

# DIRECTORS' REPORT

For the Financial Year Ended 26 December 2008

The Directors present their report to the members together with the audited financial statements of the Group and the balance sheet and statement of changes in equity of the Company, expressed in United States Dollars, for the financial year ended 26 December 2008.

## Directors

The Directors of the Company in office at the date of this report are:

Cheng Wai Keung	<i>(Chairman)</i>
Friedbert Malt	<i>(Vice Chairman)</i>
Ronald Dean Widdows	<i>(Group President &amp; Chief Executive Officer)</i> <i>(Appointed on 7 July 2008)</i>
James Connal Scotland Rankin	
Robert Holland, Jr	
Christopher Lau Loke Sam	
Timothy Charles Harris	
Peter Wagner	
Bobby Chin Yoke Choong	
Simon Claude Israel	
Tan Pheng Hock	
Boon Swan Foo	<i>(Appointed on 28 July 2008)</i>

## Arrangements to Enable Directors to Acquire Shares and Debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Share Options and Performance Shares" on pages 2 to 5.

## Share Options and Performance Shares

Share options under the NOL Share Option Plan ("NOL SOP") are granted to Directors and employees of the Group. The exercise price of the options is determined at the average closing market price of the shares for the three trading days immediately preceding the grant date. Individual awards to employees take into consideration the job level, performance and leadership potential of the employee. Pursuant to the terms of the NOL SOP, share options will vest after a specified number of years from the grant date.

Performance shares under the NOL Performance Share Plan ("NOL PSP") are awarded to key executives conditional upon the Group meeting or exceeding a prescribed financial target condition during the performance period, and also conditional on the participants meeting their performance conditions. Pursuant to the terms of the NOL PSP, performance shares will vest after a specified number of years from the end of the performance period.

The Executive Resource and Compensation Committee ("ERCC") is responsible for administering the NOL SOP and NOL PSP. The ERCC currently comprises of six Non-Executive Directors: James Connal Scotland Rankin (Chairman), Cheng Wai Keung, Friedbert Malt, Timothy Charles Harris, Tan Pheng Hock and Boon Swan Foo.

Details of options granted, exercised and cancelled under the NOL SOP during the financial year ended 26 December 2008 are as follows:

Share Options	(a)	(b)	(c)	(d)	(e)	(f)	(g)	Total
Date option granted	31/12/04	31/12/04	13/3/06 <sup>2</sup>	13/3/06 <sup>2</sup>	12/3/07 <sup>3</sup>	12/3/07 <sup>3</sup>	22/2/08 <sup>4</sup>	
Exercise period								
From	31/12/05	31/12/05	13/3/07	13/3/07	12/3/08	12/3/08	22/2/09	
To	30/12/09	30/12/14	12/3/11	12/3/16	11/3/12	11/3/17	21/2/18	
Exercise price per option	S\$2.06 <sup>1</sup>	S\$2.06 <sup>1</sup>	S\$2.20	S\$2.20	S\$3.32	S\$3.32	S\$3.62	
Number of options outstanding as at 29 December 2007	515,000	4,677,500	581,000	15,473,033	384,000	6,660,000	–	28,290,533
During the financial year								
– Options granted	–	–	–	–	–	–	9,658,000	9,658,000
– Options exercised	(66,000)	(88,000)	(31,333)	(927,663)	–	(64,331)	–	(1,177,327)
– Options cancelled	–	(9,000)	–	(245,670)	–	(293,335)	(711,000)	(1,259,005)
Balance as at 26 December 2008	449,000	4,580,500	549,667	14,299,700	384,000	6,302,334	8,947,000	35,512,201

#### Directors' Interests:

26 December 2008

– Cheng Wai Keung	129,000	–	126,000	–	90,000	–	–	345,000
– Friedbert Malt	64,000	–	63,000	–	45,000	–	–	172,000
– Ronald Dean Widdows	–	390,000	–	583,000	–	198,000	255,000	1,426,000
– James Connal Scotland Rankin	–	–	47,000	–	34,000	–	–	81,000
– Robert Holland, Jr	48,000	–	47,000	–	34,000	–	–	129,000
– Christopher Lau Loke Sam	48,000	–	47,000	–	34,000	–	–	129,000
– Timothy Charles Harris	–	–	47,000	–	34,000	–	–	81,000
– Peter Wagner	–	–	47,000	–	34,000	–	–	81,000

