

# Group Review

## Performance Scorecard (\$ million)

	2009	2008	Change (%)
Turnover	9,572.4	9,928.4	(4)
EBITDA	1,315.7	939.6	40
EBIT	1,116.0	744.4	50
PBT	1,218.3	861.9	41
PATMI before EI	682.7	534.0	28
PATMI after EI	682.7	507.1	35
EPS (cents)	38.4	28.5	35
ROE (%)	23.1	18.0	28

## Overview

Sembcorp's good performance in 2009 has demonstrated the resilience of our strategy and businesses. The Group's profit after tax and minority interest (PATMI) in 2009 grew by 35% to S\$682.7 million whilst turnover was S\$9.6 billion compared to S\$9.9 billion in the previous year.

## Turnover

The Group achieved a turnover of S\$9.6 billion, with the Utilities and Marine businesses contributing 96% of the total turnover.

The reduction in the Utilities business' turnover was mainly from its Singapore and UK operations. Singapore operations' reduced turnover in 2009 was largely due to the drop in high sulphur fuel oil (HSFO) prices as its revenue is mainly indexed to HSFO. The UK operations' 2009 turnover was affected by lower sales as a result of customers' closure of their on-site facilities and the weakening of the pound sterling, which resulted in lower turnover in Singapore dollar terms. In addition, our UK operations' turnover was impacted by the expiry of a favourable supply contract in March 2008.

The Marine business' 2009 turnover increased by 13% to S\$5.7 billion mainly due to higher contribution from rig building activities.

The Environment business' turnover decreased primarily due to the divestment of certain businesses and lower sales tonnage and selling price of recyclables.

Revenue from the Others / Corporate segment was mainly contributed by a subsidiary dealing in specialised construction activities. Fluctuations in turnover were

due to timing differences in the recognition of revenue from projects.

## Earnings

Group PATMI grew 35% from S\$507.1 million to S\$682.7 million.

The Utilities business' PATMI grew by 6% to S\$211.3 million, with operations in Singapore, China, Vietnam and the UAE showing growth. Despite the difficult economic environment during the year, the cogeneration unit in Singapore performed well, benefiting from higher margins despite undergoing major inspection and maintenance during the year. Further, it benefited from gains on sale of strategic diesel and lower corporate tax rate. Our UK operations' performance was lower due to customers' closure of their facilities on-site as well as the expiry of a favourable supply contract in March 2008.

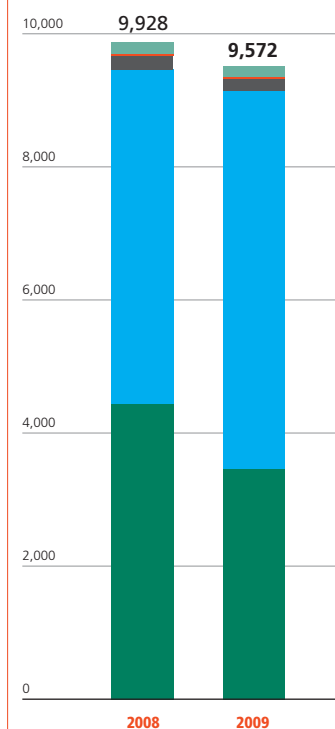
The Marine business' contribution to Group PATMI grew 48% from S\$290.6 million to S\$430.2 million, attributable to a combination of operational efficiency and execution of projects ahead of schedule, resulting in better margins and the resumption of margin recognition for some of the projects.

The Environment subsidiary's underlying business in Singapore has improved as a result of lower operational costs. Its 2009 PATMI included a gain on the divestment of certain businesses.

The Industrial Parks business' lower PATMI in 2009 was attributed to lower contributions from Gallant Venture and lower gains on the disposal of investments, partially offset by higher rental income and better performance from the China industrial parks.

