OPERATING AND FINANCIAL REVIEW

Operating and Financial Review

Group Financial Review

Group Financial Highlights

	2017	2016	Change (%)
For the Year *(S$ million)*			
Turnover	**8,346**	7,907	6
Earnings before interest, tax, depreciation and amortisation	**1,264**	1,315	(4)
Profit from operations	**795**	909	(13)
– Earnings before interest and tax	**631**	784	(20)
– Share of results: Associates & JVs, net of tax	**164**	125	31
Profit before tax	**312**	537	(42)
Net profit	**231**	395	(42)
Economic value added	**(356)**	(99)	(261)
Return on total assets *(%)*	**3.4**	4.0	(15)
Return on equity *(%)*	**3.2**	6.2	(48)
Capital Position *(S$ million)*			
Owners' funds	**5,966**	5,898	1
Total assets	**23,213**	22,290	4
Net debt	**7,161**	7,338	(2)
Operating cash flow	**650**	872	(25)
Free cash flow	**1,123**	1,132	(1)
Capital expenditure and equity investment	**714**	1,236	(42)
Total debt-to-capitalisation ratio	**0.55**	0.53	3
Total debt-to-capitalisation ratio *(less cash and cash equivalents)*	**0.40**	0.42	(6)
Interest cover *(times)*	**2.4**	3.3	(26)
Shareholder Returns			
Net assets per share *(S$)*	**3.90**	3.75	4
Earnings per share *(cents)*	**10.51**	19.92	(47)
Ordinary dividend per share *(cents)*	**5**	8	(38)
Payout ratio *(%)*	**47.6**	40.2	18
Last traded share price *(S$) as at December 31*	**3.03**	2.85	6
Total shareholder returns *(%)*	**8.8**	(3.3)	NM

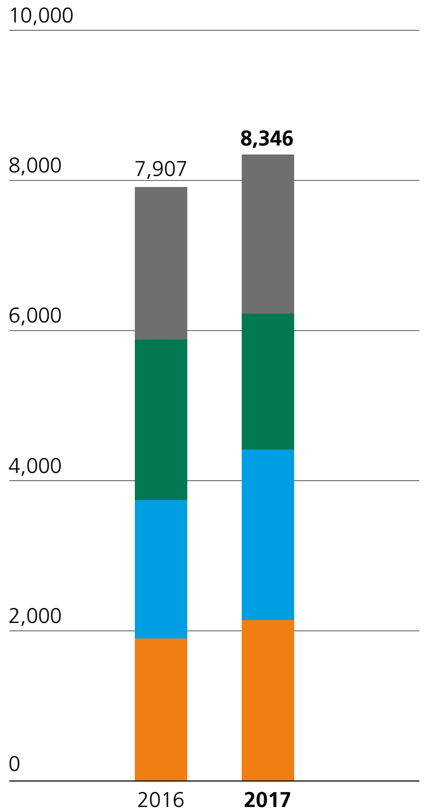
Group Quarterly Performance *(S$ million)*

	2017					2016				
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total
Turnover	**2,140**	**2,275**	**1,808**	**2,123**	**8,346**	1,895	1,846	2,140	2,026	7,907
Earnings before interest, tax, depreciation and amortisation[1]	**352**	**334**	**365**	**213**	**1,264**	313	286	326	390	1,315
Profit from operations	**275**	**222**	**188**	**110**	**795**	237	208	172	292	909
– Earnings before interest and tax	**217**	**188**	**161**	**65**	**631**	202	170	168	244	784
– Share of results: Associates & JVs, net of tax	**58**	**34**	**27**	**45**	**164**	35	38	4	48	125
Profit / loss before tax	**150**	**92**	**70**	**–[2]**	**312**	161	123	88	165	537
Net profit	**119**	**55**	**34**	**23**	**231**	107	87	54	147	395
Earnings per share *(cents)*	**6.13**	**2.54**	**1.23**	**0.61**	**10.51**	5.45	4.29	2.47	7.71	19.92

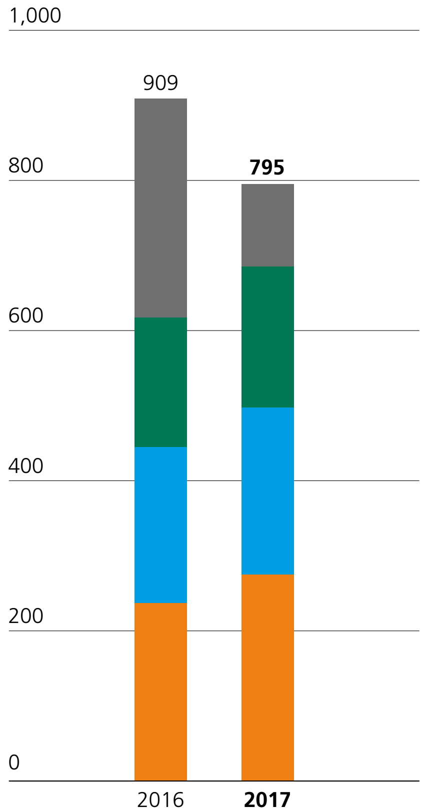
[1] *Earnings before interest, tax, depreciation and amortisation excludes major non-cash items such as the effects of fair value adjustments, re-measurements, impairments and write-offs*

[2] *Less than S$1 million*

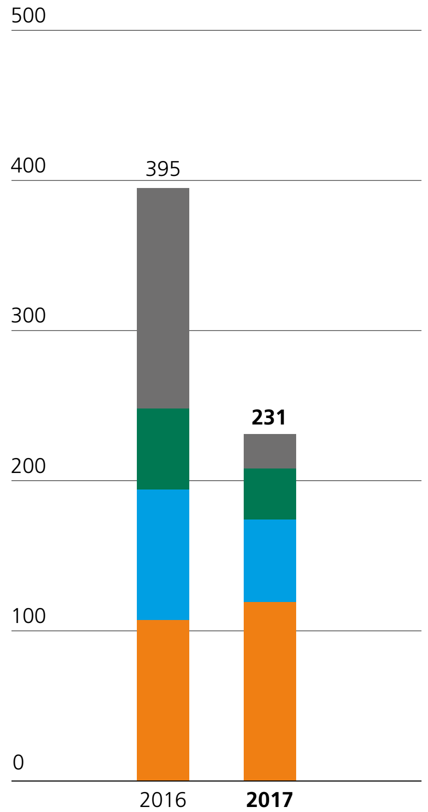
Turnover *(S$ million)*



PFO *(S$ million)*



Net Profit *(S$ million)*



■ First quarter ■ Second quarter ■ Third quarter ■ Fourth quarter

Group Financial Review

Five-year Financial Performance Profile

2017
Sembcorp posted a net profit of S$230.8 million and a turnover of S$8.3 billion in 2017, compared to S$394.9 million and S$7.9 billion respectively in 2016.

In 2017, the Utilities business contributed S$140.0 million in net profit to the Group, compared to S$348.0 million in 2016. On an underlying basis, the business delivered a net profit of S$260.8 million. Singapore operations continued to perform well, mitigating the weak performance of Sembcorp Gayatri Power, our second thermal power plant in India, and the absence of contribution from the Yangcheng coal-fired power project in China following the expiry of its cooperative joint venture agreement. Singapore operations was also the largest contributor to the Utilities business' net profit before exceptional items.

Exceptional losses recorded by the business in 2017 amounted to S$120.8 million. These included provision for potential fines and claims at an overseas water business of S$25.4 million, impairment charges of S$56.3 million mainly relating to assets and investments in Singapore, as well as S$39.1 million in refinancing cost incurred for our second thermal power plant in India.

The exceptional gain recorded by the business in 2016 amounted to S$2.5 million, comprising S$33.5 million from the gain on divestment of a municipal water operation in Yancheng, China, less S$31.0 million in refinancing cost for our first thermal power plant in India.

The Marine business' net profit contribution to the Group was S$6.8 million in 2017, compared to S$48.3 million in 2016. The business' lower net profit in 2017 was mainly due to lower overall business volume, especially in rigs & floaters and offshore platforms, which impacted the absorption of overhead costs, and additional cost accruals for floater projects which are pending finalisation with the customers, partially offset by divestment gains and a lower share of losses from associates and joint ventures.

Meanwhile, the Urban Development business reported a net profit of S$83.2 million, up from S$33.3 million in 2016. The business' strong performance was driven by higher contributions from all its operating markets, and in particular, by higher sales in China.

Return on equity for the Group was 3.2% and earnings per share amounted to 10.5 cents.

2016
Sembcorp posted a net profit of S$394.9 million and a turnover of S$7.9 billion in 2016, compared to S$548.9 million and S$9.5 billion respectively in 2015.

In 2016, the Utilities business contributed S$348.0 million in net profit to the Group. 63% of this net profit was generated by its overseas operations. Excluding exceptional items, the business delivered a profit growth of 4% over 2015, backed by record profits in China of S$124.8 million. Exceptional items recorded by the business in 2016 amounted to S$2.5 million, comprising S$33.5 million from the divestment gain on the sale of a municipal water operation in Yancheng, China, less S$31.0 million total refinancing cost for our first thermal power plant in India. Exceptional items recorded by the business for 2015 amounted to S$369.9 million, comprising divestment gains of S$425.6 million from the sale of a waste management joint venture in Australia and municipal water operations in Bournemouth, the UK and Zhumadian, China, less S$55.7 million comprising S$31.4 million from the exit of the chemical feedstock business and impairment of assets in Singapore (net of settlement amounts from customers) and S$24.3 million in net allowance for doubtful debts in China.

The Marine business' net profit contribution to the Group was S$48.3 million in 2016, compared to a net loss of S$176.4 million in 2015. The business' net loss in 2015 was mainly due to write-downs of inventory and work-in-progress and provisions for foreseeable losses for rig building projects. Meanwhile, the Urban Development business reported a net profit of S$33.3 million, comparable to S$33.5 million in the previous year.

2015
Sembcorp posted a net profit of S$548.9 million and a turnover of S$9.5 billion for 2015 compared to S$801.1 million and S$10.9 billion in 2014 respectively.

In 2015, the Utilities business delivered a 72% growth in net profit to S$701.5 million compared to S$408.0 million in 2014. This increase was underpinned by growth from its overseas operations as well as gains from the sale of its Australian waste management joint venture and municipal water operations in the UK and Zhumadian, China.

Meanwhile, at the Sembcorp Industries level, the Marine business incurred a net loss of S$176.4 million in 2015 compared to a net profit of S$340.0 million in 2014. The Urban Development business posted a net profit of S$33.5 million compared to S$44.3 million in 2014.

2014
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.

In 2014, the Utilities business reported a net profit of S$408.0 million, compared to S$449.9 million in 2013. The business achieved a 7% net profit growth in 2014 from 2013 excluding gains from the initial public offering of Sembcorp Salalah Power and Water Company (Sembcorp Salalah) offset by an impairment made for operations in the UK.

The Marine business contributed S$340.0 million to the Group's net profit in 2014, compared to S$336.9 million in 2013. Meanwhile, the Urban Development business reported a net profit of S$44.3 million, compared to S$50.2 million in the previous year.

2013
Sembcorp delivered a robust performance for 2013. Net profit grew 9% to S$820.4 million from S$753.3 million in 2012, while turnover increased 6% to S$10.8 billion from S$10.2 billion the previous year.

In 2013, the Utilities business delivered strong profit growth of 20%, with net profit increasing to S$449.9 million from S$374.6 million in 2012, underpinned by solid growth from operations in China and gains from the initial public offering of Sembcorp Salalah, partially offset by an impairment made for operations in the UK.

