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# Operating & Financial Review

## IN THIS SECTION



**Sembcorp Marine is a strategic partner to major players in the oil & gas industry. Pictured are its specialist engineers onboard a jack-up rig at Jurong Shipyard.**

# COMPANY OVERVIEW

## Sembcorp is focused on businesses that are market leaders and capable of delivering quality earnings and sustainable growth.

### BUSINESS DESCRIPTION

Sembcorp Industries is a Singapore-listed company with assets totalling more than S$8.7 billion. The Group is primarily involved in the following businesses:

- Utilities
- Marine & Offshore Engineering
- Environmental Management
- Industrial Parks

The Utilities business unit provides energy, water and centralised utilities to industrial and other customers in Singapore, the UK, China, Vietnam and the UAE. Its activities include power generation, steam production and distribution, water and wastewater treatment and recycling, industrial water supply, natural gas supply and associated industrial site services.

The Marine & Offshore Engineering business unit operates a global network of shipyards in Singapore, China, India, Indonesia, Saudi Arabia and the USA to provide integrated solutions in ship repair, shipbuilding, ship conversion, rig building, topsides fabrication and offshore engineering.

The Environmental Management business unit provides integrated environmental solutions to industries, municipalities and governments in Singapore, Australia, India and China. Its activities include waste collection, recycling and reuse of waste as well as pre-disposal waste treatment.

The Industrial Parks business owns, develops, markets and manages industrial parks and townships in Indonesia, China and Vietnam. It offers an integrated approach to township development providing a fully self-sufficient world-class manufacturing environment.

### OBJECTIVE & STRATEGIES

Sembcorp's aim is to provide shareholder value by excelling in businesses that deliver stable earnings, while having the ability to sustain growth over the long term. The Group pursues overall growth through five strategic directions:

**Focus on key businesses**

Sembcorp is focused on businesses that are market leaders and capable of delivering quality earnings and sustainable growth. Our Utilities and Marine & Offshore Engineering businesses offer strong fundamentals. Coupled with our disciplined approach towards investment and growth, we believe that focusing on these key businesses will enable us to continue delivering value and growth to our shareholders.

**Build upon business models**

Sembcorp has developed and will continue to build on strong business models in each of our businesses.

In Utilities, we have established a niche as a global leader for the provision of centralised utilities and services to multiple customers in energy-intensive clusters such as chemical and petrochemical hubs. We aim to replicate our success in key markets around the globe through establishing and growing beachheads in target markets. We do this by entering into strategic partnerships with our international customers and through selective investments in projects that provide secure offtake and that give us the potential to grow. With the majority of our customers on long-term contracts, the business provides stable recurring income and strong recurrent cash flow. Our Marine & Offshore Engineering business is a global leader with a portfolio that encompasses various segments of the value chain in the global marine and offshore industry. This comprehensive portfolio supports growth and healthy margins, while its strong orderbook gives earnings visibility. Long-term strategic alliances with our international ship repair clientele also provide a steady and growing baseload.

Taking an integrated approach, we are also focused on enhancing our business models across our other businesses. Our Industrial Parks unit has pioneered innovative concepts for industrial townships and complexes. Its early involvement in an industrial area also provides potential opportunities for the provision of utilities and other services. Meanwhile, our Environmental Management arm is focused on developing new pre-disposal treatment methods.

**Leverage capabilities for growth**

Sembcorp believes that only businesses with clear competitive edge and leading market positions can deliver sustainable growth. To this end, we continue to leverage the differentiating capabilities we have built up in each of our businesses, so as to secure healthy returns and maintain our market leadership.

We seek to leverage and strengthen our unique operational and technological capabilities in the energy, water and environment sectors to seize growth opportunities in these fast-growing sectors. We have developed one of the UK's largest biomass renewable energy projects and in view of rising fuel costs, we are focused on building our expertise in producing energy from alternative fuels. As operators of reliable facilities offering competitive utilities in industrial clusters, we have developed distinctive capabilities including the provision of industrial water, water recycling and the treatment of complex high concentration wastewater from multiple sources. In Environmental Management, we are focused on pre-disposal treatment and are exploring alternative uses of recovered resources. Together with the continuous improvement and development of proprietary technologies and designs for rigs and vessels in our Marine & Offshore Engineering business and our Industrial Parks business' concept of integrated industrial townships, we set ourselves apart from the competition.

**Develop new income streams**

Sembcorp is committed to developing our core businesses to generate new income streams. We seek to expand in tandem with demand through strategic partnership with our customers, providing essential solutions to meet their growing needs. To provide a platform for future growth, we continually identify and develop a pipeline of greenfield and brownfield investments. We also aim to build leading positions in growth markets through selective acquisitions and partnerships.

**Harness group synergies**

At Sembcorp, we operate as an integrated business. We are organised to harness synergies across the Group, enabling our businesses to capitalise on the strength and reliability associated with the Sembcorp brand. Through understanding the needs of our customers and leveraging on group strength and sector expertise to deliver innovative and effective solutions that enable them to do business better, the performance of Sembcorp's businesses reinforce the strength of our brand.

# GROUP STRUCTURE

## SEMBCORP INDUSTRIES

| | |
|---|---|
| SUT Division *Singapore* | 100% |
| Propylene Purification Unit *Singapore* | 100% |

## UTILITIES

### Sembcorp Utilities 100%

| | |
|---|---|
| Sembcorp Cogen *Singapore* | 100% |
| Sembcorp Power *Singapore* | 100% |
| Sembcorp Gas *Singapore* | 70% |
| Sembcorp Air Products (HYCO) *Singapore* | 60% |
| Sakra Island Carbon Dioxide *Singapore* | 30% |
| Sembcorp NEWater *Singapore* | 100% |
| Sembcorp Utilities (UK) *UK* | 100% |
| Sembcorp Utilities Investment Management (Shanghai) *China* | 100% |
| Shanghai Cao Jing Co-generation *China* | 30% |
| Nanjing Sembcorp SUIWU *China* | 95% |
| NCIP Water *China* | 95% |
| Zhangjiagang Free Trade Zone Sembcorp Water *China* | 80% |
| Sembcorp TLIA Wastewater Treatment Company *China* | 90% |
| QianAn Sembcorp Co-generation *China* | 65% |
| Shenzhen Chiwan Sembawang Engineering* *China* | 32% |
| Phu My 3 BOT Power Company *Vietnam* | 33.3% |
| Emirates Sembcorp Water & Power Company *UAE* | 40% |
| Sembcorp Gulf O&M *British Virgin Islands* | 100% |

## MARINE & OFFSHORE ENGINEERING

### Sembcorp Marine 60.9%

| | |
|---|---|
| Jurong Shipyard *Singapore* | 100% |
| Sembawang Shipyard *Singapore* | 100% |
| PPL Shipyard *Singapore* | 85% |
| SMOE *Singapore* | 100% |
| Jurong SML *Singapore* | 100% |
| Sembcorp Marine Technology *Singapore* | 100% |
| COSCO Shipyard Group *China* | 30% |
| Shenzhen Chiwan Offshore Petroleum Equipment Repair & Manufacture Company *China* | 35% |
| PT Karimun Sembawang Shipyard *Indonesia* | 100% |
| PT SMOE Indonesia *Indonesia* | 90% |
| Sembcorp-Sabine Shipyard *USA* | 100% |
| SembMarine Middle East *Saudi Arabia* | 60% |
| Pipavav Shipyard *India* | 3% |

## ENVIRONMENTAL MANAGEMENT

### Sembcorp Environmental Management 100%

- SembWaste *Singapore* 100%
- SembEnviro Tay Paper *Singapore* 60%
- SembVISY Recycling MRF *Singapore* 60%
- SembSITA Australia *Australia* 40%
- SembRamky Environmental Management *India* 51%
- Chongqing Sembcorp Chunxing Alloy *China* 50%
- Jiangsu Sembcorp Chunxing Alloy *China* 50%

## INDUSTRIAL PARKS

### Sembcorp Industrial Parks # 100%

- Vietnam Singapore Industrial Park JV *Vietnam* 40.4%
- Vietnam Singapore Industrial Park & Township Development Joint Stock Company *Vietnam* 40.3%
- Wuxi-Singapore Industrial Park *China* 45.4%
- Gallant Venture *Singapore* 23.9%

