Sembcorp's power and desalination facility in Fujairah, UAE

Operating & Financial Review

IN THIS SECTION

Company Overview

Sembcorp believes that only businesses with clear competitive edge and leading market positions can deliver sustainable growth.

BUSINESS DESCRIPTION

Sembcorp Industries is a Singapore-listed company with assets totalling more than S$8 billion. The Group is primarily involved in the following businesses:

- Utilities
- Marine
- Environment
- Industrial Parks

The Utilities business provides centralised utilities, energy and water to industrial and other customers in Singapore, the UK, China, Vietnam and the UAE. Its activities include power generation, steam production and distribution, natural gas supply, wastewater treatment, supply of reclaimed, potable, desalinated and industrial water, as well as other on-site logistics and services.

The Marine business operates a global network of shipyards in Singapore, Indonesia, China, the USA and Brazil to provide integrated solutions in ship repair, shipbuilding, ship conversion, rig building, topsides fabrication and offshore engineering.

The Environment business provides integrated environmental management solutions to industries, municipalities and governments in Singapore, Australia and India. Its activities include waste collection as well as recycling and waste-to-resource.

The Industrial Parks business owns, develops, markets and manages industrial parks and townships in Vietnam, China and Indonesia. It offers an integrated approach to township and industrial park development, providing a fully self-sufficient world-class manufacturing environment for multinational companies and leading local enterprises.

OBJECTIVE & STRATEGIES

Sembcorp's aim is to provide shareholder value by focusing on businesses that deliver recurring earnings and have the ability to sustain growth over the long term. The Group pursues five strategic directions:

Focus on key businesses

Sembcorp is focused on businesses that are capable of delivering recurring earnings. Our Utilities and Marine businesses offer strong fundamentals. Coupled with our strong operational and management capabilities and a disciplined approach towards investment, we believe that focusing on these businesses will enable us to continue delivering long-term value to our shareholders.

Build upon business models

Sembcorp has developed and will continue to build on strong business models in each of our businesses.

For instance, our Utilities business has 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. We aim to replicate our success in key markets around the globe through establishing and growing beachheads in target markets. We do this by entering into strategic partnerships with our international customers and through selective investments in projects that provide secure offtake. Our Marine business is a global brand name with a comprehensive range of capabilities encompassing various segments of the value chain in the global marine and offshore industry. Its orderbook provides earnings visibility while long-term strategic alliances with international ship operators also provide a steady and growing baseload in ship repair.

We are also focused on enhancing our business models across our other businesses. Our Industrial Parks unit takes an integrated approach to the development of townships and industrial parks. Its early involvement in the development of industrial areas also provides potential opportunities for the provision of utilities and other services. Meanwhile, our Environment arm is focused on further developing its waste-to-resource capabilities.

Leverage capabilities for growth

Sembcorp believes that only businesses with clear competitive edge and leading market positions can deliver sustainable growth. To this end, we continue to leverage the differentiating capabilities we have built up in each of our businesses.

We seek to leverage and strengthen our unique operational and technological capabilities in the energy, water and wastewater and environment sectors to seize growth opportunities in these fast-growing sectors. On the energy and environment front, we are focusing our efforts on diversifying our fuel portfolio and building our expertise in producing energy from alternative fuels. From biomass to solid recovered fuel, we are developing long-term solutions to complement our steam and power capabilities. This will enhance the competitiveness of our business and provide a range of alternatives that will enable us to continually adapt to market changes and price fluctuations, while addressing environmental issues. As operators of reliable facilities offering essential utilities for industrial clusters, we have developed distinctive capabilities including the provision of industrial water, water reclamation and the treatment of complex high concentration wastewater from multiple sources. We continue to build on these capabilities to provide total water solutions using energy-efficient and environmentally-friendly technologies.

Meanwhile, our Marine business' proprietary technologies and designs for rigs and vessels allow it to serve its customers with technologically-advanced solutions. Its trusted brand name and reputation for quality and on-time delivery also strengthen its position as one of the leading players in the market. Similarly, our Industrial Parks business' concept of integrated industrial townships illustrates capabilities which provide us a unique competitive advantage.

Develop new income streams

Sembcorp is committed to developing our core businesses to generate new income streams. We seek to expand in tandem with demand through strategic partnerships with our customers, providing essential solutions to meet their needs. We also look to new markets where there is a demand for our services. To provide a platform for future growth, we continually identify and develop a pipeline of greenfield and brownfield investments. Applying a disciplined approach, we aim to build leading positions in growth markets through selective acquisitions and partnerships.

Build on strong brand name

At Sembcorp, we aim to capitalise on the strength and reliability associated with the Sembcorp brand. Through understanding the needs of our customers and leveraging on group strength and sector expertise to deliver innovative and effective solutions that enable them to do business better, the performance of Sembcorp's businesses reinforce the strength of our brand.

