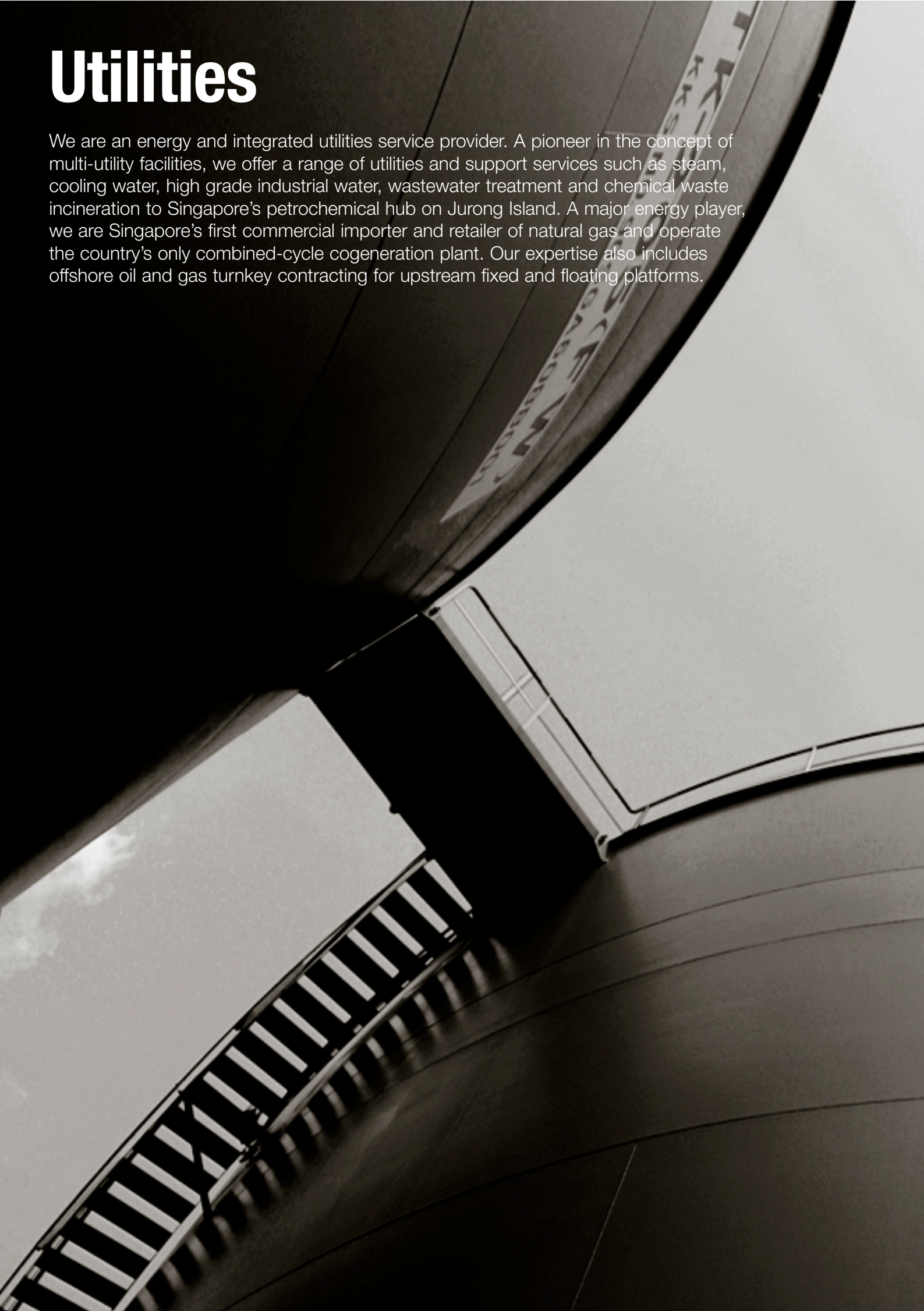
Utilities

We are an energy and integrated utilities service provider. A pioneer in the concept of multi-utility facilities, we offer a range of utilities and support services such as steam, cooling water, high grade industrial water, wastewater treatment and chemical waste incineration to Singapore's petrochemical hub on Jurong Island. A major energy player, we are Singapore's first commercial importer and retailer of natural gas and operate the country's only combined-cycle cogeneration plant. Our expertise also includes offshore oil and gas turnkey contracting for upstream fixed and floating platforms.