### Sembcorp Parks Management 56%

## OTHER BUSINESSES

### Sembcorp Design and Construction 100%

### Singapore Precision Industries 100%

- Singapore Mint *Singapore* 100%

*Figures reflect shareholdings as at January 31, 2008.*

* *Shenzhen Chiwan Sembawang Engineering's financial contribution to the Group is reported under "Other Businesses".*

# *Sembcorp Parks Holdings has been renamed Sembcorp Industrial Parks with effect from February 28, 2008.*

# GROUP REVIEW

## PERFORMANCE SCORECARD (S$ million)

| | 2007 | 2006 | Change (%) |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Turnover | **8,618.8** | 7,485.9 | 15 |
| EBITDA | **850.4** | 674.9 | 26 |
| EBIT | **667.5** | 510.3 | 31 |
| PBT | **813.5** | 614.9 | 32 |
| PATMI | **557.2** | 373.1 | 49 |
| EPS *(cents)* | **31.3** | 21.2 | 48 |
| **DISCONTINUED OPERATIONS**[1] | | | |
| Turnover | – | 621.2 | NM |
| PATMI | – | 7.7 | NM |
| **GROUP** | | | |
| Turnover | **8,618.8** | 8,107.1 | 6 |
| PATMI before EI | **557.2** | 380.8 | 46 |
| EI | **(31.0)** | 650.2 | (106) |
| PATMI after EI | **526.2** | 1,031.0 | (49) |
| EPS before EI *(cents)* | **31.3** | 21.6 | 45 |
| EPS after EI *(cents)* | **29.6** | 58.6 | (50) |
| ROE before EI *(%)* | **19** | 18 | 4 |
| ROE after EI *(%)* | **18** | 43 | (58) |

*1 Discontinued operations are the Group's interests in SembCorp Logistics (divested on April 3, 2006) and SembCorp Engineers and Constructors (88% divested on June 2, 2006 and 12% on October 17, 2006)*

## OVERVIEW

In 2007, Sembcorp achieved a 6% growth in turnover to S$8.6 billion. Group profit after tax and minority interest (PATMI) before exceptional items (EI) in 2007 was S$557.2 million compared to S$380.8 million in 2006, which represents a growth of 46% over the previous year. Turnover from continuing operations increased by 15% to S$8.6 billion. PATMI before EI from continuing operations rose by 49% to S$557.2 million.

The Group recorded a net exceptional loss of S$31.0 million for 2007. This comprised the Group's share of losses recognised by the Marine & Offshore Engineering business relating to unauthorised foreign exchange transactions, which were partially offset by gains on the sale of certain investments. Sembcorp Marine announced that its wholly-owned subsidiary, Jurong Shipyard reached full and final settlement with nine of the 11 banks involved in the unauthorised foreign exchange transactions and the net position from the unauthorised foreign exchange transactions has now been reduced to US$258.7 million.

## TURNOVER

The Utilities and Marine & Offshore Engineering business units together contributed 96% of Group turnover in 2007.

Utilities' turnover increased by 9% to S$3.7 billion compared with 2006, despite its Singapore operations being impacted by plant shutdown during the year for major inspection. Utilities' growth in 2007 was also attributed to the continued good performance of its UK operations, which benefited from favourable power and steam prices.

Turnover for the Marine & Offshore Engineering business increased by 27% to S$4.5 billion. This was mainly due to strong performance by its rig building, ship repair, and offshore and conversion businesses.

The decrease in turnover for the Industrial Parks business was mainly attributable to the divestment of Nirwana Gardens and Wuxi Garden City Mall in May 2006 and May 2007 respectively. Vietnam Singapore Industrial Park was also deconsolidated with effect from April 2006.

Turnover of the Others/Corporate segment decreased by 42% to S$142.7 million due to the divestment of the Offshore Engineering business to Sembcorp Marine in 2006, partially offset by higher turnover from a subsidiary dealing in specialised construction activities as the subsidiary was consolidated only from June 2006.

## EARNINGS

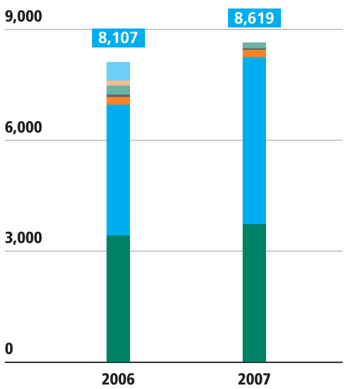
The Group achieved a strong growth of 46% in PATMI before EI, fuelled by strong performance in Marine & Offshore Engineering business unit's rig building and ship repair businesses. Utilities, Environmental Management and Others/Corporate business units also performed well for the year.

The Utilities business' 2007 PATMI before EI was higher by 19% over 2006, primarily due to better contributions from its Singapore and UK operations. Utilities' operations in China recorded a profit in 2007 as compared to a small loss in 2006. Our cogeneration plant in Shanghai performed better than planned. Our Vietnam plant continued to do well during the period and our Middle East operations performed according to plan.

Sembcorp's share of PATMI before EI from its Marine & Offshore Engineering business unit grew in 2007, due to higher turnover and operating margins from the unit's rig building and ship repair businesses as well as better contribution from its associates.

PATMI before EI from the Environmental Management unit rose to S$13.6 million due to strong performance from its Australian operations. A write-back relating to a subsidiary amounting to S$4.3 million also contributed to the higher PATMI in 2007. The performance for 2006 was impacted by an impairment made for plant and equipment as well as a provision for contracts relating to the Singapore municipal waste collection sector.

The decline in Sembcorp's share of PATMI from its

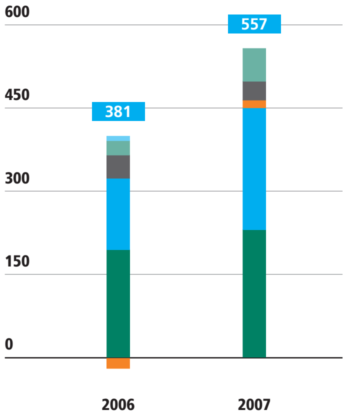



| TURNOVER (S$ million) | 2006 | 2007 |
|---|---|---|
| **CONTINUING OPERATIONS** | | |
| Utilities | 3,426 | **3,736** |
| Marine & Offshore Engineering | 3,539 | **4,512** |
| Environmental Management | 210 | **205** |
| Industrial Parks | 65 | **23** |
| Others/Corporate | 246 | **143** |
| **DISCONTINUED OPERATIONS** | | |
| Logistics | 133 | – |
| Engineering & Construction | 488 | – |
| | **8,107** | **8,619** |

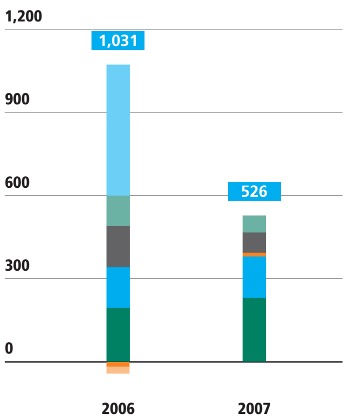
# GROUP REVIEW

Industrial Parks business was mainly attributed to lower contribution from the industrial parks in Indonesia and China, which was partially offset by better contribution from the industrial parks in Vietnam. A write-back of provision on recovery of loan in 2006 also resulted in higher PATMI before EI recorded in 2006. The gain on disposal of Gallant Venture shares by the Industrial Parks business unit is reported under "Exceptional Items".

The increase in Others/Corporate PATMI in 2007 was mainly due to a write-back of S$48.0 million of tax provision made in prior years for the gains on divestment of an investment, following the favourable tax ruling by the Inland Revenue Authority of Singapore, partially offset by lower contributions from the offshore engineering business as part of the offshore engineering business was divested to Sembcorp Marine in 2006.




| PATMI BEFORE EI (S$ million) | 2006 | 2007 |
|---|---|---|
| **CONTINUING OPERATIONS** | | |
| Utilities | 194 | **230** |
| Marine & Offshore Engineering | 129 | **220** |
| Environmental Management | (18) | **14** |
| Industrial Parks | 42 | **34** |
| Others/Corporate | 26 | **59** |
| **DISCONTINUED OPERATIONS** | | |
| Logistics | 8 | **–** |
| Engineering & Construction | – | **–** |
| | **381** | **557** |




| PATMI AFTER EI (S$ million) | 2006 | 2007 |
|---|---|---|
| **CONTINUING OPERATIONS** | | |
| Utilities | 194 | **230** |
| Marine & Offshore Engineering | 147 | **150** |
| Environmental Management | (16) | **14** |
| Industrial Parks | 149 | **73** |
| Others/Corporate | 110 | **59** |
| **DISCONTINUED OPERATIONS** | | |
| Logistics | 471 | **–** |
| Engineering & Construction | (24) | **–** |
| | **1,031** | **526** |

## CASH FLOW AND LIQUIDITY

As at December 31, 2007, the Group had cash and cash equivalents of S$1.3 billion.