Group Structure

SEMBCORP INDUSTRIES

SUT Division *Singapore*	100%
Propylene Purification Unit *Singapore*	100%

UTILITIES

Sembcorp Utilities 100%

Sembcorp Cogen *Singapore*	100%
Sembcorp Power *Singapore*	100%
Sembcorp Gas *Singapore*	70%
Sembcorp Air Products (HYCO) *Singapore*	60%
Sakra Island Carbon Dioxide *Singapore*	30%
Sembcorp NEWater *Singapore*	100%
Sembcorp Utilities (UK) *UK*	100%
Sembcorp Utilities Investment Management (Shanghai) *China*	100%
Shanghai Cao Jing Co-generation Co *China*	30%
Nanjing Sembcorp SUIWU Co *China*	95%
NCIP Water Co *China*	95%
Zhangjiagang Free Trade Zone Sembcorp Water Company *China*	80%
Zhangjiagang Free Trade Zone Sembcorp Water Recycling Company *China*	80%
Sembcorp Tianjin Lingang Industrial Area Wastewater Treatment Co *China*	90%
Shenyang Sembcorp Water Co *China*	80%
Shenzhen Chiwan Sembawang Engineering Company* *China*	32%
Phu My 3 BOT Power Company *Vietnam*	33.3%
Emirates Sembcorp Water & Power Company *UAE*	40%
Sembcorp Gulf O&M Co *UAE*	100%

MARINE

Sembcorp Marine 61.6%**

Jurong Shipyard *Singapore*	100%
Sembawang Shipyard *Singapore*	100%
PPL Shipyard *Singapore*	85%
SMOE *Singapore*	100%
Jurong SML *Singapore*	100%
Sembcorp Marine Technology *Singapore*	100%
COSCO Shipyard Group *China*	30%
Shenzhen Chiwan Offshore Petroleum Equipment Repair & Manufacture Company *China*	35%
PT Karimun Sembawang Shipyard *Indonesia*	100%
PT SMOE Indonesia *Indonesia*	90%
Sembcorp-Sabine Shipyard *USA*	100%
SembMarine Middle East *Saudi Arabia*	60%

ENVIRONMENT

Sembcorp Environment 100%

SembWaste *Singapore*	100%
Sembcorp Tay Paper Recycling *Singapore*	60%
SembSITA Australia *Australia*	40%
SembRamky Environmental Management *India*	51%

INDUSTRIAL PARKS

Sembcorp Industrial Parks 100%

Vietnam Singapore Industrial Park JV Co *Vietnam*	40.4%
Vietnam Singapore Industrial Park & Township Development Joint Stock Company *Vietnam*	40.3%
Wuxi-Singapore Industrial Park Development Co *China*	45.4%
Gallant Venture *Singapore*	23.9%

Sembcorp Parks Management 56%

OTHER BUSINESSES

Sembcorp Design and Construction 100%

Singapore Precision Industries 100%

Singapore Mint *Singapore*	100%

Figures reflect effective shareholdings as at January 31, 2009

* *Shenzhen Chiwan Sembawang Engineering Company's financial contribution to the Group is reported under Other Businesses.*

** *Calculated based on the number of issued ordinary shares excluding treasury shares.*

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.

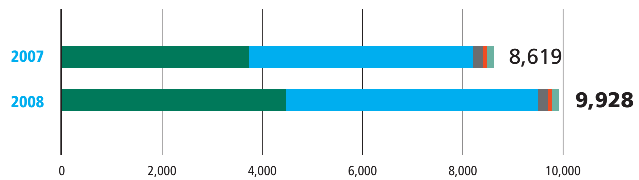
Environment's turnover increased by 4% to S$213.8 million, mainly due to higher turnover from its paper recycling division.

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.

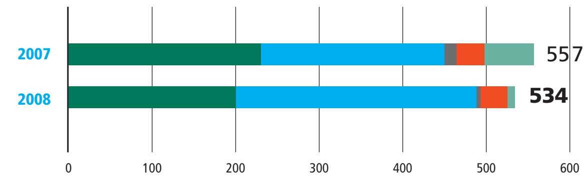
The decline in Others / Corporate PATMI in 2008 was mainly due to weak performance by an offshore engineering associate in China. In 2007, there was a write-back of S$48 million of tax provisions made in prior years for the gains on divestment of an investment, following the favourable tax ruling by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

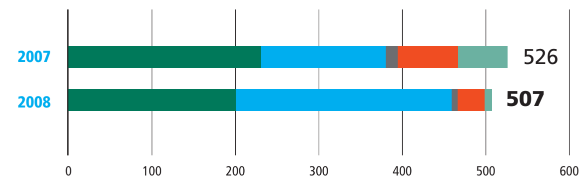
PATMI BEFORE EI *(S$ million)*

	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

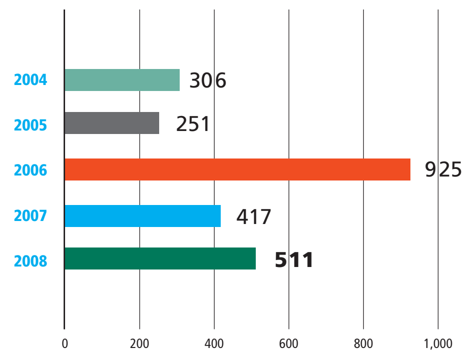
The effects of the adoption of the above INT FRS did not result in substantial changes to the Group's accounting policies.

FINANCIAL RISK MANAGEMENT

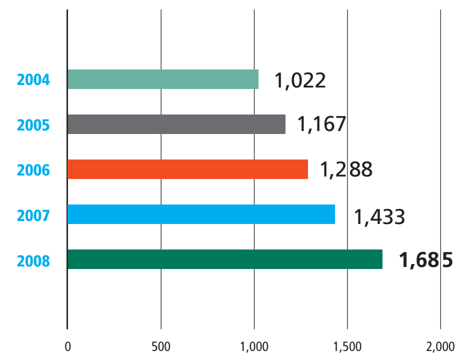
The Group's activities expose it to a variety of financial risks, including changes in interest rates, foreign exchange rates and commodity prices as well as credit risk.

