*West Triton Baker Marine Pacific Class 375 jack-up rig built by Sembcorp Marine*

# MARINE REVIEW

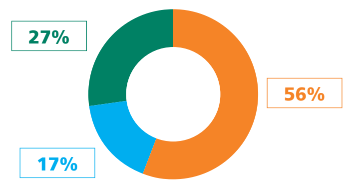
## Performance Scorecard *(S$ million)*

| | 2011 | 2010 | Change (%) |
|---|---|---|---|
| Turnover | **3,960.2** | 4,554.9 | (13) |
| EBITDA | **825.8** | 1,081.8 | (24) |
| PFO | **792.4** | 1,045.1 | (24) |
| – EBIT | **739.1** | 998.2 | (26) |
| – Share of results: Associates & JVs, net of tax | **53.3** | 46.9 | 14 |
| Net profit | **751.9** | 860.3 | (13) |
| ROE *(%)* | **30.0** | 38.4 | (22) |

*Note: Figures taken at Sembcorp Marine level*

## Turnover by Segment

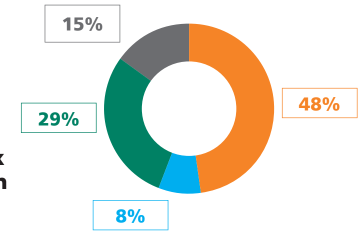
- Rig building
- Ship conversion & offshore
- Ship repair & others




## Orderbook Composition

- Jack-ups
- Ship conversion & offshore
- Semi-submersibles
- Drillship

**Net Orderbook of S$6.3 billion**
*(as at February 2012)*




## Key Developments

- Marked a significant milestone with the ground breaking of our first overseas Integrated New Yard Facility, Estaleiro Jurong Aracruz, in the state of Espirito Santo, Brazil
- Increased shareholding in Sembmarine Kakinada, a joint venture between Sembawang Shipyard and Kakinada Seaports, to 40%
- Delivered one of the world's largest jack-up rigs to Seadrill, specially designed for harsh operating conditions in the North Sea region
- S$3.7 billion worth of new orders secured in 2011, including orders for premium and high-specification jack-up rigs
- Current net orderbook of S$6.3 billion as at February 2012, with completions and deliveries till mid-2015

## Competitive Edge

- Singapore's leading marine and offshore engineering group with 49 years of proven track record
- Comprehensive portfolio encompassing the full spectrum of integrated solutions from ship repair, shipbuilding, ship conversion, rig repair and rig building to offshore engineering and construction
- Strong track record for quality and timely delivery as well as the ability to handle complex turnkey projects and repairs while meeting high standards for health, safety, security and environment
- Global network of strategically located yards
- Development and ownership of proprietary designs for rigs, drillships and container vessels
- Long-term strategic alliances with international ship operators provide a steady and growing baseload in ship repair

**Operations Review**

Sembcorp's Marine business recorded a turnover of S$4.0 billion in 2011 compared to S$4.6 billion in 2010 due to the timing, number and value of the projects in varying progressive revenue recognition stages in the three different sectors of rig building, ship conversion and offshore and ship repair.

The business' profit from operations (PFO) was S$792.4 million compared to S$1.0 billion in 2010 mainly due to fewer jack-up and semi-submersible rig projects. The business' operating margin was 18.6% as compared with 20.7% in 2010, largely attributable to fewer rig building projects, mainly jack-up rigs, as compared to more turnkey semi-submersible rigs in 2010.

The business' net profit attributable to shareholders of the company (net profit) was S$751.9 million compared to S$860.3 million in the previous year due to lower operating profit and the receipt of the full and final amicable settlement of the disputed foreign exchange transactions with Société Générale in 2010. This was offset by the higher interest income received in 2011 for deferred payment granted to customers and write-back of prior years' tax over-provisions. Return on equity for the year stood at 30%.

**Ship repair**

During the year, ship repair turnover stood at S$643.9 million, comparable to 2010's S$646.1 million and accounting for 16% of total turnover. A total of 264 vessels docked at our yards in 2011, lower than 2010's 282 vessels. However the average value per vessel increased to S$2.4 million from S$2.3 million in 2010. Long-term strategic alliance customers continued to provide a steady and growing baseload. Together with our regular repeat customers, they contributed 82% of total ship repair revenue in 2011. High value repairs to oil tankers, container vessels, liquefied natural gas (LNG) and liquefied petroleum gas (LPG) tankers, passenger ships and upgrading of drillship and floating production storage and offloading (FPSO) units dominated the segment.