Net cash from operating activities was S$874.6 million for 2007 as compared to S$596.5 million for 2006, excluding the payment of S$260.6 million made to the banks for the unauthorised foreign exchange transactions in 2007 and payment for the Solitaire settlement of S$682.7 million in 2006. The strong operating cash flow was mainly contributed by our Singapore and UK Utilities operations as well as the Marine & Offshore Engineering business.

Net cash outflow from investing activities in 2007 was S$94.7 million. Proceeds from sale of subsidiaries, associates and other investments of S$441.6 million and dividends and interest received of S$98.2 million were partially offset by the spending of S$456.9 million on expansion and operational capital expenditure.

Net cash outflow from financing activities for 2007 of S$581.0 million relates mainly to dividends and interest paid.

Free cash flow, defined as operating cash flow plus investing cash flow adjusted for expansion capital expenditure, was S$991.9 million as at December 31, 2007.

## FINANCIAL POSITION

Group shareholders' funds increased from S$2.8 billion at December 31, 2006 to S$3.0 billion at December 31, 2007. The increase was due to retained profits for the year and fair value adjustments for other financial assets partially offset by dividends paid to shareholders.

The increase in other financial assets was mainly due to the fair value adjustments for COSCO Corporation (S) (COSCO) shares held by Sembcorp Marine, which was partially offset by the sale of 39 million ordinary shares in COSCO.

"Inventories and work-in-progress" and "Trade and other payables" increased as more projects were undertaken by the Marine & Offshore Engineering business.

## SHAREHOLDER RETURNS

Excluding EI, return on equity increased from 18.3% in 2006 to 19.0% in 2007, and earnings per share increased to 31.3 cents in 2007 from 21.6 cents in 2006.

Subject to the approval by shareholders at the next annual general meeting, a final tax exempt one-tier dividend of 15.0 cents per ordinary share has been proposed for the financial year ended December 31, 2007.

## ECONOMIC VALUE ADDED

Since 2003, we continue to generate a positive economic value added (EVA), achieving an amount of S$417.1 million in 2007. This positive EVA creation was mainly driven by better Group earnings.

Our net operating profit after tax (NOPAT) for 2007 amounted to S$730.5 million whilst capital charge increased to S$313.4 million mainly due to an increase in average EVA capital of S$339.4 million.

## VALUE ADDED & PRODUCTIVITY DATA

In 2007, the total value added by the Group was S$1.7 billion. This was absorbed by employees in wages, salaries and benefits of S$635.6 million, government in income and other taxes of S$185.7 million and providers of capital in interest and dividends of S$551.9 million, leaving the balance of S$346.2 million reinvested in business.

## DIVIDENDS AND CAPITAL REDUCTION (cents/share)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Ordinary dividends | 5.00 | 5.00 | 6.50 | 12.90 | **15.00** |
| Special dividends | 2.00 | 6.25 | – | 16.00 | – |
| Capital reduction | – | – | 11.70 | 15.00 | – |

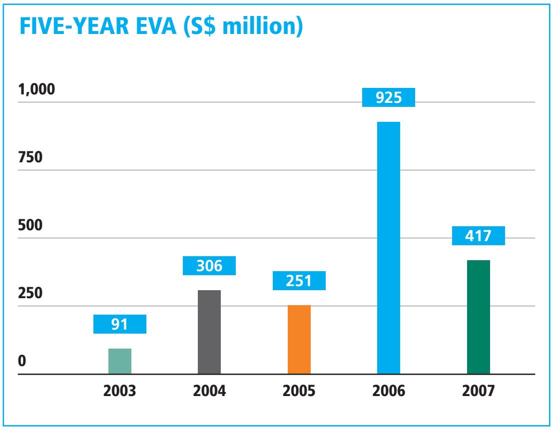
# GROUP REVIEW

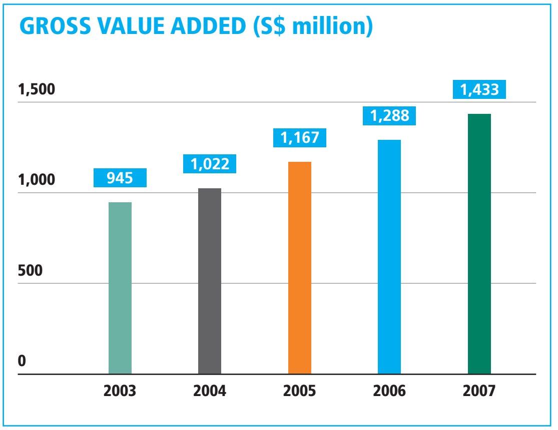
## ECONOMIC VALUE ADDED (S$ million)

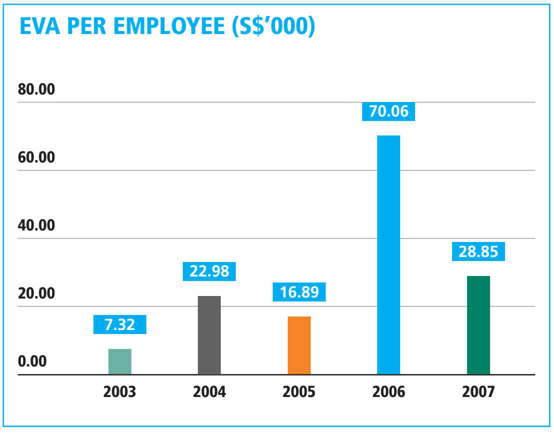
| | Note | 2007 | 2006 |
|---|---|---|---|
| **Net operating profit before taxation** | | **634** | 1,032 |
| Adjust for | | | |
| Share of associates' and joint ventures' profits | | **174** | 140 |
| Interest expense | 1 | **58** | 55 |
| Others | 2 | **2** | (9) |
| **Adjusted profit before interest and tax** | | **868** | 1,218 |
| Cash operating taxes | 3 | **(138)** | 4 |
| **Net operating profit after tax (NOPAT)** | | **730** | 1,222 |
| | | | |
| Average capital employed | 4 | **5,159** | 4,819 |
| Weighted average cost of capital *(%)* | 5 | **6.1** | 6.2 |
| **Capital charge** | | **313** | 297 |
| | | | |
| **Economic value added (EVA)** | | **417** | 925 |
| Minority share of EVA | | **(77)** | (86) |
| **EVA attributable to shareholders** | | **340** | 839 |
| Less: Unusual items (UI) gains | 6 | **208** | 457 |
| | | | |
| EVA attributable to shareholders (excluding UI) | | **132** | 382 |

