Operating and Financial Review

In Singapore, Sembcorp is an established power generator and retailer with over 15 years of track record. We are a leading solar power player in the country, and the retail power plans we offer have renewable energy attributes blended in

Group Financial Review

Group Financial Highlights

	2018	2017#	Change (%)
For the Year *(S$ million)*			
Turnover	**11,689**	9,026	30
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	**1,279**	1,523	(16)
Profit from operations	**841**	1,084	(22)
– Earnings before interest and tax	**667**	920	(28)
– Share of results: Associates & JVs, net of tax	**174**	164	6
Profit before tax	**420**	611	(31)
Net profit	**347**	383	(9)
Economic value added[2]	**(401)**	(356)	13
Return on total assets *(%)*	**3.6**	4.4	(18)
Return on equity *(%)*	**5.1**	5.8	(12)
Capital Position *(S$ million)*			
Owners' funds	**5,987**	5,941	1
Total assets	**23,321**	23,745	(2)
Net debt	**8,807**	7,160	23
Operating cash flow	**739**	651	14
Free cash flow	**948**	1,124	(16)
Capital expenditure and equity investment	**2,009**	704	185
Total debt-to-capitalisation ratio	**0.57**	0.55	4
Total debt-to-capitalisation ratio (less cash and cash equivalents)	**0.47**	0.40	18
Interest cover *(times)*	**2.5**	2.9	(13)
Shareholder Returns			
Net assets per share *(S$)*	**3.80**	3.88	(2)
Earnings per share *(cents)*	**16.98**	19.06	(11)
Ordinary dividend per share *(cents)*	**4.0**	5.0	(20)
Payout ratio *(%)*	**23.6**	26.2	(10)
Last traded share price *(S$)* as at December 31	**2.54**	3.03	(16)
Total shareholder returns *(%)*	**(14.9)**	8.8	NM

In accordance with SFRS(I)

For the financial year 2018, Sembcorp Industries has adopted the Singapore Financial Reporting Standards (International) (SFRS(I)) and International Financial Reporting Standards (IFRS) frameworks, as well as the new accounting standards that are effective on January 1, 2018.

SFRS(I) and IFRS are issued by the Accounting Standards Council and the International Accounting Standards Board respectively. SFRS(I) comprises standards and interpretations that are equivalent to IFRS. In our report, all references to SFRS(I) and IFRS are referred to as SFRS(I) unless otherwise specified. In addition, 2017 financial figures presented in accordance with SFRS(I) have been stated for comparison against 2018 financial figures, and are marked 2017# in the tables and charts in this section of the report.

The application of SFRS(I) 15 accounting standard to our 2017 financial figures mainly impacted the Marine business. For the Marine business, this has resulted in differences in the timing of revenue and cost of sales recognition for certain contracts. In 2017, when these contracts were terminated and new contracts were entered into, the revenue and related cost of sales were recognised. However, with SFRS(I) 15, the previously recognised revenue and related cost of sales were reversed, and will now be recognised upon the transfer of legal title to customers.

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

2 2017 economic value added has not been adjusted for the adoption of SFRS(I) 15

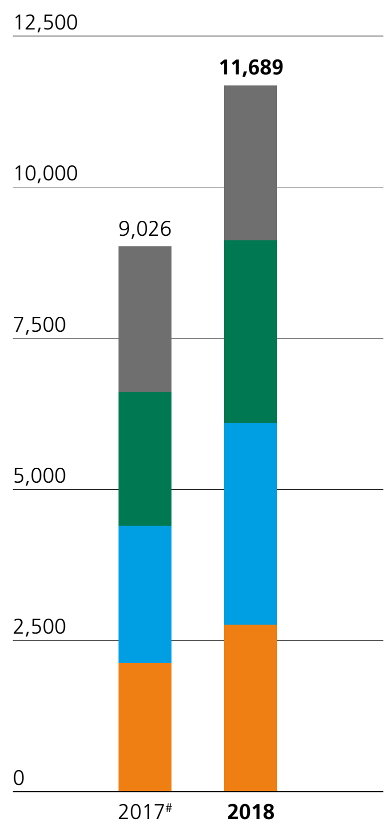
Group Quarterly Performance *(S$ million)*

	2018					2017#				
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total
Turnover	**2,758**	**3,343**	**3,022**	**2,566**	**11,689**	2,122	2,281	2,218	2,405	9,026
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	**286**	**268**	**370**	**355**	**1,279**	345	332	494	352	1,523
Profit from operations	**213**	**192**	**217**	**219**	**841**	269	218	304	293	1,084
– Earnings before interest and tax	**171**	**137**	**180**	**179**	**667**	211	184	277	248	920
– Share of results: Associates & JVs, net of tax	**42**	**55**	**37**	**40**	**174**	58	34	27	45	164
Profit before tax	**116**	**89**	**119**	**96**	**420**	145	91	189	186	611
Net profit	**77**	**82**	**82**	**106**	**347**	116	56	93	118	383
Earnings per share *(cents)*	**3.64**	**3.94**	**3.98**	**5.42**	**16.98**	5.98	2.57	4.55	5.96	19.06

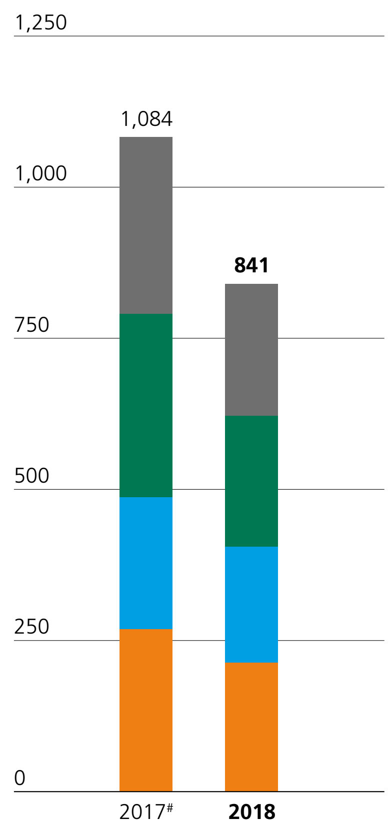
In accordance with SFRS(I). Please see page 28 for details

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

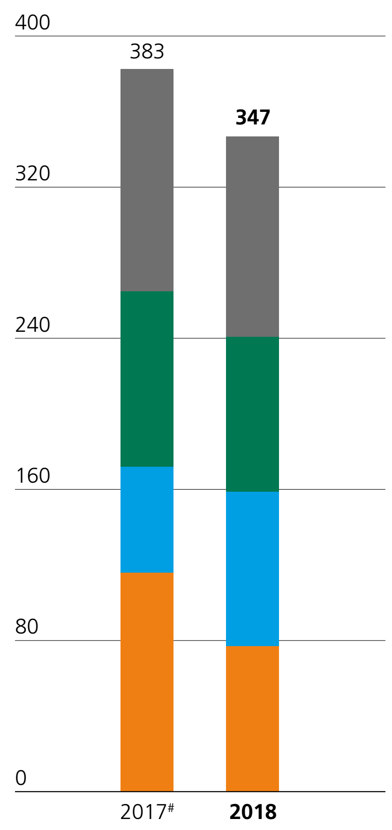
Turnover *(S$ million)*



Profit from Operations *(S$ million)*



Net Profit *(S$ million)*



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

Group Financial Review

Five-year Financial Performance Profile

2018

Sembcorp recorded net profit of S$347 million and turnover of S$11,689 million in 2018. Compared to 2017, turnover, in accordance with SFRS(I), was S$2,663 million or 30% higher, while net profit was S$36 million or 9% lower. 2017 net profit, in accordance with SFRS(I), was S$383 million compared to the previously reported net profit of S$231 million.

In 2018, the Utilities business contributed net profit of S$312 million to the Group, compared to S$140 million in 2017. Underlying net profit, before exceptional items, was S$321 million, up 23% compared to S$261 million in 2017, with Singapore, China and India being the main contributors. The India utilities business posted a net profit of S$47 million in 2018 compared to a loss of S$58 million in 2017. China's operations benefitted from a higher plant load factor at Chongqing Songzao power plant and a full year's contribution from Changzhi Total Water Management Plant, which commenced operations in September 2017. However, the increase in 2018 net profit was partially offset by provisions made for the delayed start-up of the Sembcorp Myingyan Independent Power Plant in Myanmar and losses at UK Power Reserve (UKPR).

Exceptional losses recorded by the business in 2018 amounted to S$9 million, lower than the 2017 exceptional losses of S$121 million. 2018 exceptional items comprised S$23 million of divestment gains recognised from the sale of various businesses, S$25 million of additional provision for potential fines and claims at an overseas water business, and a non-cash S$7 million expensing of capitalised cost at UKPR upon refinancing in December.

The Marine business reported a loss of S$48 million in 2018, compared to a net profit in 2017 of S$157 million, in accordance with SFRS(I). 2017 previously reported net profit was S$7 million. The business' loss in 2018 was mainly due to loss from the sale of a semi-submersible rig and continued low overall business volume. This was partially offset by margin recognition from newly secured production floater projects and delivery of rigs. 2017 net profit was higher due to the net positive effects of contract terminations, which arose from entitlement to down payments on termination of five rig contracts and a one-off gain on disposal of its equity stake in Cosco Shipyard Group.

Meanwhile, the Urban Development business continued to deliver good performance with steady contributions from Vietnam and China. 2018 net profit was S$86 million, slightly higher than net profit of S$83 million in 2017.

Return on equity for the Group was 5.1% and earnings per share amounted to 16.98 cents.

2017

Sembcorp posted net profit of S$231 million and turnover of S$8,346 million in 2017, compared to S$395 million and S$7,907 million respectively in 2016.

In 2017, the Utilities business contributed S$140 million in net profit to the Group, compared to S$348 million in 2016. On an underlying basis, the business delivered net profit of S$261 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 power project in China following the expiry of its cooperative joint venture agreement. Singapore operations were also the largest contributor to the Utilities business' net profit before exceptional items.

Exceptional losses recorded by the business in 2017 amounted to S$121 million. These included a provision of S$25 million for potential fines and claims at an overseas water business, impairment charges of S$56 million mainly relating to assets and investments in Singapore, as well as S$39 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$3 million, comprising S$34 million from a gain on divestment of a municipal water operation in Yancheng, China, less S$31 million in refinancing cost for our first thermal power plant in India.

The Marine business' net profit contribution to the Group was S$7 million in 2017, compared to S$48 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 million, up from S$33 million in 2016. The business' strong performance was driven by higher contributions from all its operating markets and, in particular, higher sales in China.

Return on equity for the Group was 3.2% and earnings per share amounted to 10.51 cents.

2016

Sembcorp posted net profit of S$395 million and turnover of S$7,907 million in 2016, compared to S$549 million and S$9,545 million respectively in 2015.

In 2016, the Utilities business contributed S$348 million in net profit to the Group. 63% of this net profit was generated by overseas operations. Excluding exceptional items, the business delivered profit growth of 4% over 2015, backed by record profit in China of S$125 million. Exceptional gain recorded by the business in 2016 amounted to S$3 million, comprising S$34 million from a divestment gain on the sale of a municipal water operation in Yancheng, China, less S$31 million total refinancing cost for our first thermal power plant in India. Exceptional gain recorded by the business in 2015 amounted to S$370 million, comprising divestment gains of S$426 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$56 million comprising S$31 million from the exit of the chemical feedstock business and impairment of assets in Singapore (net of settlement amounts from customers) and S$24 million in net allowance for doubtful debts in China.

The Marine business' net profit contribution to the Group was S$48 million in 2016, compared to a net loss of S$176 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 net profit of S$33 million, comparable to the previous year.

2015

Sembcorp posted net profit of S$549 million and turnover of S$9,545 million for 2015, compared to S$801 million and S$10,895 million in 2014 respectively.

In 2015, the Utilities business delivered 72% growth in net profit to S$701 million compared to S$408 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 Bournemouth, the UK and Zhumadian, China.

