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|---|
| Trade payables | | **1,594,791** | 1,500,869 | **5,859** | 3,264 |
| Advance payments from customers | | **25,617** | 36,673 | **305** | 555 |
| Other financial liabilities | 24 | **30,069** | 166,738 | **–** | – |
| Amount due to related parties | 25 | **18,011** | 10,248 | **45,873** | 232,086 |
| Other payables and accrued charges | 26 | **776,057** | 906,906 | **101,092** | 80,629 |
| | | **2,444,545** | 2,621,434 | **153,129** | 316,534 |

## 24. Other Financial Liabilities

| | Note | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|---|
| **a. Current Liabilities** | | | |
| Financial liabilities at fair value through profit or loss: | | | |
| – Interest rate swaps | | **–** | 1,001 |
| – Forward foreign exchange contracts | | **25** | 127 |
| – Foreign exchange swap contracts | | **1,054** | 2,454 |
| – Commodity contracts | | **–** | 44 |
| Cash flow hedges: | | | |
| – Interest rate swaps | | **5,148** | 6,703 |
| – Forward foreign exchange contracts | | **23,842** | 72,530 |
| – Foreign exchange swap contracts | | **–** | 1,261 |
| – Fuel oil swaps | | **–** | 82,618 |
| | 23 | **30,069** | 166,738 |
| **b. Non-current Liabilities** | | | |
| Financial liabilities at fair value through profit or loss: | | | |
| – Interest rate swaps | | **527** | – |
| Cash flow hedges: | | | |
| – Interest rate swaps | | **10,373** | 10,913 |
| – Forward foreign exchange contracts | | **19,548** | 50,506 |
| – Fuel oil swaps | | **–** | 3,669 |
| | 30 | **30,448** | 65,088 |

## 25. Amounts Due to Related Parties

| | | Associates | | Joint ventures | | Minority shareholders of subsidiaries | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | 2009 S$'000 | 2008 S$'000 | 2009 S$'000 | 2008 S$'000 | 2009 S$'000 | 2008 S$'000 | 2009 S$'000 | 2008 S$'000 |
| **Group** | | | | | | | | | |
| Amounts due to: | | | | | | | | | |
| Trade | | **3,328** | – | **2,107** | 2,034 | **11,391** | 312 | **16,826** | 2,346 |
| Non-trade | | **775** | 1,604 | **2,835** | 5,364 | **–** | – | **3,610** | 6,968 |
| Loans | | **–** | – | **–** | – | **86,593** | 8,585 | **86,593** | 8,585 |
| | | **4,103** | 1,604 | **4,942** | 7,398 | **97,984** | 8,897 | **107,029** | 17,899 |
| Amounts due after 1 year | 30 | **(3,328)** | – | **–** | – | **(85,690)** | (7,651) | **(89,018)** | (7,651) |
| | 23 | **775** | 1,604 | **4,942** | 7,398 | **12,294** | 1,246 | **18,011** | 10,248 |

Loans from minority shareholders of subsidiaries of S$85,690,000 (2008: S$7,651,000) bear interest at rates ranging from 3.53% to 8.35% (2008: 3.53% to 7.02%) per annum, are unsecured and repayable from 2013 onwards.

The remaining non-trade amounts and loans due to related parties are unsecured, interest-free and repayable on demand.

| | | Subsidiaries | | Joint ventures | | Total | |
|---|---|---|---|---|---|---|---|
| | Note | 2009 S$'000 | 2008 S$'000 | 2009 S$'000 | 2008 S$'000 | 2009 S$'000 | 2008 S$'000 |
| **Company** | | | | | | | |
| Amounts due to related parties | (i) | **45,870** | 25,888 | **3** | – | **45,873** | 25,888 |
| Loans from a related party | (ii) | **646,700** | 664,932 | **–** | – | **646,700** | 664,932 |
| | | **692,570** | 690,820 | **3** | – | **692,573** | 690,820 |
| Amounts due after 1 year | 30 | **(646,700)** | (458,734) | **–** | – | **(646,700)** | (458,734) |
| | 23 | **45,870** | 232,086 | **3** | – | **45,873** | 232,086 |

i. The amounts due to related parties are unsecured, interest-free and repayable on demand.

ii. The loans from a related party comprise:

a. S$206,000,000 in 2008 which were unsecured, repayable on demand and bore an effective interest rate of 1.23% per annum.

b. S$646,700,000 (2008: S$458,700,000) which are unsecured, repayable on December 31, 2013 and bear an effective interest rate of 3.31% (2008: 2.48%) per annum.

## 26. Other Payables and Accrued Charges

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2009 S$'000 | 2008 S$'000 | 2009 S$'000 | 2008 S$'000 |
| Accrued operating expenses | | **699,206** | 675,400 | **91,003** | 75,366 |
| Deposits | | **14,594** | 14,204 | **–** | – |
| Accrued interest payable | | **6,759** | 5,374 | **–** | – |
| Other payables | | **55,498** | 72,348 | **10,089** | 5,263 |
| Share of net liability of an associate | 9 | **–** | 139,580 | **–** | – |
| | 23 | **776,057** | 906,906 | **101,092** | 80,629 |

## 27. Provisions

| | Loan undertakings S$'000 | Obligations relating to disposal of business S$'000 | Claims S$'000 | Onerous contracts S$'000 | Restoration costs S$'000 | Warranty S$'000 | Others S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| Balance at beginning of the year | 9,739 | 11,454 | 1,222 | 7,180 | 6,507 | 37,721 | 184 | 74,007 |
| Translation adjustments | – | – | – | – | (29) | (239) | – | (268) |
| Provisions made during the year, net | 5,009 | – | 15,072 | – | 15 | 22,687 | – | 42,783 |
| Provisions utilised during the year | – | – | (945) | – | – | (45) | – | (990) |
| Disposal of subsidiaries | – | – | – | – | – | – | (184) | (184) |
| Balance at end of the year | 14,748 | 11,454 | 15,349 | 7,180 | 6,493 | 60,124 | – | 115,348 |
| Provisions due: | | | | | | | | |
| – within 1 year | 14,748 | 11,454 | 15,349 | 4,281 | – | 60,124 | – | 105,956 |
| – after 1 year | – | – | – | 2,899 | 6,493 | – | – | 9,392 |
| | 14,748 | 11,454 | 15,349 | 7,180 | 6,493 | 60,124 | – | 115,348 |

| | Obligations relating to disposal of business S$'000 | Claims S$'000 | Restoration costs S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Company** | | | | |
| Balance at beginning of the year | 11,454 | 1,221 | 500 | 13,175 |
| Provisions made during the year, net | – | 1,148 | – | 1,148 |
| Provisions utilised during the year | – | (945) | – | (945) |
| Balance at end of the year | 11,454 | 1,424 | 500 | 13,378 |
| Provisions due: | | | | |
| – within 1 year | 11,454 | 1,424 | – | 12,878 |
| – after 1 year | – | – | 500 | 500 |
| | 11,454 | 1,424 | 500 | 13,378 |

## 27. Provisions *(cont'd)*

**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 a business in which the Group and the Company retains certain obligations in respect of contracts pursuant to the Sale and Purchase Agreement.

**Claims**

This provision relates to the obligations arising from contractual and commercial arrangements in the Group's and the Company's operations, based on the best estimate of the possible outflow considering both contractual and commercial factors. These claims are expected to be settled within the next 12 months.

**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.

**Warranty**

The provision for warranty is based on estimates made from historical warranty data associated with similar projects.

## 28. Retirement Benefit Obligations

| | | Group | |
|---|---|---|---|
| | | 2009 | 2008 |
| | Note | S$'000 | S$'000 |
| Provision for retirement gratuities | (a) | 1,500 | 1,932 |
| Defined benefit obligations | (b) | 11,016 | 11,620 |
| | | 12,516 | 13,552 |
| Non-current | | 12,516 | 13,552 |

**a. Provision for Retirement Gratuities**

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Balance at beginning of the year | 1,932 | 2,809 |
| Provision utilised during the year | (36) | (407) |
| Less: Amount due within 12 months | (396) | (470) |
| Balance at end of the year | 1,500 | 1,932 |

## 28. Retirement Benefit Obligations *(cont'd)*

**b. Defined Benefit Obligations**

A subsidiary provides pension arrangements to its full time employees through a defined benefit plan and the related costs are assessed in accordance with the advice of professionally qualified actuaries. The pension scheme is closed to new entrants and is funded by the payment of contributions to separately administrated trust funds.

The numbers shown below have been based on calculations carried out by a qualified independent actuary to take into account of the requirements of FRS19 in order to assess the liabilities of the scheme at December 31, 2009. The scheme's assets are stated at their market values at December 31, 2009.

The present values of the funded defined benefit obligations, the related current service cost and, where applicable, past service cost were measured using the projected unit credit method. Details of the scheme are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Present value of funded defined benefit obligations | 209,474 | 151,053 |
| Fair value of plan assets | (187,686) | (158,761) |
| Deficit / (surplus) in scheme | 21,788 | (7,708) |
| Unrecognised actuarial (losses) / gains | (10,772) | 19,328 |
| Net liability recognised in the balance sheet | 11,016 | 11,620 |

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

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | % | % |
| Equity instruments | 38.03 | 40.08 |
| Debt instruments | 53.56 | 53.45 |
| Other assets | 8.41 | 6.47 |
| | 100.00 | 100.00 |

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.

