



PETER SEAH LIM HUAT
Chairman

TANG KIN FEI
Group President & CEO

Letter to Shareholders

The fundamentals of our businesses are sound. Our company, our strategy and our people are resilient.

Dear Shareholders,

Sembcorp delivered a credible set of results for the year despite the rapid deterioration of the global economic environment in the last few months of 2008.

Our profit after tax and minority interest (PATMI) before exceptional items for the year stood at S\$534.0 million. In 2007, excluding the one-off tax write-back of S\$48.0 million, PATMI before exceptional items was S\$509.2 million. Turnover for the Group increased 15% to S\$9.9 billion while profit before tax grew 10% to S\$861.9 million. Our main profit contributors continued to be our Utilities and Marine businesses, which accounted for 92% of Group PATMI in 2008. Marine's contribution to Group PATMI rose 32% to S\$290.6 million while Utilities' PATMI for the year stood at S\$200.3 million compared to S\$230.2 million in 2007.

Our return on equity stood at 18% and earnings per share amounted to 28.5 cents. Economic value added was a positive S\$510.7 million. Financial discipline coupled with improved operational performance resulted in a sound balance sheet and healthy cash flow. With an operating cash flow of S\$1.0 billion generated during the year, the Group's cash and cash equivalents reached S\$2.4 billion at year end, putting the Group in a strong liquidity position.

For 2008, we are pleased to inform you that the Board of Directors is proposing a final tax exempt one-tier dividend of 11 cents per ordinary share. This is four cents less than the previous dividend of 15 cents but the board feels it is a reasonable level of payout in these very challenging and uncertain times.

In the current global economic environment, the key to Sembcorp's long-term sustainability lies in its

consistent strategy. Sembcorp aims to deliver shareholder value by excelling in businesses that provide recurring earnings and have the ability to sustain growth over the long term.

In Utilities, we have established ourselves as a global leader in the provision of centralised utilities and services to industrial site customers. In this distinctive outsourcing business model, we provide one-stop centralised utilities ranging from power, steam, water and wastewater treatment to on-site logistics and services to customers in chemical and petrochemical industry clusters. These products and services are critical to our customers' operations and we believe that there will continue to be a level of demand for them.

Our Marine business is a global brand name in the marine and offshore industry with a portfolio that encompasses various segments of the value chain from ship repair as well as ship conversion and offshore, to rig building and repair. Its strong orderbook of S\$9.0 billion provides earnings visibility, while long-term strategic alliances with international ship operators also provide a steady and growing baseload in ship repair. While the financial turmoil has a dampening impact on the world economy and current oil prices, we believe that the long-term fundamentals and outlook for the marine and offshore industry continue to be positive in light of continued global reliance on oil and gas and accelerating depletions of oil and gas reserves.

MANAGING THROUGH CHALLENGING TIMES

In light of volatile market conditions, we are keenly aware that there is no room for complacency on the part of any company. Besides the need for our businesses to respond nimbly to changes in their operating

Letter to Shareholders

environment, we also recognise the need for prudent and proactive management of our capital and liquidity.

We actively manage the Group's cash, deploying it in a diversity of financial institutions and actively tracking developments in the global banking sector. At the same time, we remain committed to the prudent management of our balance sheet. We continue to build on banking relationships with a view to ensuring that when commercially viable and strategically attractive opportunities arise, we would be in a good position to secure funding.

In the face of an unprecedented economic and financial crisis, the challenges arising from the changing operating environment must not be underestimated. We are carefully assessing business and financing assumptions of projects in our pipeline, mindful of any developments in the global economic and competitive landscape which may potentially impact not only us, but also our customers, suppliers and partners. We have tightened our control of cost, and continue to strive for higher operational efficiency and effectiveness. Last but certainly not least, we continue to be committed to positioning Sembcorp for the future.

POSITIONING FOR THE FUTURE

It is our belief that a climate of business uncertainty is inevitably accompanied by opportunity. Backed by strong operating cash flows and a robust balance sheet, we believe that we are not only well-placed to weather the difficult times ahead, but also to take advantage of opportunities to make strategic moves that would help us to position our company for the future. Nevertheless, we adopt a disciplined and cautious approach when evaluating such opportunities.

During the year, we continued to make good progress in this regard. We secured new customers, developed new projects and strengthened our operational and technological capabilities in the energy, water and environment sectors.

