

# CHAIRMAN AND CEO'S STATEMENT

Dear Shareholders,

2016 saw a challenging environment for businesses, marked by subdued world economic growth, low commodity prices and increased political uncertainty. Despite this, Sembcorp turned in a creditable performance for the year.

In 2016, Group net profit was S\$394.9 million and Group turnover S\$7.9 billion, compared to S\$548.9 million and S\$9.5 billion respectively the previous year. Our Utilities business posted S\$348.0 million in net profit compared to S\$701.5 million the previous year. Excluding exceptional items, the business delivered a profit growth of 4% over 2015. In 2015, the business divested an Australian waste management joint venture and municipal water operations in the UK and Zhumadian, China and recorded exceptional items totalling S\$369.9 million. Meanwhile, our Marine and Urban Development businesses contributed S\$48.3 million and S\$33.3 million to the Group's net profit in 2016, compared to a net loss of S\$176.4 million and a net profit of S\$33.5 million respectively in 2015. In 2015, Sembcorp Marine had made impairment and provisions totalling S\$609 million for its rig contracts.

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The Group's return on equity was 6.2% and our earnings per share amounted to 19.9 cents.

For 2016, we are pleased to inform you that the board of directors is proposing a final dividend of 4 cents per ordinary share. Together with the interim dividend of 4 cents per ordinary share paid in August, this brings our total dividend for the year to 8 cents per ordinary share.

**Operations outside Singapore contributed over 60% of the Utilities business' net profit, demonstrating the success of our overseas strategy.**

## A Resilient Multi-business Group

At Sembcorp, our aim is to build sustainable businesses that deliver long-term value and growth. Our commitment to this vision has not wavered. We have developed robust business models and distinctive capabilities within our Utilities, Marine and Urban Development businesses, to ensure that they remain competitive and relevant. Over the years, we have planted the seeds for our future growth. We have established beachheads in our target markets, and have continued to deepen our presence and grow our income base in these regions. Today, Sembcorp's diversified portfolio of businesses and presence in different geographies gives us strength and resilience as a Group.

In 2016, the **Utilities** business continued to provide a strong income base as the largest profit contributor to the Group. Operations outside Singapore contributed over 60% of the business' net profit, demonstrating the success of our overseas strategy.

Our China operations turned in record profits in 2016, accounting for over a third of the Utilities business' profits. Good progress was also made in the execution of our pipeline of new projects. On the energy front, our joint venture Chongqing Songzao mine-mouth supercritical coal-fired power plant commenced operation ahead of schedule in January 2017. On the water front, we completed new industrial wastewater treatment plants in Jingmen in Hubei province and Qidong in Jiangsu province. Also in Jiangsu, we successfully completed upgrading works for an industrial wastewater treatment plant at a chemical industrial park in Lianyungang.



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

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Following our successful reconfiguration and the plant's adoption of our management systems, it is now able to treat industrial wastewater to meet more stringent discharge standards. With greater emphasis on environmental requirements, we see growing demand for effective industrial wastewater treatment solutions. The success of the Lianyungang project represents a good showcase of our capabilities and a new proven business model that can be replicated elsewhere in China and beyond.

In India, we continued to strengthen our position in both the renewable and thermal energy sectors. On the renewable energy front, our wind and solar energy business, Sembcorp Green Infra, was successfully integrated into the Group, and continues to expand its portfolio. The business' combined wind and solar power capacity increased to 971 megawatts in 2016, from its initial 700 megawatts at the time of our acquisition of the business in 2015. To enhance its competitiveness, the company implemented key initiatives during the year to increase revenue and reduce cost. The first initiative was a performance optimisation programme driven by improvements in technology, engineering and operations. Secondly, instead of outsourcing operations and maintenance, the business started to implement self-performed operations and maintenance to manage its facilities. Going forward, Sembcorp remains committed to grow this business further, as well as increasing the share of renewable energy in our energy portfolio mix.