During the year, we secured a long-term contract from Teekay Marine Services to provide repairs, refurbishment and upgrading of their fleet of 137 vessels.

**Ship conversion and offshore**

Turnover from ship conversion and offshore activities in 2011 registered a growth of 31% to S$1.1 billion from S$820.4 million in 2010. The sector contributed 27% of the total turnover of the Marine business. Projects delivered during the year included the conversion of *FPSO PSVM* for MODEC, the upgrading of FPSO *Glas Dowr* for Bluewater Energy Services and the pre-FPSO conversion of *P-62* for Petrobras Netherlands. In addition, we successfully completed the engineering and construction of *Flintstone*, a new generation of environmentally-friendly designed fallpipe rock dumping vessel for Tideway and the *Gajah Baru* platforms for Premier Oil Natuna Sea.

In terms of new contract wins, we secured a S$20 million contract from Golar LNG Energy to convert the *LNG Khannur*, a LNG tanker, to a floating storage and regasification unit, the FPSO conversion of the very large crude carrier (VLCC) tanker *MV TAR II* valued at S$130 million from MODEC and a US$300 million floating storage offloading tanker conversion contract from Mobil Cepu, a subsidiary of Exxon Mobil.

The business secured two contracts for offshore vessels comprising a S$123 million contract for the engineering, procurement, construction and commissioning of the *RV Investigator*, a dynamic positioning (DP) bluewater research vessel for Teekay Shipping (Australia) as well as a US$140 million contract from Equinox Offshore Accommodation to convert a ROPAX vessel into a DP Class 2 Accommodation and Repair Vessel.

Two offshore platform contracts were also secured during the year which included a S$600 million contract from PTTEP International for an Integrated Processing and Living Quarters platform and a contract from Bechtel Overseas for the assembly of process and cryogenic pipe-rack modules for Australia Pacific LNG's liquefied natural gas facility. Valued at US$100 million, the value of this contract may potentially increase in excess of US$150 million.

**Rig building**

The rig building segment contributed S$2.2 billion or 56% of our Marine business' total turnover, compared to S$3.0 billion in 2010. During the year, we completed and delivered three jack-up rigs on or ahead of schedule: the *El Qaher II*, a proprietary Pacific Class 375 design jack-up rig to Egyptian Offshore Drilling Company; the *West Elara*, a Gusto MSC CJ70 150A harsh-environment jack-up rig, the largest of its kind to be constructed by our Marine business, to Seadrill; and the *Transocean Honor*, the first proprietary Pacific Class 400 design jack-up rig to Transocean. In addition, we completed and delivered four semi-submersible rigs: the *West Pegasus*, a Moss Maritime CS50 MKII design semi-submersible rig, and three newbuild Friede & Goldman ExD ultra-deepwater semi-submersible rigs: the *West Capricorn* for Seadrill, the *Atwood Osprey* for Atwood Oceanics Pacific, and the *Songa Eclipse* for Songa Offshore.

Seven new rig orders were clinched during the year including the building of a turnkey Pacific Class 400 jack-up rig valued at US$182 million from Atwood Oceanics Pacific; a turnkey Gusto MSC CJ70 150A harsh-environment high-specification jack-up rig worth US$450 million from Seadrill; two sets of two turnkey Friede & Goldman JU3000N jack-up rigs valued at US$427.6 million and US$444 million from Noble, the latter with options for another two similar jack-up rigs; and a US$291.6 million GVA 3000E design accommodation semi-submersible rig from Prosafe, with options for another two units.

**Strategic milestones**

In December 2011, our Marine business achieved an important milestone in its growth and expansion strategy with the ground breaking of the first overseas Integrated New Yard Facility, Estaleiro Jurong Aracruz, in the municipality of Aracruz in the state of Espirito Santo – Brazil's second largest oil producer. Situated on an 82.5-hectare site with 1.6 kilometres of coastline, Estaleiro Jurong Aracruz is strategically located in close proximity to the rich oil and gas basin of Espirito Santo, one of Brazil's giant pre-salt reservoirs, and is poised to further strengthen our business' foothold in the country.