Meanwhile, at the Sembcorp Industries level, the Marine business incurred net loss of S$176 million in 2015 compared to net profit of S$340 million in 2014. The Urban Development business posted net profit of S$34 million compared to S$44 million in 2014.

2014

Sembcorp delivered a healthy performance in 2014 amid challenging market conditions. Net profit for the year was S$801 million, while turnover was S$10,895 million.

In 2014, the Utilities business reported net profit of S$408 million, compared to S$450 million in 2013. The business achieved 7% net profit growth over 2013, excluding gains from the initial public offering of Sembcorp Salalah Power and Water Company offset by an impairment made for operations in the UK.

The Marine business contributed S$340 million to the Group's net profit in 2014, compared to S$337 million in 2013. Meanwhile, the Urban Development business reported net profit of S$44 million, compared to S$50 million the previous year.

Note: 2017 financial figures presented in accordance with SFRS(I) are used to compare against 2018 financial figures

Group Financial Review

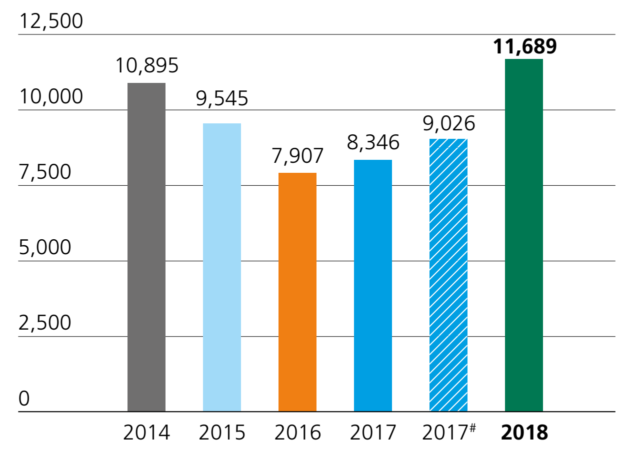
Five-year Financials

	2018	2017#	2017	2016	2015	2014
For the Year *(S$ million)*						
Turnover	**11,689**	9,026	8,346	7,907	9,545	10,895
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	**1,279**	1,523	1,264	1,315	1,720	1,457
Profit from operations	**841**	1,084	795	909	631	1,297
– Earnings before interest and tax	**667**	920	631	784	625	1,139
– Share of results: Associates & JVs, net of tax	**174**	164	164	125	6	158
Profit before tax	**420**	611	312	537	426	1,246
Net profit	**347**	383	231	395	549	801
At Year End *(S$ million)*						
Property, plant and equipment and investment properties	**11,672**	11,158	11,249	11,287	8,706	7,749
Other non-current assets	**5,325**	4,095	3,869	3,379	3,602	3,297
Net current assets	**748**	2,159	2,259	1,609	1,661	773
Non-current liabilities	**(9,807)**	(9,238)	(9,161)	(8,112)	(5,926)	(4,587)
Net assets	**7,938**	8,174	8,216	8,163	8,043	7,232
Share capital and reserves (including perpetual securities)	**6,788**	6,944	6,969	6,702	6,433	5,616
Non-controlling interests	**1,150**	1,230	1,247	1,461	1,610	1,616
Total equity	**7,938**	8,174	8,216	8,163	8,043	7,232
Per Share						
Earnings *(cents)*	**16.98**	19.06	10.51	19.92	29.17	44.31
Net assets *(S$)*	**3.80**	3.88	3.90	3.75	3.60	3.15
Net ordinary dividends (including bonus dividends) *(cents)*	**4.0**	5.0	5.0	8.0	11.0	16.0
Financial Ratios						
Return on equity *(%)*	**5.1**	5.8	3.2	6.2	9.4	15.2
Return on total assets *(%)*	**3.6**	4.4	3.4	4.0	3.7	7.5
Interest cover *(times)*	**2.5**	2.9	2.4	3.3	7.2	20.8
Total debt-to-capitalisation ratio	**0.57**	0.55	0.55	0.53	0.46	0.40
Total debt-to-capitalisation ratio (less cash and cash equivalents)	**0.47**	0.40	0.40	0.42	0.35	0.26

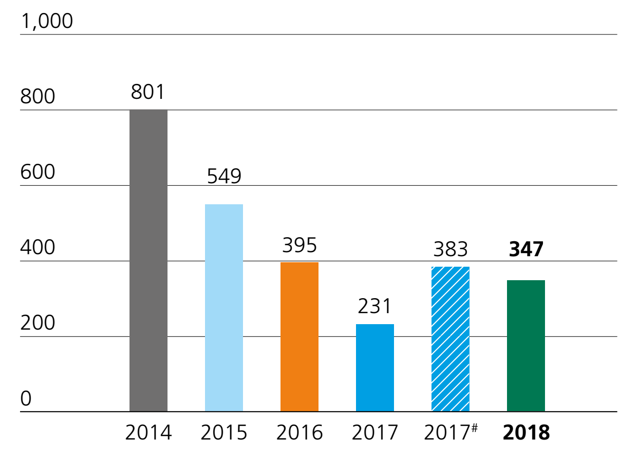
In accordance with SFRS(I). Please see page 28 for details

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

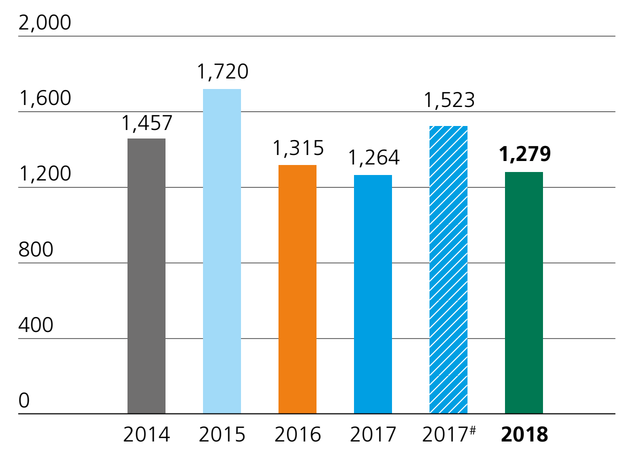
Turnover *(S$ million)*



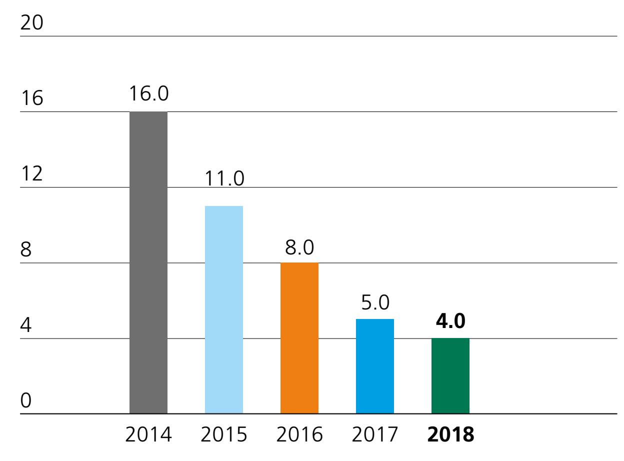
Net Profit *(S$ million)*



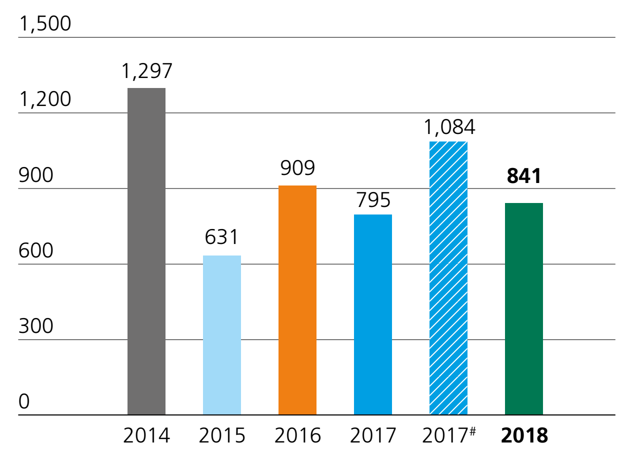
EBITDA *(S$ million)*



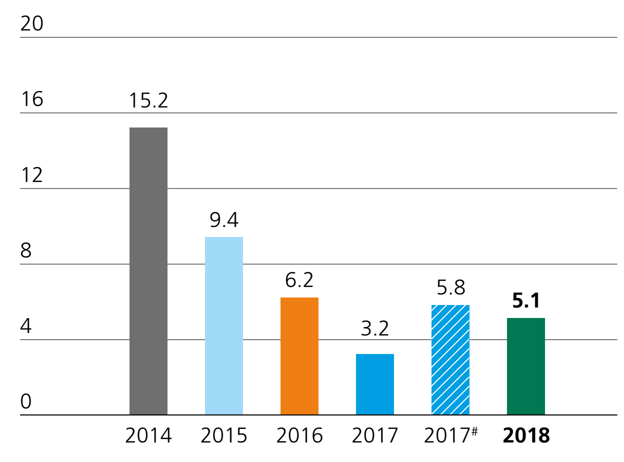
Net Ordinary Dividends Per Share *(cents)*



Profit from Operations *(S$ million)*



Return on Equity *(%)*



Group Financial Review

Review by Business *(S$ million)*

	2018	%	2017#	%	2017	%	2016	%	2015	%	2014	%
Turnover												
Utilities	**6,536**	**56**	5,697	63	5,670	68	4,111	52	4,227	44	4,850	44
Marine	**4,888**	**42**	3,035	34	2,388	29	3,544	45	4,968	52	5,831	54
Urban Development	**5**	**–**	8	–	8	–	7	–	8	–	7	–
Others / Corporate	**260**	**2**	286	3	280	3	245	3	342	4	207	2
	11,689	**100**	9,026	100	8,346	100	7,907	100	9,545	100	10,895	100
Profit from Operations												
Utilities	**820**	**98**	650	60	650	82	737	81	948	150	522	40
Marine	**(60)**	**(7)**	350	32	65	8	171	19	(342)	(54)	718	55
Urban Development	**94**	**11**	90	9	89	11	38	4	38	6	47	4
Others / Corporate	**(13)**	**(2)**	(6)	(1)	(9)	(1)	(37)	(4)	(13)	(2)	10	1
	841	**100**	1,084	100	795	100	909	100	631	100	1,297	100
Net Profit												
Utilities	**312**	**90**	140	36	140	61	348	88	701	128	408	51
Marine	**(48)**	**(14)**	157	41	7	3	48	12	(176)	(32)	340	42
Urban Development	**86**	**25**	83	22	83	36	33	9	34	6	44	6
Others / Corporate	**(3)**	**(1)**	3	1	1	–	(34)	(9)	(10)	(2)	9	1
	347	**100**	383	100	231	100	395	100	549	100	801	100

In accordance with SFRS(I). Please see page 28 for details

Performance Scorecard *(S$ million)*

	2018	2017#	Change *(%)*
Turnover	**11,689**	9,026	30
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	**1,279**	1,523	(16)
Profit from operations	**841**	1,084	(22)
– Earnings before interest and tax	**667**	920	(28)
– Share of results: Associates & JVs, net of tax	**174**	164	6
Profit before tax	**420**	611	(31)
Net profit	**347**	383	(9)
Earnings per share *(cents)*	**16.98**	19.06	(11)
Return on equity *(%)*	**5.1**	5.8	(12)

In accordance with SFRS(I). Please see page 28 for details

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

Overview

Sembcorp posted net profit of S$347 million and turnover of S$11,689 million in 2018, compared to S$383 million and S$9,026 million respectively in 2017.

Turnover

The Group achieved turnover of S$11,689 million, with the Utilities and Marine businesses contributing 98% of total turnover.