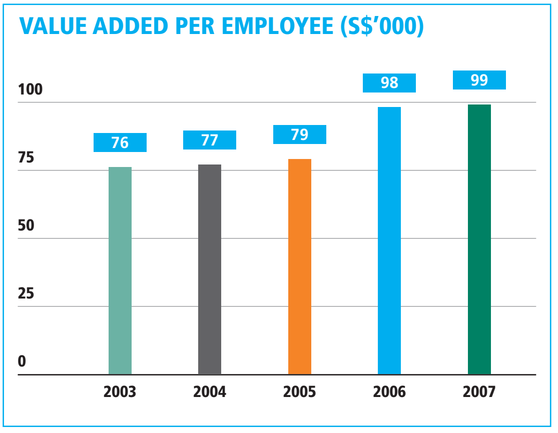
*Note:*

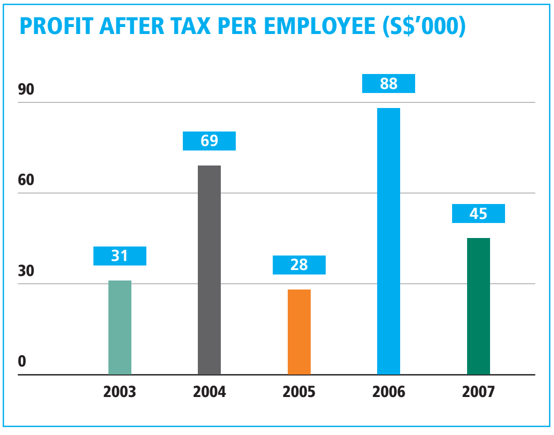
1. *Interest expense in of the assets.*
2. *Other adjustments include recovery of investment costs, timing difference of allowances made for/(write-back) of doubtful debts, inventory obsolescence and goodwill written off/amortised/impaired and construction-in-progress.*
3. *The reported current tax is adjusted for the statutory tax impact of interest expense.*
4. *Monthly average total assets less non interest-bearing liabilities plus timing provision, goodwill written off/amortised/impaired and present value of operating leases.*
5. *The Weighted Average Cost of Capital is calculated in accordance with Sembcorp Industries Ltd Group EVA Policy as follows:*
   i. *Cost of Equity using Capital Asset Pricing Model with market risk premium at 6.0% (2006: 6.0%);*
   ii. *Risk-free rate of 3.05% (2006: 3.31%) based on yield-to-maturity of Singapore Government 10-year Bonds;*
   iii. *Ungeared beta ranging from 0.5 to 1.0 (2006: 0.5 to 1.0) based on Sembcorp Industries risk categorisation; and*
   iv. *Cost of debt rate at 4.12% (2006: 4.04%) using 5-year Singapore dollar swap offer rate plus 75 basis points (2006: 5-year Singapore dollar swap offer rate plus 75 basis points).*
6. *U xed assets.*


FIVE-YEAR EVA (S$ million)
1,000
750
500
250
0
91
306
251
925
417
2003
2004
2005
2006
2007


GROSS VALUE ADDED (S$ million)
1,500
1,000
500
0
945
1,022
1,167
1,288
1,433
2003
2004
2005
2006
2007


EVA PER EMPLOYEE (S$'000)
80.00
60.00
40.00
20.00
0.00
7.32
22.98
16.89
70.06
28.85
2003
2004
2005
2006
2007


VALUE ADDED PER EMPLOYEE (S$'000)
100
75
50
25
0
76
77
79
98
99
2003
2004
2005
2006
2007


PROFIT AFTER TAX PER EMPLOYEE (S$'000)
90
60
30
0
31
69
28
88
45
2003
2004
2005
2006
2007

# GROUP REVIEW

## VALUE ADDED STATEMENT (S$ million)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Value added from** | | | | | |
| Turnover | 4,565 | 5,867 | 7,304 | 8,074 | **8,619** |
| Less: Bought in materials and services | (3,620) | (4,845) | (6,137) | (6,786) | **(7,186)** |
| Gross value added | 945 | 1,022 | 1,167 | 1,288 | **1,433** |
| | | | | | |
| Investment, interest and other income | 266 | 1,264 | 240 | 778 | **461** |
| Share of associates' profit | 108 | 121 | 53 | 87 | **114** |
| Share of joint ventures' profit | 37 | 35 | 48 | 55 | **60** |
| Other non-operating expenses | (41) | (554) | (74) | (172) | **(348)** |
| | 1,315 | 1,888 | 1,434 | 2,036 | **1,720** |
| **Distribution** | | | | | |
| To employees in wages, | | | | | |
| salaries and benefits | 540 | 573 | 621 | 624 | **636** |
| To government in income | | | | | |
| and other taxes | 103 | 110 | 137 | 36 | **186** |
| To providers of capital on: | | | | | |
| Interest paid on borrowings | 72 | 73 | 54 | 53 | **54** |
| Dividends to shareholders | 28 | 91 | 73 | 91 | **498** |
| | 743 | 847 | 885 | 804 | **1,374** |
| **Retained in Business** | | | | | |
| Depreciation and amortisation | 164 | 170 | 174 | 163 | **185** |
| Retained profits | 270 | 302 | 235 | 911 | **28** |
| Minority interests | 97 | 526 | 112 | 130 | **125** |
| | 531 | 998 | 521 | 1,204 | **338** |
| | | | | | |
| Other non-operating expenses | 41 | 43 | 28 | 28 | **8** |
| | 572 | 1,041 | 549 | 1,232 | **346** |
| | | | | | |
| **Total distribution** | 1,315 | 1,888 | 1,434 | 2,036 | **1,720** |

## PRODUCTIVITY DATA

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Average staff strength | 12,430 | 13,301 | 14,862 | 13,199 | **14,453** |
| Employment costs *(S$ million)* | 540 | 573 | 621 | 624 | **636** |
| Sales per employee *(S$'000)* | 373 | 447 | 491 | 612 | **596** |
| Profit after tax per employee *(S$'000)* | 31 | 69 | 28 | 88 | **45** |
| | | | | | |
| Economic value added *(S$ million)* | 91 | 306 | 251 | 925 | **417** |
| Economic value added spread *(%)* | 1.8 | 5.6 | 4.8 | 19.2 | **8.1** |
| Economic value added per employee *(S$'000)* | 7.32 | 22.98 | 16.89 | 70.06 | **28.85** |
| | | | | | |
| Value added *(S$ million)* | 945 | 1,022 | 1,167 | 1,288 | **1,433** |
| Value added per employee *(S$'000)* | 76 | 77 | 79 | 98 | **99** |
| Value added per employment costs *(S$)* | 1.75 | 1.79 | 1.88 | 2.06 | **2.25** |
| Value added per dollar investment in fixed assets *(S$)* | 0.27 | 0.29 | 0.30 | 0.35 | **0.36** |
| Value added per dollar sales *(S$)* | 0.21 | 0.17 | 0.16 | 0.16 | **0.17** |

*The figures above reflect core businesses only.*

# GROUP REVIEW

## CRITICAL ACCOUNTING POLICIES

The financial statements are prepared in accordance with the Singapore Financial Reporting Standards (FRS).

With effect from January 1, 2007, the Group adopted the following new or amended FRS and Interpretations to FRS (INT FRS) which are relevant to the Group's operations:

| | |
|---|---|
| FRS 1 Amendments | Presentation of Financial Statements – Capital Disclosures |
| FRS 40 | Investment Property |
| FRS 107 | Financial Instruments: Disclosures |
| INT FRS 29 Amendments | Disclosure – Service Concession Arrangements (Early adoption in 2007) |
| INT FRS 108 | Scope of FRS 102 Share-based Payment |
| INT FRS 110 | Interim Financial Reporting and Impairment |
| INT FRS 112 | Service Concession Arrangements (Early adoption in 2007) |

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies, except for the adoption of INT FRS 108 and INT FRS 112. FRS 107 and the complementary amended FRS 1 introduce new disclosures relating to financial instruments and capital respectively.

The change in accounting policy is applied retrospectively. The effects of adoption on the financial statements are as follows:

The following are two critical accounting policies that form the basis upon which the financial statements are prepared:

### Revenue recognition

Revenue on goods sold is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from repair work, engineering, overhaul, service work, and marine and civil construction contracts is recognised based on the percentage of completion method. The stage of completion is assessed by reference to surveys of work performed or by reference to the percentage of costs incurred to-date to the estimated total costs for each contract, with due consideration made to include only those costs that reflect work performed. Revenue on other service work is recognised when the work is completed. Revenue on sale of electricity and gases is billed and recognised upon delivery.

### Impairment of assets

The recoverability or realisable value of the Group's assets is assessed in accordance with the various FRS. The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

| | Company | | Group | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Balance sheet** | | | | |
| Increase/(Decrease) in: | | | | |
| Investment in subsidiaries | **13,557** | 8,524 | **–** | – |
| Interests in joint ventures | **–** | – | **2,013** | 1,577 |
| Share-based payments reserve | **13,557** | 8,524 | **–** | – |
| Currency translation reserve | **–** | – | **(200)** | (66) |
| Accumulated profits | **–** | – | **–** | 397 |
| **Income statement** | | | | |
| Increase in share of results (net of tax) of joint ventures | **–** | – | **2,213** | 1,246 |

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and as and when indicators of impairment occur.

The rest of the significant accounting policies are set out in Note 2 in the Notes to the Financial Statements.

## FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including changes in interest rates, foreign exchange rates and commodity prices as well as credit risk.

Please refer to the Risk Management & Mitigation Strategies section of this report for details on the management of these risks.

## SENSITIVITY ANALYSIS

In managing its interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, any prolonged adverse changes in foreign exchange and interest rates would have an impact on consolidated earnings.

Please refer to the sensitivity analysis as set out in Note 40 in the Notes to the Financial Statements.

## FACILITIES

Sembcorp consolidates and diversifies its sources of funding by building on existing bilateral banking relationships and developing new ones. The Group also accesses capital markets as and when appropriate. Available credit facilities amounted to S$4.8 billion (2006: S$4.9 billion), with unfunded facilities at S$1.9 billion (2006: S$2.3 billion).

