



## LETTER TO SHAREHOLDERS

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Dear Shareholders,

Sembcorp performed well in 2007. Underscoring the success of our tightened strategic focus, our global businesses delivered strong operating results and achieved continued growth.

Our Utilities business has developed strong operational and technological capabilities in energy and water. Our operations have more than 3,300 megawatts of installed power capacity worldwide as well as the ability to generate energy efficiently from a variety of fuels, including renewable sources. With over four million cubic metres per day worldwide, we are today Singapore's largest water management company. Leveraging these capabilities, we have established a niche as a global leader for the provision of centralised utilities and services to multiple customers in energy intensive clusters, such as chemical and petrochemical hubs. Our Marine & Offshore Engineering business is a global leader in the growing ship repair, ship conversion, rig building and offshore engineering sectors, while our Industrial Parks and Environmental Management businesses are established brand names in Asia's fast-growing markets.

Building on these foundations, our challenge is to realise the potential of these businesses in the coming years, and replicate our success in key markets where we have established ourselves as first movers. Our continued robust operating performance in 2007 attests to the strong fundamentals of our businesses, while the progress we have made in tapping on fast-growing markets will form the basis for sustainable growth and increased shareholder value.

### PERFORMANCE

In 2007, the Group's profit after tax and minority interest (PATMI) before exceptional items grew 46% to S\$557.2 million, while turnover increased 6% to S\$8.6 billion. Our Utilities and Marine & Offshore Engineering businesses continued to be the key drivers of this strong performance. PATMI before exceptional items from our Utilities business, Sembcorp's largest profit contributor, increased 19% to S\$230.2 million, while Marine & Offshore Engineering's contribution to Group PATMI before exceptional items increased 71% to S\$220.1 million. Group PATMI for the year stood

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at S\$526.2 million. A net exceptional loss of S\$31.0 million was recorded for 2007. This comprised the Group's share of losses recognised by the Marine & Offshore Engineering business arising from payments made to banks to-date relating to unauthorised foreign exchange transactions, partially offset by gains on the sale of certain investments.

Our return on equity stood at a strong 18% and earnings per share was 29.6 cents. Economic value added stood at a healthy S\$417.1 million.

### MAINTAINING MOMENTUM

During the year, we continued to grow the Group's solid base of stable and recurring income, and achieved significant milestones to better position ourselves for the future. We gained new customers, expanded our facilities and strengthened our operational and technological capabilities.

In 2007, our **Utilities** operations in Singapore, the UK and China secured a total of S\$2.2 billion worth of new and renewed long-term contracts. In Singapore, we concluded a heads of agreement for the importation of 90 billion British thermal units per day of natural gas from the West Natuna Sea for delivery in 2010. This additional gas supply will augment our existing capacity by 26%.

In January 2008, we secured a strategically important contract to design, build, own and operate Singapore's newest and largest NEWater plant. When fully completed in 2010, the facility will produce 50 million gallons (or 228,000 cubic metres) per day of NEWater. Coupled with our proven track record in water and wastewater treatment, this contract better positions us to seize growth opportunities in the fast-growing water sector internationally.

In the UK, our Wilton International site continued to grow. We secured a major new investor which will be locating its upcoming 400 million litres per annum bio-ethanol plant on the site. With this, the total external investment attracted by Sembcorp to the site over the last four years amounts to approximately S\$1.5 billion. The business also made a significant entry into renewable energy with the opening of a S\$193 million wood-

fuelled biomass power station, the first large-scale industrial power plant in the UK to be fuelled entirely by renewable wood. This provides new streams of growth for the business, while strengthening Sembcorp's capabilities in producing energy from alternative fuels.

In line with our strategy of establishing and growing beachheads in target markets, we continued to strengthen our foothold in China. Apart from expanding our operations on existing sites, we also made inroads into Northeast China, securing two new beachheads for the operation of wastewater treatment and industrial water supply facilities in Tianjin and Shenyang. We now have a strategic presence in five key sites located in China's fastest-growing industrial areas, each with the potential to grow to be significant profit centres in the coming years. Recognition for our capabilities is also growing. In particular, the governments of Singapore and China have selected our high concentration wastewater treatment project at Zhangjiagang as a joint showcase for integrated water resources management in China.

In 2007 the market outlook for all sectors of the marine and offshore industry remained robust, and our **Marine & Offshore Engineering** business continued to deliver strong operating performance underpinned by its rig building, offshore & conversion and ship repair businesses. Its associated company, COSCO Shipyard Group, also performed well and contributed significantly to the business' profitability. During the year, Sembcorp Marine secured S\$3.7 billion worth of orders for the rig building sector alone. These comprised orders for two semi-submersible rigs, one semi-submersible conversion as well as six jack-up rigs, of which five were our proprietary design Baker Marine Pacific Class 375 deep drilling offshore jack-up rigs. The Marine & Offshore Engineering business' orderbook stood at S\$7.4 billion at February 22, 2008, with completions and deliveries stretching to 2011.

The business' performance was very strong on many fronts. However it was disclosed in October that one of Sembcorp Marine's former senior officers had entered into unauthorised foreign exchange transactions. All the unauthorised transactions have been closed out and full and final settlement has been reached with

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nine of the 11 banks involved, all strictly on a commercial basis, without any admission of liability on the part of Jurong Shipyard or the banks. Sembcorp Marine's net position for the transactions has been reduced to US\$258.7 million, of which US\$208 million was expensed off during the year and US\$50.7 million disclosed as a contingent liability. Sembcorp Marine has taken steps to ensure that a similar situation will not recur. Meanwhile, the Marine & Offshore Engineering unit continues to focus on the operations and growth of its businesses.