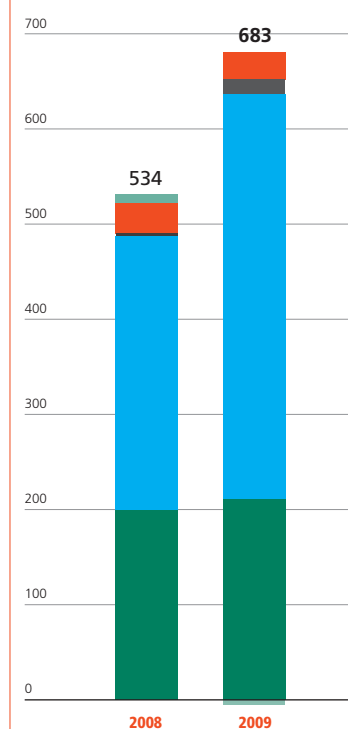
## Turnover (\$ million)

	2008	2009
Utilities	4,478	3,495
Marine	5,061	5,723
Environment	214	185
Industrial Parks	16	15
Others / Corporate	159	154
	9,928	9,572



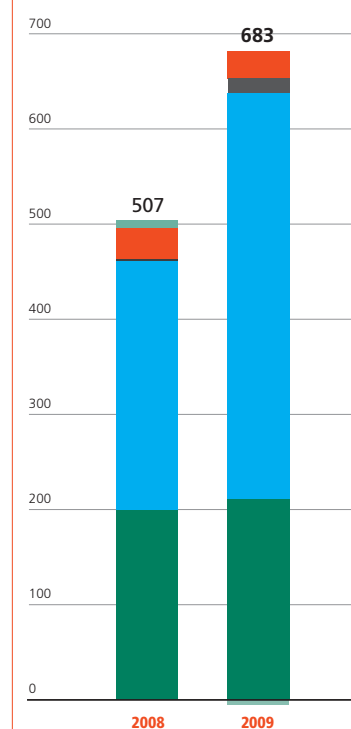
## PATMI before EI (\$ million)

	2008	2009
Utilities	200	211
Marine	291	430
Environment	2	16
Industrial Parks	32	28
Others / Corporate	9	(2)
	534	683



## PATMI after EI (\$ million)

	2008	2009
Utilities	200	211
Marine	264	430
Environment	2	16
Industrial Parks	32	28
Others / Corporate	9	(2)
	507	683



The exceptional loss in 2008 related to the Group's share of the Marine business' foreign exchange losses from unauthorised transactions.

## Cash Flow and Liquidity

As at December 31, 2009, the Group had cash and cash equivalents of S\$2.6 billion.

Cash flows from operating activities before changes in working capital increased from S\$1.0 billion in 2008

to S\$1.4 billion in 2009. Net cash inflow from operating activities for 2009 decreased to S\$932.8 million due to increased inventories and work-in-progress in Marine.

Net cash outflow from investing activities for 2009 was S\$474.6 million. The spending of S\$407.4 million on expansion and operational capital expenditure, S\$111.9 million on equity interests in associates and S\$67.3 million on a shareholder's loan to an associate

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in 2009, were partially offset by dividends and interest received of S\$98.9 million.

Net cash outflow from financing activities for 2009 of S\$266.7 million related mainly to dividends and interest paid, partially offset by net proceeds from borrowings.

Free cash flow, defined as operating cash flow plus investing cash flow adjusted for expansion capital expenditure, was S\$882.0 million as at December 31, 2009.

### Financial Position

Group shareholders' funds increased from S\$2.6 billion as at December 31, 2008 to S\$3.3 billion as at December 31, 2009. The increase in "Other reserves" was mainly due to (i) fair value gains on foreign currency forward and fuel oil swap contracts, (ii) fair value gains on Cosco Corporation (Singapore) (Cosco) shares held by the Marine business as well as (iii) the reversal of the fair value loss residing in the share of reserves of associates following the repayment of an equity bridge loan by Emirates Sembcorp Water & Power Company in February 2009.

"Interests in Associates and Joint Ventures" were higher in 2009 because of increased investments in associates in the UAE and Australia, a new investment in China and the addition of the Group's share of profits from associates and joint ventures during the year. The increase in "Other financial assets" was mainly due to fair value adjustments for Cosco shares held by the Marine business. The increase in "Long-term receivables and prepayments" pertained mainly to the Sembcorp NEWater Plant, which is being constructed under a service concession arrangement and a long-term loan due from an associated company.

"Inventories and work-in-progress" increased and "Excess of progress billings over work-in-progress" decreased significantly, mainly due to an increase in rig building, offshore and conversion projects. "Trade and other receivables" and "Trade and other payables" were lower due to the respective timing of receipts and payments. The increase in "Provisions" was mainly due to higher specific provisions for warranty and claims.

### Shareholder Returns

Return on equity increased from 18% in 2008 to 23% in 2009, and earnings per share increased to 38.4 cents

in 2009 from 28.5 cents in 2008.

Subject to approval by shareholders at the next annual general meeting, a final tax exempt one-tier dividend of 15.0 cents per ordinary share has been proposed for the financial year ended December 31, 2009.