## BORROWINGS

Our focus is on maintaining an efficient and optimal mix of committed and uncommitted facilities and fixed and floating rate borrowings. The Group remains committed to balancing the cost of funding with prudent financial ratios. As at December 31, 2007, gross borrowings amounted to S$1.3 billion, of which 86% (2006: 87%) was committed funding. Of the overall debt portfolio, 64% (2006: 56%) constituted fixed rate debts which were not exposed to interest rate fluctuations.

The Group seeks to limit its interest rate exposure by adopting a prudent debt structure while balancing this with funding cost considerations. The weighted average cost of funding was lower at 3.85% (2006: 4.03%) and this was greatly assisted by a declining Singapore dollar interest rate environment in 2007. Interest cover ratio remained healthy at 15.3 times (2006: 22.4 times).

The current maturity profile of the Group's debt continues to favour the longer dated maturities, which reduces the impact of refinancing risk. As at end-2007, the portion of Group debt maturing beyond one year was 62%. At the same time, the debt structure allows for maximum flexibility to pay down short-term debts with available cash.

## TREASURY MANAGEMENT

The Group's financing and treasury activities continue to be mainly centralised within Sembcorp Financial Services (SFS), the funding vehicle of the Group. SFS on-lends funds borrowed by it to companies within the Group. SFS also actively manages the cash within the Group by taking in surplus funds from those with excess cash and lending to those with funding requirements. Such proactive cash management continues to be an efficient and cost-effective way of financing the Group's requirements.

# GROUP REVIEW

## FINANCING & TREASURY HIGHLIGHTS (S$ million)

| | 2007 | % | 2006 | % | 2005 | % |
|---|---|---|---|---|---|---|
| **SOURCE OF FUNDING** | | | | | | |
| ***Funded bank facilities, capital markets and available funds*** | | | | | | |
| Uncommitted facilities available for drawdown | **3,383** | | 3,640 | | 3,280 | |
| Committed facilities available for drawdown | **1,369** | | 1,151 | | 997 | |
| Cash and cash equivalents | **1,297** | | 1,186 | | 1,231 | |
| Total facilities and available funds | **6,049** | | 5,977 | | 5,508 | |
| Less: Uncommitted funding drawn down | **(187)** | | (159) | | (80) | |
| Less: Committed funding drawn down | **(1,154)** | | (1,151) | | (997) | |
| Unutilised funded facilities and funds available | **4,708** | | 4,667 | | 4,431 | |
| ***Unfunded bank facilities*** | | | | | | |
| Unfunded facilities available for drawdown | **1,893** | | 2,349 | | 2,667 | |
| Less: Amount drawn down | **(985)** | | (970) | | (1,235) | |
| Unutilised unfunded facilities available | **908** | | 1,379 | | 1,432 | |
| Total unutilised facilities and funds available | **5,616** | | 6,046 | | 5,863 | |
| **FUNDING PROFILE** | | | | | | |
| ***Maturity profile*** | | | | | | |
| Due within one year | **501** | **37** | 219 | 16 | 185 | 17 |
| Due between one to five years | **656** | **49** | 816 | 62 | 681 | 61 |
| Due after five years | **184** | **14** | 288 | 22 | 240 | 22 |
| | **1,341** | **100** | 1,323 | 100 | 1,106 | 100 |
| ***Debt mix*** | | | | | | |
| Fixed rate debt | **862** | **64** | 746 | 56 | 670 | 61 |
| Floating rate debt | **479** | **36** | 577 | 44 | 436 | 39 |
| | **1,341** | **100** | 1,323 | 100 | 1,106 | 100 |
| ***Currency denomination of debt*** | | | | | | |
| SGD | **969** | **72** | 1,014 | 77 | 829 | 75 |
| USD | **66** | **5** | 32 | 2 | 24 | 2 |
| GBP | **286** | **21** | 257 | 19 | 209 | 19 |
| Others | **20** | **2** | 20 | 2 | 45 | 4 |
| | **1,341** | **100** | 1,323 | 100 | 1,106 | 100 |

## FINANCING & TREASURY HIGHLIGHTS (S$ million)

| | 2007 | % | 2006 | % | 2005 | % |
|---|---|---|---|---|---|---|
| **DEBT RATIOS** | | | | | | |
| ***Interest cover ratio*** | | | | | | |
| Earnings before interest, tax, | | | | | | |
| depreciation and amortisation | **824** | | 1,207 | | 633 | |
| Interest on borrowings | **54** | | 54 | | 54 | |
| Interest cover (times) | **15.3** | | 22.4 | | 11.7 | |
| | | | | | | |
| ***Debt/equity ratio*** | | | | | | |
| Non-recourse project financing | **511** | **39** | 538 | 41 | 399 | 36 |
| Long-term debt | **398** | **29** | 622 | 47 | 546 | 49 |
| Short-term debt | **432** | **32** | 163 | 12 | 161 | 15 |
| | **1,341** | **100** | 1,323 | 100 | 1,106 | 100 |
| Less: Cash and cash equivalents | **(1,297)** | | (1,186) | | (1,231) | |
| Net debt/(cash) | **44** | | 137 | | (125) | |
| Net (cash) excluding project financing | **(306)** | | (238) | | (394) | |
| | | | | | | |
| Net gearing excluding project financing *(times)* | **Net cash** | | Net cash | | Net cash | |
| Net gearing including project financing *(times)* | **0.01** | | 0.04 | | Net cash | |
| | | | | | | |
| ***Cost of funding*** | | | | | | |
| Fixed | **3.59** | | 4.02 | | 4.23 | |
| Floating | **5.43** | | 4.07 | | 2.79 | |
| Weighted average cost of funds | **3.85** | | 4.03 | | 3.73 | |

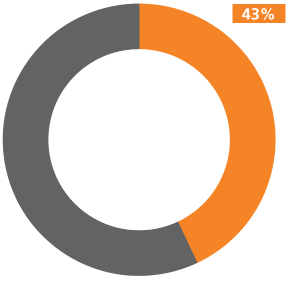
# UTILITIES REVIEW

## PERFORMANCE SCORECARD (S$ million)

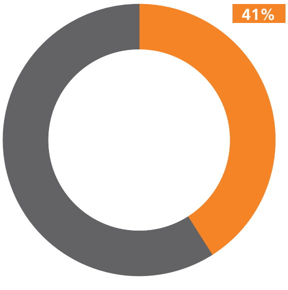
| | 2007 | 2006 | Change (%) |
|---|---|---|---|
| Turnover | **3,765.6** | 3,464.4 | 9 |
| EBITDA | **404.7** | 366.9 | 10 |
| EBIT | **302.1** | 277.5 | 9 |
| PATMI before EI | **230.2** | 194.1 | 19 |
| PATMI after EI | **230.2** | 194.1 | 19 |
| Return on equity *(%)* | **24** | 24 | – |

*Figures have been restated to reflect re-classifications, including the re-classification of Offshore Engineering from Utilities to Other Businesses.*

## CONTRIBUTION TO GROUP TURNOVER




## CONTRIBUTION TO GROUP PATMI BEFORE EI




## KEY DEVELOPMENTS

- Utilities operations in Singapore, the UK and China secured new and renewed long-term contracts worth a total of S$2.2 billion.
- Heads of agreement signed for the importation of an additional 90 billion British thermal units per day of natural gas from Indonesia.
- Secured contract to design, build, own and operate Singapore's newest and largest NEWater plant.
- Secured new customer Ensus, which is building a 400 million litres per annum bio-ethanol plant on the Wilton International site.
- Sembcorp Biomass Power Station, one of the UK's largest biomass renewable energy projects commenced operations in September.
- Expansion of existing water facilities and new beachheads established in Tianjin and Shenyang, Northeast China.

## COMPETITIVE EDGE

- A global leader in the provision of centralised utilities and services to multiple customers in energy intensive clusters, such as chemical and petrochemical hubs.
- Strong operational and technical capabilities in energy and water.
- Operations with more than 3,300 megawatts of installed power capacity worldwide and the ability to generate energy from a variety of fuels including renewable sources.
- Singapore's largest water management company with approximately four million cubic metres per day of water capacity in operation and under construction.
- Technical expertise and operational scale in treating high concentration and complex wastewater profiles from multiple sources.
- Strong strategic relationships and partnerships with multinational customers and local governments.

