Group Review

PERFORMANCE SCORECARD *(S$ million)*

	2008	2007	Change (%)
Turnover	**9,928.4**	8,618.8	15
EBITDA	**939.6**	824.0	14
EBIT	**744.4**	641.1	16
PBT	**861.9**	787.1	10
PATMI before EI	**534.0**	557.2	(4)
PATMI after EI	**507.1**	526.2	(4)
EPS before EI *(cents)*	**30.0**	31.3	(4)
EPS after EI *(cents)*	**28.5**	29.6	(4)
ROE before EI *(%)*	**19.0**	19.0	–
ROE after EI *(%)*	**18.0**	18.0	–

OVERVIEW

In 2008, Sembcorp achieved 15% growth in turnover to S$9.9 billion. Group profit after tax and minority interest (PATMI) before exceptional items (EI) in 2008 was S$534.0 million compared to S$557.2 million in 2007. In 2007, excluding the one-off tax write-back of S$48 million, PATMI before EI was S$509.2 million.

During the year, the Group recorded an exceptional loss of S$26.9 million comprising of the Group's share of Marine business' foreign exchange losses from the unauthorised transactions.

TURNOVER

The Group achieved a record turnover of S$9.9 billion for the financial year 2008.

Utilities' turnover increased by 20% to S$4.5 billion in 2008. The increase in turnover was fuelled by a rise in high sulphur fuel oil prices (HSFO) offset by the expiry of favourable supply contracts in the UK and depreciation of the pound sterling which resulted in lower turnover in Singapore dollar terms.

Turnover for Marine increased by 12% to S$5.1 billion. This was mainly due to a higher percentage of completion achieved in rig building, offshore, conversion projects and higher repair sales.

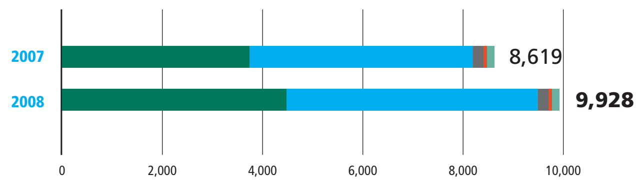
Environment's turnover increased by 4% to S$213.8 million, mainly due to higher turnover from its paper recycling division.

The decrease in turnover for the Industrial Parks business was mainly attributable to the divestment of Wuxi Garden City Mall in May 2007.

Turnover of Others / Corporate was mainly contributed by subsidiaries dealing in specialised construction activities and minting.

TURNOVER *(S$ million)*

	2007	2008
Utilities	3,736	**4,478**
Marine	4,512	**5,061**
Environment	205	**214**
Industrial Parks	23	**16**
Others / Corporate	143	**159**
	8,619	**9,928**



EARNINGS

Excluding the one-off write-back of S$48 million of tax provisions recorded in 2007, the Group achieved a growth of 6% in PATMI, mainly contributed by strong performance in Marine's rig building and ship repair businesses.

Utilities' 2008 PATMI was S$200.3 million compared to S$230.2 million in 2007. This was primarily due to lower contributions from its UK operations, which was impacted by lower profit margins and erosion of its contribution in Singapore dollar terms due to depreciation of the pound sterling. In 2007, the UK's performance also enjoyed a boost from the profit on the sale of land. Utilities' operations in Singapore recorded higher PATMI for the year primarily from a gain on the sale of transmission and distribution pipeline assets in Singapore to PowerGas, as well as the gain from the sale of strategic diesel. In 2007, Utilities' operations in Singapore was impacted by the maintenance inspection and repair of gas turbines at its cogeneration plant during that year. Meanwhile, operations in China continued to do well and operations in the Middle East performed according to plan.

Marine's contribution to Group PATMI rose 32% to S$290.6 million, mainly due to higher operating margins from its rig building and ship repair businesses, partially offset by lower share of results from its associates, mainly Cosco Shipyard Group.

The performance of our Environment business was affected by higher operational costs and lower recyclables volume, in addition to an impairment on part of its plant and machinery in 2008.

The decline in Sembcorp's share of PATMI from our Industrial Parks business was mainly attributed to lower profit contribution from its associate, Gallant Venture.

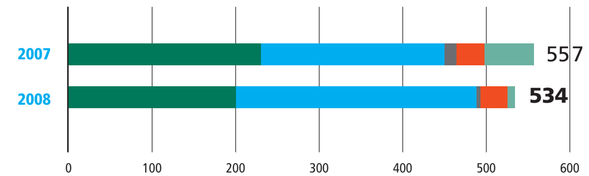
The decline in Others / Corporate PATMI in 2008 was mainly due to weak performance by an offshore engineering associate in China. In 2007, there was a write-back of S$48 million of tax provisions made in prior years for the gains on divestment of an investment, following the favourable tax ruling by the Inland Revenue Authority of Singapore.