Tang Kin Fei
President & CEO
SembCorp Utilities

	2002 S$'000	2001 S$'000
Revenue	**1,071,933**	548,319
PATMI	**54,248**	34,907

Note: Figures are taken at SembCorp Industries' Group Level for the Key Business

KEY FACTS

- A pioneer in the concept of integrated multi-utility centres
- First commercial importer, supplier and retailer of natural gas in Singapore
- Singapore's first independent power producer and cogeneration plant
- Over 1600 MW of gross power generation capacity installed and in development
- Over 100 offshore oil and gas projects delivered worldwide

Utilities

STRATEGY

Our aim is to be a leading energy and integrated utilities service provider in the Asia-Pacific. To do this we will:

Create synergies between the various elements of our utilities business

We offer our clients a full range of services by bundling our energy and integrated utilities products and services. Leveraging our expertise across the entire energy value chain, and on the synergies between electricity and gas, we aim to cater to our customers' energy needs.

Develop on our unique business model as an integrated multi-utility service provider

We intend to replicate the success of our one-stop service multi-utility concept abroad in countries such as China. We will continue to consolidate our lead position in Singapore by deepening our core competencies and providing reliable, quality and customer-responsive products and services.

Build our businesses in water and wastewater treatment

Building on our existing water recycling and wastewater treatment capabilities, we are exploring M&As and partnership opportunities in these businesses both locally and abroad. We will also grow new product lines such as district cooling systems and recycled water, and continue investing in research and development on water treatment technologies with established institutions like Singapore's Nanyang Technological University and Stanford University in the United States.

Leverage our first-mover advantage in Singapore's natural gas market

To protect and increase our market share, we plan to increase gas sales to our industrial and reticulation customers, and are piloting the use of compressed natural gas (CNG) as an alternative fuel source for commercial fleet operators.

Strengthen our power generation capabilities as a niche player

We aim to strengthen our position as a low-cost power producer equipped with high-performance and efficiency facilities. We will focus on niche markets which provide a stable income such as cogeneration facilities with multi-steam customers, as well as power plants with secured offtakes. We are currently exploring greenfield and acquisition opportunities in Asia and Australia.

Exploit opportunities for oil and gas works

We will continue to build up our position and reputation as a leading turnkey contractor for offshore platforms. In pursuing opportunities to grow our offshore engineering business, we will focus on markets of high interest to oil and gas majors such as West Africa, the North Sea and the Middle East. We will also explore means to increase our yard space and capacity both locally and abroad.

OPERATIONS REVIEW

Our Utilities business performed strongly in 2002, with a 95 per cent growth in turnover over 2001. Profit After Tax and Minority Interests (PATMI) rose 55 per cent to S$54.2 million, accounting for 31 per cent of Group PATMI compared to 20 per cent in 2001.

The strong financial performance by Utilities was primarily due to increased contributions from our integrated utilities division, as well as our offshore engineering unit SMOE, and SembCorp Gas (SembGas). SMOE performed strongly and clinched S$530 million worth of contracts in 2002. SembGas also performed well in 2002 due to a ramp-up in its gas offtake and it has now reached its full 325 million standard cubic feet per day (mmscfd) offtake level. SembGas secured 30 new reticulation customers in 2002 with an orderbook worth S$116 million, while our power supply company, SembCorp Power (SembPower), is now an established power retail company with a total of 80 accounts to date.

KEY OPERATING UNITS [1]

Division	Our Stake	Joint Venture Partners	Country of Operation	Project Completion Date
INTEGRATED UTILITIES				
Centralised Utilities				
SUT Sakra	80%	Tractebel (20%)	Jurong Island, Singapore	1997
SUT Seraya	100%	–	Jurong Island, Singapore	2000
Water				
SembCorp Water	100%	–	Singapore	–
Chemical Feedstock				
Propylene Purification Unit	100%	–	Jurong Island, Singapore	1999
SembCorp Air Products	60%	Air Products Singapore (40%)	Jurong Island, Singapore	1999
Sakra Island Carbon Dioxide	30%	Singapore Carbon Dioxide Company (50%) Air Products Singapore (20%)	Singapore	1999
ENERGY				
Gas				
SembCorp Gas	50%	Temasek Holdings (30%) Tractebel (20%)	Jurong Island, Singapore	January 2001
Power				
SembCorp Cogen	70%	Tractebel (30%)	Jurong Island, Singapore	September 2001
Kwinana Cogeneration Plant	30%	Edison Mission Energy (70%)	Perth, Australia	1996
Phu My 3 Power Company	33.3%	BP Holdings (33.3%) Consortium of Kyushu Electric Power Co. and Nissho Iwai Corporation (33.3%)	Vung Tau, Vietnam	January 2004
Qianan SembCorp Cogeneration Company	65%	Qianan Xin Di Thermal Power Company (35%)	Hebei, China	1996
SembCorp Power	100%	–	Singapore	2nd half 2001
OFFSHORE ENGINEERING				
Oil and Gas				
SMOE	100%	–	Singapore	–
Gema SembCorp Engineering	90%	Fadel Muhammad (10%)	Indonesia	–
Chiwan Offshore Petroleum Equipment Repair/Manufacturing Co.	35%	China Offshore Oil Nanhai East Corporation (25%) China Offshore Oil Nanhai West Corporation (20%) Chiwan Petroleum Supply Base (20%)	Shenzhen, China	–
Chiwan Sembawang Engineering Co.	32%	China Offshore Oil Engineering Corporation (36%) Shenzhen Petroleum Supply Base Company (32%)	Shenzhen, China	–
Sime SembCorp Engineering	30%	Sime Darby Nominees (70%)	Pasir Gudang, Malaysia	–

