

LETTER TO SHAREHOLDERS

Dear Shareholders,

Sembcorp delivered a healthy performance in 2014 amid challenging market conditions. Net profit for the year was S\$801.1 million, while turnover stood at S\$10.9 billion. The Group's net profit in 2014 was up 3% from 2013 excluding significant items recorded in 2013. These significant items comprised gains from the initial public offering of Sembcorp Salalah Power and Water Company, offset by an impairment made for utilities operations in the UK and a fair value loss recorded following the reclassification of Gallant Venture as an available-for-sale financial asset. In 2014, our Utilities business recorded S\$408.0 million in net profit, while our Marine and Urban Development businesses contributed S\$340.0 million and S\$44.3 million to the Group's net profit respectively.

The Group's return on equity was 15.2% and our earnings per share amounted to 44.3 cents. Economic value added was a positive S\$524.7 million, while cash and cash equivalents stood at S\$1.7 billion.

For 2014, we are pleased to inform you that the Board of Directors is proposing a final tax exempt one-tier dividend of 11 cents per ordinary share. Together with the interim dividend of 5 cents per ordinary share paid in September, this brings our total dividend for the year to 16 cents per ordinary share.

Growing Sustainable Businesses

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Underpinned by contributions from overseas operations, our **Utilities** business delivered profit growth from underlying operations despite intense competition in Singapore's power market. Strategically positioned in key emerging markets, the business continued to be focused on the successful execution of our projects under development as well as on long-term growth. In 2014, we added 400 megawatts of power and 200 tonnes per hour of steam to our total operating capacity with the completion of our second cogeneration plant in Singapore's Jurong Island petrochemical hub. In addition, in 2015 and 2016, we will add over 3,400 megawatts of power and 1.6 million cubic metres per day of water and wastewater treatment capacity to our operating portfolio. This will bring our global power and water capacity to almost 7,900 megawatts and



Ang Kong Hua, Chairman (right)
Tang Kin Fei, Group President & CEO (left)

over 9.5 million cubic metres per day in total. This strong pipeline of projects will give us scale and strengthen our capabilities in both thermal and renewable energy, as well as industrial water and wastewater treatment. It will also expand our recurring income base and provide visibility on our prospects for growth.

In China, we continued to focus on growing our energy and water businesses, particularly in our key growth areas of niche power and industrial wastewater treatment. We signed a conditional joint venture agreement for a 49% stake in a RMB6 billion (approximately S\$1.2 billion) mine-mouth coal-fired power project in Chongqing. The project involves the acquisition of an existing 300-megawatt facility and the development of an adjacent greenfield 1,320-megawatt power plant, which will be one of the most efficient power plants in Chongqing upon its completion in 2017. We also achieved a milestone in our industrial water management business with the acquisition of an industrial wastewater treatment plant in Jiangsu province. The industrial wastewater treatment facility in the Lianyungang Lingang Chemical Industrial Park will also be reconfigured and upgraded to ensure compliance with stringent discharge regulations. Supported by the Jiangsu Environment Protection Department, this project is an endorsement of our leading expertise in industrial wastewater treatment and offers a model that can be replicated in other industrial parks across Jiangsu and other provinces.

In India, we made significant progress in strengthening our presence in the country's growing power market. Our first power investment in the country, a 1,320-megawatt supercritical coal-fired project in Andhra Pradesh, synchronised its first 660-megawatt unit to the grid. This unit is expected to begin commercial operation in the first quarter of 2015, while the plant's second 660-megawatt unit

is targeted for completion in the third quarter of 2015. We also invested in a second coal-fired power project in the country, acquiring 49% of another 1,320-megawatt supercritical coal-fired plant on an adjacent site, which is targeted for completion in 2016. With a combined capacity of 2,640 megawatts, these facilities will provide us with a strong operating base in India's thermal power market, while their close proximity offers synergies. Furthermore, we marked our entry into India's fast-growing renewable energy market with the acquisition of a 60% stake in Green Infra, a leading renewable energy group with wind and solar power assets in six states across the southern, western and central regions of the country. The addition of Green Infra will add approximately 700 megawatts of operating assets to Sembcorp's renewable energy portfolio in 2015, with additional assets under development. The acquisition almost triples Sembcorp's renewable energy capacity to over 1,000 megawatts globally. With gas-fired and coal-fired thermal power plants, as well as a renewable portfolio that encompasses wind, solar, biomass and energy-from-waste capabilities, Sembcorp is now well-positioned for growth in both the thermal and renewable energy sectors.

