

MARINE & OFFSHORE ENGINEERING REVIEW

AT A GLANCE	2006	2005	Change (%)
Turnover (S\$ million)	3,545.0	2,119.3	67
EBITDA (S\$ million)	273.8	162.6	68
EBIT (S\$ million)	225.6	124.5	81
PATMI after EI (S\$ million)	238.4	121.4	96
ROE (%)	20	12	67

COMPETITIVE EDGE

- A leading marine and offshore engineering group with an established reputation among international ship owners, rig owners and oil majors for more than 40 years
- Comprehensive portfolio encompassing the full spectrum of integrated solutions from ship repair, shipbuilding, ship conversion, rig repair, rig building, topsides fabrication to offshore engineering
- Proven track record for quality and timely delivery and the ability to handle complex turnkey projects and repairs while meeting high standards for health, safety, security and environment
- Global network of shipyards strategically located along major shipping routes
- Development and ownership of proprietary designs for rigs and container vessels
- Partner alliance arrangements that provide a stable client base

OPERATIONS REVIEW

SembCorp Marine (SembMarine) delivered a strong performance in 2006. Turnover grew 67% from S\$2.1 billion to S\$3.5 billion, while earnings before interest, tax, depreciation and amortisation (EBITDA) rose 68% from S\$162.6 million to S\$273.8 million. Profit after tax and minority interest (PATMI) increased 96% from S\$121.4 million, reaching a record of S\$238.4 million, mainly due to better operating margins from its rig building and ship repair businesses and increased contribution from its associates.

Gross profit and operating margins improved in 2006. For the year, gross profit margin stood at 8.3% and operating margin at 6.4%. Return on equity climbed to 20% from 12% in 2005, surpassing Management's target of 15% for the year.

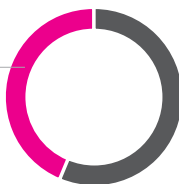
Contracts secured in 2006 amounted to S\$3.1 billion. The total orderbook as at February 2007 was S\$7.1 billion, with completions and deliveries scheduled until 2010.

Ship repair

Turnover contributed by the ship repair segment increased 15% to S\$612.1 million. A total of 314 vessels docked at SembMarine's yards for ship repair in 2006 compared to 309 in 2005. Revenue per vessel edged up from S\$1.72 million per vessel to S\$1.95 million.

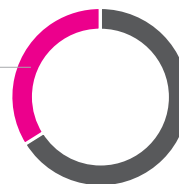
High value repairs to oil tankers, container vessels and Liquefied Natural Gas (LNG)/Liquefied Petroleum Gas (LPG) tankers as well as Floating Production Storage and Offloading (FPSO) upgrading continued to dominate the vessel mix, accounting for 68% of the segment's revenue.

43.7%



**CONTRIBUTION
TO GROUP TURNOVER**

33.9%



**CONTRIBUTION
TO GROUP PATMI BEFORE EI**

Long-term strategic alliances continued to provide steady and growing baseload. Together with our regular customers, they accounted for more than 82% of our ship repair turnover.

Shipbuilding

In 2006, the shipbuilding segment completed and delivered three 2,646 Twenty-Foot Equivalent Units (TEU) container ships for Wan Hai Lines and one for Reederei Laeisz as well as 15 units of floating pontoons, lifting turnover by 12% to S\$210.6 million.

Two tankers for Kuwait Oil, two additional container ships for Wan Hai Lines and another container ship for Reederei Laeisz are expected to be completed in 2007.

Ship conversion and offshore

Turnover for the ship conversion and offshore segment registered a modest growth of 3% to S\$913.4 million. Projects completed during the year included the installation and integration of topsides for the *P-50* project, marine hull conversion and fabrication of topsides and compressor modules for the *P-54* project, *PRA-1* FPSO conversion and *BW Enterprise* FPSO conversion.

Other projects underway include four FPSO/Floating Storage Offloading (FSO) conversions, one heavy lift derrick for a pipe-laying vessel, topsides for ConocoPhillips, *P-54* integration and commissioning and a semi-submersible rig conversion.