CASH FLOW AND LIQUIDITY

As at December 31, 2008, the Group had cash and cash equivalents of S$2.4 billion.

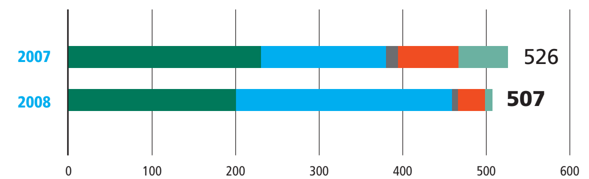
PATMI BEFORE EI *(S$ million)*

	2007	2008
Utilities	230	**200**
Marine	220	**291**
Environment	14	**2**
Industrial Parks	34	**32**
Others / Corporate	59	**9**
	557	**534**



PATMI AFTER EI *(S$ million)*

	2007	2008
Utilities	230	**200**
Marine	150	**264**
Environment	14	**2**
Industrial Parks	73	**32**
Others / Corporate	59	**9**
	526	**507**



Net cash inflow from operating activities for the financial year 2008 was S$2.3 billion as compared to a net cash inflow of S$614.0 million for 2007. The strong operating cash flow was mainly contributed by our Marine business and our Utilities operations in Singapore and the UK.

Net cash outflow from investing activities in 2008 was S$115.8 million. The cash outflow of S$361.7 million on expansion and operational capital expenditure was partially offset by proceeds from the sale of property, plant and equipment, subsidiaries, associates and other investments of S$133.1 million and dividends and interest received of S$120.7 million.

Net cash outflow from financing activities for 2008 of S$1.0 billion relates mainly to dividends and interest paid as well as net repayment of borrowings.

Free cash flow, defined as operating cash flow plus investing cash flow adjusted for expansion capital expenditure, was S$2.3 billion as at December 31, 2008.

FINANCIAL POSITION

Group shareholders' funds decreased from S$3.0 billion at December 31, 2007 to S$2.6 billion at December 31, 2008. 'Other reserves' decreased due to a lower fair value reserve as a result of fair value adjustments for Cosco Corporation (Cosco) shares held by Sembcorp Marine as well as hedging instruments. Translation losses arising from the translation of our foreign operations' contributions resulted in a lower foreign currency translation reserve due to the weakening of the US dollar and pound sterling during the year. Treasury shares purchased by the Company and a listed subsidiary in 2008 also contributed to lower 'Other reserves' as at December 31, 2008.

The decrease in 'Other financial assets' was mainly due to fair value adjustments for Cosco shares held by Sembcorp Marine. The increase in the long-term receivables pertained to the Changi NEWater plant which is being constructed under a service concession arrangement. The Group has recognised the consideration receivable as long-term receivables in accordance with Interpretations to the Singapore Financial Reporting Standards (INT FRS) 112.

'Trade and other payables' increased due to higher operating activities by our Marine business. 'Other payables' increased due to a reclassification from non-current liabilities to current liabilities of our 40% share of the equity bridging loan taken up by an associate, Emirates Sembcorp Water & Power Company, which was repaid in February 2009. Our Utilities business also recorded lower receivables due to a drop in HSFO rates. Our Marine business recorded lower 'Inventories and work-in-progress' while 'Excess of progress billings over work-in-progress' and 'Bank balances, fixed deposits and cash' increased mainly due to receipts from customers for both rig building projects in progress and completed projects.

SHAREHOLDER RETURNS

The Group's return on equity stood at 18% and earnings per share was 28.5 cents in 2008.

Subject to approval by shareholders at the next annual general meeting, a final tax exempt one-tier dividend of 11.0 cents per ordinary share has been proposed for the financial year ended December 31, 2008.

ECONOMIC VALUE ADDED

In 2008, the Group generated positive economic value added (EVA) of S$510.7 million due to an increase in operating profits coupled with a lower capital charge.

Our net operating profit after tax for 2008 amounted to S$823.9 million whilst our capital charge decreased to S$313.2 million mainly due to a lower weighted average cost of capital of 5.8%.

VALUE ADDED AND PRODUCTIVITY DATA

In 2008, the total value added by the Group was S$1.8 billion. This was absorbed by employees in wages, salaries and benefits of S$682.2 million; by the government in income and other taxes of S$169.5 million and by providers of capital in interest and dividends of S$311.3 million, leaving the balance of S$670.7 million reinvested in business.

