# OPERATING & FINANCIAL REVIEW

# COMPANY OVERVIEW

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.

## Business Description

Sembcorp Industries is a Singapore-listed company with assets totalling more than S$10 billion. The Group is primarily involved in the following businesses:

- Utilities
- Marine
- Industrial Parks

The **Utilities** business provides energy and water to industrial and municipal customers in Singapore, China, India, Indonesia, the Philippines, Vietnam, Oman, the UAE, South Africa, the UK, the Caribbean, Chile and Panama. Key activities in the energy sector include power generation and retail, process steam production and supply, as well as natural gas import, supply and retail. In the water sector, the business offers wastewater treatment, as well as the production and supply of reclaimed, desalinated and potable water as well as water for industrial use. Together with energy and water, the business also offers on-site logistics as part of a bundled offer to industrial customers, as well as solid waste management in Singapore, Australia and India.

The **Marine** business provides integrated solutions in ship repair, shipbuilding, ship conversion, rig building and offshore engineering and construction, including topsides fabrication, through its global network of shipyards spanning Singapore, China, Indonesia, Brazil, the USA and India.

The **Industrial Parks** business owns, develops, markets and manages integrated townships and industrial parks in Vietnam, China and Indonesia. The business offers an integrated approach to township development designed to provide world-class industrial, commercial and residential space and a sustainable urban environment.

## 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 maintains a focus on our key energy, water, marine and industrial parks businesses, which offer strong fundamentals. Coupled with our solid operational and management capabilities and a disciplined approach towards investment, we believe that focusing on our key 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.

Our Utilities business has established itself as a leading energy and water player. We have a strong track record in supplying power, steam and natural gas to industrial customers and to the grid and are a trusted provider of total water and wastewater solutions to both industries and households. Leveraging on our expertise in energy and water, we have established a niche as a global leader for the provision of bundled energy, water and on-site logistics to customers in energy-intensive industrial sites and as a developer, owner and operator of large-scale combined power and water plants. Meanwhile, our Marine business has built up 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 provide a steady and growing baseload in ship repair. Our Industrial Parks unit takes an integrated approach to the development of townships and industrial parks. Its early involvement in the development of industrial, residential and commercial areas also provides potential opportunities for the provision of utilities and other services.

### 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 and processes we have built up in each of our businesses.

We seek to leverage and strengthen our unique operational capabilities in energy and water to seize growth opportunities in these fast-growing sectors, harnessing technology and innovation to further enhance our competitive advantage.

On the energy front, we apply technologies for greater efficiency and lower emissions, such as combined cycle gas turbine, cogeneration and combined power and desalination technologies. On the water front, we have developed distinctive capabilities as operators of reliable and efficient facilities serving both industrial customers as well as households. Our niche expertise in industrial water solutions includes applying energy-efficient and environmentally-friendly technologies for the treatment of complex high concentration wastewater from multiple sources, as well as the production of industrial water through desalination and water reclamation. We also provide essential municipal water services to over five million people worldwide, including the provision of potable water, desalinated water and reclaimed water, as well as sewage treatment.

Meanwhile, our Marine business' proprietary technologies and designs for rigs, drillships 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 global market. Similarly, our Industrial Parks business' integrated approach to designing self-sufficient sites featuring world-class industrial, commercial and residential space with an emphasis on sustainable urban development demonstrates capabilities which offer us a competitive advantage. This includes the business' credibility and track record in the development of raw land, including land resettlement and infrastructure development, and its ability to extract further value by undertaking the selective development of commercial and residential real estate at choice sites within its land bank.

### 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 continue to 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. To support the world's continued development amidst rising urbanisation and population growth, we also actively invest in green business lines which will give us an edge in an increasingly resource-scarce world.

### Build on strong brand name

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

# GROUP STRUCTURE

## Sembcorp Industries

### UTILITIES

**Sembcorp Utilities 100%**

SINGAPORE

| | |
|---|---|
| Sembcorp Cogen | 100% |
| Sembcorp Power | 100% |
| Sembcorp Gas | 70% |
| Sakra Island Carbon Dioxide | 30% |
| Sembcorp NEWater | 100% |

CHINA

| | |
|---|---|
| Sembcorp Utilities Investment Management (Shanghai) | 100% |
| Fuzhou Sembcorp Water Co | 70.3% |
| Nanjing Sembcorp SUIWU Co | 95% |
| NCIP Water Co | 95% |
| Qinzhou Sembcorp Water Co | 80% |
| Qitaihe CWC Water Co | 88.8% |
| Shanghai Cao Jing Co-generation Co | 30% |
| Sanhe Yanjiao CWC Water Co | 92.1% |
| Shenyang Sembcorp Water Co | 80% |
| Sembcorp Tianjin Lingang Industrial Area Wastewater Treatment Co | 90% |
| Xinmin Sembcorp Water Co | 88.8% |
| Yancheng China Water Co | 47.9% |
| Zhangjiagang Free Trade Zone Sembcorp Water Co | 80% |
| Zhangjiagang Free Trade Zone Sembcorp Water Recycling Co | 80% |
| Zhumadian China Water Co | 49.8% |

INDIA

| | |
|---|---|
| Thermal Powertech Corporation India | 49% |
| Sembcorp Gayatri O&M Co | 70% |

INDONESIA

| | |
|---|---|
| PT Adhya Tirta Batam | 48.8% |
| PT Adhya Tirta Sriwijaya | 39.1% |

PHILIPPINES

| | |
|---|---|
| Subic Water and Sewerage Co | 29.3% |

VIETNAM

| | |
|---|---|
| Phu My 3 BOT Power Co | 33.3% |

OMAN

| | |
|---|---|
| Sembcorp Salalah Power and Water Co | 60% |
| Sembcorp Salalah O&M Services Co | 70% |

UAE

| | |
|---|---|
| Emirates Sembcorp Water & Power Co | 40% |
| Sembcorp Gulf O&M Co | 100% |

SOUTH AFRICA

| | |
|---|---|
| Sembcorp Silulumanzi | 97.7% |
| Siza Water Co | 71.8% |

UK

| | |
|---|---|
| Sembcorp Utilities (UK) | 100% |
| Sembcorp Bournemouth Water | 97.7% |

ANTIGUA

| | |
|---|---|
| Sembcorp (Antigua) Water | 97.7% |

BONAIRE & CURAÇAO

| | |
|---|---|
| Sembcorp St Maarten Water | 97.7% |

CHILE

| | |
|---|---|
| Bayesa | 97.7% |
| Sembcorp Aguas Chacabuco | 97.7% |
| Sembcorp Aguas Lampa | 97.7% |
| Sembcorp Aguas Santiago | 97.7% |

PANAMA

| | |
|---|---|
| Aguas de Panama | 97.7% |

**Sembcorp Environment 100%**

SINGAPORE

| | |
|---|---|
| SembWaste | 100% |
| Sembcorp Tay Paper Recycling | 60% |

AUSTRALIA

| | |
|---|---|
| SembSita Australia | 40% |

INDIA

| | |
|---|---|
| SembRamky Environmental Management | 51% |

### MARINE

**Sembcorp Marine 61.0%***

SINGAPORE

| | |
|---|---|
| Jurong Shipyard | 100% |
| Sembawang Shipyard | 100% |
| PPL Shipyard | 85% |
| SMOE | 100% |
| Jurong SML | 100% |
| Sembcorp Marine Technology | 100% |

CHINA

| | |
|---|---|
| COSCO Shipyard Group | 30% |
| Shenzhen Chiwan Offshore Petroleum Equipment Repair & Manufacture Co | 35% |

INDONESIA

| | |
|---|---|
| PT Karimun Sembawang Shipyard | 100% |
| PT SMOE Indonesia | 90% |

BRAZIL

| | |
|---|---|
| Estaleiro Jurong Aracruz | 100% |
| Jurong do Brasil Prestação de Serviços | 100% |

USA

| | |
|---|---|
| Sembcorp-Sabine Shipyard | 100% |

INDIA

| | |
|---|---|
| SembMarine Kakinada | 19.9% |

### INDUSTRIAL PARKS

**Sembcorp Industrial Parks 100%**

VIETNAM

| | |
|---|---|
| Vietnam Singapore Industrial Park JV Co | 40.4% |
| Vietnam Singapore Industrial Park & Township Development Joint Stock Co | 40.3% |
| VSIP Bac Ninh Co | 40.3% |
| VSIP Hai Phong Co | 40.3% |

CHINA

| | |
|---|---|
| Wuxi-Singapore Industrial Park Development Co | 45.4% |
| Sino-Singapore Nanjing Eco High-tech Island Development Co | 21.5% |

SINGAPORE

| | |
|---|---|
| Gallant Venture | 23.9% |

**Sembcorp Parks Management 56%**

### OTHER BUSINESSES

| | |
|---|---|
| **Sembcorp Design and Construction** | **100%** |
| **Shenzhen Chiwan Sembawang Engineering Co** | **32%** |
| **Singapore Precision Industries / Singapore Mint** | **100%** |

*This list of companies is not exhaustive.*

*The Utilities business also includes the SUT and PPU divisions of Sembcorp Industries.*

*Figures reflect shareholding as at February 28, 2011.*

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

# GROUP REVIEW

## Performance Scorecard *(S$ million)*

| | 2010 | 2009 | Change (%) |
|---|---|---|---|
| Turnover | **8,763.6** | 9,572.4 | (8) |
| EBITDA | **1,478.0** | 1,315.7 | 12 |
| PFO | **1,396.0** | 1,225.5 | 14 |
| – EBIT | **1,235.9** | 1,116.0 | 11 |
| – Share of results: Associates & JVs, net of tax | **160.1** | 109.5 | 46 |
| PBT | **1,367.3** | 1,218.3 | 12 |
| Net profit | **792.9** | 682.7 | 16 |
| EPS *(cents)* | **44.4** | 38.4 | 16 |
| ROE *(%)* | **22.2** | 23.1 | (4) |

### Overview

Sembcorp's good performance in 2010 has demonstrated the resilience of our strategy and businesses. The Group's net profit attributable to shareholders of the Company (net profit) in 2010 grew by 16% to S$792.9 million, whilst turnover was S$8.8 billion compared to S$9.6 billion in the previous year.