Please refer to the Risk Management & Mitigation

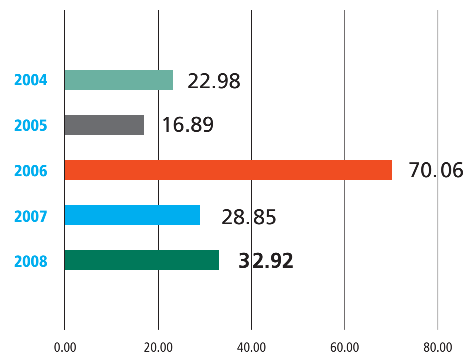
ECONOMIC VALUE ADDED *(S$ million)*



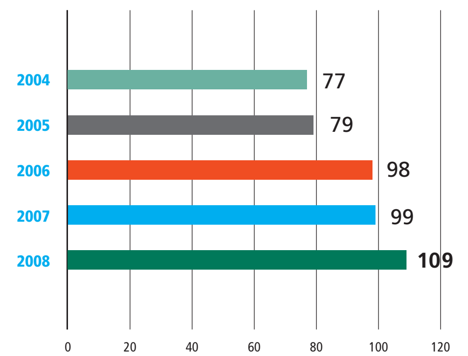
GROSS VALUE ADDED *(S$ million)*



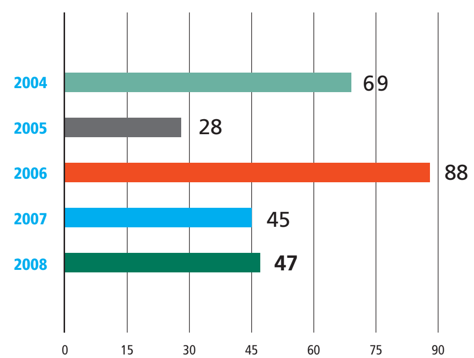
EVA PER EMPLOYEE *(S$'000)*



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



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



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,

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

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

FINANCING & TREASURY HIGHLIGHTS *(S$ million)*

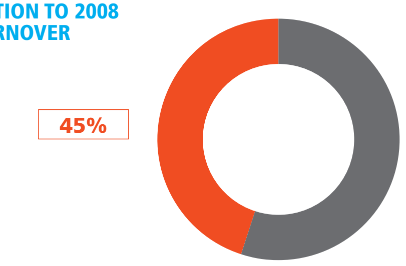
	2008	2007	2006
DEBT RATIOS			
Interest cover ratio			
Earnings before interest, tax, depreciation and amortisation	**940**	824	1,207
Interest on borrowings	**44**	54	54
Interest cover *(times)*	**21.2**	15.3	22.4
Debt / equity ratio			
Non-recourse project financing	**362**	511	538
Long-term debt	**236**	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

Utilities Review

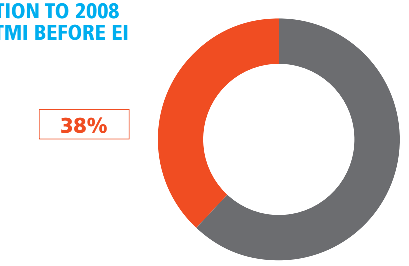
PERFORMANCE SCORECARD *(S$ million)*

	2008	2007	Change (%)
Turnover	**4,516.4**	3,765.6	20
EBITDA	**396.6**	404.7	(2)
EBIT	**289.9**	302.1	(4)
PATMI before EI	**200.3**	230.2	(13)
PATMI after EI	**200.3**	230.2	(13)
Return on Equity *(%)*	**18**	24	(25)

CONTRIBUTION TO 2008 GROUP TURNOVER



CONTRIBUTION TO 2008 GROUP PATMI BEFORE EI



KEY DEVELOPMENTS

- Secured contract to design, build, own and operate Singapore's newest and largest NEWater plant, one of the world's largest reclaimed water plants.
- Concluded gas sales agreement to import an additional 90 billion British thermal units per day of natural gas from Indonesia.
- Completed first full year of operations for the Sembcorp Biomass Power Station, one of the UK's largest biomass renewable energy projects.
- Acquired three water works facilities with a total design capacity of 160,000 cubic metres per day in Shenyang, northeast China.
- Utilities operations in Singapore, the UK and China secured new and renewed contracts worth a total of S$431 million, of which long-term contracts comprised S$341 million.

COMPETITIVE EDGE

- A global leader in the provision of centralised utilities and services to multiple customers in energy intensive clusters.
- Strong operational and technical capabilities in energy and water.
- More than 3,300 megawatts of installed power capacity worldwide and the ability to generate energy from a variety of fuels including renewable sources.
- Singapore's largest water management company with more than 4 million cubic metres per day of water capacity in operation and under development.
- Technical expertise and operational scale in treating high concentration and complex wastewater profiles from multiple sources.
- Strong strategic relationships and long-term partnerships with multinational customers and local governments.

Utilities Review

OPERATIONS REVIEW

The Utilities business' turnover increased from S$3.8 billion in 2007 to S$4.5 billion in 2008. Profit after tax and minority interest (PATMI) was S$200.3 million compared to S$230.2 million in 2007, with Singapore and UK operations contributing S$130.8 million and S$67.6 million respectively. Our Utilities business continued to be one of Sembcorp's main profit contributors and contributed 38% of Group PATMI before exceptional items. Return on equity was a healthy 18%.