28 December 2007

– Cheng Wai Keung	129,000	–	126,000	–	90,000	–	–	345,000
– Friedbert Malt	64,000	–	63,000	–	45,000	–	–	172,000
– Ang Kong Hua	64,000	–	63,000	–	45,000	–	–	172,000
– Thomas Held	–	–	–	–	–	48,000	–	48,000
– Yasumasa Mizushima	18,000	–	47,000	–	34,000	–	–	99,000
– James Connal Scotland Rankin	–	–	47,000	–	34,000	–	–	81,000
– Robert Holland, Jr	48,000	–	47,000	–	34,000	–	–	129,000
– Christopher Lau Loke Sam	48,000	–	47,000	–	34,000	–	–	129,000
– Timothy Charles Harris	–	–	47,000	–	34,000	–	–	81,000
– Peter Wagner	–	–	47,000	–	34,000	–	–	81,000

<sup>1</sup> In accordance with the modified rules of the NOL SOP approved by shareholders at the Extraordinary General Meeting held on 3 January 2006 and the advice of the independent financial advisor, the exercise price of the outstanding share options under the NOL SOP was reduced by S\$0.92 to S\$2.06 as a result of the capital reduction and cash distribution exercise.

<sup>2</sup> From the date of grant, one-third of the share options granted have each vested on 13 March 2007 and 13 March 2008. The remaining one-third will vest on 13 March 2009.

<sup>3</sup> From the date of grant, one-third of the share options granted have vested on 12 March 2008. One-third will vest on 12 March 2009 and the remaining one-third will vest on 12 March 2010.

<sup>4</sup> From the date of grant, one-third of the share options granted have vested on 22 February 2009. One-third will vest on 22 February 2010 and the remaining one-third will vest on 22 February 2011.

## Share Options and Performance Shares (continued)

Details of options granted to the Directors of the Company under the NOL SOP up to 26 December 2008 are as follows:

<b>Name of Directors</b>	<b>Granted in financial year ended 26 December 2008</b>	<b>Aggregate granted since commencement of the NOL SOP to 26 December 2008</b>	<b>Aggregate exercised since commencement of the NOL SOP to 26 December 2008</b>	<b>Aggregate expired since commencement of the NOL SOP to 26 December 2008</b>	<b>Aggregate outstanding as at 26 December 2008</b>
Cheng Wai Keung	–	545,000	(200,000)	–	345,000
Friedbert Malt	–	272,000	(100,000)	–	172,000
Ronald Dean Widdows	255,000	2,790,843	(1,039,062)	(325,781)	1,426,000
James Connal Scotland Rankin	–	189,000	(108,000)	–	81,000
Robert Holland, Jr	–	129,000	–	–	129,000
Christopher Lau Loke Sam	–	129,000	–	–	129,000
Timothy Charles Harris	–	81,000	–	–	81,000
Peter Wagner	–	81,000	–	–	81,000

No share options were exercised by the Directors during the financial year ended 26 December 2008.

The Directors' interests in the share options of the Company as at 16 January 2009 were the same as at 26 December 2008.

Subject to the terms and conditions of the NOL PSP, the following table sets forth the number of performance shares awarded, vested and cancelled during the financial year ended 26 December 2008:

<b>Performance Shares</b>	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)</b>	<b>Total</b>
Performance period						
From	27/12/03	01/01/05	31/12/05	30/12/06	29/12/07	
To	31/12/04 <sup>5</sup>	30/12/05 <sup>6</sup>	29/12/06 <sup>7</sup>	28/12/07 <sup>8</sup>	26/12/08 <sup>9</sup>	
Number of shares outstanding as at 29 December 2007	548,559	2,405,348	1,831,000	–	–	4,784,907
During the financial year						
– Shares awarded	–	–	–	2,344,000	–	2,344,000
– Shares vested	(548,559)	(1,202,666)	(610,310)	–	–	(2,361,535)
– Shares cancelled	–	(12,334)	(49,334)	(285,000)	–	(346,668)
Balance as at 26 December 2008	–	1,190,348	1,171,356	2,059,000	–	4,420,704

