

Chairman and CEO's Statement



Neil McGregor, Group President & CEO (left), Ang Kong Hua, Chairman (right)

In 2018, we made progress in repositioning our businesses for performance, taking strategic steps to align them with global trends and the overall direction of the market.

Dear Shareholders,

In February 2018, we announced a bold new strategy to reposition Sembcorp for success in a rapidly changing world. Our goal is a balanced and strong portfolio of businesses, aligned to the new realities of the market and the evolving demands of society, that will ultimately support sustainable development and create value for our stakeholders. To this end, we put in place an action plan to reshape our organisation with the right capabilities for the future, while working to strengthen our performance and balance sheet. Leveraging our strengths and embracing change, our ambition is to be an integrated energy and urban development company of the future and the region's leading independent renewable energy company.

We are now a year into our journey to reshape Sembcorp. Building competitive businesses that are attuned to industry trends and well-positioned to thrive amidst the global energy transition will take time. In the past year, we have made a good start. We deepened our bench strength and brought in new expertise to build a more competitive, more progressive Sembcorp. From growing our renewables business to entering the distributed energy market and strengthening our merchant and retail business, we expanded our capabilities to stay ahead of the curve and position ourselves for the future. At the same time, we explored potential synergies and combined business opportunities for our energy, marine and urban development businesses, such as in renewables and downstream gas supply. However, the road is not without its challenges. Our Marine business continues to face a difficult environment. Overall business volume and activity remain low, while competition continues to be intense. While we are confident that the Marine business is well-positioned for the market's eventual recovery, we recognise that as a Group we

will need to ride out this protracted sectoral downturn. In this context, the good performance of our two other engines, the Utilities and Urban Development businesses, is not only timely, but also a testament to our strength and resilience as a Group and to the robustness of our new strategic direction.

Strengthening our balance sheet

As we continue to reposition our businesses, seize opportunities arising from an energy market in transition and support our Marine business through the down cycle, we recognise the need to strengthen our balance sheet. To this end, we maintain a disciplined approach to capital management, optimising our portfolio and undertaking systematic capital recycling. To date, we have completed a number of divestments of peripheral assets in Singapore, China, Oman and South Africa, unlocking cash proceeds of just under S\$200 million.

2018 in Review

In 2018, the Group's turnover was S\$11.7 billion and net profit S\$347 million, compared to S\$9.0 billion and S\$383 million respectively the preceding year. Amid difficult conditions for the offshore and marine industry, our Marine business turned in a loss of S\$48 million to the Group in 2018. The impact of this on the Group was however mitigated by the good performance of our Utilities and Urban Development businesses. In 2018, our Utilities business more than doubled its net profit to S\$312 million from S\$140 million the previous year. Excluding exceptional items, Utilities net profit grew 23% over the previous year. Meanwhile, our Urban Development business delivered a record net profit of S\$86 million, delivering growth over its previous record net profit of S\$83 million in 2017. Group return on equity was 5.1%.

For 2018, the board proposes a final dividend of 2.0 cents per ordinary share, subject to shareholders' approval. Together with the 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.

 For more on the performance of the Group and our businesses in 2018, please refer to pages 28 to 67.

Embracing Change, Enabling the Future

From competition and rising business costs to the impact of increased environmental regulation and potential interest rate hikes, companies today face evolving risks amid a volatile environment. Against the backdrop of developments such as Brexit and trade tensions between the US and China, many also see heightened uncertainty in the policy and regulatory environment, and the potential for ripple effects across global markets.

With the protracted Marine downturn, the good performance of our two other engines, Utilities and Urban Development, is not only timely, but also a testament to our strength and resilience as a Group and to the robustness of our new strategic direction.

Profound shifts are underway in the energy industry. The growth of renewables has disrupted the conventional utility systems of past decades. Policy frameworks are moving to discourage less environmentally friendly means of generation, and low-carbon energy is increasingly entering the mainstream. At the same time, market liberalisation is bringing about greater competition. Technology is also transforming the industry, from generation and asset management to retail, customer interface and delivery.

The task at hand for us is to navigate and embrace these currents of change, and reshape the future of Sembcorp. In doing so, we want to protect the value that has been built up over the years in our company and brand, seize opportunities that arise and position ourselves as a leader in tomorrow's energy space.

In these efforts, we are guided by three strategic priorities. Firstly, we will manage our portfolio for **performance**. We will ensure disciplined capital allocation and systematic capital recycling to strengthen our balance sheet, while actively managing and optimising our assets. Our performance will also be

In our Utilities business, we deepened our presence and strengthened our integrated energy platforms in key markets. We also built up our capabilities to maintain our market leadership and sharpen our competitive edge.

underpinned by strong business models in each of our businesses that are customer-centric, technology-enabled and that offer long-term growth opportunities. Secondly, we will prioritise **sustainability**, doing our part to help secure the future of our world, participating in the low-carbon and circular economy, and embedding responsible business practices in our organisation. Thirdly, we will focus on building a **dynamic organisation** with the right capabilities, culture and values to support our growth.

