FINANCIAL REVIEW

2007 Performance

Sembcorp Marine Group achieved another outstanding year with solid operational growth in 2007.

Group turnover recorded a compounded annual growth rate (CAGR) of 43 per cent from $1.1 billion in 2003 to $4.5 billion in 2007. Excluding unauthorised foreign exchange transactions & related expenses and non-operating items (FX & NoI), Group profit after tax and minority interests (PATMI) achieved a record high of $362.3 million, while corresponding return of equity (ROE) improved to 24 per cent.

New contracts secured in 2007 achieved another new record of $5.4 billion, 76 per cent more than 2006, with completion and deliveries till 2011.

The Board of Sembcorp Marine is proposing 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 would be 8.73 cents. This significant dividend payout ratio at 75 per cent demonstrates the Group's commitment to shareholder value.

GROUP FIVE-YEAR PERFORMANCE

2003

Despite the difficult operating environment, Group revenue attained a high of $1.068 billion, 6 per cent higher than 2002's S$1.012 billion. This performance was attributable mainly to volume increases in ship-conversion and new building projects, which more than offset the decline in ship repair revenue. Ship repair had been affected by the Severe Acute Respiratory Syndrome (SARS) outbreak in the region during the first half of the year as well as the postponement of vessel repairs as a result of high freight rates.

Group PATMI including exceptional items declined 15 per cent to $78.5 million, compared to $92.1 million in 2002. The decline was mainly due to subdued performance in ship repair as well as lower exceptional gains of $1.3 million, compared to $6.7 million in 2002. If exceptional items and the effect of prior year tax over-provision were excluded, the Group's PATMI would have declined by just 8 per cent from $80.8 million in 2002 to $74.0 million in 2003.

2004

Group turnover was at $1.36 billion, a growth of 28 per cent from $1.07 billion in 2003. This growth was driven mainly by increased revenue from both the ship conversion and ship repair sectors. The shipbuilding and rig building sectors recorded declines as most of the projects were pending take-up or in the early stages of production as at end of 2004.

Group operating profit increased 26 per cent from $74.3 million to $93.9 million. Group pre-tax profit increased 20 per cent from $95.2 million to $114.0 million due to improvements in the ship conversion and ship repair sectors as well as increased contributions from a joint venture and associated companies. Net profit for 2004 reached a high of $95.0 million, an increase of 21 per cent from $78.5 million in 2003. Excluding exceptional items, net profit grew by 27 per cent to $98.1 million.

2005

Group turnover registered a high at $2.12 billion, an increase of 56 per cent attributable to growth across all business segments, in particular the offshore conversion and rig building segments.

Group operating profits increased by 34 per cent to $124.5 million, while Group pre-tax profits grew by 41 per cent to $159.9 million. The increase

FINANCIAL REVIEW

was due mainly to better operating profits and contribution from the associated company acquired during the year. Group tax charge was higher in 2005 mainly resulting from a $4.2 million write-back of prior years' tax over-provision, arising from a 2 per cent reduction in corporate income tax rate in 2004. Excluding the prior year tax provisions, Group attributable profits in 2005 actually increased by 36 per cent from $89.9 million to $122.0 million.

2006

Group turnover increased by 67 per cent from $2.12 billion to $3.55 billion with growth mainly attributable to the rig building and ship repair businesses.

Group operating profits increased by 83 per cent from $124.5 million in 2005 to $228.2 million in 2006. Group pre-tax profits also climbed by 95 per cent from $159.9 million to $310.9 million. This improvement was attributable mainly to higher operating margins from the rig building and ship repair businesses, gain on disposal of investments as well as better contribution from associated companies. Group attributable profits increased by 96 per cent from $121.4 million to $238.4 million. Excluding the non-operating items of $20.5 million, Group attributable profits rose by 83 per cent to $217.8 million.

2007

Group turnover for 2007 increased by 27 per cent from $3.55 billion in 2006 to $4.51 billion in 2007 with growth mainly from the rig building, ship repair, offshore and conversion businesses.

Group operating profits increased by 53 per cent from $228.2 million in 2006 to $349.0 million in 2007. Group pre-tax profits increased by 17 per cent from $310.9 million in 2006 to $364.7 million in 2007. The increase was mainly attributable to higher turnover and operating margin from rig building and ship repair businesses, better contribution from associated companies, and gain on sale of other long-term equity investment amounting to $229.7 million. This was offset by the $308.2 million charged to the profit and loss account arising from the Unauthorised Transactions and its related expenses ("the Charge of $308.2 million"). Excluding the effect arising from the Unauthorised Transactions, pre-tax profit increased 117 per cent to $673.0 million.

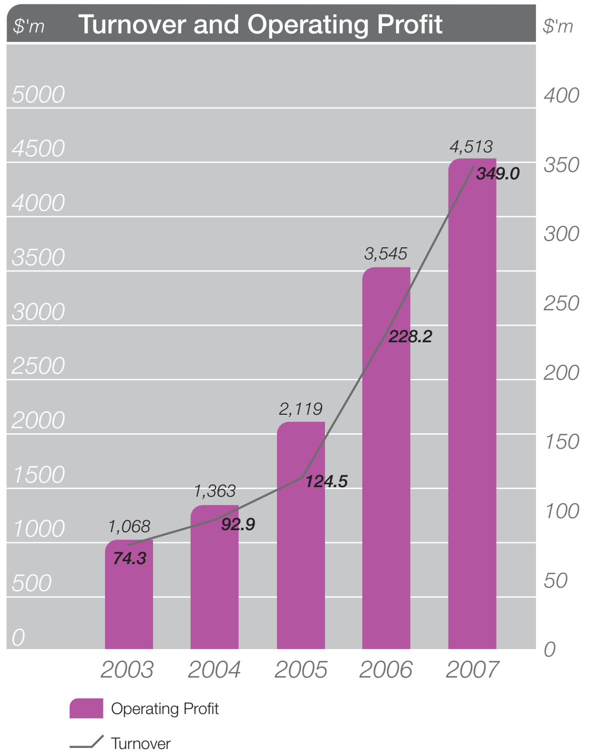
Notwithstanding the Charge of $308.2 million to the fourth quarter 2007 profit and loss account, the Group reported an increase in net profit from $238.4 million in 2006 to $241.0 million in 2007. Excluding the Charge and non-operating items, Group attributable profits increased by 66 per cent to $362.3 million.