On the thermal energy front, we marked a key milestone with the official opening of the Sembcorp Gayatri Power Complex in Andhra Pradesh in February 2016. The US\$3 billion (approximately S\$4 billion) power complex houses two supercritical coal-fired power plants, Thermal Powertech Corporation India and Sembcorp Gayatri Power. For the 1,320-megawatt Thermal Powertech Corporation India, our focus during the year was on stabilising the operations of the plant in its first

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full year of operations. At present, contracts are in place committing 86% of the plant's net capacity under long-term power purchase agreements. In the fourth quarter of the year, we refinanced the asset, securing lower interest rates. Meanwhile, Sembcorp Gayatri Power commenced full commercial operations, with the first of two 660-megawatt generating units coming onstream in November 2016 and the second unit in February 2017. While the facility has secured some short-term contracts for the supply of power, we will seek to enter into long-term arrangements when such long-term value-enhancing power purchase agreements become available in the market.

In 2016 we continued to make progress in other rapidly developing economies. In Bangladesh, we signed a long-term power purchase agreement and project agreements for our upcoming Sirajganj Unit 4 dual-fuel combined cycle power project. Non-recourse project financing was secured from international lenders including the International Finance Corporation of the World Bank Group, Singapore-based infrastructure project financing firm Clifford Capital and CDC Group, the UK government's development finance institution. Political risk cover for part of the debt and a political risk guarantee was provided by the World Bank Group's Multilateral Investment Guarantee Agency. The project, which has a contracted capacity of 414 megawatts, is now in construction and is expected to commence delivery of power to the grid by the end of 2018.

In Myanmar, we signed the long-term power purchase agreement and build-operate-transfer agreement with the government for our gas-fired combined cycle Sembcorp Myingyan power project. With a contracted capacity of 225 megawatts, the facility will be one of Myanmar's largest gas-fired power plants when completed in 2018. It will play a critical role in meeting the country's growing demand for electricity. This project adds to our growing hub in ASEAN, which already includes established operations in Singapore and Vietnam. We see opportunities in the region for our business, and the potential for our operations in ASEAN to form an important centre for future growth, alongside our other key markets of China and India.

**The Marine business continues to take proactive measures to enhance its resilience and competitiveness, maintaining a focus on liquidity, costs and balance sheet management.**

Meanwhile, the global oil and gas downturn continues into its third year following the collapse of oil prices towards the end of 2014. This has had a significant impact on our **Marine** business, along with many other companies in the industry. Notwithstanding this, the Marine business turned in a profit in 2016. It made notable project deliveries, which improved cash flows and strengthened its balance sheet. The business also made good progress on the execution of its orderbook, leveraging on the state-of-the-art Tuas Boulevard Yard and other facilities in Singapore and overseas.

The business continues to take proactive measures to enhance its resilience and competitiveness, maintaining a focus on liquidity, costs and balance sheet management. To achieve a healthy financial position, it is exercising prudence,

actively managing its balance sheet and manpower requirements in line with changing needs. At the same time, the safe, timely and effective execution of its orderbook remains a key priority.

Sembcorp Marine continues to position itself for the future, enhancing its infrastructure for long-term competitiveness. In January 2017, it completed Phase II of its flagship Tuas Boulevard Yard. The yard's next-generation capabilities, including a highly-automated steel fabrication mega-facility, have led to new opportunities and enabled the business to take on projects of greater complexity and scale. The completion of this second phase will also allow the business greater synergies and scope to optimise its yard capacities and operate more efficiently.