In 2008, our Utilities operations in Singapore, the UK and China secured new and renewed contracts worth a total of S$431 million, of which long-term contracts comprised S$341 million.

Singapore

In 2008, our Singapore operations secured a strategically important contract to design, build, own and operate Singapore's newest and largest NEWater plant on a 25-year contract with the Public Utilities Board, Singapore's national water agency. Construction of the S$180 million facility started in April 2008. 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 one of the world's largest reclaimed water plants.

In October, we concluded our gas sales agreement with Premier Oil and its co-venturers, KUFPEC, Hess and PETRONAS, to import an additional tranche of 90 billion British thermal units per day of natural gas from the West Natuna Sea for delivery between 2010 to 2011. This additional gas supply will augment our capacity by 26% to a total of 431 billion British thermal units per day and is primarily intended for process use and the production of steam to meet demand in the Jurong Island petrochemical complex. Some quantity of gas is also expected to be consumed by industrial and chemical customers.

As part of the restructuring of the gas industry in Singapore, our natural gas unit Sembcorp Gas was required under the Gas Act to transfer its transmission and distribution pipeline assets located downstream of its receiving terminal on Jurong Island to PowerGas, the licensed gas transporter under the Gas Act. Notwithstanding the transfer, Sembcorp Gas will continue as an importer and retailer of natural gas in Singapore.

During the year, our Singapore operations also secured a total of S$86 million worth of new and renewed utilities and gas contracts, of which new 15-year contracts comprised S$55 million. We commenced the supply of utilities to several new customers on Jurong Island, including a range of utilities and services to Lucite International's new methyl methacrylate manufacturing facility under a 20-year contract. To boost the efficiency and capacity of our steam production, a 400 tonnes per hour very high pressure boiler was completed in July 2008. We also commenced construction for a 120 cubic metres per day expansion to our industrial wastewater treatment capacity. The expansion is expected to be completed by the first quarter of 2009.

UK

Our operations in the UK continued to be a significant profit contributor to our Utilities unit. As we had guided the market, its performance in 2008 was affected by the expiry of certain favourable supply contracts at the end of March 2008, as well as the depreciation of the pound sterling.

2008 saw the first full year of operations for our 35-megawatt Sembcorp Biomass Power Station, one of the UK's largest biomass renewable energy projects. As a result of this pioneering biomass development at the Wilton International site, we secured the North East Process Industry Cluster Environment Award in January.

To enhance our on-site capacity, four new package boilers with a total capacity of 120 tonnes per hour commenced operations in April. Our new combined heat and power unit, comprising a gas turbine capable of generating 42 megawatts of power and a heat recovery steam generator capable of producing up to 162 tonnes per hour of steam started commissioning and is expected to be completed in the first half of 2009.

In total, our UK operations secured new and renewed contracts worth S$52 million. In January 2009, we also signed a 25-year major utilities and services agreement with Yara UK for their €30 million facility at the Wilton International site worth approximately S$110 million. As one of the main players in the European carbon dioxide market, Yara will liquefy and purify carbon dioxide from the new Ensus bio-ethanol facility and supply this product to the food and beverage industry.

China

In line with our strategy of establishing and growing beachheads in target markets, we have continued to strengthen our foothold in China. During the year, our China operations secured a total of S$292 million worth of new contracts, of which long-term 15-year contracts comprised S$285 million. We also expanded our operations on existing sites and made further inroads into northeast China.

During the year, we expanded the capacity of our operations in several locations. In Shanghai, our 30%-owned Shanghai Cao Jing Co-generation plant completed the construction of two 130 tonnes per hour supplementary coal fired boilers in January and May respectively. Following an increase in natural gas cost in November 2007, electricity tariffs in Shanghai were also adjusted and increased by the National Development and Reform Commission in 2008.

In Nanjing, a dedicated 30,000 cubic metres per day high salinity wastewater treatment facility was completed in May, more than tripling our existing wastewater treatment capacity in the Nanjing Chemical Industrial Park. This new expansion to Sembcorp's existing 12,500 cubic metres per day wastewater treatment plant is capable of treating incoming wastewater with an average concentration of 1,200 milligrammes per litre, which is five times the strength of municipal wastewater in China, as well as an average salt content of 37,000 milligrammes per litre, which is 50 times the salinity of municipal wastewater. Construction of a 15,000 cubic metres per day high concentration wastewater treatment plant in Zhangjiagang and a 10,000 cubic metres per day wastewater treatment plant in Tianjin are also currently underway.

In Zhangjiagang, we signed a joint venture agreement with Zhangbao Industries Co, an investment arm of the Zhangjiagang city government, to build, own and operate a new 40,000 cubic metres per day reclaimed water project in the Zhangjiagang Free Trade Port Zone. In recognition of our expertise in water, the new facility, which is expected to be completed in 2010, was selected as a joint showcase for integrated water management by the governments of China and Singapore. Our high concentration industrial wastewater treatment facility in Zhangjiagang was also earlier selected as a government-to-government showcase. Following the success of these projects, a memorandum of understanding with the government of Zhangjiagang City was signed during the year to expand our scope of cooperation in water management.