The Utilities business' turnover was higher in 2018 compared to 2017. This was mainly due to stronger high sulphur fuel oil prices benefitting Singapore operations, higher volume and prices in India, higher generation in the UK and a full year's contribution from the Changzhi Total Water Management plant in China, which commenced commercial operation in September 2017. 2018 also includes the consolidation of UK Power Reserve (UKPR), our newly acquired business from June 2018. This increase was partially offset by lower service concession revenues for Myingyan in Myanmar and Sirajganj Unit 4 in Bangladesh, as these plants commenced commercial operation in phases during the year. The Marine business' turnover was S$1,853 million higher, attributable mainly to revenue recognition for the delivery of eight jack-up rigs, sale of a semi-submersible rig and newly secured projects. Excluding the effect of the delivery and sale of these rigs in 2018 and revenue adjustment in 2017 due to the termination of five rig contracts with customers, revenue would have been S$2,530 million, compared to S$2,550 million in 2017.

Net Profit

The Group recorded net profit of S$347 million in 2018 compared to S$383 million in 2017, while profit from operations was S$841 million compared to S$1,084 million in 2017.

In 2018, the Utilities business contributed S$312 million in net profit to the Group, compared to S$140 million in 2017. On an underlying basis, the business delivered net profit of S$321 million, compared to S$261 million in 2017. The improvement was mainly due to our India operations, which turned around to profitability and posted net profit of S$47 million.

Exceptional losses recorded by the business in 2018 amounted to S$9 million. This comprised S$23 million of divestment gains, recognised from the sale of various businesses, S$25 million of additional provision for potential fines and claims at an overseas water business, and a non-cash S$7 million expensing of capitalised cost in UKPR upon refinancing in December.

Exceptional losses recorded by the business in 2017 amounted to S$121 million. These comprised a S$25 million provision for potential fines and claims at an overseas water business, impairment charges of S$57 million mainly relating to assets and investments in Singapore, as well as S$39 million in refinancing cost incurred for our second thermal power plant in India.

The Marine business recorded a loss of S$48 million in 2018, compared to a profit of S$157 million in 2017. 2018 net loss was mainly due to loss from the sale of a semi-submersible rig and continued low overall business volume. This was partially offset by margin recognition from newly secured production floater projects and delivery of rigs. In 2017, the net positive effects of contract terminations which arose from entitlement to down payments on termination of five rig contracts and a one-off gain on disposal of its equity stake in Cosco Shipyard Group, were recorded.

The Urban Development business continued to deliver good performance, with steady contributions from Vietnam and China.

Group Financial Review

Turnover *(S$ million)*

	2018	2017#
Utilities	**6,536**	5,697
Marine	**4,888**	3,035
Urban Development	**5**	8
Others / Corporate	**260**	286
	11,689	9,026

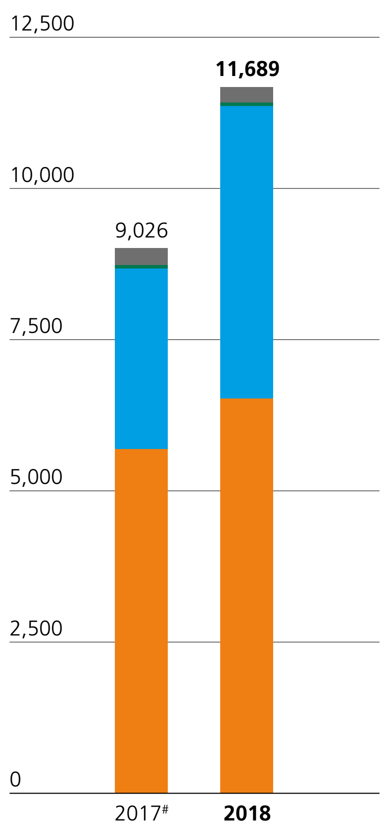
Profit from Operations *(S$ million)*

	2018	2017#
Utilities	**820**	650
Marine	**(60)**	350
Urban Development	**94**	90
Others / Corporate	**(13)**	(6)
	841	1,084

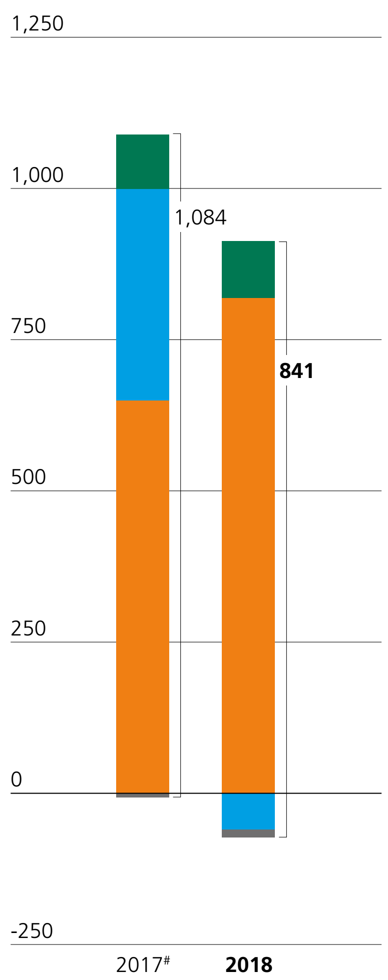
Net Profit *(S$ million)*

	2018	2017#
Utilities	**312**	140
Marine	**(48)**	157
Urban Development	**86**	83
Others / Corporate	**(3)**	3
	347	383

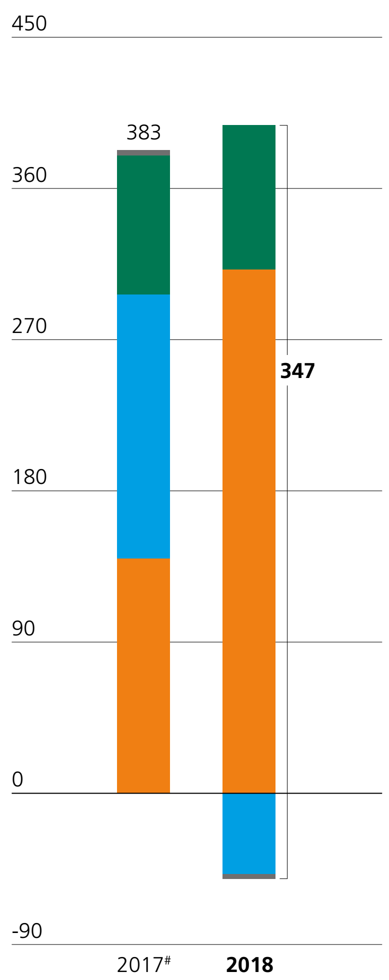
Turnover *(S$ million)*



Profit from Operations *(S$ million)*



Net Profit *(S$ million)*



In accordance with SFRS(I). Please see page 28 for details

Cash Flow and Liquidity

As at December 31, 2018, the Group's cash and cash equivalents stood at S$1,923 million.

Net cash from operating activities before changes in working capital remained healthy at S$1,250 million. Cash outflow from changes in working capital in 2018 was mainly attributable to Marine's working capital changes along with the increase in service concession receivables from Myingyan and Sirajganj Unit 4 power projects. The service concession receivables will be collected over the periods of the concession contracts from the time the power plants commence commercial operations.

Net cash used in investing activities in 2018 was S$1,217 million, mainly for acquisition of subsidiaries, and property, plant and equipment, offset by proceeds received from the divestment of investments and other financial assets, dividend and interest received.

Net cash used in financing activities in 2018 was S$256 million. This was mainly for payment for non-controlling interests acquired in 2017, redemption of subordinated perpetual securities and interest paid, reduced by net proceeds from borrowings.

Financial Position

Group shareholders' funds increased to S$5,987 million as at December 31, 2018, from S$5,941 million as at December 31, 2017.

Property, plant and equipment and investment property increased in 2018. This was mainly attributable to additions from Marine, Utilities (India and the UK, including the acquisition of UKPR), less translation losses from India and the UK assets, as well as the ongoing development of the Nanjing Riverside Quay project by Urban Development.

Other non-current assets increased in 2018. This was due primarily to the net increase in trade and other receivables from the Marine business' billings to customers upon the completion and sale of rigs, where payment is expected to be received after 12 months, and the service concession receivables from Sirajganj Unit 4 power project. In 2018, intangible assets also increased mainly as a result of acquisitions during the year by Utilities and Marine.

Current assets decreased in 2018 mainly due to the decrease in contract cost relating to the Marine business in its recognition of cost of sales upon the delivery of rig building projects.

Cash and cash equivalents decreased due to the redemption of perpetual securities, acquisitions, capital expenditures and repayment of borrowings.

Increase in contract assets was mainly from revenue recognised during the period and the timing of billing to customers by the Marine business.

Current liabilities decreased, on recognition of revenue upon the delivery and sale of rig building projects for the Marine business, and payments made for non-controlling interests acquired in 2017.

Interest-bearing borrowings increased in 2018, mainly due to the acquisition and consolidation of UKPR's borrowings, additional borrowings for working capital, capital expenditure and refinancing of the company's perpetual securities.

Shareholder Returns

In 2018, return on equity for the Group was 5.1% and earnings per share amounted to 16.98 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, 2018. Together with an interim dividend of 2.0 cents per ordinary share paid in August 2018, this brings our total dividend for the year to 4.0 cents per ordinary share.

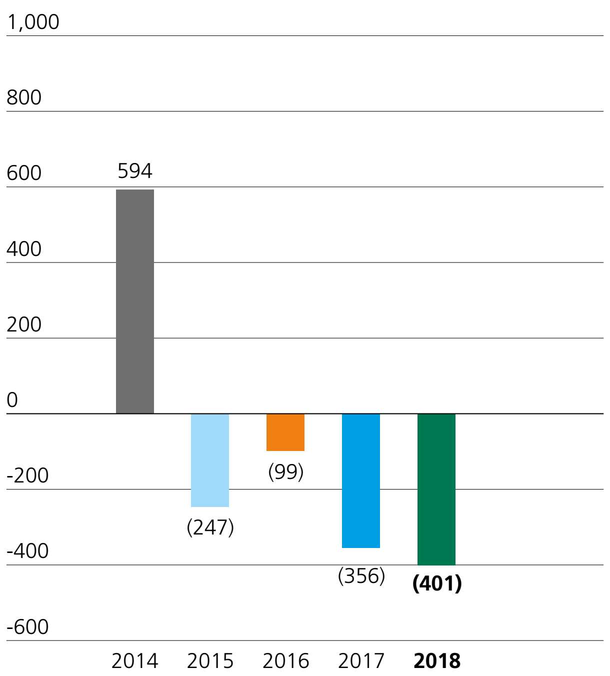
Economic Value Added

Economic value added (EVA) was negative in 2018, mainly due to a weaker overall performance by the Marine business. In 2018, EVA was negatively impacted by new investments that are at an early stage of operation.

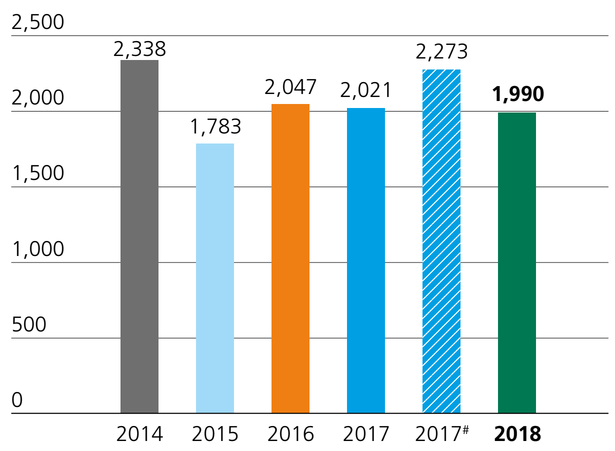
Value Added and Productivity Data

In 2018, the Group's total value added was S$2,399 million. This was absorbed by employees in wages, salaries and benefits of S$759 million, by governments in income and other taxes of S$149 million and by providers of capital in interest, dividends and distribution of S$622 million, leaving a balance of S$869 million reinvested in business.