## 28. Retirement Benefit Obligations *(cont'd)*

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

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

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Opening defined benefit obligations | **151,053** | 244,774 |
| Translation adjustment | **13,175** | (65,871) |
| Current service cost | **2,483** | 3,302 |
| Interest cost | **9,985** | 12,465 |
| Actuarial losses / (gains) | **44,268** | (36,223) |
| Benefits paid | **(11,695)** | (7,630) |
| Employee contributions | **205** | 236 |
| | **209,474** | 151,053 |

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

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Opening fair value of plan assets | **158,761** | 253,504 |
| Translation adjustment | **14,345** | (69,135) |
| Expected return on plan assets | **9,617** | 14,268 |
| Actuarial gains / (losses) | **12,656** | (38,322) |
| Contributions by employer | **3,797** | 5,840 |
| Benefits paid | **(11,695)** | (7,630) |
| Employee contributions | **205** | 236 |
| | **187,686** | 158,761 |

Expenses recognised in the income statement are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Current service cost | **2,483** | 3,302 |
| Interest cost | **9,985** | 12,465 |
| Expected return on plan assets | **(9,617)** | (14,268) |
| Net actuarial gains recognised in year | **(418)** | (320) |
| | **2,433** | 1,179 |





The expense is recognised in the following line items in the income statement:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Cost of sales | **1,987** | 2,642 |
| Administrative expenses | **496** | 660 |
| Other expenses | **(50)** | (2,123) |
| | **2,433** | 1,179 |
| Actual return / (loss) in value of plan assets | **22,273** | (24,054) |

**Principal actuarial assumptions**

The main financial assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 19 were as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | % | % |
| Discount rate at December 31 | **5.7** | 6.2 |
| Expected return on plan assets at December 31 | **6.1** | 5.6 |
| Future rate of annual salary increases | **5.1** | 4.3 |
| Future rate of pension increases | **2.8** | 2.4 |

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 9 years (2008: 9 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 21 (2008: 21) for male and 23 (2008: 23) for female.

The overall expected long-term rate of return on assets is 6.1% (2008: 5.6%). The expected rate of return on plan assets is a weighted average of the individual expected rate of return on each asset class.

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

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | |
| Present value of funded defined benefit obligations | 209,474 | 151,053 | 244,774 | 259,498 | 259,598 |
| Fair value of plan assets | (187,686) | (158,761) | (253,504) | (239,537) | (201,898) |
| Deficit / (surplus) in scheme | 21,788 | (7,708) | (8,730) | 19,961 | 57,700 |

The Group expects to pay S$3.1 million in contributions to defined benefit plans in 2010.

## 29. Interest-Bearing Borrowings

| | Note | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Secured term loans | (a) | **56,554** | 81,750 | **–** | – |
| Unsecured term loans | (b) | **227,565** | 202,613 | **–** | – |
| Finance lease liabilities | (c) | **253** | 1,405 | **83** | – |
| | | **284,372** | 285,768 | **83** | – |
| **Non-current liabilities** | | | | | |
| Secured term loans | (a) | **259,523** | 319,740 | **–** | – |
| Unsecured term loans | (b) | **335,388** | 200,000 | **–** | – |
| Finance lease liabilities | (c) | **506** | 2,810 | **339** | – |
| | | **595,417** | 522,550 | **339** | – |
| | | **879,789** | 808,318 | **422** | – |

*Maturity of liabilities (excluding finance lease liabilities)*

| | Group 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|
| Within 1 year | **284,119** | 284,363 | **–** | – |
| After 1 year but within 5 years | **542,281** | 432,164 | **–** | – |
| After 5 years | **52,630** | 87,576 | **–** | – |
| Total borrowings | **879,030** | 804,103 | **–** | – |

**a. Secured Term Loans**

The secured loans are collaterised by the following assets:

| | Group Net Book Value 2009 S$'000 | Group Net Book Value 2008 S$'000 |
|---|---|---|
| Property, plant and equipment and investment property | **1,044,423** | 925,180 |

## 29. 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 ("SFS"), established a S$1.5 billion Multicurrency Multi-Issuer Debt Issuance Programme (the "Programme"). Pursuant to this, the Company, together with SFS and other certain subsidiaries of the Company (the "Issuing Subsidiaries"), may from time to time issue debt under the Programme subject to availability of funds from the market. The obligations of the Issuing Subsidiaries under the notes will be fully guaranteed by the Company.

  During the year, SFS issued an inaugural S$200 million 5-year note under the Programme. The principal amount of the notes bears an interest rate of 5.00% per annum and is due by April, 2014.

- In 2004, a subsidiary, Sembcorp Marine Ltd ("SCM") established a S$500 million Multicurrency Multi-Issuer Debt Issuance Programme (the "Programme") pursuant to which SCM with its subsidiaries, Jurong Shipyard Pte Ltd and Sembawang Shipyard Pte Ltd ("Issuing SCM Subsidiaries"), may from time to time issue the notes subject to availability of funds from the market. The obligations of Issuing SCM Subsidiaries under the notes will be fully guaranteed by SCM. Subsequent to the year ended December 31, 2009, SCM increased its current MTN from S$500 million to S$2 billion with the inclusion of SMOE Pte Ltd as one of the Issuing SCM Subsidiaries.

  Under the Programme, SCM or any of the Issuing SCM Subsidiaries may from time to time issue notes in series or tranches in Singapore Dollars and / or any other currency. Such notes are listed on the Singapore Exchange Securities Trading Limited and are cleared through the Central Depository (Pte) Ltd.

  In 2008, the principal amount of the notes issued by SCM amounted to S$150 million and bore an interest rate of 3.00% per annum. The medium term notes were repaid by SCM in 2009.

**c. Finance Lease Liabilities**

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

| | 2009 Payments S$'000 | 2009 Interest S$'000 | 2009 Principal S$'000 | 2008 Payments S$'000 | 2008 Interest S$'000 | 2008 Principal S$'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Within 1 year | **294** | **41** | **253** | 1,574 | 169 | 1,405 |
| After 1 year but within 5 years | **559** | **53** | **506** | 3,178 | 368 | 2,810 |
| Total | **853** | **94** | **759** | 4,752 | 537 | 4,215 |

Under the terms of the lease agreements, no contingent rents are payable. The interest rates range from 2.50% to 7.42% (2008: 2.50% to 7.42%) per annum.

## 29. Interest-Bearing Borrowings *(cont'd)*

**c. Finance Lease Liabilities** *(cont'd)*

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

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Payments S$'000 | Interest S$'000 | Principal S$'000 | Payments S$'000 | Interest S$'000 | Principal S$'000 |
| **Company** | | | | | | |
| Within 1 year | **107** | **24** | **83** | – | – | – |
| After 1 year but within 5 years | **377** | **38** | **339** | – | – | – |
| Total | **484** | **62** | **422** | – | – | – |

Under the terms of the lease agreements, no contingent rents are payable. The effective interest rate is 6.09% (2008: nil) per annum.

## 30. Other Long-Term Liabilities

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2009 S$'000 | 2008 S$'000 | 2009 S$'000 | 2008 S$'000 |
| Deferred income | (a) | **103,508** | 91,342 | **10,809** | 3,728 |
| Deferred grants | (b) | **2,171** | 17,815 | – | – |
| Other long-term payables | (c) | **3,988** | 6,171 | – | – |
| Other financial liabilities | 24 | **30,448** | 65,088 | – | – |
| Amount due to related parties | 25 | **89,018** | 7,651 | **646,700** | 458,734 |
| | | **229,133** | 188,067 | **657,509** | 462,462 |

a. Deferred income relates mainly to advance payments received from customers in respect of connection and capacity charges for the supply and delivery of gas and utilities, the difference between the fair value of the construction services provided and the fair value of the financial asset receivable.

