

# LETTER TO SHAREHOLDERS



*Dear Shareholders*

***Sembcorp Marine recorded an outstanding year with solid operational growth in 2007. Group turnover grew by 27 per cent from \$3.5 billion in 2006 to \$4.5 billion in 2007.***

Group operating profits increased by 53 per cent from \$228.2 million in 2006 to \$349.0 million in 2007. The increase resulted mainly from higher turnover and operating margins from our rig building, ship repair, ship conversion and offshore businesses.

However, the strong set of 2007 results was offset by the \$308.2 million charged to the Profit and Loss Account ("P&L") arising from the unauthorised foreign exchange transactions and related expenses ("Unauthorised Transactions") in the fourth quarter of 2007, as well as the net gain on sale of other long-term equity investment amounting to \$188.3 million. Notwithstanding these, PATMI increased by 1.1 per cent from \$238.4 million in 2006 to \$241.0 million in 2007.

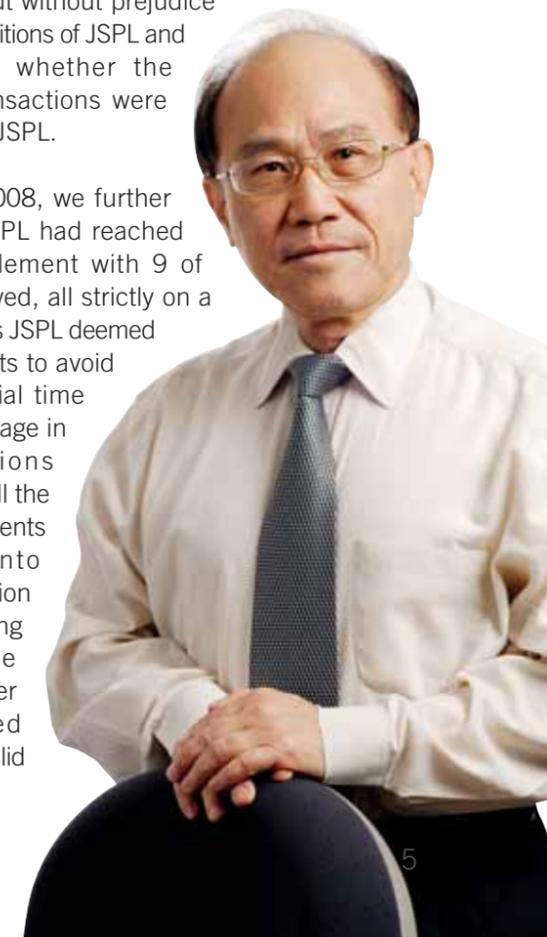
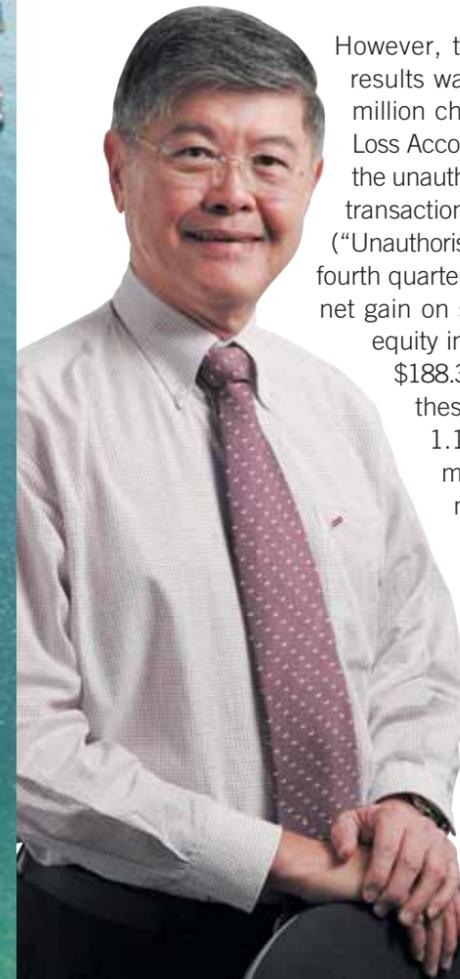
## Updates on Unauthorised Transactions

On 22 October 2007, Sembcorp Marine announced that its former Director of Group Finance,

Mr Wee Sing Guan, had entered into various Unauthorised Transactions for the account of wholly owned subsidiary Jurong Shipyard Pte Ltd ("JSPL").

