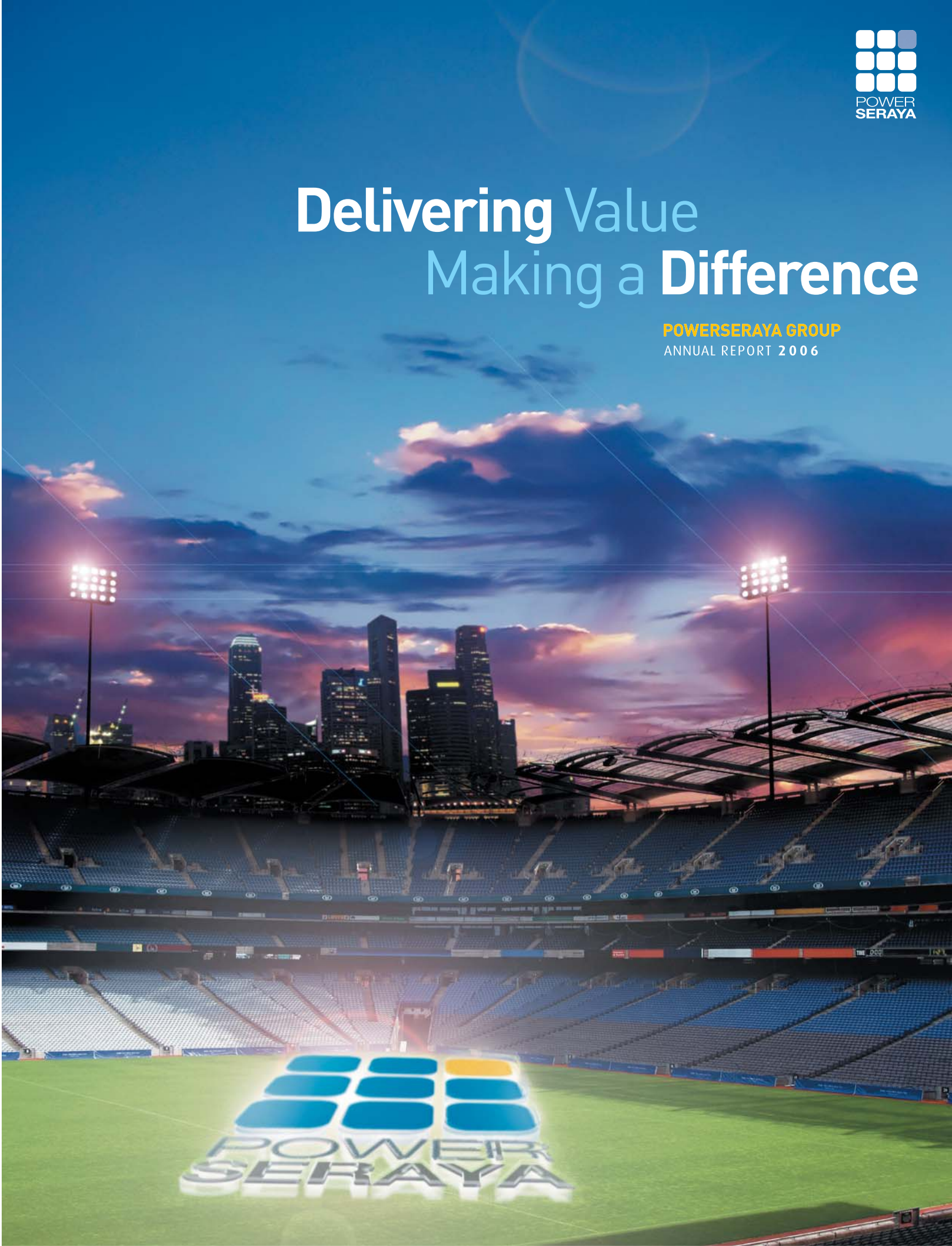


Delivering Value Making a Difference

POWERSERAYA GROUP
ANNUAL REPORT 2006



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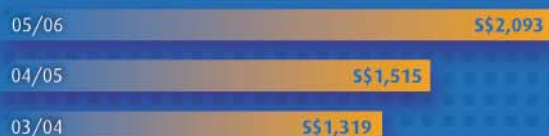
P

OWERSERAYA GROUP is in the business of producing, wholesaling, trading and retailing of Energy; with a primary focus on Electricity. With its strategic location in Jurong Island and its excellent infrastructure, the Company is expanding and moving into the Integrated Utility Business which includes sale of steam and water, and physical oil trading and storage.

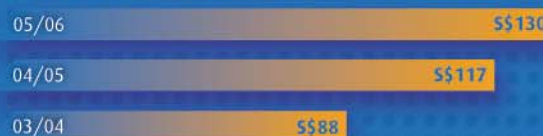
Transforming Assets and Capabilities to Advance Financial Performance

Revenue S\$2.1 billion increase 38% ▲
 Earnings per Share 15 cents increase 11% ▲
 Net Profit After Tax S\$130 million increase 11% ▲
 Economic Value Added S\$49 million increase 43% ▲

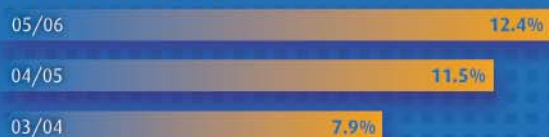
Revenue (\$ mil)



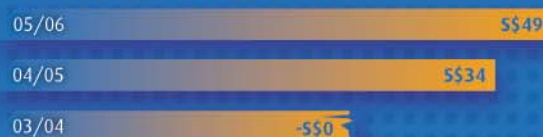
Net Profit After Tax (\$ mil)



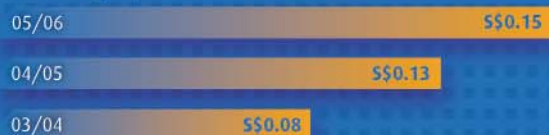
Return on Equity



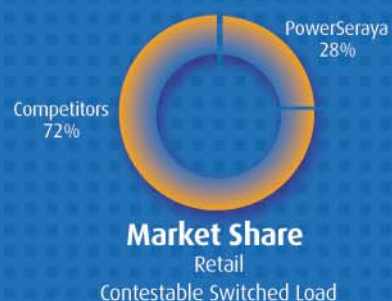
Economic Value Added (\$ mil)



Earnings per Share



Return on Assets





2005/2006 Revenue

\$2.1 billion

Mission with a **Vision** = Delivering **Value**

The PowerSeraya Group is energised by people who proactively and passionately transform the Company, to successfully deliver value to shareholders as it fulfils the Vision to be the Leading Integrated Multi-Fuel Energy Company in Singapore.

