



Ang Kong Hua
Chairman



Chairman and CEO's Statement

Neil McGregor
Group President & CEO

Dear Shareholders,

2017 was a challenging year for Sembcorp's business sectors.

Group net profit for the year was S\$230.8 million compared to S\$394.9 million, while turnover was S\$8.3 billion compared to S\$7.9 billion in 2016. While our Urban Development business delivered record profits in 2017, with net profit growing 150% to S\$83.2 million, we saw lower profit contribution from both our Utilities and Marine businesses. Net profit from the Utilities business was S\$140.0 million compared to S\$348.0 million in 2016. The business recorded exceptional losses totalling S\$120.8 million, comprising mainly refinancing costs, impairment charges as well as provisions. The Marine business contributed net profit of S\$6.8 million in 2017 compared to S\$48.3 million the previous year. The Group's return on equity was 3.2%.

While our weaker financial results were a consequence of the difficult market environment, your board and management fully recognise the challenges we face, and are committed to addressing them head-on to lift our performance and returns. It is our firm belief that these challenges, together with market and industry disruptions, offer the

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opportunity for us to think forward, adapt, and take decisive steps and reposition Sembcorp for success in a rapidly changing world. With a new Group President & CEO at the helm, we undertook a review of our businesses, and have charted a clear roadmap to enhance the value of our company and build a better, brighter future for Sembcorp.

 For more on the performance of our businesses in 2017, please refer to pages 46 to 69.

Forward Thinking: A New Strategy for the Future

In 2017, we embarked on a process of strategic review for the Group. Our goal as we sought to reposition Sembcorp was threefold. We aimed to:

- Review our strategies and business models against the realities of the marketplace and global trends, changing and enhancing them where required
- Refocus our businesses, strengthen our performance and balance sheet
- Reshape our organisation, putting in place the right structure and capabilities for Sembcorp's future

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Focusing on Performance

Our first priority is to lift the Group's performance. We recognise that to do this, and return our businesses to growth, requires an uncompromising focus on capital allocation and necessitates the strengthening of our balance sheet.

To this end, we will sharpen our attention to disciplined capital allocation, looking at both the strategic allocation of resources as well as the quality of investments. By defining our priorities and investment criteria centrally,

we believe we can better diversify risk, and also capture opportunities through aligning our businesses with trends in the global marketplace.

In addition, we will step up capital recycling efforts. One example of action on this front is the proposed initial public offering (IPO) of our India energy business. To build a platform for the business' future growth and sustainability, we initiated the process for an IPO of Sembcorp Energy India Limited on BSE Limited and the National Stock Exchange of India, with the filing of a draft red herring prospectus in February 2018. We also entered into a conditional agreement to divest our municipal water operations in South Africa. Over the next two years, we are targeting divestments of our peripheral Utilities assets to deliver estimated cash proceeds of up to S\$0.5 billion. This is additional to potential

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proceeds from the proposed IPO of Sembcorp Energy India Limited. We believe that this focus on active and systematic capital recycling will enable the Group to strengthen our balance sheet and deliver sustainable growth.

In managing our portfolio for performance, we recognise the need for each of our businesses to have strong and distinctive business models that are customer-centric, technology-enabled and offer long-term growth opportunities.

With its full spectrum of innovative offshore and marine engineering solutions, as well as state-of-the-art yards and capabilities, our Marine business is a globally competitive one. While the macro environment remains challenging, we are beginning to see a number of encouraging developments. Oil prices have risen and global exploration and production spending has improved. Day rates and utilisation levels for offshore drilling rigs have increased, with higher-specification and harsh environment units leading the uptick. With the successful monetisation of its rig inventory announced in 2017, the business' cashflow position will also improve. Going forward,

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we believe that Sembcorp Marine's investments in technology and automation will stand it in good stead for the market's recovery.

Our Urban Development business has also established a unique business model in transforming raw land into integrated developments encompassing industrial, commercial and residential space. Its projects have a proven track record in catalysing investment, job creation and growth. From being a developer of industrial parks, the business is now well-positioned as a provider of integrated urban solutions, including sustainable integrated townships as well as high value-added business hubs and smart cities. It has a strong franchise in Asia, and has built up significant value, especially in being a respected brand amongst host governments.