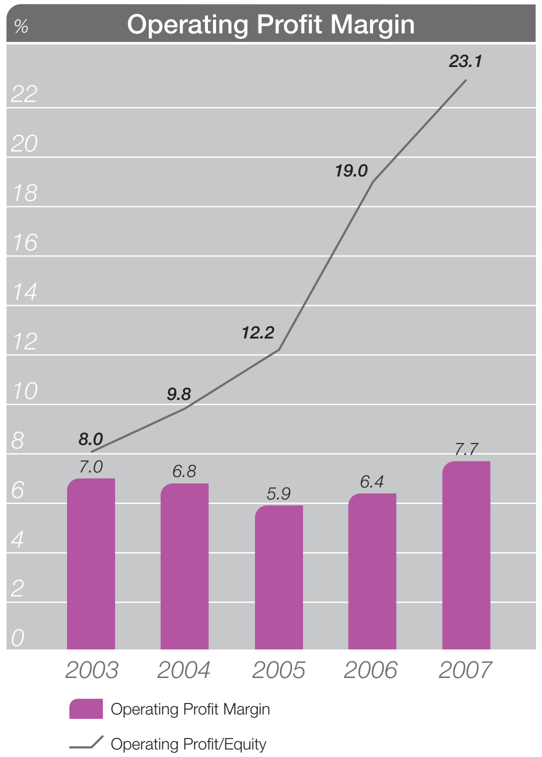
GROUP FIVE-YEAR FINANCIAL SUMMARY

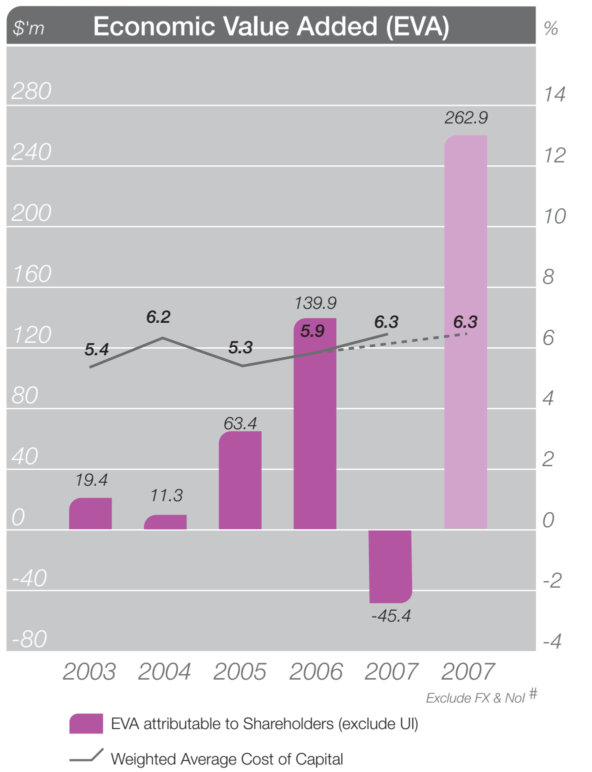
For the year	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000
Turnover	1,067,986	1,362,764	2,119,279	3,545,049	4,513,123
Operating Profit	74,308	92,933	124,549	228,233	349,029
Profit Before Tax - include FX & NoI#	95,186	113,089	159,855	310,871	364,721
Profit Before Tax - exclude FX & NoI#	93,911	116,155	155,836	283,008	444,660
PATMI - include FX & NoI#	78,540	94,087	121,398	238,388	240,989
PATMI - exclude FX & NoI#	77,265	97,153	119,361	217,848	362,273
Dividend - Interim	16,584	17,067	28,880	40,867	73,783
Dividend - Final	39,814	69,157	81,495	142,483	106,856
Dividend - Total	56,398	86,224	110,375	183,350	180,639
Group Balance Sheet					
Fixed Assets	452,720	460,020	579,584	679,024	675,585
Associated Companies & JVs	58,700	67,487	106,880	147,255	205,502
Other Investments	71,776	23,666	77,931	346,987	689,554
Other Long Term Assets	172,254	88,258	68,628	69,583	45,990
Current Assets	769,665	1,219,934	1,493,114	2,186,652	2,846,216
Current Liabilities	(531,173)	(651,692)	(982,871)	(1,690,896)	(2,397,423)
Long Term Liabilities	(52,069)	(204,963)	(227,569)	(368,382)	(359,708)
	941,873	**1,002,710**	**1,115,697**	**1,370,223**	**1,705,716**
Share Capital	142,005	142,761	145,036	418,631	442,549
Capital, Foreign Currency Translation and Other Reserves	236,741	240,772	318,271	209,093	502,173
Retained Profits	548,381	585,367	602,238	710,615	735,338
Minority Interests	14,746	33,810	50,152	31,884	25,656
	941,873	**1,002,710**	**1,115,697**	**1,370,223**	**1,705,716**
Per Share Data (Cents)					
EPS - include FX & NoI#	3.96*	4.73*	6.03*	11.71*	11.72
EPS - exclude FX & NoI#	3.90*	4.88*	5.93*	10.70*	17.62
Net Tangible Assets	46.14*	48.00*	52.30*	64.64*	80.76
Net Assets Value	46.64*	48.49*	52.48*	65.30*	81.13
Financial Ratios					
Return on Equity - include FX & NoI# (%)	8.41	9.92	11.93	19.83	15.97
Return on Equity - exclude FX & NoI# (%)	8.28	10.25	11.73	18.12	24.00
Return on Total Assets - include FX & NoI# (%)	5.21	5.56	5.80	8.28	6.11
Return on Total Assets - exclude FX & NoI# (%)	5.13	5.74	5.70	7.57	9.18
Operating Profit/Equity (%)	7.96	9.80	12.24	18.99	23.13
Current Ratio	1.45	1.87	1.52	1.29	1.19
Gearing Ratio (%)	10.90	15.44	14.05	29.21	26.29
Dividend Cover	1.39	1.10	1.10	1.30	1.33