+38.2%

Chairman's Message

B

BUILDING A POSITIVE TRACK RECORD

The transformation of the PowerSeraya Group continues to gather pace in line with the Vision set by the Board in 2004. For the third year running, the Group has continued to build momentum in its key performance metrics. Performance was strong despite rising fuel costs and intensifying competition.

Revenue grew 38% from the previous year and Group revenue now exceeds S\$2 billion. Growth came from the Trading and Retail areas, whilst the Generation business experienced a lower but positive rate of growth.

Despite a 14% reduction in the Vesting Contract prices by the Regulator in 2005 which erased S\$29 million off our bottom line, the Group was able to recover and continue the positive earnings track record established over the last three years. Net Profit After Tax (NPAT) was up 10.8% from the previous year to S\$130 million. This represents a Return on Equity of 12.4% and an Economic Value Added of S\$49 million, up by 43%.

The strong performance came from improvements in cost structure in Generation, the addition of Orimulsion® as a low-cost feedstock, improved hedging strategies, aggressive growth in Retail and the disposal of some non-performing assets – all leading to improved yield. The sources of earnings are also more diversified with approximately 20% now coming from non-regulated businesses.

Over the last three years, revenue grew at a compound annual rate of 26% and NPAT at 22%. This strong performance gives further confidence that the Group is in a better position to withstand the challenges of the new market environment.

INSTITUTING AN EFFECTIVE FRAMEWORK

In reshaping the business, the Board continues to ensure that organic growth comes from within the core business. As we progress to become an Integrated Multi-Fuel Energy Company and add complimentary utility services such as steam, desalinated water, gas and fuel trading as markets open up, we will not do so at the expense of our main business as an electricity utility provider. A new risk management framework has been put in place to mitigate our risk exposures as we grow.

Investments in improving staffing skill-sets have also made good progress as we continue to achieve greater depth of talent in all areas to improve our competitiveness. We acknowledge and appreciate the proactive approach that the Union of Power and Gas Employees (UPAGE), the workforce union, has taken to support the ongoing reform process which is necessary for the business to compete in an environment that is subject to external economic forces.

As we progress towards the Vision, three major initiatives remain for the Board – **managing the value of our asset base, competitive positioning and proactive risk management**. For the year in review, good progress has been made on all fronts.

TRANSFORMING TO ADVANCE THE DELIVERY OF VALUE

* Source: The "Fastest Growing 50" 2006 Certification presented by certification body DP Information Group and supporting organisations: Ernst and Young, IE Singapore, SPRING Singapore and The Business Times.

MANAGING RISK IN VOLATILE MARKETS

A primary part of our operations is about managing risks associated with our business. Electricity is sold forward on an indexed or fixed basis to the underlying commodity used to produce it. In Singapore's case, the underlying commodity is oil even though up to 80% of electricity is produced from gas, with the gas price indexed to that of oil.

Oil prices have been highly volatile over the past year. To manage our risk in this area, we use a conservative hedging program to "match" electricity prices sold forward to the future price of oil. We will continue to use a conservative hedging process to help improve our future yields, stabilise earnings and deliver a degree of price certainty to customers who choose the fixed price options.

RETAIL MAKING ITS MARK

Seraya Energy has been a market leader by aggressively growing market share in targeted channels. Performance-wise, the past year has seen Seraya Energy's market share grow from 23% in FY 04/05 to 28% in the last financial year.

Our innovative alliance with American Express was launched successfully, giving customers an alternative payment and loyalty system with our competitive electricity pricing package. Seraya Energy has won numerous awards and is one of the Top 10 fastest growing companies in Singapore*. Our focus in the future is to improve our information systems and service quality to enhance our already competitive pricing plans. We look forward to applying the same innovation used in the industrial and commercial segments to attract and retain customers in the domestic market, once it is fully liberalised.



Revenue grew 38% from the previous year and Group revenue now exceeds S\$2 billion.

Chairman's Message

R

REGULATORY ENVIRONMENT

The Electricity Market continues to work well in delivering value to participants and giving a proxy indication of future prices for retail contracts. Regulatory uncertainty still remains in the area of Vesting Contract price resets on a biannual basis along with the impact of the gas liberalisation framework on our legacy gas contracts. We continue to work with the Energy Market Authority to resolve these issues, so that the industry can move forward with greater certainty than at present.

MAJOR INFRASTRUCTURAL ENHANCEMENTS

The Orimulsion® project was completed ahead of time and on budget. Additionally, our Combined Cycle Power Plants and Steam Plants were enhanced to improve efficiency and achieve fuel savings, which have been passed on to our customers.

We also made a commitment to be self-sufficient in water by building a 10,000 m³ per day Desalination Plant, which will be completed in 2007. This will improve the Company's capability to stay competitive as the electricity market continues its liberalisation.

ENVIRONMENTAL EFFORTS & IMPROVEMENTS

PowerSeraya continues to implement new initiatives to improve its good environmental record. I am pleased to announce that we successfully achieved ISO 14001 Environmental Management System certification last year.

We have also invested heavily in emissions control equipment to allow us to use a greater range of cheaper, but heavier fuels with minimal impact on the environment. We also support the Singapore Green Plan 2012 and will play our part to improve air quality.

UPCOMING CHALLENGES & REWARDS

We are optimistic about the coming year's challenges and prospects even with a new generator entering the market at the end of 2006 and continuing global uncertainty over rising fuel prices and supply. Over the past few years, PowerSeraya has grown into a dynamic and enterprising Company that delivers results. I am confident that our employees and partners will continue to build on the achieved momentum and results as we chart new strategies and work plans to meet our customers' needs.

I would like to thank our Board of Directors for bringing their wealth of experience to PowerSeraya, the Management for planning, strategising and making our chosen business model work to maximum effect in delivering value, UPAGE, our business partners and vendors, and last but certainly not the least, our energetic employees who have embraced and responded to all the operational changes and improvements. Let us continue to work together through the challenges of the marketplace for a brighter PowerSeraya future.

It is my pleasure to present the PowerSeraya Group's annual report and audited accounts for the year ended 31 March 2006.



TAN YAM PIN
Chairman



Over the past few years, PowerSeraya has grown into a dynamic and enterprising Company that delivers results.



Managing Director's Message

DELIVERING VALUE THROUGH GROWTH STRATEGIES

The transformation of PowerSeraya Group to an Integrated Multi-Fuel Energy Utility continues. Each year, the Group has grown from strength to strength as we improved existing and added new capabilities to diversify and grow our revenue base. In the past three years, our revenue has expanded by 60% from S\$1.3 billion to S\$2.1 billion. The quality of earnings has grown by almost 50% over three years from S\$88 million to S\$130 million. We have made significant progress on all fronts to improve shareholder value, reduce enterprise risk and expand growth. The next challenge is to consolidate the gains and navigate around new risks arising from geopolitical impacts on oil supply, as well as those incumbent with the liberalisation of the Singapore Gas Market.