The Marine business reported a net profit of S$336.9 million in 2013, up 3% from S$326.7 million in 2012. Meanwhile, the Urban Development business reported a 22% increase in net profit to S$50.2 million from S$41.1 million the previous year.

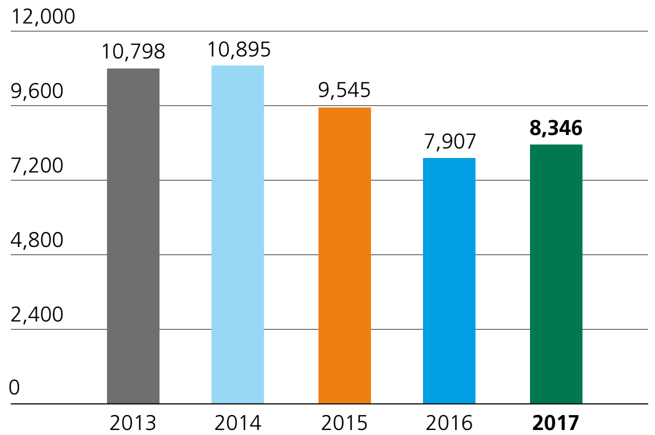
Group Financial Review

Five-year Financials

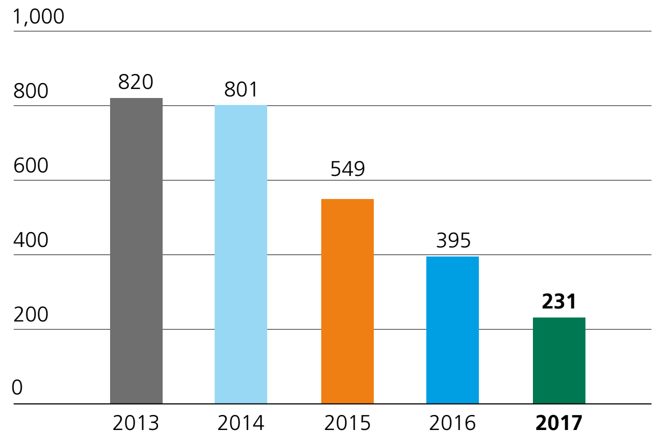
	2017	2016	2015	2014	2013
For the Year *(S$ million)*					
Turnover	**8,346**	7,907	9,545	10,895	10,798
Earnings before interest, tax, depreciation and amortisation[1]	**1,264**	1,315	1,720	1,457	1,477
Profit from operations	**795**	909	631	1,297	1,315
– Earnings before interest and tax	**631**	784	625	1,139	1,160
– Share of results: Associates & JVs, net of tax	**164**	125	6	158	155
Profit before tax	**312**	537	426	1,246	1,214
Net profit	**231**	395	549	801	820
At Year End *(S$ million)*					
Property, plant and equipment and investment properties	**11,249**	11,287	8,706	7,749	5,148
Other non-current assets	**3,869**	3,379	3,602	3,297	2,916
Net current assets	**2,259**	1,609	1,661	773	788
Non-current liabilities	**(9,161)**	(8,112)	(5,926)	(4,587)	(2,322)
Net assets	**8,216**	8,163	8,043	7,232	6,530
Share capital and reserves (including perpetual securities)	**6,969**	6,702	6,433	5,616	5,230
Non-controlling interests	**1,247**	1,461	1,610	1,616	1,300
Total equity	**8,216**	8,163	8,043	7,232	6,530
Per Share					
Earnings *(cents)*	**10.51**	19.92	29.17	44.31	45.70
Net assets *(S$)*	**3.90**	3.75	3.60	3.15	2.93
Net ordinary dividends (including bonus dividends) *(cents)*	**5**	8	11	16	17
Financial Ratios					
Return on equity *(%)*	**3.2**	6.2	9.4	15.2	17.1
Return on total assets *(%)*	**3.4**	4.0	3.7	7.5	9.1
Interest cover *(times)*	**2.4**	3.3	7.2	20.8	12.5
Total debt-to-capitalisation ratio	**0.55**	0.53	0.46	0.40	0.23
Total debt-to-capitalisation ratio (less cash and cash equivalents)	**0.40**	0.42	0.35	0.26	Net cash

[1] *Earnings before interest, tax, depreciation and amortisation excludes major non-cash items such as the effects of fair value adjustments, re-measurements, impairments and write-offs*

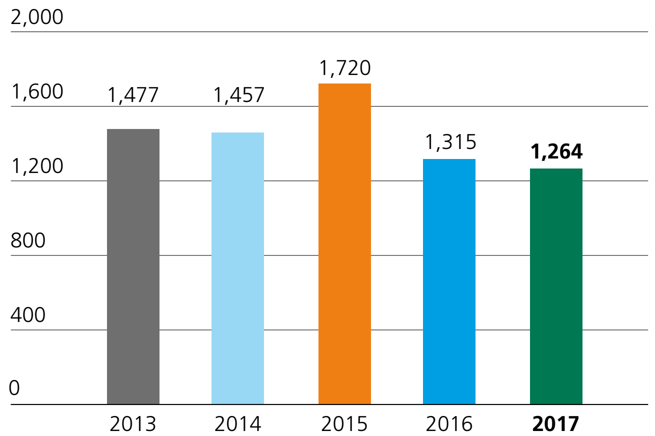
Turnover *(S$ million)*



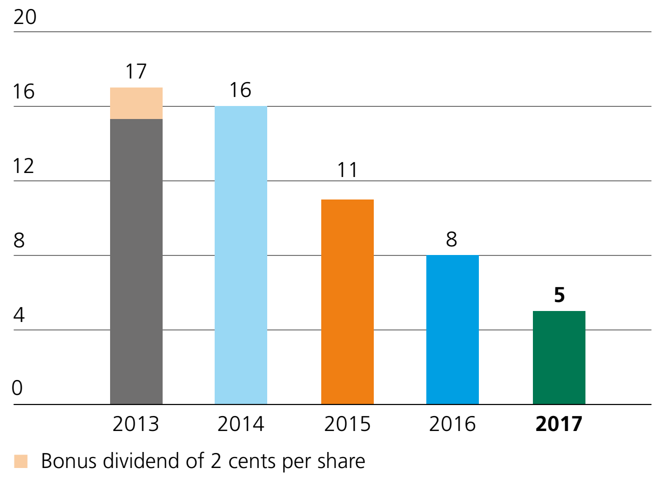
Net Profit *(S$ million)*



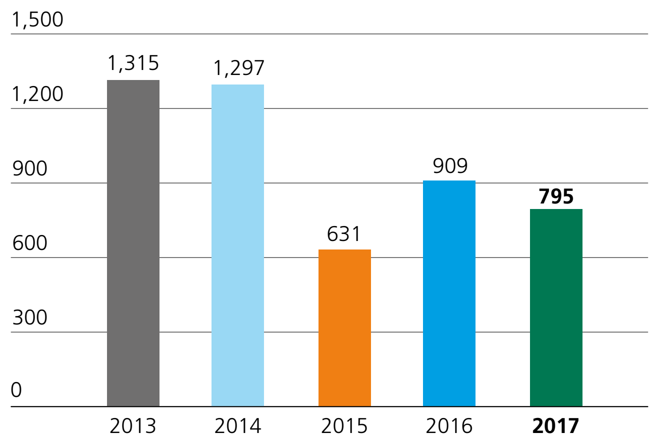
EBITDA *(S$ million)*



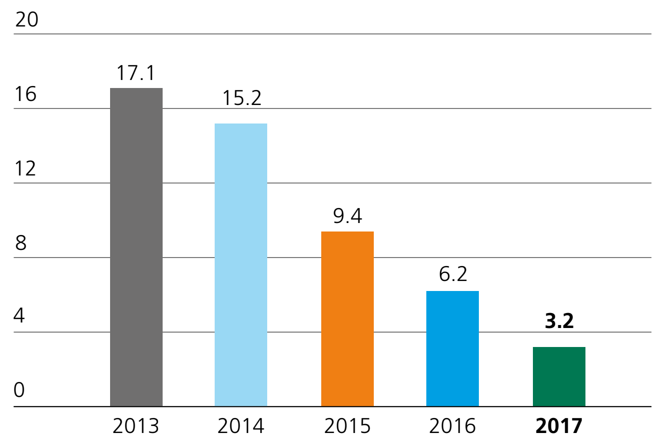
Net Ordinary Dividend Per Share *(cents)*



PFO *(S$ million)*



ROE *(%)*



Group Financial Review

Review by Business *(S$ million)*

	2017	%	2016	%	2015	%	2014	%	2013	%
Turnover										
Utilities	**5,670**	**68**	4,111	52	4,227	44	4,850	44	5,095	47
Marine	**2,388**	**29**	3,544	45	4,968	52	5,831	54	5,523	51
Urban Development	**8**	**–**	7	–	8	–	7	–	9	–
Others / Corporate	**280**	**3**	245	3	342	4	207	2	171	2
	8,346	**100**	7,907	100	9,545	100	10,895	100	10,798	100
Profit from Operations										
Utilities	**650**	**82**	737	81	948	150	522	40	613	47
Marine	**65**	**8**	171	19	(342)	(54)	718	55	660	50
Urban Development	**89**	**11**	38	4	38	6	47	4	45	3
Others / Corporate	**(9)**	**(1)**	(37)	(4)	(13)	(2)	10	1	(3)	–
	795	**100**	909	100	631	100	1,297	100	1,315	100
Net Profit										
Utilities	**140**	**61**	348	88	701	128	408	51	450	55
Marine	**7**	**3**	48	12	(176)	(32)	340	42	337	41
Urban Development	**83**	**36**	33	9	34	6	44	6	50	6
Others / Corporate	**1**	**–**	(34)	(9)	(10)	(2)	9	1	(17)	(2)
	231	**100**	395	100	549	100	801	100	820	100

Performance Scorecard *(S$ million)*

	2017	2016	Change *(%)*
Turnover	**8,345.6**	7,907.0	6
EBITDA[1]	**1,264.3**	1,314.9	(4)
PFO	**795.3**	909.0	(13)
– EBIT	**631.2**	783.9	(20)
– Share of results: Associates & JVs, net of tax	**164.1**	125.1	31
PBT	**312.1**	537.4	(42)
Net profit	**230.8**	394.9	(42)
EPS *(cents)*	**10.5**	19.9	(47)
ROE *(%)*	**3.2**	6.2	(48)

[1] *EBITDA excludes major non-cash items such as the effects of fair value adjustments, re-measurements, impairments and write-offs*

Overview

Sembcorp posted a net profit of S$230.8 million and a turnover of S$8.3 billion in 2017, compared to S$394.9 million and S$7.9 billion respectively in 2016.

Turnover

The Group achieved a turnover of S$8.3 billion, with the Utilities and Marine businesses contributing 97% of total turnover.

The Utilities business' turnover was higher in 2017 compared to 2016. This was mainly due to the impact of stronger high sulphur fuel oil prices on Singapore operations, contribution from our second thermal power plant in India, as well as the recognition of construction revenue for the business' Myanmar and Bangladesh projects.

The Marine business' turnover decreased over the previous year, mainly due to lower revenue recognised for rig & floaters and offshore platform projects. Turnover also saw the effect of the sale of nine rigs and termination of five jack-up rig contracts.