The Integrated New Yard Facility in Brazil will be developed in stages over a period of three years with full completion targeted for end 2014. Estaleiro Jurong Aracruz is well-positioned to serve Brazil's vibrant offshore and marine sector with wide-ranging capabilities in the construction of drilling rigs, FPSO integration, topside modules fabrication, and the repair and upgrading of ships and rigs.

In February 2012, Estaleiro Jurong Aracruz secured a contract worth approximately US$792.5 million from Guarapari Drilling, Netherlands, a subsidiary of Sete Brasil Participacões, for the design and construction of a drillship based on Jurong Shipyard's proprietary Jurong Espadon drillship design. Scheduled for delivery no later than the second quarter of 2015, the Jurong Espadon drillship represents the next generation of high-specification drillships with advanced capabilities for operational efficiency and ultra-deepwater operations worldwide. The order win is expected to be among the first of many orders in Sete Brasil's drillship expansion programme to develop Brazil's giant pre-salt oil fields.

The business also continues with the growth and expansion strategy in Singapore with construction of the Integrated New Yard Facility at Tuas View Extension progressing on schedule. As Singapore's first purpose-built, custom-designed integrated yard facility, the 206-hectare development will further reinforce our Marine business' competitive edge through enhanced work-efficient processes as well as state-of-the-art facilities and equipment.

Designed as a centralised and integrated "one-stop solutions" hub for ship repair and conversion, shipbuilding, rig building and offshore engineering and construction, the New Yard Facility will be well-equipped to serve a wide range of vessels including VLCCs, new generations of mega containerships, LNG carriers and passenger ships, while meeting new regulatory and environmental standards.

The facility will be built in three phases over a period of six years. Under the first phase, 73.3 hectares will be developed for ship repair and ship conversion operations. It will feature four VLCC drydocks with a total capacity of 1.6 million deadweight tonnes and quays of more than three kilometres.

In 2011, the Marine business exercised the option to increase its shareholding in Sembmarine Kakinada (SKL), a joint venture between Sembawang Shipyard and Kakinada Seaports, from 19.9% to 40%, becoming the largest single shareholder of the joint venture facility. The Technical Management and Services Agreement to operate and manage the joint venture was also extended from the current five years to 10 years. This increase in shareholding of SKL, a joint venture established since November 2009, is in line with the business' strategy to establish and grow a hub in India to cater to the growing needs of our customers operating in India and South Asia. SKL will be developed in three phases with the construction of the first phase well underway. When fully completed by end 2012, SKL will offer ship owners and offshore operators a one-stop integrated offshore service facility for the repairs and servicing of offshore vessels and ships, new builds, oil and gas riser and equipment repairs as well as platforms and modules fabrication.

### Market Review and Outlook

The Marine business has a net orderbook of S$6.3 billion as at February 2012, with completions and deliveries until mid-2015. This includes S$3.7 billion in contracts secured in 2011 and S$1.3 billion worth of orders secured since the start of 2012, excluding ship repair contracts.

Despite the global macro-economic uncertainty, fundamentals for the offshore oil and gas industry remain intact, underpinned by high oil prices and projected increases in exploration and production spending.

The offshore market continues to display signs of cyclical improvement, especially in the deep and ultra-deepwater segments fuelled by the growing needs of operators in multiple regions, in particular the "Golden Triangle" of Brazil, the Gulf of Mexico and West Africa.

In the Gulf of Mexico, deepwater drilling activities remain robust as operators continue to move ahead with drilling programmes. Day rates for both jack-up and semi-submersible rigs have been strengthening. With offshore drilling moving towards deeper waters, coupled with the business' proven track record in rig building, our Marine business will be well-positioned to capture new orders for high-specification deepwater rigs which meet the industry's most stringent operating requirements.

Ship repair continues to see strong demand with the newly forged long-term partnerships with several renowned international ship owners and operators, in particular in the niche segments for the repair, upgrading and life extension of LNG carriers, passenger and cruise vessels. These alliances and long-term customers will continue to provide a stable and steady baseload for the repair business.

In Brazil, the wholly-owned shipyard Estaleiro Jurong Aracruz is strategically positioned to support developments in one of the world's fastest growing offshore oil and gas exploration markets. In Singapore, the Integrated New Yard Facility in Tuas View Extension will become operational in 2013 and will nearly double the Marine business' ship repair and ship conversion and offshore capacity from the current 1.9 million deadweight tonnes.

Overall, competition is intense though enquiries for the various segments of the market remain robust.