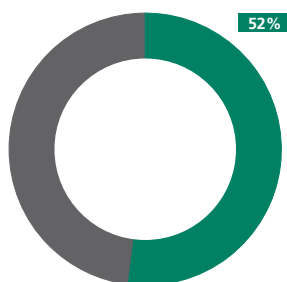


## MARINE & OFFSHORE ENGINEERING REVIEW

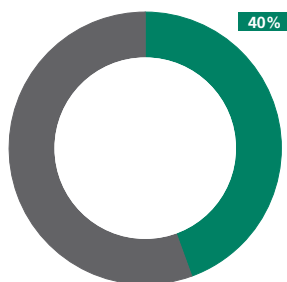
### PERFORMANCE SCORECARD (S\$ million)

	2007	2006	Change (%)
Turnover	<b>4,513.1</b>	3,545.0	27
EBITDA	<b>413.1</b>	273.8	51
EBIT	<b>349.0</b>	228.2	53
PATMI before EI	<b>355.6</b>	209.1	70
PATMI after EI	<b>241.0</b>	238.4	1
Return on Equity (%)	<b>16</b>	20	(20)

### CONTRIBUTION TO GROUP TURNOVER



### CONTRIBUTION TO GROUP PATMI BEFORE EI



### KEY DEVELOPMENTS

- Net orderbook valued at S\$7.4 billion as of February 22, 2008 with completion and deliveries until 2011.
- Contracts secured in 2007 amounted to S\$5.4 billion.
- Global network extended with strategic investments and joint venture partnerships in shipyards in Saudi Arabia and India.
- Acquired a 35% stake in Shenzhen Chiwan Offshore Petroleum Equipment Repair & Manufacture Company to grow the offshore and marine business in South China.
- New research and development centre launched to sharpen competitive edge in marine and offshore technology

### COMPETITIVE EDGE

- Singapore's leading marine and offshore engineering group for more than 45 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 and construction.
- Strong 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 worldwide that provide a stable client base.

## OPERATIONS REVIEW

Sembcorp's Marine & Offshore Engineering business delivered strong operating performance in 2007. Turnover grew 27% to S\$4.5 billion, while profit after tax and minority interest (PATMI) before exceptional items (EI) increased 70% to S\$355.6 million, surpassing 2006's PATMI before EI of S\$209.1 million, mainly due to higher operating margins from the rig building and ship repair businesses, as well as better contribution from associated companies.

Gross profit and operating margins improved in 2007. Gross profit excluding EI was 9.1% and operating margin excluding EI was 7.7%, while return on equity for the year stood at a strong 16%.

The unit's performance was very strong on many fronts. However it was disclosed in October that one of Sembcorp Marine's former senior officers had entered into unauthorised foreign exchange transactions. All the unauthorised transactions have been closed out and full and final settlement has been reached with nine of the 11 banks involved, all strictly on a commercial basis, without any admission of liability on the part of Jurong Shipyard or the banks. Sembcorp Marine's net position for the transactions amounted to US\$258.7 million, of which US\$208 million was expensed off during the year and US\$50.7 million disclosed as a contingent liability. Despite this, the Marine & Offshore Engineering business' PATMI increased by 1.1% from S\$238.4 million in 2006 to S\$241.0 million in 2007. Sembcorp Marine has taken steps to ensure that a similar situation will not recur. Meanwhile, the Marine & Offshore Engineering unit continues to focus on the operations and growth of its businesses.

### Ship repair

Ship repair continued to be a strong and resilient core business. Turnover contributed by the segment increased 19% to S\$731.1 million. A total of 256 vessels docked at our yards for ship repair in 2007 compared to 314 vessels in 2006. The average value per vessel increased by 47%, from S\$1.95 million to S\$2.86 million.

High value repairs to oil tankers, container vessels and liquefied natural gas (LNG) /liquefied petroleum

gas (LPG) tankers, floating production storage and offloading (FPSO) upgrading as well as rig repairs continued to dominate the vessel mix for the segment. The Marine & Offshore Engineering business continued to receive ship repair orders from long-term strategic alliances and regular customers. These orders continued to provide a steady and growing baseload.