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

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

## 31. Other Comprehensive Income

Tax effects relating to each component of other comprehensive income

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Before tax S$'000 | Tax expense S$'000 | Net of tax S$'000 | Before tax S$'000 | Tax benefit S$'000 | Net of tax S$'000 |
| Foreign currency translation differences for foreign operations | **(10,562)** | **–** | **(10,562)** | (84,439) | – | (84,439) |
| Exchange differences on hedge of net investment in a foreign operation | **(1,744)** | **–** | **(1,744)** | – | – | – |
| Exchange differences on monetary items forming part of net investment in a foreign operation | **(2,145)** | **–** | **(2,145)** | – | – | – |
| Share of other comprehensive income / (loss) of associates and joint ventures | **68,699** | **–** | **68,699** | (76,585) | – | (76,585) |
| Cash flow hedges: net movement in hedging reserves | **175,620** | **(26,622)** | **148,998** | (212,849) | 35,060 | (177,789) |
| Available-for-sale financial assets: net movement in fair value reserve | **38,993** | **(5,249)** | **33,744** | (551,643) | 97,953 | (453,690) |
| **Other comprehensive income / (loss)** | **268,861** | **(31,871)** | **236,990** | (925,516) | 133,013 | (792,503) |

| | 2009 S$'000 | 2008 S$'000 |
|---|---|---|
| **Cash flow hedges:** | | |
| Net change in fair value of hedging instruments | **149,743** | (192,342) |
| Less: amount transferred to initial carrying amount of hedged items | **(26)** | – |
| Less: amount transferred to profit or loss | **25,903** | (20,507) |
| Income tax | **(26,622)** | 35,060 |
| Net movement in the hedging reserve during the year recognised in other comprehensive income | **148,998** | (177,789) |
| **Available-for-sale financial assets:** | | |
| Changes in fair value | **25,783** | (550,918) |
| Less: amount transferred to profit or loss | **13,210** | (725) |
| Income tax | **(5,249)** | 97,953 |
| Net change in fair value during the year recognised in other comprehensive income | **33,744** | (453,690) |

## 32. Turnover

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| Sale of gas, water, electricity and related services | **3,265,774** | 4,197,760 |
| Ship and rig repair, building, conversion and related services | **5,683,941** | 4,989,922 |
| Construction and engineering related activities | **131,240** | 131,957 |
| Environment management and related services | **185,044** | 213,685 |
| Service concession revenue | **184,295** | 129,964 |
| Others | **122,114** | 265,125 |
| | **9,572,408** | 9,928,413 |

## 33. Finance Costs

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| Interest paid and payable to: | | |
| – banks and others | **39,925** | 43,764 |
| Amortisation of capitalised transaction costs and transactions costs written off | **1,467** | 1,099 |
| Interest rate swap | | |
| – fair value through profit or loss | **(206)** | (456) |
| | **41,186** | 44,407 |

## 34. Income Tax Expense

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| **Current tax expense** | | |
| Current year | **190,410** | 125,311 |
| Under / (over) provided in prior years | **228** | (43,161) |
| | **190,638** | 82,150 |
| **Deferred tax expense** | | |
| Movements in temporary differences | **19,168** | 29,040 |
| Under provided in prior years | **1,856** | 19,761 |
| Change in tax rate | **(8,681)** | – |
| | **12,343** | 48,801 |
| Income tax expense | **202,981** | 130,951 |

## 34. Income Tax Expense *(cont'd)*

**Reconciliation of effective tax rate**

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| Profit for the year | **1,015,303** | 730,994 |
| Total income tax expense | **202,981** | 130,951 |
| Share of results of associates and joint ventures | **(109,542)** | (126,096) |
| Profit before share of results of associates and joint ventures, and income tax expense | **1,108,742** | 735,849 |
| Income tax using Singapore tax rate of 17% (2008: 18%) | **188,486** | 132,453 |
| Effect of reduction in tax rates | **(8,681)** | – |
| Effect of different tax rates in foreign jurisdictions | **8,363** | 13,013 |
| Tax incentives and income not subject to tax | **(11,504)** | (27,924) |
| Expenses not deductible for tax purposes | **21,318** | 38,433 |
| Utilisation of deferred tax benefits not previously recognised | **(3,239)** | (6,118) |
| Under / (over) provided in prior years | **2,084** | (23,400) |
| Deferred tax benefits not recognised | **4,081** | 8,241 |
| Others | **2,073** | (3,747) |
| Income tax expense | **202,981** | 130,951 |

On January 22, 2009, the Minister for Finance announced in his Budget speech that the corporate income tax rate will be reduced from 18% to 17% from the year of assessment 2010. The financial effect of the reduction in tax rate is reflected in the current financial year.

## 35. Profit For The Year

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

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| a. **Staff costs** | | |
| Staff costs | **723,880** | 698,409 |
| Included in staff costs are: | | |
| Share-based payments | **27,996** | 31,253 |
| Contributions to: | | |
| – defined benefit plan | **2,483** | 3,302 |
| – defined contribution plan | **31,608** | 28,593 |
| Jobs Credit Scheme, offset against staff costs | **(17,987)** | – |

## 35. Profit For The Year *(cont'd)*

| | Note | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|---|
| **b. Other expenses** | | | |
| Allowance made / (written back) for impairment losses | | | |
| – property, plant and equipment | 6 | **13,900** | 7,807 |
| – interests in other investments | | **13,206** | 486 |
| – receivables | | **(53)** | 1,291 |
| – investment properties | 7 | **–** | 69 |
| – inventory obsolescence | | **393** | 2,465 |
| – foreseeable losses on construction contracts | | **(1,034)** | 2,957 |
| Amortisation of intangible assets | 16 | **199** | 102 |
| Audit fees paid / payable | | | |
| – auditors of the Company | | **1,367** | 1,421 |
| – other auditors | | **572** | 614 |
| Non-audit fees paid / payable | | | |
| – auditors of the Company | | **143** | 119 |
| – other auditors | | **207** | 307 |
| Depreciation | | | |
| – property, plant and equipment | 6 | **198,504** | 193,856 |
| – investment properties | 7 | **1,009** | 1,007 |
| Professional fee paid to directors or a firm in which a director is a member | | **127** | 97 |
| Operating lease expenses | | **21,094** | 18,623 |
| Property, plant and equipment written off | | **6,091** | 3,203 |
| Inventory written off | | **37** | – |
| Intangible assets written off | 16 | **42** | 100 |
| Bad debts written off | | **503** | 237 |
| **c. Non-operating income / (expenses) (net)** | | | |
| Net exchange loss | | **(2,494)** | (19,564) |
| Net change in fair value of derivative instruments | | **2,475** | (37,935) |
| Grants received | | | |
| – income related | | **830** | 83 |
| Gross dividend income | | **8,379** | 9,771 |
| Gain / (Loss) from disposal of | | | |
| – property, plant and equipment (net) | | **1,794** | 18,393 |
| – subsidiaries | | **(14)** | – |
| – associates | | **637** | – |
| – joint ventures | | **(145)** | 35 |
| – other financial assets | | **3,375** | (38,135) |
| Interest income | | | |
| – associates and joint ventures | | **2,456** | 94 |
| – banks and others | | **31,518** | 35,678 |

## 35. Profit For The Year *(cont'd)*

| | Note | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|---|
| **d. Material and unusual items included in:** | | | |
| **Non-operating income (net)** | | | |
| Foreign exchange losses arising from Unauthorised Transactions | | | |
| in a wholly-owned subsidiary of Sembcorp Marine Ltd | (i) | **–** | (43,749) |
| Less: Minority interests | | **–** | 16,821 |
| | | **–** | (26,928) |

i. Arising from the various unauthorised foreign exchange transactions entered into previously by an employee of a subsidiary of the Company, Sembcorp Marine Ltd ("SCM"), for the account of a subsidiary, Jurong Shipyard Pte Ltd ("JSPL"), S$43.7 million had been charged to the income statement following the full and final amicable settlement of BNP Paribas's claim of S$73.1 million in 2008, strictly on a commercial basis.

Going forward, JSPL intends to recover the S$289.9 million paid to Societe Generale (SG) in 2007 as JSPL's position is that the underlying transactions with SG are not valid and binding. If JSPL succeeds in doing so, there will be an inflow of funds to be recognised in the financial statements at that relevant point in time.

## 36. Earnings Per Share

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| **a. Basic earnings per share** | | |
| Basic earnings per share is based on: | | |
| i. Profit attributable to shareholders of the Company | **682,664** | 507,061 |
| | **No. of shares '000** | **No. of shares '000** |
| ii. Weighted average number of ordinary shares: | | |
| Issued ordinary shares at beginning of the year | **1,776,974** | 1,783,783 |
| Effect of share options exercised | **2,158** | 2,767 |
| Effect of own shares held | **–** | (7,635) |
| Weighted average number of ordinary shares at the end of the year | **1,779,132** | 1,778,915 |
| **b. Diluted earnings per share** | | |
| Diluted earnings per share is based on: | | |
| i. Profit attributable to shareholders of the Company | **682,664** | 507,061 |

## 36. Earnings Per Share *(cont'd)*

**b. Diluted earnings per share** *(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:

| | 2009 No. of shares '000 | 2008 No. of shares '000 |
|---|---|---|
| ii. Weighted average number of shares issued used in the calculation of basic earnings per share | **1,779,132** | 1,778,915 |
| Weighted average number of unissued ordinary shares from: | | |
| – share options | **8,808** | 12,363 |
| – performance shares | **3,668** | 3,774 |
| – restricted stocks | **6,335** | 5,576 |
| Number of shares that would have been issued at fair value | **(6,350)** | (6,741) |
| Weighted average number of ordinary shares | **1,791,593** | 1,793,887 |

For the purpose of calculating diluted earnings per ordinary share, the weighted average numbers of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: share options, performance shares and restricted stocks.

For share options, 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 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.

For performance shares and restricted stocks, the weighted average number of ordinary shares in issue is adjusted as if all dilutive performance shares and restricted stocks are released. No adjustment is made to the profit attributable to shareholders of the Company.

## 37. Dividends

Subject to the approval by the shareholders at the next Annual General Meeting, the directors have proposed a final ordinary one-tier tax exempt dividend of 15.0 cents (2008: one-tier tax exempt dividend of 11.0 cents) per share amounting to an estimated net dividend of S$267,034,000 (2008: S$195,467,000) in respect of the year ended December 31, 2009, based on the share capital as at that date.

