

STATEMENT OF COMPUTATION OF ECONOMIC VALUE ADDED

	2006 S\$'000	2005 S\$'000
Net Profit before Tax	266,507	146,531
Adjust for:		
Share of Associated and Joint Venture Companies' Results	44,364	13,324
Interest Expense	12,822	7,778
Others	1,761	6,764
Adjusted Profit Before Interest and Tax	325,454	174,397
Cash Operating Taxes (Note 1)	(59,919)	(29,067)
NOPAT	265,535	145,330
Average Capital Employed (Note 2)	1,504,342	1,339,437
Weighted Average Cost of Capital (Note 3)	5.9%	5.3%
Capital Charge	88,756	70,990
Group EVA	176,779	74,340
Less: Minority Share of EVA	7,622	1,746
Group EVA Attributable to Ordinary Shareholders	169,157	72,594
Unusual Items (UI) Gains (Note 4)	29,292	9,214
Group EVA Attributable to Shareholders (exclude UI)	139,865	63,380

Note 1: The reported current tax is adjusted for the statutory tax impact of interest expense.

Note 2: Monthly average total assets less non-interest bearing liabilities plus timing provision, goodwill written off / amortised / impaired and present value of operating leases.

Note 3: The Weighted Average Cost of Capital is calculated in accordance with SembCorp Industries Ltd Group EVA Policy as follows:

- i) Cost of Equity using Capital Asset Pricing Model with market risk premium at 6.0% (2005: 6.0%)
- ii) Risk-free rate of 3.31% (2005: 2.62%) based on yield-to-maturity of Singapore Government 10 years Bonds;
- iii) Ungeared beta 0.5 (2005: 0.5) based on SembCorp Industries risk categorisation; and
- iv) Cost of Debt rate at 4.04% (2005: 3.03%) using 5-year Singapore Dollar Swap Offered rate plus 75 basis point. (2005: 5-year Singapore Dollar Swap Offered rate plus 75 basis point)

Note 4: Unusual Items (UI) refer to divestment of subsidiaries and associates, long-term investments and disposal of major fixed assets.

RISK MANAGEMENT

1. Operational Risk

The Group operates in 10 countries with assets and activities spreading across Asia Pacific and Brazil. As part of its plan to grow its business internationally, the Group will continue to focus on increasing its operating activities and presence in Brazil, Greater China and Middle East. Senior managers are posted overseas to oversee the operational risk. The Group expects that as part of its business strategy, the percentage of its overseas-sourced assets and customers will increase moving forward, thereby achieving the effects of greater geographical diversification. Likewise, a broader base of significant customers will reduce the risk of customer concentration.

2. Investment Risk

The Group seeks to grow its business through organic growth of its existing capabilities, development of new capabilities and acquisition of business entities or operating assets. Investment activities, ranging from the identification of targets to the conducts of due diligence exercises, are supported by a dedicated team of experienced managers and augmented by external professionals for specialised services. The business proposals are guided by a given set of internal investment criteria, evaluated by senior management before seeking final Board of Directors' approval.

3. Treasury & Financial Risk

The Group has in place an established treasury policy and guidelines for managing treasury and financial risks. The treasury policy seeks to optimise the Group's cost of capital, minimise the adverse effects of fluctuations in currency and interest rates on income and ensure sufficient funds are available to meet financial obligations and operational needs. The Group's treasury activities are centrally managed in Singapore. As a policy, the Group does not undertake speculative positions for trading purposes.

4. Interest Rate Risk

The Group's policy is to maintain an efficient optimal interest cost structure using a mix of fixed- and variable-rate debt, where working capital is financed by variable-rate loans while long-term investments are financed by fixed-rate loans. Surplus funds, if any, are placed with reputable banks and/or investment in bonds. The Group obtains additional funding through bank borrowings and leasing arrangements. The Group's policy is to obtain the most favorable interest rate available without increasing its foreign-currency exposure.

5. Foreign Exchange Risk

The Group incurs foreign-exchange risk on sales and purchases that are denominated in various currencies other than Singapore dollars, primarily the US dollar, Euros and Japanese yen. To minimise exposures on foreign-currency risks, the Group usually arranges for natural hedging by matching costs in the same currency as sales collections.

