Dear Shareholders

The year 2012 was another challenging year for the global economy. Against this backdrop of economic uncertainty and challenging operating conditions, Sembcorp Marine delivered a net profit of $538 million, which included a write-back of tax provision relating to prior year’s gain on disposal of equity investments of $41 million.

The Group registered a turnover of $4.4 billion in 2012, with operating profit at $554 million and pre-tax profit at $630 million. Earnings per share (EPS) were 25.8 cents with return on equity (ROE) at 22.2 per cent and economic value added (EVA) at $384 million.

While we strive to reward our shareholders on an annual basis with a consistent and sustainable ordinary dividend and a variable special dividend based on our cash position, working capital, capital expenditure plans, acquisition opportunities and market environment, we also need to position our company for long-term sustainable growth.

For this year, despite our high capital expenditure to enhance our competitiveness with the development of our Integrated New Yard Facility in Singapore and in Brazil, the Board of Directors is pleased to propose a final one-tier tax-exempt cash dividend of 8 cents per share comprising a final ordinary one-tier tax-exempt cash dividend of 6 cents per share and a final special one-tier tax-exempt cash dividend of 2 cents per share.

Including the interim one-tier tax-exempt cash dividend of 5 cents per share paid on 31 August 2012, the total dividend for 2012 will be 13 cents per share, which translates to a payout ratio of 50 per cent.

The proposed final and special cash dividend, if approved at the Annual General Meeting to be held on 19 April 2013, will be paid on 13 May 2013.
Non-controlling Interest

On 30 May 2012, the High Court released its judgement together with the Grounds of Decision on the legal suit against PPL Holdings and its wholly-owned subsidiary E-Interface Holdings for the transfer of the remaining 15 per cent share in PPL Shipyard. Although the decision was not favourable, the Company filed an appeal to the Court of Appeal on 29 June 2012. Judgement was reserved on 8 November 2012.

Pending the outcome of the appeal, we continued to consolidate our 85 per cent interest in PPL Shipyard and separately account for the 15 per cent as a “non-controlling interest”.

Review of Business Operations

In 2012, the Group’s shipyards were kept busy with the execution of projects secured in the current and prior years. Excluding ship repair, project deliveries comprised two jack-up rigs and two semi-submersible rigs, together with four ship conversion and offshore facilities.

We secured a record net order book of $13.9 billion as at February 2013, with completions and deliveries stretching to 2019. This includes $12.1 billion in contract orders secured from the start of 2012 to date, excluding ship repair contracts.

Turnover in 2012 was $4.4 billion, 12 per cent higher as compared with $4.0 billion in 2011 attributable mainly to more projects from ship conversion, offshore facilities and rig building which achieved progressive revenue recognition.

The rig building sector was the largest contributor, constituting 53 per cent or $2.4 billion of total turnover in 2012 followed by ship conversion & offshore facilities at 32 per cent or $1.4 billion, ship repair at 14 per cent or $642 million and others at 1 per cent or $37 million.

Safety Focus

In December 2012, a jack-up rig under construction at our subsidiary Jurong Shipyard tilted. At the time of the incident, the company acted quickly, evacuating all workers off the rig in around 20 minutes and ensuring all were accounted for within an hour. In mid-January 2013, the tilted rig was successfully restored to its original upright position, and this was followed by the resumption of work on the rig at the end of the month. Although there were no fatalities and no one sustained serious injuries, we are undertaking a thorough investigation into the cause of the incident. Safety remains of utmost importance to us, and we are fully committed to continuously strengthen, review and enhance our systems and processes to ensure the safety of our workers, contractors, vendor partners, customers and stakeholders.
Successful deliveries: (Clockwise from top) Seadrill’s second Moss Maritime CS50 MKII semi-submersible rig West Leo and Atwood Oceanics’ second F&G ExD Millennium Class semi-submersible rig Atwood Condor built by Jurong Shipyard as well as Atwood Oceanics’ first two of three proprietary Pacific Class 400 design jack-up rigs Atwood Manta and Atwood Mako constructed by PPL Shipyard.
SuperStar Gemini (on right) and Genting World from Star Cruises undergoing upgrading at Sembawang Shipyard.
Laying the Foundations for Long-term Sustainable Growth

Expanding Product Offerings

During the year, the Group continued to lay the foundations for long-term sustainable growth. To stay ahead of the competition, we successfully expanded our product offerings, secured orders for new products including a US$386 million semi-submersible well intervention rig from Helix Solutions, a US$568 million harsh-environment semi-submersible rig from North Atlantic Drilling and a second harsh-environment accommodation semi-submersible rig unit worth US$295 million from Prosafe. In 2012, we successfully broke new ground, securing orders for the construction of seven high-specification drillships worth a total of US$5.6 billion from Sete Brasil. With deliveries scheduled from 2015 to 2019, the seven drillships will be among the first to be built in Brazil for the country’s oil and gas discoveries in the offshore giant pre-salt fields of the Santos Basin. They will be built based on our proprietary Jurong Espadon design, which represents the next generation of high-specification drillships with state-of-the-art capabilities for efficient operation in ultra-deepwater conditions.