During the year, the Group recorded an exceptional gain of S$32.1 million comprising the Group's share of the Marine business' full and final amicable settlement of disputed foreign exchange transactions.

### Turnover

The Group achieved a turnover of S$8.8 billion, with the Utilities and Marine businesses contributing 98% of total turnover.

The Utilities business' turnover increased by 9%, mainly due to higher high sulphur fuel oil (HSFO) prices as well as the consolidation of Cascal's turnover with effect from July 2010.

The Marine business' 2010 turnover decreased by 20% to S$4.6 billion mainly due to rig building as well as offshore and conversion projects achieving a lower percentage of completion revenue recognition as compared to the prior year. There was also higher variation order settlement for offshore contracts in 2009 as compared to 2010.

Revenue from the Others / Corporate segment was mainly contributed by a subsidiary dealing in specialised construction activities. The increase in turnover in the segment compared to the year before was mainly due to differences in timing of the recognition of revenue from projects.

### Net Profit

The Group net profit in 2010 grew 16% from S$682.7 million to S$792.9 million, while profit from operations (PFO) increased 14% from S$1,225.5 million to S$1,396.0 million.

The Utilities business' net profit improved by 2% to S$231.3 million. All regions registered growth except for Teesside operations in the UK. Singapore operations performed well, mainly driven by high electricity prices and higher contribution from our natural gas importation business. Outside Singapore, operations in China and Middle East & Africa also registered strong growth, increasing 226% and 80% respectively. The performance of operations in Teesside, UK was affected by lower volumes as a result of the previously announced closure of some of its customers' facilities, low market spreads for power as well as the write-down of certain ageing assets.

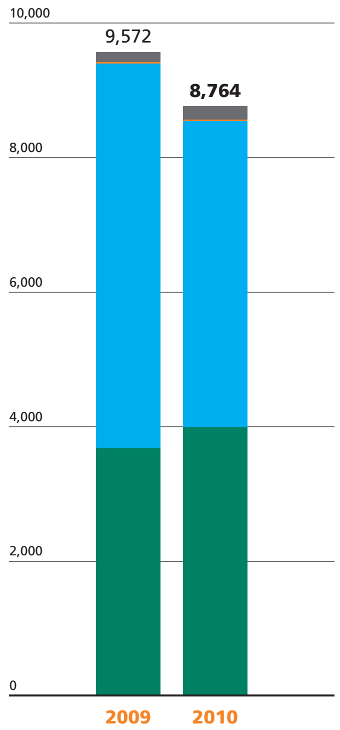
The increase in the Group's share of the Marine business' 2010 net profit was mainly attributable to the execution of projects ahead of schedule and the achievement of better margins for the business' rig building, offshore and conversion projects through higher productivity, as well as the resumption of margin recognition for a rig building project upon securing a buyer.

The Industrial Parks business' higher net profit in 2010 was driven by healthy take-up for industrial, commercial and residential land in its Vietnam



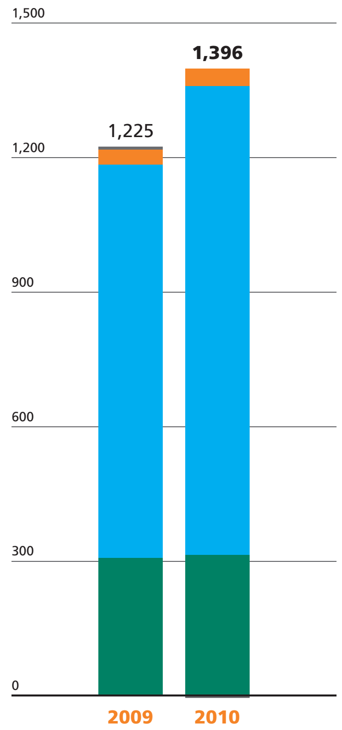
## Turnover *(S$ million)*

| | 2009 | 2010 |
|---|---|---|
| Utilities | 3,680 | **3,993** |
| Marine | 5,723 | **4,554** |
| Industrial Parks | 15 | **16** |
| Others / Corporate | 154 | **201** |
| | 9,572 | **8,764** |



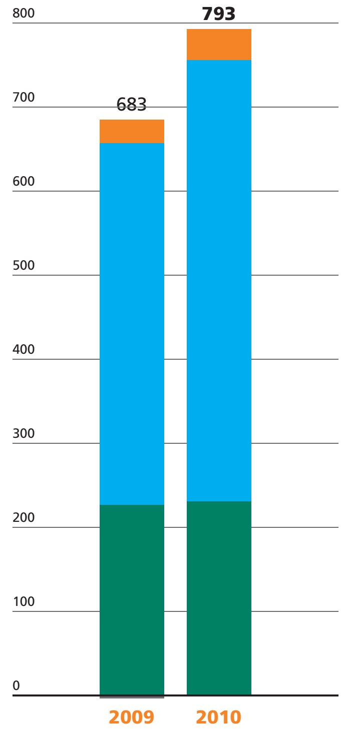

## PFO *(S$ million)*

| | 2009 | 2010 |
|---|---|---|
| Utilities | 307 | **314** |
| Marine | 878 | **1,045** |
| Industrial Parks | 34 | **40** |
| Others / Corporate | 6 | **(3)** |
| | 1,225 | **1,396** |




## Net Profit *(S$ million)*

| | 2009 | 2010 |
|---|---|---|
| Utilities | 227 | **231** |
| Marine | 430 | **525** |
| Industrial Parks | 28 | **37** |
| Others / Corporate | (2) | **–** |
| | 683 | **793** |




industrial parks as well as improved contribution from the business' associate, Gallant Venture.

The exceptional item in 2010 relates to the Marine business' full and final amicable settlement of disputed foreign exchange transactions.

### Cash Flow and Liquidity

As at December 31, 2010, the Group had cash and cash equivalents of S$3.5 billion.

Cash flows from operating activities before changes in working capital increased from S$1,355.6 million in 2009 to S$1,440.2 million in 2010. Net cash inflow from operating activities for 2010 increased to S$1,702.4 million, mainly due to receipts from ongoing and completed projects.

Net cash outflow from investing activities for 2010 was S$761.4 million. S$632.3 million was spent on expansion and operational capital expenditure and S$18.8 million was for equity interests in an associate and joint ventures. S$197.0 million (net of cash

# GROUP REVIEW



acquired) was spent for the acquisition of a 92.26% equity interest in Cascal and S$15.8 million for an additional 5.4% equity interest in Cascal. The above cash outflows were partially offset by dividends and interest received of S$97.3 million.

The net cash outflow from financing activities of S$29.5 million in 2010 related mainly to dividends and interest paid, partially offset by net proceeds from borrowings.

During the financial year, the Company issued 3,630,192 new ordinary shares amounting to S$17.1 million for the acquisition of all remaining shares in The China Water Company (CWC) not already held by its municipal water subsidiary Cascal from Waterloo Industrial, CWC's only other shareholder.

## Financial Position

Group shareholders' funds increased from S$3.3 billion at December 31, 2009 to S$3.8 billion at December 31, 2010. The decrease in 'Other reserves' was mainly due to foreign currency translation loss; partially offset by fair value gain on Cosco Corporation (Singapore) (Cosco) shares held by the Marine business.

Non-current assets, with the exception of investment properties, increased primarily due to the consolidation of Cascal. 'Interests in associates' and 'Interests in joint ventures' increased due to higher contributions recorded in 2010. Intangible assets include goodwill as well as intangible assets arising from service concession agreements. 'Other financial assets' increased, mainly due to fair value adjustments of Cosco shares held by the Marine business.

'Inventories and work-in-progress' decreased and 'Cash and cash equivalents' increased, mainly due to receipts from the Marine business' completed rig building projects. 'Assets held for sale' mainly relates to the disposal of property, plant and equipment (PPE) by the Utilities business. 'Deferred tax liabilities' increased mainly due to the consolidation of Cascal. Increase in 'Provisions' was mainly due to higher provision for restoration of PPE by the Marine business. 'Interest-bearing borrowings' increased primarily due to medium-term notes issued by the Group's wholly-owned treasury subsidiary, Sembcorp Financial Services (SFS), increased bank borrowings for the acquisition of Cascal and funding of Utilities operations, mainly in Oman. The increase in 'Other long-term liabilities' was mainly due to an amount owed to a non-controlling interest of a subsidiary as well as the consolidation of Cascal.

## Shareholder Returns

Return on equity (ROE) for the Group was a healthy 22.2% in 2010 and earnings per share (EPS) increased to 44.4 cents.

Subject to approval by shareholders at the next annual general meeting, a final tax exempt one-tier dividend of 17.0 cents per ordinary share comprising a final ordinary dividend of 15 cents per ordinary share and a final bonus dividend of 2 cents per ordinary share has been proposed for the financial year ended December 31, 2010.

## Economic Value Added

The Group generated positive economic value added (EVA) of S$809.4 million in 2010. This positive EVA creation was mainly driven by better Group earnings.

Our net operating profit after tax (NOPAT) for 2010 amounted to S$1.2 billion whilst capital charges increased to S$399.6 million, mainly due to a higher capital base.

## Value Added and Productivity Data

In 2010, the Group's total value added was S$2.5 billion. This was absorbed by employees in wages, salaries and benefits of S$724.9 million, by governments in income and other taxes of S$248.6 million and by providers of capital in interest and dividends of S$328.7 million, leaving a balance of S$1.2 billion reinvested in business.