The proposed dividend of 15.0 (2008: 11.0) cents per share has not been included as a liability in the financial statements.

## 38. Significant Acquisitions and Disposals

There have been no significant acquisitions and disposals of subsidiaries in 2008 and 2009.

## 39. Related Parties

**Group**

**a. Related party transactions**

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

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| **Related Corporations** | | |
| Sales | **452** | 165 |
| Purchases including rental | **25,609** | 2,470 |
| **Associates and Joint Ventures** | | |
| Sales | **47,894** | 41,251 |
| Purchases including rental | **4,054** | 21,542 |

**b. Compensation of key management personnel**

The Group considers the directors of the Company (including the Group President & CEO of the Company), the President & CEO of Sembcorp Marine Ltd, the Executive Chairman of Sembcorp Industrial Parks Ltd, the Executive Vice President of Sembcorp Utilities (UK) Limited, the Group Chief Financial Officer and the Executive Vice President of Group Business & Strategic Development 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 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| Directors' fees and remuneration | **5,787** | 5,663 |
| Other key management personnel remuneration | **6,543** | 6,797 |
| | **12,330** | 12,460 |
| Fair value of share-based compensation | **3,912** | 5,408 |

Remuneration includes salary (which includes 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 including key management personnel.

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. The balances of the bonus bank in future will be adjusted by the yearly EVA performance of the Group and its subsidiaries and the payouts made from the bonus bank.

The fair value of share-based compensation relates to share options, performance shares and restricted stocks granted that were charged to the income statement.

## 39. Related Parties *(cont'd)*

**Company**

a. The Company has 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, the Company and one of its subsidiaries, Sembcorp Utilities Pte Ltd issued corporate guarantees 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 41 to the financial statements.

## 40. Financial Instruments

**Financial risk management objectives and policies**

The Group's activities expose it to market risk (including interest rate risk, foreign currency risk and price risk), credit risk and liquidity 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 foreign exchange contracts, foreign exchange swaps, interest rate swaps, interest rate options, zero cost collars, contracts for difference and various financial instruments to manage exposures to interest rate, foreign exchange and commodity price risks arising from operating, financing and investment activities. Exposures to foreign currency risks are also hedged naturally by a matching sale or purchase of a matching asset or liability of the same currency and amount where possible. All such transactions must involve underlying assets or liabilities and no speculative transactions are allowed.

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

**a. Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and reduce market risk exposures within acceptable parameters.

**i. 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-term and short-term borrowings.

The Group enters into interest rate swaps to reduce its exposure to interest rate volatility. In accordance with the Group's policy, the duration of such interest rate swaps must not exceed the tenor of the underlying debt.

## 40. Financial Instruments *(cont'd)*

**a. Market risk** *(cont'd)*

**i. Interest rate risk** *(cont'd)*

**Effective interest rates and repricing analysis**

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

| | Note | Effective interest rate % | Floating Interest S$'000 | Fixed Interest Rate Repricing: Within 1 year S$'000 | Between 1 to 5 years S$'000 | After 5 years S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **2009** | | | | | | | |
| **Financial assets** | | | | | | | |
| Finance lease receivables | 14 | 4.25 | – | 3,520 | 14,505 | – | 18,025 |
| Balances with related parties | | 1.52 | 59,342 | – | – | – | 59,342 |
| Loan receivables | | 5.25 | – | 65 | – | – | 65 |
| Other receivables | | 3.21 | 1 | 931 | 195 | – | 1,127 |
| Fixed deposits and bank balances | | 2.33 | 570,110 | 1,444,332 | – | – | 2,014,442 |
| | | | 629,453 | 1,448,848 | 14,700 | – | 2,093,001 |
| **Financial liabilities** | | | | | | | |
| Secured term loans: | | | | | | | |
| – Floating rate loans | | 4.18 | (320,765) | – | – | – | (320,765) |
| – Effect of interest rate swaps | | 1.02 | 259,243 | (113,709) | (111,934) | (33,600) | – |
| Total secured term loans | | | (61,522) | (113,709) | (111,934) | (33,600) | (320,765) |
| Unsecured term loans: | | | | | | | |
| – Floating rate loans | | 1.79 | (330,203) | – | – | – | (330,203) |
| – Effect of interest rate swaps | | 1.65 | 307,275 | (200,000) | (107,275) | – | – |
| | | | (22,928) | (200,000) | (107,275) | – | (330,203) |
| – Fixed rate loans | | 4.31 | – | (25,628) | (8,000) | – | (33,628) |
| Bonds & notes | | 5.00 | – | – | (199,122) | – | (199,122) |
| Total unsecured term loans | 29 | | (22,928) | (225,628) | (314,397) | – | (562,953) |
| Lease liabilities | 29 | 4.29 | – | (253) | (506) | – | (759) |
| Balances with related parties | | 8.15 | – | – | (85,690) | – | (85,690) |
| | | | (84,450) | (339,590) | (512,527) | (33,600) | (970,167) |

## 40. Financial Instruments *(cont'd)*
### a. Market risk *(cont'd)*
#### i. Interest rate risk *(cont'd)*

| | Note | Effective interest rate % | Fixed Interest Rate Repricing: Floating Interest S$'000 | Within 1 year S$'000 | Between 1 to 5 years S$'000 | After 5 years S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **2008** | | | | | | | |
| **Financial assets** | | | | | | | |
| Finance lease receivables | 14 | 4.25 | – | 3,374 | 18,025 | – | 21,399 |
| Balances with related parties | | 0.01 | – | 4,111 | – | – | 4,111 |
| Loan receivables | | 2.74 | 1,652 | 93 | – | – | 1,745 |
| Other receivables | | 4.39 | – | 19,226 | – | – | 19,226 |
| Fixed deposits and bank balances | | 3.17 | 188,516 | 1,738,265 | – | – | 1,926,781 |
| | | | 190,168 | 1,765,069 | 18,025 | – | 1,973,262 |
| **Financial liabilities** | | | | | | | |
| Secured term loans: | | | | | | | |
| – Floating rate loans | | 4.76 | (406,582) | – | – | – | (406,582) |
| – Effect of interest rate swaps | | (0.24) | 308,300 | – | (231,699) | (76,601) | – |
| Total secured term loans | | | (98,282) | – | (231,699) | (76,601) | (406,582) |
| Unsecured term loans: | | | | | | | |
| – Floating rate loans | | 2.13 | (202,905) | – | – | – | (202,905) |
| – Effect of interest rate swaps | | 1.00 | 200,000 | (200,000) | – | – | – |
| | | | (2,905) | (200,000) | – | – | (202,905) |
| – Fixed rate loans | | 2.48 | – | (49,763) | – | – | (49,763) |
| Medium-term notes | | 3.10 | – | (149,945) | – | – | (149,945) |
| Total unsecured term loans | 29 | | (2,905) | (399,708) | – | – | (402,613) |
| Lease liabilities | 29 | 5.20 | – | (1,405) | (2,810) | – | (4,215) |
| Balances with related parties | | 5.39 | – | – | (7,651) | – | (7,651) |
| | | | (101,187) | (401,113) | (242,160) | (76,601) | (821,061) |

*Sensitivity analysis*

It is estimated that a one percentage point change in interest rate at the reporting date would increase / (decrease) equity and profit before income tax by the following amounts. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

## 40. Financial Instruments *(cont'd)*
### a. Market risk *(cont'd)*
#### i. Interest rate risk *(cont'd)*

| | Profit before income tax: 100 bp Increase S$'000 | Profit before income tax: 100 bp Decrease S$'000 | Equity: 100 bp Increase S$'000 | Equity: 100 bp Decrease S$'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **December 31, 2009** | | | | |
| Variable rate financial instruments | 5,978 | (5,978) | 62,173 | (62,173) |
| **December 31, 2008** | | | | |
| Variable rate financial instruments | 1,401 | (1,401) | 17,659 | (17,659) |

*Notional Amount*

At December 31, 2009, the Group had interest rate swaps with an aggregate notional amount of S$1,377,901,000 (2008: S$544,030,000) of which S$738,564,000 are interest rate swaps with forward starting date. The Group receives a variable interest rate and pays a fixed rate interest ranging from 2.57% to 6.1% (2008: 2.65% to 6.0%) per annum on the notional amount. The Company classifies these interest rate swaps as cash flow hedges.

| | Note | Effective interest rate % | Fixed Interest Rate Repricing: Floating Interest S$'000 | Within 1 year S$'000 | Between 1 to 5 years S$'000 | After 5 years S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | |
| **2009** | | | | | | | |
| **Financial assets** | | | | | | | |
| Fixed deposits and bank balances | | 0.20 | 261,367 | – | – | – | 261,367 |
| **Financial liabilities** | | | | | | | |
| Lease liabilities | 29 | 6.09 | – | (83) | (339) | – | (422) |
| Balances with related parties | | 3.17 | (229,100) | – | (417,600) | – | (646,700) |
| | | | (229,100) | (83) | (417,939) | – | (647,122) |
| **2008** | | | | | | | |
| **Financial assets** | | | | | | | |
| Balances with related parties | | 2.17 | 178 | – | – | – | 178 |
| Fixed deposits and bank balances | | 0.66 | 45,541 | – | – | – | 45,541 |
| | | | 45,719 | – | – | – | 45,719 |
| **Financial liabilities** | | | | | | | |
| Balances with related parties | | 2.12 | (441,332) | – | (223,600) | – | (664,932) |