### Directors' Interests:

26 December 2008						
– Ronald Dean Widdows	–	105,667	100,667	144,000	–	350,334
28 December 2007						
– Thomas Held	–	–	39,000	–	–	39,000

<sup>5</sup> From the end of the performance period, one-third of the performance shares awarded have each vested on 2 January 2006, 2 January 2007 and 2 January 2008.

<sup>6</sup> From the end of the performance period, one-third of the performance shares awarded have each vested on 2 January 2007, 2 January 2008 and 2 January 2009.

<sup>7</sup> From the end of the performance period, one-third of the performance shares awarded have each vested on 2 January 2008 and 2 January 2009. The remaining one-third will vest on 2 January 2010.

<sup>8</sup> From the end of the performance period, one-third of the performance shares awarded have vested on 2 January 2009. One-third will vest on 2 January 2010 and the remaining one-third will vest on 2 January 2011.

<sup>9</sup> No performance shares for the performance period from 29 December 2007 to 26 December 2008 will be awarded in 2009 as the prescribed financial target condition was not met during the performance period.

Since the commencement of the NOL PSP to 26 December 2008, the aggregate number of performance shares awarded was 12,439,758, of which 5,056,850 have vested and 2,962,204 were cancelled. The aggregate number of performance shares outstanding as at 26 December 2008 was 4,420,704.

Details of performance shares awarded to a Director of the Company under the NOL PSP up to 26 December 2008 are as follows:

<b>Name of Director</b>	<b>Awarded in financial year ended 26 December 2008</b>	<b>Aggregate awarded since commencement of the NOL PSP to 26 December 2008</b>	<b>Aggregate vested since commencement of the NOL PSP to 26 December 2008</b>	<b>Aggregate outstanding as at 26 December 2008</b>
Ronald Dean Widdows	144,000	876,814	(526,480)	350,334

As at 16 January 2009, Ronald Dean Widdows' interest in the performance shares of the Company was 146,334 performance shares.

Pursuant to provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and the Singapore Companies Act, in addition to information disclosed elsewhere in the report, it is reported that:

- (i) Except as disclosed on page 3, no options were granted by the Company or any subsidiary during the financial year and there were no other unissued shares under option at the end of the financial year.
- (ii) Except as disclosed on page 4, no performance shares were awarded by the Company or any subsidiary during the financial year and there were no other unissued performance shares at the end of the financial year.
- (iii) No options were granted to controlling shareholders or their associates, or directors and employees of the parent group.
- (iv) No performance shares were awarded to controlling shareholders or their associates, or directors and employees of the parent group.
- (v) No employee has received 5% or more of the total number of options and performance shares available under the NOL SOP and NOL PSP.
- (vi) No options have been granted at a discount during the financial year.

During the financial year, the Company re-issued 18,000 (2007: 123,666) treasury shares pursuant to the NOL SOP at exercise prices of S\$2.20 (2007: S\$2.06 and S\$2.20) per share, for share options granted on 13 March 2006 (2007: 31 December 2004 and 13 March 2006 respectively) and re-issued 755,617 (2007: Nil) treasury shares pursuant to the NOL PSP. New shares were issued for the vesting of performance shares by a Director.