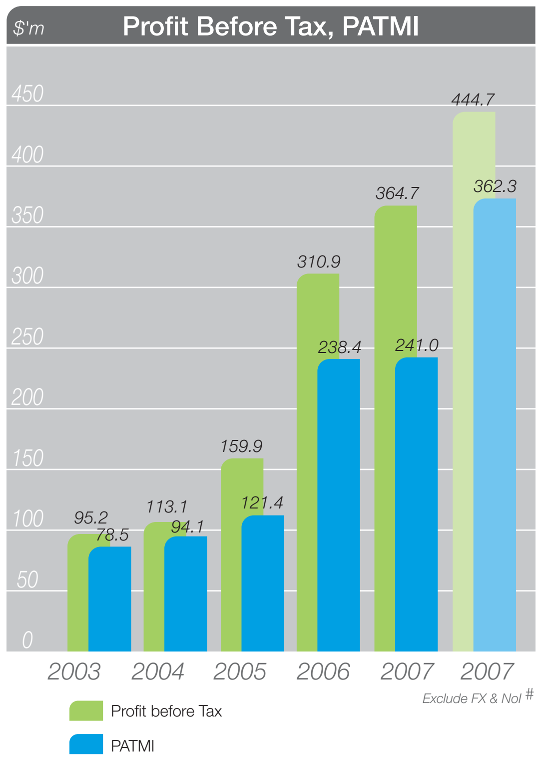
* *Adjusted for two Bonus Shares for every five existing ordinary shares*
\# *FX & NoI – Unauthorised foreign exchange transactions & related expenses and Non-Operating Items*

FINANCIAL REVIEW

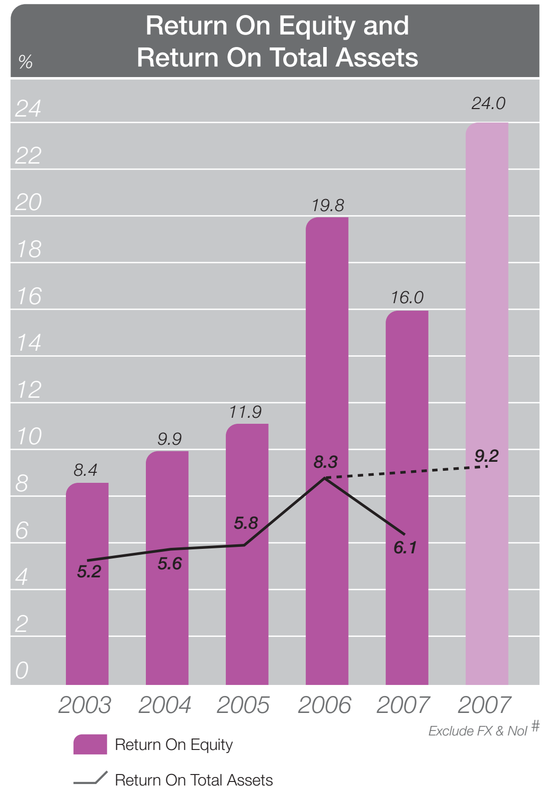


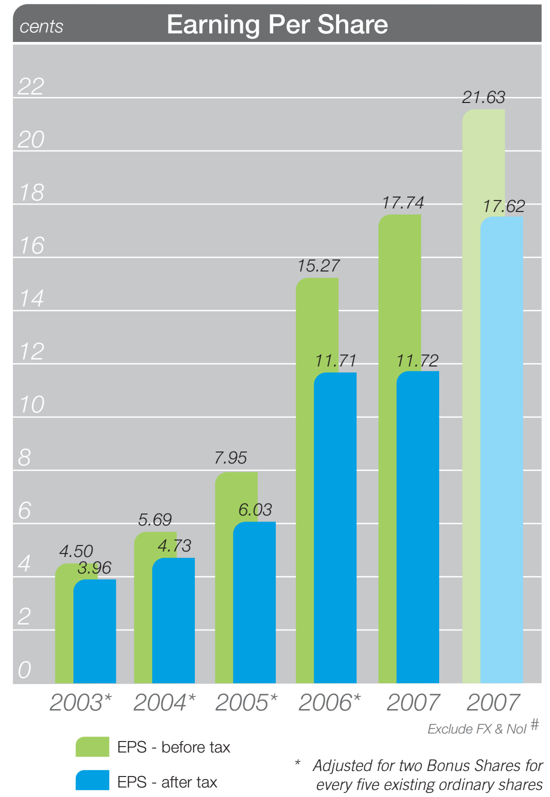






FX & NoI – Unauthorised foreign exchange transactions & related expenses and Non-Operating Items





Shareholders' Return

Return on Equity, EVA, Dividends and Earnings per shares

Excluding Unauthorised Transactions and its related expenses (FX) and non-operating items (NoI), return of equity (ROE) improved from 18 per cent in 2006 to 24 per cent in 2007. This increase was due to higher operating margin from rig building and ship repair businesses and better contribution from associated and joint venture companies. Including FX & NoI, ROE decreased from 20 per cent in 2006 to 16 per cent in 2007. The decrease was primarily due to the Charge of $308.2 million to the profit and loss account offset by gain on sale of other long term equity investment.

Group economic value-added (EVA) attributable to ordinary shareholders was $144 million. Excluding FX & NoI, Group EVA improved to $262.9 million.

The Board of Sembcorp Marine is proposing a final one-tier tax exempt dividend of 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 would be 8.73 cents. This significant dividend payout ratio at 75 per cent, demonstrates the Group's commitment to shareholder value. The recommended dividend for 2007 took into consideration the Group's present cashflow position, positive cashflow generated from operations and projected capital requirement. Payment of the final proposed dividend is subject to the approval of shareholders of Sembcorp Marine at the forthcoming Annual General Meeting.

To optimise shareholder value, Sembcorp Marine will continue its policy of paying a high level of dividend to return excess cash generated from operations where possible, as long as the cash is not required for investments in future. Some cash resources will be required for the set up of new facilities and capabilities to expand the existing operations and any potential mergers and acquisitions.

