

LETTER TO SHAREHOLDERS

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Dear Shareholders,

Sembcorp delivered a strong performance in 2010. Our net profit attributable to shareholders (net profit) for the year grew 16% to S\$792.9 million, while turnover was S\$8.8 billion compared to S\$9.6 billion in the previous year. The Group's return on equity was a healthy 22% and earnings per share amounted to 44.4 cents. Economic value added was a positive S\$809.4 million, while cash and cash equivalents stood at a strong S\$3.5 billion.

We are pleased to inform you that for 2010, the Board of Directors is proposing a final tax exempt one-tier dividend of 17 cents per ordinary share, comprising an ordinary dividend of 15 cents and a bonus dividend of 2 cents. This marks an increase of 13% from 2009's 15 cents per ordinary share. With a 39% appreciation in our share price during the year, our total shareholder return (TSR) for 2010 was 43% relative to the benchmark Straits Times Index's TSR of 13%.

Maintaining Momentum

In 2010, apart from the delivery of solid financial performance, our focus has continued to be on positioning Sembcorp for the future. During the year, we actively broadened our asset portfolio through organic growth and strategic investments, strengthened our operational and technological capabilities, and enhanced our leadership positions in key markets.

Over the course of the year, our **Utilities** unit made significant progress in growing our energy and water businesses and building a pipeline of projects for a greater recurring income base. We increased our gross power capacity installed and under development by more than 40% to 5,600 megawatts and grew our water capacity in operation and under development by around 50% to six million cubic metres per day. Marking a major milestone for our Utilities business in the fast-growing water sector,

we successfully acquired Cascal, a leading provider of water and wastewater services to the municipal market, through a voluntary tender offer in 2010. With the acquisition, Sembcorp is now a global water service provider with capabilities to serve both industrial and municipal customers. At US\$6.75 per share, the total consideration for our 97.66% stake in Cascal amounted to US\$203 million. Cascal has been delisted from the New York Stock Exchange and deregistered with the Securities and Exchange Commission and is now fully integrated into the Sembcorp Group. Squeeze-out proceedings under the Dutch Civil Code are now ongoing for Sembcorp to achieve full ownership of the company.

Our entry into the fast-growing Indian energy market also marked an important strategic milestone. In 2010, we signed a joint venture agreement with Gayatri Energy Ventures to acquire a 49% stake in Thermal Powertech Corporation India, which is set to build, own and operate a 1,320 megawatt coal-fired power plant using high efficiency supercritical technology in Krishnapatnam, Nellore District in Andhra Pradesh, India. The joint venture became effective in February 2011 and the upcoming facility is expected to begin commercial operations by 2014. The S\$1.9 billion facility will be well-positioned to meet the growing power demand in the southern, western and northern regions of India, which the Central Electricity Authority of India expects to increase at a compounded annual growth rate of 9% over the next 10 years.

In 2010, we continued to strengthen our market position as a global leader in the provision of energy, water and on-site logistics to industrial sites. In Singapore, our Utilities business secured contracts to supply utilities services to LANXESS and Jurong Aromatics Corporation, our first anchor customers in Jurong Island's new growth area comprising the Tembusu, Angsana and Banyan districts. To support the



TANG KIN FEI
Group President & CEO

ANG KONG HUA
Chairman

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energy and water requirements of these customers as well as other companies coming into this new area, we are developing a new 400 megawatt gas-fired combined cycle gas turbine cogeneration plant as well as new facilities to provide the integrated supply of steam, water and industrial wastewater treatment services. Representing a total investment of approximately S\$840 million, the industrial wastewater treatment facility is expected to begin operations in 2012, while the cogeneration plant and the other multi-utilities facilities are expected to be completed by the second half of 2013. The development of this new cogeneration plant is set to transform Sembcorp into a more significant player in the Singapore energy market and its eventual capacity of 800 megawatts of power will double our existing power capacity in the country.

In China, the business delivered a strong performance while we continued to strengthen our presence in the country, establishing and growing our operations in key regions. With the acquisition of Cascal, we added six municipal water operations to our business. We also established a new beachhead in southern China with a joint venture to provide wastewater treatment services to industrial and municipal customers in the Qinzhou Port Economic & Technological Development Zone in Guangxi province. We now have energy and water operations in 12 locations in nine provinces and are strategically located in key industrial sites and cities in China. In 2010, we also continued to expand our existing facilities in tandem with customer demand and increased our wastewater treatment capacity in Zhangjiagang and Nanjing. Notably, signifying the successful implementation of our high concentration industrial wastewater treatment model in China, we completed an additional facility in Nanjing capable of treating customers' high concentration industrial wastewater directly from source. This plant follows from our earlier wastewater treatment facility opened

in 2009 in the Zhangjiagang Free Trade Port Zone, which was China's first plant capable of treating high concentration industrial wastewater without customers having to invest in pre-treatment facilities.