Net Profit

The Group recorded a net profit of S$230.8 million in 2017 compared to S$394.9 million in 2016, while profit from operations was S$795.3 million, compared to S$909.0 million in 2016.

In 2017, the Utilities business contributed S$140.0 million in net profit to the Group, compared to S$348.0 million in 2016. On an underlying basis, the business delivered a net profit of S$260.8 million. Singapore operations continued to perform well, mitigating the weak performance of our second thermal power plant in India and the absence of contribution from the Yangcheng coal-fired power project in China following the expiry of its cooperative joint venture agreement. Singapore operations were also the largest net profit contributor to the Utilities business' net profit before exceptional items for 2017.

Exceptional losses recorded by the business in 2017 amounted to S$120.8 million. These included provision for potential fines and claims at an overseas water business of S$25.4 million, impairment charges of S$56.3 million mainly relating to assets and investments in Singapore, as well as S$39.1 million in refinancing cost incurred for our second thermal power plant in India.

Exceptional items recorded by the business in 2016 amounted to S$2.5 million, comprising S$33.5 million from the gain on divestment of a municipal water operation in Yancheng, China, less S$31.0 million total refinancing cost for our first thermal power plant in India.

The Marine business' net profit contribution to the Group was S$6.8 million in 2017, compared to S$48.3 million in 2016. Marine's lower contribution was mainly due to lower overall business volume, especially in rigs & floaters and offshore platforms, which impacted the absorption of overhead costs, and additional costs accruals for floater projects that are pending finalisation with customers, partially offset by divestment gains and lower share of losses from associates and joint ventures.

Meanwhile, the Urban Development business reported a net profit of S$83.2 million, a 150% growth over its S$33.3 million net profit in the previous year. The business' strong performance was driven by higher contributions from all its operating markets, namely Vietnam, China and Indonesia.

Group Financial Review

Turnover *(S$ million)*

	2017	2016
Utilities	**5,670**	4,111
Marine	**2,388**	3,544
Urban Development	**8**	7
Others / Corporate	**280**	245
	8,346	7,907

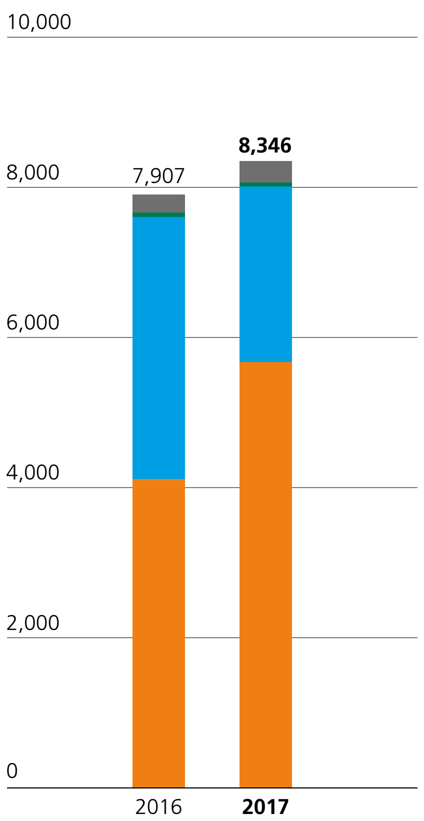
PFO *(S$ million)*

	2017	2016
Utilities	**650**	737
Marine	**65**	171
Urban Development	**89**	38
Others / Corporate	**(9)**	(37)
	795	909

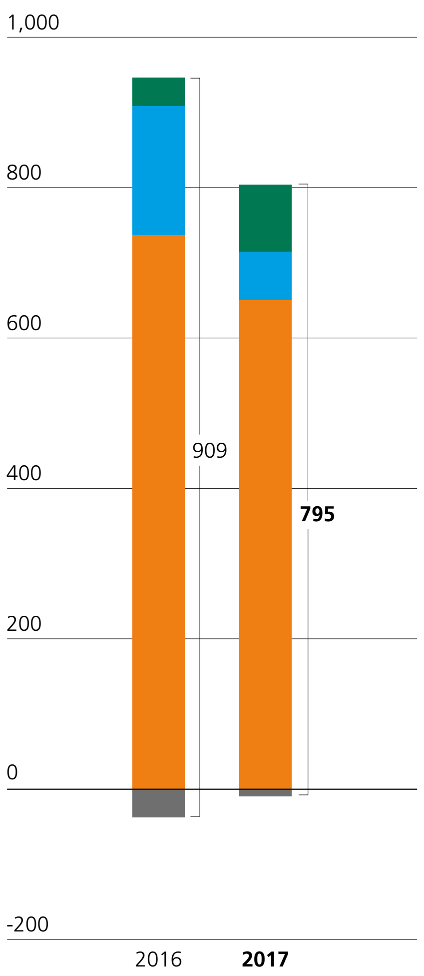
Net Profit *(S$ million)*

	2017	2016
Utilities	**140**	348
Marine	**7**	48
Urban Development	**83**	33
Others / Corporate	**1**	(34)
	231	395

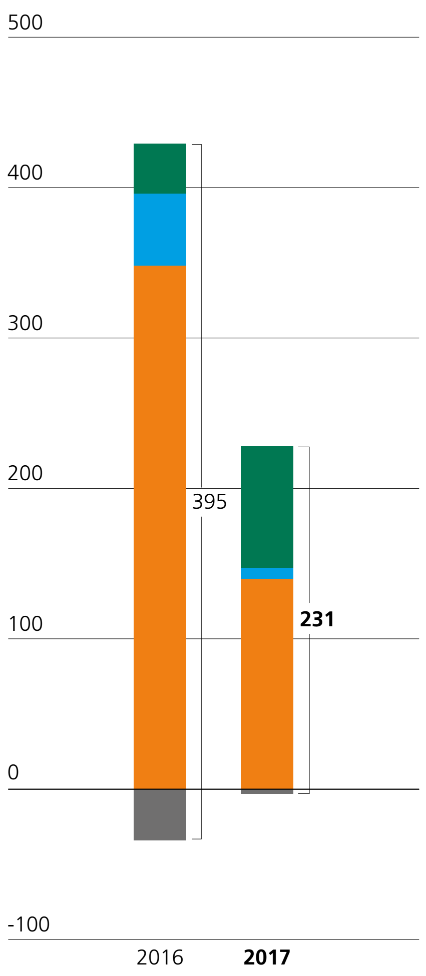
Turnover *(S$ million)*



PFO *(S$ million)*



Net Profit *(S$ million)*



Cash Flow and Liquidity

As at December 31, 2017, the Group's cash and cash equivalents stood at S$2.7 billion.

Net cash from operating activities before changes in working capital remained strong at S$1.2 billion. Cash outflow from changes in working capital in 2017 was mainly for the Utilities business' increase in service concession receivables from the Myingyan and Sirajganj Unit 4 power projects. The service concession receivables will be collected over the period of the concession contracts from the time the power plants commence commercial operations.

Net cash outflow from investing activities for 2017 was S$92.2 million, mainly for the Utilities and Marine businesses' purchases of property, plant and equipment, reduced by dividends as well as proceeds received from the divestment of investments and other financial assets and loan repayment from related parties.

Net cash inflow from financing activities for 2017 was S$276.2 million. This was primarily due to an increase in net borrowings and issuance of perpetual securities, mainly for the Group's working capital and capital expenditure requirements, partially reduced by dividends and interest paid.

Financial Position

Group shareholders' funds increased to S$6.0 billion as at December 31, 2017, from S$5.9 billion as at December 31, 2016.

Non-current assets increased in 2017. This was due primarily to an increase in trade and other receivables relating to the Utilities business' service concession receivables for its Myingyan and Sirajganj Unit 4 power projects, as well as the Marine business' billings to a customer upon completion of a rig building project.

Inventories and work-in-progress decreased, mainly due to Marine's successful delivery of rig building and floater projects. Current assets held for sale decreased, mainly due to the Marine business' divestment of its 30% equity interest in Cosco Shipyard Group, which was completed in January 2017.

Interest-bearing borrowings increased in 2017, mainly due to additional borrowings for Utilities working capital and capital expenditure.

Shareholder Returns

In 2017, return on equity for the Group was 3.2% and earnings per share amounted to 10.5 cents.

Subject to approval by shareholders at the next annual general meeting, a final dividend of 2.0 cents per ordinary share has been proposed for the financial year ending December 31, 2017. Together with an interim dividend of 3.0 cents per ordinary share paid in August 2017, this brings our total dividend for the year to 5.0 cents per ordinary share.

Economic Value Added

Economic value added (EVA) was negative in 2017, mainly due to a weaker overall performance by the Marine business. In 2017, EVA also included the impact of new investments at an early stage of operation.

Value Added and Productivity Data

In 2017, the Group's total value added was S$2.4 billion. This was absorbed by employees in wages, salaries and benefits of S$807 million, by governments in income and other taxes of S$104 million and by providers of capital in interest, dividends and distribution of S$694 million, leaving a balance of S$750 million reinvested in business.

Critical Accounting Policies

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

With effect from January 1, 2017, the Group adopted the following new / amended FRSs, set out in the table below.

The adoption of the FRSs below (including consequential amendments) does not have any significant impact on the Group's financial statements.

Amendments to FRSs

FRS 7	Statement of Cash Flows – Disclosure initiative
FRS 12	Income Tax – Recognition of deferred tax assets for unrealised losses
FRS 112	Disclosure of interests in Other Entities

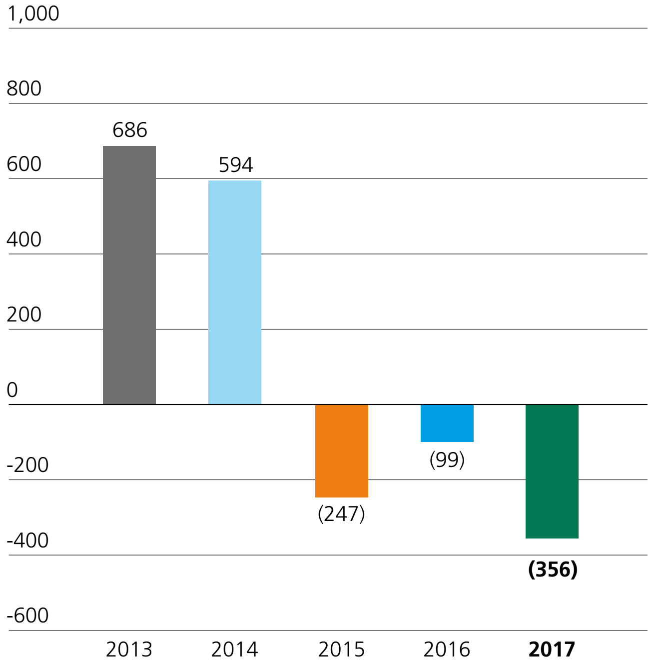
Financial Risk Management

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.

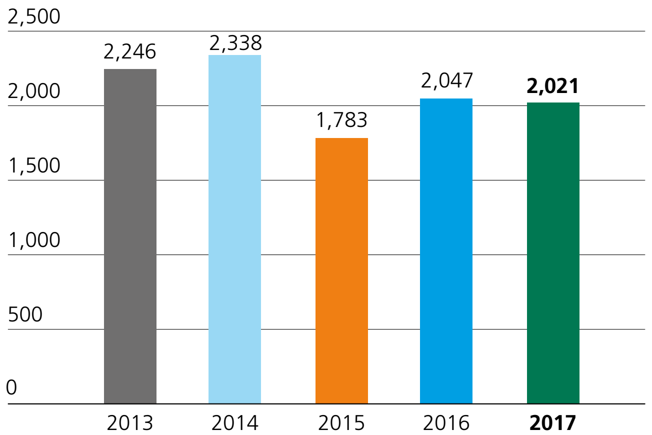
For details on the management of these risks, please refer to page 106 of this annual report.