## Directors' Interests in Shares or Debentures

According to the register of Directors' shareholdings, none of the Directors holding office at the end of the financial year had any interest in the share capital or debentures of the Company except as follows:

	<b>Ordinary shares</b>			
	<b>Holdings registered in</b>		<b>Holdings in which Director</b>	
	<b>name of Director or nominee</b>		<b>is deemed to have an interest</b>	
	<b>At 29/12/07</b>	<b>At 29/12/07</b>	<b>At 29/12/07</b>	<b>At 29/12/07</b>
	<b>or date of</b>	<b>or date of</b>	<b>or date of</b>	
	<b>appointment,</b>	<b>appointment,</b>	<b>appointment,</b>	
	<b>if later</b>	<b>if later</b>	<b>if later</b>	
	<b>At 26/12/08</b>	<b>At 26/12/08</b>	<b>At 26/12/08</b>	<b>At 26/12/08</b>
Cheng Wai Keung	1,250,000	1,250,000	–	–
Friedbert Malt	40,000	40,000	–	–
Ronald Dean Widdows	444,480	444,480	–	–
James Connal Scotland Rankin	108,000	108,000	–	–
Robert Holland, Jr	250,000	100,000	–	–
Peter Wagner	30,000	30,000	–	–
Bobby Chin Yoke Choong	–	–	16,851	16,851

Details of the Directors' interests in the share options granted under the NOL SOP and performance shares awarded under the NOL PSP have been separately disclosed under "Share Options and Performance Shares" on pages 2 to 5.

The Directors' interests in the share capital of the Company as at 16 January 2009 were the same as at 26 December 2008 except for Ronald Dean Widdows, whose holdings registered in his own name was 648,480 shares as at 16 January 2009.

According to the register of Directors' shareholdings, none of the Directors holding office at the end of the financial year had any interest in the share capital or debentures of related corporations except as follows:

	Holdings registered in name of Director or nominee		Holdings in which Director is deemed to have an interest	
	At 26/12/08	At 29/12/07 or date of appointment, if later	At 26/12/08	At 29/12/07 or date of appointment, if later
<b>Chartered Semiconductor Manufacturing Ltd</b>				
<i>Ordinary shares</i>				
Tan Pheng Hock	7,000	7,000	–	–
Boon Swan Foo	18,800	18,800	–	–
<b>Singapore Airlines Limited</b>				
<i>Ordinary shares</i>				
Bobby Chin Yoke Choong	–	–	2,000	–
Simon Claude Israel	9,000	9,500	–	–
<b>Singapore Airport Terminal Services Limited</b>				
<i>Ordinary shares</i>				
Boon Swan Foo	40,000	40,000	–	–
<b>SIA Engineering Company Limited</b>				
<i>Ordinary shares</i>				
Boon Swan Foo	25,000	25,000	–	–
<b>Singapore Food Industries Limited</b>				
<i>Ordinary shares</i>				
Boon Swan Foo	8,000	8,000	–	–
<b>Singapore Technologies Engineering Ltd</b>				
<i>Ordinary shares</i>				
Tan Pheng Hock	868,689	578,364	–	–
Boon Swan Foo	1,230,000	1,230,000	–	–