CRITICAL ACCOUNTING POLICIES

Sembcorp's financial statements are prepared in accordance with the Singapore Financial Reporting Standards (FRS).

ECONOMIC VALUE ADDED *(S$ million)*

	Note	2008	2007
Net operating profit before taxation		**736**	634
Adjust for			
Share of associates' and joint ventures' profits		**140**	174
Interest expense	1	**47**	58
Others	2	**5**	2
Adjusted profit before interest and tax		**928**	868
Cash operating taxes	3	**(104)**	(138)
Net operating profit after tax (NOPAT)		**824**	730
Average capital employed	4	**5,419**	5,159
Weighted average cost of capital *(%)*	5	**5.8**	6.1
Capital charge		**313**	313
Economic value added (EVA)		**511**	417
Minority share of EVA		**(175)**	(77)
EVA attributable to shareholders		**336**	340
Less: Unusual items (UI) gains	6	**10**	208
EVA attributable to shareholders (excluding UI)		**326**	132

Notes:

1. *Interest expense includes imputed interest on present value of operating leases and capitalised interest charged to income statement upon disposal of the assets.*
2. *Other adjustments include recovery of investment costs, timing difference of allowances made for / (write-back) of doubtful debts, inventory obsolescence and goodwill written off / impaired and construction-in-progress.*
3. *The reported current tax is adjusted for the statutory tax impact of interest expense.*
4. *Monthly average total assets less non interest-bearing liabilities plus timing provision, goodwill written off / impaired and present value of operating leases.*
5. *The Weighted Average Cost of Capital is calculated in accordance with the Sembcorp Group EVA Policy as follows:*
   i. *Cost of Equity using Capital Asset Pricing Model with market risk premium at 6.0% (2007: 6.0%);*
   ii. *Risk-free rate of 2.74% (2007: 3.05%) based on yield-to-maturity of Singapore Government 10-year Bonds;*
   iii. *Ungeared beta ranging from 0.5 to 1.0 (2007: 0.5 to 1.0) based on Sembcorp Industries' risk categorisation; and*
   iv. *Cost of Debt rate at 3.53% (2007: 4.12%) using 5-year Singapore Dollar Swap Offer Rate plus 55 basis points (2007: 5-year Singapore Dollar Swap Offer Rate plus 75 basis points).*
6. *Unusual items (UI) refer to divestment of subsidiaries, associates, joint ventures, long-term investments and disposal of major fixed assets.*

With effect from January 1, 2008, the Group adopted the following new or amended FRS and INT FRS which are relevant to our operations:

INT FRS 111	FRS 102 – Group and Treasury Share Transactions
INT FRS 114	FRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

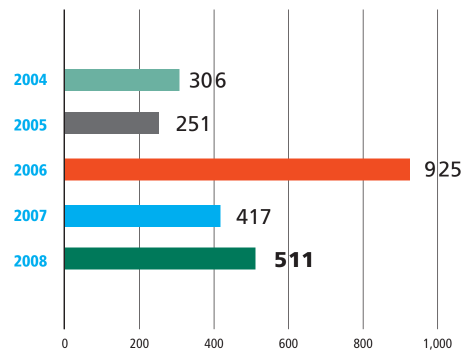
The effects of the adoption of the above INT FRS did not result in substantial changes to the Group's accounting policies.

FINANCIAL RISK MANAGEMENT

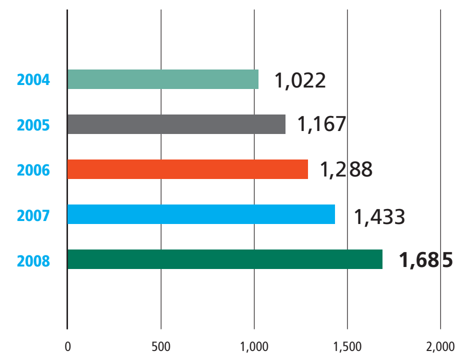
The Group's activities expose it to a variety of financial risks, including changes in interest rates, foreign exchange rates and commodity prices as well as credit risk.