## Critical Accounting Policies

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

With effect from January 1, 2010, the Group adopted the following new / amended FRS and Interpretations of Financial Reporting Standards (INT FRS):

| | |
|---|---|
| FRS 27 *(revised)* | Consolidated and Separate Financial Statements |
| FRS 103 *(revised)* | Business Combinations |
| Improvements to FRSs 2009 | |
| Amendment to FRS 102 Share-based Payment – Group Cash-settled Share-based Payment Transactions | |

The adoption of the above FRS (including consequential amendments) does not have any significant impact on the Group's financial statements, except for the impact of FRS 103 and FRS 27 as indicated below.

The revised FRS 103 introduces a number of changes in accounting for business combinations occurring after July 1, 2009. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The Amendments to FRS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary whereby losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance. These changes in the revised FRS 103 and Amendments to FRS 27 will affect accounting for acquisitions or

**Economic Value Added** *(S$ million)*

| | Note | 2010 | 2009 |
|---|---|---|---|
| **Net operating profit before income tax expense** | | **1,207** | 1,109 |
| Adjust for | | | |
| Share of associates' and joint ventures' profits | | **192** | 136 |
| Interest expense | 1 | **58** | 45 |
| Others | 2 | **(3)** | 20 |
| **Adjusted profit before interest and tax** | | **1,454** | 1,310 |
| Cash operating taxes | 3 | **(245)** | (217) |
| **Net operating profit after tax (NOPAT)** | | **1,209** | 1,093 |
| Average capital employed | 4 | **6,774** | 5,376 |
| Weighted average cost of capital (%) | 5 | **5.9** | 6.0 |
| **Capital charge** | | **400** | 323 |
| **Economic value added (EVA)** | | **809** | 770 |
| Non-controlling share of EVA | | **(314)** | (284) |
| **EVA attributable to shareholders** | | **495** | 486 |
| Less: Unusual items (UI) gains | 6 | **–** | 2 |
| EVA attributable to shareholders (excluding UI) | | **495** | 484 |

*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, warranty, 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. Average capital employed is computed by taking 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% (2009: 6.0%);*

*ii. Risk-free rate of 2.61% (2009: 2.08%) based on yield-to-maturity of Singapore Government 10-year Bonds;*

*iii. Ungeared beta ranging from 0.5 to 1.0 (2009: 0.5 to 1.1) based on Sembcorp Industries' risk categorisation; and*

*iv. Cost of debt rate at 4.15% (2009: 4.98%).*

*6. 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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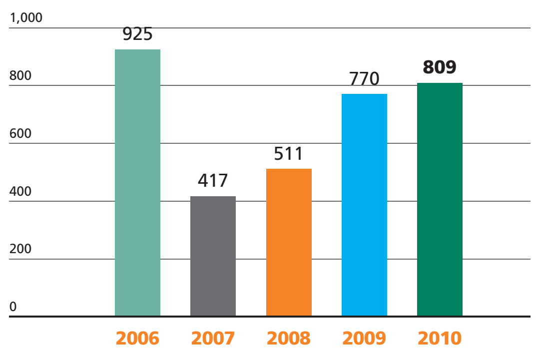
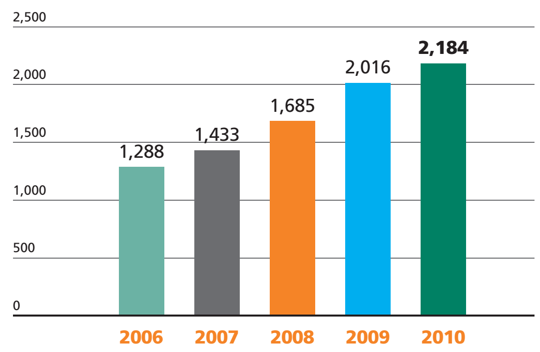
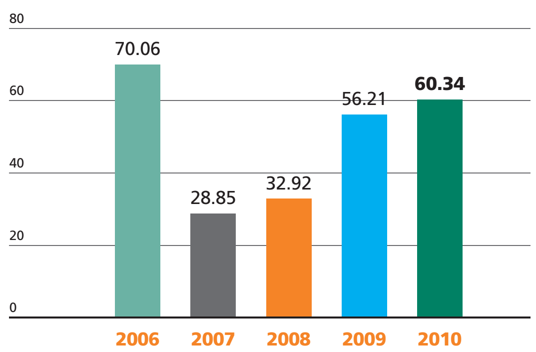
**Economic Value Added** *(S$ million)*



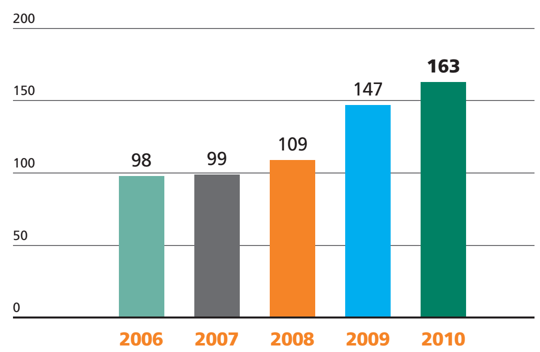

**Gross Value Added** *(S$ million)*



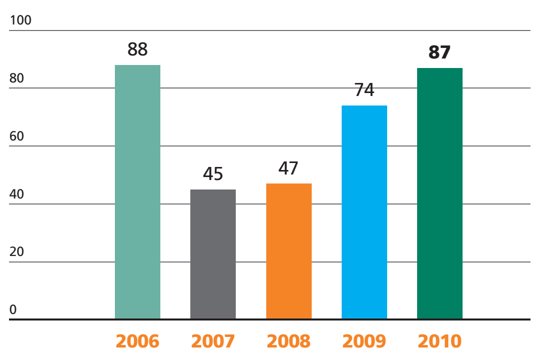

**Economic Value Added per Employee** *(S$'000)*




**Value Added per Employee** *(S$'000)*




**Profit after Tax per Employee** *(S$'000)*




loss of control and transactions involving non-controlling interests.

## 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.

## Treasury Management

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

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 to 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

Including SFS' S$1.5 billion and Sembcorp Marine's S$2 billion medium-term note programme, the Group's total funded facilities as at end 2010 amounted to S$7.6 billion (2009: S$6.7 billion), with unfunded facilities standing at S$1.9 billion (2009: S$1.9 billion).



**Value Added Statement** *(S$ million)*

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Value added from** | | | | | |
| Turnover | **8,764** | 9,572 | 9,928 | 8,619 | 8,074 |
| Less: Bought in materials and services | **(6,580)** | (7,556) | (8,243) | (7,186) | (6,786) |
| Gross value added | **2,184** | 2,016 | 1,685 | 1,433 | 1,288 |
| | | | | | |
| Investment, interest and other income | **168** | 125 | 154 | 461 | 778 |
| Share of associates' profit | **109** | 65 | 91 | 114 | 87 |
| Share of joint ventures' profit | **83** | 71 | 49 | 60 | 55 |
| Other non-operating expenses | **(91)** | (59) | (145) | (348) | (172) |
| | **2,453** | 2,218 | 1,834 | 1,720 | 2,036 |
| **Distribution** | | | | | |
| To employees in wages, salaries and benefits | **725** | 710 | 682 | 636 | 624 |
| To government in income and other taxes | **249** | 243 | 170 | 186 | 36 |
| To providers of capital on: | | | | | |
| Interest paid on borrowings | **61** | 41 | 44 | 54 | 53 |
| Dividends to shareholders | **268** | 196 | 267 | 498 | 91 |
| | **1,303** | 1,190 | 1,163 | 1,374 | 804 |
| **Retained in business** | | | | | |
| Depreciation and amortisation | **242** | 200 | 195 | 185 | 163 |
| Retained profits | **525** | 487 | 240 | 28 | 911 |
| Non-controlling interests | **380** | 333 | 224 | 125 | 130 |
| | **1,147** | 1,020 | 659 | 338 | 1,204 |
| | | | | | |
| Other non-operating expenses | **3** | 8 | 12 | 8 | 28 |
| | **1,150** | 1,028 | 671 | 346 | 1,232 |
| | | | | | |
| **Total distribution** | **2,453** | 2,218 | 1,834 | 1,720 | 2,036 |

# GROUP REVIEW



### Productivity Data

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Average staff strength | **13,415** | 13,707 | 15,512 | 14,453 | 13,199 |
| Employment costs *(S$ million)* | **725** | 710 | 682 | 636 | 624 |
| Sales per employee *(S$'000)* | **653** | 698 | 640 | 596 | 612 |
| Profit after tax per employee *(S$'000)* | **87** | 74 | 47 | 45 | 88 |
| Economic value added *(S$ million)* | **809** | 770 | 511 | 417 | 925 |
| Economic value added spread *(%)* | **11.9** | 14.3 | 9.4 | 8.1 | 19.2 |
| Economic value added per employee *(S$'000)* | **60.34** | 56.21 | 32.92 | 28.85 | 70.06 |
| Value added *(S$ million)* | **2,184** | 2,016 | 1,685 | 1,433 | 1,288 |
| Value added per employee *(S$'000)* | **163** | 147 | 109 | 99 | 98 |
| Value added per dollar employment costs *(S$)* | **3.01** | 2.84 | 2.47 | 2.25 | 2.06 |
| Value added per dollar investment in fixed assets *(S$)* | **0.40** | 0.47 | 0.43 | 0.36 | 0.35 |
| Value added per dollar sales *(S$)* | **0.25** | 0.21 | 0.17 | 0.17 | 0.16 |

### Borrowings

While Europe and the USA have experienced a slowdown in economic growth in the past year, Asia has nonetheless continued to enjoy robust growth in 2010. Against this background, the market has seen a substantial inflow of funds diverted towards Asia in search of investment opportunities and high returns, offering the Group the opportunity to tap funding markets at a level almost comparable to the period prior to the collapse of Lehman Brothers Holdings. In 2010, the Group seized the opportunity to issue a S$100 million 7-year note maturing in September 2017, a S$300 million 10-year note maturing in April 2020 and a S$100 million 15-year note maturing in August 2025 under SFS' S$1.5 billion medium-term note programme. The Group aims to term out the loans such that their maturity profile mirrors the life of our core assets, while concurrently continuing our 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, 2010, gross borrowings amounted to S$1.7 billion (2009: S$967.7 million) which was higher than last year. The incremental borrowings were used to fund the Group's new projects and acquisitions. As the Group continues to grow organically and inorganically, the Group will also potentially tap new borrowings to fund its growth. Of the overall debt portfolio, 79% (2009: 90%) 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, balancing this with liquidity and cost considerations. The weighted average cost of funding was 5.06% (2009: 4.14%) which was higher than previous year due to the terming out of the loans. The interest cover ratio is still in a very healthy range. With the increase in gross debt, this ratio was reduced to 24.2 times in 2010 as compared to 31.9 times in 2009.