Through our efforts, the Group has made and continues to make significant progress in:

- **Transforming the Generation Group into an Integrated Energy Hub with the wholesale production of bundled utilities;**
- **Innovating and deploying risk management systems for the Trading Group; and**
- **Positioning Seraya Energy as a trusted retailer and enterprise partner.**

Building on the previous year's performance, we have captured the momentum created and focussed on creating and applying institutional knowledge to deliver greater improvements in the value and positioning of the Group.

Although some key risks remain, the Company is in better shape than we were three years ago. Earnings per Share increased by 81% from 8.1 to 14.7 cents per share while Return on Equity increased by 57% ; from 7.9% to 12.4%.

We have pursued growth in the non-regulated activities in our business: primarily in Trading and Storage. Three years ago, contributions from our regulated businesses formed 95% of our earnings. Today, our non-regulated activities, mainly Trading, contribute up to a fifth of our earnings. We expect this portion to increase over the next few years as we evolve into an Integrated Energy Utility with more diversified income streams. In the foreseeable future, our business may be confined to Singapore. But should conditions become favourable, we do not rule out the possibility of regional expansion.

TRANSFORMING THE ASSET BASE

In line with the integrated growth strategy for the Generation Group, we focussed on extracting value from existing assets and made progress in transforming ancillary assets into new business lines. Steam delivery and water production, though small intelligent investments, are but some examples of how we expand product portfolio and core capabilities.

To lower portfolio cost, three steam units have been successfully converted to run on a range of alternative liquid fuels, primarily Orimulsion® which is sourced from Venezuela. This development has given a new lease of life to the converted steam units which are now performing to expectations and offer a competitive alternative to gas-based electricity production in the Singapore Electricity Market.

With our Multi-Fuel approach to electricity generation, fuel cost reduction has been realised and part of those savings have been passed on to customers through the Group's retail arm, Seraya Energy. In the future, we hope to further increase our fuel range by introducing new fuels in an environmentally-sustainable way.

In line with development plans for Jurong Power Station (JPS), the existing decommissioned plant was sold; thereby unlocking the hidden value of these old assets. Once the JPS site is cleared, we will have further options for accessing the Grid through new developments. Meanwhile, JPS continues to serve as a peaking facility; giving important back-up to the nation during times of supply constraint.

TRANSFORMING ASSETS & CAPABILITIES INTO FINANCIAL PERFORMANCE

Earlier this year, we invested in a state-of-the-art Desalination facility; to be completed by mid 2007. With a production capacity of 10,000 m³ of low-cost water per day, PowerSeraya will become self-sufficient and have enough spare capacity to on-sell to neighbouring off-takers. This expansion of product scope and business capability is in line with the Company's Multi Utility Services approach to provide value-added options to our Jurong Island-based customers.

RISK MANAGEMENT EXCELLENCE

Approximately 80% of PowerSeraya's operating expenses are related to fuel and its holding cost. The Group has an active hedging programme which seeks to reduce the impact of volatile fuel oil and foreign exchange markets on forward electricity prices. In 2005, one of the strategic priorities was to overhaul the Risk Management Framework. A new Risk Management System (RMS), which provides up-to-date information on the Company's daily risk position, was also implemented. The last year also saw the launch of a purpose-built Trading platform that met the requirements and demands of the RMS. Taken together, these systems ensure that PowerSeraya operates within pre-determined boundaries that do not financially compromise the Company.

A Research and Analysis Team was formed by the Trading Group to study market trends and behaviour in the fuel oil market. Internal guidelines, in-house models and weekly reports are now generated on the fuel oil market to enable our traders to respond effectively.

With another power generator entering the market by the end of 2006, PowerSeraya's growth strategy has to address the context of a market in over capacity. The option of moving into physical trading of fuel oil to cut forward risks, and the trading of utilities such as desalinated water and steam complements the Company's core business of producing and retailing electricity.

We will continue to improve on capabilities and efficiencies in risk management as the Trading Group plays a more important role in revenue generation for non-regulatory attributed profits.



→ There is no doubt in my mind that PowerSeraya and its subsidiaries have put in place the right foundations & delivered the results required to progress towards being an Integrated Energy Company.

Managing Director's Message

GETTING CONNECTED WITH CUSTOMERS

In the face of intense competition, Seraya Energy successfully increased its market share from 23% to 28%. Seraya Energy was named as one of the top 10 fastest-growing companies in Singapore for 2005; a splendid award for the Group.

Foremost in contributing to Seraya Energy's success was its emphasis on customer relations and service. A new Retail Billing System and Customer e-Portal were initiated in the year under review and will be completed by the mid 2006 to better meet customers' needs.

Seraya Energy's excellence in Call Centre support for its customers resulted in it winning eight out of nine call centre awards, including the New Call Centre of the Year Award at the regional level.

We continue to believe in, and work with our customers, as partners. With the stronger relationships that have developed through customer care efforts, Seraya Energy was able to retain over 85% of its customers over FY 05/06.

Furthermore, two key partnerships were formed. In an industry-first initiative, Seraya Energy and American Express (AMEX) Corporate Cards formed a partnership whereby AMEX actively promotes Seraya Energy electricity packages while offering customers convenient and better payment terms. Our retail arm also teamed up with the Singapore Manufacturers' Federation to provide plant tours, seminars and preferential energy packages to its members.

ENVIRONMENTAL MANAGEMENT INITIATIVES

We recognise our responsibility to the Singapore community to reduce the impact of PowerSeraya's operations on the environment; in a sustainable way. Over the last 10 years, overall carbon dioxide emissions have fallen by 25%. On top of that, a high-specification emissions control package was implemented; allowing the plant to burn a greater range of fuels – with reduced emissions that met the National Environment Agency's standards.

As part of our Environmental Management Programme, a range of energy-saving initiatives were implemented. For example, Evaporative Cooling Systems were retrofitted into the Combined Cycle Power Plants to increase power output without using additional fuel. In addition, energy-saving audits are now a regular feature of retail packages to large customers.

WORKPLACE SAFETY A TOP PRIORITY

PowerSeraya has an unwavering commitment to provide a safe working environment and promote safety-related best practices for our employees. Safety is taken very seriously and we have set a zero-accident record as one of our key performance indicators.

To prepare staff for the March 2006 launch of Ministry of Manpower's new Workplace Safety and Health Act (WSHA), staff were first briefed on the WSHA at the annual Safety Week in November 2005. Subsequent dialogue sessions, circulars, safety drills and a new Safety Orientation Video were introduced as part of the Company's vigilant promotion of Workplace Safety.