In 2008, our Utilities operations in Singapore, the UK and China secured a total of S\$431.0 million worth of new and renewed contracts, of which new long-term contracts comprised S\$341.0 million. In Singapore, we concluded our second gas sales

agreement for the import of an additional 90 billion British thermal units per day of natural gas from the West Natuna Sea. Scheduled for delivery between 2010 and 2011, the additional gas supply will augment our existing capacity by 26%. We also secured a strategically important contract to design, build, own and operate Singapore's newest and largest NEWater plant at Changi. The plant has an initial capacity of 15 million imperial gallons (or 69,000 cubic metres) per day which will be available by mid-2009. When fully completed in 2010, the facility will produce 50 million imperial gallons (or 228,000 cubic metres) per day of NEWater and will be the world's second largest reclaimed water plant. Meanwhile in the UK, the Sembcorp Biomass Power Station saw its first full year of operation. This first large-scale industrial power plant in the UK fuelled entirely by renewable wood has provided new profit streams for our UK operations and has strengthened Sembcorp's capability in producing energy from alternative fuels. In China, we continued to make progress in establishing and growing facilities in key industrial sites. We expanded our steam supply capacity in Shanghai as well as our high salinity wastewater treatment capacity in Nanjing and completed our acquisition of three water works facilities in Shenyang with a total design capacity of 160,000 cubic metres per day.

During the year, our Marine business continued to deliver strong results underpinned by its rig building, offshore & conversion and ship repair businesses. A record S\$5.7 billion worth of orders was secured in 2008, bringing its total orderbook to a strong S\$9.0 billion as of end 2008, with completions and deliveries stretching to 2012. In 2008, its ship repair business continued to perform well, with alliance partners and regular repeat customers together accounting for a substantial 86% of total ship repair revenue. In December 2008, Sembcorp Marine's subsidiary, Jurong Shipyard, reached full and final commercial settlement with BNP Paribas with respect to foreign exchange transactions. A one-off charge of S\$43.7 million was recognised by the business as a result.

Meanwhile, our Industrial Parks business continued to be focused on developing integrated townships and industrial parks in emerging markets such as Vietnam

and China, where we believe there will continue to be an impetus for industrialisation. In Vietnam, the unit received investment certificates for a 1,000-hectare expansion of VSIP II as well as the first phase of the 1,600-hectare VSIP Hai Phong. It also signed a master agreement to invest in its third industrial township project in China, the 1,500-hectare Guangxi-Singapore Industrial Park.

With a focus on waste-to-resource, we continue to leverage our Environment unit to enhance the competitiveness of other businesses across the Group, through tapping on it to build our expertise in producing energy from alternative fuels. In 2008, we commenced a feasibility study on the conversion of recovered resources to alternative fuel, also known as solid recovered fuel.

CORPORATE SOCIAL RESPONSIBILITY

Apart from a solid operational performance, we believe that our success as a company also depends on our commitment to carry out our business responsibly. An example of our efforts in this regard is the practical responses we are developing to the critical issue of climate change. We are working to develop cleaner, more efficient fuels and are building expertise in producing energy from alternative fuels. From biomass to solid recovered fuel, we are developing long-term solutions to supply more competitive and secure energy. We continue to strive to ensure that our activities not only benefit our shareholders but create mutual advantage for our customers, suppliers, partners and communities wherever we operate.

In addition, as a good corporate citizen, Sembcorp is also committed to giving back to the communities we operate in. In 2008, we continued to support a host of initiatives in aid of children, education, stroke assistance and the needy under our Group-wide charitable fund. In Singapore, Sembcorp also kicked off a series of community engagement activities with the adoption of the Assisi Hospice, a non-profit facility providing integrated palliative and hospice care for patients with life-limiting illnesses. Our involvement with the hospice included cash sponsorship, employee volunteering as well as initiatives to enhance the hospice environment.

A NOTE OF THANKS

In spite of the considerable economic and financial turmoil around the world, the fundamentals of our businesses are sound. Our company, our strategy and our people are resilient. Our company's success over the last decade, as well as its ability to meet the challenges ahead, owes much to the loyalty and energy of our committed team of staff around the world. On behalf of the board, we would like to take this opportunity to thank all our employees for their contributions in 2008 and to recognise the value they have created for our shareholders.

On April 25, 2008, Mr K Shanmugam resigned from the board to take up his appointment as Singapore's Minister for Law. A director of Sembcorp for almost a decade, Mr Shanmugam had served on the board's Audit, Executive Resource & Compensation, Nominating and Risk Committees. We would like to thank him for his sterling contributions. We would also like to extend a warm welcome to Mr Bobby Chin Yoke Choong who joined our board as an independent director and a member of the Audit Committee on December 1, 2008.

The year ahead will not be an easy one. Our customers in both the petrochemical and chemical sector and the marine and offshore industry are facing an extremely challenging environment as a result of the global economic slowdown and tightening credit markets. Nevertheless, we believe that Sembcorp has the businesses, market position and organisational ability to face the challenges ahead. In these challenging times, your board is committed to steer a steady course for the company and to guide management in the execution of its strategies.



PETER SEAH LIM HUAT
Chairman
February 26, 2009



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