Group Financial Review

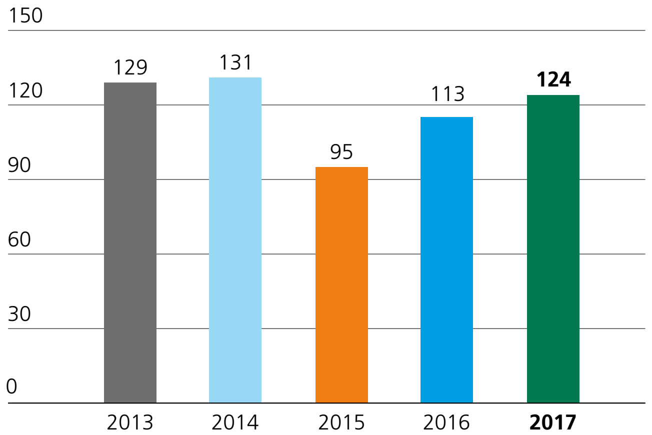
Economic Value Added *(S$ million)*



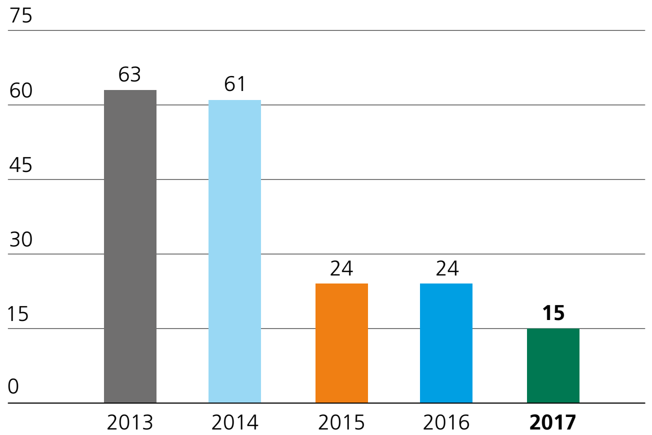
Gross Value Added *(S$ million)*



Value Added Per Employee *(S$ thousands)*



Profit After Tax Per Employee *(S$ thousands)*



Value Added Statement *(S$ million)*

	2017	2016	2015	2014	2013
Value Added from					
Turnover	**8,346**	7,907	9,545	10,895	10,798
Less: Bought in materials and services	**(6,325)**	(5,860)	(7,762)	(8,557)	(8,552)
Gross value added	**2,021**	2,047	1,783	2,338	2,246
Investment, interest and other income	**410**	536	985	253	308
Share of results of associates and JVs, net of tax	**164**	125	6	159	155
Other non-operating expenses	**(240)**	(491)	(631)	(168)	(95)
	2,355	2,217	2,143	2,582	2,614
Distribution					
To employees in wages, salaries and benefits	**807**	800	832	871	916
To governments in income and other taxes	**104**	119	137	211	182
To providers of capital in:					
Interest on borrowings	**526**	402	238	70	118
Dividends to owners	**125**	179	285	393	268
Profit attributable to perpetual securities holders	**43**	39	28	9	4
	1,605	1,539	1,520	1,554	1,488
Retained in Business					
Depreciation and amortisation	**571**	454	405	315	303
Deferred tax expense / (credit)	**14**	32	(106)	26	(12)
Retained profits	**63**	178	236	399	548
Non-controlling interests	**14**	42	(94)	283	277
	662	706	441	1,023	1,116
Other non-operating (expense) / income	**88**	(28)	182	5	10
	750	678	623	1,028	1,126
Total Distribution	**2,355**	2,217	2,143	2,582	2,614

Group Financial Review

Productivity Data

	2017	2016	2015	2014	2013
Average staff strength	**16,288**	18,072	18,676	17,806	17,401
Employment costs *(S$ million)*	**807**	800	832	871	916
Profit after tax per employee *(S$'000)*	**15**	24	24	61	63
Value added *(S$ million)*	**2,021**	2,047	1,783	2,338	2,246
Value added per employee *(S$'000)*	**124**	113	95	131	129
Value added per dollar employment costs *(S$)*	**2.50**	2.56	2.14	2.68	2.45
Value added per dollar investment in property, plant and equipment *(S$)*	**0.13**	0.14	0.15	0.22	0.30
Value added per dollar sales *(S$)*	**0.24**	0.26	0.19	0.21	0.21

The figures above reflect data for core businesses only

Treasury Management

Sembcorp Financial Services (SFS), the Group's wholly-owned treasury vehicle, manages the Group's financing activities, as well as its treasury activities in Singapore. SFS also oversees financing and treasury activities outside of Singapore together with the respective business units. In addition, SFS facilitates funding and on-lends funds borrowed by it to businesses within the Group, where appropriate.

SFS and our overseas treasury units actively manage cash within the Group by setting up cash pooling structures in various countries where appropriate, to take in surplus funds from businesses and lend it to those with funding requirements. We also actively manage the Group's excess cash, deploying it to a number of financial institutions, and closely track 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

As at December 31, 2017, the Group's total credit facilities, including its multi-currency debt issuance programme, amounted to S$21.1 billion (2016: S$20.5 billion). This comprised funded facilities of S$17.2 billion (2016: S$16.1 billion), including S$11.8 billion in committed facilities (2016: S$10.8 billion), and trade-related facilities of S$3.9 billion (2016: S$4.4 billion), including but not limited to bank guarantees, letters of credit, bid bonds and performance bonds.

Borrowings and Issuance of Perpetual Securities

In 2017, SFS raised a total of S$200 million of seven-year debt to refinance current debt, effectively extending the maturity to 2024. A S$500 million five-year revolving credit facility was also established as a standby facility to fund the Group's future needs.

In June 2017, the Group issued S$200 million of perpetual securities under its S$2.5 billion multi-currency debt issuance programme, which were accounted for as equity.

The Group aims to term out loans such that their maturity profile mirrors the operating life of our core assets, while continuing our focus on maintaining adequate liquidity for our businesses. We continue to build on our banking relationships to ensure that we are able to secure funding on competitive terms, as and when commercially viable and strategically attractive opportunities arise.

As at December 31, 2017, the Group's gross borrowings amounted to S$9.8 billion (2016: S$9.2 billion). As compared to 2016, the increase of S$0.6 billion in gross borrowings was mainly due to new borrowing to finance the construction of power plants in Myanmar, Bangladesh and India. The interest cover dropped from 3.3 times in 2016 to 2.4 times in 2017. This was mainly due to an increase in borrowings, as well as finance costs for our second thermal power plant in India that were expensed in 2017 but capitalised in 2016 while the project was under construction. The Group remains committed to balancing the availability of funding and the cost of funding, while maintaining prudent financial ratios. We also aim to maintain an efficient and optimal mix of committed and uncommitted facilities.

Of the overall debt portfolio in 2017, 45% (2016: 48%) constituted fixed rate debt that was not exposed to interest rate fluctuations. The floating rate debt mainly comprised long-term bank loans in India to support the Group's projects in the country. In 2017, the Group's floating rate borrowings in the country benefited from the Reserve Bank of India's reduction of interest rates. We continue to actively monitor and manage the mix of our debt portfolio.

Group Financial Review

Financing and Treasury Highlights *(S$ million)*

	2017	2016	2015
Source of Funding			
Cash and cash equivalents	**2,687**	1,883	1,606
Funded facilities (including multi-currency debt issuance programme)			
Committed funded facilities	**11,807**	10,827	9,687
Less: Amount drawn down	**(9,821)**	(9,009)	(6,864)
Unutilised committed funded facilities	**1,986**	1,818	2,823
Uncommitted funded facilities	**5,359**	5,322	4,748
Less: Amount drawn down	**(1,027)**	(1,012)	(768)
Unutilised uncommitted funded facilities	**4,332**	4,310	3,980
Total unutilised funded facilities	**6,318**	6,128	6,803
Trade-related facilities			
Facilities available	**3,929**	4,379	4,347
Less: Amount used	**(2,206)**	(2,411)	(2,337)
Unutilised trade-related facilities	**1,723**	1,968	2,010
Funding Profile			
Maturity profile			
Due within one year	**1,573**	2,126	1,801
Due between one to five years	**5,203**	4,043	2,957
Due after five years	**3,072**	3,052	2,075
	9,848	9,221	6,833
Debt mix			
Fixed rate debt	**4,469**	4,416	4,529
Floating rate debt	**5,379**	4,805	2,304
	9,848	9,221	6,833

Financing and Treasury Highlights *(S$ million)*

	2017	2016	2015
Debt Ratios			
Interest cover ratio			
Earnings before interest, tax, depreciation and amortisation	**1,264**	1,315	1,720
Interest on borrowings	**526**	402	238
Interest cover *(times)*	**2.4**	3.3	7.2

	2017	D/C ratio	2016	D/C ratio	2015	D/C ratio
Debt / capitalisation (D/C) ratios						
Sembcorp Industries corporate debt	**2,484**	**0.14**	1,697	0.10	1,197	0.08
Sembcorp Industries project finance debt	**3,264**	**0.18**	3,369	0.19	2,256	0.15
Sembcorp Marine debt	**4,100**	**0.23**	4,155	0.24	3,380	0.23
Sembcorp Industries Group gross debt	**9,848**	**0.55**	9,221	0.53	6,833	0.46
Less: Cash and cash equivalents	**(2,687)**	**–**	(1,883)	–	(1,606)	–
Sembcorp Industries Group net debt / (cash)	**7,161**	**0.40**	7,338	0.42	5,227	0.35

Operating and Financial Review

UTILITIES

Competitive Edge

- Global track record as an originator, owner or investor, operator and optimiser of thermal and renewable energy as well as water assets with strong operational, management and technical capabilities
- An integrated energy player with operations in 14 countries. Strong foothold in high-growth developing markets and experience in developed markets
- Proven deep integration expertise in the provision of energy, water and on-site logistics to multiple industrial site customers
- A balanced global portfolio of high-efficiency thermal and renewable power assets, with capabilities in gas, coal, wind, solar, biomass as well as energy-from-waste
- Solid track record in providing total water and wastewater treatment solutions for industries and water-stressed regions

Clockwise from left:

Sembcorp's combined power and desalination plant in Fujairah, UAE

Sembcorp's grid-tied rooftop solar energy system at ST Aerospace's facility in Changi, Singapore

Sembcorp Green Infra's wind farm in Rajasthan, India

Sembcorp's 815-megawatt cogeneration plant in the Sakra area on Jurong Island, Singapore

Utilities Review

Performance Scorecard

Financial Indicators *(S$ million)*

	2017	2016	Change (%)
Turnover	**5,699.6**	4,132.9	38
Earnings before interest, tax, depreciation and amortisation	**1,000.2**	916.8	9
Profit from operations	**649.9**	737.2	(12)
– Earnings before interest and tax	**580.6**	633.0	(8)
– Share of results: Associates & JVs, net of tax	**69.3**	104.2	(34)
Net profit	**140.0**	348.0	(60)
– Net profit before exceptional items	**260.8**	345.5	(25)
– Exceptional items[1]	**(120.8)**	2.5	NM
Return on equity *(%)*	**3.3**	9.3	(64)