Our Company is working with the Union of Power and Gas Employees (UPAGE) to develop a Personal Protective Equipment Programme for staff. Corporate Services has introduced an industry-first Approved Vendor System, where only pre-qualified vendors who meet the necessary quality, safety and service standards would be allowed to tender for projects. Furthermore, PowerSeraya has embarked on OHSAS 18001 Occupational Health and Safety Assessment Series certification to reduce and prevent accidents and accident-related loss of lives, time and resources within the coming fiscal year.

PEOPLE ENERGY

PowerSeraya's success over the past few years can be attributed to staff who are willing to trust in our leadership and fully commit themselves to the Company. As we grow from strength to strength, we rely on our employees and work with UPAGE to make our vision a reality.

Our Company strives to be the employer of choice in our industry. Around S\$1 million has been invested in upgrading the skill-sets of our people through professional certification, employee sponsorship schemes, and talent management programmes. We truly believe it is our staff's transformative energy that makes the Company's success possible.

The next few years will present more challenges to the PowerSeraya Group. I am confident that our employees are up to the task of meeting them, and ultimately serving our customers and stakeholders in better and more efficient ways.

MAKING A DIFFERENCE

There is no doubt in my mind that PowerSeraya and its subsidiaries have put in place the right foundations and delivered the results required to progress towards being an Integrated Energy Company. Behind those foundations and results is a committed workforce and a progressive union movement.

To meet the challenges of the next level of development where we diversify our product portfolio, new organisational structures and a cross-functional pool of talent are necessary to bring it about. Our focus will shift from planning to execution. In order to achieve this and to continue to deliver stable earnings, it is the quality and attitude of our people who will make the essential difference. This is my strong belief and I shall work with everyone to bring it about.

To our stakeholders, PowerSeraya's employees, Management and Board of Directors, I thank you for your continued support, input and collaboration. We have built a highly dynamic, responsive and competent organisation and have realised a successful run of achievements. Let us continue to work together to build on this track record and create value for the future.



NEIL GARRY MCGREGOR

Managing Director

MR TAN YAM PIN is the Chairman of the PowerSeraya Board of Directors, an appointment held since 1 April 2004, as well as Chairman of the subsidiary company, Seraya Energy Pte Ltd. A Chartered Accountant by profession, he has been a Member of the Public Service Commission of Singapore since 1990. He holds a B.A. Economics (Hons) degree from the University of Singapore and an MBA from the University of British Columbia, Canada. Presently, he is also the Chairman of Singapore Food Industries Limited. He also holds Directorships in BlueScope Steel Limited (Australia), Keppel Land Limited, Singapore Post Limited, Great Eastern Holdings Limited and Cisco Security Pte. Limited.

MR PETER SIM SWEE YAM joined the PowerSeraya Board on 1 July 2005. A graduate from the Law Faculty of the then University of Singapore, Mr Sim is an advocate and solicitor by profession and a Director of his own firm, Sim & Wong LLC. Mr Sim is the Chairman of Pacific Healthcare Holdings Limited and he also holds Directorships in The British & Malayan Trustees Limited, Nera Electronics Limited, Lum Chang Holdings Limited, Gravitas Alliance Pte Ltd, and Infinity Partners Pte Ltd.

MR BOB TAN BENG HAI has been on the Board since January 2001. He is a Fellow of the Institute of Chartered Accountants in England and Wales. In addition, he is the Vice President of the Singapore National Employers Federation and also holds the position of Deputy Honorary Secretary in the Singapore Business Federation. Mr Tan serves on the Board of Governors of the Institute of Technical Education and Ong Teng Cheong Institute of Labour Studies. He also chairs the Board of Jurong Engineering Limited and holds Directorships on various boards, including NTUC Club Investments Pte Ltd and Norelco UMS Holdings Limited.



MR LEON CODRON has been on the PowerSeraya Board since September 2005. As CEO & Executive Director of Singapore Petroleum Co Limited from 2000-2003, he accelerated SPC's growth in the upstream and midstream sectors. He was also the President of ARCO Indonesia Inc., Jakarta from 1995-2000 where he directed the exploration, development, operations and marketing of all hydrocarbon resources. His tenure was highlighted by the discovery of the Tangghu fields and LNG project. Mr Codron holds an MBA in Marketing and Management from the United States International University. He currently holds Directorships in Luboil international Limited and Bayview Oil and Gas Company Limited.

MR KOH KIM WAH joined the Board of Directors in October 2005. He has held several senior posts in the BP Group of Companies including President/Country Head Singapore; Retail Director for BP Oil, Southeast Asia and Chairman/ CEO BP (Thailand). Before attending Harvard Business School AMP, he held a Chemical Engineering degree from the University of Canterbury. Mr Koh is a Member of the Citizenship Committee of Inquiry, Ministry of Home Affairs. He presently sits on the Board of Hiap Seng Engineering Limited, Smarttpapers International Pte Limited and is a Member of the Safety and Operations Committee of the Public Utilities Board.

MR NEIL GARRY MCGREGOR joined PowerSeraya Limited as its Managing Director on 1 February 2004. Originally from New Zealand, Mr McGregor holds a Bachelor of Civil Engineering (Hons) degree from the University of Auckland and an MBA in International Finance from the University of Otago. His experience is in both regulated and deregulated markets and until his appointment, he held a seat on the Singapore Stock Exchange trading international indexes and managing portfolio risk. Mr McGregor has held several senior international positions, including Directorships, in the Electricity and Gas sector in India, New Zealand and Germany.

Board of Directors



MR QUEK KHAI HOR

Vice President
Corporate Services Group

MR LOW BOON TONG

Vice President
Trading Group

MR KOH CHIAP KHIONG

Chief Financial Officer
Corporate Finance Group

MR BERNARD LEE

Vice President
Process & Innovation Group

Senior Management Team



MR JOHN NG

Senior Vice President
Retail & Regulation Group

MR NEIL GARRY MCGREGOR

Managing Director

MR DIL DEVASER

Vice President
Planning & Development Group

MR CHAN SWEE HUAT

Senior Vice President
Generation Group



Return on Equity

12.4%



Delivering **Value** = Making a **Difference**

PowerSeraya has made remarkable inroads in delivering outstanding value as an Integrated Energy Hub with the wholesale production of bundled utilities, by deploying risk management systems and by positioning itself as an enterprise partner – making a difference in the industry.

+7.9%

Milestones



6 June 2005

RIMULSION® PROJECT TAKES OFF

PowerSeraya moved a step closer to realising its Vision of becoming an Integrated Multi-Fuel Energy Company when the first shipment of Orimulsion® arrived on 9 April 2005. The subsequent on-schedule initial firing of Orimulsion® in Unit 3 on 6 June 2005 took the Group further into the multi-fuel domain. In addition, the successful synchronisation of Unit 3 to the Transmission Grid on 26 June 2005 marked yet another milestone. This makes PowerSeraya the only Generation Company in Singapore that offers four fuel options – heavy fuel oil, natural gas, Orimulsion® and diesel.