As at end 2010, the portion of the Group's debt maturing beyond one year was 97% (2009: 70%). Only S$50.1 million of the Group's debt is due within 12 months.

### Financing & Treasury Highlights *(S$ million)*

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Source of Funding** | | | |
| **Cash and cash equivalents** | **3,488** | 2,598 | 2,401 |
| **Funded bank facilities and capital markets** | | | |
| Uncommitted facilities available for drawdown | **4,415** | 3,753 | 3,831 |
| Committed facilities available for drawdown | **3,224** | 2,918 | 755 |
| Total funded facilities | **7,639** | 6,671 | 4,586 |
| Less: Amount drawn down | **(1,743)** | (968) | (817) |
| Unutilised funded facilities available | **5,896** | 5,703 | 3,769 |
| **Unfunded bank facilities** | | | |
| Unfunded facilities available for drawdown | **1,911** | 1,942 | 1,886 |
| Less: Amount drawn down | **(551)** | (911) | (816) |
| Unutilised unfunded facilities available | **1,360** | 1,031 | 1,070 |
| Total unutilised funded and unfunded facilities | **7,256** | 6,734 | 4,839 |
| **Funding Profile** | | | |
| **Maturity profile** | | | |
| Due within one year | **50** | 287 | 287 |
| Due between one to five years | **587** | 546 | 441 |
| Due after five years | **1,106** | 135 | 89 |
| | **1,743** | 968 | 817 |
| **Debt mix** | | | |
| Fixed rate debt | **1,374** | 871 | 701 |
| Floating rate debt | **369** | 97 | 116 |
| | **1,743** | 968 | 817 |
| **Currency denomination of debt** | | | |
| SGD | **765** | 627 | 591 |
| USD | **388** | 61 | 39 |
| GBP | **287** | 154 | 170 |
| OMR | **172** | 82 | 0 |
| RMB | **109** | 44 | 17 |
| Others | **22** | 0 | 0 |
| | **1,743** | 968 | 817 |

# GROUP REVIEW

## Financing & Treasury Highlights *(S$ million)*

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Debt Ratios** | | | |
| **Interest cover ratio** | | | |
| Earnings before interest, tax, depreciation and amortisation | **1,478** | 1,316 | 940 |
| Interest on borrowings | **61** | 41 | 44 |
| Interest cover *(times)* | **24.2** | 31.9 | 21.2 |
| **Debt / equity ratio** | | | |
| Non-recourse project financing | **581** | 307 | 362 |
| Long-term debt | **1,132** | 430 | 236 |
| Short-term debt | **30** | 231 | 219 |
| | **1,743** | 968 | 817 |
| Less: Cash and cash equivalents | **(3,488)** | (2,598) | (2,401) |
| Net debt / (cash) | **(1,745)** | (1,630) | (1,584) |
| Net (cash) excluding project financing | **(2,282)** | (1,752) | (1,825) |
| Net gearing excluding project financing *(times)* | **Net cash** | Net cash | Net cash |
| Net gearing including project financing *(times)* | **Net cash** | Net cash | Net cash |
| **Average cost of funds** (%) | **5.06** | 4.14 | 3.83 |



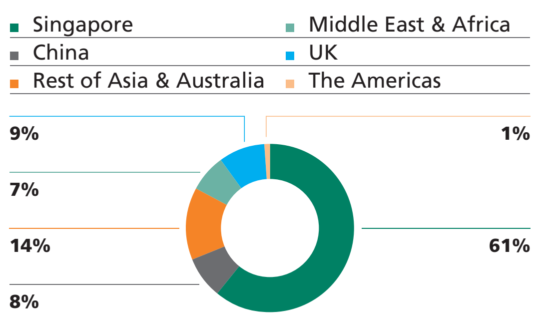
# UTILITIES REVIEW

## Performance Scorecard *(S$ million)*

| | 2010 | 2009 | Change (%) |
|---|---|---|---|
| Turnover | **4,031.8** | 3,714.8 | 9 |
| EBITDA | **395.3** | 363.0 | 9 |
| PFO | **313.5** | 307.4 | 2 |
| – EBIT | **244.0** | 246.7 | (1) |
| – Share of results: Associates & JVs, net of tax | **69.5** | 60.7 | 15 |
| Net profit | **231.3** | 226.7 | 2 |
| ROE (%) | **16** | 18 | (12) |

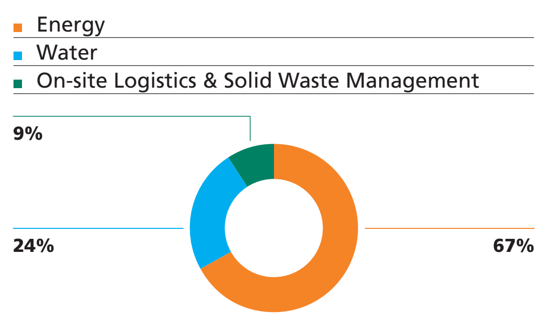
*Note: The Environment business was reclassified under the Utilities business following an internal restructuring in 2010. 2009 numbers have been restated accordingly.*

## PFO by Geography




*Note: PFO excluding contribution from 'Others'*

## PFO by Segment




*Note: PFO excluding contribution from 'Others'*

## Key Developments

- Acquired Cascal, a leading provider of water and wastewater services to the municipal sector
- Entered into a joint venture for a 49% stake in a 1,320 megawatt power plant project in Andhra Pradesh, our first power project in India
- Announced the development of a cogeneration plant as well as new facilities to provide integrated supply of steam, water and industrial wastewater treatment services to support customers in Jurong Island's new growth area in Singapore
- Completed a 12,500 cubic metres per day wastewater plant in Nanjing, China
- Signed a memorandum of understanding to expand existing desalination capacity in Fujairah, UAE, by 30%

## Competitive Edge

- A leading energy and water player with strong operational and technical capabilities
- 5,600 megawatts of gross power capacity installed and under development worldwide
- Singapore's largest water management company with more than six million cubic metres per day of water capacity in operation and under development, serving a population of five million people globally
- Technical expertise and operational scale in treating high concentration and complex industrial wastewater from multiple sources
- A global leader in the provision of energy, water and on-site logistics to multiple customers in energy intensive clusters

# UTILITIES REVIEW

## Operations Review

The Utilities business delivered a healthy operational performance in 2010. Turnover from the business was S$4.0 billion compared to S$3.7 billion while net profit attributable to shareholders (net profit) was S$231.3 million, up 2% compared to S$226.7 million in the previous year. Profit from operations (PFO) increased 2% from S$307.4 million to S$313.5 million with all regions except the UK showing growth. Singapore operations performed well, contributing 61% of the business' PFO and growing 11% over the previous year. Outside Singapore, operations in China and Middle East & Africa also registered strong growth in PFO, increasing 229% and 96% respectively. The business' performance in the UK was affected by lower operational volume as a result of the previously announced closure of some of its customers' facilities, low market spreads for power as well as the write-down of certain ageing assets at its Teesside operations. Our energy business contributed 67% of the Utilities unit's PFO while our water business accounted for 24% of Utilities PFO, with on-site logistics and solid waste management accounting for the remainder. Total contracts secured from the industrial sector during the year amounted to S$3.9 billion, up from S$624 million in 2009. This comprised S$3.0 billion worth of contracts secured in Singapore, S$358 million from the UK and S$494 million of new contracts secured in China.

2010 saw significant progress in our efforts to grow our energy and water businesses. During the year, we grew our asset portfolio and extended our global reach through organic growth and strategic investments. We increased our gross power capacity installed and under development by more than 40% to 5,600 megawatts and grew our water capacity in operation and under development by around 50% to six million cubic metres per day.

In July, we acquired Cascal, a leading provider of water and wastewater services to the municipal sector, through a voluntary tender offer. At US$6.75 per share, the total consideration for our 97.66% shareholding amounted to US$203 million. Following Cascal's successful delisting from the New York Stock Exchange and deregistration with the Securities and Exchange Commission in the latter half of 2010, squeeze-out proceedings under the Dutch Civil Code for Sembcorp to achieve full ownership of the company are currently ongoing. With this acquisition, Sembcorp is now a global water service provider with enhanced capabilities to serve the total water and wastewater needs of both industrial and municipal customers. Cascal was consolidated as a subsidiary under our Utilities business with effect from July 2010, and its operations are now fully integrated into the Sembcorp Group.

During the year, we integrated our solid waste management business (formerly known as the Environment unit) with the Utilities business for greater management efficiency and to better leverage synergies in the waste-to-energy sector.

### Singapore

Sembcorp's Singapore operations posted a healthy PFO for 2010. Our Singapore operations' 11% growth in PFO to S$197.2 million was mainly driven by higher contributions from our natural gas importation business and electricity sales from our cogeneration plant.