[1] *Exceptional items amounted to*

2017: *A total of S$120.8 million, comprising S$39.1 million in refinancing cost for the second thermal power plant in India, S$56.3 million of impairment charges mainly relating to Singapore's assets and investments and S$25.4 million of provision for potential fines and claims at an overseas water business*

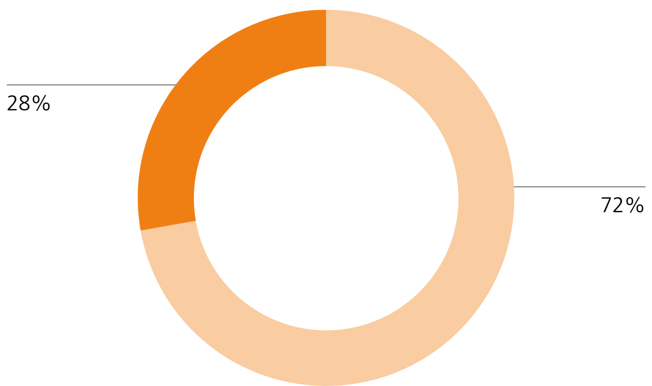
2016: *A total of S$2.5 million, comprising S$33.5 million from the divestment gain on the sale of the municipal water operation in Yancheng, China, less S$31.0 million total refinancing cost for the first thermal power plant in India*

Operational Indicators

	2017	2016
Power capacity *(megawatts)*	**11,689**	10,916
Steam capacity *(tonnes per hour)*	**3,844**	4,532
Water & wastewater treatment capacity *(cubic metres per day)*	**8,927,490**	8,821,252

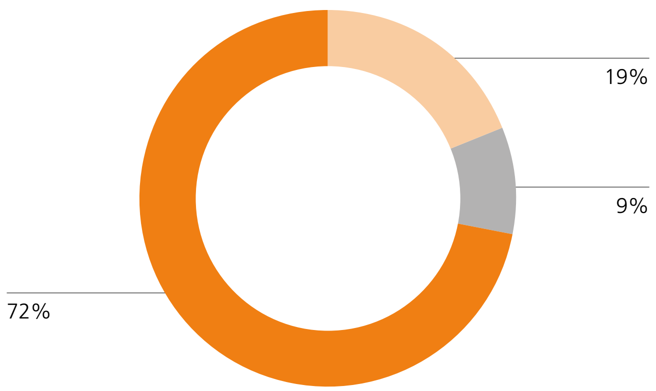
Note: Capacity refers to total gross installed capacity of facilities in operation and under development

PFO* by Geography



■ Singapore ■ Overseas

PFO* by Segment



■ Energy ■ Water ■ On-site logistics & solid waste management

* *Excluding Corporate and exceptional items*

Key Developments

Consolidated all thermal and renewable power operations in India under Sembcorp Energy India Limited, and initiated the process for an initial public offering for it with the filing of a draft red herring prospectus in February 2018. This will build a sustainable platform to grow our India energy business in the long term

Continued to focus on growth for our renewables business, with 500 megawatts won in two national wind tenders in India, and over 300 megawatts of new wind capacity coming onstream in China. In addition, we secured another 300 megawatts of wind power capacity in India's February 2018 tender

Entered into new agreements with ExxonMobil Asia Pacific, following its purchase of Banyan assets from Jurong Aromatics Corporation (former JAC complex) on Jurong Island. These included utilities service agreements for these assets and for the sale of certain utilities facilities serving them, as well as additional agreements for supply of power, natural gas and service corridor services

Strengthened our rooftop solar power business in Singapore, underscoring our commitment to green energy as Singapore moves towards an open electricity market. To-date, we have secured six rooftop photovoltaic projects with a combined capacity of close to 13 megawatts

Operating and Financial Review

Strengthening base, positioning for the future

The Utilities business delivered an improved underlying performance despite challenging markets, and remained the biggest contributor to the Group. In 2017, the business focused on executing initiatives to drive performance and reduce cost, strengthening its base as it transitions to a new strategic direction.

Turnover was S$5.7 billion compared to S$4.1 billion in 2016. Underlying profit from operations (PFO), before exceptional items of S$117.7 million, grew 6% to S$767.6 million on better operating performance from Singapore and India operations. 2017 profit from operations was S$649.9 million and S$737.2 million in 2016. Underlying net profit, before exceptional items of S$120.8 million, was S$260.8 million compared to S$345.5 million last year. 2017 net profit was S$140.0 million and S$348.0 million in 2016. The exceptional items in 2017 relate mainly to refinancing costs incurred for our second thermal power plant in India, non-cash impairment charges taken on the Singapore assets and investments, as well as a provision for potential fines and claims at an overseas water business.

Similar to last year's mix, overseas operations contributed almost three-quarters of the Utilities business' PFO before exceptional items and corporate costs or S$563.1 million. Meanwhile, Singapore operations contributed 28% of the Utilities business' PFO, with S$217.4 million.

Utilities Review

PFO *(S$ million)*

	2017	2016	Change (%)
Singapore	**217.4**	198.3	10
China	**91.0**	140.1	(35)
India	**329.4**	239.5	38
Rest of Asia	**47.8**	16.7	186
Middle East & Africa	**60.9**	64.0	(5)
UK & the Americas	**34.0**	52.8	(36)
Corporate	**(12.9)**	12.3	NM
PFO before exceptional items	**767.6**	723.7	6
Exceptional items[1]	**(117.7)**	13.5	NM
Total PFO	**649.9**	737.2	(12)
Less: interest, tax and non-controlling interests	**(509.9)**	(389.2)	(31)
Net profit	**140.0**	348.0	(60)

[1] *Exceptional items amounted to*
2017*: A total of S$117.7 million, comprising S$36.0 million in refinancing cost for the second thermal power plant in India, S$56.3 million of impairment charges mainly relating to Singapore's assets and investments and S$25.4 million of provision for potential fines and claims at an overseas water business*
2016*: A total of S$13.5 million, comprising S$34.7 million from the divestment gain on the sale of the municipal water operation in Yancheng, China, less S$21.2 million total refinancing cost for our first thermal power plant in India*

Singapore
Our Singapore operations performed well despite a tough power market, delivering a 10% growth in PFO to S$217.4 million. This was driven by a solid performance by its centralised utilities and gas businesses, arising from higher customer offtake and higher high sulphur fuel oil prices.

During the year, we entered into new agreements with ExxonMobil Asia Pacific. This included the sale of certain utilities facilities in Banyan that are serving the assets sold by Jurong Aromatics Corporation to ExxonMobil. Total consideration for these facilities, comprising boilers, cooling tower and associated assets, is US$113 million and completion of the transaction is expected to take place between the second half of 2019 and first half of 2020. In the interim, we entered into new utilities service agreements for the continued sale and supply of utilities, while additional agreements were signed for power and natural gas supply as well as for use of our service corridor.

In line with our commitment to sustainability and green energy as Singapore moves towards an open electricity market, we also made good headway in strengthening our track record in rooftop photovoltaic solutions that help customers reduce their carbon footprint. Marking our entry into the business with our first rooftop solar energy project in late-2016, today we have expanded to six projects with a combined capacity of close to 13 megawatts.

China
With the absence of contribution from the Yangcheng coal-fired power plant and Yancheng municipal water operations in 2017, PFO from China operations declined to S$91.0 million from S$140.1 million in 2016. In late January, the 1,320-megawatt Chongqing Songzao supercritical coal-fired power plant achieved full commercial operation, but high coal prices, lower demand for thermal generation and teething issues resulted in a weak performance. However, our renewable energy operations in the country delivered an improved performance over last year, primarily due to the additional capacity from the Laoshibeihe wind power project coming into operation. Construction is ongoing for the remaining capacity at Laoshibeihe as well as the 99-megawatt Huanghua Phase 3 and 200-megawatt Huanghua Huangnanpaigan wind power projects in Hebei, China, all of which are expected to complete around mid-2018.

Meanwhile, water operations in the country delivered a better performance in 2017. 2017 earnings included the maiden contribution from the Changzhi Total Water Management Plant, which commenced commercial operations at the end of September.

India
PFO from India operations grew 38% from S$239.5 million to S$329.4 million in 2017, however in net profit terms it posted a net loss of S$57.8 million.

Sembcorp Green Infra (SGI), our India renewable energy arm, delivered an improved performance in 2017. The business was affected by lower wind speeds compared to 2016, but benefitted from an additional 155 megawatts of capacity coming into operation. In August, we entered into an agreement to acquire our partner IDFC Private Equity Fund III's remaining stake in SGI and this has been completed. From September, we have accounted for 100% of SGI's earnings in our financials.

Demonstrating its strong capabilities, SGI secured two new projects in 2017, adding another 500 megawatts to its pipeline of new projects via national wind power tenders. In a February 2018 tender, it secured another 300 megawatts. These projects make SGI the largest capacity winner in India's wind tenders to date. The first two projects will be developed in phases, with the first targeted to be fully commissioned in 2018, and the second by the first half of 2019. The entire power output of the projects will be sold under 25-year long-term power purchase agreements (PPAs) to PTC India and the Solar Energy Corporation of India (SECI) respectively.

On the thermal power front, our first 1,320-megawatt supercritical coal-fired power plant delivered its strongest operating and financial performance since commencing full commercial operations. The plant, which has 86% of its net capacity contracted under long-term PPAs, operated at an average plant load factor (PLF) of 84.8%.

Meanwhile, our second supercritical coal-fired power plant commenced full commercial operations in February. For the full year, it operated at an average PLF of 73.8%. However, without a long-term PPA, it was subject to fluctuations in short-term and spot prices. To lower its cost of borrowing and interest expense, the plant undertook a refinancing exercise for its project finance loans during the year.

Cost and reliability optimisation measures being undertaken at both our thermal power plants are delivering good results.

In 2017 and in early 2018, we took key strategic steps towards building a platform for the growth and sustainability of our India energy business. We consolidated our thermal and renewable power operations under Sembcorp Energy India Limited, resulting in a balanced portfolio of over 4,300 megawatts, including over 1,700 megawatts of renewable power capacity. In February 2018, we filed a draft red herring prospectus with the Securities and Exchange Board of India to initiate the process for an initial public offering (IPO). The proposed listing of the shares will be on BSE Limited and the National Stock Exchange of India, with the exact timing of the listing subject to regulatory approvals and market conditions. With this IPO, we aim to bring on board domestic and retail ownership of Sembcorp Energy India Limited shares to support our utilities business in the country, and to fund its further growth.

Rest of the World
PFO from the Rest of Asia, where operations comprise gas-fired power plants in Vietnam, Myanmar and Bangladesh as well as municipal water operations in Indonesia and the Philippines, increased 186% to S$47.8 million. The higher PFO for the region is attributable to the service concession revenue recognised in accordance with the INT FRS 112 accounting guideline. At the end of 2017, the 230-megawatt Myingyan power project in Myanmar was 96% complete, with full commercial operations targeted for the second quarter of 2018. Meanwhile the 427-megawatt Sirajganj Unit 4 (S4) power project in Bangladesh was 65% complete, with open-cycle operations targeted in the second half 2018 and full commercial operations by the first half of 2019.