24 June 2005

LAUNCH OF VIBRANCY@SERAYA

PowerSeraya's new Recreation Club, Vibrancy@Seraya was launched on 24 June 2005. Guided by the 3Vs principle, the Club was formed to organise (ad)VENTUROUS activities and events to help employees stay VIBRANT and VIVACIOUS. The activities are intended to help employees stay fit, create unity through team spirit, and promote games that renew staff's body, mind and soul. The club's three sub-committees organise activities that centre around the Group's core values.

8 September 2005

EARNING THE ISO 14001 EMS CERTIFICATION

The Group attained the ISO 14001:2004 Environmental Management System Certification on 8 September 2005 after having successfully passed the criteria for third party certification audit by SGS International on 22 and 23 August 2005.

The scope of certification includes operation and maintenance of the Group's oil-fired steam generating units, dual-fired Orimulsion® and oil steam generating units, the Combined Cycle Power Plant and switch houses. It also included the trading and bidding of energy supply, and the retail business in electricity and other utilities related business.

The certification represents the Group's commitment to stakeholders to use internationally-recognised best practices as benchmarks in the business. After 11 months of effort, earning the certification was a reflection of PowerSeraya's continuous upholding of environmental responsibility. It also enhanced the Group's image as a responsive and responsible power generator and energy retailer.

The standards of the ISO 14001 Environmental Management System will provide the framework to ensure continual improvements in the Group's overall plant operations and processes.

14 September 2005

SERAYA ENERGY – AMEX PARTNERSHIP

Marking a first in the industry, Seraya Energy sealed a milestone partnership with corporate card issuer American Express (AMEX) to help companies enjoy business



savings on their electricity consumption through the AMEX Corporate Card. Seraya Energy's motivation to constantly innovate and provide value-added services to a growing segment of corporate customers encouraged this alliance. This strategic partnership will continue to strengthen the Seraya Energy brand name as the leading energy supplier in the Singapore market.

18 November 2005

SERAYA ENERGY WINS TOP CALL CENTRE AWARDS

Seraya Energy emerged a big winner at the 5th Annual Singapore Call Centre Awards and the 2nd Regional Call Centre Awards on 18 November 2005. The awards, organised by the Contact Centre Association of Singapore, saw Seraya Energy walking away with a total of eight accolades out of the nine categories it was nominated for. This included the Silver Award in the New Call Centre of the Year, Singapore Category and the Gold Award in the New Call Centre of the Year for the Regional Category. This recognition has raised the profile of Seraya Energy as a customer-centred energy provider.

6 January 2006

ORIMULSION® PROJECT COMPLETION

Another significant milestone for the PowerSeraya Group was the completion of the Orimulsion® project. With the contractual completion of the Orimulsion® project on 6 January 2006, and the subsequent successful performance testing of the Flue Gas Desulphurisation Plant, the Orimulsion® units were commissioned and completed on schedule. PowerSeraya is well on its way to realising its vision of being a Leading Integrated Multi-Fuel Company.



30 March 2006

SUCCESSFUL DEAL ON DESALINATION PLANT

The Group closed a deal on a new Desalination Plant in just a span of three months. The new 10,000 m³ per day plant will replace the old plant that was decommissioned in 1995. Once completed by mid 2007, it will enable the Group to become self-sufficient in low cost water to meet production needs. It will also provide a source of revenue as the Group plans to sell desalinated water on Jurong Island. Entering the water business is an exciting prospect for the Group and has laid the foundation for taking the business forward.

Financial Highlights



OPERATING REVENUE

The Group's operating revenue grew by S\$578 million, a 38% increase over FY 04/05 to S\$2.1 billion with growth in both its Generation and Retail businesses.

Amidst strong competition in the market with other generation companies having more efficient Combined Cycle Gas Turbine (CCGT) power plants, PowerSeraya's generation business sold 10,281 GWh of electricity in FY 05/06 through utilising its two 370 MW CCGT plants, the newly-commissioned three units of 250 MW Orimulsion® plants and six 250 MW Steam plants. This volume represented an increase of 514 GWh over FY 04/05.

The Retail business sold 5,890 GWh of electricity in FY 05/06; a growth of 29% over the previous year. This was achieved through gaining a stronger market position with growth in its market share and customer base.

PROFITABILITY

In the year in review, Net Profit After Tax (NPAT) for the Group grew by 11% to S\$130 million. A result brought about through better yield management leading to lower fuel consumption costs gained from better plant mix efficiencies and higher utilisation of the asset portfolio.

EARNINGS PER SHARE

Basic earnings per share* rose 11% to 14.7 cents in FY 05/06 as compared to 13.2 cents in FY 04/05, in line with the higher profit after tax for the Group.

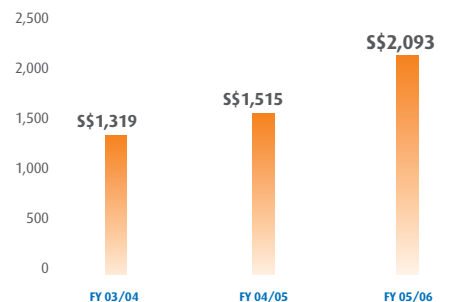
RETURN ON EQUITY

The Return on Equity** (ROE) grew to 12.4% in FY 05/06. This represented an increase of 8% over last FY's 11.5% ROE. The strong performance was driven mainly from a strong NPAT for the year and the efficient capital structure.

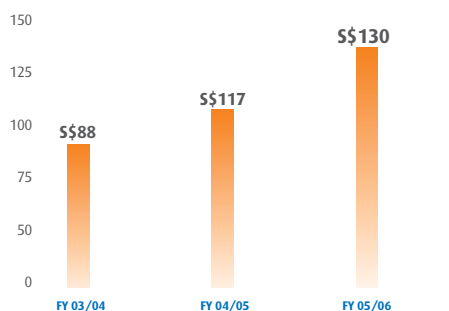
* Earnings per Share computed based on average opening and closing share capital

** ROE computed based on average opening and closing total shareholder's equity

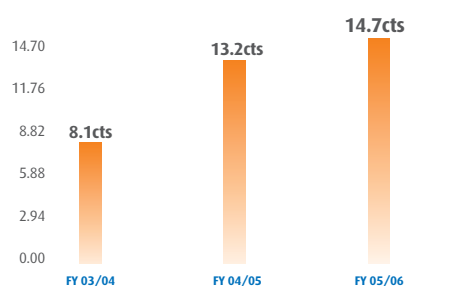
Revenue (\$ mil)



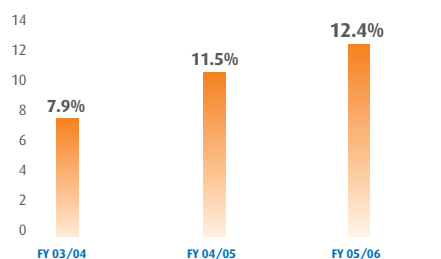
Profitability (\$ mil)



Earnings per Share (cents)



Return on Equity (%)





Corporate Governance

The PowerSeraya Group is committed to maintaining a high standard of corporate governance, professionalism and accountability to safeguard the interest of its stakeholders. We believe firmly that integrity, excellence and commitment by our people supported by sound policies, practices and internal controls are the success elements that will create long-term value and returns for our shareholder.