### Economic Value Added

The Group generated positive economic value added (EVA) of S\$770.5 million in 2009. This positive EVA creation was mainly driven by better Group earnings.

Our net operating profit after tax (NOPAT) for 2009 amounted to S\$1.1 billion whilst capital charges increased to S\$322.6 million mainly due to a higher weighted average cost of capital (WACC) of 6%.

### Value Added and Productivity Data

In 2009, the Group's total value added was S\$2.2 billion. This was absorbed by employees in wages, salaries and benefits of S\$710.3 million, by governments in income and other taxes of S\$243.5 million and by providers of capital in interest and dividends of S\$236.9 million, leaving a balance of S\$1.0 billion reinvested in business.

### Critical Accounting Policies

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

With effect from January 1, 2009, the Group adopted the following new or amended FRS and INT FRS, which are relevant to the Group's operations:

FRS 1 (revised 2008)	Presentation of Financial Statements
FRS 23 (revised 2007)	Borrowing Costs
Amendments to FRS 107	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
FRS 108	Operating Segments
INT FRS 116	Hedges of a Net Investment in a Foreign Operation
Improvements to FRSs	

The adoption of the above FRS and 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 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 40 in the Notes to the Financial Statements.

### Treasury Management

The Group's financing and treasury activities continue to be mainly centralised within its wholly-owned subsidiary Sembcorp Financial Services (SFS), the funding vehicle of the Group. SFS on-lends funds borrowed by it to companies within the Group.

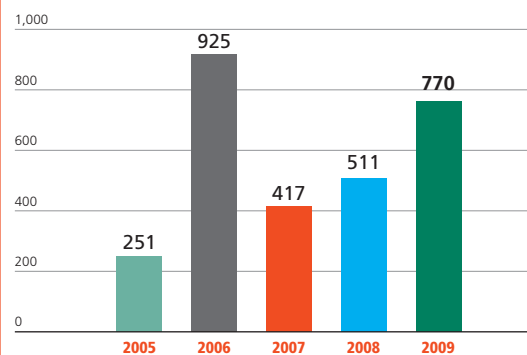
### Economic Value Added (S\$ million)

	Note	2009	2008
<b>Net operating profit before income tax expense</b>		<b>1,109</b>	736
Adjust for			
Share of associates' and joint ventures' profits		136	140
Interest expense	1	45	47
Others	2	20	5
<b>Adjusted profit before interest and tax</b>		<b>1,310</b>	928
Cash operating taxes	3	(217)	(104)
<b>Net operating profit after tax (NOPAT)</b>		<b>1,093</b>	824
<b>Average capital employed</b>	4	<b>5,376</b>	5,419
<b>Weighted average cost of capital (%)</b>	5	<b>6.0</b>	5.8
<b>Capital charge</b>		<b>323</b>	313
<b>Economic value added (EVA)</b>		<b>770</b>	511
Minority share of EVA		(284)	(175)
<b>EVA attributable to shareholders</b>		<b>486</b>	336
Less: Unusual items (UI) gains	6	2	10
<b>EVA attributable to shareholders (excluding UI)</b>		<b>484</b>	326

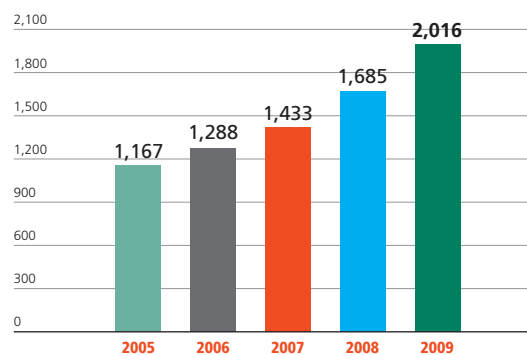
- Interest expense includes imputed interest on present value of operating leases and capitalised interest charged to income statement upon disposal of the assets.
- Other adjustments include recovery of investment costs, timing difference of allowances made for I (write-back) of doubtful debts, warranty, inventory obsolescence and goodwill written off I impaired and construction-in-progress.
- The reported current tax is adjusted for the statutory tax impact of interest expense.
- Average capital employed is computed by taking monthly average total assets less non interest-bearing liabilities plus timing provision, goodwill written off I impaired and present value of operating leases.
- The weighted average cost of capital is calculated in accordance with the Sembcorp Group EVA Policy as follows:
  - Cost of equity using capital asset pricing model with market risk premium at 6.0% (2008: 6.0%);
  - Risk-free rate of 2.08% (2008: 2.74%) based on yield-to-maturity of Singapore Government 10-year Bonds;
  - Ungeared beta ranging from 0.5 to 1.1 (2008: 0.5 to 1.0) based on Sembcorp Industries' risk categorisation; and
  - Cost of debt rate at 4.98% (2008: 3.53%).
- Unusual items (UI) refer to gain / loss on divestment of subsidiaries, associates, joint ventures, long-term investments and disposal of major fixed assets.