Utilities Review

When fully operational, the 225-megawatt gas-fired Sembcorp Myingyan Power Plant will help to ease Myanmar's power deficit

Middle East & Africa operations posted a PFO of S$60.9 million compared to last year's S$64.0 million. Both our South Africa water operations and Fujairah 1 (F1) independent water and power plant in the UAE reported higher contributions compared to last year, with F1 achieving high power and water availability factors of 95.6% and 96.8% respectively. In December, F1's original power and water purchase agreement (PWPA) and additional water purchase agreement (WPA) were consolidated into a single amended and restated PWPA, with the term extended by another 6.5 years to 2035. In addition, F1 also successfully completed a US$400 million senior secured bond issue with an annual coupon of 4.45%. The proceeds from the issuance were used to partially prepay existing bank loans and shareholder loans. The bond issuance extends the maturity of the F1 debt by another 6.5 years to correspond with the extension of F1's PWPA. The project bond was rated A- by Standard & Poor's Global Ratings and A2 by Moody's Investor Service.

Sembcorp Salalah's performance in 2017 was impacted by Oman's new tax law which increased the corporate tax rate from 12% to 15%. An unplanned outage and repair of one of its gas turbines also affected performance, resulting in its power reliability factor dipping slightly to 94.1%, while its water availability factor remained high at 99.8%.

In February 2018, we signed a conditional sales and purchase agreement for the sale of our South African municipal water operations in Nelspruit (Mbombela) and Ballito for ZAR 790 million (approximately S$89 million). The transaction is subject to conditions precedent and completion is expected in the first half of 2018.

PFO from the UK & the Americas was S$34.0 million compared to S$52.8 million in 2016. PFO from the Americas posted a slight improvement, while the UK operations reported a lower PFO compared to 2016. This was mainly due to a higher PFO base in 2016 which included a reversal of fixed asset impairment as well as construction income for the still under-construction Wilton 11 energy-from-waste facility recognised in accordance with the INT FRS 112 accounting guideline. In addition, the Sembcorp Biomass Power Plant operated at a lower load factor as a result of a longer maintenance shutdown in 2017.

Outlook

2018 will see the implementation of a fully liberalised open electricity market in Singapore. In China, over 300 megawatts of new wind power capacity is targeted to come onstream during the year, while in India, our 250-megawatt project won in the nation's first wind tender is expected to be fully commissioned.

Our India energy business is expected to be listed on BSE Limited and the National Stock Exchange of India. The exact timing of the listing remains subject to regulatory approvals and market conditions. In addition, our Myingyan power project in Myanmar is expected to achieve full commercial operations in 2018, and our Sirajganj Unit 4 power project in Bangladesh is targeted to commence open-cycle operations.

The Utilities business is expected to deliver a better performance in 2018, underpinned by an expected turnaround to profitability for its India energy operations.

Looking ahead, the global energy transition continues as the industry adjusts to the impact of a changing fuel mix, increasing demand for renewables, the proliferation of distributed energy resources and declining power prices. The share of electricity as a proportion of total energy demand is also set to rise, in part due to the electrification of the heating and transport sectors.

The Utilities business is embarking on a new strategic direction in order to benefit from the global energy transition. It will focus its long-term growth in three business lines: Gas & Power, Renewables & Environment, and Merchant & Retail. It will also reposition itself as an integrated energy player, building multiple offerings or optionalities around anchor investments to create platforms for growth. As an originator, owner or investor, operator and optimiser, it will aim to build and scale up its growth platforms as well as develop a pipeline for active capital recycling.

With renewables expected to grow to around 35% of the global energy mix by 2040, the Utilities business will prepare itself for the future by targeting to double its renewable portfolio to approximately 4,000 megawatts by 2022. In addition, the business is targeting a reduction in its carbon emission intensity in line with the 2°C climate scenario and aims to reduce carbon emission intensity by close to 25% from its current 0.55 tonnes of carbon dioxide equivalent per megawatt hour (tCO_2e/MWh) to 0.42 tCO_2e/MWh by 2022, and to less than 0.40 tCO_2e/MWh by 2030.

Over the next two years, the Utilities business is targeting divestments of peripheral utilities assets to deliver cash proceeds of up to S$0.5 billion.

With its new strategic direction that is aligned to trends and the future direction of its industry, as well as a focus on active and systematic capital recycling, we believe our Utilities business will be well-placed to benefit from the global energy transition, and to deliver long-term growth and value.

Operating and Financial Review

MARINE

Competitive Edge

- A global leader in integrated offshore and marine solutions with more than 50 years' proven track record
- Able to offer diversified, innovative solutions across the offshore and marine value chain, both within and beyond the oil and gas sector
- Established capabilities in rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding, and enhanced capabilities to serve the gas value chain
- Global network of strategic locations in Singapore, Indonesia, the UK and Brazil

Total Net Orderbook

S$7.6 billion

Clockwise from left:

FPSO Pioneiro de Libra, Sembcorp Marine's first full engineering, procurement and construction FPSO conversion

The Sembcorp Marine Tuas Boulevard Yard in Singapore is equipped with berthing and docking facilities for mega-sized vessels, deep-draft rigs and one of the largest and most advanced steel fabrication facilities in the region

Good progress is being made on the construction of topsides for Maersk Oil, which are to be deployed for harsh-environment operations in the UK North Sea upon completion

Contracts Secured in 2017

S$2.7 billion

Marine Review

Performance Scorecard

Financial Indicators *(S$ million)*

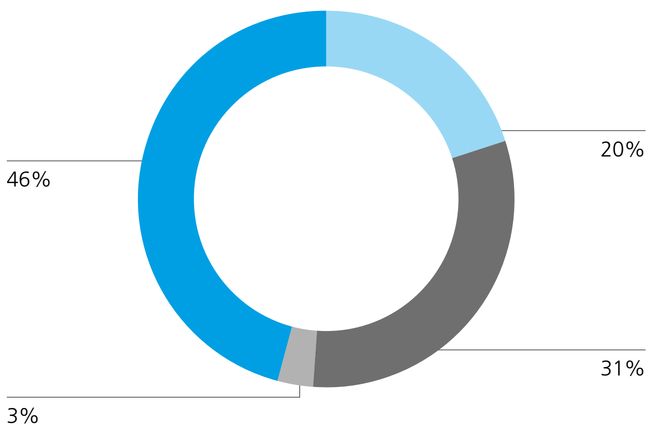
	2017	2016	Change (%)
Turnover	**2,387.4**	3,544.8	(33)
Earnings before interest, tax, depreciation and amortisation	**267.6**	384.5	(30)
Profit from operations	**64.7**	170.7	(62)
– Earnings before interest and tax	**68.3**	205.8	(67)
– Share of results: Associates & JVs, net of tax	**(3.6)**	(35.1)	90
Net profit	**14.1**	78.8	(82)
Return on equity *(%)*	**0.6**	3.1	(81)

Note: Figures taken at Sembcorp Marine level

Operational Indicators *(S$ billion)*

	2017	2016
Total net orderbook	**7.6**	7.8

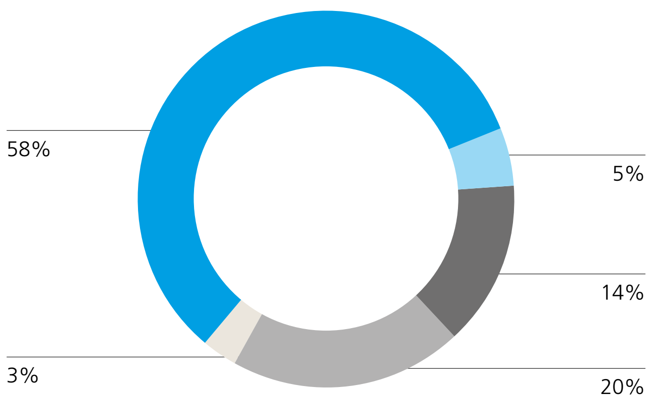
Turnover by Segment



■ Rigs & floaters ■ Repairs & upgrades
■ Offshore platforms ■ Other activities

Orderbook Composition

Total net orderbook:
S$7.6 billion*



■ Drillships ■ Semi-submersibles ■ Jack-up rigs
■ Floaters ■ Offshore platforms

* *As at December 31, 2017. Excluding the Sete Brasil drillship contracts, net orderbook is S$4.4 billion*

Key Developments

Secured S$2.7 billion in new contracts in 2017, including a contract from Statoil Petroleum for the engineering, procurement and construction of the hull and living quarters for a newbuild FPSO

Signed letters of intent with US-based SeaOne Caribbean for the design and construction of compressed gas liquid carriers and with Shell Offshore for the hull and topside of the Vito FPU

Successfully delivered four projects in 2017 including the FSO Randgrid to Teekay which has been chartered out to Statoil. The vessel is deployed at the Gina Krog Field in the Norwegian North Sea

In October 2017, Sembcorp Marine signed agreements for the sale of nine jack-up rigs to Borr Drilling for US$1.3 billion. US$500 million of upfront payment has been received and delivery is over a 14-month period

Operating and Financial Review

Remaining profitable amidst a tough operating environment

The Marine business continued to face a tough operating environment in 2017 but remained profitable for the year.

Turnover was S$2.4 billion, compared to S$3.5 billion in 2016. The decline in turnover was mainly due to lower revenue recognition for rig building and offshore platform projects, as well as reversal of revenue from the termination of five rig contracts. In contrast, the Repairs & Upgrades segment showed resilience and delivered an improved turnover compared to last year. Despite fewer ships repaired this year, our average revenue per vessel increased, due to an improved vessel mix and higher-value work undertaken.

Turnover *(S$ million)*

	2017	2016	Change (%)
Rigs & Floaters	**1,098**	1,887	(42)
Repairs & Upgrades	**471**	460	3
Offshore Platforms	**732**	1,116	(34)
Other Activities	**86**	82	5
Total	**2,387**	3,545	(33)

The business' profit from operations was S$64.7 million, compared to S$170.7 million in 2016 due to lower overall business volume and additional cost accruals for floater projects which are pending finalisation with customers. Net profit was S$14.1 million compared to S$78.8 million in 2016.

Marine Review

Sale of rigs improves liquidity position

During the year, our Marine business achieved a significant step forward in monetising its rig inventory that had arisen from prolonged customer delivery deferments. These transactions, when completed, will significantly improve the business' liquidity position, putting it on a stronger footing to ride through the cycle.

In October, Sembcorp Marine entered into agreements for the sale of nine Pacific Class 400 jack-up rigs to Borr Drilling and its subsidiaries for approximately US$1.3 billion (S$1.77 billion). The consideration also included a market-based fee, calculated based on an uplift in the value of the rigs sold. Borr Drilling will take delivery of the rigs progressively over a 14-month period, from the fourth quarter of 2017 to the first quarter of 2019.

An upfront down payment of about US$500 million has been paid, while the balance US$800 million will be paid within five years from the respective delivery dates of the rigs. In addition, Borr Drilling will pay interest at market rates from the respective delivery dates of the rigs, until the full payment of the remaining balance.

The business followed this up with the signing of an agreement for the sale of the semi-submersible rig *West Rigel* to a secondary buyer for US$500 million. *West Rigel* was originally constructed for North Atlantic Drilling, a subsidiary of Seadrill. A standstill agreement for the project was signed in December 2015, and extended several times until July 2018. Upon fulfilment of conditions precedent, the new buyer will take delivery of the rig, which will remain in Sembcorp Marine's yard for certain works to be undertaken for its reactivation.

The sale of these rigs is a testament to the quality of these high-specification drilling units and their ability to attract a buyer despite challenging market conditions.