In 2007, our **Industrial Parks** business stepped up its successful presence in the Vietnam market with the launch of a third Vietnam Singapore Industrial Park in Bac Ninh, northern Vietnam. The new 700-hectare VSIP-Bac Ninh project not only represents our entry into northern Vietnam, but will also showcase our first integrated industrial park and township concept in the country. Akin to a city within an industrial park, the industrial township will offer a world-class manufacturing, residential and commercial environment for multi-national companies and local leading enterprises, and is an improvement over traditional industrial parks in terms of urban planning and facilities.

In the **Environmental Management** business, we continued to focus our efforts on pre-disposal treatment methods to reduce disposal costs. During the year, we developed a solid waste treatment and recycling facility in Singapore. This facility will allow an increased recovery of recyclables and reduce the amount of waste for incineration.

### SHAREHOLDER RETURNS

2007 was once again rewarding for our shareholders. In view of the good operating performance of our businesses, our Board of Directors is proposing a final tax exempt one-tier dividend of 15.0 cents per ordinary share for 2007, a growth of 25% from 2006's 12.0 cents per share net ordinary dividends. Together with a 52% appreciation in our share price during the year, the total shareholder return (TSR) for 2007 was 59%, relative to the benchmark Straits Times Index's TSR of 18%. At the close of the year, our market capitalisation stood at S\$10.3 billion, a S\$3.5 billion increase compared to S\$6.8 billion at the end of 2006.

### STRENGTHENED ORGANISATION, CLEAR STRATEGIC PURPOSE

At the heart of a strong organisation is a clear corporate purpose. Sembcorp's aim is to provide shareholder value by excelling in businesses that deliver stable earnings, while having the ability to sustain growth over the long term. While this purpose remains unchanged, we recognise the need to reassess and sharpen our strategies in response to the changing economic and competitive landscapes. To this end, we have taken time in 2007 to step back and crystallise our shared purpose, as well as establish common values and processes throughout the Group.

The outcome of this exercise is encapsulated in a concise positioning statement that sums up what the Sembcorp brand offers: "**Vital Partners, Essential Solutions**".

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# We close the year more secure in our strategic direction, more steadfast in our purpose and beliefs, and more confident of our potential to deliver long-term shareholder value.

With a keen understanding of our customers' needs, we are a vital partner to them as we deliver essential solutions for them to do business better. We do this by leveraging the strength and expertise of the whole Group. This distillation of our purpose reflects the greater focus of our businesses and the importance we attach to our partnerships – with our customers, partners and employees. It is a promise to our customers, stakeholders and to each other, which will define, distinguish and direct us in all we do. This fresh clarity of our central purpose will allow us to better harness the synergies between our various core businesses to create new markets and growth opportunities. It will also enable us to focus the energy and imagination of our team of over 6,700 employees who embody this statement as they display insight, act with integrity, and seamlessly support our customers as an integrated team. These are qualities that have led Sembcorp to its current position, and qualities that we believe, will enable us to be an agile, high-performance organisation that will deliver operational excellence and competitive shareholder returns over time.

### SUSTAINABILITY

At Sembcorp, we are committed not just to achieving growth, but growth that is sustainable. Key to this is a commitment to good corporate conduct and governance.

As part of our continual review and enhancement of our corporate governance practices, in 2007 we strengthened our board evaluation practice. A yearly

exercise was implemented to obtain constructive feedback from each Director on whether the Board's size, composition, procedures and processes allowed Directors to discharge their duties effectively, as well as on any improvements which could be made to enhance the Board's effectiveness as a whole. The feedback obtained from this exercise will feed into ongoing efforts to improve the Board's functioning and effectiveness.

As a responsible corporate citizen, Sembcorp also maintains a commitment to give back to the community. We continued to support a range of causes in aid of children, education and stroke assistance through our Group-wide Trailblazer-Wong Kok Siew Fund. Amongst these were new scholarships in collaboration with the Football Association of Singapore and the Singapore Badminton Association for young promising sportsmen, and a new fund for stroke research and rehabilitation in partnership with the Singhealth Foundation.

In addition, in 2007 Sembcorp sponsored two employees to take part in the Sahara Race, a gruelling seven-day footrace across the Sahara Desert involving competitors from all over the world. In conjunction with this, the company raised around S\$250,000 from a Group-wide effort amongst staff and corporate partners, in aid of the Community Chest and the WINGS Counselling Centre.

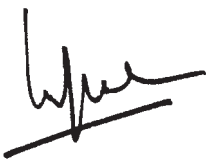
### A NOTE OF THANKS

We close the year more secure in our strategic direction, more steadfast in our purpose and beliefs,

and more confident of our potential to deliver long-term shareholder value. Our balance sheet is strong, our businesses resilient, and against the background of a weaker economic environment, we are well-positioned to seize opportunities for growth through selective acquisitions and partnerships.

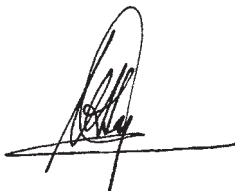
At this point, we would like to recognise the contribution of our staff and management team worldwide. Sembcorp's ability to deliver outstanding performance depends on them. On behalf of the Board, we would like to thank them for their dedication and hard work. Last but not least, thanks must go to our customers, partners and shareholders for the vital role they play in our success and for their continued confidence in Sembcorp.

Although we have come a long way, we recognise that there is much more to do. Guided by a clear and sound strategy, and driven by the talent, passion and commitment of our staff, we are confident that we can look forward to many more years of delivering quality returns and sustainable value to our shareholders.



**PETER SEAH LIM HUAT**

Chairman  
March 19, 2008



**TANG KIN FEI**

Group President & CEO  
March 19, 2008