## 40. Financial Instruments *(cont'd)*

### a. Market risk *(cont'd)*

#### i. Interest rate risk *(cont'd)*

| | Profit before income tax | | Equity | |
|---|---|---|---|---|
| | 100 bp Increase S$'000 | 100 bp Decrease S$'000 | 100 bp Increase S$'000 | 100 bp Decrease S$'000 |
| **Company** | | | | |
| **December 31, 2009** | | | | |
| Variable rate financial instruments | 323 | (323) | – | – |
| **December 31, 2008** | | | | |
| Variable rate financial instruments | (3,956) | 3,956 | – | – |

#### ii. Foreign currency risk

The Group operates globally and is exposed to foreign currency exchange rate volatility primarily for United States dollars ("USD"), euros ("EURO"), pounds sterling ("GBP"), Australian dollars ("AUD") and Chinese renminbi ("RMB") on sales and purchases of assets and liabilities, which arise from the daily course of operations. Such risks are hedged either by forward foreign exchange contracts in respect of actual or forecasted currency exposures which are reasonably certain or hedged naturally by a matching sale or purchase of a matching asset or liability of the same currency and amount.

The Group's exposure to foreign currencies is as follows:

| | SGD S$'000 | USD S$'000 | EURO S$'000 | GBP S$'000 | Others S$'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2009** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 81,042 | 180,920 | 159,355 | 8,454 | 4,227 |
| Trade and other receivables | 20,783 | 86,237 | 69 | 337 | 2,698 |
| Other financial assets | – | 72,238 | – | – | 28,438 |
| | 101,825 | 339,395 | 159,424 | 8,791 | 35,363 |
| **Financial liabilities** | | | | | |
| Trade and other payables | 190,224 | 446,982 | 114,796 | 3,173 | 7,204 |
| Interest-bearing borrowings | 140 | 70,198 | – | – | – |
| | 190,364 | 517,180 | 114,796 | 3,173 | 7,204 |
| Net financial (liabilities) / assets | (88,539) | (177,785) | 44,628 | 5,618 | 28,159 |

## 40. Financial Instruments *(cont'd)*

### a. Market risk *(cont'd)*

#### ii. Foreign currency risk *(cont'd)*

| | SGD S$'000 | USD S$'000 | EURO S$'000 | GBP S$'000 | Others S$'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2008** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 98,220 | 928,866 | 71,687 | 98 | 12,088 |
| Trade and other receivables | 14,239 | 339,173 | 27,535 | 5,205 | 10,964 |
| Other financial assets | – | 2,365 | (23) | – | 1,990 |
| | 112,459 | 1,270,404 | 99,199 | 5,303 | 25,042 |
| **Financial liabilities** | | | | | |
| Trade and other payables* | 101,965 | 273,561 | 44,655 | 3,875 | 8,881 |
| Interest-bearing borrowings | – | 139,235 | – | 1,912 | 1,937 |
| | 101,965 | 412,796 | 44,655 | 5,787 | 10,818 |
| Net financial assets / (liabilities) | 10,494 | 857,608 | 54,544 | (484) | 14,224 |

* Excludes share of net liability of an associate

**Company**

The Company's financial assets and liabilities are predominantly denominated in Singapore dollars at balance sheet dates.

*Notional Amount*

At the balance sheet date, the Group had foreign exchange contracts with the following notional amounts:

| | Group | |
|---|---|---|
| | 2009 Notional amount S$'000 | 2008 Notional amount S$'000 |
| Foreign exchange forward contracts | **2,191,713** | 2,980,835 |
| Foreign exchange swap agreements | **266,774** | 175,811 |
| | **2,458,487** | 3,156,646 |

*Sensitivity analysis*

A 10% strengthening of the following currencies against the functional currencies of the Company and its subsidiaries at the balance sheet date would have increased / (decreased) equity and profit before income tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

## 40. Financial Instruments *(cont'd)*
### a. Market risk *(cont'd)*
#### ii. Foreign currency risk *(cont'd)*

| | Group | |
|---|---|---|
| | Equity S$'000 | Profit before income tax S$'000 |
| **2009** | | |
| SGD | (13,854) | (525) |
| USD | 105,561 | 3,092 |
| EURO | 16,779 | 4,971 |
| Others | 2,354 | 613 |
| **2008** | | |
| SGD | 6,106 | 63,485 |
| USD | 202,810 | 44,577 |
| EURO | 517 | 5,858 |
| Others | (198) | 1,192 |

A 10% weakening of the above currencies against the functional currencies of the Company and its subsidiaries at the balance sheet date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### iii. Price risk
*Equity securities price risk*
The Group is exposed to equity securities price risk because of the investments held by the Group which are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss.

*Sensitivity analysis*
If prices for equity securities increase by 10% with all other variables held constant, the increase in equity and profit before income tax will be:

| | Group | |
|---|---|---|
| | 2009 S$'000 | 2008 S$'000 |
| Equity | **17,195** | 14,605 |
| Profit before income tax | **4** | 3 |

A 10% decrease in the underlying equity prices would have had the equal but opposite effect to the amounts shown above. The analysis is performed on the same basis for 2008 and assumes that all other variables remain constant.

## 40. Financial Instruments *(cont'd)*
### a. Market risk *(cont'd)*
#### iii. Price risk *(cont'd)*
*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.

Contracts for differences are entered into with a counterparty at a strike price, with or without fixing the quantity upfront, to hedge against adverse price movements on the sale of electricity. Naphtha swaps are entered into for fixed quantity to hedge revenue indexed to naphtha. 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 fuel oil.

*Sensitivity analysis*
If prices for commodities increase by 10% with all other variables held constant, the increase in equity and profit before income tax will be:

| | Group | |
|---|---|---|
| | 2009 S$'000 | 2008 S$'000 |
| Equity | **18,584** | 4,637 |
| Profit before income tax | **–** | – |

A 10% decrease in the prices for commodities would have had the equal but opposite effect to the amounts shown above. The analysis is performed on the same basis for 2008 and assumes that all other variables remain constant.

*Notional amount*
At the balance sheet date, the Group had financial instruments with the following notional contract amounts:

| | Group | |
|---|---|---|
| | 2009 Notional amount S$'000 | 2008 Notional amount S$'000 |
| Fuel oil swap agreements | **188,785** | 199,483 |
| Power swap contracts | **7,072** | 116,053 |
| | **195,857** | 315,536 |

## 40. Financial Instruments *(cont'd)*

### b. 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 credit quality of customers is assessed after taking into account its financial position and past experience with the customers.

The Group only deals with pre-approved customers and financial institutions with good credit rating. To minimise the Group's counterparty risk, the Group enters into derivative transactions only with creditworthy institutions. Cash and fixed deposits are placed in banks and financial institutions with good credit rating.

As the Group and the Company does not hold any collateral, the maximum exposure to credit risk is the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

The Group's and the Company's maximum exposure to credit risk for loans and receivables at the balance sheet date is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **By business activity** | | | | |
| Utilities | **715,958** | 527,117 | **93,936** | 38,381 |
| Marine | **313,772** | 575,379 | **–** | – |
| Environment | **28,903** | 36,524 | **–** | – |
| Industrial parks | **6,435** | 5,150 | **–** | – |
| Others | **31,161** | 32,149 | **6,401** | 4,791 |
| | **1,096,229** | 1,176,319 | **100,337** | 43,172 |

The age analysis of current trade and other receivables is as follows:

| | Gross | Impairment | Gross | Impairment |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2008 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | |
| Not past due | **554,307** | **5,007** | 752,178 | 8,343 |
| Past due 0 to 3 months | **97,517** | **1,740** | 79,483 | 2,840 |
| Past due 3 to 6 months | **9,614** | **5,295** | 17,779 | 2,582 |
| Past due 6 to 12 months | **8,021** | **918** | 9,128 | 1,009 |
| More than 1 year | **26,995** | **18,725** | 53,842 | 23,904 |
| | **696,454** | **31,685** | 912,410 | 38,678 |
| **Company** | | | | |
| Not past due | **86,690** | **–** | 32,457 | – |
| Past due 0 to 3 months | **2,435** | **–** | 3,054 | – |
| Past due 3 to 6 months | **35** | **–** | 1,292 | – |
| Past due 6 to 12 months | **64** | **–** | 606 | – |
| More than 1 year | **726** | **321** | 691 | 247 |
| | **89,950** | **321** | 38,100 | 247 |

## 40. Financial Instruments *(cont'd)*

### b. Credit risk *(cont'd)*

Movements in the allowance for impairment of current and non-current trade and other receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Balance at beginning of the year | **53,338** | 57,985 | **247** | 60 |
| Currency translation difference | **(148)** | (686) | **–** | – |
| Allowance made | **7,103** | 11,546 | **74** | 187 |
| Allowance utilised | **(6,834)** | (4,355) | **–** | – |
| Allowance written back | **(7,156)** | (10,255) | **–** | – |
| Disposal of subsidiaries | **–** | (897) | **–** | – |
| Balance at end of the year | **46,303** | 53,338 | **321** | 247 |

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written against the carrying amount of the impaired financial asset.