Making Good Progress for Ongoing Projects

Measuring 220 metres by 102 metres, the 273,700-metric tonne semi-submersible crane vessel Sleipnir, currently under construction at our yard for Heerema Offshore Services, is the largest in the world

The FSO Ailsa is Sembcorp Marine's first full turnkey FSO newbuilding project. Built for MODEC and to be delivered in 2018, the FSO is part of Sembcorp Marine's modern integrated solutions for the Culzean Field

One of three topsides under construction for Maersk Oil. On completion, the topsides, comprising a central processing facility plus two connecting bridges, a wellhead platform and utilities and living quarters platform, will be installed in the Culzean field in the UK North Sea

New orders and orderbook development

Following a letter of intent signed in November 2017, Sembcorp Marine was awarded a US$490 million contract from Statoil Petroleum for turnkey engineering, procurement and construction (EPC) of the hull and living quarters of a newbuild floating production, storage and offloading vessel (FPSO) in December 2017. The FPSO, which will be deployed at the Johan Castberg field development in Norway's Barents Sea, will be self-contained for harsh-environment operations and will include living quarters for up to 140 personnel. Project completion is expected in the first quarter of 2020.

Also in December 2017, the Marine business signed a letter of intent with Shell Offshore for the construction of the hull and topside of the *Vito* floating production unit (FPU), as well as integration works for the vessel. The *Vito* FPU comprises a single topside module supported by a four-column semi-submersible floating hull, and is designed for a throughput capacity of 100,000 barrels of oil per day and 100 million standard cubic feet of gas per day. The finalisation of the contract is dependent on Shell and its partners sanctioning the project. If sanctioned, the *Vito* FPU will be a new facility in the Mississippi Canyon in the US Gulf of Mexico, and will operate at water depths of 4,050 feet.

A letter of intent was also signed with SeaOne Caribbean for the design and construction of at least two large compressed gas liquid (CGL) carriers. In Brazil, Estaleiro Jurong Aracruz (EJA) secured a contract worth US$145 million from Tupi B.V., a Petrobras majority-owned consortium, to perform hull carry over works for the full integration of the FPSO *P-68*.

In another positive development, Transocean has requested Sembcorp Marine to resume work on its two high-specification ultra-deepwater drillship orders, and has also decided to proceed with enhancing the capabilities of the units. This has resulted in a corresponding increase in the value of the contracts, as well as an extension for the delivery of the units to the second and fourth quarters of 2020 respectively.

For the year, total orders secured amounted to S$2.7 billion, including S$1.77 billion from the sale of the nine jack-up rigs. Total net orderbook was S$7.6 billion, with completions and deliveries stretching till 2020. Excluding the Sete Brasil drillships, our net orderbook stood at S$4.4 billion. The majority of projects in the current net orderbook are based on progress payment terms.

Disciplined execution of orderbook

During the year, the Marine business successfully delivered two FPSO conversion projects. The FPSO *Pioneiro de Libra*, which sailed away in the first quarter of 2017 for deployment at the Libra field in Brazil's Santos Basin, was Sembcorp Marine's first full EPC FPSO conversion. Its successful completion demonstrates the business' ability to execute complex specialised offshore projects. In the second quarter, we also successfully completed the conversion of a shuttle tanker into the floating storage and offloading vessel (FSO) *Randgrid*. On delivery, the FSO was deployed at the Gina Krog field in the Norwegian North Sea.

Marine Review

The FPSO Pioneiro de Libra is Sembcorp Marine's first full engineering, procurement and construction FPSO conversion project. It was deployed to Brazil's Libra field and achieved first oil in November 2017

We also continued to make good progress on our ongoing construction projects. These included a semi-submersible crane vessel for Heerema, a newbuild FSO vessel for MODEC, harsh-environment topside modules bound for the Culzean field for Maersk Oil and the conversion of the FPSOs *Kaombo Norte* and *Kaombo Sul* for Saipem. Meanwhile, work on a power generation module for Maersk Oil, which is part of our EPC project with Maersk Oil, and the Tupi Project FPSO *P-68* are progressing well at our UK and Brazil yards respectively.

Prudent cost and balance sheet management and a focus on sustainable, innovative solutions to position the business for the future

Amidst the tough operating market, the Marine business is working hard to retool and build a more competitive business through the offering of innovative solutions, automation, as well as cost and quality improvement, to position the business for the future.

Following the strategic acquisitions of LMG Marin, Aragon and Gravifloat in 2016, the business' proprietary design and engineering capabilities have been enhanced. This has allowed Sembcorp Marine to successfully diversify its offerings and provide innovative solutions to players in the gas value chain. For example, the SeaOne CGL carriers will incorporate proprietary ship component ideas from LMG Marin. The business is also working towards securing orders for its proprietary Gravifloat near-shore gas infrastructure solutions and is in advanced discussions with prospective customers.

The next-generation Sembcorp Marine Tuas Boulevard Yard is also a cornerstone in the Marine business' sustainable growth strategy. With its second phase completed since early 2017, the yard is equipped for mega-sized vessels and deep-draft rigs and has one of the largest and most advanced steel fabrication facilities in the region. These features will enable Sembcorp Marine to venture into turnkey EPC of mega offshore projects, and pursue new opportunities across the offshore and marine and energy value chain. The business intends to maximise utilisation of its Tuas Boulevard Yard, while reviewing the schedule for the return of its other Singapore yards and progressively returning these other yards on or before their respective lease expiry dates.

Meanwhile, Sembcorp Marine continues to maintain prudent cost and balance sheet management. This includes active management of manpower requirements in line with changing needs; wage cuts and wage freeze; rightsizing; skills training and upgrading and selective recruitment of specialist talent with niche skill sets. Going forward, the business' capital expenditure is expected to trend slightly upwards with further development of the Tuas Boulevard Yard in response to business needs. Capital expenditure will also be incurred for the execution of secured contracts, or to realise cost savings.

A Focus on New Technologies and Solutions
Diversifying product capabilities

Gravifloat*: Modularised LNG and LPG terminals*

SSP Offshore*: Next-generation circular hull forms*

LMG Marin*: Advanced ship design and engineering*

Outlook

Global exploration and production capex spending continues to show signs of improvement. However, recovery may take some time as the oversupply in most drilling segments has yet to rebalance.

The production segment remains encouraging. Sembcorp Marine continues to make progress in its efforts to develop and commercialise its Gravifloat technology.

Demand for repairs and upgrades, especially for LNG carriers and cruise ships, remains strong.

The immediate outlook remains challenging. It will take some time for capex spending to translate into new orders. Industry activities remain low and competition for orders remains intense. Against this background, Sembcorp Marine will continue to strengthen its balance sheet and pursue new orders.

URBAN DEVELOPMENT

Total Net Orderbook
251 hectares

Competitive Edge

- Over 25 years' track record in undertaking master planning, land preparation and infrastructure development to transform raw land into urban developments
- Significant land bank of integrated urban developments comprising industrial parks as well as business, commercial and residential space in Vietnam, China, Indonesia and India
- A valued partner to governments, with the ability to deliver the economic engine to support industrialisation and urbanisation by attracting local and international investments

Land available for sale
3,138 hectares

Clockwise from left:

The Habitat Binh Duong in Vietnam sold 99% of its first phase, with more apartment units to be launched in 2018

Vietnam's strong manufacturing sector benefited industrial land sales at the VSIP developments

The Jiangdao Technology Innovation Centre on Sino-Singapore Nanjing Eco Hi-tech Island, China, won the gold award for Best Innovative Green Building at the MIPIM Asia Awards 2017, which honours the top property projects in the Asia Pacific

Sino-Singapore Nanjing Eco Hi-tech Island, China, sold a 42.6-hectare mixed-use land plot, its single largest to date

Urban Development Review

Performance Scorecard

Financial Indicators *(S$ million)*

	2017	2016	Change *(%)*
Turnover[1]	**11.8**	11.2	5
Profit from operations	**89.4**	38.4	133
– Earnings before interest and tax	**(13.2)**	(11.9)	(11)
– Share of results: Associates & JVs, net of tax	**102.6**	50.3	104
Net profit	**83.2**	33.3	150
Return on equity *(%)*	**9.2**	3.9	136

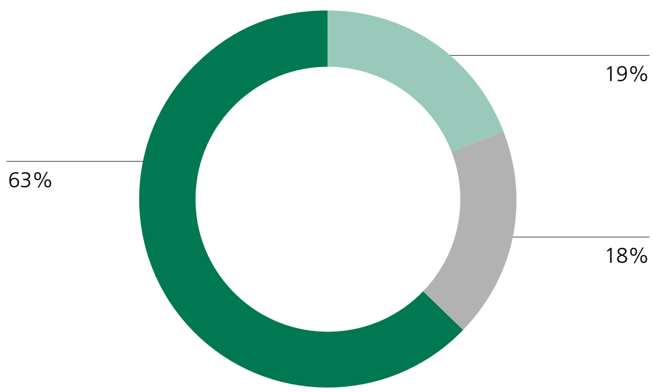
[1] *Most of our Urban Development businesses are associates or joint ventures. Turnover reflected consists of payment for services provided to these associates or joint ventures*

Operational Indicators *(hectares)*

	2017	2016
Saleable land inventory	**5,729**	5,729
Land sold (cumulative)	**2,340**	2,061
Total net orderbook	**251**	240
Land available for sale	**3,138**	3,428

Note: Figures are based on current planned estimates and exclude projects under Gallant Venture

Remaining Saleable Land by Geography



■ Vietnam ■ China ■ Indonesia

Remaining Saleable Land by Segment

■ Industrial & business[1] ■ Commercial & residential[2]

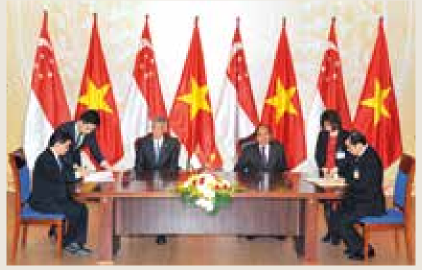
[1] *Industrial & business land includes space for general and high-tech manufacturing, research and development, as well as business and technology incubators*

[2] *Commercial & residential land includes space for food and beverage businesses, malls, hotels, serviced apartments and modern services such as accounting and legal firms, consultancies and corporate headquarters*

Key Developments

Entered the India market, securing master development rights for Andhra Pradesh's new capital city, Amaravati

Achieved record profits backed by strong land sales in Vietnam, China and Indonesia



Signed a MOU with the Da Nang City People's Committee to develop an innovation hub in Vietnam

Operating and Financial Review

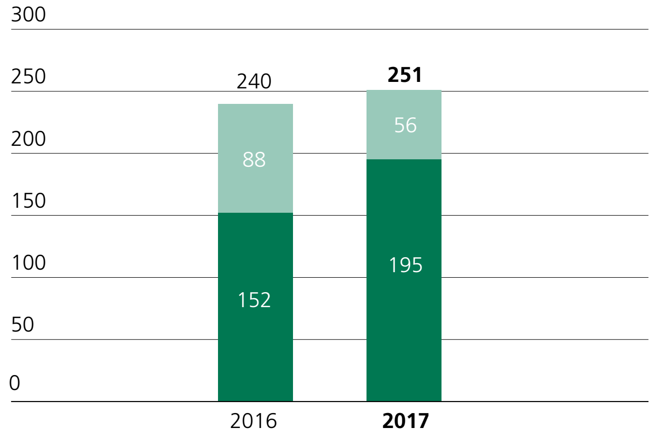
Record net profit with higher contributions from all operating markets

The Urban Development business achieved outstanding performance in 2017. Profit from operations grew from S$38.4 million in 2016 to S$89.4 million, while net profit grew from S$33.3 million the previous year to S$83.2 million. All operating markets, namely Vietnam, China and Indonesia, turned in a better performance and registered higher profit contribution.