## Directors' Interests in Shares or Debentures (continued)

	Holdings registered in name of Director or nominee		Holdings in which Director is deemed to have an interest	
	At 26/12/08	At 29/12/07 or date of appointment, if later	At 26/12/08	At 29/12/07 or date of appointment, if later
<b>Singapore Technologies Engineering Ltd</b> (continued)				
<i>Options to subscribe for ordinary shares</i>				
Tan Pheng Hock				
- Exercisable at S\$2.00 per share between 11/8/01 to 10/8/09	5,000	5,000	-	-
- Exercisable at S\$2.26 per share between 10/2/02 to 9/2/10	300,000	400,000	-	-
- Exercisable at S\$2.72 per share between 20/2/02 to 19/2/11	225,000	225,000	-	-
- Exercisable at S\$2.68 per share between 11/8/02 to 10/8/11	227,500	227,500	-	-
- Exercisable at S\$2.29 per share between 8/2/03 to 7/2/12	175,000	175,000	-	-
- Exercisable at S\$1.92 per share between 13/8/03 to 12/8/12	175,000	175,000	-	-
- Exercisable at S\$1.79 per share between 7/2/04 to 6/2/13	200,000	200,000	-	-
- Exercisable at S\$1.86 per share between 12/8/04 to 11/8/13	200,000	200,000	-	-
- Exercisable at S\$2.09 per share between 10/2/05 to 9/2/14	200,000	200,000	-	-
- Exercisable at S\$2.12 per share between 11/8/05 to 10/8/14	200,000	200,000	-	-
- Exercisable at S\$2.37 per share between 8/2/06 to 7/2/15	200,000	200,000	-	-
- Exercisable at S\$2.57 per share between 11/8/06 to 10/8/15	200,000	200,000	-	-
- Exercisable at S\$3.01 per share between 10/2/07 to 9/2/16	200,000	200,000	-	-
- Exercisable at S\$2.84 per share between 11/8/07 to 10/8/16	200,000	200,000	-	-
- Exercisable at S\$3.23 per share between 16/3/08 to 15/3/17	200,000	200,000	-	-
<i>Conditional award of 250,000 performance shares to be delivered after 2007</i>				
Tan Pheng Hock	-	0 to 375,000	-	-
<i>Conditional award of 250,000 performance shares to be delivered after 2008</i>				
Tan Pheng Hock	0 to 375,000	0 to 375,000	-	-
<i>Conditional award of 200,000 performance shares to be delivered after 2009</i>				
Tan Pheng Hock	0 to 300,000	0 to 300,000	-	-
<i>Conditional award of 250,000 performance shares to be delivered after 2010</i>				
Tan Pheng Hock	0 to 375,000	-	-	-
<i>Conditional award of 45,000 restricted shares to be delivered after 2008</i>				
Tan Pheng Hock	0 to 67,500	0 to 67,500	-	-
<i>Conditional award of 96,000 restricted shares to be delivered after 2009</i>				
Tan Pheng Hock	0 to 144,000	-	-	-

	Holdings registered in name of Director or nominee		Holdings in which Director is deemed to have an interest	
	At 26/12/08	At 29/12/07 or date of appointment, if later	At 26/12/08	At 29/12/07 or date of appointment, if later
<b>Singapore Telecommunications Limited</b>				
<i>Ordinary shares</i>				
Cheng Wai Keung	1,550	1,550	1,360	1,360
Christopher Lau Loke Sam	1,560	1,560	–	–
Simon Claude Israel	179,820	179,820	1,360	1,360
Tan Pheng Hock	1,800	1,800	1,550	1,550
Boon Swan Foo	23,890	23,890	1,360	1,360
<b>SP AusNet securities*</b>				
<i>Ordinary shares</i>				
Bobby Chin Yoke Choong	–	–	20,000	20,000
<b>Starhub Ltd</b>				
<i>Ordinary shares</i>				
Tan Pheng Hock	25,150	25,150	–	–
<b>TeleChoice International Limited</b>				
<i>Ordinary shares</i>				
Tan Pheng Hock	30,000	30,000	–	–
<b>Vertex Technology Fund (II) Ltd*</b>				
<i>Ordinary shares</i>				
Tan Pheng Hock	–	–	–	5

The Directors' interests in the share capital of the related corporations as at 16 January 2009 were the same as at 26 December 2008.

The related corporations are related to the Company by virtue of a common ultimate holding company, Temasek Holdings (Private) Limited.

\* Stapled Group securities, each comprising of one SP Australia Networks (Transmission) Ltd share, one SP Australia Networks (Distribution) share and one SP Australia Networks (Finance) Trust unit.

\* Held in trust by a trustee company on behalf of the Director.

## Directors' Contractual Benefits

Simon Claude Israel has an employment relationship with the ultimate holding company and has received remuneration in that capacity.

Tan Pheng Hock has an employment relationship with a subsidiary of the ultimate holding company and has received remuneration in that capacity.

Since the end of the previous financial year, no other Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the financial statements and in this report.

## Audit Committee

At the date of this report, the Audit Committee (“AC”) consists of four Non-Executive Directors, all of whom are independent. Chaired by Mr Christopher Lau Loke Sam, the other three members of the Committee are Mr Robert Holland, Jr, Mr Peter Wagner and Mr Bobby Chin Yoke Choong.