In November, we also strengthened our northeast China beachhead with the acquisition of three water works facilities with a total design capacity of 160,000 cubic metres per day as well as a water intake system and distribution network in the Shenyang Economic & Technological Development Area in Liaoning province. With this new project, we are now well-positioned to grow our water services in the development area to provide customers with a whole range of water solutions.

Other markets

In Vietnam, our Phu My 3 power plant performed well operationally. In the UAE, our independent water and power plant in Fujairah completed its second year of operations. Construction for the 225 megawatt expansion, which will raise total gross generation capacity of the facility to 887 megawatts, is progressing well and on track for commercial operation in March 2009. In March, we also signed a memorandum of understanding with the Higher Corporation For Specialized Economic Zones (ZonesCorp) of Abu Dhabi to jointly establish a utilities services company to provide centralised utilities to ZonesCorp's specialised economic zones. ZonesCorp is the government-backed agency responsible for the establishment, management and operation of zones in Abu Dhabi of special economic nature.

MARKET REVIEW AND OUTLOOK

The global economic crisis has led to sharp declines in global demand, trade and investments. According to World Bank forecasts, global industrial production by the middle of 2009 could be as much as 15% lower than levels in 2008.

In Singapore, the Ministry of Trade and Industry is forecasting a negative growth of between 5% and 2% in 2009 for the Singapore economy. In the UK, the independent forecasts collated by Her Majesty's Treasury indicate an average projected negative growth of 2.8% for the UK's gross domestic product (GDP) in 2009.

As a result of the worldwide economic slowdown, our customers are facing a challenging environment with falling product demand and margins. The fourth quarter of 2008 saw facilities around the world scheduling early maintenance and lowering output, as well as a deceleration of new project announcements due to waning demand and tightening global credit markets.

Singapore

In Singapore, this is expected to affect companies located on Jurong Island as well as the pace of overseas investments into Singapore's petrochemical and chemical sector.

Singapore's Economic Development Board forecasts that fixed asset investments will be lower in 2009 compared to 2008 but could still exceed S$10 billion. In 2008, Singapore saw S$18 billion of fixed asset investments compared to S$17.2 billion in 2007. Some investors such as Lanxess and Jurong Aromatics Corp have announced potential delays to investment decisions on their new proposed facilities on Jurong Island. However, major projects in Singapore such as the two petrochemical crackers, being built by Shell and ExxonMobil, remain on track to be completed by 2010 and 2011 respectively.

In addition, electricity and gas demand, which have historically tracked movements in GDP, may moderate in line with Singapore's projected economic slowdown.

UK

For the first time since 2003, the European Union's (EU) chemicals industry's output excluding pharmaceuticals experienced negative growth in 2008. The European Chemical Industry Council is expecting a decline in output of 1.3% in 2009 for the EU chemical industry, excluding pharmaceuticals. This is expected to affect our customers located in the Wilton International site in the UK and consequently their demand for utilities.

At the end of 2008, following a review of the viability of its aromatics operations, SABIC Europe restructured its operations and closed its paraxylene plant on the Wilton International site. A major on-site customer has also announced that it has begun consultation with trade unions and employee representatives regarding a proposal to cease production at its facilities. Should the closure of the facility take place, a variety of operational optimisation initiatives would be undertaken to mitigate its impact.

In 2009, we expect to commence the supply of utilities to SABIC's new 400,000 tonnes per annum low density polyethylene plant and to Ensus' new 400 million litres per annum bio-ethanol plant. Newly secured customer Yara's carbon dioxide liquid facility is scheduled to commence operations in 2010. We continue to pursue further opportunities in renewable energy and also continue to seek suitable opportunities to grow the business in Europe.

China and other markets

In 2009, our 15,000 cubic metres per day high concentration wastewater facility in Zhangjiagang and 10,000 cubic metres per day wastewater treatment plant in Tianjin are expected to come onstream. Operations in Shanghai, Nanjing and Zhangjiagang are expected to continue to be profitable.

Our performance in Vietnam and the UAE is expected to continue to be underpinned by long-term agreements. Our one-third-owned Phu My 3 power plant in Vietnam has a 20-year power purchase agreement with Electricity of Vietnam, while 40%-owned Fujairah 1 independent water and power plant has a 22-year power and water purchase agreement with the Abu Dhabi Water and Electricity Company. In addition, the 225 megawatt expansion of the Fujairah 1 plant is on track to start commercial operation in March 2009.

Marine Review

PERFORMANCE SCORECARD *(S$ million)*

	2008	2007	Change (%)
Turnover	**5,063.9**	4,513.1	12
EBITDA	**572.5**	413.1	39
EBIT	**501.8**	349.0	44
PATMI before EI	**473.7**	355.6	33
PATMI after EI	**429.9**	241.0	78
Return on Equity *(%)*	**29**	16	81

CONTRIBUTION TO 2008 GROUP TURNOVER

51%

CONTRIBUTION TO 2008 GROUP PATMI BEFORE EI

54%

KEY DEVELOPMENTS

- Net orderbook at S$9.0 billion as of end December 2008 with completions and deliveries until 2012.
- Secured a record S$5.7 billion of contracts in 2008.
- A record total of 11 rigs were delivered on time or ahead of schedule in 2008.
- Signed a strategic alliance agreement with Mac Laren Shipyard to operate a shipyard in Brazil.