In the Middle East, we commenced construction of the US\$1 billion Salalah Independent Water and Power Plant, our first project in Oman. Targeted to begin full commercial operations in the first half of 2012 with a gross power generation capacity of 490 megawatts and a seawater desalination capacity of 15 million imperial gallons (or 69,000 cubic metres) per day, the facility, which is 60% owned by Sembcorp, is set to be the largest and most efficient power and water plant in the Governorate of Dhofar and will play a major role in meeting the region's growing power and water needs. During the year, we also signed a memorandum of understanding with the Abu Dhabi Water and Electricity Authority for the development of a new seawater reverse osmosis plant on the site of our 40%-owned independent water and power plant in Fujairah in the UAE. Targeted for completion at the end of 2013, the expansion will increase our desalination capacity on the site by 30%, bringing overall capacity to 130 million imperial gallons (or 591,800 cubic metres) per day. These projects in Oman and the UAE are not affected by the current unrest in the Middle East. Nonetheless, we continue to closely monitor the situation in the region.

The year also saw increasing international recognition for Sembcorp's capabilities as a leading water player. During the year, the Sembcorp NEWater Plant was named the Water Reuse Project of the Year at the Global Water Intelligence Global Water Awards, as well as the winner of the WateReuse International Award by the US-based WateReuse Association. Our municipal water operations, formerly under Cascal, also received a Distinction Award at the Global Water Awards under the Water Company of the Year category. In addition, we gained global recognition

for our pioneering wastewater treatment and water reclamation projects serving industrial customers in the Zhangjiagang Free Trade Port Zone in China. Our Zhangjiagang operations won Honour Awards in both the East Asian and Global rounds of the International Water Association's Project Innovation Awards 2010, in recognition of their effective and sustainable approach to water management.

In 2010, our **Marine** business continued to deliver strong results underpinned by its rig building, ship conversion & offshore and ship repair businesses. Its current orderbook stands at S\$4.8 billion with completions and deliveries stretching to 2013. This includes S\$3.0 billion in orders secured in 2010 and S\$361 million worth of contracts secured since the start of 2011. In 2010, Sembcorp Marine also marked a major milestone in its growth and expansion strategy with the groundbreaking for its Integrated New Yard Facility at Tuas View Extension in Singapore. With its innovative work-efficient design, the state-of-the-art yard will further bolster the Marine business' home-based capabilities to deliver value-added cost-efficient solutions to its customers and is set to sharpen the business' competitive edge for long-term sustainable growth. The facility's 73.3 hectare first phase focusing on ship repair and conversion activities is scheduled to be completed by May 2013, with partial operations commencing in the second half of 2012. When fully completed, the 206 hectare yard will boost Sembcorp Marine's total dock capacity by 62% to just over three million dead weight tonnes. To cater directly to one of the fastest growing offshore oil and gas exploration and production markets in the world, the business also announced its acquisition of land for the development of a new shipyard in Brazil. This comprised 825,000 square metres of freehold land with 1.6 kilometres of coastline in the state of Espirito Santo in Brazil. The project's strategic proximity to the offshore Espirito Santo Basin, one of the recently discovered giant pre-salt oil basins of Brazil, makes it an ideal location from which to support the country's oil and gas activities.

In 2010, our **Industrial Parks** business continued its focus on developing its industrial parks and integrated townships in Vietnam and China. With a total gross project size of 6,687 hectares, our projects in these countries will provide the business with a robust development pipeline. With more than 20 years of experience in undertaking the development of raw

land, including land resettlement and infrastructure development, the business takes an integrated approach to township development, designing self-sufficient sites that provide world-class industrial, commercial and residential space with an emphasis on sustainable urban development. The business sold 183 hectares of land in total in 2010. 2,700 hectares or 77% of saleable land remain available in Vietnam and China for its future growth.

During the year, the business stepped up its successful presence in Vietnam with the groundbreaking for its fourth Vietnam Singapore Industrial Park (VSIP) development in Hai Phong. Located in Hai Phong's new waterfront district in the North Cam River area, the 1,600 hectare integrated township has a planned 1,100 hectares allocated for commercial and residential development and 500 hectares allocated for a business and industrial park. Meanwhile in China, new developments in the Wuxi-Singapore Industrial Park, including a mixed-use commercial and residential building, a business and information technology park and a 'Solar City' photovoltaic park, were launched during the year. The launches were well-received with a healthy take-up for the land and units released for sale. The development of the mixed-use commercial and residential building as well as the business and information technology park marks a first for the business as it leverages on opportunities for selective development of commercial and residential real estate. During the year, the business also increased its effective stake in the Sino-Singapore Nanjing Eco High-tech Island project from 15% to 21.5%, and completed the concept masterplan for the 1,500 hectare development. Situated a mere 6.5 kilometres from Nanjing's city centre on Jiangxin Zhou, the Eco High-tech Island will be progressively completed in phases and is Nanjing City's largest foreign collaborative development to date.