## OPERATIONS REVIEW

Sembcorp's Utilities unit posted good growth in 2007. Turnover was S$3.8 billion, a 9% jump over 2006, while profit after tax and minority interest (PATMI) grew 19% to S$230.2 million, driven by strong performance from our UK and Singapore operations. Our Utilities business remained the largest profit contributor to the Group and comprised 41% of Group PATMI before exceptional items. Return on equity remained healthy at 24%.

In 2007, our Utilities operations in Singapore, the UK and China secured a total of S$2.2 billion worth of new and renewed long-term contracts.

### Singapore

Our Singapore operations continued to see organic growth on Jurong Island during the year. We secured a total of S$240 million worth of new and renewed utilities and gas contracts with an average contract duration of approximately 13 years. During the year, we commenced the supply of utilities to several new customers on Jurong Island. We also successfully completed the first major inspection of our cogeneration power facilities.

In November, we signed a heads of agreement for the importation of 90 billion British thermal units per day of natural gas from the West Natuna Sea, Indonesia for delivery in 2010. This additional gas supply will augment our capacity by 26% to a total of 431 billion British thermal units per day, and is primarily intended for process use and the production of steam to meet growing demand in the Jurong Island petrochemical complex. Some quantity of gas is also expected to be consumed by industrial and chemical customers. In February 2008, we also started our retail compressed natural gas (CNG) service on mainland Singapore under the new brand name "Gplus". This is our second CNG retail station as we own and operate Singapore's first CNG refuelling station which is located on Jurong Island.

In January 2008, we secured a strategically important contract to design, build, own and operate Singapore's newest and largest NEWater plant on a 25-year contract with the Public Utilities Board, Singapore's national water agency. When fully completed in 2010, the S$180 million facility will produce 50 million gallons (or 228,000 cubic metres) per day of water.

### UK

Underpinned by favourable supply contracts, our UK operations continued to deliver strong performance and growth. In total, we secured new and renewed contracts worth S$1.4 billion, including a 15-year contract with Ensus, which will be locating its new 400 million litres per annum bio-ethanol plant on the Wilton International site. With this, the total external investment attracted by Sembcorp to the site over the last four years amounts to approximately S$1.5 billion. On the back of securing the Ensus contract, we commenced construction of a new combined heat and power unit on the site. The new combined heat and power unit comprises a gas turbine which would be able to generate an additional 42 megawatts of power and a heat recovery steam generator which would be capable of producing up to 162 tonnes of steam. Expected to be operational end-2008, the new facility will enhance our utilities supply to customers on the site including Ensus.

In September, our 30 megawatt biomass power plant, Sembcorp Biomass Power Station, started operations. The S$193 million wood-fuelled biomass power station is the first large-scale industrial power plant in the UK to be fuelled entirely by renewable wood. The plant's operations are classified as carbon neutral, making available unused carbon allowances to trade as carbon credits. In addition to carbon credits, Sembcorp Biomass Power Station generates a fresh stream of revenue from the power sold, as well as from Renewable Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs). The opening of the facility is a significant milestone for Sembcorp in green energy and will serve to strengthen our capabilities in producing energy from alternative fuels.

### Other markets

In line with our strategy of establishing and growing beachheads in target markets, we continued to strengthen our foothold in China. During the year, our China

# UTILITIES REVIEW

operations secured a total of S$592 million worth of new contracts comprising mostly 15 to 20 year long-term contracts. We also expanded our operations on existing sites and made inroads into Northeast China.

To meet increasing customer demand, we commenced the expansion of our industrial wastewater treatment capacities in Nanjing and Zhangjiagang. In addition to our current 12,500 cubic metres per day Nanjing wastewater treatment facility, we are now building a new 30,000 cubic metres per day plant. Meanwhile, in Zhangjiagang, our wastewater treatment facility is undergoing a 15,000 cubic metres per day expansion.The Zhangjiagang expansion will complement the facility's existing capacity of 20,000 cubic metres per day and will be the first plant in China to treat high concentration wastewater directly from customers without pre-treatment. It has been selected by the governments of Singapore and China as a joint showcase for collaboration on integrated water resources management. During the year, construction of a 100,000 cubic metres per day industrial water treatment facility in Nanjing Chemical Industrial Park was also completed.

In 2007, we entered the Northeast China market, securing two new beachheads for the operation of wastewater treatment and industrial water facilities. In May, we entered into a 90%-owned joint venture which will build, own and operate an industrial wastewater treatment plant in Tianjin Lingang Industrial Area in Tianjin. The 10,000 cubic metres per day facility is expected to be completed in 2008. Once completed, the facility will undergo a further expansion to cater to the projected increase in customer demand. The total expected investment in the project including the expansion is approximately S$54 million. In Shenyang, our 50%-owned joint venture will acquire, expand, own and operate an industrial water supply network in the chemical industrial park of the Shenyang Economic & Technological Development Zone in Liaoning Province for approximately S$17 million. The project, involving the acquisition and expansion of an existing industrial water supply network, will cover fifteen square kilometres and have the capacity to supply 100,000 cubic metres of industrial water per day.

In Shanghai, our 30%-owned Shanghai Cao Jing Co-generation plant continued to face a shortage of natural gas, which has affected the whole of Shanghai. In 2007, the facility ran one of its two gas turbines for part of the year. Construction of two 130 tonnes per hour supplementary coal fired boilers are underway and these are expected to be operational in the first half of 2008.

In Vietnam, our Phu My 3 power plant continued to do well during the year thanks to growing demand for electricity in Vietnam.

In the UAE, our independent water and power plant in Fujairah completed its first year of operations, surpassing the contractual plant availability. Construction for the 225 megawatt expansion, which will raise total generation capacity of the facility to 760 megawatts, is progressing well and on track to be completed by the first quarter of 2009.

## MARKET REVIEW AND OUTLOOK

### Singapore

During the year, Singapore's Economic Development Board brought in a record S$16 billion of manufacturing fixed asset investments into Singapore, the first time it had exceeded the S$10 billion mark. The chemical sector saw the highest level of investment at S$9 billion, growing 3% during the year. The Economic Development Board forecasts the fixed asset investment for 2008 to range from S$17 billion to S$19 billion, indicating a positive investment outlook for Singapore despite expectations of a worldwide economic slowdown. In September, petrochemical giant ExxonMobil Chemical confirmed plans to build a second world-scale petrochemical project comprising a world-scale steam cracker and associated derivative units on Jurong Island. The cracker, with an annual capacity of one million tonnes per annum of ethylene, is expected to be completed in early 2011. Together with Shell's 800,000 tonnes per annum ethylene cracker, scheduled to be completed in 2009/2010, it is expected to attract a wave of downstream chemical companies to locate on Jurong Island.

To meet growing demand on Jurong Island, we expect to conclude the fully termed gas sales agreement with Premier Oil Indonesia in 2008 for the importation of 90 billion British thermal units per day of natural gas by 2010. Our 400 tonnes per hour very high pressure boiler is scheduled to be completed in the first half of 2008, and will further boost the efficiency and capacity of our steam production. During the year, we also expect to commence the supply of utilities to Lucite International's methyl methacrylate manufacturing plant. Under the Gas Act, our natural gas unit Sembcorp Gas is required to transfer its onshore natural gas pipeline assets to the designated gas transporter, PowerGas. The government of Singapore has informed Sembcorp Gas that claims for compensation associated with the transfer of its pipeline assets will be considered. The compensation value is still being finalised and the transfer to PowerGas has not been effected.

In 2008, our Singapore operations are expected to continue generating stable earnings, underpinned by long-term contracts.

**UK**

In the UK, Northeast England's regional exports surpassed the GBP10 billion for the first time in 2007. The strongest contributing sector was chemicals and petrochemicals. The bulk of this industry is situated on Teesside, the location of Wilton International.

There continues to be growth opportunities for Sembcorp both in the UK as well as in Europe. On-site, we expect to commence the supply of utilities to SABIC's 400,000 tonnes per annum low density polyethylene plant in 2008. To enhance our utilities supply, our four new package boilers with a total capacity of 120 tonnes per hour are expected to be completed in the first half of 2008, and our new combined heat and power unit by end-2008. 2008 will also see the first full year of operations of our Sembcorp Biomass Power Station. Outside the UK, we continue to seek suitable opportunities to grow the business in Europe.