### Shipbuilding

During the year, our Marine & Offshore Engineering business successfully delivered the fifth unit of a series of six 2,600 twenty-foot equivalent units (TEU) container vessels to Taiwanese shipping company, Wan Hai Lines. We also successfully completed the fabrication of the world's largest floating performance platform, comprising 15 units of reconfigurable pontoons, for Singapore's 42nd National Day celebrations at the Marina Bay, and delivered the first of two 5,100 deadweight tonne tankers to Kuwait Oil Tanker Company. Other shipbuilding activities underway included a sixth containership for Wan Hai Lines, a second 2,600 TEU vessel for Reederei F Laeisz, and a second 5,100 deadweight tonne tanker for Kuwait Oil Tanker Company.

2007 saw turnover from this segment falling to S\$81.6 million due to the deliberate redeployment of resources to the growing rig building and offshore conversion sectors.

### Ship conversion and offshore

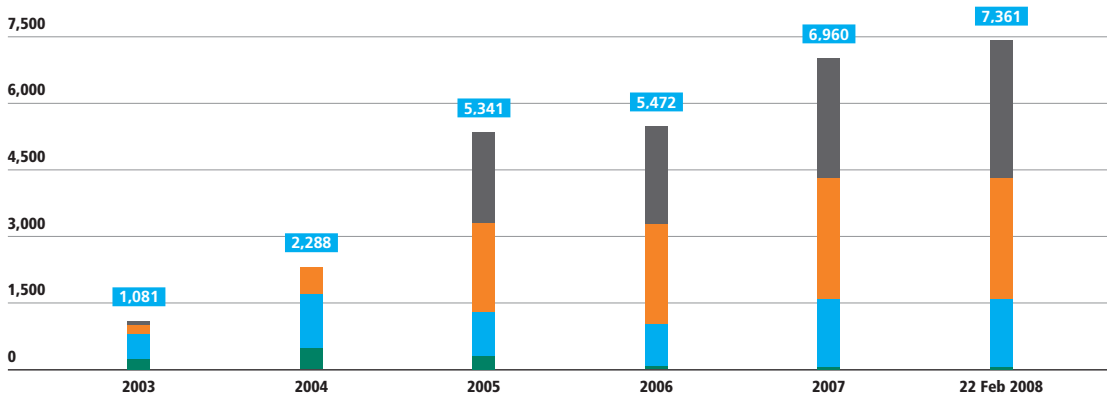
Turnover from ship conversion and offshore activities recorded a strong growth of 24% to S\$1.1 billion, constituting 25% of total turnover from our Marine & Offshore Engineering business. S\$1.7 billion worth of contracts were secured for conversion and offshore platform projects in 2007, accounting for 32% of total net orderbook.

Projects completed during the year included the floating storage offloading (FSO) conversion of FSO *Cidade de Macae MV15*, the integration and commissioning of the P-54 FPSO vessel and the conversion of the Gulf of Mexico's first FPSO, *Yuum K'ak'náab*. January 2008 also saw the delivery of

## MARINE & OFFSHORE ENGINEERING REVIEW

### NET ORDERBOOK (S\$ million)

	2003	2004	2005	2006	2007	As at 22 Feb 2008
■ Shipbuilding	228	487	298	86	6	6
■ Ship Conversion and Offshore	584	1,212	992	948	1,536	1,536
■ Jack-up Rigs	192	599	2,018	2,240	2,726	2,726
■ Semi-submersible Rigs	77	–	2,033	2,198	2,692	3,093
Total	1,081	2,288	5,341	5,472	6,960	7,361



*Sapura 3000*, a self-propelled DP2 heavy lift derrick pipe laying barge.

Other projects underway include topsides installation and commissioning of FPSO topside facilities for ConocoPhillips China, FPSO conversions of *Raroa*, *Aoka Mizu*, *Aker Smart 1* and *Montara Venture* as well as the drillship conversion of *Joides Resolution*.

In order to grow and expand in the offshore and marine sector as well as serve international oil majors operating in Chinese waters, our Marine & Offshore Engineering business, through its wholly-owned subsidiary, SMOE, acquired a 35% stake in Shenzhen Chiwan Offshore Petroleum Equipment Repair & Manufacture Company.

### Rig building

Our Marine & Offshore Engineering business continued to be the number two rig builder in the

world. The rig building segment achieved the highest growth in turnover, surging 45% to S\$2.5 billion in 2007, contributing 55% to total turnover.