 For a summary of our strategic priorities and the progress achieved towards them in 2018, please refer to the table on page 13.

Managing Our Portfolio for Performance

Deepening our presence in key markets, building businesses aligned to global trends

In 2018, we made progress in repositioning our businesses for performance, taking strategic steps to align them with global trends and the overall direction of the market.

In our Utilities business, we deepened our presence and strengthened our integrated energy platforms in key markets. We also built up our capabilities to maintain our market leadership and sharpen our competitive edge. In Singapore, we extended our gas business to include liquefied natural gas imports under the government's newly introduced Spot Import

Policy. In line with our strategy to move our business closer to our customers, we entered the country's recently-launched Open Electricity Market as a power retailer. We also made strides in expanding our solar power and renewable energy solutions in the country. In India, we improved returns at our thermal energy business and achieved a significant milestone in enhancing our performance with a turnaround to profitability. A key achievement was our second thermal power plant in the country securing power purchase agreements for the supply of 250 megawatts to Bangladesh for a total of 15 years. We also grew our renewables portfolio in India by 300 megawatts and consolidated our thermal and renewable energy businesses in the country to be owned through a single entity, Sembcorp Energy India Limited. Meanwhile, as part of our efforts to build future-ready capabilities, we acquired UK Power Reserve (UKPR), the UK's largest flexible distributed energy generator. UKPR's highly responsive energy solutions include fast-ramping power and energy storage. These help to support a renewable future for the country by bridging supply gaps between intermittent renewables generation and conventional centralised thermal generation. With this acquisition, we have transformed our UK business from a centralised utilities play on a single industrial site, into a nationwide business with a mix of capabilities and technologies that are highly relevant in today's market.

On the Marine front, efforts continued to retool and shift the business' portfolio and capabilities to diversify its products and services across the offshore, marine and energy value chain amid a quiet market for drilling solutions. Our Marine business is positioning itself for the future with its state-of-the-art Tuas Boulevard Yard, where enhanced capabilities offer greater optimisation, efficiency and safety and the ability to serve new customer segments. The business has also invested in new technologies such as floating cylindrical units for offshore application, and entered the market for renewable energy engineering projects.

On the Urban Development front, we have built on our strong brand name and market positions to pursue adjacencies and offer new business models such as specialised business

hubs and smart developments. With the business' proven track record in catalysing investment, job creation and economic growth, its performance will continue to be underpinned by its healthy orderbook and land bank. In addition, the growing demand for smart developments that are energy and resource efficient may also present greater opportunities to offer greener integrated energy and utilities offerings within our urban development projects.

 For more on the outlook for our businesses and how we are positioning them for the future, please refer to pages 44 to 67.

Stepping Up Our Commitment to Sustainability

Today, growing recognition of the reality of climate change and increasing pressure on finite resources has underscored the importance of sustainable development, and the urgency for us to take meaningful steps to secure our

The growing demand for smart developments that are energy and resource efficient may present greater opportunities to offer greener integrated energy and utilities offerings within our urban development projects.

collective future. Around the world, this momentum is reshaping government policy, disrupting industry and commerce, and even determining the choices we make as individuals.

Articulating our ambitions for a sustainable future

Sembcorp firmly believes that we must be part of the solution. Our purpose is to not only do well, but also do good. We aim to play our part in creating a sustainable future, delivering energy and innovative solutions



A leading renewable energy player in India, Sembcorp Energy India Limited grew its renewable energy portfolio by another 300 megawatts in 2018



Sembcorp's solar power business in Singapore is growing well, with rooftop assets that generate renewable energy for the land-scarce city state

Sembcorp's purpose is to not only do well, but also do good.

that support development and create value for stakeholders and communities. We have three clear ambitions: to enable a low-carbon and circular economy, to empower our people and communities, as well as to embed responsible business practices in our everyday operations and conduct as a company.

In March 2018 Sembcorp launched our Climate Change Strategy, guided by the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. This sets out our approach to managing the risks and opportunities arising from climate change and the low-carbon transition, and lays out substantive targets to reduce emissions intensity and grow renewables capacity.

Our ambitions and goals are aligned with our commitment to furthering the United Nations'

Sustainable Development Goals. By meeting the needs of society while managing our material environmental, social and governance risks and opportunities, it is our firm belief that we will succeed as a business and achieve our purpose in supporting development and creating value.

Generating good momentum in renewables growth

As part of stepping up our commitment to sustainability, we are actively investing in low-carbon businesses and growing our renewables portfolio. In 2018, we grew our global renewables portfolio in operation and under development by around 20% to 2,600 megawatts.

In India, we emerged as the largest cumulative winner in the first three nationwide wind power auctions conducted by the Solar Energy Corporation of India, with 800 megawatts secured. In 2018, we further cemented our reputation and credibility as a green energy player when we became the first company to deliver installed capacity awarded under these auctions.

As a company, we recognise that technology and digital platforms can be powerful differentiators. We aim to drive business performance through innovation, R&D and deployment of advanced technologies.

