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Dear Shareholders,

Our performance and growth

On behalf of your Board of Directors, I am pleased to report that SembCorp Industries achieved strong earnings growth in 2003. This growth was achieved despite the difficult and volatile market in 2003, which was worsened by the uncertainties caused by the war in Iraq and the outbreak of the severe acute respiratory syndrome (SARS).

Our Profit After Tax and Minority Interest (PATMI) inclusive of S\$101.5 million divestment gains rose 66% to S\$285.1 million, reflecting the resilience of our businesses under difficult economic conditions. Our Return on Equity was 17.7%, a level comfortably above our stated threshold of 12%, and our Return on Total Assets was 7.3% compared to 5.4% in 2002. We continued to maintain a sound balance sheet with our gearing at 0.6 times, and interest cover at a healthy 7.4 times.

Our strategies for sustainable growth

This set of results shows that our focus on execution and financial discipline has paid off. Moreover, what has emerged clearly is the operational strength of our businesses and the robustness of our business models. It has also shown the positive effects of our business restructuring and reallocation of financial resources into value-accretive investments. The acquisition of the assets and business of Enron’s centralised utilities business in the United Kingdom in 2003 is a notable example. These strategies have produced growth for the Group and will help deliver a sustainable earnings stream.

Our Utilities arm has established itself as a niche provider of industrial services to process industry clusters. Our Logistics business is Asia’s largest integrated logistics provider with a wide network in the Asian markets, notably in the fast-pace high-growth China market. In addition, our long-term contracts in integrated utilities, gas and logistics provide a good flow of stable and recurrent earnings. Marine Engineering has strategic alliances with many of its major customers that provide the necessary baseload and orderbook for earnings and cashflow. We are in a good position to leverage our solid international clientele base for further growth and overseas expansion.

Increasing dividends and shareholder returns

In view of our good performance, our Board of Directors is recommending 5 cents per share final gross dividend (less tax of 22%). Including the special dividend of 2 cents per share special dividend paid in 2003, the total gross dividend for 2003 is 7 cents per share, which is 56% higher than the total dividend of 4.5 cents per share in 2002. The total dividend of 7 cents per share represents a dividend yield of 5.6% based on the Company’s closing share price on December 31, 2003.

SembCorp Industries’ share price has outperformed the Straits Times Index by 29% as well as the Morgan Stanley Capital International (Asia-Pacific excluding Japan) Index by 17%, indicating our relative strength in a difficult market. Our market capitalisation stood at S\$2.3 billion at the close of 2003 compared to S\$1.4 billion at end 2002.

Our commitment to corporate governance

Our fundamental objective is to grow the Group’s businesses from strength to strength and enhance shareholder value in a sustainable way. We place great emphasis on maintaining high standards of corporate conduct and governance.

As Chairman, I am responsible for leading the Board which is accountable to all shareholders for the creation of shareholder value. The CEO is charged with the executive responsibility of running the Group’s business and together with management, is accountable to the Board.

We place emphasis on having an effective and active Board. Selection of directors appointed to the Board takes into account their breadth and depth of business, financial and industry experience and expertise.

Our Board committees are key to the overall supervision of the Group. Each committee plays a vital role providing independent oversight of management decisions, processes and judgements.

“We believe that our businesses are robust and have growth potential. Our businesses are managed by a team which is passionate about delivering value to our shareholders and top quality services to our customers and partners all across the globe.”

The active involvement of the various Board committees gives the Board a clear picture of the business as a whole and hence, the ability to provide leadership and direction, ensure prudent and effective controls, set values and standards and provide oversight in the proper conduct of business. At the same time, we ensure that the chief executive and his team have the freedom and flexibility to exercise the day-to-day judgement needed to run the company.

As responsible and good corporate governance policies and processes are the key to enhancing shareholder value, our corporate governance framework extends to all our Key Businesses, including our wholly-owned subsidiaries. Each of our business units has its own active and well qualified Board of Directors, majority of whom are independent directors. This policy underpins our commitment to build long-term value and returns for our shareholders in a sustainable way.

Your Board is also mindful that a successful organisation must be staffed with competent and passionate executives at all levels. We are pleased to report that SembCorp Industries' succession planning and development programme to develop our future leaders for the various key positions in the Group is well underway. We believe that only by having real strength and depth in our executive ranks can we ensure the Company's continued success in the future. We can only perform well with talented people, so we need to ensure that as an organisation we are attracting, retaining and developing our talents and key executives.

The year ahead

We recognise that high standards in governance and outstanding performance go hand in hand. We are committed to achieving both.

In the year ahead, we expect the operating performance of the Group's businesses to be better than 2003 as we continue to focus on growing our markets and income in the international arena.

Our thanks to all

Our ability to deliver outstanding performance depends on the work of more than 10,000 people in SembCorp Industries Group and the leadership provided by the management team. We depend on their determination, experience and creativity. On behalf of the Board, I would like to recognise their contribution in 2003 and thank them for the hard work, passion and dedication that have made this strong performance possible.

In 2003, Lam Chuan Leong and Chumpol Nalamlieng retired after distinguished service on the Board. We would like to thank them for their invaluable contributions to the Company.

The Board would also like to extend a warm welcome to two new directors, Yong Ying-I and Dr Vichit Suraphongchai who joined our Board of Directors on May 26, 2003 and July 21, 2003 respectively.

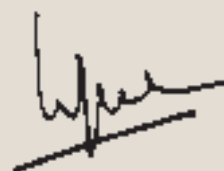
Thanks must also go to all our shareholders – the individuals and institutions who are ultimately the owners of SembCorp Industries – who have stood by us through a difficult period in the past two years.

We would like to express our appreciation to all our customers, partners and business associates for their support and co-operation.

In summary

We believe that our businesses are robust and have growth potential. Our businesses are managed by a team which is passionate about delivering value to our shareholders and top quality services to our customers and partners all across the globe.

With this team and with the support of our stakeholders, I look forward to yet another successful year for SembCorp Industries in 2004.



Peter Seah Lim Huat
Chairman

March 29, 2004