Rig building

SembMarine maintained its position as the number two rig builder in the world.

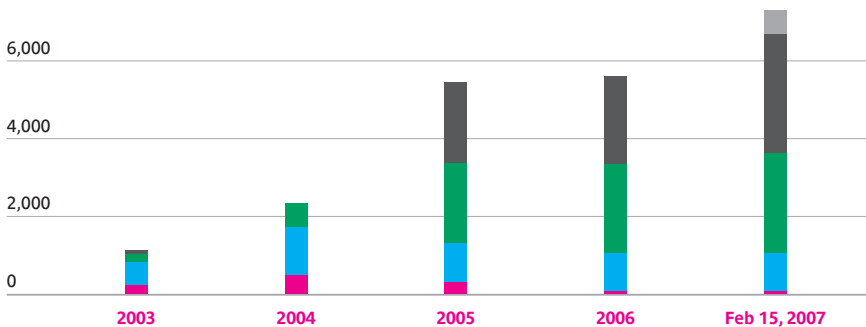
The rig building segment registered the highest growth in turnover, leaping 353% to S\$1.7 billion. In 2006, we completed and delivered jack-up rigs *Deep Driller I* and *WilPower*, now operated and deployed by Reliance Industries in India and Arabian Drilling Company in Saudi Arabia respectively. A lower semi-submersible hull for Atlantia Offshore was also delivered during the year.

Growing rig building and offshore engineering

In order to enhance our capabilities and capacity to grow our rig building and offshore engineering business, SembMarine acquired SMOE and Sembawang Bethlehem from SembCorp Utilities and SembCorp Industries respectively in August 2006 for a total of S\$183.7 million, including the assumption of a net loan of approximately S\$117.0 million.

Following the acquisition, the land adjacent to Sembawang Shipyard in Singapore, which spans 86 hectares and is furnished with a fabrication yard, and the 30-hectare fabrication yard in Batam in Indonesia have been brought under SembMarine, allowing our Marine & Offshore Engineering business to optimise its capacity and resources. Furthermore, the acquisition of SMOE was timely as its expertise and track record in

NET ORDERBOOK (\$ million)	2003	2004	2005	2006	Feb 15, 2007
Shipbuilding	228	487	298	86	86
Ship Conversion and Offshore	584	1,212	992	948	948
Jack-up Rigs	192	589	2,018	2,240	2,530
Semi-submersible Rigs	77	–	2,033	2,198	3,000
Offshore Platforms	–	–	–	–	581
	1,081	2,288	5,341	5,472	7,145



As at February 15, 2007

offshore production facilities will enable SembMarine to expand its capabilities and capacity in anticipation of the expected growth in the offshore production market.

MARKET REVIEW AND OUTLOOK

The market outlook for all sectors in the marine and offshore industry remains strong with the industry expected to continue to benefit from robust freight rates and growing energy demand on a global basis. The International Energy Agency expects global demand for oil to grow by 1.7% in 2007, with almost 40% of the projected increase in consumption in 2007 to come from Asia.

In view of dock capacity constraints, the demand for ship repair is expected to remain buoyant especially in the specialised market of LNG/LPG tankers, Very Large Crude Carrier (VLCC) tankers and container

vessels. Continued growth in the repair market is expected in tandem with the increasing number of vessels worldwide.

The prospects for sustained exploration and production activities remain robust, with continued strength in demand for FPSO/FSO vessels and offshore platforms. Near 100% utilisation rates, high charter rates as well as ageing rig fleets are fundamentals that are expected to provide the basis for a strong rig building market. Meanwhile, worldwide exploration and production activities are expected to continue to expand at a swift pace. Consequently, spending on exploration and production, which saw an increase of 21.3% at US\$261 billion in 2006, is expected to rise. The International Maritime Associates estimated that as at November 2006, 108 production floaters were being planned or under study.