In addition to our existing operations on Jurong Island performing well, in 2010, we announced steps to position ourselves to grow with the new wave of investments coming into the petrochemical and chemical hub. During the year, we secured contracts to supply utilities services to Jurong Aromatics Corporation (JAC) and LANXESS, our first anchor customers located in Jurong Island's new growth area covering the Tembusu, Angsana and Banyan districts. To support the energy and water requirements of these customers as well as other companies in the new growth area, we are developing a new 400 megawatt gas-fired combined cycle gas turbine cogeneration plant as well as new facilities to provide the integrated supply of steam, water and industrial wastewater treatment services. Representing a total investment of approximately S$840 million, our new industrial wastewater treatment plant is expected to begin operations in 2012, while the cogeneration plant and remaining multi-utilities facilities are expected to be completed by the second half of 2013. Having secured an additional generation licence of 900 megawatts, we will be developing the new cogeneration plant in phases. With an eventual intended capacity of 800 megawatts of power, the facility is set to double our existing power capacity in Singapore. As a provider of third-party open access service corridor networks across the island, we also extended our infrastructure coverage to the new growth area on the island during the year.

Outside of Jurong Island, 2010 also marked the full completion and official opening of our Sembcorp NEWater Plant in Changi. With a capacity of 50 million imperial gallons (or 228,000 cubic metres) per day, the plant is Singapore's fifth and biggest NEWater plant and one of the world's largest water reuse facilities. During the year, it was awarded the 2010 Global Water Awards' Water Reuse Project of the Year by Global Water Intelligence as well as the 2010 WateReuse International Award organised by the US-based WateReuse Association, in recognition of its contribution to the global water reclamation industry.

### China

Operations in China delivered strong growth in 2010, with PFO contribution from the country increasing 229% over 2009 to S$27.0 million. This growth was primarily driven by higher customer demand, improved tariffs and capacity ramp-ups. In Shanghai, our cogeneration plant continued to perform well, although the plant saw an increase in the natural gas price from July 2010. In Zhangjiagang, we completed a 7,200 cubic metres per day wastewater pre-treatment plant, while in Nanjing, we completed a 12,500 cubic metres per day wastewater treatment facility. Signifying the successful implementation of our high concentration industrial wastewater treatment model in China, this Nanjing facility is our second plant in China able to treat high concentration industrial wastewater directly from source, eliminating the need for our customers to invest in and run their own wastewater pre-treatment facilities. Our Zhangjiagang facilities, which pioneered this concept in China, won Honour Awards in both the East Asian and Global International Water Association Project Innovation Awards in 2010, in recognition of their effective and sustainable approach to water management.

During the year, we also commenced construction of a 15,000 cubic metres per day industrial wastewater treatment plant in Guangxi province. Expected to commence commercial operations in the second half of 2011, the facility marks our first industrial wastewater treatment facility in southern China. It will serve the Qinzhou Port Economic & Technological Development Zone, which hosts a newly opened 10 million tonnes per annum PetroChina oil refinery and has been earmarked by the central government for development into a significant petrochemical hub.

As a result of the Cascal acquisition, 2010 also saw nearly half a year's contribution from municipal water operations in Fuzhou, Qitaihe, Xinmin, Yancheng, Yanjiao and Zhumadian, held through the China Water Company (CWC). In October, Sembcorp consolidated its stake in CWC by purchasing all remaining shares in it which were not already owned through Cascal. Amounting to 13% of CWC, these shares were purchased from Waterloo Industrial, which is under the Kadoorie Group, for a consideration of US$12.8 million, paid for with 3,630,192 Sembcorp shares.

With the acquisition of Cascal, we added six municipal water operations in the country to our business. Together with our new beachhead in Qinzhou, we now have energy and water operations in 12 locations across nine provinces in China and are strategically located in key industrial sites and cities in the country.

### Rest of Asia & Australia

PFO from Asia and Australia, excluding Singapore and China, improved by 13% in 2010 to S$44.8 million.

In Vietnam, our 33%-owned Phu My 3 power plant delivered another year of consistent performance underpinned by its long-term power purchase agreement. In Australia, our solid waste management associate SembSITA Australia, which markets its services under the SITA Environmental Solutions brand, continued to perform well, backed by sound operations and a strong Australian dollar. In December 2010, SembSITA Australia was named the successful bidder to acquire WSN Environmental Solutions (WSN), the waste management firm of the federal government of New South Wales. WSN's portfolio of assets, which includes advanced resource recovery facilities, engineered landfills, transfer stations and material recovery facilities, is expected to strengthen SembSITA Australia's long term positioning in the state of New South Wales as well as nationally. The A$235 million acquisition was completed in February 2011.

The region's performance in 2010 also included almost six months' contribution from water operations previously under Cascal in Indonesia and the Philippines. In Indonesia, these consist of a 49%-owned associate with a 25-year concession in Batam Island for the supply and distribution of municipal water, as well as a 39%-owned associate with a 20-year concession in the district of Talang Kelapa in Palembang City. Meanwhile

# UTILITIES REVIEW

in the Philippines, our 29%-owned associate has a 30-year concession for municipal water supply and wastewater treatment services for Subic Bay Freeport Zone, an economic trade zone north of Manila, as well as for the adjacent city of Olongapo.

### New beachhead in India

In May, we entered into a joint venture with Gayatri Energy Ventures for a 49% stake in a 1,320 megawatt coal-fired power plant to be located in Krishnapatnam, Andhra Pradesh. The joint venture became effective as of February 2011 and commercial operations of the new facility are expected to commence in 2014. The project is our first investment in the fast-growing Indian energy market. The S$1.9 billion power plant will utilise supercritical technology, a more efficient and environmentally-friendly technology compared to conventional coal-fired power generation. It will be well-positioned to meet the growing power demand in the southern, western and northern regions of India, which is expected to increase at a compounded annual growth rate of 9% over the next 10 years. 75% of the project cost will be funded through project financing and the remaining 25% through shareholders' equity.

### Middle East & Africa

PFO from Middle East & Africa grew 96% from S$11.1 million to S$21.7 million.

In the UAE, our Fujairah 1 Independent Water and Power Plant continued to deliver strong operating performance. In June 2010, we signed a memorandum of understanding with our partner, the Abu Dhabi Water and Electricity Authority (ADWEA), for the development of a new seawater reverse osmosis plant on the existing site which will be capable of producing around 30 million imperial gallons (or 136,800 cubic metres) per day of desalinated water. Targeted for completion end 2013, the expansion will increase our desalination capacity on the site by 30% to 130 million imperial gallons (or 591,800 cubic metres) per day. The increased output is expected to be sold to the Abu Dhabi Water and Electricity Company (ADWEC) under a long-term water purchase agreement.

Meanwhile in Oman, we commenced construction of the US$1 billion power and desalination plant in Salalah. The facility's 65 megawatts first phase is expected to complete in the second half of 2011. 60% owned by Sembcorp, the Salalah Independent Water and Power Plant is set to be the largest and most efficient power and water plant in the Governorate of Dhofar and will play a major role in meeting the region's growing power and water needs. The project is expected to begin full commercial operations in the first half of 2012.

With our acquisition of Cascal, contribution from the region also included contribution from South Africa, our first beachhead in the African continent. Our South African operations provide the cities of Ballito and Mbombela, formerly known as Nelspruit, with municipal water supply and wastewater treatment services. Our company in Mbombela, Sembcorp Silulumanzi, was awarded the prestigious Blue Drop certification for the second consecutive year by the Department of Water Affairs and Forestry for the Nelspruit water treatment plant.

### UK

PFO from the UK declined from S$78.1 million to S$30.8 million due to weak performance from our Teesside operations.

As we had guided the market, as at the end of January 2010, three customers on the Wilton International site in Teesside who had earlier announced closures ceased operations on the site. The associated production areas are being demolished and cleared, freeing up significant heavy industrial development land. The regional development agency, One North East, has invested almost £7 million to acquire and develop the former Invista land on the site, through which it can support future inward investment. 2010 saw the arrival of Lotte Chemicals UK (Lotte), which took over and successfully restarted the purified terephthalic acid (PTA) and polyethylene terephthalate (PET) production plants that closed down when previous owner Artenius entered administration in 2009. Sembcorp concluded new utilities supply agreements with Lotte in May 2010.

In 2010, our Teesside operations also faced a challenging operating environment which saw power spreads at their lowest since 2003-2004, as well as reliability and efficiency issues including with some of the ageing assets on the site. During the year, we saw failures of some ageing but critical plant items. Although repaired, these assets were written down through accelerated depreciation and an after-tax charge of S$14.3 million was taken in the fourth quarter of the year. With cost management remaining a priority, we also ceased a defined benefit pension scheme for employees on the site during the year. Converting the scheme to a future accrual scheme resulted in a one-off gain of approximately S$8 million.

Despite these challenges, the business continued to make progress on a number of value-adding initiatives. During the year, we completed modification works to our biomass power plant to convert it into a combined heat-and-power plant so as to enhance our green income from renewable obligation certificates. To secure more off-site income, a 52 megawatt steam condensing turbine project is currently under construction and is expected to be completed by mid-2011. When completed, this will provide the flexibility of generating power for export to the pool or distributing process steam on-site.

With the acquisition of Cascal, our UK assets now also include municipal water operations in Bournemouth. Located in southern England, Sembcorp Bournemouth Water provides municipal water to Dorset, West Hampshire and part of Wiltshire under a 25-year rolling contract. It was rated the top performing water company for service delivery in England and Wales for the second year running by water industry regulator Ofwat.

### The Americas

The acquisition of Cascal has given us our first Utilities footprint in the American continent with the addition of municipal water operations in Chile, Panama and the Caribbean to the business. In Chile, we operate to the north of the capital city of Santiago, as well as in Antofagasta, a city near the Atacama Desert from which we also supply treated effluent to Xstrata's copper mine in La Negra. In Panama, we supply bulk treated water under a 30-year contract with Panama's national water agency, while operations in the Caribbean islands of Antigua, Bonaire and Curaçao provide desalinated water to our customers.