Our **Marine** business delivered creditable results in 2014, despite keen competition. The business' orderbook stood at S\$11.4 billion as at December 31, 2014, with completions and deliveries extending till 2019. This includes S\$4.2 billion in contract orders secured in 2014, excluding repair and upgrade contracts.

Our strategy to offer a broad product offering and enhance competitiveness with the development and ownership of proprietary designs continues to bear fruit. In 2014, we signed contracts to build two drillships worth US\$1.1 billion, with options for three additional units from a subsidiary of US-based Transocean. These contracts for the construction

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of our proprietary Jurong Espadon III drillships are a strong endorsement of our drillship design and execution capabilities.

During the year, we also continued to make progress on our integrated yards in Singapore and Brazil. In Singapore, following the successful completion of the first phase of the Sembmarine Integrated Yard @ Tuas in August 2013, we embarked on the next stage of our masterplan for the yard. On the back of robust demand for the yard's four very large crude carrier drydocks, we began construction for a more than S\$700 million second phase extension to the yard, which includes the addition of three new drydocks that are expected to be completed in 2017. One of these will be a dedicated offshore drydock for the building, upgrade and repair of offshore facilities such as rigs and floating production units. As part of the 34.5-hectare second phase, we are also developing a new state-of-the-art, multi-functional steel fabrication facility that will significantly enhance automation and productivity for our offshore rig building, conversion and production and ship repair businesses. Targeted for completion in 2015, it will serve as the central kitchen for all steel fabrication activities across the

eventual 206-hectare yard. When its second phase extension is completed, the yard, with its total of seven drydocks and advanced steel fabrication facility, will be well-placed to benefit from anticipated growth in demand for modern docking capacity and deliver value-added and cost-competitive solutions to better meet the needs of our growing list of global customers and alliance partners.

In Brazil, we commenced initial operation of our wholly-owned shipyard, Estaleiro Jurong Aracruz. Located close to the rich oil and gas basin of Espirito Santo, one of Brazil's giant pre-salt reservoirs, Estaleiro Jurong Aracruz is situated on an 82.5-hectare site with 1.6 kilometres of coastline. The yard is equipped with advanced facilities, including a new heavy lift floating crane which is the only one of its kind in Brazil. Estaleiro Jurong Aracruz enhances our Marine business' ability to capture opportunities in Brazil's oil and gas exploration and production sector. Expected to be fully completed in 2015, the integrated yard will be equipped to undertake the construction of drillships, semi-submersible and jack-up rigs, platforms and supply vessels, as well as integration and topside modules fabrication for floating production, storage and offloading vessels, in addition to rig repairs, ship repairs and modification and upgrade works.

During the year, the business continued to invest in innovative solutions to support its expansion into new market segments. It acquired SSP Offshore's business assets for US\$21 million, as well as a 12% stake in Norway-based GraviFloat which develops re-deployable, modularised liquefied natural gas and liquefied petroleum gas terminals. SSP Offshore is a Houston-based company that specialises in the design, engineering and delivery of innovative floating production and drilling solutions for the oil and gas industry. With the full range of SSP Offshore's intellectual property and its proprietary designs for satellite services platform floaters,

our Marine business is now able to offer a suite of innovative solutions to cater to customers' diverse operating requirements. In particular, the strategic expansion into circular-based floaters will enable the business to tap on new opportunities and expand its market share in the offshore industry's exploration and production, accommodation and logistics support segments.

Against the backdrop of difficult market conditions, our **Urban Development** business recorded a weaker performance in 2014 compared to 2013. During the year, a total of 140 hectares of land was sold in Vietnam and China. Commitments were also secured from customers for a further 56 hectares of land, bringing the business' net orderbook to date to 198 hectares.

In China, our Sino-Singapore Nanjing Eco Hi-tech Island project saw keen customer interest and positive response to a public land auction held during the year, while our Singapore-Sichuan Hi-tech Innovation Park, located in the central business district of Chengdu's Tianfu New City and within a newly established national-level economic zone, contributed maiden profits in 2014.

In Vietnam, a turnaround in investor confidence in the fourth quarter saw encouraging take-up of land, following dampened sentiment in the aftermath of unprecedented riots in the country earlier in the year. In Indonesia, pre-launch interest in our Kendal Industrial Park project in Central Java drew commitments for industrial land, and construction of ready-built factories on the site is slated to commence in 2015.