### c. Liquidity risk

The Group manages its liquidity risk with the view to maintaining a healthy level of cash and cash equivalents appropriate to the operating environment and expected cash flows of the Group. Liquidity requirements are maintained within the credit facilities established and are adequate and available to the Group to meet its obligations.

The table below analyses the maturity profile of the Group's and the Company's financial liabilities (including derivative financial liabilities) based on expected contractual undiscounted cash inflows / (outflows), including interest payments and excluding the impact of netting agreements:

| | | Cash Flows | | | |
|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flow | Less than 1 year | Between 1 and 5 years | Over 5 years |
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | |
| **2009** | | | | | |
| **Derivatives** | | | | | |
| Derivative financial liabilities | 60,517 | | | | |
| – inflow | | 2,170,340 | 1,440,736 | 729,166 | 438 |
| – outflow | | (2,262,825) | (1,490,098) | (767,368) | (5,359) |
| Derivative financial assets | (6,235) | | | | |
| – inflow | | 288,835 | 283,430 | 5,405 | – |
| – outflow | | (277,804) | (272,580) | (5,224) | – |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables* | 2,460,032 | (2,460,535) | (2,370,354) | (90,181) | – |
| Issued financial guarantee | – | (31,450) | (31,450) | – | – |
| Interest–bearing borrowings | 879,789 | (980,445) | (314,152) | (607,806) | (58,487) |
| | 3,394,103 | (3,553,884) | (2,754,468) | (736,008) | (63,408) |

## 40. Financial Instruments *(cont'd)*

### c. Liquidity risk *(cont'd)*

| | Carrying amount S$'000 | Cash Flows: Contractual cash flow S$'000 | Less than 1 year S$'000 | Between 1 and 5 years S$'000 | Over 5 years S$'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2008** | | | | | |
| **Derivatives** | | | | | |
| Derivative financial liabilities | 231,826 | | | | |
| – inflow | | 2,958,465 | 2,246,599 | 711,866 | – |
| – outflow | | (3,188,897) | (2,417,282) | (771,202) | (413) |
| Derivative financial assets | (4,261) | | | | |
| – inflow | | 156,629 | 156,629 | – | – |
| – outflow | | (152,368) | (152,368) | – | – |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables* | 2,272,217 | (2,273,268) | (2,260,683) | (12,585) | – |
| Interest–bearing borrowings | 808,318 | (840,870) | (301,407) | (450,008) | (89,455) |
| | 3,308,100 | (3,340,309) | (2,728,512) | (521,929) | (89,868) |

| | Carrying amount S$'000 | Cash Flows: Contractual cash flow S$'000 | Less than 1 year S$'000 | Between 1 and 5 years S$'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **2009** | | | | |
| Trade and other payables* | 795,971 | 881,659 | 169,892 | 711,767 |
| Intra-group financial guarantee | – | 1,639,622 | 1,639,622 | – |
| Interest-bearing borrowings | 422 | 484 | 107 | 377 |
| | 796,393 | 2,521,765 | 1,809,621 | 712,144 |
| **2008** | | | | |
| Trade and other payables* | 774,713 | (834,605) | (327,976) | (506,629) |
| Intra-group financial guarantee | – | 1,239,063 | 1,239,063 | – |
| | 774,713 | 404,458 | 911,087 | (506,629) |

* Excludes deposits, advance payments from customers, accrued interest and share of net liability of an associate.

## 40. Financial Instruments *(cont'd)*

### c. Liquidity risk *(cont'd)*

The following table indicates the periods in which the cash flow associated with derivatives that are cash flow hedges are expected to impact the income statement.

| | Carrying amount S$'000 | Cash Flows: Contractual cash flow S$'000 | Less than 1 year S$'000 | Between 1 and 5 years S$'000 | Over 5 years S$'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2009** | | | | | |
| Derivative financial liabilities | 58,911 | | | | |
| – inflow | | 1,971,349 | 1,241,745 | 729,166 | 438 |
| – outflow | | (2,062,228) | (1,289,501) | (767,368) | (5,359) |
| Derivative financial assets | (46,397) | | | | |
| – inflow | | 197,026 | 172,781 | 3,966 | 20,279 |
| – outflow | | (145,833) | (143,419) | (2,414) | – |
| | 12,514 | (39,686) | (18,394) | (36,650) | 15,358 |
| **2008** | | | | | |
| Derivative financial liabilities | 228,200 | | | | |
| – inflow | | 2,849,920 | 2,138,054 | 711,866 | – |
| – outflow | | (3,076,726) | (2,305,111) | (771,202) | (413) |
| Derivative financial assets | (27,330) | | | | |
| – inflow | | 94,605 | 94,605 | – | – |
| – outflow | | (67,275) | (67,275) | – | – |
| | 200,870 | (199,476) | (139,727) | (59,336) | (413) |

## 40. Financial Instruments *(cont'd)*

### d. Estimation of fair values

As discussed in Note 2, effective January 1, 2009, the Group adopted FRS 107 Financial Instruments: Disclosures. FRS 107 establishes a fair value hierarchy that prioritises the inputs used to measure fair value. The three levels of the fair value input hierarchy defined by FRS 107 are as follows:

- Level 1 – Fair values are measured based on quoted prices (unadjusted) from active markets for identical financial instruments.
- Level 2 – Fair values are measured using inputs, other than those used for Level 1, that are observable for the financial instruments either directly (prices) or indirectly (derived from prices).
- Level 3 – Fair values are measured using inputs which are not based on observable market data (unobservable input).

**Securities**

The fair value of financial assets at fair value through profit or loss, and available-for-sale financial assets, 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 assets, 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, if a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current spot rate.

The fair value of interest rate swaps, based on current interest rates curves, is the estimated amount that the Group is expected to receive or pay to terminate the swap with the swap counterparties at the balance sheet date.

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 the contracted price entered into with the counterparty and the reference price. The fair value of 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 income statement upon settlement.

The electricity forward sale with option to buyback contracts is entered into with a single counterparty for a 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.

**Non-derivative financial liabilities**

Fair values are calculated based on discounted expected future principal and interest cash flows at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

## 40. Financial Instruments *(cont'd)*

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

**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.

### e. Fair value hierarchy

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for fair value on a recurring basis as of December 31, 2009. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgement, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

| | Fair value measurement at December 31, 2009 using: | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | |
| **At December 31, 2009** | | | | |
| Available-for-sale financial assets | 163,997 | 6,542 | – | 170,539 |
| Financial assets at fair value through profit or loss | 35 | – | – | 35 |
| Derivative financial assets | – | 48,869 | – | 48,869 |
| | 164,032 | 55,411 | – | 219,443 |
| Derivative financial liabilities | – | (60,517) | – | (60,517) |
| | 164,032 | (5,106) | – | 158,926 |

### f. Capital management

The Group aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development and growth of its businesses, while at the same time maintaining an appropriate dividend policy to reward shareholders. The Group monitors Economic Value Added attributable to shareholders, which the Group defines as net operating profit after tax less capital charge excluding minority interests. Management also monitors the level of dividends to ordinary shareholders.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group records a net cash position as at December 31, 2009 (2008: net cash position).

## 41. Contingent Liabilities (Unsecured)

**Group**

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| Guarantees given to banks to secure banking facilities provided to: | | |
| – Associates and joint ventures | **31,450** | – |
| – Others | **7,238** | 7,441 |
| Performance guarantees granted for contracts awarded to the Group | **34,037** | 238,596 |

a. A Wayleave Agreement was entered into between SembGas and the Government of Singapore with respect to certain pipelines where SembGas would indemnify the Government of Singapore against all claims, actions, demands, proceedings, liabilities, damages, costs and expenses arising out of or in connection with any occurrence during the use, maintenance or operations of these pipelines. No such claim has arisen to date.

b. A subsidiary, Sembcorp Air Products (Hyco) Pte Ltd's ("SembAP") Synthesis Gas and Hydrogen Plant had an unplanned shutdown from June 26, 2008 to August 4, 2008 which gave rise to a claim by its main customer for termination based on non-supply of synthesis gas and hydrogen during this period. SembAP is disputing the claim on the basis that the shutdown was an event of force majeure and accordingly no provision has been made in the subsidiary's books for the claim pending resolution of the dispute.

**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 amounting to S$1,640 million (2008: S$1,239 million), of which S$200 million was drawn down as at balance sheet date. The periods in which the financial guarantees expire are as follows:

| | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|
| Less than 1 year | **1,639,622** | 1,239,063 |

## 41. Contingent Liabilities (Unsecured) *(cont'd)*

**Company** *(cont'd)*

b. The Company has provided a corporate guarantee to a subsidiary, SembCogen which entered into a long-term contract ("End User Agreement") with a fellow subsidiary, SembGas to purchase natural gas over the period of 22 years with effect from 1999.