Our UK operations have been performing exceptionally well due to favourable supply contracts that are locked in place until end-2007 and March 2008. With the expiry of these contracts, the performance of the unit is expected to be affected. Nevertheless, the return on our investment in the UK has significantly exceeded all acquisition expectations, and underpinned by long-term contracts, we expect the business to continue as a significant profit contributor to Utilities.

**Other markets**

According to China's Bureau of Statistics, the country's gross domestic product grew 11.4% in 2007. On the back of this robust growth, China's petrochemical and chemical sector continues to expand with both local as well as multinational companies planning to expand chemical production. In particular, in view of increasing commitment to environmental protection and resource conservation, the demand for industrial wastewater treatment is expected to be strong, especially for the treatment of complex wastewater with high organic and saline content. According to the International Energy Agency, China is set to become the world's largest consumer of energy by about 2010. China's economic boom has led to surging demand for electricity. Exacerbated by a shortage of coal, the country is currently undergoing a power supply crisis. In an effort to control inflation, electricity prices have also been capped. Going forward, the Chinese government is accelerating its development of a modern energy industry, with resource conservation and environmental protection as two basic state policies. It has been encouraging the construction of large power plants and cogeneration of heat and power and is looking to develop clean coal-fired power.

In 2008, three of our wastewater treatment facilities in China are scheduled to commence commercial operations: Nanjing and Tianjin in the first half of the year and Zhangjiagang in the second half of the year. We have a dedicated facility in Nanjing treating high salinity wastewater and another in Zhangjiagang specialising in high concentration wastewater. Our industrial water distribution network in Shenyang is also expected to be operational by the second half of 2008. In view of ongoing natural gas shortage, the performance of our cogeneration

# UTILITIES REVIEW

plant in Shanghai will continue to be contingent on the quantity of allocated gas during the year. Furthermore, country-wide fuel price increases are also expected to affect the profitability of our 30%-owned Shanghai Cao Jing Co-generation plant.

We expect our Phu My 3 power plant in Vietnam and our Fujairah 1 independent water and power project in the UAE to continue performing well in 2008. In Vietnam, Electricity of Vietnam expects power usage in 2008 to increase by 16%. Due to the rapid pace of industrialisation in the country, an additional 2,800 megawatts of electricity per year is expected to be needed up to 2011. With the growth in demand, Vietnam's Ministry of Industry and Trade projects that over 20 power projects will need to be operational between 2008 and 2010. In the UAE, demand for water and electricity is expected to grow at a minimum rate of 10% per year until 2010. In October, the UAE government also approved the privatisation of assets belonging to the Federal Electricity and Water Authority and proposed legislative amendments to allow private investors to participate in the production and transmission of water and electricity in the Emirates. We continue to explore opportunities for growth in these regions, particularly in the fast-growing water and energy sectors.

Overall, our Utilities business is expected to continue being a major profit contributor to Sembcorp in 2008, underpinned by long-term contracts.

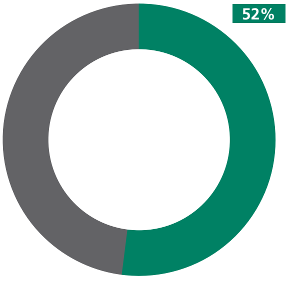
**Sembcorp's wastewater treatment plant in Nanjing Chemical Industrial Park in China.**

# MARINE & OFFSHORE ENGINEERING REVIEW

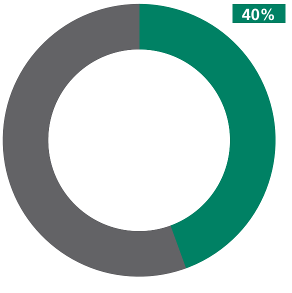
## PERFORMANCE SCORECARD (S$ million)

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

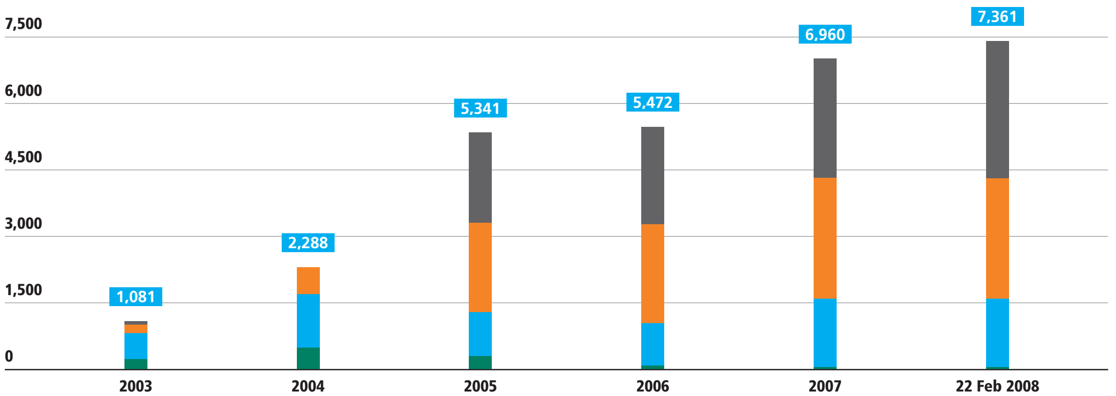
Turnover from ship conversion and offshore activities recorded a strong growth of 24% to S$1.1 billion, constituting 25% of total turnover from our Marine & Offshore Engineering business. S$1.7 billion worth of contracts were secured for conversion and offshore platform projects in 2007, accounting for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

# ENVIRONMENTAL MANAGEMENT REVIEW

## PERFORMANCE SCORECARD (S$ million)

| | 2007 | 2006 | Change (%) |
|---|---|---|---|
| Turnover | **207.5** | 211.9 | (2) |
| EBITDA | **9.0** | (21.7) | NM |
| EBIT | **1.7** | (28.1) | NM |
| PATMI before EI | **13.6** | (18.4) | NM |
| PATMI after EI | **13.6** | (16.8) | NM |
| Return on Equity *(%)* | **7** | (13) | NM |

## OPERATIONS REVIEW

In 2007, Sembcorp's Environmental Management business recorded a turnover of S$207.5 million. The unit turned around to profitability with profit after tax and minority interest (PATMI) at S$13.6 million compared to a negative S$16.8 million the previous year.

During the year, we continued our focus on the pre-disposal treatment and waste-to-resource businesses with the development of a solid waste treatment and recycling facility in Tuas, Singapore. The facility allows an increased recovery of recyclables and will assist in achieving higher recycling rates. An efficient way of extracting recyclable materials from general solid waste, the facility features an environmentally friendly wood boiler where locally-recovered wood chips are used. In reducing the quantity of waste to be incinerated and lowering the cost of waste disposal, the facility would also contribute towards improving the performance of our municipal waste collection business in Singapore where we continue to serve four out of nine municipalities.

Our Australian associate, SITA Environmental Solutions, performed well during the year and also successfully expanded its post-collection/treatment business. Four businesses specialising in alternative waste treatment, paper recycling, green waste composting and the recycling of construction & demolition waste to produce refuse-derived fuel were acquired during the year.

In India, our subsidiary SembRamky Environmental Management acquired a new biomedical waste facility in West Bengal. The facility started operations in September 2007. We now operate eight biomedical waste treatment facilities in India, with a total incineration capacity of 12.5 tonnes per day.

During the year, we continued to review and rationalise our businesses. In October, we divested our entire shareholding in SembEnviro KK Asia.

## KEY DEVELOPMENTS

- Development of a solid waste treatment and recycling facility in Singapore.
- Australian associated company expands post-collection/treatment business with four new acquisitions, including a waste-to-alternative-fuel facility.

## COMPETITIVE EDGE

- A leading environmental management player that provides integrated waste management services in Singapore with a strong focus on pre-disposal treatment and waste-to-resource businesses in the Asia-Pacific region.
- Ability to offer comprehensive integrated environmental management services to municipal, industrial and commercial customers.
- Development and ownership of differentiating technology and solutions, including treatment methods and waste-to-resource know-how.

## MARKET REVIEW AND OUTLOOK

The Singapore waste collection sector for all types of waste is expected to continue to be competitive. However, there remains considerable market space for the introduction of new waste management methods and technologies such as pre-disposal treatment and the innovative use of recovered resources, including the development of alternative fuels. 2008 will see our solid waste treatment and recycling facility in Singapore fully ramped up. Our priority for the year ahead would be to ensure its successful operations and advance the application of our pre-disposal treatment and waste-to-resource activities.