At present, our Urban Development business has a portfolio of 11 projects spanning more than 10,000 hectares in key emerging markets. The business has over two decades' track record in developing large-scale urban developments. It has attracted over US\$14 billion in direct investments,

as well as more than 700 multinational and leading local corporations as tenants. Going forward, we intend to build on our strong brand name to grow the business. Aside from expanding our orderbook and land bank, we will focus on successfully executing new projects and positioning the business to extract further value through commercial and residential projects at choice sites within our developments.

Building a Global Company

Sembcorp has always been a company with a long stride. Our continued development for long-term growth and value creation remains an area of strategic focus. Our vision is to be a global company and a leader in our industry sectors by responsibly operating and excelling in sustainable businesses—businesses that support development, improve the quality of life and deliver long-term value and growth. We continue to pursue this vision with vigour. Today, Sembcorp operates in 15 countries across six continents. Focused on the right businesses and strategically positioned in the

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right markets, we are now in our next phase of growth: that of building Sembcorp into a global company. To us, this entails more than merely extending our physical footprint across the globe. It means being a world-class company with the right solutions and innovation to meet the world's growing needs, talented people with a global mindset and strong capabilities, as well as robust governance and discipline across all our businesses. We believe that our focus on *People & Capabilities, Solutions & Innovation, and Governance & Discipline*, which form the essential building blocks of a global company, will enable us to achieve this vision.

People & Capabilities

We recognise that without excellent people and capabilities, no company can sustain exceptional performance over time. At Sembcorp, a key priority is building a deep pool of talent and strong multinational teams to support our growth. To this end, we have drawn up a talent development roadmap. We also employ strategic workforce planning to ensure a capable and motivated workforce that can meet the needs of our businesses, both at present as well as in the future. A global company also has a culture and perspective that transcends the locale where it is headquartered. We have therefore maintained a focus on building a strong company culture founded on our ethics and values and developing perceptive employees with a global mindset. In 2014, we continued to roll out the Sembcorp Competency Framework, comprising functional and core competencies based on our corporate values of *Insight, Integrity and Integral*. This framework is embedded in our performance appraisal systems and learning and development roadmap and will help to equip our employees to be part of a global company.

Deep and strong capabilities, coupled with world-class procedures and systems, are required for us to manage our businesses efficiently and effectively and sustain long-term growth. Some of the capabilities that we have developed over the years received industry recognition in 2014. We were named Asia's Leading Private Sector Developer by Project Finance International (PFI) in its inaugural PFI Asia Best Practice citations, a strong endorsement of our capabilities in the development of large-scale energy and water projects. In addition, we were named the Leader in Wastewater Treatment for Chemical Industrial Parks by ChinaWaterNet at the China Water Industry Annual Award 2013 ceremony. Nevertheless, we recognise that more needs to be done. During the year, we drew up a comprehensive roadmap to develop capabilities that will enable us to drive our growth as a global utilities business. For all aspects of the business, ranging from business development and commercial activities, to project development and asset management, as well as business support and resourcing, we systematically and strategically analysed and planned for the development of capabilities needed to transform the business into a global one. From international databases to standardised practices and development of specialised capabilities, we believe that such capability development is the cornerstone of our long-term competitiveness. For example, in 2014, we embarked on the development of the Sembcorp Global Asset Management System, which will put Sembcorp at the forefront of using predictive analytics and predictive maintenance in the operation of utilities plants. This advanced system will allow us to leverage global knowledge and experience to drive operational excellence, and optimise our assets around the world to achieve better reliability, availability and cost competitiveness.

Solutions & Innovation

In each of our businesses, we have developed and will continue to build on strong business models that meet the evolving needs of our customers. In today's volatile economic environment, be it in the utilities industry, marine & offshore sector or urban development market, we know that our strong business models are key to our ability to create value and sustain growth in the long term.

We also recognise that at the heart of the best companies are industry-leading solutions. We are therefore strengthening our emphasis on technology and innovation, to enable us to offer the best solutions to our customers, sharpen our competitive edge and drive greater efficiency. Our new Sembcorp Technology & Innovation Centre on Jurong Island is testament to these efforts. Comprising laboratories and applied research and development (R&D) facilities, it is a centre for the development and integration of innovative processes and the commercialisation of emerging technologies.