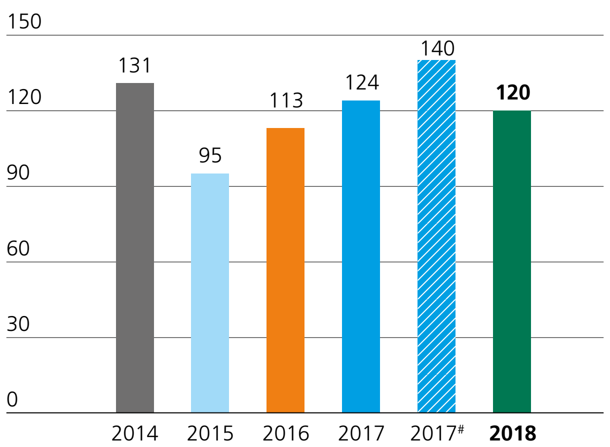
Economic Value Added *(S$ million)*



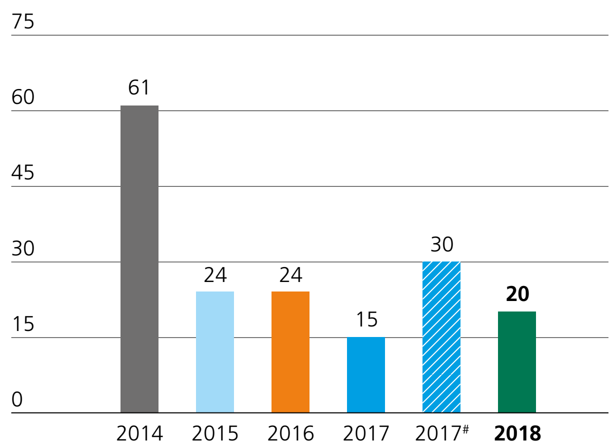
Gross Value Added *(S$ million)*



Value Added Per Employee *(S$ thousands)*



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



Value Added Statement *(S$ million)*

	2018	2017#	2017	2016	2015	2014
Value Added from						
Turnover	**11,689**	9,026	8,346	7,907	9,545	10,895
Less: Bought in materials and services	**(9,699)**	(6,753)	(6,325)	(5,860)	(7,762)	(8,557)
Gross value added	**1,990**	2,273	2,021	2,047	1,783	2,338
Investment, interest and other income	**328**	421	410	536	985	253
Share of results: Associates & JVs, net of tax	**174**	164	164	125	6	159
Other non-operating expenses	**(93)**	(229)	(240)	(491)	(631)	(168)
	2,399	2,629	2,355	2,217	2,143	2,582
Distribution						
To employees in wages, salaries and benefits	**759**	807	807	800	832	871
To governments in income and other taxes	**149**	104	104	119	137	211
To providers of capital in:						
Interest on borrowings	**508**	527	526	402	238	70
Dividends to owners	**71**	125	125	179	285	393
Profit attributable to perpetual securities holders	**43**	43	43	39	28	9
	1,530	1,606	1,605	1,539	1,520	1,554
Retained in Business						
Depreciation and amortisation	**595**	571	571	454	405	315
Deferred tax expense / (credit)	**(7)**	65	14	32	(106)	26
Retained profits	**232**	215	63	178	236	399
Non-controlling interests	**(15)**	110	14	42	(94)	283
	805	961	662	706	441	1,023
Other non-operating (expense) / income	**64**	62	88	(28)	182	5
	869	1,023	750	678	623	1,028
Total Distribution	**2,399**	2,629	2,355	2,217	2,143	2,582

In accordance with SFRS(I). Please see page 28 for details

Group Financial Review

Productivity Data

	2018	2017#	2017	2016	2015	2014
Average staff strength	**16,578**	16,288	16,288	18,072	18,676	17,806
Employment costs *(S$ million)*	**759**	807	807	800	832	871
Profit after tax per employee *(S$'000)*	**20**	30	15	24	24	61
Value added *(S$ million)*	**1,990**	2,273	2,021	2,047	1,783	2,338
Value added per employee *(S$'000)*	**120**	140	124	113	95	131
Value added per dollar employment costs *(S$)*	**2.62**	2.82	2.50	2.56	2.14	2.68
Value added per dollar investment in property, plant and equipment *(S$)*	**0.12**	0.15	0.13	0.14	0.15	0.22
Value added per dollar sales *(S$)*	**0.17**	0.25	0.24	0.26	0.19	0.21

The figures above reflect data for core businesses only

In accordance with SFRS(I). Please see page 28 for details

Critical Accounting Policies

Sembcorp's financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) and International Financial Reporting Standards (IFRS).

With effect from January 1, 2018, the Group adopted the following new / amended SFRS(I) and IFRS, set out in the table below.

The adoption of the following standards do not have any significant impact on the financial statements except for SFRS(I) 15 and SFRS(I) 9.

Amendments to SFRS(I)

SFRS(I) 1	First-time adoption of SFRS(I)
SFRS(I) 15	Revenue from Contracts with Customers which includes the clarifications to IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) in April 2016
SFRS(I) 9	Financial Instruments which includes the amendments to IFRS 4 insurance contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts issued by the IASB in September 2016

Requirements in the following SFRS(I) arising from amendments to corresponding IFRS issued by the IASB in 2016:

SFRS(I) 2	Share-based Payment
SFRS(I) 1-40	Investment Property
SFRS(I) 1	Amendments to IFRS1
SFRS(I) 1-28	Investments in Associates and Joint Ventures
SFRS(I) INT 22	Foreign Currency Transactions and Advance Consideration

Note: All references to SFRS(I) and IFRS are referred to as SFRS(I) unless otherwise specified.

The application of SFRS(I) 15 accounting standard to our 2017 financial figures mainly impacts the Marine business. For the Marine business, this has resulted in differences in the timing of revenue and cost of sales recognition for certain contracts. In 2017, when these contracts were terminated and new contracts were entered into, the revenue and related cost of sales were recognised. However, with SFRS(I) 15, the previously recognised revenue and related cost of sales were reversed, and will now be recognised upon the transfer of legal title to customers.

Financial Risk Management

The Group's activities expose us 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 103 of this annual report.

Treasury Management

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

SFS and its overseas treasury units actively manage cash within the Group by setting up cash pooling structures in various countries where appropriate, to receive surplus funds from businesses and lend to those with funding requirements. It also actively manages the Group's excess cash using a number of financial institutions, and closely tracks 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 meeting our funding requirements.

Facilities

As at December 31, 2018, the Group's total credit facilities, including our multi-currency debt issuance programme, amounted to S$19,361 million (2017: S$21,095 million). This comprised funded facilities of S$15,048 million (2017: S$17,166 million), including S$12,876 million (2017: S$11,807 million) in committed facilities, and trade-related facilities of S$4,313 million (2017: S$3,929 million), including but not limited to bank guarantees, letters of credit, bid bonds and performance bonds.

Borrowings and Perpetual Securities

The Group aims to align the structure and maturity profile of our debt book with the commercial profile 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.

In 2018, the Group redeemed S$200 million of perpetual securities under our S$2,500 million multi-currency debt issuance programme. The Group also established a total of S$850 million and £200 million of loan facilities. These comprise a S$750 million 5-year revolving credit facility (in part to refinance a S$500 million revolving credit facility which matured during the year), a new S$100 million 8-year term loan and a £200 million bridge facility.

As at December 31, 2018, the Group's gross borrowings amounted to S$10,732 million (2017: S$9,848 million). Compared to 2017, the increase of S$884 million in gross borrowings was mainly due to new borrowing arising from acquisition of UK assets, and new loan drawdown to finance projects in Bangladesh and India. The interest cover dropped from 2.9 times in 2017 to 2.5 times in 2018, mainly attributed to lower earnings for 2018. The Group remains committed to balancing the availability and 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 2018, 54% (2017: 45%) 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. We continue to actively monitor and manage the mix of our debt portfolio.

Group Financial Review

Financing and Treasury Highlights *(S$ million)*

	2018	2017	2016
Source of Funding			
Cash and cash equivalents	**1,925**	2,687	1,883
Funded facilities (including multi-currency debt issuance programme)			
Committed funded facilities	**12,876**	11,807	10,827
Less: Amount drawn down	**(10,480)**	(9,821)	(9,009)
Unutilised committed funded facilities	**2,396**	1,986	1,818
Uncommitted funded facilities	**2,172**	5,359	5,322
Less: Amount drawn down	**(1,083)**	(1,027)	(1,012)
Unutilised uncommitted funded facilities	**1,089**	4,332	4,310
Total unutilised funded facilities	**3,485**	6,318	6,128
Trade-related facilities			
Facilities available	**4,313**	3,929	4,379
Less: Amount used	**(1,604)**	(2,206)	(2,411)
Unutilised trade-related facilities	**2,709**	1,723	1,968
Funding Profile			
Maturity profile			
Due within one year	**1,862**	1,572	2,126
Due between one to five years	**5,803**	5,204	4,043
Due after five years	**3,067**	3,072	3,052
	10,732	9,848	9,221
Debt mix			
Fixed rate debt	**5,754**	4,469	4,416
Floating rate debt	**4,978**	5,379	4,805
	10,732	9,848	9,221

Financing and Treasury Highlights *(S$ million)*

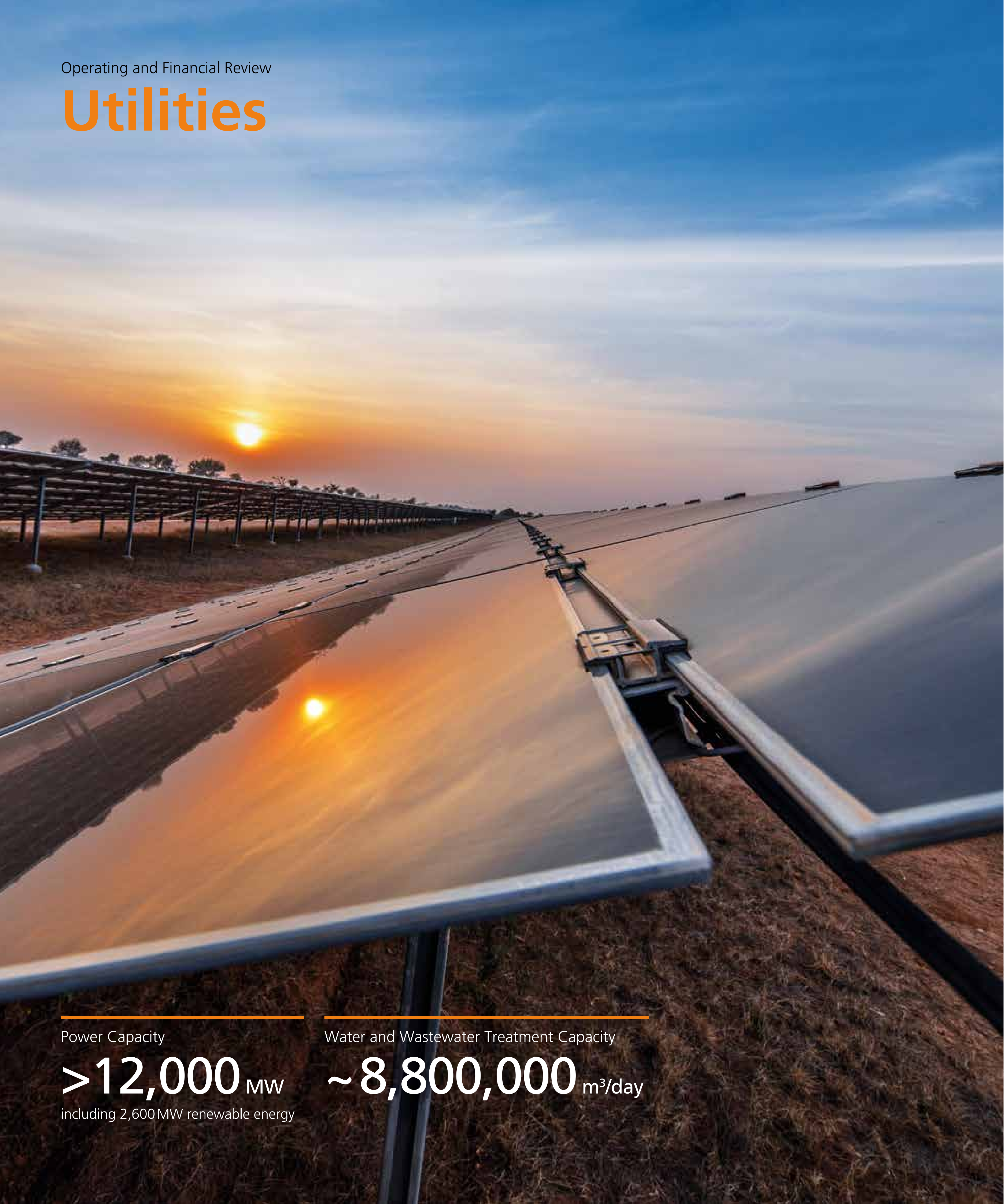
	2018	2017#	2016
Debt Ratios			
Interest cover ratio			
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	**1,279**	1,523	1,315
Interest on borrowings	**508**	527	402
Interest cover *(times)*	**2.5**	2.9	3.3

