

INTERVIEW WITH THE GROUP PRESIDENT & CEO

2014 was a year marked by an increasing focus on Sembcorp's overseas businesses, as well as low power prices in our home market, Singapore. Sembcorp Group President & CEO, Tang Kin Fei, shares his views on the business environment in 2014, and the opportunities and plans ahead for Sembcorp.



Tang Kin Fei
Group President & CEO

There has been much concern this year about the power market in Singapore. What are your views on this?

There is no doubt that the Singapore power market is challenging at this moment. The increase in more efficient generation capacity and overcommitment in gas supply have intensified competition and placed downward pressure on margins for all power generation companies in Singapore. Nevertheless, margins are expected to improve as demand for power in the country increases, although this will take some time.

The power business accounts for about 20% of our Singapore Utilities net profit. We also have income from our natural gas importation business as well as our industrial water and wastewater treatment, on-site logistics and solid waste management businesses. In addition, we have contributions from our overseas operations which currently comprise about half of Utilities' profit. As a whole, our Utilities business delivered profit growth from its underlying operations in 2014.

Looking ahead, we believe that there are good prospects for long-term growth. We have a strong pipeline of energy and water projects coming

onstream in 2015 and 2016, and will continue to actively pursue new growth opportunities in our target markets overseas.

What are Sembcorp's plans in the coming years?

Overseas growth is a key focus for our Utilities business, especially in emerging growth markets. We have a strong track record in developing, owning and operating energy and water projects in these markets, and we aim to extend our global presence to grow our overseas income contribution.

We also plan to continue leveraging our strong project development capabilities and successful "developer model"¹ to create value. This could be through the sell-down of our stakes in large-scale projects upon their successful completion, such as when we sold down our stake in Sembcorp Salalah Power and Water Company through an IPO in Muscat in 2013.

Through our efforts, we have a significant pipeline of Utilities projects that will add over 3,400 megawatts and 1.6 million cubic metres per day to our operating capacity in 2015 and 2016, bringing our total power and water capacity to almost 7,900 megawatts and over 9.5 million cubic metres per day respectively. Our focus is to ensure the smooth execution of this pipeline of projects, while at the same time, deepen our foothold in existing geographies and prudently expand into emerging growth markets by securing new opportunities.

In terms of the marine and offshore sector, it's obviously a challenging time for all players with the current low oil price environment. However, we believe that our Marine business, with its modern and efficient facilities and talent pool, has what it takes to remain competitive.

The Sembmarine Integrated Yard @ Tuas, where our existing Singapore yards will be progressively consolidated into, has positioned us well. It allows for higher productivity, faster turnaround and better use of resources with its intelligent design that maximises work efficiency. In addition, it has opened up new customer segments for the business as we are able to better provide value-added and cost-competitive solutions. With the second phase development that we are embarking on, there will be more state-of-the-art facilities which will allow us to cater to an even broader range of vessels and customers.

In the meantime, we will continue with our efforts to expand our Marine business into new market segments and invest in technology and solutions to aid our expansion. We believe that the broad product offering that we have built up over the years and our investments in proprietary designs and technology will help us stay ahead of the curve and remain competitive in the long term.

For our Urban Development business, we believe there are opportunities to extract more value from our existing land bank and expand our land bank in the emerging markets where our customers are going to. In addition, we will continue to enhance our business model so that we have the agility to seize new opportunities and achieve quicker growth.

The overarching goal of all these plans is of course to develop sustainable businesses that will deliver long-term value and growth. To this end, we have also focused our efforts on building Sembcorp into a global company, and have embarked on initiatives to develop a wide range of capabilities to achieve this vision.

¹ Sembcorp's "developer model" encompasses the identification, acquisition, financing and execution of large-scale greenfield projects, particularly in emerging growth markets.

You mentioned overseas growth for the Utilities business. Where do you see the best growth opportunities?

We certainly see growth opportunities in rapidly developing economies where there is increasing demand for our energy and water solutions due to industrialisation and urbanisation.

In particular, we focus on emerging growth markets within a 10-hour flight radius of Singapore in which we have existing beachheads. Our presence in these markets gives us a greater knowledge of the market environment, enabling us to expand our presence and offerings there.