Positioned for the Future

In the coming years, the world's economic growth is expected to be largely led by emerging and developing economies, particularly in Asia. With our global footprint across six continents, we have established strong positions in many of these markets. Together with the healthy pipeline of projects we have built up, we are well-positioned with the reach and scale to accelerate our growth in these markets.

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Furthermore, with globalisation and urbanisation, the world's demand for energy, water and other urban solutions continues to grow. As a provider of these essential solutions, we believe that Sembcorp is also well-placed to benefit from these growth trends.

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. Positioned to meet the world's growing needs, we stand in good stead to be able to deliver on this promise. Nevertheless, we recognise the need to sharpen our strategies in order to respond nimbly to ever-changing economic and competitive landscapes, while continuing to pursue organisational excellence and innovation. To this end, we recognise the importance of technology and innovation in helping us provide the best solutions for our customers, enhance our operational efficiency, and shape our business strategy for tomorrow. To help us build up our corporate muscle in this regard, a Group Technology Committee headed by ourselves and a centralised technology department were set up during the year. Supported by the collective expertise of our entire Group and in partnership with tertiary research institutes and other expert advisors, we will continue to see how we can access, develop, integrate and apply technological advances across the entire span of our Group's activities to enhance our competitive advantage in tomorrow's world.

Sustainability

At Sembcorp, we also recognise the growing importance of sustainability as a measure of the true success of a company. We generate returns for shareholders by providing essential solutions such as energy, water and urban solutions to our customers, and we aspire to do so in an ethical and sustainable manner. This translates to our doing our part to limit the environmental impact of our activities and help our customers and communities do the same, as well as our being a responsible employer and maintaining

a commitment to invest in communities where we operate. In 2010 we contributed over S\$1 million in cash and in kind to communities where we operate, in aid of causes such as the environment, children and education, sports and the elderly. To demonstrate our commitment to sustainable development, we also continue to track and disclose our sustainability performance over time and have included a Global Reporting Initiative G3 Level B sustainability report within this annual report.

Acknowledgements

Ultimately, what is required for a company of the future is not only physical, operational or technological capabilities, but the right people. Our ability to be an agile, high-performance organisation delivering operational excellence and competitive shareholder returns over time depends on the talent and commitment of our staff and management team around the world. On behalf of the board, we would like to thank our employees for their steadfast contribution and dedication in 2010.

At this point, we would like to acknowledge the tremendous contribution of our former Chairman, Peter Seah, who retired from our board in 2010 after over a decade as our Chairman. Mr Seah presided over Sembcorp's board during a period of transformation and significant growth for the company and also chaired the board's Executive Committee, Executive Resource & Compensation Committee and Nominating Committee. We have benefited immeasurably from his wise and judicious leadership, and would like to record our deep appreciation to him. We would also like to thank Richard Hale and Lee Suet Fern, who have indicated that they will be retiring from the board at our coming annual general meeting and will not be seeking re-appointment. An independent director of the company for over 10 years, Mr Hale's sterling contributions to Sembcorp include chairing the board's Audit and Risk Committees, while Mrs Lee's invaluable contributions include having served as an independent

director and as a member of the board's Audit and Risk Committees for over five years. We would like to express our gratitude to them. We also welcome our new directors, Margaret Lui and Tan Sri Mohd Hassan Marican, who joined our board during the year. Mrs Lui, the Chief Operating Officer of Seatown Holdings International, joins the board's Executive Committee, Executive Resource & Compensation Committee and Nominating Committee. Tan Sri Mohd Hassan Marican brings to the board over 30 years' experience in audit, accounting and management, as well as rich knowledge of the oil and gas industry as the former President & CEO of Malaysia's Petroliaam Nasional (PETRONAS). Aside from serving as an independent director, he also joins the board's Audit Committee.

Last but not least, thanks must also go to our shareholders for your continued confidence in Sembcorp. Your company is strong and resilient. We have the right businesses, strategy and people to meet the needs of the global market and respond innovatively to the challenges our world is facing. To achieve sustainable growth and lasting shareholder value, your board is committed to ensuring that Sembcorp continues to be positioned intelligently and dynamically for decades to come in what is a rapidly changing world. With your support, we approach the future with confidence.



Ang Kong Hua
Chairman

February 25, 2011



Tang Kin Fei
Group President & CEO

February 25, 2011