## Market Review and Outlook

Overall, the global economy is expected to improve, but growth is expected to remain uneven. The International Monetary Fund is forecasting an overall growth of 4.4% in 2011. Growth in the advanced economies is expected to remain subdued at 2.5%, while developing economies in Asia, including China, India, Indonesia, Philippines and Vietnam, are expected to grow at a faster pace of 8.3%. However, recent events in the Middle East and North Africa could create uncertainties and threaten global economic recovery. Although our utilities projects in Oman and the UAE are not affected by the current unrest, nonetheless, we continue to closely monitor the situation in the region.

### Singapore

Singapore's Economic Development Board reported that total fixed asset investment commitments increased from S$11.8 billion in 2009 to S$12.9 billion in 2010. Investment commitments from the chemical sector accounted for the second largest proportion of total fixed asset investment commitments in 2010 and amounted to S$1.7 billion.

Further investments by downstream chemical players are expected going forward with the addition of two new world-class chemical crackers by Shell and ExxonMobil on Jurong Island. The Shell Eastern Petrochemicals Complex opened in May 2010, while ExxonMobil's integrated chemical and refining site is expected to start up in 2011. Chemical companies which have announced plans to invest in new facilities or expansions to existing operations on Jurong Island in 2009 and 2010 include Asahi Kasei Chemicals, Chang Chun Group and Dairen Chemical Corporation, Evonik Degussa, JAC, LANXESS, Stolthaven Terminals, Sumitomo Chemical and Zeon Chemicals. In addition, Shell has announced that it is studying the feasibility of using Singapore as a base for the production of world-scale high-purity ethylene oxide (HPEO), which is used as a feedstock for detergent and soaps. If this development materialises, it is expected to spur a new HPEO corridor on Jurong Island to cater to soap and detergent makers. There is also the possibility of a fourth oil refinery with an expected value of between US$6 million to US$8 million and a capacity of 300,000 to 500,000 barrels per day, which is reportedly being studied by a consortium involving Singapore, Chinese and European investors.

To cater to the expected increase in demand stemming from these additional investments, our new multi-utilities facilities located in the vicinity of the Tembusu, Banyan and Angsana districts where most of the new investors will be located, will commence operations in 2012 and 2013. Our new 9,600 cubic metres per day integrated wastewater treatment

# UTILITIES REVIEW

facility is expected to begin operations in 2012, while our new 400 megawatt cogeneration plant, as well as the remaining multi-utilities facilities to serve the area are expected to be completed in the second half of 2013. In addition, our importation of an additional 90 billion British thermal units per day of natural gas from the West Natuna Sea, Indonesia remains on track for delivery in the second half of 2011. This will boost our current natural gas supply capacity by 26% to 431 billion British thermal units per day.

**China**

In China, to serve increasing customer demand, several new facilities are expected to begin operations in 2011. A 24,000 cubic metres per day water reclamation plant in the Zhangjiagang Free Trade Port Zone, which will supply industrial water and demineralised water from recycled effluent to customers, is targeted to come onstream in mid-2011. A 20,000 cubic metres per day expansion to our industrial water facilities in the Nanjing Chemical Industrial Park and our 15,000 cubic metres per day industrial wastewater treatment plant in Qinzhou Port Economic & Technological Development Zone are also expected to start commercial operations in 2011.

**Rest of Asia & Australia**

In Australia, SembSITA Australia will focus on integrating WSN and strengthening its positioning in the alternative waste treatment sector. In Vietnam, our Phu My 3 power plant is expected to deliver satisfactory operational results. However, tariffs are expected to decline from 2010 onwards as stipulated in the power purchase agreement.

**Middle East & Africa**

Our Fujairah 1 Independent Water and Power Plant in the UAE is expected to continue performing well, supported by its long-term purchase agreement with ADWEA. Following the memorandum of understanding for the development of a new seawater reverse osmosis plant on the site, a long-term water purchase agreement with ADWEC for this additional output is expected to be signed in 2011. Meanwhile in Oman, construction of our combined power and desalination facility in Salalah continues, progressing towards the facility's planned commencement of its 65 megawatt first phase in the second half of 2011 and its expected full commercial operations in the first half of 2012.

**UK & The Americas**

The UK economy is expected to remain weak, with GDP growth for 2011 forecasted at 2.1% by the Office of Budget Responsibility.

Low power spreads in the UK are expected to continue to impact the performance of our Teesside operations in 2011. However, in the long term, we expect power spreads to improve given the impending power capacity gap from the retirement of old assets in 2015 and the need to encourage new power investments in the country. In 2011, our 52 megawatt steam condensing turbine is expected to come onstream and this will provide flexibility between steam and power production for our operations. In addition, the business continues its efforts to re-position the site by targeting new opportunities outside the traditional chemical industries.

Our regulated municipal water business in Bournemouth, UK is expected to continue performing well in 2011. The business completed its tariff review with the UK water services regulator Ofwat, and tariffs have now been set for the five-year period commencing April 2010. Underpinned by this and its 25-year rolling contract for the provision of water to its municipal customers, it is expected to continue to deliver a steady performance going forward. Meanwhile operations in the Americas are expected to experience continued organic growth, underpinned by long-term concession agreements.



# MARINE REVIEW

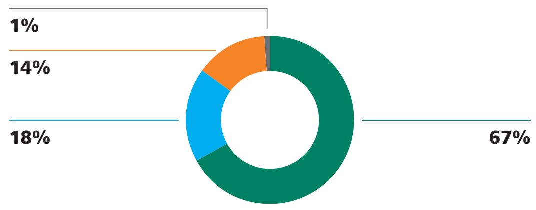
**Performance Scorecard** *(S$ million)*

| | 2010 | 2009 | Change (%) |
|---|---|---|---|
| Turnover | **4,554.9** | 5,724.7 | (20) |
| EBITDA | **1,081.8** | 934.0 | 16 |
| PFO | **1,045.0** | 877.6 | 19 |
| – EBIT | **998.2** | 858.3 | 16 |
| – Share of results: Associates & JVs, net of tax | **46.9** | 19.3 | 143 |
| Net profit | **860.3** | 700.1 | 23 |
| ROE (%) | **38** | 44 | (12) |

*Note: Figures taken at Sembcorp Marine level*

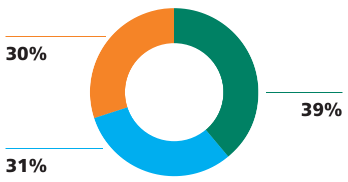
**Turnover by Segment**

- Rig building
- Ship repair
- Ship conversion & offshore
- Others




**Orderbook Composition**

- Jack-ups
- Ship conversion & offshore
- Semi-submersibles




**Net Orderbook of S$4.8 billion**
*(as at February 2011)*

**Competitive Edge**

- Singapore's leading marine and offshore engineering group with 48 years' proven track record
- Comprehensive portfolio encompassing the full spectrum of integrated solutions from ship repair, shipbuilding, ship conversion, rig repair and rig building to topsides fabrication and offshore engineering and construction
- Strong track record for quality and timely delivery as well as the ability to handle complex turnkey projects and repairs while meeting high standards for health, safety, security and environment
- Global network of yards strategically located near major shipping routes
- Development and ownership of proprietary designs for rigs, drillships and container vessels
- Long-term strategic alliances with international ship operators provide a steady and growing baseload in ship repair

**Key Developments**

- Acquired 825,000 square metres of freehold land for the development of a shipyard in Espirito Santo, Brazil, to cater directly to one of the fastest growing offshore oil and gas exploration and production markets in the world
- Marked a major milestone in our growth and expansion strategy with the ground-breaking of the Integrated New Yard Facility at Tuas View Extension, Singapore
- S$3.0 billion worth of new orders secured in 2010, including orders for premium and high-specification jack-up rigs
- Current net orderbook of S$4.8 billion as at February 2011, with completions and deliveries until 2013

# MARINE REVIEW

## Operations Review

Sembcorp's Marine business delivered strong results in 2010 underpinned by its rig building, offshore and conversion and ship repair businesses. Turnover was S$4.6 billion compared to S$5.7 billion in 2009, while the business' net profit attributable to shareholders of the company (net profit) grew 23% to a record high of S$860.3 million from S$700.1 million in the previous year. The business' profit from operations (PFO) also increased 19% to S$1.0 billion from S$877.6 million in 2009. A one-off credit of S$52.6 million arising from the settlement of the disputed foreign exchange transactions with Société Générale was included in the PFO for 2010. This improved performance was mainly attributable to the execution of projects ahead of schedule and the achievement of better margins for the business' rig building, offshore and conversion projects through higher productivity, as well as the resumption of margin recognition for a rig building project upon securing a buyer.

The business' operating profit of S$998.2 million was 16% higher as compared to 2009. The business' operating margin also improved in 2010 with its gross profit margin increasing from 17% to 25% in the corresponding period, mainly attributable to operational efficiencies and project execution ahead of schedule. Its return on equity for the year stood at a strong 38%.

The Marine business' current net orderbook stands at a strong S$4.8 billion as at February 2011, with completions and deliveries until 2013. This includes S$3.0 billion in contracts secured in 2010 and S$361 million worth of orders secured since the start of 2011, excluding ship repair contracts.

### Ship repair

During the year, ship repair turnover stood at S$646.1 million compared to S$706 million in 2009 and accounted for 14% of total revenue. A total of 282 vessels docked at our yards in 2010 and the average value per vessel was S$2.3 million. Long-term strategic alliance customers continued to provide a steady and growing baseload. Together with our regular repeat customers, they contributed 85% of total ship repair revenue in 2010. High value repairs to oil tankers, container vessels, liquefied natural gas (LNG) and liquefied petroleum gas (LPG) tankers, passenger ships and drillships as well as floating production storage and offloading (FPSO) upgrading dominated the segment.