In accordance with SFRS(I). Please see page 28 for details

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

	2018	D/C ratio	2017	D/C ratio	2016	D/C ratio
Debt / capitalisation (D/C) ratios						
Sembcorp Industries corporate debt	**3,319**	**0.18**	2,484	0.14	1,697	0.10
Sembcorp Industries project finance debt	**3,183**	**0.17**	3,264	0.18	3,369	0.19
Sembcorp Marine debt	**4,230**	**0.23**	4,100	0.23	4,155	0.24
Sembcorp Industries Group gross debt	**10,732**	**0.57**	9,848	0.55	9,221	0.53
Less: Cash and cash equivalents	**(1,925)**	**–**	(2,687)	–	(1,883)	–
Sembcorp Industries Group net debt	**8,807**	**0.47**	7,161	0.40	7,338	0.42

Utilities



Power Capacity

>12,000 MW

including 2,600 MW renewable energy

Water and Wastewater Treatment Capacity

~8,800,000 m^3/day

An integrated energy player poised to benefit from the global energy transition with a balanced energy portfolio of over 12,000 megawatts of power and around 8.8 million cubic metres of water and wastewater treatment capacity per day

Far left to right:

Sembcorp Energy India Limited is a leading renewable energy player in India with over 1,700 megawatts of wind and solar power capacity in operation and under development

Our renewable power business enables us to contribute to the push for clean energy in India

UK Power Reserve's fleet of rapid response gas engines can help bridge supply gaps between intermittent renewables generation and conventional centralised thermal generation

Competitive Edge

Creating Value through the Sembcorp O_4 Model

Global track record as an originator, owner or investor, operator and optimiser (O_4) of thermal and renewable energy as well as water assets with strong operational, management and technical capabilities

Integrated Energy Player

Well-positioned across developing and developed markets and focused on three business lines: Gas & Power, Renewables & Environment and Merchant & Retail

Proven Integration Expertise

Track record in providing energy, water and on-site logistics to multiple industrial site customers

Total Water Solutions

Solid track record in providing total water and wastewater treatment solutions for industries and water-stressed regions

Utilities Review

Performance Scorecard

Financial Indicators *(S$ million)*

	2018	2017[#]	Change (%)
Turnover	**6,569**	5,726	15
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	**1,117**	1,001	12
Profit from operations	**820**	650	26
– Earnings before interest and tax	**728**	581	25
– Share of results: Associates & JVs, net of tax	**92**	69	33
Net profit	**312**	140	123
– Net profit before exceptional items	**321**	261	23
– Exceptional items[2]	**(9)**	(121)	(93)
Return on equity *(%)*	**8.3**	3.3	152

In accordance with SFRS(I). Please see page 28 for details

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

2 Exceptional items amounted to

2018: A total of S$9 million, comprising S$23 million gain from the divestment of waste paper recycling and medical waste operations in Singapore and municipal water operations in South Africa, offset by S$25 million of additional provision for potential fines and claims at an overseas water business and a non-cash S$7 million incurred relating to UKPR's capitalised cost upon refinancing

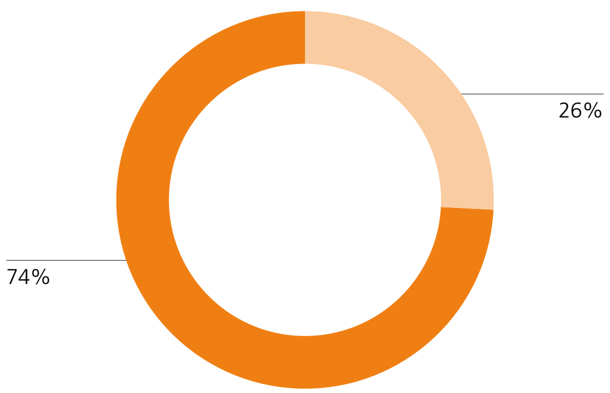
2017: A total of S$121 million, comprising S$39 million in refinancing cost for our second thermal power plant in India, S$57 million of impairment charges mainly relating to Singapore assets and investments and S$25 million of provision for potential fines and claims at an overseas water business

Operational Indicators*

	2018	2017
Power capacity *(megawatts)*	**12,486**	11,386
– Thermal	**9,812**	9,119
– Renewable & energy-from-waste	**2,674**	2,267
Steam capacity *(tonnes per hour)*	**4,044**	4,044
Water & wastewater treatment capacity *(cubic metres per day)*	**8,787,665**	8,927,490

* Capacity refers to total gross installed capacity of facilities in operation and under development.

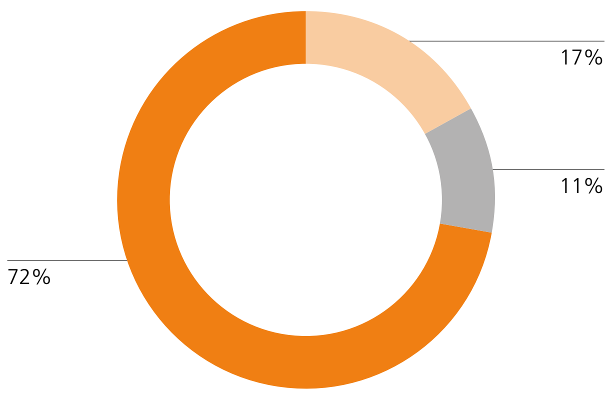
Profit from Operations* by Geography



■ Overseas ■ Singapore

* Excluding Corporate and exceptional items

Profit from Operations* by Segment



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

* Excluding Corporate and exceptional items

Key Developments

Deepened presence in the UK with the acquisition of UK Power Reserve (UKPR), the country's largest flexible distributed energy generator

Commenced commercial operations of the 250-megawatt SECI 1 wind power project, the first to be delivered under India's nationwide wind power tenders

Secured additional 115 megawatt peak of solar power capacity since the end of 2017, becoming one of the leading solar energy players in Singapore

Commenced full commercial operations of Sembcorp Myingyan Independent Power Plant, a 230-megawatt combined cycle gas-fired power plant in Mandalay, Myanmar

Operating and Financial Review

Lifting performance and returns

The Utilities business delivered a strong set of results despite a challenging market environment. Most notably, our India operations turned around to profitability, underpinned by better performance from our thermal business.

Positioning for the global energy transition, deepening presence in key markets

To better position our Utilities business to navigate the challenges and opportunities of a changing global energy landscape, we focused on building and strengthening our business with a focus on our three business lines: Gas & Power, Renewables & Environment and Merchant & Retail. In 2018, we achieved several notable milestones.

In Singapore, we extended our gas business to include liquefied natural gas importation under the government's newly introduced Spot Import Policy, reinforcing our position as a leading gas player in the country. This complements our piped natural gas operations, diversifies our gas portfolio and provides us greater flexibility, optionality and opportunities to extend supply to new customers. With our 230-megawatt gas-fired power plant in Mandalay, Myanmar commencing operations in October 2018, we now have 9,345 megawatts of thermal capacity in operation globally and a further 467 megawatts of thermal capacity in construction and under development.

In the UK, we acquired UK Power Reserve (UKPR), the country's largest flexible distributed energy generator. UKPR is a leading provider of secure, flexible low-carbon electricity and services to the UK power market. Its portfolio comprises small-scale, fast-ramping power generation assets and rapid response batteries connected at the distribution level. As of February 2019, 653 megawatts are in operation and a further 160 megawatts in construction and under development, including an upcoming 120-megawatt battery storage portfolio. When completed, Sembcorp will be one of the largest battery-based energy storage players in Europe. In today's market, flexible distributed energy generation and energy storage are growing in importance, given their role in bridging supply gaps

Profit from Operations *(S$ million)*

	2018	2017[#]	Change (%)
Singapore	**224**	218	3
China	**103**	91	13
India	**385**	329	17
Rest of Asia	**39**	48	(19)
Middle East & Africa	**62**	61	2
UK & the Americas	**33**	34	(3)
Corporate	**(24)**	(13)	85
Profit from operations before exceptional items[1]	**822**	768	7
Exceptional items[1]	**(2)**	(118)	(98)
Total Profit from operations	**820**	650	26
Less: interest, tax and non-controlling interests	**(508)**	(510)	–
Net profit	**312**	140	123

[#] In accordance with SFRS(I). Please see page 28 for details

[1] Exceptional items amounted to

2018: A total of S$2 million, comprising S$23 million gain from the divestment of waste paper recycling and medical waste operations in Singapore and municipal water operations in South Africa, offset by S$25 million of additional provision for potential fines and claims at an overseas water business

2017: A total of S$118 million, comprising S$36 million in refinancing cost for our second thermal power plant in India, S$57 million of impairment charges mainly relating to Singapore assets and investments and S$25 million of provision for potential fines and claims at an overseas water business

between intermittent renewables generation and conventional centralised thermal generation. The addition of responsive merchant energy solutions gives Sembcorp a firm foothold in flexible distributed energy, a new growth niche. In addition, UKPR brings a strong complement to our centralised utilities assets on Teesside, broadening Sembcorp's service offerings. It plays an important role in the transformation of our UK business into an integrated energy business, providing a full spectrum of solutions across the energy market to customers, and differentiating us from competitors.

We also grew our renewables portfolio, and are on track towards our target of increasing our renewables capacity to around 4,000 megawatts by 2022. Since the end of 2017, we have added 415 megawatts of renewables capacity in India and Singapore, bringing gross renewables capacity to 2,600 megawatts globally. Meanwhile, we established a beachhead in the Australia renewables market with the acquisition of a 77.8% stake in Vellocet Clean Energy. The company offers clean energy solutions to corporations and specialises in developing behind-the-meter embedded generation and microgrids for large energy consumers as well as mid-size front-of-meter power supply and generation.

This ongoing transformation of our business model will allow us to provide a full spectrum of energy solutions with the right mix of capabilities and technologies to capitalise on the global energy transition for growth.

With these investments, we have made strides in balancing our portfolio across certain developing and developed markets and deepening our presence in key markets.

123% profit growth in 2018

2018 turnover was S$6,569 million compared to S$5,726 million in 2017. Underlying profit from operations (PFO), before exceptional items of S$2 million, was S$822 million, 7% higher compared to S$768 million in 2017. Net profit was S$312 million, more than double the S$140 million in 2017. Underlying net profit, before exceptional items, was up 23% to S$321 million compared to S$261 million in 2017, with Singapore, China and India being the main profit contributors.

Singapore

Singapore operations registered PFO of S$224 million in 2018, up 3% compared to S$218 million the previous year. The centralised utilities and gas businesses performed well while the power business continued to face intense competition, which led to lower blended spark spreads.

Since the end of 2017, we have grown our solar power capacity by more than ten-fold to over 120 megawatt peak currently. We increased our stake in Changi Mega Solar to 100% from 49%, acquired a 40 megawatt peak grid-tied solar power project that was under construction, clinched the SolarNova 3 project and also signed agreements with multiple customers to install, own and operate rooftop solar panels.