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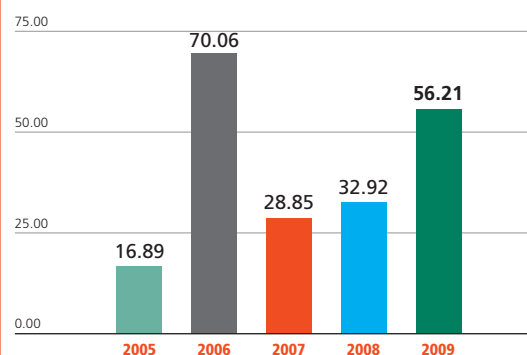
### Economic Value Added (\$ million)



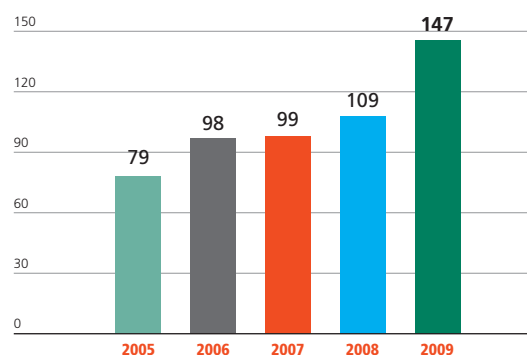
### Gross Value Added (\$ million)



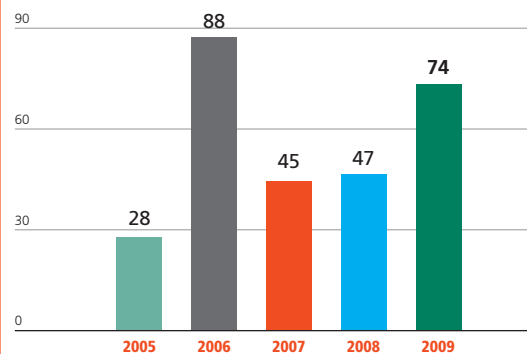
### EVA per Employee (\$'000)



### Value Added per Employee (\$'000)



### Profit after Tax per Employee (\$'000)



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 with a number 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 managing the Group's cash and financing its funding requirements.

### Facilities

During the year, SFS issued an inaugural S\$200 million five-year note maturing in April 2014 under its S\$1.5 billion medium-term note programme. In addition,

SFS also arranged bank financing amounting to approximately S\$411 million for a tenor of up to four years to fund the Group's investment and working capital needs. Together with Sembcorp Marine's S\$500 million medium-term note programme, the Group's total available credit facilities as at end-2009 amounted to S\$6.7 billion (2008: S\$4.6 billion), with unfunded facilities standing at S\$1.9 billion (2008: S\$1.9 billion).

### Borrowings

Although the global financial turmoil and tightening credit markets have improved somewhat as compared to 2008, we continue to focus on maintaining

adequate liquidity for the Group's businesses.

We continue to build on our banking relationships with a view to ensuring that when commercially viable and strategically attractive opportunities arise, we are able to secure funding on competitive terms.

The Group remains committed to balancing the availability of funding and the cost of funding, together 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, 2009, gross borrowings amounted to S\$967.7 million, of which 98% (2008: 92%)

### Value Added Statement (\$ million)

	2009	2008	2007	2006	2005
<b>Value added from</b>					
Turnover	9,572	9,928	8,619	8,074	7,304
Less: Bought in materials and services	(7,556)	(8,243)	(7,186)	(6,786)	(6,137)
Gross value added	2,016	1,685	1,433	1,288	1,167
Investment, interest and other income	125	154	461	778	240
Share of associates' profit	65	91	114	87	53
Share of joint ventures' profit	71	49	60	55	48
Other non-operating expenses	(59)	(145)	(348)	(172)	(74)
	2,218	1,834	1,720	2,036	1,434
<b>Distribution</b>					
To employees in wages, salaries and benefits	710	682	636	624	621
To government in income and other taxes	243	170	186	36	137
To providers of capital on:					
Interest paid on borrowings	41	44	54	53	54
Dividends to shareholders	196	267	498	91	73
	1,190	1,163	1,374	804	885
<b>Retained in Business</b>					
Depreciation and amortisation	200	195	185	163	174
Retained profits	487	240	28	911	235
Minority interests	333	224	125	130	112
	1,020	659	338	1,204	521
Other non-operating expenses	8	12	8	28	28
	1,028	671	346	1,232	549
<b>Total distribution</b>	2,218	1,834	1,720	2,036	1,434