Share Purchase Mandate

Apart from the distribution of dividend to shareholders, the Share Purchase Plan provides the Company an alternate avenue to reward shareholders. The Company will again seek shareholders' approval to renew the Share Purchase Mandate for the purchase of up to 10% of the number of ordinary shares in the capital of the Company in the coming Extraordinary General Meeting.

This will give the Company the flexibility to undertake the share purchase exercise expeditiously.

FINANCIAL REVIEW

CASH FLOW

	2007 $'million	2006 $'million
Cash flow from operating activities		
Operating profit	349	228
Depreciation, amortisation and non-cash items	63	53
Operating income before reinvestment in working capital	**412**	**281**
Working capital changes	91	(364)
Net interest received and payment of income tax	(30)	(17)
	473	(100)
Net payment to banks from Unauthorised Transactions	(261)	-
Net cash provided by / (used in) operating activities	**212**	**(100)**
Cash flow provided by / (used in) investing activities	**182**	**(66)**
Dividend paid	(231)	(124)
Cash flow from other financing activities	84	252
Cash flow (used in) / provided by financing activities	**(147)**	**128**
Net increase / (decrease) in cash flow	**247**	**(38)**
Cash and cash equivalents at beginning of year	**493**	**531**
Cash and cash equivalents at end of year	**740**	**493**

Operating Activities

During the year, the Group continued to generate healthy cash flow from its operations. This amounted to $412 million before changes in working capital. Working capital increased by $91 million due mainly to increased activities in the core businesses of ship repair, shipbuilding, rig building and ship conversion.

After accounting for interest and income tax payments, net cash provided by operating activities amounted to $212 million due mainly to financing of work-in-progress for its record order book of rig building and conversion projects.

Investing Activities

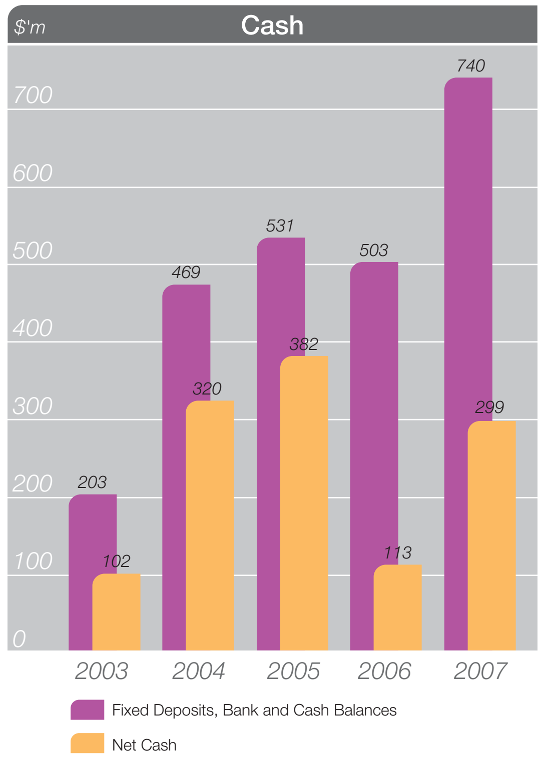
Net cash provided by investing activities amounted to $182 million, largely attributable to the sale of shares in Cosco Corporation (Singapore) Ltd.

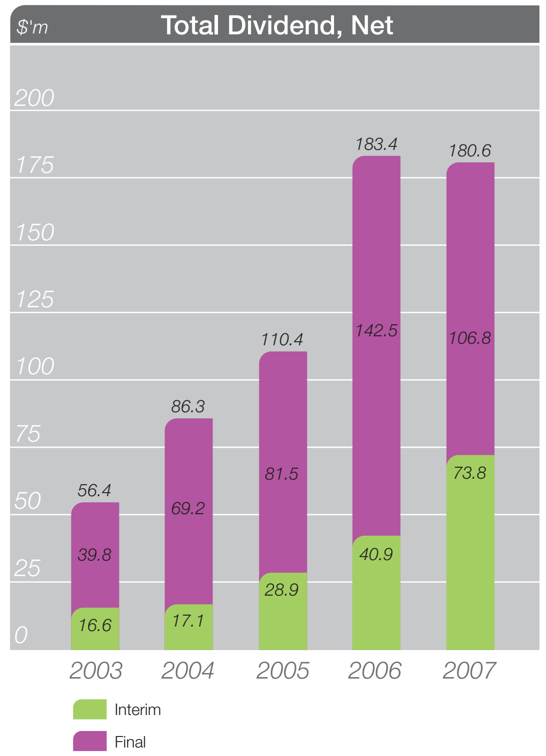
The Group also purchased additional fixed assets of $104 million, comprising mainly additional facilities, cranes, plant and machineries to execute the existing order book more efficiently and effectively.