Please refer to the Risk Management & Mitigation

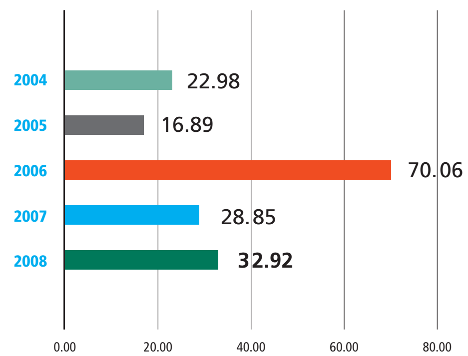
ECONOMIC VALUE ADDED *(S$ million)*



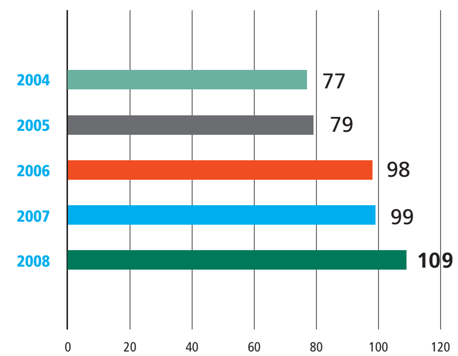
GROSS VALUE ADDED *(S$ million)*



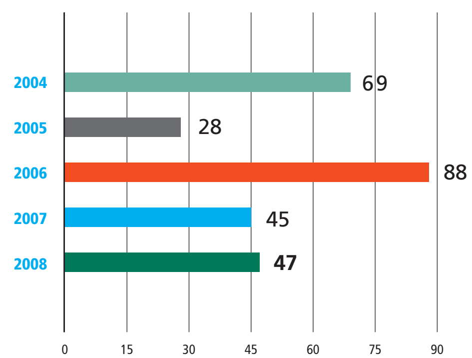
EVA PER EMPLOYEE *(S$'000)*



VALUE ADDED PER EMPLOYEE *(S$'000)*



PROFIT AFTER TAX PER EMPLOYEE *(S$'000)*



VALUE ADDED STATEMENT *(S$ million)*

	2008	2007	2006	2005	2004
Value added from					
Turnover	**9,928**	8,619	8,074	7,304	5,867
Less: Bought in materials and services	**(8,243)**	(7,186)	(6,786)	(6,137)	(4,845)
Gross value added	**1,685**	1,433	1,288	1,167	1,022
Investment, interest and other income	**154**	461	778	240	1,264
Share of associates' profit	**91**	114	87	53	121
Share of joint ventures' profit	**49**	60	55	48	35
Other non-operating expenses	**(145)**	(348)	(172)	(74)	(554)
	1,834	1,720	2,036	1,434	1,888
Distribution					
To employees in wages, salaries and benefits	**682**	636	624	621	573
To government in income and other taxes	**170**	186	36	137	110
To providers of capital on:					
Interest paid on borrowings	**44**	54	53	54	73
Dividends to shareholders	**267**	498	91	73	91
	1,163	1,374	804	885	847
Retained in business					
Depreciation and amortisation	**195**	185	163	174	170
Retained profits	**240**	28	911	235	302
Minority interests	**224**	125	130	112	526
	659	338	1,204	521	998
Other non-operating expenses	**12**	8	28	28	43
	671	346	1,232	549	1,041
Total distribution	**1,834**	1,720	2,036	1,434	1,888

Strategies chapter of this report for details on the management of these risks.

SENSITIVITY ANALYSIS

In managing our interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. However, any prolonged adverse changes in foreign exchange and interest rates would have an impact on consolidated earnings.

Please refer to the sensitivity analysis as set out in Note 39 in the Notes to the Financial Statements.

FACILITIES

During the year, the Company retired its S$2.0 billion medium term note programme in August 2008 after it repaid the last outstanding issuance of S$150 million in June 2008. Together with an existing S$1.5 billion medium term note programme with its wholly-owned subsidiary Sembcorp Financial Services (SFS) as the issuing vehicle and a S$500 million medium term note programme with Sembcorp Marine, the total available credit facilities as at end 2008 amounted to S$4.6 billion (2007: S$4.8 billion), with unfunded facilities at S$1.9 billion (2007: S$1.9 billion). The Group also accesses capital markets as and when appropriate. There has been no issuance under the SFS's medium term note programme thus far.

BORROWINGS

With the unprecedented global financial turmoil and tightening credit markets, our focus is to ensure that adequate funding is available for the Group's businesses and to manage cashflows prudently.

We continue to build on our 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.

The Group remains committed to balancing the availability of funding and the cost of funding with the need to maintain prudent financial ratios. We also aim to maintain an efficient and optimal mix of committed and uncommitted facilities and fixed and floating rate borrowings.

