

FINANCIAL REVIEW

For the Financial Period 2006

CHANGE OF FINANCIAL YEAR

2006 is a 15-month financial period that began on 1 January 2006 and ended on 31 March 2007. Subsequent financial years will begin on 1 April to align with the Government's financial year.

OVERVIEW

The PUB Group comprised PUB, its wholly owned subsidiary, Singapore Utilities International Private Limited ("SUI") and SUI's wholly owned subsidiary, CAWT Private Limited ("CAWT"). CAWT was incorporated on 21 July 2006 and had not commenced operation. During the year, SUI divested its 20 percent stake in a joint venture company, Nanjing SemCorp Suiwui Company Limited, in the People's Republic of China. The Group account for 2006 (and 2005) is a consolidated account of PUB and SUI.

The Group's total operating income was S\$1,082.0 million. The total Government grant was S\$99.8 million. After deducting total operating (including financing) expenses of S\$869.6 million, the Group posts a surplus after Contribution to Government Consolidated Fund and Taxation ("GCF and Tax") of S\$299.7 million.

The overall financial performance of the Group remained good as compared to last year. Return on Assets was 6.5 percent (2005: 6.9 percent).

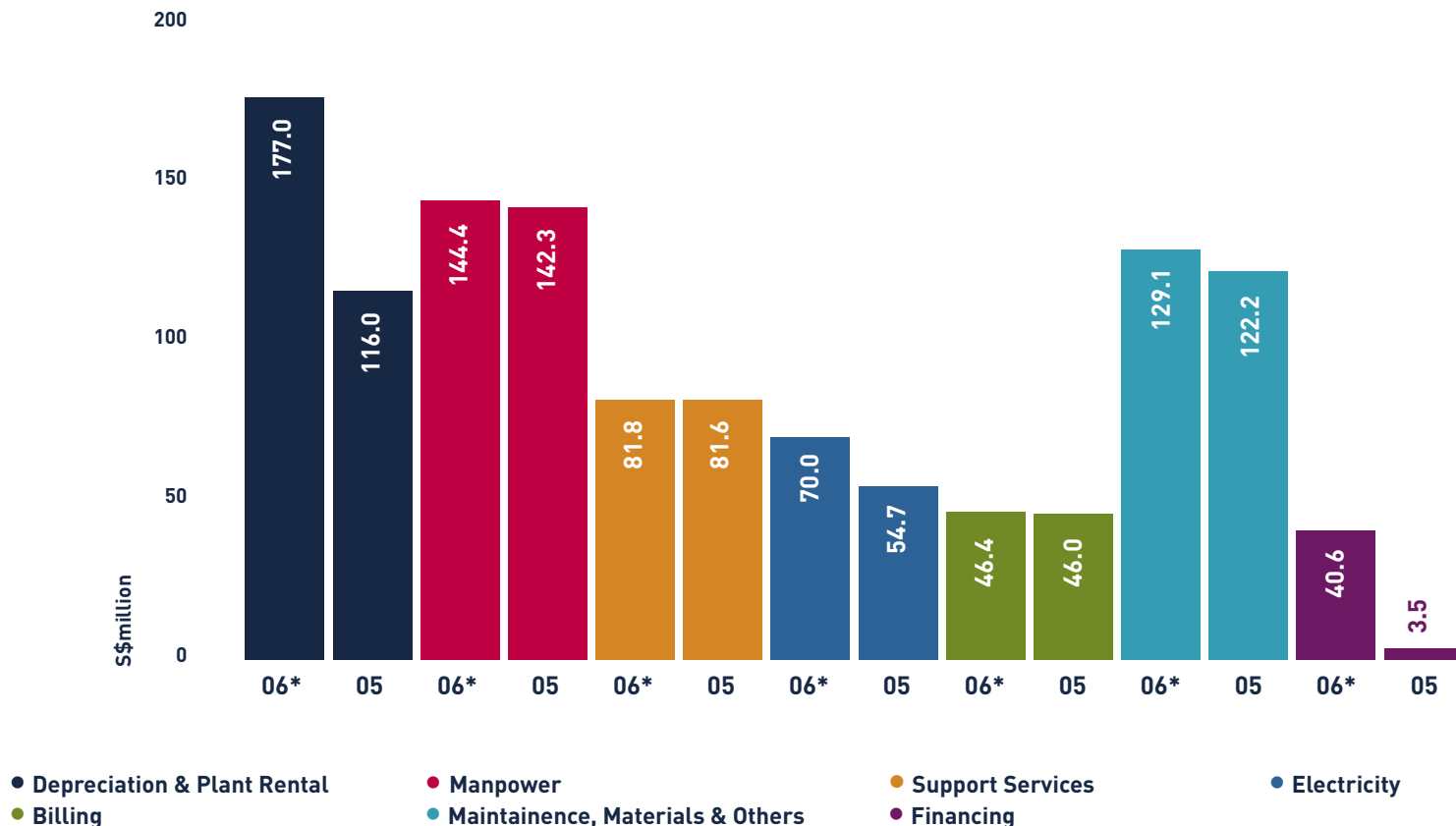
OPERATING INCOME

The Group collected a total operating income of S\$1,082.0 million for the 15-month 2006. Based on annualised income for 2006, the total operating income is higher as compared to 2005 (2006 Annualised: S\$865.6 million; 2005: S\$703.5 million). This was due to take over of used water business on 1 July 2005.