During the year, we secured a long-term contract from Carnival Corporation & plc, to provide ship repair, refurbishment and upgrading services for its passenger ships operating in the Far East. This followed two earlier repair, upgrading and refurbishment projects secured with Carnival Australia and Carnival Cruise Line (United Kingdom), both part of Carnival Corporation & plc.

As a world leader for LNG repairs, the business was awarded several repair contracts for LNG carriers. These include repairs for five membrane LNG carriers for China LNG Shipping (International) Company, repair works for three LNG carriers for K Line Ship Management and an LNG carrier longevity contract from North West Shelf LNG Venture which is a Favoured Customer Contract partner. The business also secured a cargo ship life extension contract from Bluescope Steel and the renewal of a long-term contract with Eitzen Group for the scheduled repair and upgrading of its ships.

Other upgrading and repair orders secured during the year included a ship repair contract from a regular Taiwanese customer, a contract for lengthening and dry-docking repairs from Interislander, and upgrading and repair jobs for both Star Cruises (Malaysia) and PT Pelayaran Nasional Indonesia.

Three other upgrading and repair projects worth S$92 million were secured in 2011, including an upgrade of a dynamically positioned heavy-lift and pipelay vessel, an LNG carrier longevity project, and an upgrade of a drillship.

### Ship conversion and offshore

Turnover from ship conversion and offshore activities in 2010 was lower than the previous year at S$820.4 million, compared with S$1.3 billion in 2009. The sector constituted 18% of the total turnover of the Marine business. Projects completed during the year included two FPSO conversions for Tanker Pacific Offshore Terminals and MODEC, a floating, drilling production, storage and offloading vessel conversion for Petroserv as well as an offshore platform for Maersk Olie og Gas.

During the year, the Marine business secured a S$130 million contract to carry out the pre-conversion of a very large crude carrier (VLCC) into a FPSO, to be renamed *P62*, for Petrobras Netherlands and a S$550 million contract from ConocoPhillips Skandinavia to build the Ekofisk accommodation topside to be installed in the North Sea.

In 2010, the business was also awarded two offshore conversion contracts worth S$75 million, comprising the conversion of the tanker *BW Genie* into a floating production unit (FPU) for BW Offshore and the upgrading of FPSO *Glas Dowr* for Bluewater Energy Services, as well as a S$351 million contract to convert an Aframax tanker into a FPSO vessel, to be renamed *FPSO Petrojarl Cidade de Itajai*, for Teekay Petrojarl Production.

Further adding to its offshore orderbook, the business secured a S$123 million contract in January 2011 for the engineering, procurement, construction and commissioning of a dynamically positioned blue-water research vessel, to be named *RV Investigator*, for Teekay Shipping (Australia).

### Rig building

The rig building segment contributed S$3.1 billion or 67% of our Marine business' total turnover, compared to S$3.6 billion in 2009. During the year, we completed and delivered six proprietary Pacific Class 375 design jack-up rigs on or ahead of schedule: the *Setty* for the Egyptian Drilling Company, *Tam Dao 02* for Vietsovpetro, *West Leda* for Seadrill, *Sneferu* for Egyptian Drilling, *El Qaher I* for Egyptian Offshore Drilling Company and *Kan Tan 6* for SINOPEC as well as a heavy-lift jack-up barge, *ARB-3*, for Aramco Overseas. In addition, we completed and delivered two newbuild Friede & Goldman semi-submersibles, the *PetroRig III* for Grupo R and *West Orion* for Seadrill, as well as the *Noble Jim Day*, a semi-submersible converted from a bare-deck hull, for Noble Drilling.

The business also sold a CJ-70 harsh-environment jack-up rig to a subsidiary of Seadrill.

New rig orders clinched during the year included the building of two turnkey Pacific Class 400 jack-ups valued at up to US$364 million from Atwood Oceanics Pacific, with options for three additional jack-up units; the construction of two turnkey Friede & Goldman JU2000E jack-ups worth US$384 million for Seadrill, with options for four additional jack-up rigs; as well as the building of two turnkey premium Friede & Goldman JU3000N jack-up rigs valued at up to US$400 million for a subsidiary of Noble Corporation, with options for another four jack-up units and a US$195 million turnkey jack-up rig for Transocean based on the Pacific Class 400 design.

In January 2011, Atwood Oceanics Pacific exercised the first of its three jack-up options granted in 2010 with delivery at the end of June 2013.

### Strategic milestones

In February, the business positioned itself for future sustainable growth by announcing its acquisition of land for the development of a new shipyard in Brazil to cater directly to one of the fastest growing offshore oil and gas exploration and production markets in the world. The business acquired 825,000 square metres of freehold land with 1.6 kilometres of coastline in the state of Espirito Santo, the second largest oil-producing state in Brazil, for this project. Located in the municipality of Aracruz, the site is strategically located close to the offshore Espirito Santo Basin, which is one of the recently discovered giant pre-salt oil basins of Brazil, making it an ideal location from which to support the country's oil and gas activities.

On completion, the shipyard will be equipped with state-of-the-art facilities for constructing drillships, building semi-submersible rigs, undertaking FPSO integration, fabricating topside modules and constructing platform supply vessels, in addition to the traditional activities of drilling rig repairs, ship repairs and modification works.

In Singapore, the business marked a major milestone in its growth and expansion strategy with the ground-breaking of its Integrated New Yard Facility at Tuas View Extension in June. As Singapore's first purpose-built, custom-designed integrated yard facility, the 206 hectare landmark development will further reinforce our Marine business' competitive edge through enhanced work-efficient processes as well as state-of-the-art facilities and equipment.

With its new technologies and optimised layout, the New Yard Facility will enable the business to benefit from resource optimisation and economies of scale through greater operational synergy, production efficiency and critical mass. This will enable it to provide customers enhanced services, faster turnaround time and more cost-competitive solutions.

Designed as a centralised and integrated 'one-stop solutions' hub for ship repair and conversion, shipbuilding, rig building and offshore engineering

# MARINE REVIEW

and construction, the New Yard Facility will be well-equipped to serve a wide range of vessels, including VLCCs, new generations of mega containerships, LNG carriers and passenger ships, while meeting new regulatory and environmental standards.

The facility will be built in three phases over a period of six years. When fully completed it will increase the business' total dock capacity by 62% from 1.9 million deadweight tonnes to 3.1 million deadweight tonnes. Under the first phase of its development, 73.3 hectares will be developed for ship repair and ship conversion operations. This first phase featuring four drydocks with a total capacity of 1.6 million deadweight tonnes is scheduled for completion in 2013, with partial operations targeted to commence in the second half of 2012.

### Market Review and Outlook

Although global recovery has improved in the past months, recent events in the Middle East and North Africa may create uncertainties in the world economy which may have an impact on businesses.

Fundamentals for the oil and gas industry remain intact with oil prices expected to be sustained above US$80 per barrel. Exploration and production (E&P) spending budgets continue to show positive development with oil companies reporting their intention to increase E&P spending further in 2011.

Given the ageing rig fleets and the increasing focus in the jack-up market on newer, safer and more efficient rigs, demand for premium and high-specification rigs is expected to remain strong. Since the fourth quarter of 2010, Sembcorp Marine has already secured eight firm orders for jack-up rigs amounting to S$2.0 billion with options for another ten units.

While drilling activities in the Gulf of Mexico have slowed pending finalisation in deepwater drilling regulations, deepwater drilling activities for the rest of the world are nonetheless expected to increase. This optimism is reflected in the number of offshore newbuild orders secured since the last quarter of 2010, in particular for drillships by drilling contractors. With its proven track record in deepwater rigs, our Marine business will be well-positioned to meet the industry's most stringent operating requirements, capture new orders and grow its market share. Overall enquiries for this segment have improved, though competition remains keen.

Meanwhile, the ship repair market continues to improve with continued demand for bigger docks. The Marine business has secured several long-term contracts from its customers, particularly in the niche segments of the repair, upgrading and life extension of LNG carriers as well as passenger and cruise vessels. These long-term customers will continue to provide a stable baseload for the business' ship repair sector going forward.



# INDUSTRIAL PARKS REVIEW

### Performance Scorecard *(S$ million)*

| | 2010 | 2009 | Change (%) |
|---|---|---|---|
| Turnover* | **19.7** | 18.5 | 7 |
| EBITDA | **4.7** | 13.6 | (65) |
| PFO | **40.4** | 34.1 | 19 |
| – EBIT | **2.7** | 11.4 | (76) |
| – Share of results: Associates & JVs, net of tax | **37.7** | 22.7 | 66 |
| Net profit | **36.9** | 28.3 | 30 |
| ROE+ (%) | **7** | 6 | 24 |

* *The turnover of Vietnam Singapore Industrial Park, Wuxi-Singapore Industrial Park, Sino-Singapore Nanjing Eco High-tech Island and Gallant Venture is not consolidated as these are joint ventures or associate companies.*

\+ *Excluding its returns on Sembcorp's corporate office at 30 Hill Street, Singapore 179360 and on its investment in Gallant Venture, the Industrial Parks business' ROE is 13.5%*

### Key Developments

- Sold a total of 183 hectares of land in Vietnam and China, and continued to focus on land preparation
- Celebrated the groundbreaking of the fourth Vietnam Singapore Industrial Park (VSIP) project in Vietnam, the 1,600 hectare VSIP Hai Phong Integrated Township and Industrial Park
- Launched its maiden commercial and residential real estate developments in the Wuxi-Singapore Industrial Park (WSIP) in China with a new mixed-use commercial and residential building, and a business and information technology park
- Commenced marketing of the 'Solar City' photovoltaic park in WSIP, with 25 hectares taken up
- Increased our effective stake in the Sino-Singapore Nanjing Eco High-tech Island in Jiangsu province, China, from 15% to 21.5%
- Joined a Singapore consortium to study the feasibility of the 1,000 hectare Singapore-Sichuan High-tech Innovation Park in Chengdu, Sichuan province, China

### Competitive Edge

- Leading integrated developer of industrial parks and integrated townships in Asia with over 20 years' experience in undertaking the development of raw land, including land resettlement and infrastructure development
- Owns, develops, markets and manages integrated townships and industrial parks in China, Vietnam and Indonesia
- An integrated approach to township development designed to provide world-class industrial, commercial and residential space and a sustainable urban environment
- Over 600 multinational companies and leading local enterprises as tenants
- Opportunities for selective development of commercial and residential real estate at choice sites within our land bank

# INDUSTRIAL PARKS REVIEW

## Operations Review

The Industrial Parks business performed well in 2010. Its turnover for 2010 grew 7% to S$19.7 million, compared to S$18.5 million in 2009. Turnover from integrated townships and industrial parks owned and under management amounted to approximately S$450 million, 18% higher than their 2009 turnover of S$380 million. The business' net profit in 2010 grew 30% to S$36.9 million, compared to S$28.3 million in 2009, while profit from operations (PFO) increased 19% from S$34.1 million to S$40.4 million. The business' improved performance was driven by healthy take-up for commercial and residential land in its Vietnam Singapore Industrial Park (VSIP) project in Binh Duong, strong industrial land sales in VSIP Bac Ninh, as well as improved contribution from the business' associate, Gallant Venture.