On 1 November 2007, we announced that all the Unauthorised Transactions with the 11 banks had been closed out without prejudice to the respective positions of JSPL and the banks as to whether the Unauthorised Transactions were valid or binding on JSPL.

On 14 February 2008, we further announced that JSPL had reached full and final settlement with 9 of the 11 banks involved, all strictly on a commercial basis, as JSPL deemed it in its best interests to avoid incurring substantial time and expense to engage in complex litigations with these banks. All the commercial settlements were entered into without any admission on the part of Jurong Shipyard or the banks as to whether the Unauthorised Transactions were valid or binding on JSPL.



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In compliance with the Singapore Financial Reporting Standards (“SFRS”), the net position in relation to the Unauthorised Transactions that was expensed in the P&L for the financial year ended 31 December 2007 (“FY 2007”) was an amount of \$302.9 million and related expenses of \$5.3 million.

As at the date of this report and based on available information and legal advice, JSPL’s position is that the Unauthorised Transactions are not valid and binding on JSPL. Accordingly, JSPL intends to recover the sum of \$289.9 million from Societe Generale, which had been expensed in the P&L for FY 2007.

Consistent with its position on the Unauthorised Transactions, JSPL disputed an amount of US\$50.7 million claimed by BNP Paribas, which had been disclosed as a contingent liability in the notes to the financial statements for FY 2007 in compliance with SFRS. Accordingly, JSPL had made an application in court for an injunction to restrain the presentation of a winding up petition by BNP Paribas. At the date of this report, judgment had been reserved.

The Board of Directors and management of the Sembcorp Marine Group firmly believe that the Unauthorised Transactions is a “one-off” event and would like to assure all stakeholders

that steps have been taken to ensure that it will not recur. Due to the on-going court proceedings, the Group is unable to disclose further details.

## Commitment to Shareholder Value

In line with the Group’s performance for 2007, the Board of Directors is recommending a final one-tier tax exempt dividend at 5.16 cents per share. Together with the interim one-tier tax exempt dividend of 3.57 cents per share (after adjustment for two-for-five bonus shares), total dividend for 2007 will be 8.73 cents per share. This represents a dividend payout ratio of 75 per cent, which is in accordance with the Group’s dividend guideline.

## Review of Business Operations

The Group recorded a strong 27 per cent growth in sales turnover from \$3.5 billion in 2006 to \$4.5 billion in 2007, mainly driven by rig building, ship conversion and offshore and ship repair. Rig building registered the strongest growth, contributing 55 per cent to total turnover followed by ship conversion and offshore at 25 per cent, ship repair at 16 per cent, shipbuilding at 2 per cent and others at 2 per cent.

Turnover of the best performing rig building sector rose by 45 per cent from \$1.7 billion in 2006 to \$2.5 billion in 2007. The increase was attributed to

the progressive recognition of more jack-ups and semi-submersible rigs. A total of five jack-ups were delivered within the year. A further eleven other jack-up rigs were at work-in-progress stages of production, and another five other units were still in the engineering and early stages of production. For semi-submersible rigs, four units were at work-in-progress stages, and three other units in the engineering and early stages of production.

The ship conversion and offshore sector also performed well, with turnover increasing by 24 per cent from \$913.4 million in 2006 to \$1.1 billion in 2007. Major completions within the year included the FPSO Cidade do Rio de Janeiro MV14 conversion, YUUM K’AK’NÁAB FPSO conversion, FSO Cidade de Macae MV15 conversion and the P-54 integration and commissioning. At year-end, there were a total of eleven projects in work-in-progress stages and two other units in the planning and engineering stage.

Ship repair, our third most important sector in terms of contributions, performed well in 2007. Turnover increased by 19 per cent from \$612.1 million in 2006 to \$731.1 million in 2007. A total of 256 vessels were docked for repairs and maintenance for the year as compared with 314 vessels in 2006. However, average value per vessel edged up 47 per cent from \$2.0 million to \$2.9 million in 2007.