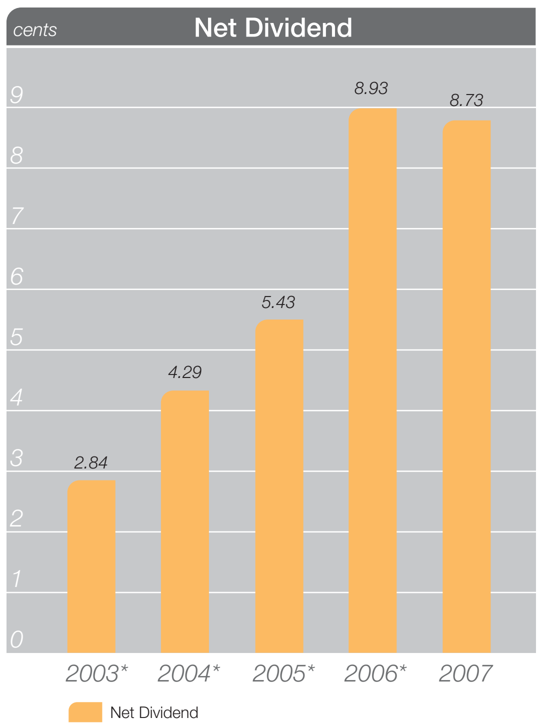
Dividend Paid

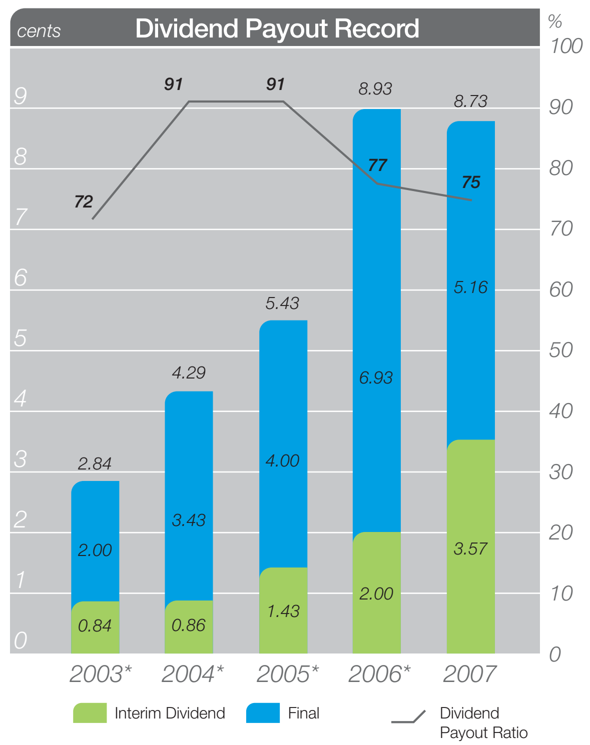
Dividend paid to shareholders amounted to $231 million or 10.50 cents per share in 2007. This included the final dividend of 5.86 cents per share and a one-tier tax-exempt dividend of 1.07 cents per share in respect of the financial year ended 2006 and an interim dividend of 3.57 cents per share for 2007.

The Directors are recommending a final one-tier tax exempt dividend of 5.16 cents per share in respect of the financial year ended 2007 and an interim dividend of 3.57 cents per share for 2007. The total dividend for the financial year ended 2007 will be 8.73 cents per share. The dividend payout ratio at 75 per cent shows the Group's commitment to shareholder value.









* Adjusted for two Bonus Shares for every five existing ordinary shares

FINANCIAL REVIEW

SIMPLIFIED GROUP FINANCIAL POSITION

Financial Position

The financial position of the Group continued to be strong for the year in review. The change in financial position between the two years reflected the Group's efforts to invest in its core businesses to further strengthen and enhance its position as a global player in the offshore oil and gas sector.

Working capital of the Group increased in line with the higher activities of the core business. Total assets of the Group increased 30 per cent from $3.43 billion to $4.46 billion.

Capital Employed

Total capital employed as at 31 December 2007 was $1.7 billion comprising shareholders' funds of $1,680 million and minority interests of $26 million. The Group's shareholders' fund increased by 26 per cent.

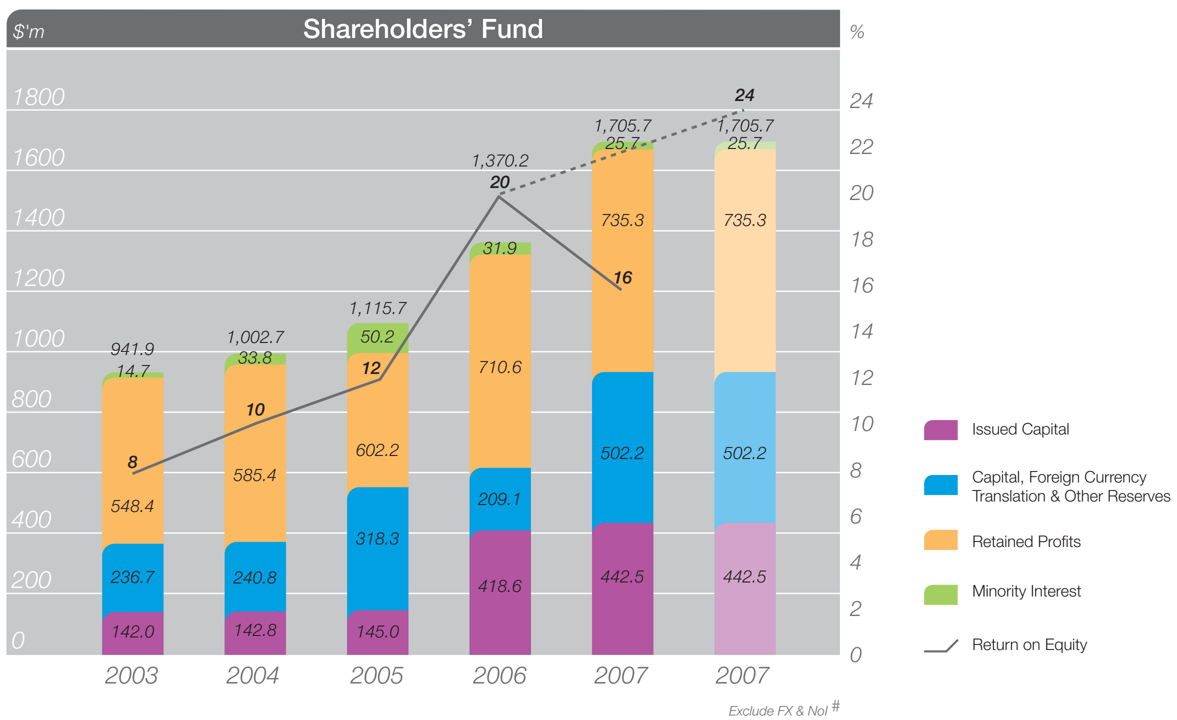
Minority interests of the Group decreased from $32 million to $26 million in 2007. This was principally due to declaration of dividends by the subsidiary companies.