In 2007, we secured S\$3.7 billion of new orders for jack-ups and semi-submersibles, which made up 68% of new contracts secured for the year.

Key orders included repeat orders of four proprietary design deep drilling jack-up rigs for Offshore Group Corp, three ultra-deepwater semi-submersible drilling rigs for Norwegian company, PetroMena, a third ultra-deepwater semi-submersible rig for international drilling contractor, Seadrill, a harsh environment jack-up rig for Oslo-based PetroProd as well as the building up of a second baredeck hull into an ultra-deepwater semi-submersible for Noble Corporation. In January 2008, we also won a US\$280.5 million contract from US driller, Atwood Oceanics Pacific to build a semi-submersible rig, scheduled for delivery in 2011.

A total of 23 jack-up rigs have been secured to-date since 2004 comprising 21 units based on our proprietary Baker Marine Pacific Class 375 (BMC Pacific 375) deep drilling offshore jack-up rig, a harsh environment jack-up rig and a heavy lift jack-up barge. Since 2005, a total of seven units of sixth-generation dynamic positioning ultra-deepwater newbuild semi-submersible drilling rigs based on the Friede & Goldman designs have also been secured.

During the year, we completed and delivered five BMC Pacific 375 jack-up rigs: *West Triton*, *WilSuperior*, *Deep Driller 4*, *Soehannah* and *Maersk Completer*, now operated and deployed by Apache Corporation in Australia, Thang Long in Vietnam, Reliance Industries in India and Total E&P in Indonesia and Brunei respectively.

### Strategic investments and partnerships

During the year, our Marine & Offshore Engineering business extended its global network of shipyards through strategic investments. We acquired a stake in the Floating Dock for Shipbuilding and Ship Repair Company, which will develop a new 21-hectare yard in Yanbu Commercial Port, Al Jazeera Island, Saudi Arabia. The shipyard will be fully operational in 2009, and will be well positioned to capture business from ships plying the Europe – Asia route via the Suez Canal. We also took a 3% equity stake in 85-hectare Pipavav Shipyard, poised to be one of India's largest shipbuilding yards when completed in September 2008. The shipyard is strategically located in Gujarat, along the Middle East – Singapore sea route.

To streamline our operations, Texas-based Sabine Industries, comprising Sabine Shipyard and Sabine Offshore Services, was acquired from PPL Shipyard and renamed Sembcorp-Sabine Industries. The 223-acre yard facility will be planned and outfitted to facilitate and serve our USA customers in offshore rig repairs, refurbishment and rig building in the Gulf of Mexico.

To further strengthen our competitive edge through research and development efforts, a new research and development centre, Sembcorp Marine Technology, was set up in August 2007. The centre will spearhead development in marine and offshore technology, new product development and process innovation,

and will boost our core competencies in ship repair, ship conversion, rig building, shipbuilding and offshore engineering

### MARKET REVIEW AND OUTLOOK

As of February 22, 2008, our Marine & Offshore Engineering business' net orderbook stood at S\$7.4 billion with completion and deliveries until 2011. This includes contracts secured in 2007 amounting to S\$5.4 billion. The business expects 2008 to be a better year than 2007 based on the schedule of completion of its projects.

The market outlook for all sectors in the marine and offshore industry remains strong with the business expected to benefit from growing energy demand. With global oil prices breaching record levels and expected to climb further, the International Energy Agency projects demand for oil to continue to grow by 1.9% in 2008. Rising oil demand and sustained high oil prices will continue to support oil exploration and production and offshore fleet construction.

Demand continues to be strong for ship repair in view of the global shortage of dock capacity. Demand for ship repair activities is also expected to remain buoyant in the specialised market of LNG/LPG tankers, containerships, rig repairs and FPSO upgrades.

Rig building fundamentals remain strong in view of the aging rig fleet worldwide. With demand trending towards deepwater exploration, the semi-submersible market is expected to be robust and the momentum for orders expected to continue. An average of over 90% rig utilisation and high charter rates are expected to provide continued support for the sector.

The offshore conversion, engineering and construction market is also expected to expand with increasing demand for fixed and floating production systems, including FPSOs. According to the International Maritime Associates, there are currently 119 floating production systems being planned or under study as of November 2007. Energy research company Douglas-Westwood estimates that US\$38 billion is expected to be spent on floating production units over the next five years which would comprise mainly of FPSOs.