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

## 42. Commitments

| | Group 2009 S$'000 | Group 2008 S$'000 |
|---|---|---|
| Commitments not provided for in the financial statements are as follows: | | |
| Capital expenditure for: | | |
| – Commitments in respect of contracts placed | **1,348,777** | 56,502 |
| – Amounts approved by directors but not contracted | **168,882** | 121,988 |
| – Uncalled capital and commitments to subscribe for additional shares in investments | **146,348** | 137,870 |
| | **1,664,007** | 316,360 |

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 2009 S$'000 | Group 2008 S$'000 | Company 2009 S$'000 | Company 2008 S$'000 |
|---|---|---|---|---|
| Lease payments due: | | | | |
| Within 1 year | **21,538** | 24,447 | **6,092** | 6,213 |
| Between 1 and 5 years | **48,089** | 40,696 | **14,118** | 18,019 |
| After 5 years | **289,410** | 79,629 | **31,947** | 36,260 |
| | **359,037** | 144,772 | **52,157** | 60,492 |

i. On January 15, 1999, SembGas entered into a long-term Gas Sales Agreement to purchase natural gas over a period of 22 years. SembGas also entered into agreements with certain customers for the on-sale of this gas, which agreements incorporated provisions, which specifically deal with, inter-alia, SembGas' liability for shortfalls in deliveries of gas and relief from such liability in certain circumstances.

ii. On April 15, 2008, SembGas entered into another agreement to import natural gas over a period of 15 years, with first delivery of gas targeted to take place in 2011.

## 42. Commitments *(cont'd)*

ii. The Group leases out its investment properties. Non-cancellable operating lease rentals are receivable as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | S$'000 | S$'000 |
| Lease receivable: | | |
| Within 1 year | **2,625** | 3,097 |
| Between 1 and 5 years | **3,375** | 4,848 |
| | **6,000** | 7,945 |

## 43. Segment Reporting

**a. Operating Segments**

For management purposes, the Group is organised into business units based on their products and services, and has five reportable operating segments as follows:

i. The Utilities segment's principal activities are in the provision of energy, water and on-site logistics and services to customers including companies in energy intensive industry clusters. It operates in Singapore, the United Kingdom, China, Vietnam, the United Arab Emirates and Oman.

ii. The Marine segment focuses on repair, building and conversion of ships and rigs, and on offshore engineering.

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

iv. The Industrial Parks segment owns, develops, markets and manages integrated industrial parks and townships in Asia.

v. Others / Corporate segment comprises businesses relating to minting, design and construction activities, offshore engineering and the corporate companies.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Information regarding the results of each reportable segment is included in the table below. Segment performance is evaluated based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group President & CEO.

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.

**b. Geographical Segments**

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

## 43. Segment Reporting *(cont'd)*

*a. Operating Segments*

| | Utilities | Marine | Environment | Industrial Parks | Others / Corporate | Elimination | Total |
|---|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **2009** | | | | | | | |
| **Turnover** | | | | | | | |
| External sales | 3,495,412 | 5,723,061 | 185,044 | 14,971 | 153,920 | – | 9,572,408 |
| Inter-segment sales | 31,701 | 1,681 | 2,615 | 3,504 | 37,977 | (77,478) | – |
| **Total** | 3,527,113 | 5,724,742 | 187,659 | 18,475 | 191,897 | (77,478) | 9,572,408 |
| **Results** | | | | | | | |
| Segment results | 247,405 | 858,331 | (739) | 11,383 | (426) | – | 1,115,954 |
| Interest income | 4,602 | 28,806 | 220 | 777 | 27,499 | (27,930) | 33,974 |
| Interest expense | (36,800) | (5,329) | (1,067) | – | (25,920) | 27,930 | (41,186) |
| | 215,207 | 881,808 | (1,586) | 12,160 | 1,153 | – | 1,108,742 |
| Share of results of associates | 10,601 | 12,078 | 15,937 | 5,013 | – | – | 43,629 |
| Share of results of joint ventures | 34,170 | 7,218 | – | 17,658 | 6,867 | – | 65,913 |
| | 259,978 | 901,104 | 14,351 | 34,831 | 8,020 | – | 1,218,284 |
| Income tax (expense) / credit | (46,798) | (144,276) | 1,217 | (2,477) | (10,647) | – | (202,981) |
| Minority interests | (1,899) | (326,654) | (113) | (4,022) | 49 | – | (332,639) |
| **Profit for the year** | 211,281 | 430,174 | 15,455 | 28,332 | (2,578) | – | 682,664 |
| **Assets** | | | | | | | |
| Segment assets | 3,567,887 | 4,421,099 | 141,154 | 187,587 | 1,219,278 | (1,394,458) | 8,142,547 |
| Interests in associates | – | 240,033 | 80,523 | 298,273 | – | – | 618,829 |
| Interests in joint ventures | 119,919 | 43,627 | – | 86,661 | 61,514 | – | 311,721 |
| Tax assets | 25,670 | 1,752 | 8,703 | 1,560 | 219,596 | – | 257,281 |
| **Total assets** | 3,713,476 | 4,706,511 | 230,380 | 574,081 | 1,500,388 | (1,394,458) | 9,330,378 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 2,183,293 | 2,402,539 | 72,464 | 31,092 | 1,103,810 | (1,394,458) | 4,398,740 |
| Tax liabilities | 267,753 | 323,575 | 9,148 | 13,127 | 82,500 | – | 696,103 |
| **Total liabilities** | 2,451,046 | 2,726,114 | 81,612 | 44,219 | 1,186,310 | (1,394,458) | 5,094,843 |
| **Capital expenditure** | 330,036 | 66,994 | 7,173 | 362 | 2,876 | – | 407,441 |
| **Significant non-cash items** | | | | | | | |
| Depreciation and amortisation | 105,888 | 75,621 | 10,432 | 2,166 | 5,596 | – | 199,703 |
| Other non-cash items (including provisions, loss on disposal and exchange differences) | 21,741 | 63,584 | 740 | 2,388 | 276 | – | 88,729 |

## 43. Segment Reporting *(cont'd)*

### a. *Operating Segments (cont'd)*

| | Utilities S$'000 | Marine S$'000 | Environment S$'000 | Industrial Parks S$'000 | Others / Corporate S$'000 | Elimination S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | |
| **Turnover** | | | | | | | |
| External sales | 4,477,509 | 5,061,032 | 213,762 | 16,233 | 159,877 | – | 9,928,413 |
| Inter-segment sales | 38,912 | 2,916 | 3,038 | 2,618 | 26,177 | (73,661) | – |
| **Total** | 4,516,421 | 5,063,948 | 216,800 | 18,851 | 186,054 | (73,661) | 9,928,413 |
| **Results** | | | | | | | |
| Segment results | 289,866 | 467,031 | (9,819) | 7,575 | (10,169) | – | 744,484 |
| Interest income | 10,263 | 25,130 | 221 | 1,329 | 28,670 | (29,841) | 35,772 |
| Interest expense | (40,725) | (11,370) | (2,366) | 609 | (20,396) | 29,841 | (44,407) |
| | 259,404 | 480,791 | (11,964) | 9,513 | (1,895) | – | 735,849 |
| Share of results of associates | 568 | 55,304 | 16,590 | 8,410 | – | – | 80,872 |
| Share of results of joint ventures | 15,920 | 8,174 | – | 18,753 | 2,377 | – | 45,224 |
| | 275,892 | 544,269 | 4,626 | 36,676 | 482 | – | 861,945 |
| Income tax (expense) / credit | (46,655) | (91,937) | (877) | (460) | 8,978 | – | (130,951) |
| Minority interests | (28,925) | (188,641) | (1,618) | (4,667) | (82) | – | (223,933) |
| **Profit for the year** | 200,312 | 263,691 | 2,131 | 31,549 | 9,378 | – | 507,061 |
| **Assets** | | | | | | | |
| Segment assets | 2,865,194 | 4,331,584 | 162,884 | 195,780 | 941,664 | (1,170,313) | 7,326,793 |
| Interests in associates | 5 | 249,086 | 43,139 | 272,158 | – | – | 564,388 |
| Interests in joint ventures | 110,387 | 36,409 | 1,097 | 74,854 | 58,069 | – | 280,816 |
| Tax assets | 24,504 | 14,129 | 4,730 | 14,809 | 236,941 | – | 295,113 |
| **Total assets** | 3,000,090 | 4,631,208 | 211,850 | 557,601 | 1,236,674 | (1,170,313) | 8,467,110 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 1,824,956 | 3,018,813 | 80,586 | 33,641 | 892,728 | (1,170,313) | 4,680,411 |
| Tax liabilities | 218,466 | 232,510 | 6,880 | 14,537 | 49,449 | – | 521,842 |
| **Total liabilities** | 2,043,422 | 3,251,323 | 87,466 | 48,178 | 942,177 | (1,170,313) | 5,202,253 |
| **Capital expenditure** | 251,870 | 104,097 | 7,345 | 849 | 3,982 | – | 368,143 |
| **Significant non-cash items** | | | | | | | |
| Depreciation and amortisation | 106,742 | 71,578 | 9,554 | 1,962 | 5,233 | – | 195,069 |
| Other non-cash items (including provisions, loss on disposal and exchange differences) | 8,158 | 97,531 | 462 | 4,681 | 793 | – | 111,625 |

## 43. Segment Reporting *(cont'd)*

### b. *Geographical Segments*

| | Singapore S$'000 | Rest of Asia S$'000 | Europe S$'000 | Others S$'000 | Consolidated S$'000 |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Revenue from external customers | 3,915,779 | 1,353,896 | 2,553,376 | 1,749,357 | 9,572,408 |
| Total assets | 7,059,045 | 1,020,742 | 686,999 | 563,592 | 9,330,378 |
| Segment assets | 6,550,654 | 368,937 | 674,908 | 548,048 | 8,142,547 |
| Capital expenditure | 92,002 | 38,453 | 23,046 | 253,940 | 407,441 |
| **2008** | | | | | |
| Revenue from external customers | 5,415,489 | 1,691,070 | 2,194,717 | 627,137 | 9,928,413 |
| Total assets | 6,843,700 | 959,358 | 633,638 | 30,414 | 8,467,110 |
| Segment assets | 6,335,017 | 338,649 | 622,713 | 30,414 | 7,326,793 |
| Capital expenditure | 187,166 | 118,328 | 62,465 | 184 | 368,143 |

## 44. 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 disclosures 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 16.

