

To Our Shareholders

SembCorp Industries returned a modest profit growth but achieved a stronger balance sheet despite a very difficult year.

Our Profit After Tax and Minority Interests (PATMI) including exceptional items rose 3 per cent to S\$178.3 million. Our Return on Equity was 14 per cent, a level comfortably above our minimum threshold of 12 per cent, and our Return on Total Assets edged down from 5.8 per cent in 2001 to the present 5.6 per cent.

Our balance sheet has however been substantially strengthened. We reduced borrowings by S\$900 million and our gearing has been halved from 1.3 times at end-2001 to 0.6 times. Efforts to divest our non-core assets and operations continued and we received S\$391 million in total proceeds from the divestments completed this year.



SembCorp Industries' Earnings Per Share would have risen in tandem with earnings but fell to 9.89 cents against 10.83 cents in the prior year due to our enlarged equity base following the issuance of about 214 million new shares in a private placement carried out in February 2002. This placement gave us around S\$339 million in net proceeds.

RETURNING 36 PER CENT OF PATMI TO OUR SHAREHOLDERS

Our Board of Directors is recommending an 18 per cent gross dividend (less tax of 22 per cent), comprising a 12 per cent (3.0 cents per share) ordinary dividend and a 6 per cent (1.5 cents per share) special dividend for 2002.

This proposed dividend is a 50 per cent increase over what was paid out for 2001. At the same time, the proposed dividend represents a 36 per cent payout of PATMI or Net Earnings.

BUSINESS PERFORMANCE IN 2002

Utilities' turnover exceeded S\$1 billion for the first time and its PATMI showed a strong 55 per cent increase to S\$54.2 million. Earnings from integrated utilities grew 30 per cent and offshore engineering posted a 26 per cent increase. Their contribution to PATMI was S\$25.1 million and S\$20.5 million respectively.

We are happy with the performance of this Key Business, which promises stable earnings from long-term offtake contracts spanning 12 to 30 years in duration. The offshore engineering unit also promises growth with a record topside fabrication orderbook of S\$740 million with deliveries up to 2005.

The S\$9 million earnings from our energy business would have been higher had our power generation operation in Singapore (SembCorp Cogen) not been adversely impacted by high spinning reserve costs under the old market rules. However, the New Electricity Market (NEM), introduced by the Singapore Energy Market Authority in January 2003, has a separate Spinning Reserve Market which is expected to drive down spinning reserve costs. This, coupled with the introduction of vesting contracts, should result in an improvement in the earnings from our power generation operations.

Marine Engineering had a fairly good year where it turned in a PATMI growth of 14 per cent and an earnings contribution of S\$57.3 million. For the first time, this Key Business achieved a record turnover exceeding S\$1 billion. The orderbook at end-2002 stood at S\$1.4 billion with ship conversions and offshore projects accounting for 46 per cent of it.

Logistics showed strong operating performance with a 37 per cent growth in our supply chain management operations excluding exceptional items. However, profit contribution from this Key Business fell 54 per cent to S\$25.2 million mainly due to our Logistics unit's associate, Kuehne & Nagel, charging a CHF206 million (S\$237 million) goodwill amortisation against its full year 2002 accounts. This one-time charge has no cashflow impact on our Group. On the other hand, our global logistics alliance with Kuehne & Nagel has progressed well and is gaining pace. In 2002, we jointly secured 16 major accounts globally and in just the first two months of 2003, eight new accounts have been jointly secured.

Environmental Engineering returned a net earnings contribution of S\$9.2 million. This 14 per cent growth against 2001 was lower than what we anticipated due largely to weaker earnings from our Australian operations. Our Environmental Engineering unit has existing contracts worth S\$380 million (till 2005) and as we take steps to improve our operating efficiency, we expect its profitability to improve.