Borrowings

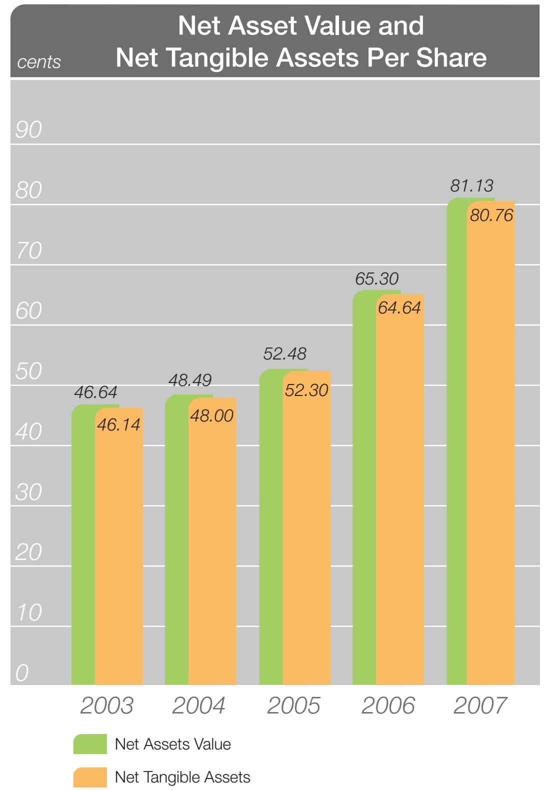
Gross debts of the Group as at 31 December 2007 was $441 million comprising medium term notes amounting to $285 million and other external bank borrowings for working capital financing and acquisition of properties at Admiralty Road. After deducting fixed deposits, bank and cash balances of $740 million, the Group ended the year in a net cash position of $299 million.

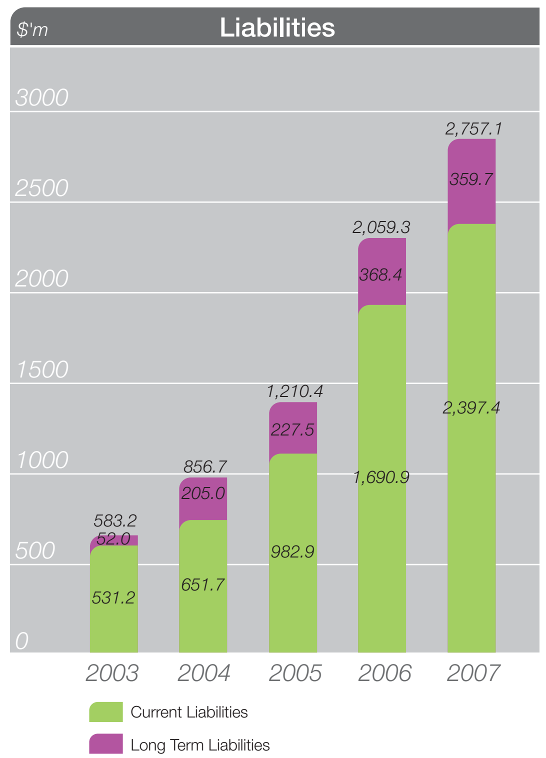
Financial Resources

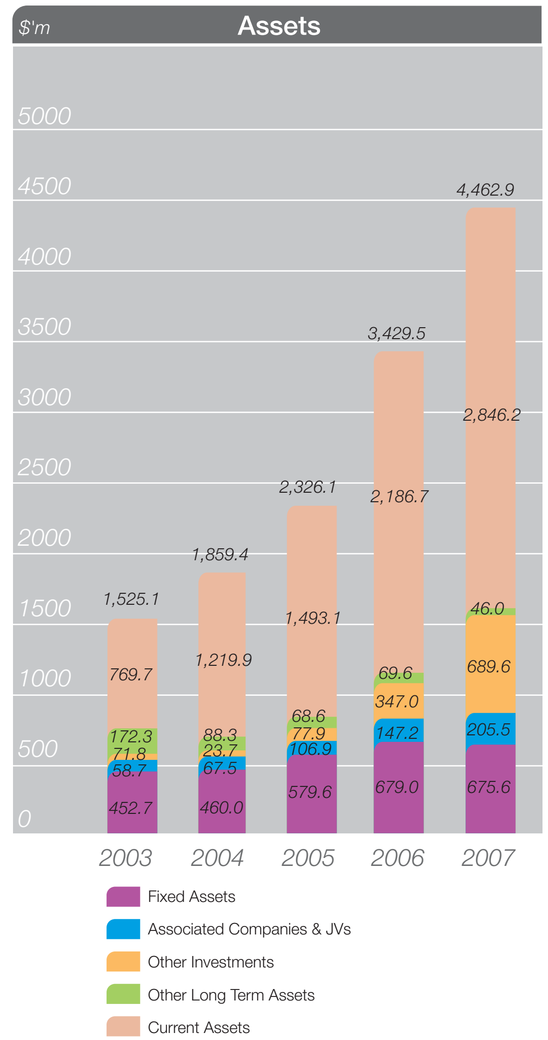
The Group maintained sufficient cash and cash equivalent, internal generated cash flow and the availability of funding resources through an adequate amount of committed credit facilities. A mixture of short-term money market borrowings and medium-term loans was obtained to fund working capital requirements, capital expenditure and investments. Due to the dynamic nature of the business, the Group maintained flexibility in funding by ensuring that ample working capital lines were available at any one time.



FX & NoI – Unauthorised foreign exchange transactions & related expenses and Non-Operating Items