In addition, we continue to engage with industry partners, research bodies and stakeholders to work together for innovative solutions. In 2014, we jointly launched the S\$10 million Sembcorp-EMA Energy Technology Partnership with Singapore's Energy Market Authority (EMA) to support the development and commercialisation of new technologies for the energy sector. We are also working with the National University of Singapore on R&D relevant to our businesses, and have earmarked seven projects for joint research over the next few years in areas including energy, water and modular construction. Likewise, our Marine business' GraviFloat and SSP Offshore acquisitions exemplify our commitment to access, develop, integrate and apply technological advances to enhance our competitive advantage for the future.

Governance & Discipline

Last but not least, for a company to generate lasting value for all our stakeholders, high standards of governance and integrity are essential. At Sembcorp, we believe that good governance is a source of competitive advantage and the foundation of value protection and creation when it is a living process, integrated into the business and part and parcel of the company's DNA. Sembcorp has a group-wide code of business conduct, and we commit to uphold the highest ethical practices and governance standards in all our dealings, across all countries we operate in. We aim to be a best-in-class organisation in governance, risk management and compliance practices. We believe this helps us preserve and maximise shareholder value.

Our commitment to be a responsible, ethical business also encompasses a high priority on health and safety management and good environmental practices. We are determined to strive for continuous improvement in this regard. In 2014, we stepped up efforts to build a stronger, more pervasive safety culture and to ensure responsible and safe operations, including during the construction phase of our projects. We developed a comprehensive plan to strengthen our management and governance of health and safety, which will be implemented across our global operations. This includes the introduction of Safe Operation Committees as well as a validation and verification process to enhance the monitoring of compliance.

A Note of Welcome and of Thanks

On behalf of the board, we would like to take this opportunity to record our thanks and deep appreciation to Goh Geok Ling and Evert Henkes, who have indicated that they will be retiring from the board at our forthcoming annual general meeting and will not be seeking re-appointment.

We are confident that Sembcorp has what it takes to stay the course and achieve its vision of being a global company, one that will deliver long-term value and growth to our shareholders, customers, employees, partners and communities for years to come.

An independent director of Sembcorp Industries for almost 15 years, Mr Goh's immense contributions to the Sembcorp Group include serving as a member of our board's Executive Committee, Executive Resource & Compensation Committee and Nominating Committee. He also served as Chairman of Sembcorp Marine between 2006 and 2014. In his close to 11 years as an independent director, Mr Henkes has also contributed invaluable to Sembcorp, not least as the chairman of our board's Risk Committee and as a member of the Audit Committee. As two of our longest serving directors, Mr Goh and Mr Henkes have had a substantial impact on the board and the company. We shall miss their insight and wisdom.

In addition, we would like to welcome Ajaib Haridass and Neil McGregor, who joined our board as directors and members of the Risk Committee on May 1, 2014. Mr Haridass is a respected maritime law specialist, with over three decades of experience in shipping, commercial and banking law. Mr McGregor brings to Sembcorp 40 years of expertise in capital markets and the energy and infrastructure sectors, as well as experience in markets across Europe, Asia and Oceania. They are valuable additions to our board and we warmly welcome them.

During the year, Sembcorp's efforts towards excellence in governance did not go unnoticed. At the 2014 Singapore Corporate Awards, we received gold awards for Best Managed Board and Best Annual Report in the category of companies with S\$1 billion and above in market capitalisation. Group President & CEO, Tang Kin Fei, was also named Singapore's Best Chief Executive Officer in the same category. We are humbled to receive these awards, which spur us on to work harder.

Sembcorp's continued strength owes much to the commitment and expertise of our worldwide staff and management team. On behalf of the board, we would like to thank them. We would also like to thank our customers, partners and shareholders for their support and continued trust in us.

Despite the challenges of a low oil price environment and a mixed global economic outlook, we remain confident of Sembcorp's future. Our will is strong, our strategy is sound and our company is on the right track. With the guidance of our board, the dedication and talent of our staff and the support of our stakeholders, we are confident that Sembcorp has what it takes to stay the course and achieve its vision of being a global company, one that will deliver long-term value and growth to our shareholders, customers, employees, partners and communities for years to come.



Ang Kong Hua
Chairman
February 17, 2015



Tang Kin Fei
Group President & CEO
February 17, 2015