Tankers comprised 38 per cent of vessels repaired followed by LNG and LPG tankers at 15 per cent, bulk carriers at 11 per cent, container vessels at 10 per cent, offshore upgrading at 7 per cent, passenger vessels at 3 per cent and the remaining at 16 per cent comprising a mix of different vessels such as car carriers, cargo vessels and dredgers.

Shipbuilding was the smallest sector, contributing 2 per cent to total turnover at \$81.6 million in 2007, down 61.3 per cent as compared with \$210.6 million in 2006. The decline was due to the deliberate scaling down of shipbuilding activities so that resources could be redeployed to growing the rig-building and offshore sectors.

## Associates’ Contributions

Total contribution from associated companies to pre-tax profits in 2007 was \$81.8 million, an increase of 84 per cent as compared with the \$44.4 million recorded in 2006. Most of the contribution came from our 30 per cent stake in the Cosco Shipyard Group at \$76.9 million.

## Strategy for Sustainable Growth

Widening our reach, we further expanded our global operations into new growth areas through strategic investments and partnerships in 2007. In India, Sembcorp Marine went into a strategic partnership with SKIL Infrastructure and an investment in Pipavav

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Shipyard. With this investment, we hope to be able to establish other business ventures in close collaboration with our Indian partners and to grow our marine and offshore business in India.

In the Middle East, Sembcorp Marine formed a joint venture with Nasser Mohammed Al-Mukairish and Partners in Saudi Arabia. The joint-venture company will provide us with the opportunity to grow our marine, oil and gas business in the Middle East.

In the US, the Group further streamlined its operations with the acquisition of Sabine Industries, located in the Sabine Pass, Texas. The shipyard will be planned and outfitted as part of our overall strategy to facilitate and serve our US-based customers in offshore rig repairs, refurbishment and rig building in the Gulf of Mexico region.

### Outlook for 2008

The Group's order book is at an all-time high of \$7.4 billion underpinned by \$5.4 billion of orders won in 2007 and an additional \$401 million in January and February 2008. The current order book stretches deliveries and completion visibility till 2011.

Based on the scheduled completion of these projects, the Sembcorp Marine Group expects 2008 to be a better year than 2007. In addition, we expect the market outlook for all sectors in the offshore and marine industry to remain healthy. The Group will continue to benefit from the expected growth in all these sectors.

Overall ship repair demand is expected to remain strong driven mainly by Asian oil and bulk demand amid fears of a US slow down. High demand for ship repair and dock space booking will also continue to benefit the Group.

The fundamentals for the offshore market remain strong, due to the positive growth in the global demand for oil and gas resulting in sustained high oil prices supporting continued exploration and production activities.

Demand for rig building continues to be strong with demand trending towards deepwater rigs. The positive outlook for the offshore production market

will see increasing demand for fixed and floating production systems, including FPSO units.

### Board and Management

The Board would like to welcome Mrs Lim Joke Mui, appointed as a non-independent director to the Board on 24 November 2007. Currently, the Group Chief Financial Officer of Sembcorp Industries, Mrs Lim has more than 28 years of experience in corporate finance, accounting, tax and other corporate functions. The appointment underscores Sembcorp Marine's commitment to further enhance effective corporate governance, group treasury and risk management. The Group will benefit from her vast experience in these areas.

On behalf of the Board, we would like to thank all our valued clients and business associates for their continuous support. Notwithstanding the unfortunate incident involving the unauthorised forex transactions, the Directors are happy to report that JSPL was able to meet all its production schedules and continue with its efficient operations because many employees and subcontractors rallied behind the Group and rendered their strong support and commitment to JSPL during the past few months. The Board and management would like to thank these dedicated employees as well as the many customers, partners and banks who stood by and continue to support JSPL and Sembcorp Marine during its time of need.

In closing, we would like to add our appreciation to all our shareholders for their continued interest and support for the Sembcorp Marine Group.



Goh Geok Ling  
Chairman



Tan Kwi Kin  
Group President & CEO

19 March 2008