Repositioning the Utilities Business as an Integrated Energy Player

Meanwhile, the energy sector is going through major shifts today. Decarbonisation, decentralisation, digitalisation and demand disruptions are transforming the industry as we know it. Against the background of increasing environmental consciousness, the global fuel mix is changing. Renewables are becoming more mainstream and gas is growing in relevance. In addition, the merchant and retail power segment is increasing in importance, while demand for integrated utilities solutions continues to grow.

Repositioning our Utilities business as an integrated energy player that is strategically positioned to benefit from this global energy transition is an important thrust of our strategy. We believe that while changing industry dynamics may be seen as a threat by some, opportunities await those who are able to transform themselves ahead of the curve.

To ensure we have the right asset mix and capabilities, and to drive innovation and growth across the breadth and depth of our Utilities business, we will focus on three business lines:



Sembcorp has a solid track record in the renewable energy sector with over 2,400 MW of wind and solar assets

- The **Gas & Power** business will target opportunities in gas importation and retail, regasification infrastructure as well as thermal power
- The **Renewables & Environment** business will focus on renewable power, water and wastewater treatment as well as waste-to-resource opportunities in the low-carbon and circular economies
- Finally, the **Merchant & Retail** business will enable the business to capture opportunities closer to customers in multiple markets and enhance competitiveness and returns

We will offer a differentiated **Integrated Energy Platform** business model that taps opportunities to provide integrated solutions across the energy and utilities value chain. By building multiple offerings around an anchor asset, we can cater to different customer needs and offer customers compelling value propositions across our Utilities business lines. This will provide enhanced returns and growth with lower development risk, and allow our Utilities business to leverage its unique strengths built up over more than 20 years. These include a global track record as a developer, owner and operator of

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thermal and renewable energy assets. A further competitive advantage is the business' deep integration expertise.

Geographically, we will reposition our portfolio across certain developing markets and developed markets. We will look to deepen our presence in Singapore & Southeast Asia; China; India; as well as the UK, growing both organically and through acquisitions.

 For more on our strategy and roadmap to reposition the Utilities business, please refer to pages 14 to 23.

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Stepping Up Our Commitment to Sustainability

Sembcorp has long held a strong commitment to sustainability. We believe that responsible corporates can play a role as agents of transformation for a sustainable future. In addition, we see sustainability at our company as inextricably linked to our ability to deliver long-term value and growth to all our stakeholders.

Together with the international community, our company is committing to help further the United Nations' Sustainable Development Goals (SDGs), which identify areas of critical importance for humanity and the planet between now and 2030. In particular, we have identified Goal 6 (Clean Water and Sanitation) and Goal 7 (Affordable and Clean Energy) as Sembcorp's priority SDGs. These have the strongest link to our core business activities and represent the greatest opportunity for our company to contribute towards the sustainable development agenda.

We are targeting to double our renewables capacity to approximately 4,000 megawatts by 2022, with the aim of becoming one of the region's leading independent renewable energy players. Alongside this, we have set an ambitious target to reduce our carbon emission intensity in line with the 2°C climate scenario. Between now and 2022, we will reduce this by close to 25%, from the current 0.55 tonnes of carbon dioxide equivalent per megawatt hour (tCO₂e/MWh), to 0.42 tCO₂e/MWh. By 2030, we target to improve even further, reducing emission intensity to less than 0.40 tCO₂e/MWh.

 For more on sustainability at Sembcorp, please refer to pages 82 to 113.