In Singapore, we grew to become a leading solar power player, with more than 120 megawatt peak of rooftop solar projects across over 1,500 sites. This includes rooftop solar capacity won under a 50 megawatt peak tender from the Housing & Development Board and the Singapore Economic Development Board. It also includes new projects to develop, own and operate rooftop solar farms for commercial and industrial clients.

In addition, in 2018 Sembcorp became Facebook's first renewable energy partner in Asia, with a 20-year clean energy deal to support its upcoming data centre and other operations in Singapore. As our world moves towards renewables and lower-carbon energy, leading businesses are increasingly demanding solutions that enable them to achieve growth while managing their impact on the environment. Our deal with Facebook is an example of how Sembcorp is actively helping these like-minded companies meet this dual objective.

For more on sustainability at Sembcorp, please refer to pages 78 to 108.

Building a Dynamic Organisation Driving digitalisation and innovation

Around the world, digitalisation is disrupting and transforming almost every sector and fundamentally changing the way we live, work and operate. As a company, we recognise that technology and digital platforms can be powerful differentiators. In 2018 Sembcorp established a new Digital & Technology team, with a mandate to drive business performance through innovation, research and development (R&D), and deployment of advanced technologies. Our aim is to broaden and deepen our digital capabilities around four themes: establishing a strong and secure information technology foundation, digitising

our business, embedding innovation, and managing the digital journey and change.

Beyond the company, we are collaborating on R&D with government agencies, research institutes, technology providers and institutes of higher learning. For instance, in 2018 we announced a S\$10 million extension to our joint fund with Singapore's Energy Market Authority (EMA) in support of R&D for the country's energy and utilities sector, as well as another collaboration with EMA to explore applying energy storage in Singapore. Enabled by a wide range of technology, from cloud computing and robotic process automation to artificial intelligence, Sembcorp's digitalisation initiatives have received the support of the Singapore Economic Development Board.

For more on digitalisation and technology at Sembcorp, please refer to pages 22 and 23.

Enhancing capabilities and bench strength, embedding a high-performance values-based culture

We fully recognise that the execution of our strategy and our future success rests on having a dynamic organisation that is agile and competitive, and supported by the right people and capabilities.

In 2018, we reorganised our company to better drive a strong presence in key markets and grow our business lines. We also focused on succession planning, deepening leadership bench strength and bringing on board new expertise in areas targeted for accelerated development.

The evolving global business environment is complex to navigate. We are more aware than ever of the need to maintain strong discipline and governance, effective oversight and rigorous risk management. In addition to

Chairman and CEO's Statement

strengthening our legal, compliance and risk management capabilities, we also continue to review and enhance our governance systems and processes.

As we rally our global team around Sembcorp's new goals and direction, we aim to unite them around Sembcorp's shared values. Our priority is to encourage a culture that is not only high-performing, but also centred on integrity and responsible business practices, including safety. In 2018, we maintained efforts to promote strong ownership of workplace health and safety with the launch of a behaviour-based safety programme. Through our continuous efforts, during the year we halved our annual lost time injury rate for subsidiaries within our reporting scope. While we have made progress, the journey is never over. With great regret, we report that in 2018 there was one fatality due to a contractor accident at one of the company's sites in India. We are deeply saddened by this incident. A thorough review has been carried out, following which additional safeguards have been implemented to minimise risks. We will strive to ensure that employees and contractors maintain safe work practices and also encourage other companies within our sphere of influence to do the same.

A Note of Welcome and of Thanks

On behalf of the board, we would like to extend a warm welcome to Dr Josephine Kwa Lay Keng, who joined us as an independent director on August 1, 2018. As the former CEO of NSL, who also served as its chief operating officer and head of technology in the course of her career, Dr Kwa has rich experience in technology as well as R&D across various industries, including energy and engineering. She has lent us the benefit of her expertise on our Technology Advisory Panel for a number of years, and it gives us great pleasure to now welcome her as the newest addition to the board.

Embracing change and taking decisive action, we are confident of a bright future for Sembcorp, as a Group that delivers lasting value to stakeholders for years to come.

We would like to express our gratitude to our shareholders for your continued support. Thanks must also go to our talented team of employees around the world. The introduction of a new strategic direction has meant that our people have to face change, adapt and embrace new ways of thinking and working. Under the pressure of these increased demands, they have risen to the challenge admirably, with courage, commitment and professionalism. They are at the heart of what makes Sembcorp a great company.

Guided by a clear strategy and driven by the passion and dedication of our people, your board and management are determined to stay the course and transform Sembcorp. Embracing change and taking decisive action, we are confident of a bright future for Sembcorp, as a Group that delivers lasting value to stakeholders for years to come.



Ang Kong Hua
Chairman
February 21, 2019



Neil McGregor
Group President & CEO
February 21, 2019



At the heart of Hexi central business district is Sembcorp Development's Sino-Singapore Nanjing Eco Hi-tech Island, the designated artificial intelligence application showcase for Nanjing, China