Water and Wastewater Treatment Capacity of Close to

9,000,000 m³/day

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

Power Capacity

>11,000 MW

including >2,000 MW renewable energy

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

Operating and Financial Review

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

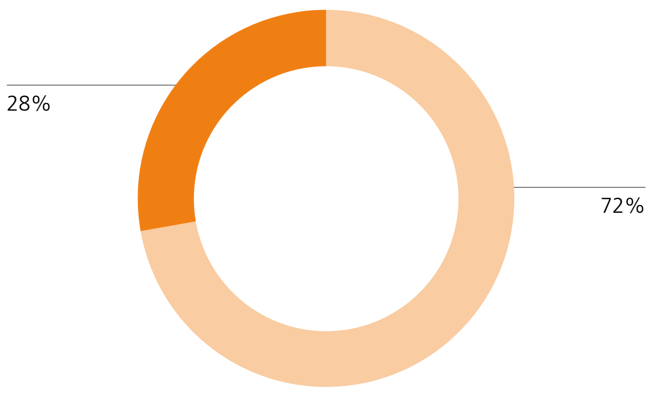
__2016__: A total of S$2.5 million, comprising S$33.5 million from the divestment gain on the sale of the municipal water operation in Yancheng, China, less S$31.0 million total refinancing cost for the first thermal power plant in India

Operational Indicators

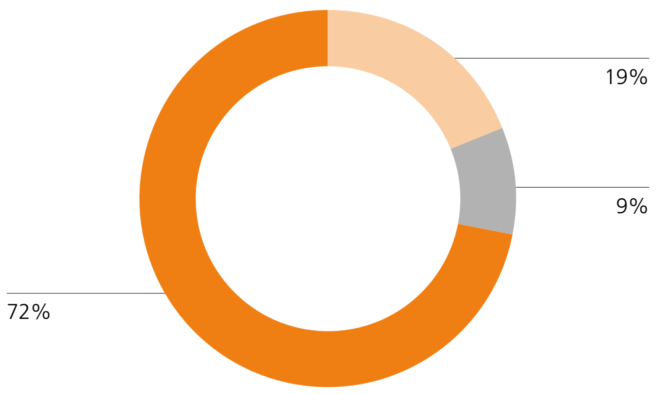
	2017	2016
Power capacity *(megawatts)*	**11,689**	10,916
Steam capacity *(tonnes per hour)*	**3,844**	4,532
Water & wastewater treatment capacity *(cubic metres per day)*	**8,927,490**	8,821,252

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

PFO* by Geography



PFO* by Segment



* *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.