COMPETITIVE EDGE

- Singapore's leading marine and offshore engineering group for more than 45 years.
- Comprehensive portfolio encompassing the full spectrum of integrated solutions from ship repair, shipbuilding, ship conversion, rig repair, rig building, topsides fabrication to offshore engineering and construction.
- Strong track record for quality and timely delivery and the ability to handle complex turnkey projects and repairs while meeting high standards for health, safety, security and environment.
- Global network of shipyards strategically located along major shipping routes.
- Development and ownership of proprietary designs for rigs and container vessels.
- Long-term strategic alliances with international ship operators provide a steady and growing baseload in ship repair.

Marine Review

OPERATIONS REVIEW

Sembcorp's Marine business delivered strong results in 2008 underpinned by its rig building, offshore & conversion and ship repair businesses. Turnover grew 12% from S$4.5 billion to S$5.1 billion, while profit after tax and minority interest (PATMI) before exceptional items (EI) increased 33% to S$473.7 million, surpassing 2007's PATMI before EI of S$355.6 million. 2008 PATMI grew 78% from S$241.0 million to S$429.9 million. During the year, a one-off charge of S$43.7 million was recorded arising from the full and final commercial settlement of foreign exchange transactions between subsidiary Jurong Shipyard and BNP Paribas. Gross profit and operating margins improved during the year. 2008 gross profit was S$655.2 million and the business' operating margin was 10% compared to S$411.5 million and 8% respectively in 2007. Return on equity for the year stood at a strong 29%.

Net orderbook stood strong at S$9.0 billion as of December 2008, with completions and deliveries until 2012. A record S$5.7 billion of orders were secured during the year.

Ship repair

During the year, ship repair turnover increased 9% to S$795 million. A total of 269 vessels docked at our yards in 2008 and the average value per vessel increased by 3%, from S$2.9 million in 2007 to S$3.0 million. Long-term strategic alliances continued to provide a steady and growing baseload. Together with our regular repeat customers, they made up 86% of total ship repair revenue in 2008.

High value repairs to oil tankers, container vessels, as well as liquefied natural gas (LNG) and liquefied petroleum gas (LPG) tankers, floating production storage and offloading (FPSO) upgrading as well as rig repairs dominated the vessel mix for the segment.

Shipbuilding

During the year, our Marine business successfully delivered a sixth containership for Wan Hai Lines, a second 2,600 twenty-foot equivalent unit vessel for Reederei F Laeisz, and a second 4,950 deadweight tonne tanker for Kuwait Oil Tanker Company.

2008 saw turnover from this segment falling to S$2 million due to the deliberate redeployment of resources to the rig building and offshore conversion sectors.

Ship conversion and offshore

Turnover from ship conversion and offshore activities recorded a strong growth of 20%, constituting 27% of the total turnover from our Marine business. S$947 million worth of contracts were secured for conversion and offshore projects in 2008 accounting for 17% of total net orderbook.

Projects completed during the year included FPSO conversions of Aoka Mizu, Raroa and the Dhirubhai-1. Other completed projects included the Sapura 3000, a heavy lift derrick pipelay vessel and FPSO topside modules and integration for ConocoPhillips China.

Conversion projects underway include two semi-submersible drilling rigs for Noble Drilling, an accommodation and repair vessel for Equinox Offshore Accommodation, a dynamic positioning (DP) floating drilling production storage and offloading vessel for Petroserv SA and a floating production storage (FSO) vessel for MODEC.

Other projects in progress include construction of an offshore platform integrated deck for Carigali-PTTEPI, an offshore platform for Maersk Olie og Gas, a fallpipe rock dumping vessel for Tideway, a heavy lift derrick pipelay vessel for SapuraCrest Petroleum, two offshore platforms for TOTAL E&P Indonesie and a DP Class 3 heavy lift crane vessel for Nordic Heavy Lift.

Rig building

The rig building segment registered a 14% growth, from S$2.5 billion in 2007 to S$2.8 billion in 2008, contributing 56% to total turnover. In 2008, we secured S$4.7 billion of new orders for jack-ups and semi-submersibles, which made up 83% of new contracts secured for the year.

Key orders included an order for a deep drilling jack-up rig for Egyptian Drilling Company, two deep drilling jack-up rigs for Egyptian Offshore Drilling Company, two ultra-deepwater semi-submersible drilling rigs for Atwood Oceanic Pacific, an ultra-deepwater semi-submersible drilling rig for Larsen Oil & Gas and two deep drilling jack-up rigs and an ultra-deepwater semi-submersible drilling rig for Seadrill. In 2008, we also secured a contract to build a deep drilling jack-up from Sinopec International (Hong Kong), a subsidiary of China Petroleum & Chemical Corporation. This would be the first jack-up rig to be constructed outside China for China Petroleum and Chemical Corporation.

A total of 29 jack-up rigs have been secured to date since 2004, comprising 27 units based on our propriety Baker Marine Pacific Class 375 (BMC Pacific 375) deep drilling offshore jack-up rig design, a harsh environment jack-up rig and a heavy lift jack-up barge. Since 2005, a total of 10 units of sixth generation DP ultra-deepwater new build semi-submersible drilling rigs based on the Friede & Goldman design have also been secured.

During the year, we also completed and delivered nine BMC Pacific 375 jack-up rigs either on or ahead of schedule. These included PetroJack II, Maersk Convincer, Hakuryu-10, Aban VIII, WilForce, WilSeeker, Emerald Driller, Deep Driller 7 and PetroJack IV.