B

BOARD OF DIRECTORS

The Board of PowerSeraya comprises six distinguished members, five of whom are independent and non-executive members. The Board has reviewed its composition, taking into account the scope and nature of the operations of the Group, and is satisfied that the current size of the Board is appropriate and allows for effective decision making. The standing of the members of the Board in the business and professional community, and their combined business experience, knowledge and managerial acumen provide the necessary expertise to meet the Group's needs and to allow for diverse and objective perspectives on the Group's strategic direction and growth.

There is a clear division of responsibilities between the Chairman and the Managing Director, which ensures a balance of power and authority, such that no one individual possesses a considerable concentration of power. The Chairman bears responsibility for the conduct of the Board and the Managing Director bears responsibility for the Group's business.

The Board has overall responsibility for the business and affairs of the Company. The Board's principal functions include the following:

- Charting the overall strategic business direction;
- Approving board policies, corporate strategies and key operational initiatives;
- Reviewing and approving annual budgets, business plans and monitoring performance; and
- Ensuring compliance with all laws and regulations as may be relevant to the business.

The Board conducts regular scheduled Board meetings on a quarterly basis. Additional meetings are convened as and when circumstances warrant them. There were five board meetings held in FY 05/06.

The Board has established three committees to assist in the execution of its responsibilities. These are the Executive Committee, the Audit Committee and the Human Resource and Remuneration Committee.

EXECUTIVE COMMITTEE

The Executive Committee comprises four members and assists the Board in monitoring the Company's performance and formulating business strategies. They are PowerSeraya Group Chairman Tan Yam Pin, Managing Director Neil McGregor, and Directors Leon Codron and Koh Kim Wah. Taking into account the scope and nature of the business, the current size of the committee is optimal for effective decision-making. The Executive Committee met four times this financial year.

AUDIT COMMITTEE

The Audit Committee comprises three independent Directors. It is chaired by Bob Tan with members Tan Yam Pin and Peter Sim. The principal responsibility of the Audit Committee is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the effectiveness of the Group's financial reporting process and material internal controls including financial, operational, compliance and risk management controls.

On a yearly basis, the committee also reviews the independence of the external auditor to ensure that work performed by the external auditor is not compromised.

The committee meets periodically with the Management, internal auditors and external auditors of the Company. The Audit Committee met four times this financial year.

HUMAN RESOURCE AND REMUNERATION COMMITTEE

The Human Resource and Remuneration Committee comprises two independent Directors whose role is to assist the Board in reviewing major human resource management and compensation policies and practices. The committee establishes competitive compensation policies for key executives and oversees management development and succession planning. The committee is chaired by Tan Yam Pin with one member, Bob Tan. The Human Resource and Remuneration Committee meets at least once a year and additional meetings may be called by the its members to discuss issues as and when necessary.

FINANCIAL REPORTING AND INTERNAL CONTROLS

The Management provides monthly accounts and reports on the Company's operational performance to all Directors. Apart from the periodic updates provided by the Management, the Directors may at any time seek further information from, and discuss with, the Management on the Group's operations and performance.

The Company maintains internal controls and systems designed to provide reasonable assurance on the integrity and reliability of its financial statements and to adequately safeguard, verify and maintain accountability for its assets. Established procedures in operations and finance ensure that adequate internal controls exist.

The effectiveness of these controls and systems are subjected to review periodically by outsourced internal auditors. In addition, the external auditors also review the effectiveness of key controls as part of its audit plan for the year.

Both internal and external auditors have full access to the Audit Committee and all potential weaknesses are reported.

Corporate Governance

INTERNAL AUDIT

The Company has a policy on outsourcing its internal audit work. In addition, the Company also believes in rotating the internal auditor after the incumbent has served a certain number of years.

During the last financial year, the Company appointed Messrs KPMG as the new internal auditor. This change is in line with the Company's policy to rotate its internal auditor.

The scope of the internal auditor is to:

- Review the effectiveness of the internal controls of the Company and its subsidiaries;
- Provide assurance that key business issues and operational weaknesses are identified and managed;
- Ensure that internal controls are in place and functioning as intended; and
- Ascertain if operations are conducted in an effective and efficient manner.

On a quarterly basis, the internal auditor reports its activities and findings to the Audit Committee.

RISK MANAGEMENT

The Board of Directors is responsible for determining the type and level of risks that the Company undertakes in achieving its corporate objectives. This is achieved through enterprise-wide corporate risk statements, frameworks and policies approved by the Board. On a proactive basis, a risk posture statement which defines the Company's risk appetite, in light of the changing business environment and strategy is submitted and approved by the Board of Directors on an annual basis.

The Board has delegated the authority to formulate, review and approve non-major policies on monitoring and managing risk exposures to the Risk Management Committee, which will report to the Board. The Risk Management Committee will propose and recommend major risk-related policy decisions to the Board for approval.

The Committee is chaired by Managing Director Neil McGregor with members comprising Chan Swee Huat, Koh Chiap Khiong and John Ng. The committee meets monthly to deliberate on enterprise-wide risk matters.

The principal risks of the Group comprise strategic, credit, market and operational risks. Significant business risks have been identified by the Company and an appropriate risk management plan focussing on the key risks has been developed.

