

Solid performance
coupled with
growth overseas.





(Pictured) SembCorp Cogen, our gas-fired cogeneration plant in Singapore, receives piped natural gas from West Natuna, Indonesia.

SembUtilities continued to be our key earnings driver in 2005, contributing 48% of Group PATMI.

Operations review

In 2005, SembCorp Utilities' (SembUtilities) turnover increased by 12% to S\$3.3 billion while Profit After Tax and Minority Interest (PATMI) grew 25% to S\$156.1 million. Return On Equity held strong at 22%. This solid performance was underpinned by healthy earnings contributions from our Singapore and overseas operations.

Singapore

Our Singapore operations continued to perform well. On the back of an expansion in Singapore's petrochemical industry, we successfully clinched new utilities and services contracts from three customers, worth a total of approximately S\$68 million per annum over an average duration of 15 years. Earnings contribution from these contracts is expected to commence in the second half of 2006. Our gas division also secured 13 new contracts with industrial customers worth a total of S\$10 million per annum.

The UK

Our operations in the UK contributed significantly to the growth for Utilities recorded in 2005. High power prices coupled with our ability to utilise multi-fuels in a high fuel cost environment contributed to the good performance of our UK operations. Between August 2004 and December 2005, SembCorp Utilities UK (SembUtilities UK) was granted permission to use tallow as a fuel source to produce power and steam on Teesside. Our burning of tallow generated Renewable Obligation Certificates that added to SembUtilities UK's profitability.

In 2005, SembUtilities UK sanctioned the development of one of the UK's largest biomass renewable energy projects, Wilton 10. The £60 million (S\$187 million) wood-burning power station will generate 30 megawatts of electricity and is expected to be operational by mid-2007. Around £11 million (S\$32 million) of the investment will come from a grant made under the UK Government's Bio-energy Capital Grants Scheme.

With good market conditions in the chemical industry, SembUtilities UK secured new contracts and renewed contracts worth a total of S\$611 million over a period of one to five years.

Wilton International became the first multi-company site to receive one of the highest health and safety accolades in the world when we were conferred the Sword of Honour by the British Safety Council during the year. In recognition of our investment in the UK, we were also awarded the UK Trade & Investment International Business Award in November 2005.

Other markets

Our Vietnam operations, Phu My 3 performed well in 2005 and distributed its first dividends to shareholders in its first full year of operations. Its strong performance was due to lower operation and maintenance costs as well as high capacity output, driven by the growing demand for electricity in Vietnam.

As the construction of our new facilities in Nanjing and Shanghai was only completed in the second half of 2005, our China operations did not contribute to the Utilities business during the year.

Nanjing SembCorp SUIWU began commercial operations in July 2005, providing wastewater treatment services to industrial customers in Nanjing Chemical Industrial Park (NCIP). We strengthened our presence and broadened our integrated utilities service offerings in NCIP through two new investments during the year. In November, we acquired a 70% stake in NCIP SembCorp Water to build, own and operate a 100,000 cubic metres per day water treatment facility. In December we became the exclusive provider of third-party integrated utilities within NCIP after our acquisition of 34% of NCIP SembCorp Utilities.

Our Shanghai Caojing Cogeneration plant completed reliability test runs and was declared commercially operational by the Shanghai Municipal Electrical Power Company in December 2005.

In June 2005, we established our third beachhead in China when we invested in an 80:20 joint venture to acquire, expand, own and operate a 20,000 cubic metres per day integrated industrial wastewater treatment plant in the ZhangJiaGang Free Trade Zone in Jiangsu Province, China.

Offshore Engineering

Our Offshore Engineering division closed the year with an operating loss of S\$23.2 million as a result of losses incurred from projects that required offshore installation. With its new contracting strategy to focus on procurement and construction projects, the division is expected to return to profitability in 2006. Offshore Engineering's orderbook stood at S\$230.9 million as of end 2005.

Outlook

SembUtilities is expected to achieve better operating profits in 2006 compared to 2005, barring unforeseen circumstances.

Our Singapore operations will continue to generate stable earnings underpinned by its long-term contracts. It will continue to be the main earnings contributor to SembUtilities. Growth opportunities are expected on Jurong Island on the back of fresh investments as well as capacity expansion by existing customers. To remain competitive, we have put in place programmes to further optimise our resources to increase asset yield. We remain interested in the expected sale of the local power generation companies by Temasek in 2006.

High oil prices led to significant increases in UK energy prices during 2005 and this helped to enhance the profitability of our UK business. We expect to maintain this strong performance in 2006. We also expect our operations in Vietnam to continue performing well.

Our facilities in China are still in the early phase of operations and are not expected to contribute significantly to 2006 performance.

The rising trend of privatisation in the power and water sectors in the Middle East region has presented us with considerable business opportunities for our utilities services. In January 2006, we were ranked first of two short-listed bidders for the privatisation of the Fujairah independent water and power project in the UAE. The project comprises the acquisition, ownership, operation and maintenance of an existing 650 megawatt power and 100 million imperial gallons per day water plant, as well as the expansion of the facility to add a further 225 megawatts of power generation capacity.

Performance indicators (S\$ million)

	2005	2004
Turnover	3,280.5	2,930.1
PATMI	156.1	124.8