OPERATING EXPENSES

The Group's total operating expenses for 15-month 2006 was S\$814.0 million. Based on annualised expenses, this is an increase of about S\$85.3 million or 15.1 percent over the previous year of S\$565.9 million. The increase was attributed to PUB due to commencement of depreciation and plant rental expenses for water reclamation plants on 1 July 2005 when PUB purchased and leased them from the Government, higher electricity costs led by oil price hike in the year and higher maintenance expenses to improve quality of waterways and control dengue outbreak. 2006 also saw an increase in financing expenses (2006: S\$55.6 million; 2005: S\$3.5 million) due largely to increased borrowings from S\$400 million (in 2005) to S\$1,200 million (in 2006).

A comparison of PUB's annualised operating expenses for 2006 (S\$648.7 million) as compared to previous year (S\$562.8 million) is shown in the following chart:

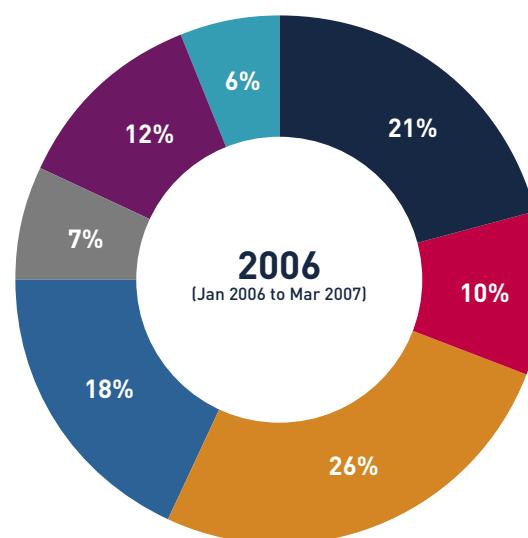
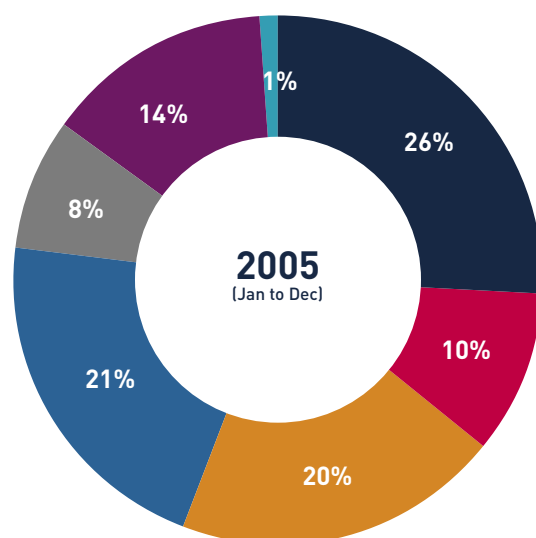


* The expenses for 2006 (a 15-month financial period) are annualised to provide a meaningful comparison with financial year 2005.

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For the Financial Period 2006

Distribution of the Group's total operating expenses (including financing expenses) is shown in the following charts.



- Manpower
- Electricity
- Depreciation & Plant Rental
- Billing
- Support Services
- Financing

- Materials, Maintenance & Others

CAPITAL EXPENDITURE

During the 15-month 2006, the Group spent a total of S\$954.1 million on investment in plant and equipment. A total of S\$773.5 million was for used water reticulation network, drainage and Deep Tunnel Sewerage System (including the Changi Water Reclamation Plant) projects. These projects were funded by and belonged to the Government. The remaining S\$180.6 million was largely for water and NEWater projects belonging to PUB and were financed with its internal funds from its surplus.

BORROWING

In August 2006, PUB raised a total of S\$800 million bonds (2005: S\$400 million) comprising S\$400 million of 5-year fixed-rate notes and S\$400 million of 12-year fixed-rate bonds. This brought the Group's borrowing to a total of S\$1.2 billion (31 December 2005: S\$400 million) and the gearing ratio to 23.7 percent (31 December 2005: 9.2 percent) as at 31 March 2007.

The borrowing of S\$800 million was to finance a prepayment for PUB's purchase of Changi Water Reclamation Plant in 2008. It is also part of financial resource management to lock in the cheaper costs of funds given the strong economy.

FINANCIAL POSITION

As at 31 March 2007, the Group's total assets stood at S\$5,605.7 million. The Group's net book value of fixed assets (namely plant and equipment) was S\$3,869.0 million, accounting for 69.0 percent of the Group's total assets. This is an increase of S\$88.0 million as compared to the net book value of S\$3,781.0 million as at 31 December 2005.

FINANCING OF PUB'S INVESTMENT IN PLANT AND EQUIPMENT

S\$3,865.6 million of the Group's total fixed assets of S\$3,869.0 million belonged to PUB. The total cumulative surplus utilised to finance these assets is reflected in the Capital Reserve Account. As at 31 March 2007, PUB's Capital Reserve Account stood at S\$2,867.6 million or 74.2 percent of its fixed assets. The remaining 25.8 percent of its fixed assets was financed with PUB bonds, asset revaluation reserve, finance lease payable and others.

PUB has as at 31 March 2007, outstanding commitments of S\$1.2 billion for purchase of Changi Reclamation Plant and another S\$367.8 million for other capital expenditure.

STAFF PRODUCTIVITY

Staff productivity remained good. During the year, the number of accounts served per employee increased to 401 from 396 in 2005 while the operating surplus per employee increased 14 percent to S\$96,000 from S\$84,000 in 2005.