



Delivering lasting value and attractive returns to our shareholders is our priority. Going forward, we will continue to sharpen our focus on businesses that give us quality earnings and growth.

Dear Shareholders,

SembCorp Industries performed well in 2005. We turned in a 22% growth in Profit After Tax and Minority Interest (PATMI) before exceptional items.

Led by our Utilities and Marine Engineering businesses, 2005 PATMI before exceptional items rose to S\$278.5 million compared to S\$227.7 million the year before, while turnover for the Group increased 25% to S\$7.4 billion. Underpinned by long-term contracts, our integrated utilities and energy business delivered strong growth on both the top and bottom-line. Our Marine Engineering business continued to benefit from the buoyant oil and gas sector and also achieved solid earnings growth during the year.

Including exceptional items, PATMI for the year was a lower S\$303.3 million compared to S\$391.5 million in 2004 when a S\$163.8 million exceptional gain was recorded. Our Return On Equity was 15% and our Economic Value Added (EVA) was a positive S\$251 million. Financial discipline coupled with improved operational performance resulted in healthy cashflow for the Group and a strong balance sheet. A free cashflow of S\$968 million was generated during the year. We ended the year in a net cash position and interest cover at 12 times.

Delivering shareholder returns

Delivering lasting value and attractive returns to our shareholders continues to be our priority. To ensure that

these returns are sustainable, we continue to invest in the long-term growth of our core businesses. We also seek to return value to our shareholders through a sustainable dividend policy.

For 2005, the Board of Directors is proposing a final gross dividend of 6.5 cents per ordinary share. This is an increase of 30% over the 2004 dividend of 5 cents per ordinary share (excluding special dividends). This represents a 33% payout of PATMI before exceptional items.

On the back of a 56% appreciation in our share price during the year, Total Shareholder Return was 66%, more than three times the benchmark Straits Times Index's (STI) Total Shareholder Return of 18%. Our market capitalisation stood at S\$4.8 billion at the close of 2005 compared to S\$3.0 billion at end 2004.

Building a foundation for long-term growth

We have been focusing the Group on business strategies to deliver secure and sound returns as well as long-term growth.

In 2005, we made clear progress in this regard. We also saw some encouraging results from strategic initiatives undertaken over the last few years as well as healthy profit contribution from investments made.

A notable example is the solid performance delivered by our Utilities operations in the UK. SembCorp Utilities UK

Chairman's Statement

has played a significant role in our establishment as a leading niche energy and integrated utilities player. Not only has it yielded good returns financially, we are also building on the management and operational expertise as well as strong customer relationships in Teesside to grow our business internationally in target markets such as the Middle East.

Our strategy of replicating our unique integrated utilities model overseas in emerging growth markets also took a small but important step forward during the year. In December, we became the exclusive provider of integrated utilities in Nanjing Chemical Industrial Park. As a provider of multi-utilities to industry clusters, being a "first mover" is critical in order to create distinctive assets and market positions. We believe that this recent development will place us in good stead in the medium to long-term to partake in the growth of China's burgeoning petrochemical industry.

Well-positioned to benefit from the current growth in the marine and offshore industry, our Marine Engineering business did well in the year and has a strong outlook going forward. Orderbook stood at a record high of S\$5.9 billion with deliveries and completions from 2006 to 2009. Together with the yard in Texas secured in October, we now have 12 strategically located shipyards spearheading our overseas growth and expansion. Our strategic acquisition of PPL shipyard as well as investment in our own proprietary Baker Marine Pacific Class 375 deep drilling offshore jack-up rigs has also paid off. A total of 13 rigs have been ordered since 2004 with eight orders placed in 2005 alone. Our stake in the enlarged Cosco Shipyard Group also delivered significant returns in its first full year of contribution.

Our Logistics business also performed well, supported by the strength of the Pan-Asian supply chain network we have built over the years.

Our Environmental Engineering business continued to maintain its position as Singapore's leading environmental solutions provider. We will be intensifying our focus on the development of pre-disposal treatment methods and waste-to-resource technologies following a review of the business conducted during the year.

Corporate responsibility

The responsibilities we have as a corporate entity play a vital role in our pursuit of creating growth and lasting value for the owners of our Company. A deep commitment to good corporate conduct and governance including recognition of our responsibility to society at large is at the heart of all that we do.

As part of our continual review and enhancement of our practices, a whistle-blowing policy was put in place in 2005. The policy and accompanying procedures aim to provide employees with well-defined and accessible channels to raise concerns, in confidence, about possible improprieties.

We also started the Trailblazer-Wong Kok Siew Fund during the year. The Fund, set up in tribute to our former Deputy Chairman and CEO, the late Mr Wong Kok Siew, provides opportunities to persons of talent, especially students, to develop themselves across a wide spectrum of disciplines. The Fund will enable us to build effectively upon our ongoing community initiatives which focus on children, youth and education.

A note of thanks

Our staff are talented, creative and committed to deliver consistent and competitive returns. On behalf of the Board, I would like to recognise their contribution in 2005 and thank them for their dedication and hard work.

We would like to express our deep appreciation to Lua Cheng Eng who vacated his office of Director

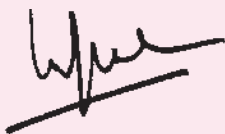
and Chairman of the Audit and Risk Committees with effect from February 14, 2006. A Director since 1998, Cheng Eng was a key member of the Board and provided critical oversight and valuable contributions to the good governance of the Group. Richard Hale, OBE, an existing member of the Audit Committee and an independent Director has been appointed as the new Audit Committee Chairman. We would also like to thank Tetsuro Kawakami, who retired after six years of distinguished service on the Board, for his contribution. A warm welcome is also extended to two new Directors, Tang Kin Fei and Lee Suet Fern who joined our Board on May 1, 2005 and July 1, 2005 respectively.

We would also like to express our appreciation to our customers, partners and business associates for their support and the vital role they play in our success.

Last but not least, thanks must go to all of our shareholders for your continued confidence in SembCorp Industries.

Our businesses have demonstrated their ability to give us quality earnings and growth. The challenge we have is to continue to nurture and grow them. Together with Kin Fei and the management team, I am confident that we are well-positioned to meet this challenge and to continue creating and delivering value to you in a sustainable way.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter LH Seah', written over a horizontal line.

Peter LH Seah
Chairman, SembCorp Industries
February 28, 2006