During the year, the Marine business made several strategic acquisitions in new technologies in order to offer innovative solutions both within the oil and gas sector and beyond. Firstly, it increased its stake in Gravifloat to 56%. Gravifloat offers a suite of cost-effective, near-shore, re-deployable and modularised solutions, including import and export terminal infrastructure for treatment, storage, liquefaction, regasification and offloading of liquefied natural gas (LNG) and liquefied petroleum gas (LPG). Secondly, it acquired 50% of Aragon, which offers custom floating production, storage and offloading solutions to serve customers in the production segment. Thirdly, it acquired 100% of LMG Marin, which owns a series of design patents and has experience in the specialised design of vessels. These investments broaden Sembcorp Marine's proprietary design and engineering capabilities and support its strategy to diversify and offer innovative solutions across the offshore and marine value chain. The business' portfolio of next-generation technologies and solutions now includes modularised LNG and LPG terminals, solutions for gas processing and floating LNG facilities, as well as advanced ship design and engineering and next-generation circular hull forms, amongst others. As at end-2016, the Marine business' net orderbook stood at S\$7.8 billion.

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In its more than five decades of operation, Sembcorp Marine has braved several down-cycles and emerged stronger. Its investments in infrastructure and technology over the years have enhanced its resilience and put it in a better position to capture new opportunities. We are confident that the business has what it takes to weather an extended downturn and that it is well-positioned to benefit from the market's eventual recovery.

*VSIP has played an important role in driving value-added economic transformation, while catalysing wider societal impact through the creation of more than 183,000 jobs that support the rise of the country's middle class.*

Meanwhile, our **Urban Development** business achieved milestones in its key markets in 2016. In Vietnam, the business celebrated the 20<sup>th</sup> anniversary of its flagship Vietnam Singapore Industrial Park (VSIP). From its first project in Binh Duong province, VSIP has grown to become the country's leading integrated township and industrial park developer, with a presence spanning seven projects. It has played an important role in driving value-added economic transformation, while catalysing wider societal impact through the creation of more than 183,000 jobs that support the rise of the country's middle class. A symbol of the close ties between Vietnam and Singapore and an emblem of successful economic cooperation, VSIP has attracted around US\$9.4 billion in total investment from 670 companies. Demand for its developments remains strong and the business is exploring additional new expansions in Binh Duong and Bac Ninh provinces.

In China, we made progress at our Sino-Singapore Nanjing Eco Hi-tech Island. After seven years of development, the island has emerged as the

highlight of Nanjing's new central business district. Several residential projects by third-party developers, including a project by our 21.5%-owned joint venture, *Island Residences*, were launched and sold in 2016. December also saw the close of a successful tender for a land plot on the island for RMB 7.8 billion. The sizeable 42.6-hectare plot is slated for commercial and residential development. In addition, during the year we broke ground on the island for the *Nanjing International Water Hub*, a research and development centre that is wholly owned and operated by Sembcorp. Envisioned to be the leading centre in Nanjing for science and water technology exchanges, the project will offer research facilities as well as office and conference space to facilitate the development and commercialisation of new water technologies. Targeted for completion in 2018, the water hub will offer local and foreign water companies enhanced access to opportunities in both China and global markets.

Also in China, our Singapore-Sichuan Hi-tech Innovation Park has attracted RMB 14.2 billion in investment from companies in the interactive digital media and biomedical science sectors to date, firmly establishing itself as a destination for high-technology companies in Chengdu. During the year, we completed the first phase of a large scenic public park on the site, enhancing the value of land in the vicinity. In recognition of the Singapore-Sichuan Hi-tech Innovation Park's features and progress to date, the local government of Sichuan has selected it to be a provincial-level eco-city showcase project, making it the only development in Chengdu to receive this honour.

In Indonesia, our Urban Development business marked the official opening of *Park by the Bay*, its 2,700-hectare integrated township in Semarang, Central Java. The project presents a unique approach to industry development that enables companies in target industries to participate in various stages of a product's value chain, from processing of raw materials, to design, manufacture

and marketing of finished products. The project will also have commercial space for trade shows and retail activities. Twenty-seven companies have indicated interest to set up operations in the township, bringing with them more than US\$330 million in investments and creating some 4,000 jobs in their initial stages of operation.