Sembcorp will build, own, operate and maintain grid-tied rooftop solar systems with a total capacity of 90 megawatt peak under the SolarNova programme

The SolarNova programme is a Singapore government initiative led by the Housing & Development Board and the Singapore Economic Development Board to accelerate the deployment of photovoltaic systems in the country. As a leading solar power player in the market with over 120 megawatt peak of assets across more than 1,500 sites currently, we are actively supporting Singapore in its goal of achieving 350 megawatt peak of solar power capacity by 2020. In addition, we signed a 20-year solar energy contract with Facebook to support its new data centre and other operations in the country.

We are also moving from being a largely business-to-business player to take our energy solutions closer to residential and small business customers. In Singapore, the phased roll-out of the full power contestability and the Open Electricity Market started in November 2018, following an initial pilot phase launched in Jurong in April 2018. We entered the market as a trusted brand and generator-retailer (gentailer), offering competitively priced, value-added plans with renewable energy attributes blended in.

China

PFO from China increased to S$103 million from S$91 million in 2017. The 1,320-megawatt Chongqing Songzao supercritical coal-fired power plant achieved higher plant load factor (PLF) on increased demand for thermal generation. Our water operations also delivered a better performance with the Changzhi Total Water Management Plant, which commenced commercial operations at the end of September 2017, turning in a full year's contribution in 2018.

India

PFO from India operations grew 17% to S$385 million in 2018 from S$329 million. India operations turned around to profitability in 2018, with a net profit of S$47 million in 2018 compared to a net loss of S$58 million in 2017. The improvement was driven by better PLFs and tariffs. India's 2018 earnings also included settlement with its vendors and lower taxes.

Our India renewable energy arm delivered an improved performance as it benefitted from higher wind speeds. Renewable energy earnings also included recognition of other income as a result of settlements with operations and maintenance contractors and a customer. In October, we achieved commercial operations of the 250-megawatt SECI 1 wind power project in Tamil Nadu. This was the first project to be successfully delivered under India's nationwide wind power tenders. In February 2018, we secured another 300 megawatts via the national wind power tender. We now have 1,177 megawatts of wind capacity in operation and a further 550 megawatts under development.

On the thermal power front, losses narrowed significantly, driven by higher PLF, improved margins and the benefit of a one-off recovery from a customer. Our first 1,320-megawatt supercritical coal-fired power plant operated at an average PLF of 79%, lower than 2017 due to one unit of the plant being shut down in the last quarter of 2018 due to a stator fault.

Our second supercritical coal-fired power plant operated at an average PLF of 84%. In August, the plant won a competitive tender conducted by the Bangladesh Power Development Board to supply 250 megawatts of power to Bangladesh over a total period of 15 years. Supply of power commenced in February 2019.

During the year, we successfully consolidated our thermal and renewable power operations under Sembcorp Energy India Limited, building a platform for the growth and sustainability of our India energy business. We initiated the process for an initial public offering of Sembcorp Energy India Limited on BSE (formerly the Bombay Stock Exchange) and the National Stock Exchange of India with the filing of a draft red herring prospectus (DRHP) and will continue to monitor market developments closely.

Rest of the World

PFO from the Rest of Asia, where operations include gas-fired power plants in Vietnam, Myanmar and Bangladesh, municipal water operations in Indonesia and the Philippines as well as our newly acquired business in Australia, was S$39 million compared to S$48 million in 2017. The higher PFO in 2017 was attributed to the service concession revenue recognised for Myanmar and Bangladesh, in accordance with the SFRS(I) accounting guideline. In October 2018, the 230-megawatt Sembcorp Myingyan Independent Power Plant (IPP) commenced full commercial operations. Completed with funding support from international financial organisations including Asian Development Bank, Asian Infrastructure Investment Bank, Clifford Capital, DBS Bank, DZ Bank, International Finance Corporation and Oversea-Chinese Banking Corporation, the facility will generate around 1,500 gigawatt hours of power for supply to Myanmar's Electric Power Generation Enterprise, helping to meet the power needs of around 5.3 million people. With this project, we have established a beachhead in Myanmar, giving us a foothold to potentially develop other businesses in the country.

We also achieved first-phase simple cycle operations for the 427-megawatt Sirajganj Unit 4 power project in Bangladesh in 2018. Full combined cycle operations are targeted by mid-2019.

Middle East & Africa operations posted PFO of S$62 million, compared to S$61 million in 2017. Sembcorp Salalah performed better in 2018 as earnings in 2017 were negatively impacted by a one-off deferred tax charge in 2017, arising from the change in corporate tax to 15% from 12%. Our Fujairah 1 independent water and power plant in the UAE reported lower contributions compared to 2017 due to lower water tariffs following the extension of its power and water purchase agreement from 2029 to 2035.

In December 2018, we completed the sale of our South African municipal water operations in Nelspruit (Mbombela) and Ballito for ZAR839 million (approximately S$82 million).

PFO from the UK & the Americas was S$33 million, comparable to 2017. UK operations registered PFO of S$19 million versus S$25 million in 2017 due to the acquisition of UKPR. The acquisition took place in June 2018, after the first quarter of the year, which is typically the main profit generating quarter for UKPR. UKPR's business is seasonal in nature, capturing value during periods of high grid volatility in winter months through the provision of high-value rapid response ancillary services to keep the national electricity system balanced and resilient. To lower the business' cost of borrowing, we successfully undertook a refinancing of its existing loans in December. However, there was a non-cash S$7 million incurred relating to UKPR's capitalised cost on refinancing.

Sembcorp Myingyan Independent Power Plant will help to ease Myanmar's power deficit

UKPR's 120-megawatt battery portfolio represents one of Europe's largest battery-based energy storage projects

Outlook

Major transformation in the global energy sector has created challenges and opportunities. Changes to utilities business models and regulatory policies are emerging, with increasing demand for renewables and proliferation of distributed energy resources. Electricity markets are also undergoing a unique transformation, with higher demand brought on by a more digital economy, electric vehicles and other technological advancements.

The Utilities business is consolidating and expected to deliver a steady performance in 2019. We will prudently seek new opportunities while continuing to maintain a focus on the operational excellence of our existing assets.

In Singapore, the Open Electricity Market will be extended nationwide in 2019. We expect the operating environment in Singapore's power market to remain challenging, with intense competition.

Our India utilities business is expected to improve. The long-term outlook for the India power market remains positive, with the current situation of peak surplus to reverse by the 2020 fiscal year, according to CRISIL, an independent research house that is a part of the S&P Global group.

We will see the first full-year of operation and contribution from UKPR in 2019.

In 2019, over 1,000 megawatts of new power capacity within our portfolio will become operational. This includes 427 megawatts at our Sirajganj Unit 4 power project in Bangladesh, 100 megawatts of gas and battery capacity in the UK, 550 megawatts of wind power capacity in India and 56 megawatt peak of solar power capacity in Singapore.

The focus for the business continues to be on lifting performance and investing in capabilities in line with the strategy to reposition for success amid the global energy transition.

Disclaimer:

Sembcorp Energy India Limited is proposing, subject to applicable statutory and regulatory requirements, receipt of requisite approvals, market conditions and other considerations, to make an initial public offer of its equity shares and has filed the DRHP with the Securities and Exchange Board of India (SEBI). The DRHP is available on the websites www.sebi.gov.in, www.bseindia.com, www.nseindia.com, www.credit-suisse.com, www.clsa.com and www.sbicaps.com, and on the website of the Book Running Lead Manager at www.indusind.com. All potential investors should note that any investment in equity shares involves a high degree of risk and for details relating to the same, please refer to the DRHP including the section titled "Risk Factors" on page 16 of the DRHP and any investment decision shall be made on the basis of the Red Herring Prospectus whenever applicable. Potential investors should not rely on the DRHP filed with SEBI for making any investment decision.

Marine

Total Net Orderbook

S$6.2 billion

Contracts Secured in 2018

S$1.2 billion

A leading industry player providing innovative engineering solutions to the global offshore, marine and energy industries, drawing on more than 50 years of track record

Far left to right:

Kaombo Sul, the second of two FPSO conversion projects delivered to Saipem for the Kaombo project in offshore Angola

With 10 projects delivered, Sembcorp Marine was Asia's top cruise ship repair and upgrade solutions provider in 2018

Sembcorp Marine Admiralty Yard in Singapore has a proven track record in the sectors of tankers, bulk carriers as well as container and cargo vessels

Competitive Edge

50 Years of Proven Track Record

A global leader in integrated offshore, marine and energy solutions with more than 50 years of experience

Diversified and Innovative Solutions

Able to offer diversified and innovative engineering solutions across the offshore, marine and energy value chain

Enhanced Capabilities

Established capabilities in rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding, and enhanced capabilities to serve the gas value chain

Global Network

Strategically located shipyards and facilities in Singapore, Indonesia, Norway, the UK, the US and Brazil

Marine Review

Performance Scorecard

Financial Indicators *(S$ million)*

	2018	2017#	Change (%)
Turnover	**4,888**	3,035	61
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	**148**	522	(72)
Profit / (Loss) from operations	**(55)**	354	NM
– Earnings / (Loss) before interest and tax	**(53)**	358	NM
– Share of results: Associates & JVs, net of tax	**(2)**	(4)	(50)
Net profit / (loss)	**(74)**	260	NM
Return on equity *(%)*	**(3.1)**	11.1	NM

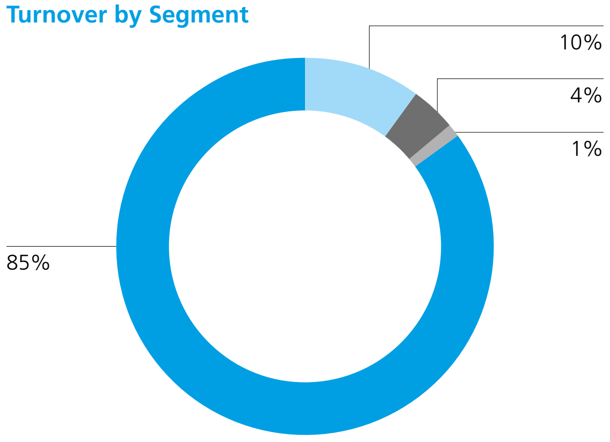
Note: Figures taken at Sembcorp Marine level

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

Operational Indicators *(S$ billion)*

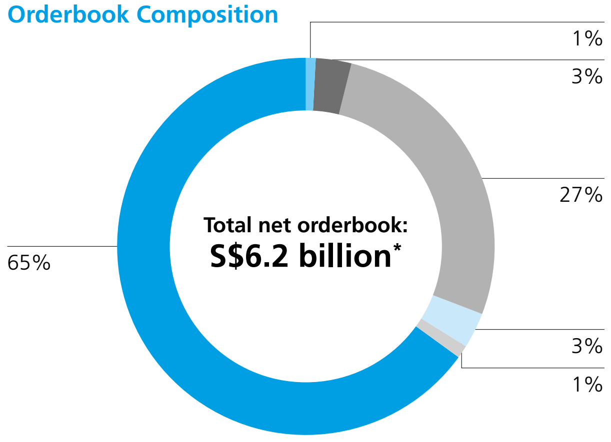
	2018	2017#
Total net orderbook	**6.2**	8.4

Turnover by Segment



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

Orderbook Composition

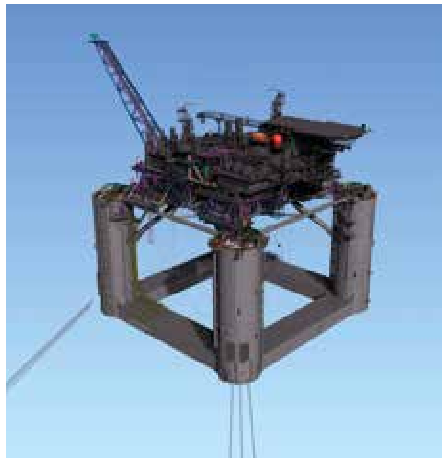


■ Drillships ■ Semi-submersibles ■ Jack-up rigs
■ Floaters ■ Offshore platforms ■ Specialised shipbuilding

* As at December 31, 2018. Excluding the Sete Brasil drillship contracts, net orderbook was S$3.1 billion

In accordance with SFRS(I). Please see page 28 for details

Key Developments



Secured an order for the construction and integration of hull, topsides and living quarters for Shell's *Vito* semi-submersible FPU

Secured a contract for the EPC of newbuild hull, living quarters and topside modules for TechnipFMC's FPSO

Signed an agreement with Varg for EPC works related to the modification, repair and life extension of the *Petrojarl Varg* FPSO

Successfully moved into renewable energy engineering solutions with two project wins from Ørsted Wind Power and Norled

Operating and Financial Review

Challenging operating environment

2018 was a challenging year for the Marine business. Despite the moderate uptrend in offshore rig utilisation and increased day rates for most segments, competition remained intense and work volume was significantly below peak levels.