Abroad, our Australian associate is expected to continue performing well. Selective growth opportunities would also be pursued to expand its existing collection and post-collection/treatment businesses.

Global demand for environmental management services is expected to continue growing driven by stricter regulations as well as increasing environmental awareness and legal enforcement. In particular, developing countries are moving towards the treatment and recovery of recyclables from waste prior to disposal. There is also an increased focus in deriving renewable energy sources from waste in view of rising oil and resource prices as well as technological advancements. In light of these market trends, our business focus continues to be on pre-disposal treatment and waste-to-resource.

Barring unforeseen circumstances, the performance of our Environmental Management business in 2008 is expected to be better than that of 2007.

# INDUSTRIAL PARKS REVIEW

## PERFORMANCE SCORECARD (S$ million)

| | 2007 | 2006 | Change (%) |
|---|---|---|---|
| Turnover | **25.8** | 68.0 | NM |
| EBITDA | **58.2** | 130.1 | NM |
| EBIT | **55.4** | 120.4 | NM |
| PATMI before EI | **34.0** | 42.4 | (20) |
| PATMI after EI | **72.7** | 149.3 | (51) |
| Return on Equity *(%)* | **13** | 24 | (46) |

*Note:*

*Industrial Parks Group comprises Vietnam Singapore Industrial Park (VSIP) Joint Venture Company, Wuxi-Singapore Industrial Park (WSIP) and Gallant Venture, Sembcorp Parks Management as well as other investments and property. The turnover of VSIP, WSIP and Gallant Venture is not consolidated as these are joint ventures or associates.*

*NM: Comparisons of 2006 and 2007 figures are not meaningful as Nirwana Gardens was divested and VSIP deconsolidated in 2006, and Wuxi Garden City Mall divested in 2007.*

## OPERATIONS REVIEW

Sembcorp's Industrial Parks business' turnover for 2007 was S$25.8 million compared to S$68.0 million in 2006. This was due to the divestment of Wuxi Garden City Mall Hotel, as well as the deconsolidation of Vietnam Singapore Industrial Park (VSIP) as a subsidiary with effect from April 2006. Profit After Tax and Minority Interest (PATMI) before exceptional items (EI) in 2007 was S$34.0 million compared to S$42.4 million in 2006. PATMI before EI in 2006 included a significant one-off gain of S$16.4 million due to the write-back of provision on recovery of loan and interest income from Wuxi-Singapore Industrial Park (WSIP). Excluding this one-off gain in 2006, our industrial parks business' performance in 2007 would have improved over the previous year. In addition, Gallant Venture's profit contribution in 2007 was lower than its contribution in 2006. PATMI after EI was S$72.7 million compared to S$149.3 million in 2006. In 2006, the unit's exceptional gain totalled S$106.9 million, mainly due to the sale of Wuxi Garden City Mall, while in 2007, an exceptional gain of S$38.7 million was recorded from the sale of 70 million (2.9%) of Gallant Venture shares.

In 2007, Sembcorp's VSIP projects in Vietnam continued to deliver strong performance and growth. Reflecting strong demand from the country's industrial sector, 2007 saw 18 new customers signing agreements to locate in VSIP I and 17 existing tenants expanding

## KEY DEVELOPMENTS

- Launched in 2006, Vietnam Singapore Industrial Park II is close to full take-up, with 95% of the land available taken up.
- Developing a new 700-hectare industrial park and township in Bac Ninh Province in northern Vietnam.
- Memorandum of understanding signed to explore the feasibility of developing a 1,200-hectare industrial park and township, in Hai Phong, Vietnam's third largest city.

## COMPETITIVE EDGE

- Owns, develops, markets and manages industrial parks in Indonesia, China and Vietnam.
- Recognised as one of the leading industrial space providers in Southeast Asia, with over 400 multinational companies and leading local enterprises as tenants.
- Expertise in industrial park management and international marketing attracts premier customers, including multinational companies and leading local enterprises.
- Integrated approach to township development designed to provide a world-class manufacturing environment.

their operations in the industrial park, which now hosts 239 tenants. The land area developed for sale is now 81% occupied, while factory space in the industrial park remains fully occupied. To meet additional demand for utilities, VSIP I increased its water supply to tenants from 33,000 to 42,000 cubic metres per day in the third quarter of 2007. Sewage treatment capacity was also expanded by 6,000 cubic metres per day, bringing total capacity to 12,000 cubic metres per day. The expansion will be operational by end of first quarter 2008.

Likewise, VSIP II also saw growth. The factories remained fully occupied, and as of December 2007, VSIP II had 114 customers, including 45 new customers secured during the year. Three existing tenants also expanded their operations. Launched in 2006, 95% of the land in the newly developed industrial park has already been taken up. The supply of utilities has also been increased to meet demand. Water supply in VSIP II was increased from 5,000 to 7,900 cubic metres per day in the fourth quarter of 2007. Meanwhile, construction of its 6,000 cubic metres per day sewage treatment plant was completed and will be operational by the first quarter of 2008.

During the year, we expanded our presence in Vietnam with the launch of a third VSIP project in Bac Ninh Province in July. The new VSIP-Bac Ninh project not only marks our entry into the growing northern Vietnam market, but will also showcase our first integrated industrial park and township concept in the country. Akin to a city within an industrial park, the industrial township will offer a world-class manufacturing, residential and commercial environment for multi-national companies and local leading enterprises, and is an improvement over traditional industrial parks in terms of urban planning and facilities. The 700-hectare VSIP-Bac Ninh, which will consist of 500 hectares of industrial area and 200 hectares for residential and commercial development, is strategically located within Vietnam's Northern Economic Zone near Hanoi. VSIP-Bac Ninh will be home to non-pollutive, high-tech and capital intensive industries. Since the announcement of the US$103.7 million project in July, 15 new customers have already signed letters of intent to set up operations in the park. The investments are set to occupy 130 hectares of land.

With the latest project in Bac Ninh, VSIP has established three industrial parks and townships in Vietnam totalling 1,545 hectares. The industrial parks have attracted 368 customers to-date. In August, a memorandum of understanding was also signed with the People's Committee of Hai Phong City to explore the feasibility of developing a fourth VSIP project, a 1,200-hectare industrial park and township, in Hai Phong, Vietnam's third largest city.

In China, our WSIP operations saw land take-up reach 100% during the year. Over 80% of the factories in the industrial park are now occupied. New commitments were signed with four companies while 18 existing tenants expanded their operations in the industrial park. Most notably in December 2007, a 12-year lease agreement was signed with NYSE-listed Suntech Power, the world's largest solar module manufacturer. WSIP will construct a 110,000 square metre build-to-suit factory for Suntech, to be completed in July 2008. There are currently 68 tenants operating in WSIP, with a total investment value of about US$1.7 billion.

Gallant Venture's profit contribution in 2007 was lower than in 2006. This was mainly due to lower revenues from land sales and rentals, partially offset by lower operating cost, financing cost and tax expense.

## MARKET REVIEW AND OUTLOOK

The current economic outlook for our key market of Vietnam is positive. Local economic policies and the overall business environment have improved with Vietnam's accession to the World Trade Organisation in 2007. Export revenue is targeted to grow 22% in 2008. Likewise, industrial production is expected to post robust growth with Binh Duong, Hanoi and Hai Phong amongst the best-performing provinces. In view of the positive economic outlook, we expect our Vietnam industrial parks to continue performing well. In particular, as electronics and automotive industries

# INDUSTRIAL PARKS REVIEW

converge in manufacturing locations outside Hanoi, we expect good take-up rates for VSIP-Bac Ninh, in northern Vietnam.

WSIP in China is expected to continue generating stable baseload earnings from utilities supply and rentals. However, with the available land fully taken up and factory space reaching almost full occupancy, profit growth from the sale of land is expected to moderate. According to China's National Bureau of Statistics, 2007 saw China's economy growing 11.4% and industrial output expanding 18.5%. For 2008, the World Bank forecasts China's Gross Domestic Product to grow by 9.6%. WSIP is well-positioned to benefit from continued growth in the country and plans are currently underway to further develop and expand the industrial park. WSIP has evolved from a general industrial park to one that caters to IT-related and high-tech manufacturing, with the potential for business park development.

Our Industrial Parks unit aims to maintain its performance in 2008. However, should the USA enter into a prolonged recession, causing a slowdown in the manufacturing sector, the Industrial Parks business may be affected.

Sembcorp provides essential utilities and services to many of the world's leading chemical and manufacturing companies at the Wilton International site in the UK, pictured here.