Corporate Information

REGISTERED OFFICE

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PLACE OF INCORPORATION

Singapore

COMPANY REGISTRATION NUMBER

199504468H

DATE OF INCORPORATION

27 June 1995

BOARD OF DIRECTORS

Tan Yam Pin (Chairman)
Neil Garry McGregor (Managing Director)
Bob Tan Beng Hai
Leon Codron
Peter Sim Swee Yam
Koh Kim Wah

COMPANY SECRETARY

Kang Ban Hong

EXECUTIVE COMMITTEE

Tan Yam Pin (Chairman)
Neil Garry McGregor
Leon Codron
Koh Kim Wah

AUDIT COMMITTEE

Bob Tan Beng Hai (Chairman)
Tan Yam Pin
Peter Sim Swee Yam

HUMAN RESOURCE AND REMUNERATION COMMITTEE

Tan Yam Pin (Chairman)
Bob Tan Beng Hai

RISK MANAGEMENT COMMITTEE

Neil Garry McGregor (Chairman)
Chan Swee Huat
John Ng Peng Wah
Koh Chiap Khiong

AUDITORS

PricewaterhouseCoopers
8 Cross Street
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Singapore 048424

PRINCIPAL BANKERS

Citibank, N.A. Singapore Branch
DBS Bank Ltd
Oversea-Chinese Banking Corporation Limited
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A low-angle, upward-looking photograph of a large, blue-painted industrial structure, possibly a drilling rig or offshore platform. The structure features multiple levels with yellow safety railings and metal grating. Two workers in blue jumpsuits and white hard hats are visible on one of the upper levels, working on the structure. The background is a bright blue sky with scattered white clouds. The overall perspective creates a sense of height and scale.

NPAT

\$130 million

Making a **Difference** = Competitive **Success**

PowerSeraya continues to make headway in the industry as it pursues new business areas such as the Integrated Utility Business initiative, which forms synergies with the core business of producing and retailing electricity, thus ensuring continued competitive success and growth.

+10.8%

Operations Review



NEW GENERATION PERFORMANCE

For the year in review, PowerSeraya's two Combined Cycle Power Plants (CCPPs), and nine steam units, with three running on Orimulsion® supplied 29% of Singapore's electricity consumption. Total electricity sold was 10,281 GWh.

The increase in market share of about 1% over the previous year is largely attributed to the introduction of the more cost-effective Orimulsion® units. The Orimulsion®-fired units, converted from oil-fired steam units, were completed in December 2005; a month ahead of schedule. These units, together with the CCPPs, have allowed PowerSeraya to reduce its reliance on the more expensive heavy fuel oil. With 80% of the Company's operating expenses coming from fuel cost and holding cost, progressive developments into more cost efficient fuels have significantly contributed to the Company's financial performance.

Evaporative Cooling Systems were retrofitted into the CCPPs. The new additions enable the CCPPs to carry a higher load in the midst of hot ambient temperature conditions. This enhancement in flexibility allows our traders to take full advantage of market opportunities. In addition, the marginal increase in output efficiency will contribute to a major reduction of fuel costs of over S\$1 million per year.

Over at Jurong Power Station, the sale of outmoded generation infrastructure was successfully concluded at a price that was significantly higher than

expectation. This will pave the way for new and more efficient technology in the coming years as PowerSeraya further seeks to actively reduce the cost of producing electricity and improve on its financial performance.

Our excellent location in the centre of a petrochemical hub on Jurong Island naturally leads us to explore the potential of cogeneration plants and developing a Multi Utility Services Hub – which is in line with our Integrated Energy Hub strategy.

Lastly, March 2006 saw a major deal realised: a new Desalination Plant will be constructed and scheduled for completion by mid 2007. This 10,000 m³ per day plant will lower our non-fuel cost and add a new revenue stream to the Company as excess capacity will be sold to keen buyers.

ENVIRONMENTALLY-RESPONSIBLE

As an environmentally-conscientious Company, PowerSeraya continues to work hard in identifying the environmental impacts of our business and invest in environmental protection and control initiatives in the form of best practices and state-of-the-art technology.

Besides Environmental Care Awareness Programmes for our employees, we have implemented an oil spill response programme and regularly conduct drills. We also aim for maximum resource conservation through efficiency improvement initiatives and house-load reduction programmes. Chemical and water consumption monitoring programmes were established to identify and eliminate wastage. PowerSeraya has also implemented a waste recycling programme, where valuable resources such as waste oil, scrap metal, wooden pellets, paper, aluminium cans and plastic bottles are collected for recycling. Our new Desalination Plant is aimed at reducing the environmental burden on Singapore's scarce supply of freshwater.

have been greatly amplified in a results-enhancing leap in lowering inventory cost and maximising the revenue portfolio.

For the new Orimulsion® units, over S\$100 million was invested in control systems such as Flue Gas Desulphurisation Units that effectively remove more than 95% of sulphur dioxide in emissions and Electrostatic Precipitators that remove over 97% of solid particles.

Looking forward, the Company is planning to expand its existing capabilities and assets to a necessary degree that enables diversification into complementary and supporting business streams. PowerSeraya is exploring the possibility of physical oil trading of fuel



Through our efforts, we successfully achieved the ISO 14001 Environmental Management System certification. The Company's dedication and commitment to the environment will continue in the coming years with projected further investments in technology and the upgrading of our environmental programmes and initiatives.

GROWTH THROUGH TRADING

Two proactive measures were introduced during the past fiscal year to address the continuing volatility of the fuel oil market and its attendant higher risks and costs.

Similar to the securing of multiple gas suppliers in FY 04/05 which ensured competitive prices and higher supply reliability, the introduction of Orimulsion® has successfully diversified our feed options. With this economical fuel source, PowerSeraya has gained more leverage in fuel management and flexible price planning in reducing fuel portfolio cost.

The new Trading Application System (TAS) was introduced to provide up-to-date information on the Company's risk position, empowering the Trading Group to act on market opportunities and trade more efficiently. Trading and hedging abilities

oil to optimise the usage of our storage assets as well as generate revenues, and at the same time manage the fuel inventory more efficiently and cost effectively.

IT MATTERS

The Company developed the 2005-2008 IT Roadmap with the aim of identifying key IT and Information Systems that will give the business a strategic advantage in the market place. To ensure that these systems are effectively implemented, an internal governance process for managing large-scale information system projects was developed and implemented.

Key applications that were implemented covered Trading and Risk Management Systems, Data Warehousing and Business Analytics, and Document Management and e-Collaboration Systems. In implementing these systems, the associated business processes were also redesigned and aligned to better meet the objectives of all the business units'.

Operations Review

Special effort was put into improving the services to both our internal and external customers, and the system 1st bill run's billing error was successfully driven down to below 0.5% annually. Key technologies enabling an integrated personal information management system with push mail and secured access to key corporate information sources were deployed for key management users.

In the second half of the year under review, much effort was put into the architectural review of the IT infrastructure and system architecture in PowerSeraya. The outcome of the review resulted in a plan to upgrade key components of its network, system and data centre infrastructure over the next 18 months.

Of note, the Company's work in information systems was recognised both by the Power and IT Industry. PowerSeraya was awarded the SAP Award for the Best Business Analytics Implementation, the Asia Power Award for Best IT Optimisation and was admitted to the CIO Asia Top 100 Honourees.

P

PEOPLE MINDED

Workplace safety will always command top priority in the environment of electricity generation. Ever serious and vigilant in this area, the Company has set a zero-accident record as one of its key performance indicators (KPI) for every year.