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During the year, we continued to strive towards business excellence across the Group, including good health, safety and environment practices (HSE), where our target is to meet the International Association of Oil and Gas Producers' recommended safety performance. In 2017, our Group Health, Safety, Security and Environment (HSSE) department developed and implemented several additional topic-specific safety standards across our global assets, and extended its training programmes to its contractors. While we have made progress, there still remains room for improvement. It is with deep regret that we report three fatalities in 2017. Two of these incidents involved persons employed by our contractors, one at a water operation in China and another at a factory in Malaysia operated by our design and construction business. The third case, which is currently undergoing investigation by the authorities, involved a member of the public and one of our waste collection trucks in Singapore. In addition, as reported in our Environmental, Social and Governance (ESG) Review, we received significant fines for non-compliance amounting to S\$3.9 million. This included a S\$2.5 million fine our UK business received for an accident in 2013 involving a subcontractor's employee. We take each and every accident and infraction seriously. All incidents are thoroughly investigated, specific remediation measures undertaken, and process enhancements implemented across the business. Going forward, a key area of focus will be on how we can drive a culture where HSE and our

wider responsibilities to society and the environment are an integral part of how we do business. As an initial but significant step, in 2018 we revised the performance scorecard for our leadership team to include specific ESG components. With this, our award of senior executives' performance incentives will specifically take into account ESG performance and management of key ESG indicators. This underscores the importance we place on addressing ESG risks and opportunities.

Building a Dynamic Organisation

Finally, we want to build a dynamic organisation for Sembcorp that will support our strategy and growth. Our new structure, which came into effect on January 1, 2018, provides us a scalable global operating model to leverage resources and achieve growth across both markets and business lines. At the same time, we believe that by providing greater scope for development and progression, the reshaped organisation will offer our people more opportunities and help nurture a stronger pipeline of future leaders to support our long-term growth.

Along with making changes to the way our teams are structured, we are also developing and enhancing our capabilities and driving

process excellence. A key area of focus is on technology application and digitalisation. The Group will look to improve performance and capture opportunities through the acceleration of technology adoption as well as the deployment of digital technologies.

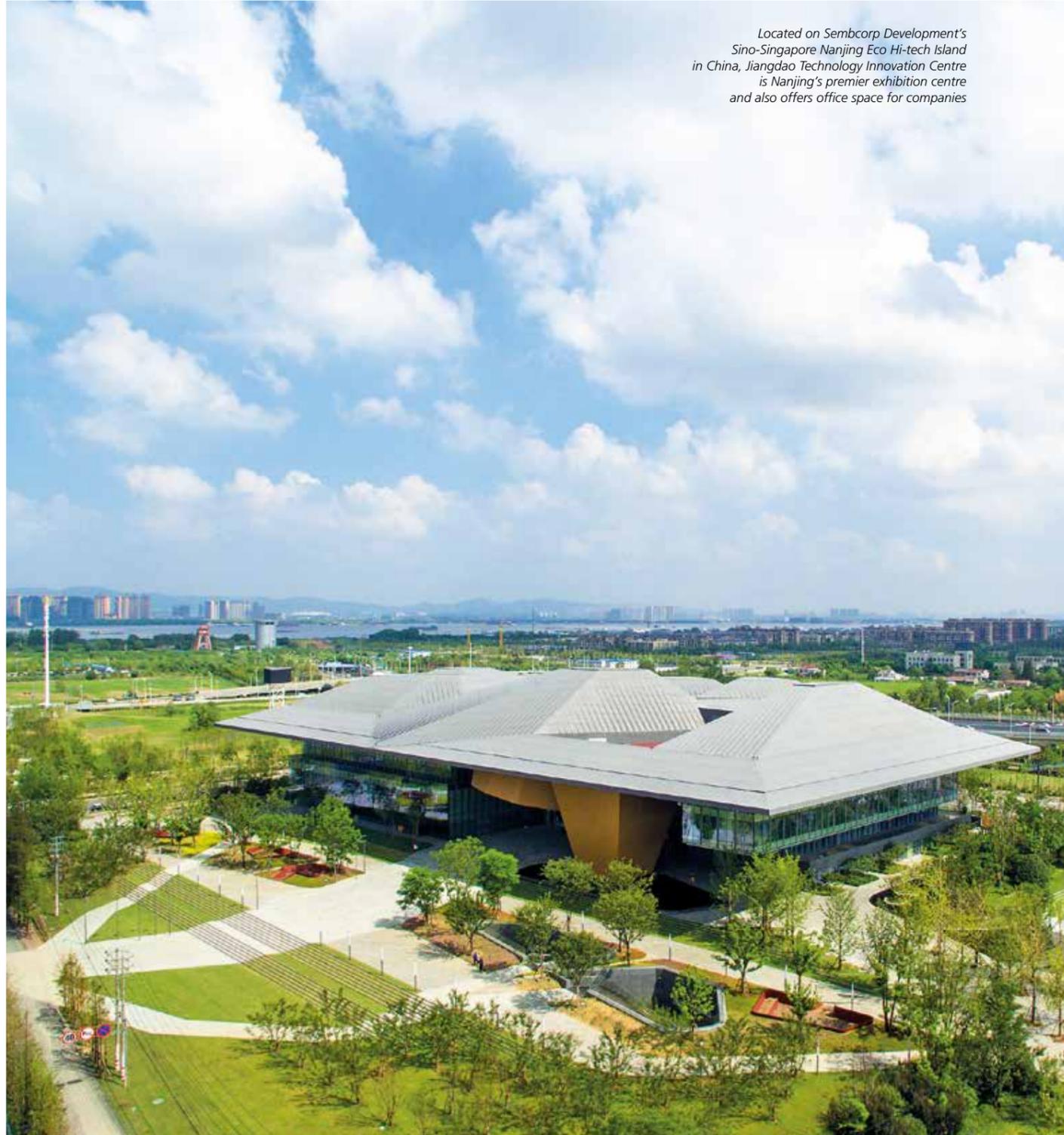
At the heart of a dynamic organisation is its people. To support our company into the future, we are enhancing our team with the right skills and expertise, deepening our bench strength and building in greater succession planning. We will also continue efforts to reinforce a dynamic high-performance culture within the company, with an unwavering commitment to integrity at its core.