As a Group, and in all our businesses, we continue to strive towards business excellence, including good health, safety and environment practices. During the year, we implemented the SafeStart programme, which aims to emphasise the importance of health and safety to employees and contractors and encourage them to work towards the goal of zero injuries at the workplace. We also paid particular attention to the management and surveillance of construction and commissioning activities at sites under construction and increased engagement with contractors to ensure adherence to our health and safety requirements.

While we have made progress, we recognise that excellence in health and safety is an ongoing journey. Despite our best efforts, we regret to report that we had three fatalities in 2016. One fatality was due to a vehicular accident involving our contract worker at a construction site in Singapore. The other two were due to a fall from height and burn injuries sustained by contract workers constructing our second thermal power project in Andhra Pradesh, India. We are very saddened by the loss of these lives. Full support was rendered to the affected families and every incident was thoroughly investigated to identify root causes. The necessary corrective actions were then taken to prevent recurrence. Comprehensive reviews and assessments were also conducted and additional control measures implemented to minimise risks.

In line with our commitment to operate our businesses responsibly, we harness technology that gives us an edge over the competition and helps us support the world's sustainable growth. Over the years, this has included innovations for a cleaner

and more efficient energy industry, as well as water and wastewater treatment solutions for industries and water-stressed regions. Today, we continue to invest in technology and innovation to limit our impact on the environment and help our customers do the same. For instance, in 2016 we launched the S\$60 million Sembcorp-NUS Corporate Laboratory, in partnership with the National University of Singapore and with the support of the National Research Foundation. This corporate lab aims to develop competitive, sustainable solutions for power generation, industrial wastewater treatment and water reuse, as well as the transformation of waste into high-value products. During the year, we also completed the first phase roll-out of the Sembcorp Global Asset Management System. The system applies advanced data analytics for process optimisation, troubleshooting and predictive maintenance, allowing us to increase efficiency and drive operational reliability from a central location.

### Emerging Stronger

Over the years, Sembcorp has come a long way. From being a primarily Singapore-based company, today we are present in 15 countries across five continents. Our overseas strategy has succeeded and our external wing continues to expand. In particular, we are well-positioned in key growth markets, where macroeconomic factors such as population increase, industrialisation and urbanisation create opportunities. We are in the business of providing essential solutions, for which global demand will continue to rise.

Each of our key businesses has built up strong capabilities, a solid track record, and a leading position in its target markets. Our Utilities business has established itself as an international developer, owner and operator of energy and water assets. With assets of around 11,000 megawatts of power and close to nine million cubic metres of water and wastewater treated per day, the business has built up a strong base of recurring

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income. It has a proven track record of securing deals, delivering projects and operating assets in emerging economies. Its distinctive capabilities include the ability to develop and operate both thermal and renewable energy assets, as well as being the market leader in advanced industrial water and wastewater management. Our Marine business has transformed itself from a ship repair yard into an integrated business offering a full range of innovative solutions across the offshore and marine value chain, both within and beyond the oil and gas sector. The business has made strategic investments in new technologies and solutions, as well as in best-in-class integrated facilities that enhance its productivity, efficiency and long-term competitiveness. Meanwhile, our Urban Development arm has developed a unique business model that transforms raw land into modern industrial parks and townships, delivering the economic engine to support industrialisation and urbanisation. The business has become a valued partner to governments and has a significant land bank of around 11,000 hectares across Vietnam, China and Indonesia.

**In addition, over the years we have shaped our organisation for the future, with a focus on *People & Capabilities, Solutions & Innovation, and Governance & Discipline.***

In addition, over the years we have shaped our organisation for the future, with a focus on *People & Capabilities, Solutions & Innovation, and Governance & Discipline.* We have made a concerted effort to invest in the right people and capabilities to support our growth, whilst developing world-class solutions. We have also upheld an unwavering commitment to robust governance and discipline.

