

Funding

During the year, SembCorp Financial Services, a financial and treasury company was formed, putting into action the Group's strategy to achieve greater efficiency through centralised funding. The Group continues to consolidate and diversify its sources of funding by expanding existing banking relationships and exploring new relationships to achieve greater access to bilateral facilities. The increase in funding resources will allow the Group to grasp opportunities as they arise and provide flexibility in working capital management.

We maintained our net borrowings at S\$1,374 million (2002: S\$1,333 million) despite significant additional financing requirements for the acquisition of Teesside assets in the United Kingdom, purchase of the remaining minority stakes in SUT Sakra and SembCorp Cogen, and an additional 20% stake in SembCorp Gas. Net gearing remains unchanged at 0.6 times.

We remain focused on maintaining an efficient and optimal mix of committed and uncommitted facilities, fixed and floating rate borrowings, prudent financial ratios and reduced cost of funding. As such, committed funding consists of 75% (2002: 84%) of the Group's borrowings and 50% (2002: 66%) of the overall debt portfolio is not exposed to interest rate fluctuations. The Group seeks to limit its interest rate

exposure by adopting a prudent debt structure whilst balancing this with cost considerations.

The maturity profile of the Group is evenly spread over different maturities which reduces the impact of refinancing risks. The weighted average cost of funding has been reduced by about 0.50% to 3.55% in 2003.

The Group's foreign currency borrowings increased from 14% to 20% in 2003, arising from the funding of the Group's overseas acquisitions in the domestic currencies of the new investments.

Changes in working capital

The Group continues its concerted effort towards improvement of its cashflow generation and generated a positive cashflow from operations of S\$337 million compared to S\$530 million in the previous year. The change in cashflow was attributable to the timing differences and lumpy nature of earnings from various projects.

Risk management

As part of the Group's enterprise risk management framework, the Group enters into various derivative financial instruments to manage exposure to foreign exchange, interest rate and commodity price risks arising from operational, financing and investment activities. Such transactions hedge the Group against fluctuations in the prices of the underlying instruments.

Financial discipline and corporate governance

A systematic approach has been introduced for SembCorp and its Key Businesses to review financial discipline in the Group.

We have set up a certification process for all our subsidiaries to confirm their commitment to and compliance with a prudent financial discipline framework. The framework provides for checklists to systematically highlight the requirements of new accounting standards and the treatment of transactions and ensures that acceptable accounting policies are followed and appropriate provisions are made for long overdue debts, foreseeable losses and impairment of assets. It establishes the propriety of revenue and cost recognition, assets valuation, liabilities recording and allows early identification of areas of potential exposures which can then be addressed to minimise adverse impact to the Group.

Financing and Treasury Highlights

	GROUP			
	2003	2002		
	S\$m	%	S\$m	%
Source of funding				
Funded bank facilities, capital markets and available funds				
Funded facilities available for drawdown	4,404		4,520	
Cash and cash equivalents	679		482	
Total facilities and available funds	5,083		5,002	
Amount drawn down	1,930		1,615	
Unutilised funded facilities and funds available	3,153		3,387	
Unfunded bank facilities				
Unfunded facilities available for drawdown	1,763		1,285	
Amount drawn down	1,151		890	
Unutilised unfunded facilities available	612		395	
Total unutilised facilities and funds available	3,765		3,782	
Committed facilities				
Committed facilities available	1,549		1,517	
Amount drawn	1,549		1,517	
Funding profile				
Maturity profile				
Due within one year	731	36	408	22
Due between one to five years	904	44	827	46
Due after five years	418	20	580	32
	2,053	100	1,815	100
Debt mix				
Floating rate debt	1,031	50	612	34
Fixed rate debt	1,022	50	1,203	66
	2,053	100	1,815	100
Currency denomination of debt				
SGD	1,635	80	1,563	86
USD	132	6	175	10
Others	286	14	77	4
	2,053	100	1,815	100
Debt ratios				
Interest cover ratio				
Net profit before interest, tax, depreciation and amortisation	583		497	
Interest on borrowings	79		94	
Interest cover (times)	7.4		5.3	
Debt/equity ratio				
Non-recourse project financing	814	40	657	36
Long-term debt	579	28	811	45
Short-term debt	660	32	347	19
	2,053	100	1,815	100
Less : Cash and cash equivalents	(679)		(482)	
Net debt	1,374		1,333	
Net debt excluding project financing	762		772	
Net gearing excluding project financing (times)	0.3		0.4	
Net gearing including project financing (times)	0.6		0.6	
Cost of funding				
Floating		2.12		2.77
Fixed		4.43		4.47
Weighted average cost of funds		3.55		4.04