The AC is authorised by the Board of Directors (“the Board”) to investigate any activity within its terms of reference. It has unrestricted access to information relating to the Group, to both the internal and external auditors, and to the Management and staff. It has full discretion to invite any Director or executive officer to attend its meetings. It is also authorised by the Board to obtain external legal or other independent professional advice as necessary and at the expense of the Group.

The AC’s duties include:

- (a) Reviewing with the external auditors the audit plan, the scope of the audits, the evaluation of the internal accounting controls, the audit reports and any matters which the external auditors wish to discuss (in the absence of Management, where necessary).
- (b) Reviewing the cost-effectiveness and the independence and objectivity of the external auditors. Where the auditors also supply a substantial volume of non-audit services to the Group, the AC keeps the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
- (c) Reviewing with the internal auditors the internal audit plan, the scope and the results of internal audit procedures, and their evaluation of the overall internal control systems. The internal control systems include financial, operational and compliance controls established by the Management. The AC ensures that reviews of the effectiveness of the Group’s internal controls are conducted. Such reviews can be carried out by the internal auditors and/or public accountants, provided that where the public accountant is also the external auditor of the Company, the AC should satisfy itself that the independence of the public accountant is not compromised by any other material relationship with the Group.
- (d) Reviewing the effectiveness of the Group’s internal audit function.
- (e) Reviewing the assistance given by the Group’s officers to the auditors.
- (f) Reviewing significant financial reporting issues and judgements to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group’s financial performance.
- (g) Reviewing the Group’s quarterly and year-end financial statements prior to submission to the Board and/or release to SGX-ST, focusing on:
  - going concern assumption
  - compliance with accounting standards and regulatory requirements
  - any changes in accounting policies and practices
  - significant issues arising from the quarterly review and year-end audit
  - major judgemental areas.

Procedures are in place to ensure that financial information relating to the Group’s operations are not false or misleading in order to increase the assurance level of the AC in its review of the quarterly financial statements. In addition, the Company has obtained negative assurance confirmation from its various key business and operational/functional heads within the Organisation/Group that nothing has come to their attention that would render the quarterly financial results to be false or misleading.

- (h) Reviewing arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC ensures that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

To allow staff to raise concerns about improprieties, the Company has in place a whistle-blowing hotline managed by the Company's Internal Audit Department.

- (i) Making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors.
- (j) Meeting with the external auditors, and with the internal auditors, without the presence of the Management, at least annually.
- (k) Monitoring Interested Person Transactions and conflict of interest situations that may arise within the Group including any transaction, procedure or course of action that raises questions on Management's integrity. The AC is also required to ensure that Directors report such transactions quarterly via SGX-ST announcements and annually to shareholders via the Annual Report.
- (l) Undertaking any other functions agreed by the AC and the Board.

In carrying out its duties, the AC is guided by the practical guidance and recommendations of best practices for audit committees of Singapore-listed companies, as set out in the Guidebook for Audit Committees in Singapore issued by the Audit Committee Guidance Committee in October 2008.

The AC has nominated Ernst & Young LLP for re-appointment as auditors of the Company at the forthcoming Annual General Meeting ("AGM").

The AC conducts an annual review of the independence and objectivity of Ernst & Young LLP, the Group's external auditors. For the financial year ended 26 December 2008, the AC undertook a review of the volume of non-audit services provided by the external auditors to assess whether the nature and extent of those services might prejudice the independence and objectivity of the auditors. The AC was satisfied that such services did not affect the independence of the external auditors. The AC also reviewed the cost-effectiveness of the audit conducted by the external auditors.

The AC convened four meetings during the financial year with full attendance from all members except one where a member was absent. The attendees at these meetings included the Group President & Chief Executive Officer, Group Deputy President & Chief Financial Officer, Vice President of Group Finance, Group Internal Auditor and external auditors, where required.

## Auditors

The auditors, Ernst & Young LLP, have expressed their willingness to accept re-appointment.

On behalf of the Directors



**Cheng Wai Keung**  
Director



**Ronald Dean Widdows**  
Director

Singapore, 26 February 2009