[1] *As of December 31, 2002*

Utilities

ORDERBOOK

The orderbook for SMOE as of end-December 2002 was approximately S$740 million. Our major projects are:

Project	Value (S$m)	Client	Scope of Work	Completion Date
Halfdan Field Development Phase 3	189	Maersk Olie OG Gas	Engineering, procurement, fabrication, pre-commissioning, loadout and seafastening of process platform and living quarters	March 2003
Panyu Joint Development, South China Sea	260	Devon Energy China	Engineering, procurement, fabrication, installation and hook-up of platform and pipeline facilities	3rd quarter 2003
Dan FG Development Project[2]	–	Maersk Olie OG Gas	Engineering, procurement, fabrication and commissioning of process/utility module, jacket, flare structure and bridges	July 2004
Idd El Shargi North Dome Offshore Oil Field[2]	–	Occidental Petroleum of Qatar	Engineering, procurement, fabrication, precommissioning, loadout, transportation, hook-up and commissioning of central processing facility platform, bridges and flare platform	March 2005
Erha FPSO Project[2]	–	Bouygues Offshore	Detailed engineering, procurement, fabrication and integration to Hull FPSO topsides modules	March 2005

[2] The total contract value for these three contracts secured in 2002 is S$530 million. The individual contract values are not disclosed at the requests of the clients.

Our multi-utility centres on Jurong Island also performed better than the year before. SUT Sakra signed six new contracts worth S$2.6 million per year while expansion on its existing facilities continue to cater to customers such as Asahi Kasei Plastics Singapore and Mitsui Bisphenol Singapore. We rounded up the year serving 39 of Jurong Island's 70 companies.

Our power generation company in Singapore, SembCorp Cogen (SembCogen), was however negatively impacted by the delay in the deregulation of Singapore's electricity market, namely high spinning reserve costs under the old market rules. Originally set for 2001, the New Electricity Market (NEM) was launched only in January 2003. Under the NEM, a separate Spinning Reserve Market has now been introduced, and competition in this market is expected to drive down spinning reserve costs.

Earlier this year, we opened Singapore's first CNG station on Jurong Island, and launched a pilot project with the Ministry of the Environment and SBS Transit to introduce CNG as a vehicle fuel in Singapore.

will be underpinned by stable baseload earnings from its long-term contracts, as well as a strong orderbook of SMOE. The orderbook of SMOE stood at a healthy S$740 million as at end-December 2002.

Since January 2003, SembCogen has been operating under the NEM. The introduction of a separate Spinning Reserve Market and the introduction of vesting contracts is expected to make the market environment more dynamic and sustainable for SembCogen and other power generation companies in Singapore.

While Temasek Holdings has announced the deferment of the proposed sale of its power generation companies until 2004 at the earliest, we continue to develop our power generation business overseas. Commercial operations of our joint venture 717-megawatt cogeneration plant Phu My 3 in Vietnam is expected to commence in early 2004.

OUTLOOK

We expect the performance of our Utilities operations to be better than 2002. Its growth

Glossary

HGIW
High grade industrial water. This high quality water is one of the products supplied by our multi-utility facilities for industrial use, and is obtained from the treatment and polishing of tertiary industrial water using the reverse-osmosis process.

Reticulation Network
A gas distribution network. This refers to SembGas' medium pressure network serving customers in Singapore's Jurong and Tuas industrial areas.

Cogeneration
Co-production of steam and electricity.

Combined-cycle
Simultaneous production of thermal energy and electricity. In a combined-cycle facility, the combustion turbine(s) turns gas into energy. Heat from this combustion process is then used to produce steam that powers a steam turbine to generate more power.

NEM
The New Electricity Market in Singapore. The NEM consists of a wholesale market and a retail market. The Energy Market Authority is the regulator of the NEM.

Spinning Reserve
The excess generating capacity of operating generating sets at any point in time, which enables the power system to meet sudden increases in energy demand or compensate for sudden losses of generation.

Production Platform
A generic term for an offshore oil and gas production facility, typically combining the process, water injection, utility, power generation and living quarters modules.

Topsides
The part of an offshore oil and gas platform that is above water and contains the hydrocarbon processing equipment.