Strategic partnership in Brazil

During the year, Sembcorp Marine's Jurong Shipyard entered into a strategic alliance agreement with Rio de Janeiro-based Mac Laren Shipyard to operate a shipyard in Brazil. Well-positioned to leverage on the abundance of experienced workforce, offshore related materials and equipment suppliers, the shipyard will enable Sembcorp to be a key player in Brazil's oil and gas construction industry.

MARKET REVIEW AND OUTLOOK

Although the current financial turmoil has a damaging impact on the world economy and the current oil prices, 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 depletion of oil and gas reserves.

Our Marine business however has a strong net orderbook. As at end 2008, its net orderbook stood at S$9.0 billion with completions and deliveries until 2012, including S$5.7 billion of contracts secured in 2008. These projects are expected to provide the business with a sufficient baseload, and will keep our shipyards busy with progressive completions and deliveries from 2009 until 2012.

For ship repair, our strategic alliances and partnerships with long-term customers should provide a stable baseload. Meanwhile, the market for large FPSO units and production platforms is expected to remain strong based on owners' long-term commercial viability of projects. Such projects have longer gestation period and constitute part of the owners' investment portfolio designed to provide future output to replace depleting reserves. Although the immediate economic outlook is uncertain, Sembcorp Marine is well positioned to ride out the challenges of the year ahead with its strong net cash and balance sheet position.

Environment Review

PERFORMANCE SCORECARD *(S$ million)*

	2008	2007	Change (%)
Turnover	**216.8**	207.5	4
EBITDA	**(0.3)**	9.0	NM
EBIT	**(9.8)**	1.7	NM
PATMI before EI	**2.1**	13.6	(84)
PATMI after EI	**2.1**	13.6	(84)
Return on equity *(%)*	**1**	7	(86)

KEY DEVELOPMENTS

- Continued focus on waste-to-resource to enhance the competitiveness of our businesses across the Group.
- Australian joint venture strengthened position in domestic waste-to-resource sector with the acquisition of the remaining 50% interest in SITA-CEC Environmental Solutions and the commencement of construction for two state-of-the-art resource recovery facilities in Sydney and Perth.

COMPETITIVE EDGE

- A leading environmental management player that provides integrated waste management services in Singapore and Australia with a strong focus on waste-to-resource businesses in the Asia-Pacific region.
- Ability to offer comprehensive integrated environmental management services to municipal, industrial and commercial customers.
- Development and ownership of differentiating waste-to-resource capabilities and solutions.

OPERATIONS REVIEW

In 2008, Sembcorp's Environment business posted a turnover of S$216.8 million compared to S$207.5 million in 2007. Profit after tax and minority interest (PATMI) was S$2.1 million, compared to S$13.6 million in the previous year, mainly due to an impairment of S$7.9 million made for part of its plant and machinery.

During the year, we continued our focus on the post-collection treatment and waste-to-resource business. Our waste-to-resource facilities in Singapore assist in achieving higher recycling rates by extracting recyclable content from waste collected through our collection arm, which is the leading operator in Singapore, serving four out of nine municipalities and collecting approximately one million tonnes of waste per year. During the year, we also commenced a feasibility study on the conversion of recovered resources to alternative fuel, also known as solid recovered fuel (SRF). SRF is fuel produced from combustible waste that can be used as alternative fuel to produce heat or power, and can potentially replace fossil fuels and reduce greenhouse gas emissions.

Our Australian joint venture, SITA Environmental Solutions, performed well in 2008. During the year, it acquired the remaining 50% interest in its former joint venture, SITA-CEC Environmental Solutions, from its partner CEC Group for A$13.5 million. Now 100%-owned, SITA-CEC's key resource recovery facilities currently operate in Queensland and New South Wales. The acquisition strengthens SITA's leading position in the Australian alternative waste technology market. In addition, we commenced the construction of two state-of-the-art resource recovery facilities in Sydney and Perth. Construction is expected to be completed by mid-2009.

In India, our subsidiary SembRamky Environmental Management continued to operate eight biomedical waste facilities throughout India, with a total installed capacity of 12.5 tonnes per day.

During the year, we continued to streamline our businesses, exiting three joint ventures in China. Our stakes in Jiangsu Sembcorp Chunxing Alloy Company and Chongqing Sembcorp Chunxing Alloy Company were divested in June while in September, we exited our paper recycling joint venture in Shanghai.

MARKET REVIEW AND OUTLOOK

We continue to be focused on waste-to-resource and post-collection treatment. We believe that the long-term prospects for these sectors are promising such as in the production of SRF. In view of volatile oil and resource prices as well as technological advancements in alternative waste treatment, there has been increased attention on deriving renewable energy sources from waste. A sustainable source of alternative fuel, the production of SRF from recovered resources would also allow us to enhance synergies across the Group, particularly with the Utilities business.

Overseas, our Australian joint venture is expected to continue to perform well. It plans to pursue selective expansion opportunities to grow its alternative waste treatment business.

Barring unforeseen circumstances, the performance of our Environment business in 2009 is expected to be better than that of 2008.

Industrial Parks Review

PERFORMANCE SCORECARD *(S$ million)*

	2008	2007	Change (%)
Turnover	**18.9**	25.8	(27)
EBITDA	**10.2**	58.2	(82)
EBIT	**8.2**	55.4	(85)
PATMI before EI	**31.5**	34.0	(7)
PATMI after EI	**31.5**	72.7	(57)
Return on Equity *(%)*	**7**	15	(53)

Note:

The turnover of Vietnam Singapore Industrial Park, Wuxi-Singapore Industrial Park and Gallant Venture is not consolidated as these are joint ventures or associate companies.