In 2017, the business sold a total of 280 hectares of land compared to 201 hectares in 2016. Industrial land sales in Vietnam continued to be active throughout the year, driving our total land sales in the country up 13% to 184 hectares. Land sales in China more than doubled to 64 hectares, from 30 hectares sold in 2016. We also sold 31 hectares of land in Indonesia, more than three times the eight hectares sold the previous year.

Land commitments received from customers increased to 290 hectares, providing the business a healthy net orderbook of 251 hectares. In Vietnam, interest remains focused on industrial land, while in China and Indonesia, the orderbook is strong across both industrial and business, as well as commercial and residential segments.

Total Net Orderbook *(hectares)*



■ Industrial & business[1] ■ Commercial & residential[2]

[1] *Industrial & business land includes space for general and high-tech manufacturing, research and development, as well as business and technology incubators*

[2] *Commercial & residential land includes space for food and beverage businesses, malls, hotels, serviced apartments and modern services such as accounting and legal firms, consultancies and corporate headquarters*

Operating and Financial Review

Urban Development Review

Vietnam
Our Vietnam business continued to thrive in 2017.

Vietnam attracted a 44% increase in registered foreign direct investment capital inflow during the year, compared to 2016. The country's manufacturing and processing sector remained a top-draw for foreign direct investment. This benefited our Vietnam Singapore Industrial Park (VSIP) projects, with industrial land sales accounting for 99% of total land sold in 2017. Commercial and residential land accounted for the remaining 1% of land sales.

VSIP projects in Binh Duong and Bac Ninh provinces performed exceptionally well, with strong demand for land in both projects' industrial zones. We are in the process of securing additional land bank for further growth. In addition, VSIP Bac Ninh will develop an additional 20 units of ready-built factories in phases, with the first phase of 32,000 square metres' lettable area targeted to be ready for lease in the third quarter of 2018.

During the year, we acquired additional equity shares in the Singapore consortium behind VSIP, increasing our interest from 92.9% to 96.6%. This translates to an effective shareholding of 49.3% in VSIP Joint Venture Co, the Vietnam-registered project company developing the VSIP integrated townships.

In March, we signed a memorandum of understanding (MOU) with the People's Committee of Da Nang City to express our interest in developing an innovation hub for the software development sector in Da Nang, central Vietnam. This is in line with the central government's push for higher value-added development in Vietnam's key cities. The MOU signing was witnessed by the Prime Ministers of Singapore and Vietnam, indicating strong government support for the project.

During the year, several prestigious awards were conferred on us in Vietnam. *The Habitat Binh Duong*, our first co-developed residential project in VSIP Binh Duong, won Best Mid-end Condo Development in its category at the 2017 PropertyGuru Vietnam Property Awards. As at end 2017, 265 units, or 99% of the development, have been sold. We plan to launch an additional 460 units in phases, starting from 2018. In addition, two of our most senior representatives in the VSIP projects, including Kelvin Teo, CEO of Sembcorp Development and Co-chairman of VSIP Group, were awarded Vietnam's *Friendship Medal*. The prestigious award is conferred by Vietnam's National Assembly in recognition of outstanding contributions by foreigners to the country's nation-building efforts over a sustained length of time.

Development Progress in Vietnam

VSIP industrial land sales sustained their upward momentum, led by strong performances at our projects in Binh Duong and Bac Ninh provinces

Our first real estate development in Vietnam won the PropertyGuru 2017 Vietnam Property Award for Best Mid-end Condo Development, HCMC

China
Our China businesses did very well on the back of robust commercial and residential land sales.

The Singapore-Sichuan Hi-tech Innovation Park (SSCIP) was a strong performer in 2017. The project continued to attract keen interest from high-technology companies and real estate developers, which invested RMB 4.8 billion in investment capital during the year.

Two community hubs will commence construction in 2018, providing creative space for the first batch of technology and media tenants moving into the park in the latter half of the year. In the next few years, six schools will also be completed within the SSCIP, increasing activity within the community and strengthening the attractiveness of the development to prospective residents. In the last two years, improvements to amenities and connectivity to the surrounding regions have increased the value of land within the development, reflected in rising residential land prices. The number of developers participating in auctions for residential land within the development has also driven prices higher.

The performance of our Sino-Singapore Nanjing Eco Hi-tech Island (SNEI) project improved significantly over 2016. The project sold its single biggest land plot to date, a 42.6-hectare mixed-use land plot auctioned for RMB 7.8 billion. Apartments, offices, commercial units and a cultural tourist attraction will be developed on the site. Apart from land sales, we will be launching 48,000 square metres of lettable area within our *New One North* development when the business park is completed in 2018.

Sembcorp's wholly-owned and developed *International Water Hub* is poised to be the first commercial building specially designed for water-related industries on SNEI. The more than 34,000-square metre development marked its topping out in August 2017, with construction targeted for completion in the second half of 2018. The development achieved gold certification under the Leadership in Energy and Environmental Design (LEED) rating system, as well as a China Green Building 2-star rating. With international investment promotion activities undertaken throughout the year, we have now signed 10 MOUs with various institutes of higher learning and water associations that intend to locate in and collaborate with the water hub.

Development Progress in China

Singapore-Sichuan Hi-tech Innovation Park has been successful in attracting industry and real estate developers, due to conducive amenities within the park and good connectivity to surrounding regions

International Water Hub in China, a technology and business centre, as well as Riverside Grandeur, a residential development next door, celebrated their topping out in 2017. Both projects are on track to be completed in 2018

Over in Wuxi, our Wuxi-Singapore Industrial Park continued to generate healthy revenues from electricity and rental income. Average occupancy rates for ready-built and built-to-specifications factories remained at healthy levels of above 80%. An additional 30,000 square metres of standard factory space completed development in mid-2017, and has already reached 30% take-up. We also commenced the construction of ready-built factories spanning another 36,500 square metres, as well as the second phase of a built-to-specification factory for our long-term lease tenant, OSRAM. These additional projects are expected to contribute towards our recurring income in 2019.

Urban Development Review

Development Progress in Indonesia

Park by the Bay in Semarang, has attracted 35 tenants to its industrial park, drawn by the development's strong amenities and infrastructure

The 42 residential and commercial shophouse units in the Park by the Bay development are sold out

Indonesia

Our Kendal industrial park in Semarang, Indonesia, *Park by the Bay*, also performed better in 2017. During the year, our team there focused on the preparation and handover of land to customers secured over the course of 2016 and 2017.

The project registered strong industrial land sales, as prospective customers' confidence rose following visible progress in development and construction activity on the site. Since its official opening last year, the project has been well-received and has attracted 35 companies to locate on the site. The 42 shophouse units within the project, jointly developed with a real estate developer, have also all been sold out.

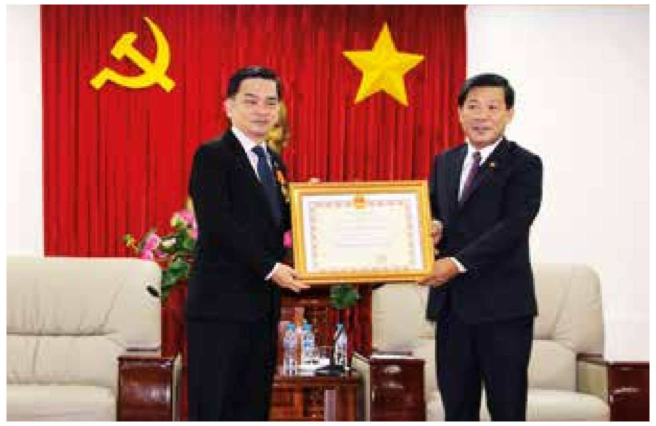
During the year, we completed the construction of 14 factory buildings for small and medium enterprises totalling 6,400 square metres. These are already 40% taken up. We plan to construct another 4,156 square metres of industrial space in tandem with growth in demand.

India

Amidst a busy year in our existing operating markets, the Urban Development business also expanded onto new shores in 2017. Following the close of a Swiss Challenge process in May, Sembcorp Development and its consortium partner, Ascendas-Singbridge, were jointly awarded the master development rights to the start-up area for Amaravati, the upcoming capital city for the newly-constituted state of Andhra Pradesh.

A greenfield site, Amaravati is envisioned to become a vibrant, diverse and modern smart city and the jewel of Andhra Pradesh, and a compelling destination to attract global investment and talent.

The 684-hectare start-up area will be located within the 20-square kilometre capital city of Amaravati, along the River Krishna waterfront. It is expected to create the first centres of activity, attracting investments and people into Amaravati with a mix of catalytic developments for business, commercial and residential use. A joint venture will be formed between the master developers and the government of Andhra Pradesh, which intend to work closely together on industry positioning and investment promotion to attract economic activity to the city.



Kelvin Teo (left), CEO of Sembcorp Development and Co-chairman of VSIP Group, is awarded Vietnam's Friendship Medal. The prestigious award was conferred by Vietnam's National Assembly in recognition of the contributions by foreigners to the country's nation-building efforts. Pictured with Mr Teo is Mr Tran Thanh Liem, Chairman of Binh Duong People's Committee

Outlook

In 2017, Vietnam's gross domestic product (GDP) grew by 6.8%, driven primarily by strong domestic demand and export-oriented manufacturing. While GDP growth is forecast to be slightly lower at 6.5% for 2018, our Vietnam business has built up a strong orderbook for 2018, almost double its orderbook at the start of 2017.

China's GDP grew 6.9% in 2017. In 2018, growth is expected to ease to 6.4%, as the country continues to rebalance its economy. However, technological development and innovation are expected to continue to feature prominently in China's development. This is reflected in strong take-up of space for high-tech manufacturing, research and development, as well as business and technology incubators at our projects in China. The Chinese government recently announced the establishment of the Sichuan Free Trade Zone, greatly benefiting SSCIP. On land sales, SSCIP has attracted a good orderbook. Profit from the sale of a number of plots of mixed-use land will be recognised in 2018.

Following reforms in 2017 by China's central government to its housing policy, impacting residential land and property prices in top-tier cities including Nanjing, we are taking a cautious outlook on residential land sales at SNEI for 2018. Nonetheless, the outlook for investments in technology and innovation remains buoyant and we look forward to several land auctions in 2018 at SNEI. We will also be completing the construction of our *International Water Hub* in the second half of 2018. The hub will offer Grade A office space, on-site laboratories catered to water companies, as well as conference facilities.

Meanwhile, Indonesia recorded GDP growth of 5.1% for 2017, with growth forecast at 5.3% for 2018. Major infrastructure upgrading works by the Indonesian government are set to improve options for the movement of cargo for tenants of *Park by the Bay*. These include improvements to the trans-Jakarta highway from Batang to Semarang, where our project is located, and the completion of a double-track railway line from Kendal to Jakarta and Surabaya.

The Urban Development business has a healthy net orderbook of 251 hectares of land that is expected to be converted to land sales over the next two years. This comprises 195 hectares of industrial and business land and 56 hectares of commercial and residential land. In addition to land sales, the business expects income contribution from the sale of its property developments upon the launch of these properties. These include *Riverside Grandeur* in Nanjing, China, as well as phase two of *The Habitat Binh Duong* and other residential projects at the VSIP developments.

The Urban Development business is expected to continue to perform well in 2018.