## 44. Significant Accounting Estimates and Judgements *(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.

**c. Pension assumptions**

The Group has decided on certain principal actuarial assumptions, as detailed in Note 28, 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 income statement.

**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.

**e. Provisions and contingent liabilities**

Estimates of the Group's obligations arising from contracts exist as at balance sheet date may be affected by future events, which cannot be predicted with any certainty. The assumptions and estimates are made based on the management's knowledge and experience and may vary from actual experience so that the actual liability may vary considerably from the best estimates.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**Critical accounting judgements in applying the Group's 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**

The Group has 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.

## 44. Significant Accounting Estimates and Judgements *(cont'd)*

**Critical accounting judgements in applying the Group's accounting policies** *(cont'd)*

**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.

## 45. Subsequent Event

A subsidiary of the Company, Jurong Shipyard Pte Ltd ("JSPL") through Estaleiro Jurong Aracruz Ltda, a Brazilian incorporated subsidiary of JSPL, acquired a freehold land in the State of Espirito Santo in Brazil to develop into a shipyard. Jurong do Brasil Prestacao de Services Ltda, another Brazilian incorporated subsidiary of JSPL will undertake marine and offshore services in Brazil.

## 46. Comparative Information

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

## 47. New or Revised Accounting Standards and Interpretations

The Group has not applied the following accounting standards (including their consequential amendments) and interpretations that have been issued as of the balance sheet date but are not yet effective:

| | |
|---|---|
| FRS 27 (revised) | Consolidated and Separate Financial Statements |
| FRS 103 (revised) | Business Combinations |
| INT FRS 117 | Distributions of Non-cash Assets to Owners |
| Improvements to FRSs 2009 | |
| Amendment to FRS 32 Financial Instruments: Presentation – Classification of Rights Issue | |
| Amendment to FRS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items | |
| Amendment to FRS 102 Share-based Payment – Group Cash-settled Share-based Payment Transactions | |

FRS 103 (revised) and FRS 27 (revised) will become effective for the Group's financial statements for the year ending December 31, 2010. FRS 103 (revised) introduces significant changes to the accounting for business combinations both at the acquisition date and post acquisition, and requires greater use of fair values. The revised FRS 103 will be applied prospectively and therefore there will be no impact on prior periods in the Group's financial statements for the year ending December 31, 2010. FRS 27 (revised) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the income statement. The Group is in the process of assessing the impact of these amendments.

INT FRS 117 will become effective for the Group's financial statements for the year ending December 31, 2010.

INT FRS 117 provides guidance when an entity distributes assets other than cash as dividends to its owners acting in their capacity as owners, or when the distributions give owners a choice of receiving either non-cash assets or cash alternative. The interpretation requires that an entity should recognise such distributions as dividend payable when it is appropriately authorised and is no longer at the discretion of the entity. The dividend payable should be measured at the fair value of the non-cash assets to be distributed. The Group is in the process of assessing the impact of these amendments.

## 47. New or Revised Accounting Standards and Interpretations *(cont'd)*

*Improvements to FRSs* 2009 will become effective for the Group's financial statements for the year ending December 31, 2010 for amendments relating to:

- FRS 102 Share-based payment
- FRS 38 Intangible assets
- INT FRS 109 Reassessment of embedded derivatives
- INT FRS 116 Hedges of a net investment in a foreign operation

*Improvements to* FRSs 2009 will become effective for the Group's financial statements for the year ending December 31, 2011 for amendments relating to:

- FRS 1 Presentation of financial statements
- FRS 7 Statement of cash flows
- FRS 17 Leases
- FRS 36 Impairment of assets
- FRS 39 Financial Instruments: Recognition and measurement
- FRS 105 Non-current assets held for sale and discontinued operations
- FRS 108 Operating segments

*Improvements to FRSs* 2009 contain amendments to numerous accounting standards that result in accounting changes for presentation, recognition or measurement and disclosure purposes. The Group is in the process of assessing the impact of these amendments.

The amendment to FRS 32 on classification of rights issues will become effective for the Group's financial statements for the year ending December 31, 2010. This amendment addresses the accounting for rights issues (rights, options and warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. The amendment requires that rights issues to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This is regardless of the currency in which the exercise price is denominated. The Group is in the process of assessing the impact of this amendment.

The amendments to FRS 39 on eligible hedged items will become effective for the Group's financial statements for the year ending December 31, 2010. The amendments clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in two particular situations: (i) the designation of a one-sided risk in a hedged item; and (ii) the designation of inflation in particular situations. The Group is in the process of assessing the impact of these amendments.

The amendments to FRS 102 on group cash-settled share-based payment transactions will become effective for the Group's financial statements for the year ending December 31, 2010. The amendments require an entity receiving goods or services in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. The Group is in the process of assessing the impact of these amendments.

The initial application of these standards (including their consequential amendments) and interpretations is not expected to have any material impact on the Group's financial statements. The Group has not considered the impact of accounting standards issued after the balance sheet date.

## 48. Subsidiaries

Details of significant subsidiaries are as follows:

| Name of significant subsidiaries | Country of incorporation | Effective equity held by the Group 2009 % | Effective equity held by the Group 2008 % |
|---|---|---|---|
| **Utilities** | | | |
| Sembcorp Utilities Pte Ltd | Singapore | **100** | 100 |
| Sembcorp Cogen Pte Ltd | Singapore | **100** | 100 |
| Sembcorp Gas Pte Ltd | Singapore | **70** | 70 |
| Sembcorp Air Products (Hyco) Pte Ltd | Singapore | **60** | 60 |
| Sembcorp Utilities (UK) Limited | The United Kingdom | **100** | 100 |
| **Marine** | | | |
| Sembcorp Marine Ltd | Singapore | **61.30** | 61.55 |
| Jurong Shipyard Pte Ltd | Singapore | **61.30** | 61.55 |
| PPL Shipyard Pte Ltd | Singapore | **52.11** | 52.32 |
| Sembawang Shipyard Pte Ltd | Singapore | **61.30** | 61.55 |
| SMOE Pte Ltd | Singapore | **61.30** | 61.55 |
| **Environment** | | | |
| Sembcorp Environment Pte. Ltd. | Singapore | **100** | 100 |
| SembWaste Pte Ltd | Singapore | **100** | 100 |
| **Industrial Parks** | | | |
| Sembcorp Industrial Parks Ltd | Singapore | **100** | 100 |
| **Others** | | | |
| 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 |

KPMG LLP is the auditor of the significant Singapore incorporated subsidiaries and other member firms of KPMG International are auditors of the significant foreign incorporated subsidiaries.

## 49. Associates and Joint Ventures

Details of significant associates and joint ventures are as follows:

| | | | Effective equity held by the Group | |
|---|---|---|---|---|
| | | | 2009 | 2008 |
| | Name of significant associates and joint ventures | Country of incorporation | % | % |
| | **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 |
| * | Emirates Sembcorp Water & Power Company P.J.S.C | United Arab Emirates | **40.00** | 40.00 |
| | **Marine** | | | |
| @@ | COSCO Shipyard Group | People's Republic of China | **18.39** | 18.47 |
| | **Environment** | | | |
| ^^ | SembSITA Pacific Pte Ltd | Singapore | **40.00** | 40.00 |
| | **Industrial Parks** | | | |
| ** | Gallant Venture Ltd | Singapore | **23.92** | 23.92 |
| ## | Vietnam Singapore Industrial Park JV Co Ltd | Vietnam | **40.44** | 40.44 |
| ^^^ | Wuxi Singapore Industrial Park Development Co. Ltd | People's Republic of China | **45.36** | 45.36 |

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

^ Audited by Ernst & Young Vietnam Limited

# Audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company

@ Audited by BDO Shenzhen Dahua Tiancheng Certified Public Accountants

* Audited by Ernst & Young, Abu Dhabi

@@ Audited by Zhongrui Yuehua Certified Public Accountants Co., Ltd

^^ Audited by Ernst & Young LLP

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

## Audited by KPMG Limited, Vietnam

^^^ Audited by KPMG Huazhen Shanghai Branch