



Our strong performance in 2005 demonstrates the success of our strategy to focus the Group on businesses and markets that would deliver sustainable earnings and growth.

Dear Shareholders,

In 2005, SembCorp Industries delivered strong performance and growth. Our Group has been working hard to position ourselves in markets and businesses that would generate sustainable earnings and growth. We are pleased that the performance of our operations in 2005 reflects the positive results of this strategy.

Group turnover for the year set a new record, rising 25% to S\$7.4 billion. Group Profit After Tax and Minority Interest (PATMI) before exceptional items was S\$278.5 million, an increase of 22% over the preceding year's profit of S\$227.7 million. The achievement of double-digit top and bottom-line growth was driven primarily by our Utilities and Marine Engineering operations. Excluding exceptional items, our Return On Equity was a healthy 14% while Earnings Per Share rose 26% from 12.5 cents to 15.7 cents in 2005.

Overview of major businesses

Our **Utilities** business continued to deliver strong results in 2005. In Singapore, our operations on Jurong Island maintained a leading position as the key provider of third-party integrated utilities and energy services. The strong performance of the business was underpinned by stable earnings from long-term contracts, while new investments as well as capacity expansions on the island provided the impetus for organic growth.

In 2005, overseas operations contributed 40% to our integrated utilities and energy earnings. This is evidence that our focus on overseas expansion is paying off. Most notably, our UK operations delivered a solid performance in 2005 thanks to high energy prices as well as our ability to utilise multi-fuel. In addition, the successful integration of a new gas turbine at the existing power station in late 2004 increased the reliability of supply and boosted electricity output to meet strong demand on Teesside. The use of tallow as a fuel source from August 2004 to December 2005 allowed us to earn Renewable Obligation Certificates and provided our UK operations with an additional earnings stream. We gained vital experience in renewable energy through the project and it paved the way for the development of our 30 megawatt biomass power station, Wilton 10. In March 2005, we sanctioned construction of the facility which will be one of the UK's largest biomass renewable energy projects.

2005 also saw strong contribution from our Vietnam joint venture, Phu My 3.

Increasing demand for petrochemical products in the global market has resulted in China being a key growth market for Utilities. During the year, we made steady inroads into this target market, teaming up with local players to replicate our integrated utilities business model. We successfully developed a new integrated utilities service centre and strengthened our presence in Nanjing Chemical Industrial Park (NCIP). We extended

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our service offerings and became the exclusive provider of third-party integrated utilities in NCIP through our investments in NCIP SembCorp Water and NCIP SembCorp Utilities. Our wastewater treatment plant, Nanjing SembCorp SUIWU, also achieved commercial operations during the year.

We established a new beachhead and strengthened our presence in China with the acquisition of an integrated wastewater treatment facility in the ZhangJiaGang Free Trade Zone in Jiangsu Province, China.

Our **Marine Engineering** business enjoyed another sterling year in 2005 registering strong growth across all sectors and a record orderbook of S\$5.9 billion secured to date. Strong industry fundamentals against a backdrop of deep-drilling exploration needs resulted in a record S\$4.2 billion worth of contracts secured during the year. Rig building, a sector in which we command a substantial global market share, showed significant growth in orders which reached S\$4.6 billion. Meanwhile, as we continued to leverage on our existing network of shipyards for growth, we also acquired Sabine Shipyard in Texas, USA, to better serve the needs of our customers in the Gulf of Mexico. During the year, we continued to foster strategic alliance partners who would provide a steady and growing baseload for our yards.

Strong Supply Chain Management operations continued to drive **Logistics'** earnings growth in 2005 with good performance from the Consumer, Hi-tech and Industrial sectors. A total of 245 contracts were secured during the year.

As in 2004, Southeast Asia was the main contributor to our Supply Chain Management business. Meanwhile, our North Asia operations achieved strong growth in 2005 driven by increased business volumes in China, Korea and Japan. To tap into the intra-North Asia supply chain business, we established a strategic presence in Shandong

Province in China, where the majority of foreign direct investments from Japan and South Korea into China are being made. At the same time, our Southeast Asia supply chain network was further expanded with the commencement of operations of our Indonesia and Philippines joint ventures.

Environmental Engineering maintained its position as Singapore's leading environmental solutions provider in 2005. The orderbook for our Singapore operations grew a healthy 36% over the previous year to S\$548.4 million.

During the year, we streamlined our operations and tightened our focus on profitable business sectors. Going forward, we will capitalise on the development of innovative pre-disposal treatments and waste-to-resource businesses to reduce waste disposal costs, improve recyclables yield and extract value from waste.

Our **Engineering & Construction** business closed the year with a small profit, improving its performance over 2004. Our focus continues to be on process engineering contracts, especially in the oil and gas sector. In 2005, our orderbook stood at S\$2.3 billion. A key project clinched during the year was the S\$400 million contract to construct the largest single-stream Low Density Polyethylene facility in the world for Huntsman.

Solitaire

The hearings on the Owner's claims in the arbitration proceedings on Solitaire were completed in 2005. The Tribunal is expected to make an award on the Principal sums in 2006. We look forward to closing the matter and moving on.

Outlook

In the year ahead, barring unforeseen circumstances, we expect the overall performance of the Group for 2006 to be better than that of 2005.

Our Group orderbook is at an all-time high of S\$8.4 billion, up 50% from 2004. This orderbook excludes long-term contracts in our Utilities and Logistics businesses, which continue to provide stable baseload earnings to the Group.

With a strong track record and the right strategies in place, we are well-positioned to continue growing SembCorp Industries, capitalising on the strong demand in the petrochemical industry as well as robust market fundamentals in the offshore and marine sector.

We will continue to focus on growing our businesses overseas. We believe that there are good opportunities for profitable growth in markets such as China, the Middle East, India and ASEAN. As we explore these opportunities for growth, we are nonetheless mindful of the importance of nurturing and growing our existing businesses and partnerships.

In 2005, our operations have demonstrated the ability to deliver sustainable earnings and growth. We have developed new markets, gained new customers and built on our strong market positions. Going forward, we will continue to sharpen our focus on businesses that would deliver sustainable value to our shareholders.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Tang Kin Fei', written over a horizontal line.

Tang Kin Fei
Group President & CEO, SembCorp Industries
February 28, 2006