For instance, in China, we have a strong presence in the industrial water and wastewater treatment sector. Our focus will continue to be on this sector, where we see greater interest in improving industrial wastewater discharge standards and increasing water reuse given the emphasis on environmental protection and conservation in China's 12th Five-year Plan. With Sembcorp's market leadership in this niche segment², this renewed focus brings opportunities for us. For instance, we have partnered with the Jiangsu Environment Protection Department to upgrade and transform an existing facility within the Lianyungang Lingang Chemical Industrial Park to ensure compliance with stringent discharge regulations. We hope to replicate this model in other chemical industrial sites in Jiangsu and other provinces.

At the same time, renewable energy and other new energy resources have been earmarked as key areas for development under the 12th Five-year Plan. In view of this, we are also looking to further expand our renewable energy footprint in China with our partner, Guohua. On the thermal energy

front, we will focus on niche sectors in the country, such as competitive mine-mouth coal-fired power plants. We are excited about our partnership with Chongqing Energy Investment Group for a mine-mouth coal-fired power project in Chongqing.

In India, there are immense opportunities in the power market given the growing power shortage in the country. In addition, environmental awareness in India is increasing, with strong support from the new government for renewable energy. Our recent acquisition of Green Infra, a renewable energy company in India with a 700-megawatt asset portfolio, has given us a platform to grow our renewable power business in India. We now have the capabilities to develop, own and operate assets in both the thermal and renewable energy sectors in the country. This will place Sembcorp in a good position to grow our energy business in India.

Tell us more about your plan to grow the renewable energy business and your rationale behind it.

Our strategy to grow our renewable energy business is driven by the aim of having a balanced portfolio of thermal and renewable energy assets. In light of the growing environmental concerns, we believe that the exposure to potential carbon taxation will rise as we expand our energy portfolio. Growing our renewable energy portfolio, and thereby having a balanced portfolio of energy assets, will boost our carbon readiness and better position us for further growth in the energy sector.

For instance, our recent acquisition of Green Infra, a reputable renewable energy company in India with strong capabilities and an experienced team, will help accelerate our growth in the

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renewable energy sector not only in India, but also globally. Our renewable energy capabilities will also broaden to include solar energy, in addition to our existing portfolio of wind power, biomass energy and energy-from-waste assets. Together with our renewable energy assets in China, Singapore and the UK, our renewable energy capacity will almost triple to over 1,000 megawatts, amounting to about 14% of our total power portfolio.

Why is building a global company the way forward for Sembcorp?

A global company is not just one with an operational presence across the globe, but also one with talented people and strong capabilities, the right solutions and innovation, and robust governance and discipline across all its businesses. To us, these factors are the essential building blocks of a global company, and are fundamental to long-term success on an international scale.

Now that we have an established presence in 15 countries across six continents, our next step is to build Sembcorp into a truly global company.

To sustain long-term growth and manage global assets, we recognise that deep and strong

capabilities as well as world-class procedures and systems are critical. To this end, in 2014, we drew up a comprehensive roadmap to deepen our capabilities across all facets of our business and organisation, from business development and project development to asset management and business support functions.

In addition, we need to have strong business models with industry-leading solutions to compete on a global scale. We have been looking at initiatives to sharpen our competitiveness across the Group, such as the increased application of technology and innovation. Our new Sembcorp Technology & Innovation Centre on Jurong Island and our development of the advanced Sembcorp Global Asset Management System are prime examples of our efforts on this front.

As we continue to expand our presence internationally, there is also a need to have a strong team of people who not only have the capabilities to succeed and grow our business overseas, but also embody the Sembcorp culture and exemplify our core values. Last but not least, we continue to focus our efforts on ensuring that we have a robust system of governance, wherever our operations may be.

In the recent years, we have already been taking steps to build these areas within Sembcorp. While the journey to be a global company will not be an overnight one, I am confident that we are on the right track to propel Sembcorp in its next phase of growth. With these building blocks in place, Sembcorp will be well-positioned to grow globally and deliver sustainable value in the long term.

² Sembcorp was named "Leader in Wastewater Treatment for Chemical Industrial Parks" at ChinaWaterNet's prestigious China Water Industry Annual Award 2013.