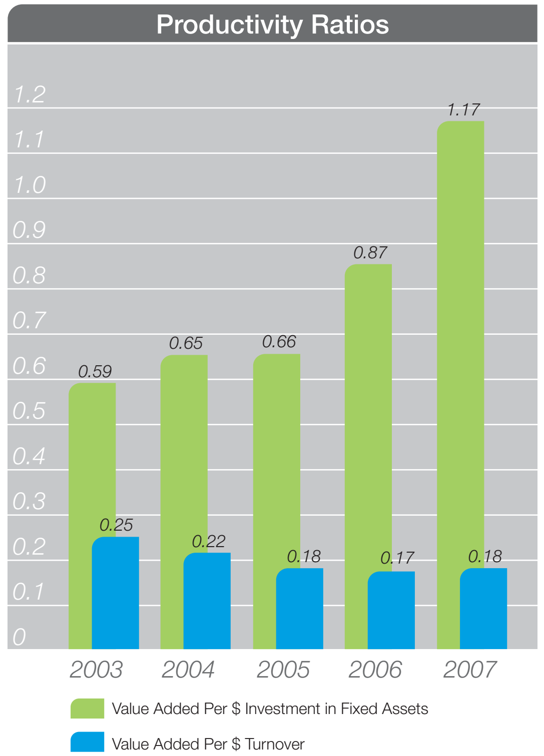


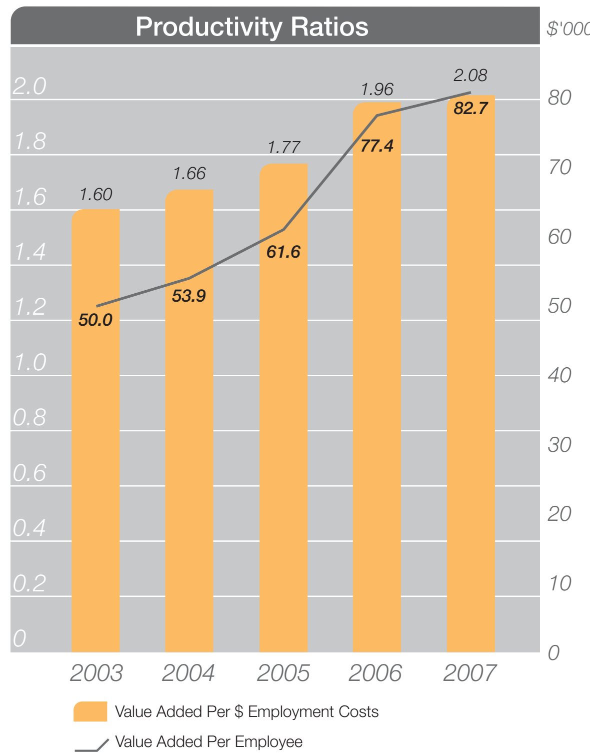


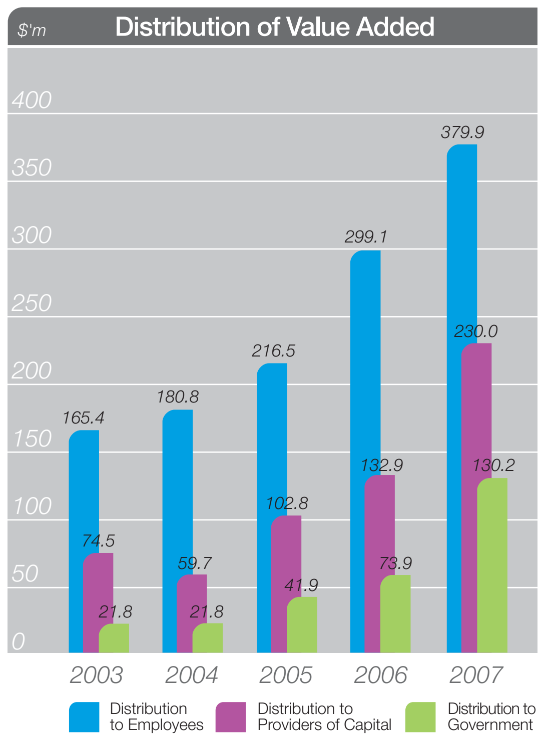
FINANCIAL REVIEW

VALUE ADDED STATEMENT & PRODUCTIVITY RATIOS

	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000
Turnover	1,067,986	1,362,764	2,119,279	3,545,049	4,513,123
Less: Bought In Materials	(802,765)	(1,062,339)	(1,734,961)	(2,957,566)	(3,722,062)
Gross Value Added From Operations	265,221	300,425	384,318	587,483	791,061
Investment, Interest & Other Income	38,936	49,654	42,917	79,514	292,629
Share Of Associated Companies' Results	7,930	12,208	12,313	40,923	74,075
Share Of Joint Ventures' Results	73	1,070	1,011	3,441	7,718
Other Non-Operating Expenses	(5,327)	(14,307)	(12,409)	(30,792)	(20,143)
Foreign Exchange Transactions	-	-	-	-	(302,922)
	306,833	**349,050**	**428,150**	**680,569**	**842,418**
Distribution:					
To Employees : Salaries, Wages & Benefits	165,360	180,833	216,533	299,052	379,897
To Government : Income & Other Taxes	21,836	21,844	41,888	73,880	130,198
To Providers of Capital : -					
Interest Paid on Borrowings	2,663	2,822	4,785	10,549	13,692
Dividends	71,842	56,881	98,036	122,362	216,266
Retained in Business :					
Depreciation and Amortisation	35,294	37,497	37,766	45,514	66,353
Retained Profits	6,699	38,121	23,362	116,026	24,723
Minority Interests	(316)	3,017	4,186	10,143	10,738
Non-Production Costs	3,455	8,035	1,594	3,043	551
Total Distribution	**306,833**	**349,050**	**428,150**	**680,569**	**842,418**
Average Number of Employees	5,302	5,572	6,241	7,592	9,570
Employment Costs	165,360	180,833	216,533	299,052	379,897
Value Added per Employee	50.02	53.92	61.58	77.38	82.66
Employment Cost Per Employee	31.19	32.45	34.70	39.39	39.70
Value Added Per Employment Costs	1.60	1.66	1.77	1.96	2.08
Value Added Per Dollar Investment in Fixed Assets	0.59	0.65	0.66	0.87	1.17
Value Added Per Dollar Turnover	0.25	0.22	0.18	0.17	0.18







FINANCIAL REVIEW

STATEMENT OF COMPUTATION OF ECONOMIC VALUE ADDED

	Dec 2007 S$'000 (exclude FX#)	Dec 2007 S$'000	Dec 2006 S$'000
Net Operating Profit Before Tax	**591,158**	**282,928**	**266,507**
Adjust for:			
Share of Assoc/JV Profits	81,793	81,793	44,364
Interest Expenses	15,835	15,835	12,822
Others	253	253	1,761
Adjusted Profit Before Interest and Tax	**689,039**	**380,809**	**325,454**
Cash Operating Taxes (Note 1)	(114,446)	(114,446)	(59,919)
NOPAT	**574,593**	**266,363**	**265,535**
Average Capital Employed (Note 2)	1,807,838	1,807,838	1,504,342
Weighted Average Cost of Capital (Note 3)	6.3%	6.3%	5.9%
Capital Charge	**113,894**	**113,894**	**88,756**
GROUP EVA	**460,699**	**152,469**	**176,779**
Less: Minority Share of EVA	8,491	8,491	7,622
Group EVA Attributable to Ordinary Shareholders	**452,208**	**143,978**	**169,157**
Less: Unusual items (UI) Gains (Note 4)	189,272	189,272	29,292
GROUP EVA Attributable to Shareholders (exclude UI)	**262,936**	**(45,294)**	**139,865**