**Our strategy is sound, our businesses well-established, our track record strong and our market positions advantageous.**

In short, Sembcorp has a strong foundation. Despite a volatile economic environment, changing market dynamics and keen competition in our industry sectors, we have the right ingredients for success. Our strategy is sound, our businesses well-established, our track record strong and our market positions advantageous. We have what it takes to remain nimble, stay resilient and continue delivering value.

### Acknowledgements

On behalf of the board, we would like to extend a warm welcome to Yap Chee Keong who joined our board on October 1, 2016. Formerly the executive director of The Straits Trading Company and the chief financial officer of Singapore Power, Chee Keong brings to the board both financial and audit expertise, as well as experience in the energy, infrastructure and real estate sectors.

We would also like to record our thanks to Bobby Chin, who has indicated that he will retire from our board at the forthcoming annual general meeting and not seek re-election. An independent director since 2008, Bobby has been an excellent chairman of our Audit Committee and member of our Risk and Nominating Committees. He has had a substantial impact on the board and company. We shall miss his wisdom and insight, and would like to express our deep appreciation for his invaluable contributions.

In addition, we announced that after 30 years with Sembcorp and 12 years at the helm of the Group, Kin Fei will be retiring as Sembcorp's Group President & CEO on March 31, 2017. After a rigorous succession planning process, the board has appointed Neil McGregor to take over as Sembcorp's next Group President & CEO on April 1, 2017. Neil is

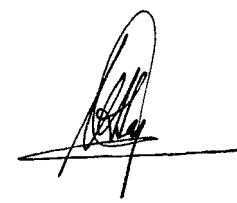
currently a member of our board and ideally suited to the role. He brings with him a unique blend of experience, including an extensive international track record in the energy and infrastructure sectors as both a portfolio manager and as an operating CEO. The board is confident that Neil is the right person to serve as the head of the Sembcorp Group as we enter our next stage of development and growth. With this succession plan in place and the deep bench strength and expertise we have built up over the years, Sembcorp is in a strong position for the future.

As a company, much of the credit for our success is due to Sembcorp's committed team of employees around the world. We would like to thank them, and also express our appreciation to you, our shareholders.

Looking ahead, the market environment is expected to remain difficult. However, with our strong foundation and the established businesses we have built over the years, Sembcorp continues to be well-positioned for the future. Driven by the talent, expertise and passion of our staff, and backed by the support of our stakeholders, we are not only confident that we will effectively navigate through these headwinds, but that Sembcorp will emerge stronger as a Group, and deliver long-term value to its stakeholders.



**Ang Kong Hua**  
Chairman  
February 23, 2017



**Tang Kin Fei**  
Group President & CEO  
February 23, 2017

### A Special Note of Thanks to Group President & CEO, Tang Kin Fei

On behalf of the board and all at Sembcorp, I would like to take this opportunity to say a few words of thanks to our Group President & CEO, Tang Kin Fei, for his many years of dedicated service.

Kin Fei has played a pivotal role in Sembcorp's remarkable journey over the last three decades. He was instrumental in driving the development and growth of our Utilities business, resulting in it becoming our largest profit contributor and creating a strong base of recurring income for the company.

Since taking over the helm of the Group 12 years ago, Kin Fei has proven to be an exceptional CEO. He brought to the role the unique combination of a first-class engineering mind, astute financial and business sense, and bold and decisive leadership. Under his watch, Sembcorp transformed itself into a focused energy, water, marine and urban development group. From being a Singapore-centric company, we now have operations in 15 countries worldwide and are strategically positioned in growing markets with strong capabilities.

We would like to express our deep appreciation to Kin Fei for his passionate and visionary leadership and for the strong foundation he has laid for Sembcorp. After 30 illustrious years, his is certainly a well-earned retirement. We thank him for his stellar contributions and wish him all the best in this new phase of life.



**Ang Kong Hua**  
Chairman  
February 23, 2017