Turnover was S$4,888 million, 61% higher than the S$3,035 million in 2017. On a segmental basis, turnover for Rigs & Floaters was higher due to revenue recognition on delivery of seven jack-up rigs to Borr Drilling, one jack-up rig to BOT Lease (BOTL), the sale of a semi-submersible rig and revenue recognition for newly secured projects. Offshore Platforms revenue was lower due to fewer contracts and completion of existing contracts. Turnover for the Repairs & Upgrades segment was lower as fewer ships were repaired. Despite fewer ships serviced during the year, the average revenue per vessel increased due to an improved vessel mix of higher-value works.

Excluding the effects of the delivery to Borr Drilling and BOTL and the sale of the semi-submersible rig, turnover in 2018 would have been S$2,530 million compared to S$2,550 million in 2017.

Turnover *(S$ million)*

	2018	2017#	Change (%)
Rigs & Floaters	**4,148**	1,717	142
Repairs & Upgrades	**476**	499	(5)
Offshore Platforms	**184**	732	(75)
Other Activities	**80**	87	(8)
Total	**4,888**	3,035	61

In accordance with SFRS(I). Please see page 28 for details

Marine Review

The Marine business recorded a loss from operations of S$55 million compared to profit from operations of S$354 million in 2017. The business posted a net loss of S$74 million compared to net profit of S$260 million in 2017 mainly due to continued low overall business volume and loss from the sale of a semi-submersible rig, partially offset by margin recognition from new projects and delivery of rigs.

Entire inventory of 10 rigs fully monetised

In addition to the sale of nine Pacific Class 400 jack-up rigs to Borr Drilling in 2017, the Marine business completed the sale of the *West Rigel* semi-submersible rig (renamed *Transocean Norge*) for US$500 million in 2018. With this, the entire inventory of 10 rigs has been fully monetised.

The Marine business has delivered all nine rigs to Borr Drilling. One rig was delivered in November 2017, seven in 2018 and the final one in January 2019. Borr Drilling had made a down payment of about US$500 million upon signing the sale agreement, while the balance will be paid within five years from the respective delivery dates of the rigs. The liquidity of the business will further improve over the next five years as the business collects the remaining proceeds of approximately S$1.2 billion from the sale of these 10 rigs.

Placing priority on effective and timely project execution and securing orderbook

While the overall industry outlook continues to improve, significant time and effort for project co-development with potential customers are required before new orders are secured, and competition remains intense.

At the end of 2018, the Marine business' net orderbook stood at S$6.2 billion, with completions and deliveries stretching to 2021. Excluding the Sete Brasil drillships, net orderbook stood at S$3.1 billion. The majority of projects in the current net orderbook are based on progress payment terms.

A total of S$1.2 billion in new contracts was secured during the year. These included the engineering, procurement and construction (EPC) of newbuild hull, living quarters and topside modules for TechnipFMC's newbuild floating production storage and offloading (FPSO) and a contract from Shell Offshore for the construction and integration of the hull, topsides and living quarters for the *Vito* semi-submersible floating production unit (FPU). Sembcorp Marine also secured two projects for renewable energy engineering solutions worth over S$200 million from Ørsted Wind Power and Norled. These projects are for the EPC, hook-up and commissioning works of two topsides for the Hornsea 2 Offshore Wind Farm, one of the world's biggest wind farms when operational in 2022, as well as the design and construction of three identical battery-powered RoPax ferries which will be built based on Sembcorp Marine's proprietary design by its subsidiary LMG Marin.

In addition to the S$1.2 billion in new orders above, the Repairs & Upgrades segment also secured S$160 million of orders for the retrofitting of ballast water treatment systems and / or gas scrubbers for 58 vessels in 2018.

Making good progress on ongoing projects

The business continued to make good progress on its ongoing construction projects. These include the engineering and construction of *Sleipnir*, the world's largest semi-submersible crane vessel for Heerema, and the construction of two high specification ultra-deepwater drillships for Transocean. Engineering and initial works also commenced for the construction and integration of the newbuild FPSO hull and living quarters for Equinor (formerly Statoil) for the Johan Castberg field development, the hull, topsides and living quarters for Shell's *Vito* FPU and the turnkey newbuild FPSO project for TechnipFMC. Meanwhile, hull carry-over works as well as topside modules construction and integration for the FPSO *P-68* and topside modules construction for FPSO *P-71* for the Tupi project are underway at the Brazil yard.

Notable Deliveries in 2018

Delivered to MODEC, the newbuild FSO *Ailsa* is the world's first with a 40-year hull lifespan

The converted *Kaombo Norte* (pictured) and *Kaombo Sul* FPSOs were successfully delivered to Saipem

Delivered to TOTAL, this project involved the construction of wellhead, utilities and living quarters as well as central processing facility (pictured), for deployment in the Culzean field in the UK North Sea

Eight jack-up rigs were delivered to Borr Drilling and BOT Lease in 2018

Enhancing intellectual assets and competencies
To enhance the business' capabilities in green technology solutions, Sembcorp Marine increased its shareholdings in Semb-Eco in January 2019 and will acquire five groups of core patents in ballast water treatment, exhaust gas cleaning, bio-fouling control and corrosion control.

In September 2018, the business further expanded its capabilities with the acquisition of Sevan Marine's intellectual property rights, particularly in cylindrical platform solutions for floating production and drilling. The strategic acquisition of Sevan Marine, together with prior investments in Sembmarine SSP, LMG Marin, Gravifloat and Aragon, will further enhance Sembcorp Marine's intellectual assets and knowledge base, as well as design and engineering capabilities to provide innovative products and leading-edge solutions for the offshore, marine and energy industries.

Yard capacity management
As part of Sembcorp Marine's transformation and yard consolidation strategy, the business will continue to consolidate and maximise the utilisation of its integrated Tuas Boulevard Yard, while reviewing the schedule for the return of older yards in Singapore on or before their lease expiry dates. To date, Sembcorp Marine has returned the Pulau Samulun Yard to the Singapore government, with two other yards in the process of being returned. Sembcorp Marine is scheduled to move out completely from the Tanjong Kling Yard by the end of 2019, four years ahead of schedule. This will result in an accelerated depreciation of the lease and certain fixed assets over 15 months starting from the fourth quarter of 2018 but will lead to cost savings from 2020.

The Tuas Boulevard Yard strengthens Sembcorp Marine's value proposition as a one-stop solutions provider offering optimal production efficiency, cost-effective execution and shorter project delivery times

Diversifying Product Capabilities
Moving up the value chain

Sevan SSP: Innovative circular hull as a cost-effective alternative to traditional ship-shaped, turret moored designs

LMG Marin: Advanced ship design and engineering

Gravifloat: Modularised liquefied natural gas and liquefied petroleum gas terminals

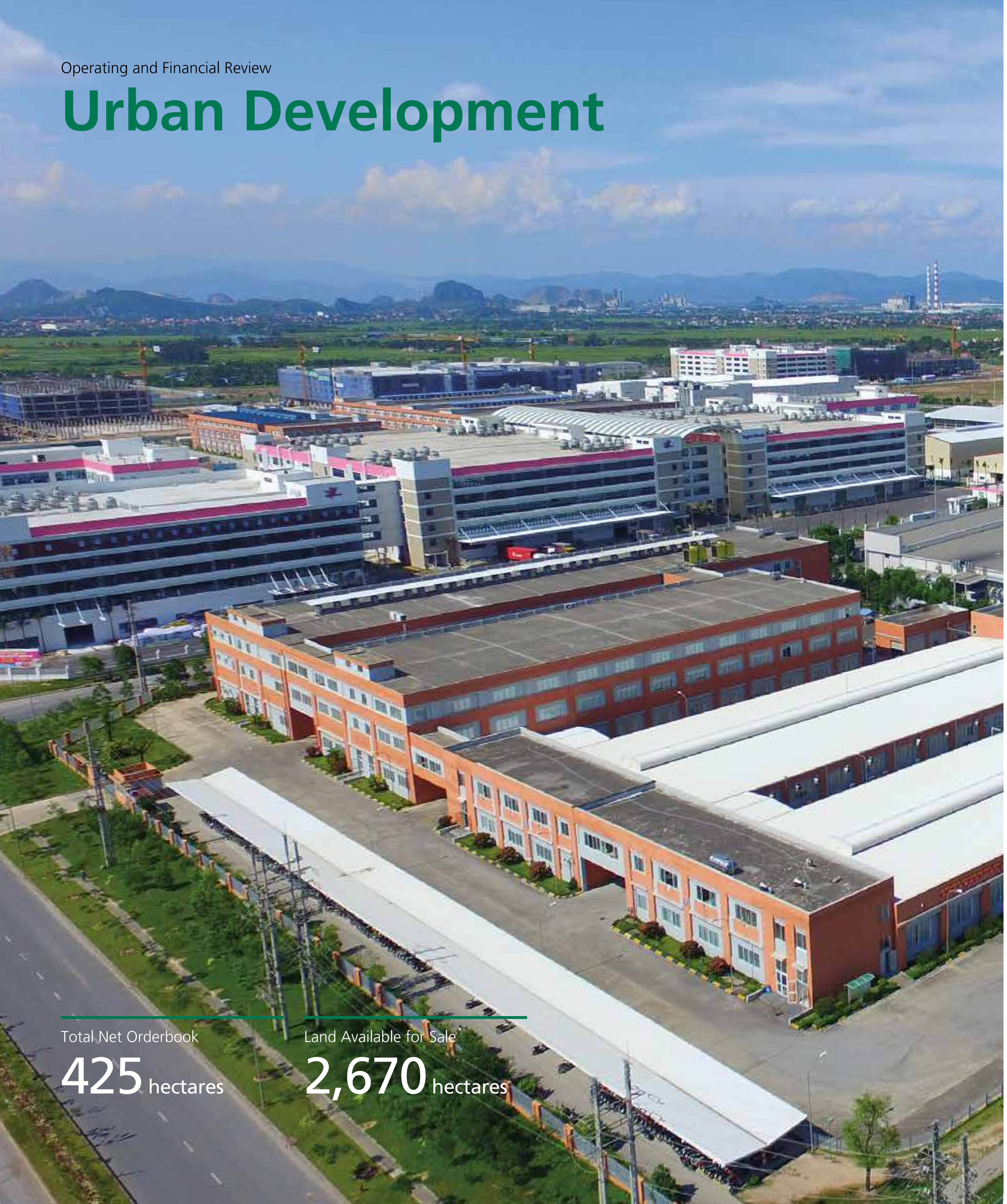
Continuing disciplined financial management
Financial prudence and discipline continue to remain key considerations for the business in the face of a prolonged cyclical downturn. While the majority of ongoing contracts and new orders secured are on progress payment terms, future new orders may have increased working capital needs as the industry continues to adapt to changing business models and constrained capital availability.

Capital expenditure is expected to be moderate in the future and will primarily be for the execution of secured contracts, realisation of cost savings or enhancement of project execution capabilities. Non-essential capital expenditure will be deferred.

Outlook
Overall business volume and activity for the Marine business, while stabilising, is expected to remain relatively low. While offshore drilling activities have increased, offshore rig orders will take some time to recover as the market remains over-supplied. However, offshore production units are expected to dominate potential orders and Sembcorp Marine is responding to increasing enquiries and tenders for innovative engineering solutions.