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Sembcorp Marine's Tuas Boulevard Yard in Singapore offers distinct capabilities that enable cost effective execution and strengthen the business' long-term competitiveness

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Located on Sembcorp Development's Sino-Singapore Nanjing Eco Hi-tech Island in China, Jiangdao Technology Innovation Centre is Nanjing's premier exhibition centre and also offers office space for companies

Proposed Dividend for 2017

For 2017, the board proposes a final dividend of 2.0 cents per ordinary share, subject to shareholders' approval. Together with the interim dividend of 3.0 cents per ordinary share paid in August, this brings our total dividend for the year to 5.0 cents per ordinary share.

Sembcorp remains committed to our dividend policy, which aims to balance cash return to shareholders and investment for sustaining growth, while aiming for an efficient capital structure. In line with our 2017 performance, the total quantum of dividend proposed for the year is lower than in the previous year. However, we believe it is appropriate given our performance and environment, and ultimately in the best interest of both the company and its shareholders.

To underscore their support of the company through these challenging times, the directors are taking a voluntary 15% reduction in their directors' fees for FY2017. In addition, the Group President & CEO and senior management will also be voluntarily undertaking a pay reduction of 15% and 10% respectively.

A Note of Welcome and of Thanks

On behalf of the board, we would like to extend a warm welcome to Jonathan Asherson OBE, who joined our board as an independent director on July 17, 2017. Mr Asherson is the non-executive chairman of Rolls-Royce Singapore. He brings to Sembcorp rich experience in regional strategy and business, as well as in the power and engineering industries in China, Southeast Asia and the Pacific, Germany, the US and the UK.

This is the beginning of the next exciting chapter in the Sembcorp story. While there is much to do, Sembcorp has the track record, capabilities and determination to deliver.

We would like to take the opportunity to express our gratitude to our shareholders for your continued support and trust in us. As Sembcorp repositions its businesses, rest assured that you have a board and management team that understands the company's businesses and markets, anticipates the future, and will continue to take decisive and necessary action to create and deliver value. We also thank our dedicated team of employees, whose passion, professionalism and commitment continues to drive our company forward.

This is the beginning of the next exciting chapter in the Sembcorp story. While there is much to do, Sembcorp has the track record, capabilities and determination to deliver. As we think forward and boldly seize opportunities in a changing marketplace, we are confident that the actions we are taking will make for a stronger, better performing and more sustainable Sembcorp.

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Chairman
February 28, 2018

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Group President & CEO
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