During the Company's Safety Week in November 2005, dialogue sessions and safety drills were conducted. A new Safety Orientation Video on essential work procedures and practices was launched via the intranet.

Equipment-wise, we have implemented full body safety harnesses with shock absorbers to replace the use of safety belts for employees who work at high altitude. We have also collaborated with the Union

of Power and Gas Employees (UPAGE) to develop a Personal Protective Equipment Programme for staff.

PowerSeraya has commenced implementing the framework to achieve the OHSAS 18001 Occupational Health and Safety Assessment Series certification, which will reduce and prevent accidents and accident-related loss of lives, time and resources.

At the training forefront, the Company remains focussed on the emphasis that people are its prime assets and is committed to training and developing our staff. As a People Developer, approximately S\$921,000 was invested in staff training in FY 05/06. We are proud that PowerSeraya's average training expenditure per employee of S\$2,450 is much higher than the national average of S\$1,424.

The Company attracted a total of 34 staff under the Employee Sponsorship Scheme, where employees receive full sponsorship for certification from basic certificates up to the Masters level.

In another industry-first initiative, we collaborated with Singapore Polytechnic to produce a customised Steam Certification educational programme. Currently, 27 staff have a Second Class Steam Certification. We aim to have all Shift Team Leaders, Assistant Team Leaders and Assistant Team Co-ordinators professionally certified with Second Class Steam Certification by 2010.

For our Talent Management Programme, high calibre personnel from the Executive level and above were sent on professional short course conducted by the best business schools. A Mentor-Protégé Scheme was

implemented where four or five staff were attached to a senior manager. Over the next two years, we will be implementing the second Phase of the Talent Management Programme to further develop PowerSeraya's human capital.



POISED TO GROW

PowerSeraya's current and future growth projects are closely linked to our Vision of becoming Singapore's Leading Integrated Multi-Fuel Energy Company. We have transformed the Company in multiple ways from its infrastructural and human capital, through to its information systems.

In all our growth plans, we have implemented innovative ways to



TOGETHERNESS WITH THE UNION

Besides the collaboration to develop and implement a Workplace Safety Programme for staff, we have worked with UPAGE to review the Performance Management and Evaluation (PME) system. The revised PME for the bargainable staff is about establishing the line of sight KPIs from the Senior Management through to the most junior staff in the Company. This means that the whole organisation is working towards achieving our corporate goals and everyone understands the role that they need to play and how they can specifically contribute to attain them.

Our excellent partnership with UPAGE continues to grow. PowerSeraya will continue to work closely with the Union in the training and retraining of staff to remain competitive in the industry.

reduce operation costs, reduce environmental impacts and tap into feasible, complementary sources of revenue by augmenting our existing assets.

Through the past few years, we have gained much momentum through breakthrough initiatives as we continue to make gains in market share and financial results. We have successfully charted a path of strategic priorities and suitable developments that delivered results. This path is by no means completed. We look forward to the many prospects in the coming years as we face the challenges of the industry, and respond with keen perception and ingenuity to deliver further results.

The challenge in the new financial year is to continue to strive for niche improvements in all operational aspects of the company. We continue to search globally for alternative fuels and power production technologies to remain an effective and reliable player in our competitive environment.

Seraya Energy

C

CUSTOMER-CENTRIC ALWAYS

With the last batch of low-tension industrial and commercial consumers enabled for contestability in the Singapore electricity market in February 2006, Seraya Energy has achieved 28.3% of the switched contestable load retail market share. This is an increase of 22.5% over FY 04/05. Retail sales reached a Net Profit After Tax of S\$5.6 million; a significant increase of 6.1% over the previous year.

These results attest that Seraya Energy's approach in striving to be an enterprise partner rather than just a supplier has been well received by new and existing customers. The company's focussed efforts in delivering customised energy solutions and innovative services to customers have resulted in market share gains and a customer retention rate of over 85%.

With the contestable retail market fully established for now, meeting and exceeding customers' needs have gained a higher degree of strategic priority. Seraya Energy's foresight in developing an enterprise partner role through multiple investments in improving customer contact points has placed it in an excellent position to succeed in the established market.

To further enhance its strength in customer relationship development, Seraya Energy will continue to introduce initiatives in innovative, customised product packages, services and solutions. The company has embarked on a new evaluation round of matching capabilities and customers' demands, and will shift the necessary resources to further close the gap. Without doubt, existing and new customers can rely on the company's drive and spirit in developing and introducing new offerings to meet their needs.

→ Seraya Energy will continue to innovate new business processes and capabilities to empower customers and foster closer working relationships.

NEW INFORMATION SYSTEMS

A dynamic Retail Billing System and Customer e-Portal were initiated in FY 05/06 and are scheduled for launch in the 2nd quarter of FY 06/07. The new billing system is a

These awards reflect the dedication and commitment of each Contact Centre staff and the passion that they have for their work. With friendly professional advice and solutions that are constantly being improved, Seraya Energy will enhance our winning ways with customers in the coming years.



bold platform that addresses sales and account-related matters, and the growing needs of our customers in terms of data visibility and scalability.

The Customer e-Portal will enable customers to access a set of user-friendly tools that provide useful information. Usage reports, trend analysis and other value-added information will be easily generated by customers at their own convenience.

Seraya Energy will continue to innovate new business processes and capabilities to empower customers and foster closer working relationships.

CONTACT CENTRE EXCELLENCE

Uniquely managed as a profit centre, Seraya Energy's Contact Centre is committed to stringent customer satisfaction key performance indicators.

This drive towards excellence in customer service resulted in eight accolades granted to Seraya Energy by the 5th Annual Singapore Call Centre Awards and the 2nd Regional Call Centre Awards. It is noteworthy that the company's Contact Centre won the category for the Best New Call Centre of the Year at the regional level.

PARTNERS IN SUCCESS

Two key partnerships were formed during the past year in review. American Express (AMEX) Corporate Cards formed an alliance with Seraya Energy to promote electricity packages and better payment terms for customers. The additional sales channel of the AMEX sales team has thus far secured a significant number of new accounts in this joint marketing venture.

A partnership was also formed with the Singapore Manufacturers' Federation in October 2005. For this initiative, tours, seminars and preferential energy packages have been offered to the federation's members.

These twin collaborations are testament to the company's continuous efforts in broadening its customer base and offering value-added services to customers. Seraya Energy will further explore mutually beneficial partnerships as it strives to be Singapore's preferred electricity retailer.



Economic Value Added

\$49 million

Competitive **Success** = Prosperity

Innovation in realising business opportunities, customised utility packages and services drives PowerSeraya in meeting its customers' and stakeholders' needs, and secures a prosperous future for all parties.

+43.0%

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Annual Report

2006