As at December 31, 2008, gross borrowings amounted to S$817 million, of which 92% (2007: 86%) was committed funding. Of the overall debt portfolio,

PRODUCTIVITY DATA

	2008	2007	2006	2005	2004
Average staff strength	**15,512**	14,453	13,199	14,862	13,301
Employment costs *(S$ million)*	**682**	636	624	621	573
Sales per employee *(S$'000)*	**640**	596	612	491	447
Profit after tax per employee *(S$'000)*	**47**	45	88	28	69
Economic value added *(S$ million)*	**511**	417	925	251	306
Economic value added spread *(%)*	**9.4**	8.1	19.2	4.8	5.6
Economic value added per employee *(S$'000)*	**32.92**	28.85	70.06	16.89	22.98
Value added *(S$ million)*	**1,685**	1,433	1,288	1,167	1,022
Value added per employee *(S$'000)*	**109**	99	98	79	77
Value added per employment costs *(S$)*	**2.47**	2.25	2.06	1.88	1.79
Value added per dollar investment in fixed assets *(S$)*	**0.43**	0.36	0.35	0.30	0.29
Value added per dollar sales *(S$)*	**0.17**	0.17	0.16	0.16	0.17

The figures above reflect core businesses only.

86% (2007: 64%) constituted fixed rate debts which were not exposed to interest rate fluctuations.

The Group seeks to limit its interest rate exposure by adopting a prudent debt structure while balancing this with liquidity and cost considerations. The weighted average cost of funding was 3.83% (2007: 3.85%). Interest cover ratio remained healthy at 21.2 times (2007: 15.3 times).

The current maturity profile of the Group's debt continues to favour the longer dated maturities, which reduces the impact of refinancing risk. As at end 2008, the portion of Group debt maturing beyond one year was 65% (2007: 62%). Only S$287 million of the Group's debt is due within 12 months.

TREASURY MANAGEMENT

The Group's financing and treasury activities continue to be mainly centralised within SFS, the funding vehicle of the Group. SFS on-lends funds borrowed by it to companies within the Group. SFS also actively manages the cash within the Group by taking in surplus funds from those with excess cash and lending to those with funding requirements. We actively manage the Group's excess cash, deploying it in a diversity of financial institutions and actively tracking developments in the global banking sector. Such proactive cash management continues to be an efficient and cost-effective way of financing the Group's requirements.

FINANCING & TREASURY HIGHLIGHTS *(S$ million)*

	2008	2007	2006
SOURCE OF FUNDING			
Funded bank facilities, capital markets and available funds			
Uncommitted facilities available for drawdown	**3,831**	3,598	3,640
Committed facilities available for drawdown	**755**	1,154	1,151
Cash and cash equivalents	**2,401**	1,297	1,186
Total facilities and available funds	**6,987**	6,049	5,977
Less: Uncommitted funding drawn down	**(62)**	(187)	(159)
Less: Committed funding drawn down	**(755)**	(1,154)	(1,151)
Unutilised funded facilities available	**6,170**	4,708	4,667
Unfunded bank facilities			
Unfunded facilities available for drawdown	**1,886**	1,893	2,349
Less: Amount drawn down	**(816)**	(985)	(970)
Unutilised unfunded facilities available	**1,070**	908	1,379
Total unutilised facilities and funds available	**7,240**	5,616	6,046
FUNDING PROFILE			
Maturity profile			
Due within one year	**287**	501	219
Due between one to five years	**441**	656	816
Due after five years	**89**	184	288
	817	1,341	1,323
Debt mix			
Fixed rate debt	**701**	862	746
Floating rate debt	**116**	479	577
	817	1,341	1,323
Currency denomination of debt			
SGD	**591**	969	1,014
USD	**39**	66	32
GBP	**170**	286	257
Others	**17**	20	20
	817	1,341	1,323

Group Review

FINANCING & TREASURY HIGHLIGHTS *(S$ million)*

	2008	2007	2006
DEBT RATIOS			
Interest cover ratio			
Earnings before interest, tax, depreciation and amortisation	**940**	824	1,207
Interest on borrowings	**44**	54	54
Interest cover *(times)*	**21.2**	15.3	22.4
Debt / equity ratio			
Non-recourse project financing	**362**	511	538
Long-term debt	**236**	398	622
Short-term debt	**219**	432	163
	817	1,341	1,323
Less: Cash and cash equivalents	**(2,401)**	(1,297)	(1,186)
Net debt / (cash)	**(1,584)**	44	137
Net (cash) exclude project financing	**(1,825)**	(306)	(238)
Net gearing excluding project financing *(times)*	**Net cash**	Net cash	Net cash
Net gearing including project financing *(times)*	**Net cash**	0.01	0.04
Cost of funding			
Fixed *(%)*	**3.99**	3.59	4.02
Floating *(%)*	**3.54**	5.43	4.07
Weighted average cost of funds *(%)*	**3.83**	3.85	4.03