Note 1 : The reported current tax is adjusted for the statutory tax impact of interest expense.
Note 2 : Monthly average total assets less non-interest bearing liabilities plus timing provision, goodwill written off / amortised / impaired and present value of operating leases.
Note 3 : 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 years Bonds;
iii) Ungeared beta 0.6 (2006: 0.5) based on Sembcorp Industries risk categorisation; and
iv) Cost of Debt rate at 4.12% (2006: 4.04%) using 5-year Singapore Dollar Swap Offered rate plus 75 basis point. (2006: 5-year Singapore Dollar Swap Offered rate plus 75 basis point)
Note 4 : Unusual Items (UI) refer to divestment of subsidiaries and associates, long-term investments and disposal of major fixed assets.

FX – Unauthorised foreign exchange transactions & related expenses

RISK MANAGEMENT

1. Operational Risk

The Group operates in seven countries with assets and activities spreading across Asia Pacific. As part of its plan to grow its business internationally, the Group will continue to focus on increasing its operating activities and presence in Brazil; Greater China and Middle East. Senior managers are posted overseas to oversee the operational risk. The Group expects that as part of its business strategy, the percentage of its overseas-sourced assets and customers will increase moving forward, thereby achieving the effects of greater geographical diversification. Likewise, a broader base of significant customers will reduce the risk of customer concentration.

2. Investment Risk

The Group seeks to grow its business through organic growth of its existing capabilities, development of new capabilities and acquisition of business entities or operating assets. Investment activities, ranging from the identification of targets to the undertaking of due diligence exercises, are supported by a dedicated team of experienced managers and augmented by external professionals for specialised services. The business proposals are guided by a given set of internal investment criteria, evaluated by senior management before seeking final Board of Directors' approval.

3. Treasury & Financial Risk

The Group has in place an established treasury policy and guidelines for managing treasury and financial risks. The treasury policy seeks to optimise the Group's cost of capital, minimise the adverse effects of fluctuations in currency and interest rates on income and ensure sufficient funds are available to meet financial obligations and operational needs. The Group's treasury activities are centrally managed in Singapore. As a policy, the Group does not undertake speculative positions for trading purposes.

a. Interest Rate Risk

The Group's policy is to maintain an efficient optimal interest cost structure using a mix of fixed- and variable-rate debt, where working capital is financed by variable-rate loans while long-term investments are financed by fixed-rate loans. Surplus funds, if any, are placed with reputable banks and/or investment in bonds. The Group obtains additional funding through bank borrowings and leasing arrangements. The Group's policy is to obtain the most favorable interest rate available without increasing its foreign currency exposure.

b. Foreign Exchange Risk

The Group incurs foreign exchange risk on sales and purchases that are denominated in various currencies other than Singapore dollars, primarily the US dollar and Euro. To minimise exposures on foreign exchange risks, the Group usually arranges for natural hedging by matching costs in the same currency as sales collections.

c. Derivative Financial Instrument Risk

The Group also utilises forward exchange contracts and swaps to hedge foreign currency denominated financial assets, liabilities and firm commitments. Under this arrangement, increases or decreases in the Group's foreign currency denominated financial assets, liabilities and firm commitments partially offset gains and losses on the hedging instruments. The Group only uses foreign exchange forward contracts and swaps for hedging purposes.

d. Liquidity Risk

To measure liquidity risks, the Group monitors its net operating cash flow, maintains a level of cash and cash equivalents and secures committed funding facilities from financial institutions. In assessing the adequacy of these facilities, management reviews working capital requirements so as to mitigate the effects of fluctuations in cash flows. Short-term funding is obtained from overdraft facilities and bank loans.

FINANCIAL REVIEW

4. Human Resource Risk

The successful implementation of the Group's strategic business plans requires recruiting, developing and retaining key personnel. The unexpected loss of key senior employees or a failure in the Group's succession planning will jeopardise such plans. To develop, market and sell the products and services offered by the Group, it is necessary to hire and retain skilled and experienced employees with the required expertise. In the prevailing strong business and tight labour market situation, the ability to attract and retain the 'right' employees becomes even more critical and enhances the Group's competitive edge.

In this respect, the Group has established comprehensive human resource policies for recruitment, compensation and development of employees. This ensures that the Group's human assets are nurtured and retained, so that the ability to maintain a skilled workforce and the Group's competitive edge is preserved. The Board Executive Resource & Compensation Committee has oversight of the Group's renumeration policies and oversees management, development and succession plans for key management positions.

5. Credit Risk

The Group has no significant concentration of credit risk with any single counterparty and monitors its exposure to credit risks arising from sales to customers on an on-going basis where credit evaluations are done on customers that require credit. The Group only deals with pre-approved counterparties with good credit rating and imposes a cap on the amount to be transacted with any counterparty so as to reduce the concentration of risk. Cash terms, advance payments and letters of credit or bank guarantees are required for customers of lower credit standing.

6. Market Risk

The Group is exposed to market risk and the risk of impairment in the value of its investments held. The Group manages the risk of unfavourable changes by cautious review of the investments before investing and continuous monitoring of the performance of investments held and assessing market risk relevant to which the investments operate.

7. Reputation Risk

The Group values its reputation in the market and has put in place a communication programme to ensure timely and effective communication of key information to our stakeholders at all times.

8. Insurance Risk

Where appropriate, the Group manages its insurance risks on a Group basis to leverage its position with the general insurance market.

The Group reviews its insurable risk profile continually and makes the necessary adjustments on risk retention to optimise the coverage and cost. This is done with advice and support from selected insurance brokers. Major Group insurance policies include Industry All Risk and Liabilities and Workmen Compensation, designed to protect the Group against properties risk, liabilities for its products and services, and work place accidents respectively. The marine industry has specialised insurance programmes.

The Group adopts a proactive strategy, with advice and recommendations from insurance brokers, to manage the insurance risk with specific risk management programmes covering the prevention of fire and the adoption of behaviour-based safety practices, amongst others.