In 2010, our Industrial Parks business maintained its focus on building its land bank and developing its industrial parks and integrated townships in Vietnam and China, where its projects cover a total gross land area of 6,687 hectares. With more than 20 years of experience in undertaking the development of raw land, including land resettlement and infrastructure development, the business takes an integrated approach to township development, designing self-sufficient sites that provide world-class industrial, commercial and residential space with an emphasis on sustainable urban development. In 2010, the business sold a total of 183 hectares of land, with a remaining 2,700 hectares of land available for sale in Vietnam and China to support future growth.

Based on current master plans, the business' six developments in Vietnam and China offer more than 12 million square metres of commercial and residential gross floor area to third party property developers for the development of building clusters for direct sale or lease. Going forward, in order to maximise the yield from our land bank, we also intend to undertake the selective development of commercial and residential real estate at choice sites within our land bank.

### Vietnam

Significant progress was made during the year in terms of land resettlement and infrastructure development.

Within VSIP Binh Duong, our second VSIP project in southern Vietnam, we resettled 30 hectares of land during the year, leaving only 20 hectares of the project's total gross land area of 2,045 hectares to be resettled in 2011. We also completed the preparation and infrastructure development of 44 hectares of industrial land and 96 hectares of residential land. Profits from the sale of 36 hectares of industrial land and 62 hectares of commercial and residential land were realised. These sales have brought VSIP Binh Duong's take-up rate to 24% of saleable land, with 1,060 hectares of saleable land remaining available. While almost all 500 hectares of the nearby VSIP I are fully committed, the development continues to provide steady recurrent income from factory rentals and electricity distribution. The two VSIP projects in southern Vietnam now have a total of 404 committed customers, compared to 382 customers in 2009.

In northern Vietnam, while no additional resettlement was done in VSIP Bac Ninh during the year, effort was instead focused on land preparation. We completed land preparation for 120 hectares, enabling several customers to begin construction of their factories, including Foster Electric Company and Mapletree Logistics. Profits from the sale of 54 hectares of industrial land were realised, bringing the take-up rate to 20% of saleable land, with a total of 350 hectares saleable land remaining. VSIP Bac Ninh now has 30 committed customers compared to 21 in 2009, including PepsiCo, which took up 12 hectares of industrial land during the year to construct its second largest beverage production facility in Southeast Asia. We will progressively resettle the remaining 228 hectares out of the 700 hectare project gross land area over the next two years in tandem with customer demand.

The Industrial Parks business also stepped up its successful presence in the country with the groundbreaking for its fourth VSIP development in Hai Phong, northern Vietnam, which was witnessed by the Prime Ministers of Vietnam and Singapore. Located in Hai Phong City's new waterfront district in the vicinity of the North Cam River area, the 1,600 hectare integrated township has a planned 1,100 hectares allocated for commercial and residential development and 500 hectares allocated for a business and industrial park. A highlight of the site, which has 920 hectares of land available for sale, is a four kilometre stretch of waterfront land along the river, with additional water frontage along river tributaries within the site.

To date, VSIP Hai Phong has received the investment licence for 611 hectares of industrial land and the business expects to receive an additional investment licence for a further 137 hectares of commercial and residential land in 2011. During the year, land resettlement was completed for 250 out of the 611 hectares. In addition, land preparation commenced for the arterial boulevards within the resettled land. Piling works were also completed for five detached ready-built factories of 2,000 square metres each to be completed in 2011.

### China

In 2010, several new developments were launched in the Wuxi-Singapore Industrial Park (WSIP), including a mixed-use commercial and residential building, a business and information technology park and the 'Solar City' photovoltaic park. The launches were well-received with a healthy take-up for land and units released for sale.

The development of the mixed-use commercial and residential building as well as the business and information technology park marked a first for the business, as it leveraged on opportunities available to participate in the selective development of commercial and residential real estate to enhance returns on land in choice sites. The business and information technology park, a joint venture with Hong Kong-listed First Shanghai Group, offers a total 99,000 square metres of gross floor area. Since the soft launch of the development's first phase in June 2010, 38% of its gross floor area has been taken up.

Meanwhile, the business also saw the soft launch in October of its mixed development, 'International Garden City', comprising a 120-room serviced apartment block owned by WSIP and operated by Modena Residence, which is under the Frasers Hospitality Group. The soft launch of two apartment blocks of 177 units totalling 17,000 square metres gross floor area saw an encouraging response, with 92 units covering a total of 52% of gross floor area sold.

Another development which saw encouraging take-up was the 'Solar City' photovoltaic park, a collaboration between Suntech Power and the Wuxi New District with a planned area of 400 hectares. 40 hectares of land belonging to WSIP will be used for the project's first phase. Of these 40 hectares, 25 hectares have been taken up.

To date, WSIP is almost fully taken up, with a mere 15 hectares' remaining saleable land. During the year, WSIP secured a 12 hectare plot of land in the Wuxi New District's Hongshan area for the planned development of Hongshan Mansion, a 120,000 square metre gross floor residential development with a total of 700 units. To be developed over five phases, the initial phase to be completed by the third quarter of 2011 will comprise 30,200 square metres or 156 units of apartments and villas.

Meanwhile in September, the Industrial Parks business increased our shareholding in the Singapore consortium involved in the Sino-Singapore Nanjing Eco High-tech Island (SNEI) from 30% to 43%. This increased our effective stake in the Singapore-China joint venture SNEI project from 15% to 21.5%. During the year, the conceptual master plan for the entire 1,500 hectare development was finalised and approved, and plans are currently underway to appoint an urban planner for the development of 630 hectares with the remaining 870 hectares set aside under the master plan for eco-tourism. Situated a mere 6.5 kilometres from Nanjing's city centre on Jiangxinzhou, the SNEI is Nanjing City's largest foreign collaborative development to date. The project is expected to yield up to 3.2 million square metres of office and commercial space and about 2.2 million square metres of residential gross floor area. To date, it has 360 hectares of land available for sale.

In September, Temasek Holdings, through its wholly-owned company Singapore-Sichuan Investment Holdings, signed a memorandum of understanding with the Chengdu High-tech Zone Administration Commission to explore the joint development of the 1,000 hectare Singapore-Sichuan High-tech Innovation Park in Chengdu, Sichuan province. Sembcorp leads the Singapore consortium currently undertaking a feasibility study for the project, which is expected to be completed by mid-2011. Should the outcome of the study be favourable, a 50:50 Singapore-Chinese joint venture will be formed to undertake the project.

### Indonesia

In 2010, our 23.9%-owned associate company Gallant Venture (GV) turned around from a net loss position. The improved performance was mainly due to the commencement of transfer of land titles in 2010 by GV's property development business, which recognised S$33.3 million of resort land sales.

# INDUSTRIAL PARKS REVIEW

## Market Review and Outlook

In its World Urbanisation Prospects report released in 2009, the United Nations states that it expects urbanisation in Asia to continue at an unprecedented pace, with the projected creation of an estimated 90 new cities over the next 15 years. Asia's emerging middle class is expected to grow significantly, in terms of both size as well as spending power.

Against this background, we see significant opportunities for our Industrial Parks business, which delivers the economic engine to drive inward investments, job creation, growth in exports and fiscal revenues core to the economic growth of these fast-developing Asian economies through our industrial parks and integrated townships. The continued pace of industrialisation and urban population growth is also expected to increase demand for commercial and residential real estate, which is set to benefit the business, with its plans to undertake selective development of commercial and residential real estate at choice sites in its land bank.

In Vietnam, we expect VSIP Hai Phong to start contributing to our net profit in 2011. While its competitiveness may be somewhat affected by higher national wage levels as a result of economic growth, Vietnam's market is nonetheless expected to remain attractive to foreign investors given the country's increasing level of domestic consumption.

In China, the government's implementation of tightened credit controls and market cooling measures is expected to result in a slowdown in property demand, particularly in first-tier cities. Nonetheless, second-tier cities such as Nanjing and Wuxi, where our business operates, are expected to remain relatively attractive given their lesser degree of market saturation and lower business costs. With the population of second-tier cities expected to rise and per capita income for their growing middle class expected to increase, the housing market in second-tier cities is likely to still see growth. Furthermore, the anticipated relaxation of China's *hukou*, or household registration system, is also expected to result in an influx of first-time home buyers who may be attracted to second-tier cities with their continued growth and lower level of congestion. Against this background, we expect to see continued contributions from our residential and commercial developments in WSIP and from land sales in SNEI.

Meanwhile, Indonesia continues to be an increasingly attractive destination for foreign investments. We expect our associate GV's resort land sales to continue in 2011.