6. Derivative Financial Instrument Risk

The Group also utilises forward exchange contracts and swaps with maturities of less than 12 months to hedge foreign-currency-denominated financial assets, liabilities and firm commitments. Under this arrangement, increases or decreases in the Group's foreign-currency-denominated financial assets, liabilities and firm commitments partially offset gains and losses on the hedging instruments. The Group only uses foreign-currency forward contracts and swaps for hedging purposes.

7. Liquidity Risk

To measure liquidity risks, the Group monitors its net operating cash flow, maintains a level of cash and cash equivalents and secures committed funding facilities from financial institutions. In assessing the adequacy of these facilities,

management reviews working capital requirements so as to mitigate the effects of fluctuations in cash flows. Short-term funding is obtained from overdraft facilities and bank loans.

8. Credit Risk

The Group has no significant concentration of credit risk with any single counterparty and monitors its exposure to credit risks arising from sales to customers on an on-going basis where credit evaluations are done on customers that require credit. The Group only deals with pre-approved counterparties with good credit rating and imposes a cap on the amount to be transacted with any counterparty so as to reduce the concentration of risk. Cash terms, advance payments and letters of credit or bank guarantees are required for customers of lower credit standing.

9. Market Risk

The Group is exposed to market risk and the risk of impairment in the value of its investments held. The Group manages the risk of unfavourable changes by cautious review of the investments before investing and continuous monitoring of the performance of investments held and assessing market risk relevant to which the investments operate.

10. Reputation Risk

The Group values its reputation in the market and has put in place a communication programme to ensure timely and effective communication of key information to our stakeholders at all times.

11. Insurance Risk

Where appropriate, the Group manages its insurance risks on a Group basis to leverage its position with the general insurance market.

The Group reviews its insurable risk profile continually and makes the necessary adjustments on risk retention to optimize the coverage and cost. This is done with advice and support from

selected insurance brokers. Major Group insurance policies include Industry All Risk and Liabilities and Workmen Compensation, designed to protect the Group against properties risk, liabilities for its products and services, and work place accidents respectively. The marine industry has specialised insurance programmes.

The Group adopts a proactive strategy, with advice and recommendations from insurance brokers, to manage the insurance risk with specific risk management programmes covering the prevention of fire and the adoption of behaviour-based safety practices, amongst others.

SENSITIVITY ANALYSIS

1. Interest Rate

The Group's cash and cash equivalents are largely invested in fixed deposits. Movement in interest rates will have significant impacts on the interest and investment income for the Group. Based on the cash and cash equivalents for the Group of \$503 million at the end of 2006, a one percentage point movement in effective fixed deposit interest rate is estimated to result in an annual \$5.03 million change in interest income for the Group.

2. Gross Profit Margin

Based on the turnover of \$3.55 billion in 2006, a one percentage point movement in the gross profit margin of the Group would lead to a \$35.5 million change in gross profit for the Group. There are many different programmes undertaken across the Group to smoothen out specific projects fluctuations.

3. Others

Other risk factors that will have an impact on turnover and net profits tends to be sector-specific, hence it is not practical to perform sensitivity analysis in such an instance.



ACCOUNTING POLICIES

The Group's significant accounting policies are presented in Note 2 in the Notes to the Financial Statements (pages 154 to 163). The Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting year compared with the audited financial statements as at 31 December 2005, except for the adoption, with effect from financial year 2006, of the following new Singapore Financial Reporting Standards (FRS) issued by the Council on Corporate Disclosures and Governance (CCDG) that are mandatory for the financial years beginning on or after 1 January 2006:

- FRS 32 (revised) Financial Instruments: Disclosure and Presentation
- FRS 39 (revised) Financial Instruments: Recognition and Measurement on Financial guarantee contracts

The effects of adoption of the above FRS did not result in substantial changes to the Group's accounting policies and did not give rise to any adjustments to the opening balances of revenue reserve or changes to comparatives.