Engineering & Construction was a disappointment with a loss of S\$127 million for the full year caused by unforeseen conditions encountered in two projects in Singapore. We carried out a thorough review of the business and systems at SembE&C and these are some of the changes we are implementing at the company:

- SembE&C will be downsized
- The focus will shift to process engineering and design in sectors like rail infrastructure, wastewater treatment, polymers and oil and gas
- Projects in the S\$1.8 billion orderbook will be more effectively executed

The **In Development** companies turned in mixed results. Pacific Internet turned around with a profit contribution of S\$2.1 million. Singapore Food Industries' earnings attributable to the Group grew 8 per cent to S\$22.4 million. On the other hand, Building Materials suffered a loss of S\$10.8 million for the year reflecting the depressed conditions facing the building industry in Singapore.

OUR PRIORITIES AND THE OUTLOOK FOR 2003

For the coming year, we have set ourselves these priorities:

Utilities: We will focus on improving SembCorp Cogen's earnings performance under Singapore's NEM. We are also taking steps to expand our integrated utilities and cogeneration business overseas.

Marine Engineering: Our Global Hub Strategy is largely in place and we are devoting our energies to increasing the profit contribution from our yards in Brazil and China. We also want to strengthen our position in the global offshore conversion market. In 2002, we won the Brazilian Petrobras P-50 conversion contract worth US\$244 million and we are better placed to compete for upcoming conversion contracts in Latin America and Africa.

Logistics: We want to accelerate the growth of our supply chain management businesses in China and India. In China, we are already one of the largest foreign logistics companies and in India, we are a clear leader. The contribution from these markets is still in the ramp-up phase and we aim to return a stronger earnings performance from our operations there.

Environmental Engineering: This business unit still has another year of business re-engineering ahead of it. In 2003, we want to participate in the upcoming bids for two municipal waste collection contracts that are expected to be put up for tender by the Ministry of the Environment in Singapore.

Engineering & Construction: We will carry out our downsizing and turnaround programme. With the shift in business focus, we expect the situation to improve in the coming year.

Divestments: The divestment programme will continue although most of the major divestments have already been done. Since 1999, we have divested S\$1.86 billion in non-core assets and operations. When the remaining non-core businesses are fully divested, we expect to receive an estimated S\$500 to S\$600 million but this will take three to five years to complete.

The SembCorp Industries' Group engineering orderbook (made up of contracts secured by Utilities' offshore engineering, Environmental Engineering, Engineering & Construction and Marine Engineering but excluding Utilities' and Logistics' long-term contracts) now stands at a very healthy S\$4.3 billion.

Notwithstanding, since we gave our shareholders an outlook for SembCorp Industries in February 2003, two significant events have occurred: a war is being fought in the Middle East and there is an outbreak of SARS – Severe Acute Respiratory Syndrome – that has spread beyond Asia to Europe and the American continent. All these will spell major uncertainties ahead for economies and businesses particularly in Asia, if not globally. Given the continuing uncertain environment, we foresee 2003 to be a difficult and challenging year for us.

OUR NEW BOARD MEMBER

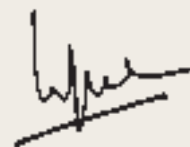
On January 13, 2003, S Iswaran was appointed to our Board of Directors. He is

a Managing Director at Temasek Holdings and was Singapore Technologies' Director of Strategic Development before that. On behalf of the Board, we would like to extend Iswaran a warm welcome and look forward to his contribution.

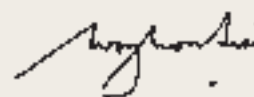
IN CONCLUSION

2002 has been a difficult year for all of us. We are touched by the way many of our stakeholders stood with us. We are also heartened by the way our management and staff rallied together. We want to thank all of you – our shareholders, customers, suppliers and staff – for your loyalty and support through these times.

As a Group, we have a strong foundation in place for tomorrow's growth and earnings. We want to move forward and make the SembCorp Industries of our vision a reality.



Peter Seah Lim Huat
Chairman



Wong Kok Siew
Deputy Chairman & CEO

April 2003