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### Productivity Data

	2009	2008	2007	2006	2005
Average staff strength	13,707	15,512	14,453	13,199	14,862
Employment costs (\$ million)	710	682	636	624	621
Sales per employee (\$'000)	698	640	596	612	491
Profit after tax per employee (\$'000)	74	47	45	88	28
Economic value added (\$ million)	770	511	417	925	251
Economic value added spread (%)	14.3	9.4	8.1	19.2	4.8
Economic value added per employee (\$'000)	56.21	32.92	28.85	70.06	16.89
Value added (\$ million)	2,016	1,685	1,433	1,288	1,167
Value added per employee (\$'000)	147	109	99	98	79
Value added per dollar employment costs (\$)	2.84	2.47	2.25	2.06	1.88
Value added per dollar investment in fixed assets (\$)	0.47	0.43	0.36	0.35	0.30
Value added per dollar sales (\$)	0.21	0.17	0.17	0.16	0.16

The figures above reflect core businesses only.

was committed funding. Of the overall debt portfolio, 90% (2008: 86%) 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 and balancing this with liquidity and cost considerations. The weighted average cost of funding was 4.14% (2008: 3.83%). Interest cover ratio remained healthy at 31.9 times (2008: 21.2 times).

The current maturity profile of the Group's debt continues to be weighted more towards the longer dated maturities, which mitigates short-term refinancing risks. As at end-2009, the portion of the Group's debt maturing beyond one year was 70% (2008: 65%). Only \$286.6 million of the Group's debt is due within 12 months.

### Financing & Treasury Highlights (\$ million)

	2009	2008	2007
<b>Source of Funding</b>			
Cash and cash equivalents	2,598	2,401	1,297
<b>Funded bank facilities and capital markets</b>			
Uncommitted facilities available for drawdown	3,753	3,831	3,598
Committed facilities available for drawdown	2,918	755	1,154
Total funded facilities	6,671	4,586	4,752
Less: Uncommitted funding drawn down	(16)	(62)	(187)
Less: Committed funding drawn down	(952)	(755)	(1,154)
Unutilised funded facilities available	5,703	3,769	3,411
<b>Unfunded bank facilities</b>			
Unfunded facilities available for drawdown	1,942	1,886	1,893
Less: Amount drawn down	(911)	(816)	(985)
Unutilised unfunded facilities available	1,031	1,070	908
Total unutilised funded and unfunded facilities	6,734	4,839	4,319
<b>Funding Profile</b>			
<b>Maturity profile</b>			
Due within one year	287	287	501
Due between one to five years	546	441	656
Due after 5 years	135	89	184
	968	817	1,341
<b>Debt mix</b>			
Fixed rate debt	871	701	862
Floating rate debt	97	116	479
	968	817	1,341
<b>Currency denomination of debt</b>			
SGD	627	591	969
USD	61	39	66
GBP	154	170	286
Others	126	17	20
	968	817	1,341

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### Financing & Treasury Highlights (\$ million)

	2009	2008	2007
<b>Debt Ratios</b>			
<b>Interest cover ratio</b>			
Earnings before interest, tax, depreciation and amortisation	1,316	940	824
Interest on borrowings	41	44	54
Interest cover (times)	31.9	21.2	15.3
<b>Debt / equity ratio</b>			
Non-recourse project financing	307	362	511
Long-term debt	430	236	398
Short-term debt	231	219	432
	968	817	1,341
Less: Cash and cash equivalents	(2,598)	(2,401)	(1,297)
Net debt / (cash)	(1,630)	(1,584)	44
Net (cash) exclude project financing	(1,752)	(1,825)	(306)
Net gearing excluding project financing (times)	Net cash	Net cash	Net cash
Net gearing including project financing (times)	Net cash	Net cash	0.01
<b>Average cost of funds</b>	<b>4.14</b>	<b>3.83</b>	<b>3.85</b>