Industrial Parks Group comprises Vietnam Singapore Industrial Park JV Co, Vietnam Singapore Industrial Park and Township Development Joint Stock Company, Wuxi-Singapore Industrial Park Development Co, Gallant Venture, Sembcorp Parks Management as well as other investments and property.

KEY DEVELOPMENTS

- Positioned as major land bank owner and developer with 4,145 hectares in Vietnam when fully developed.
- Investment certificates received for VSIP II expansion and the first phase development of VSIP Hai Phong.
- Development of the first phase of a 92,000 square metre business park within the Wuxi-Singapore Industrial Park.
- Formed Singapore consortium with Yanlord Land Group and Surbana Corporation to explore the feasibility of establishing a Nanjing-Singapore eco-city.

COMPETITIVE EDGE

- Owns, develops, markets and manages industrial parks in Vietnam, China and Indonesia.
- Recognised as one of the leading industrial space providers in Southeast Asia, with over 500 multinational companies and leading local enterprises as tenants.
- Expertise in industrial park management and international marketing attracts premier customers, including multinational companies and leading local enterprises.
- Integrated approach to township development is designed to provide a world-class manufacturing environment.

OPERATIONS REVIEW

Sembcorp's Industrial Parks business' turnover for 2008 was S$18.9 million compared to S$25.8 million in 2007, mainly due to the divestment of Wuxi Garden City Mall Hotel in May 2007. Profit after tax and minority interest (PATMI) before exceptional items (EI) in 2008 was S$31.5 million compared to S$34 million in 2007 mainly due to associate Gallant Venture's lower profit contribution. In 2007, an exceptional gain of S$38.7 million was recorded from the sale of 70 million (2.9%) Gallant Venture shares.

Vietnam

In 2008, Sembcorp's Vietnam Singapore Industrial Park (VSIP) projects in Vietnam continued to perform well. In spite of the country's weakening economy and the global economic slow down, Sembcorp's VSIP I and II in southern Vietnam managed to achieve a combined 85% take-up rate, an increase of 15% over 2007. The two industrial parks now host a total of 363 customers. We also continued to strengthen our position as a major land bank owner and developer in Vietnam with a total area of 4,145 hectares when fully developed. During the year, we received the investment certificate for a 1,000 hectare expansion of VSIP II, bringing the current total land area in VSIP II to 1,345 hectares. Feasibility studies were also completed for 1,600-hectare VSIP Hai Phong in the north and the investment certificate for an initial 611-hectare phase received. In Bac Ninh, initial phase land settlement was completed for the 700-hectare integrated township and industrial park and land preparation has commenced for customers. Sembcorp will contribute US$4.8 million of equity capital for our 12% direct stake in the VSIP JSC which increased its share capital to undertake the development of the two new VSIP projects in northern Vietnam.

Our VSIP projects continued to garner awards in recognition of our ability to attract international customers and foreign investment to the country. Awards received in 2008 include the Saigon Times' Top 40 award, the Economic Times' Golden Dragon award and most notably, Euromoney's Best Industrial Developer award, ahead of developers of 179 other industrial parks in Vietnam.

China

During the year, we expanded our presence in China and took steps to introduce our integrated township and industrial park concept. In October, a master agreement was signed to establish a new 1,500-hectare industrial township, the Guangxi-Singapore Industrial Park. The first phase of development for the project is expected to span 260 hectares.

In November, a memorandum of understanding was also signed for the development of an eco-city in Nanjing, Jiangsu province. Together with Yanlord Land Group and Surbana Corporation, we would be undertaking a feasibility study of the Nanjing-Singapore eco-city. A new bilateral project between the Singapore and China governments, the project aims to develop a modern, ecologically-friendly work-live-play environment housing high-tech industries and innovative enterprises, which will eventually serve as a showcase for sustainable development.

Meanwhile, the Wuxi-Singapore Industrial Park (WSIP) commenced construction for the first phase of its 92,000 square metre business park dedicated to innovative and high value added service industry players. Higher contributions were also enjoyed from the industrial park following the handover of a 110,000-square metre custom built factory to Suntech Power in August, with whom we have a 12-year lease agreement. There are currently 68 tenants operating in the WSIP, taking up 98% of marketable area.

Indonesia

Associate company Gallant Venture's profit contribution in 2008 was lower than in 2007 mainly due to a slowdown in land sales from its Bintan resorts. During the year, Gallant Venture reported accumulated land sales in Bintan's Lagoi Bay Resort and Township amounting to S$67.1 million in value, pending full payment and transfer of land titles to buyers.

MARKET REVIEW AND OUTLOOK

Our Industrial Parks business continues to be focused on developing integrated industrial townships in emerging markets such as Vietnam and China where we believe there will continue to be an impetus for industrialisation. However, the business' performance in 2009 is expected to be affected by the global economic slowdown and resultant weak investor sentiment. We expect that this will dampen the realisation of land sales as well as new take-up. Our key focus in 2009 will be on customer retention in existing townships and industrial parks, as well as on executing our new project pipeline. Land acquisition as well as infrastructure development of our expansion in VSIP II and new VSIP Bac Ninh, VSIP Hai Phong and Guangxi-Singapore Industrial Park projects will be paced to be in tandem with customer demand and take-up.