Sembcorp Marine will continue to take steps to manage costs, cash flows and gearing to address the balance sheet and to capitalise on new business opportunities.

Urban Development



Total Net Orderbook

425 hectares

Land Available for Sale

2,670 hectares

A leading Asian developer with a strong track record in transforming raw land into sustainable urban developments, delivering the economic engine to support growth

Far left to right:

Vietnam Singapore Industrial Park (VSIP) in Hai Phong City, Vietnam

A new park and playground at VSIP Hai Phong, Vietnam, serves residents of Thuy Nguyen district and surrounding communities

The *International Water Hub* in Nanjing will open its doors by the end of 2019 to technology companies looking to test-bed new water and environmental technologies for the China market

Competitive Edge

Strong Track Record

Over 25 years of track record in undertaking master planning, land preparation and infrastructure development to transform raw land into urban developments

Supporting Industrialisation and Urbanisation

A valued partner to governments, with the ability to deliver the economic engine to support industrialisation and urbanisation by attracting local and international investments

Significant Land Bank

Integrated urban developments comprising industrial parks as well as business, commercial and residential space in Vietnam, China, Indonesia and India

Building Better Cities

People-centric approach to urban planning, incorporating green solutions and smart technology to enhance the liveability and sustainability of the developments

Urban Development Review

Performance Scorecard

Financial Indicators *(S$ million)*

	2018	2017#	Change (%)
Turnover[1]	**5**	12	(58)
Profit from operations	**94**	90	4
– Earnings before interest and tax	*****	(13)	NM
– Share of results: Associates & JVs, net of tax	**94**	103	(8)
Net profit	**86**	83	4
Return on equity *(%)*	**8.9**	9.2	(3)

In accordance with SFRS(I). Please see page 28 for details

* Less than S$1 million

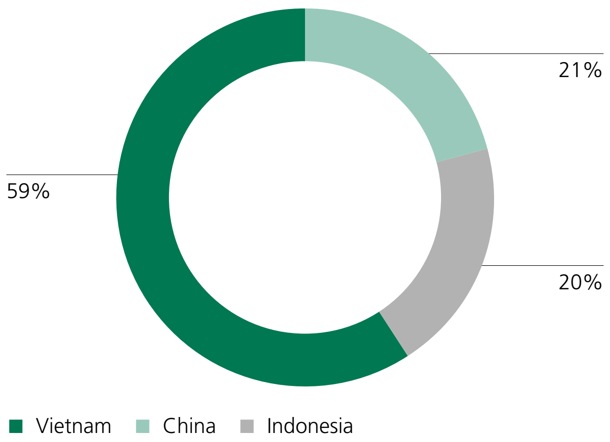
1 Most of our Urban Development businesses are associates or joint ventures. Turnover reflected consists of payment for services provided to these associates or joint ventures

Operational Indicators *(hectares)*

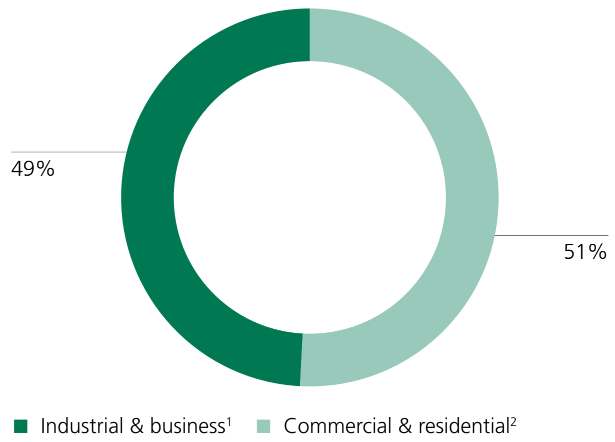
	2018	2017
Saleable land inventory	**5,742**	5,729
Land sold (cumulative)	**2,647**	2,340
Total net orderbook	**425**	251
Land available for sale	**2,670**	3,138

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

Remaining Saleable Land by Geography



Remaining Saleable Land by Segment



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

Achieved good growth in land sales and new commitments at the VSIP projects, taking net orderbook to an all-time high

Sold 99% of apartment units at *Riverside Grandeur* in Nanjing, the business' first residential development in China

Launched the *Singapore Innovation Centre* at the Singapore-Sichuan Hi-tech Innovation Park in China

Operating and Financial Review

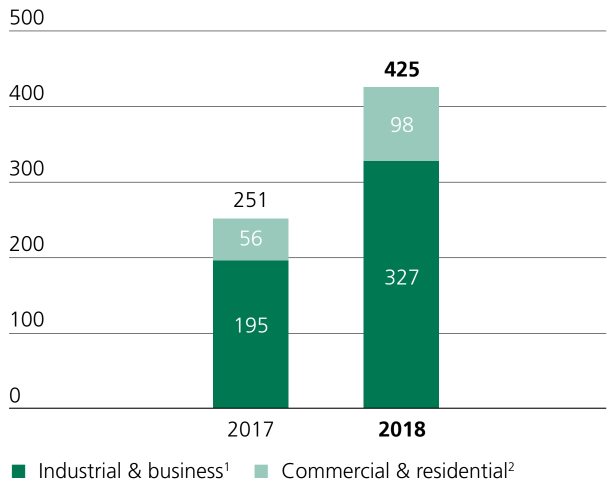
Land sales momentum continued

In 2018, the Urban Development business achieved record profits. Profit from operations grew to S$94 million from S$90 million, while net profit increased to S$86 million from S$83 million, with steady contributions from Vietnam and China.

During the year, the business maintained strong growth in land sales, selling a total of 307 hectares of land compared to 280 hectares in 2017. Land sales in Vietnam increased 40% to 258 hectares from 184 hectares in 2017, driven by robust demand for industrial land at the Vietnam Singapore Industrial Park (VSIP) projects. Land sales in China and Indonesia amounted to 28 hectares and 21 hectares respectively.

Land commitments received from customers increased to 481 hectares. As such, the net orderbook increased 69% to a record 425 hectares, driven by the VSIP projects.

Total Net Orderbook *(hectares)*



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

Urban Development Review

VSIP Quang Ngai in central Vietnam attracted companies seeking to diversify their manufacturing bases

Vietnam

Our VSIP integrated townships continued to perform well in 2018.

Demand for industrial land grew, with sales and new commitments increasing in 2018 as our VSIP projects in Vietnam benefitted from a trend of companies looking to diversify their manufacturing bases. These companies are attracted to the country's competitive labour market, tax incentives and improved access to other markets given Vietnam's multiple trade agreements.

In 2018, we completed the handover of all 267 apartment units in the first phase of *The Habitat Binh Duong* to residents. *The Habitat Binh Duong*, our first residential development within VSIP Binh Duong, won industry recognition as the Best Mid-end Condo Development in its category at the 2017 PropertyGuru Vietnam Property Awards. Encouraged by the good response to the launch of the first phase of the development, we then launched phase two comprising 460 apartment units with a total gross floor area (GFA) of 48,460 square metres. At the end of 2018, the take-up rate for phase two was 93%. These units will be progressively handed over to residents in 2020.

A residential development undertaken by our joint venture (JV) VSIP Bac Ninh was launched in May. *BelHomes*, comprising 262 terraced houses and 103 shophouses with a total GFA of 58,539 square metres, was sold out within a day. The units will be handed over to customers in 2019. *BelHomes* was named Best Sustainable Residential Development Southeast Asia at the Dot Property Southeast Asia Awards 2018.

93% of phase two of *The Habitat Binh Duong* residential development was taken up

In addition, during the year we entered into a JV with Japan's CRE Asia to develop our warehousing business. CRE Asia, a subsidiary of Tokyo Stock Exchange-listed CRE Inc, took a 30% stake in Sembcorp Infra Services, our warehousing subsidiary based in VSIP Hai Phong, with Sembcorp Development holding the remaining 70% stake. The new investment from CRE Asia and bank borrowings will fund the development of an additional 30,000 square metres of warehouse space, doubling our warehouse space to 60,000 square metres. CRE Asia's strengths in logistics tenant leasing and the management and development of logistics properties will complement our capabilities in industrial and warehousing property development.

China

In 2018, the Singapore-Sichuan Hi-tech Innovation Park (SSCIP) project in Chengdu increased its commercial and residential land sales compared to 2017, and also improved its profit. During the year, the *Singapore Innovation Centre* was launched at the SSCIP as a platform for Singapore enterprises looking to gain market access to West China. The centre will provide office and co-working spaces for start-ups, as well as innovation ecosystem players such as incubators and accelerators. The first batch of tenants at the *Singapore Innovation Centre* is expected to commence operations in the second half of 2019.

Operations at our Wuxi-Singapore Industrial Park (WSIP) project continued to be stable and plans are underway to develop more ready-built factories in the park. In December, we completed the sale of our 49% indirectly held stake in Wuxi Singapore Property Investment Co, which owned the *Hongshan Mansion* residential development, for RMB323 million (approximately S$65 million). This sale resulted in the Urban Development business recognising a net gain of S$16 million.

Meanwhile, it was a challenging year for our Sino-Singapore Nanjing Eco Hi-tech Island (SNEI) project. No residential land sales were recognised as the Nanjing government did not release any residential land for public auction in Jiangxinzhou,

38% of net lettable area in *International Water Hub* in Nanjing has now been leased out

where SNEI is located. However, we achieved a significant milestone on the residential development front with the successful launch of the *Riverside Grandeur* project in October. 99% of the units in the development were sold, comprising 329 apartment units measuring 40,660 square metres in total GFA. Profit from these sales will be recognised progressively over 2019.

Located at the Singapore-Sichuan Hi-tech Innovation Park, the *Singapore Innovation Centre* is the latest platform for Singapore start-up companies that wish to establish a presence in West China

Urban Development Review

Park by the Bay, Kendal Industrial Park, in Indonesia has attracted 48 companies

Amaravati Development Partners was formed to develop Amaravati Capital City Start-up Area in India

Indonesia

Park by the Bay, our Kendal Industrial Park development in Semarang, Central Java, sold 21 hectares of land in 2018. Three ready-built factories were also sold. The business was however impacted by the depreciation of the Rupiah against the Singapore and US currencies. Potential customers deferred land purchases, while existing customers delayed commencing factory operations because of higher material costs from imports.

India

Together with our business partners, we formalised our collaboration with the State Government of Andhra Pradesh to jointly master develop the Amaravati Capital City Start-up Area with the signing of a shareholders' agreement to form Amaravati Development Partners (ADP). Sembcorp's effective share in ADP is 29%. ADP also signed a Concessions and Development Agreement with the state government relating to development rights, licences and required authorisations and concessions for the Start-up Area, and to undertake catalytic development works subject to the fulfillment of conditions precedent.

Outlook

According to World Bank forecasts, global economic growth is projected to soften to 2.9% in 2019 from 3.1% in 2018, as international trade and manufacturing activity soften and trade tensions persist. This could impact more export-dependent markets such as South Korea, Taiwan and Singapore, where many of our customers in the VSIP projects are from. We maintain a cautiously optimistic outlook for our projects in Vietnam, although a potential reduction in export demand and tightening global liquidity could reduce capital inflows and foreign investment and negatively impact our developments.

Although headwinds to China's economic growth have increased, technology spending is likely to grow as the country continues its innovation-driven growth strategy. Our key projects in China, including SSCIP, SNEI and *International Water Hub (IWH)*, are focused on providing innovative, knowledge-based development platforms and remain well-positioned. SNEI is the designated artificial intelligence application showcase for Nanjing, while *IWH* is positioned as a test bed for water and environmental technologies. *IWH*, which is wholly developed by Sembcorp, is slated for completion in late 2019 and has achieved 38% take-up rate of its facilities and laboratories to date.

Earnings growth for the Urban Development business is expected to continue in 2019, underpinned by a strong orderbook in Vietnam and the recognition of income from the sale of a residential development in China.