Phase 1 of Integrated New Yard on Track to Commence Operations 2H 2013

To better serve our customers, Phase I of our Integrated New Yard Facility, which spans 73.3 hectares, is on track to be commercially operational in the second half of 2013. Designed with leading-edge technology, the new yard will be equipped with four very large crude carrier (VLCC) drydocks, 3.8 kilometres of quays and wharfs, workshops and related facilities, capable of servicing a wide range of vessels, including VLCCs, new generations...
The seven drillships, built based on the Group’s proprietary Jurong Espadon drillship design, will position Sembcorp Marine as the leading builder of drillships in Brazil.
of mega containerships, Liquefied Natural Gas (LNG) carriers, passenger ships and offshore vessels, as well as undertaking floating production storage and offloading (FPSO) conversions.

Reinforcing our competitive edge, customers will benefit from enhanced services and faster turnaround times with its improved logistics, better and efficient workflow and introduction of new automation. It will also be geared to meet the stringent safety and quality requirements of vessels and to comply with new regulatory and environmental standards. In addition, we acquired a 34.5-hectare site for the second phase development of the yard. Located adjacent to the new yard facility’s upcoming first phase, this second phase will be developed in stages over a period of four to five years.

Expanding our Brazilian Hub
Construction work on Estaleiro Jurong Aracruz, Sembcorp Marine’s first overseas integrated new yard facility in Brazil, has commenced. The wholly-owned locally incorporated 82.5-hectare Brazilian shipyard, which broke ground in December 2011, is on track to be fully completed by end 2014. On completion, the shipyard will have capabilities to undertake the construction of drillships, semi-submersible and jack-up rigs, platforms and supply vessels as well as FPSO integration and topside module fabrication, in addition to traditional services in drilling rig repairs, ship repairs and modification and upgrade works.

Presence in India
Sembmarine Kakinada, Sembcorp Marine’s joint venture yard on the east coast of India, commenced docking and repair operations with the commissioning of a 13,500-tonne floating dock. Serving customers operating in India and South Asia, the marine and offshore facility offers services including the repair and servicing of offshore vessels and ships, newbuilding of offshore vessels, riser and equipment repairs as well as modules fabrication.

Footprint in United Kingdom
During the year, Sembcorp Marine acquired SLP Engineering, a fabrication yard in the United Kingdom with 40 years of experience in the oil and gas industry. Renamed Sembmarine SLP, the yard will further strengthen the Group’s experience in building major offshore structures, offering opportunities to tap into new business areas in renewable energy and fabrication of minimum facilities platforms for the oil and gas fields in the North Sea and Asia Pacific waters.

Sustainability for Growth
We are committed to be a socially responsible company and will further develop our business in a sustainable manner by balancing economic, environmental and social objectives. To meet these objectives, we are guided by the company’s vision, core values, strategy and internationally recognised principles, standards and guidelines.
The key to Sembcorp Marine's long-term sustainability lies in our business model. As a responsible business enterprise, we are focused on creating recurring value for our customers, suppliers, partners and communities, protecting the health and safety of our employees and business partners, limiting our impact on the environment, using resources more efficiently as well as investing in communities where we operate.

The Group is reporting its sustainability efforts in accordance with the Global Reporting Initiative (GRI) G3.1 guidelines Level B. An internationally-accepted GRI framework, the GRI guidelines provide a useful framework for us to prioritise and manage sustainability issues as well as track sustainability performance.

In expanding our global footprint, we continued to recruit, train and retain the best people in the industry to boost Sembcorp Marine's success. To further motivate our staff, we introduced a flexible benefits programme during the year to provide greater choice to employees in customising the benefits to suit their needs and those of their family members.

At the Group and subsidiary yard levels, we reached out to many segments of the community through various initiatives, including our annual School Book Assistance Grant (SchoolBAG) and Green Wave programmes. In 2012, our philanthropic and community care initiatives channelled close to $2.2 million towards worthy causes.

The journey towards sustainability is a continuous one and we are committed to advance our efforts towards a sustainable future for generations to come.

**Outlook and Prospects**

The Group has a net order book of $13.9 billion, excluding ship repair contracts, with completion and deliveries stretching into 2019. This includes $11 billion in contract orders secured in 2012 and $1.1 billion in new orders secured since the start of 2013. Moving ahead, the Group remains focused on operational efficiency, productivity improvements, safety management and the timely deliveries of these record orders to our customers.

While the global economic environment remains fragile, the long-term industry fundamentals for the offshore oil and gas sector remain sound underpinned by high oil prices and projected increases in offshore exploration and production spending. Demand for rigs is expected to remain strong given the ageing rig fleet and the increasing focus by oil companies for new, safer and efficient rig units and rigs capable of operating in harsh environment.

For the ship repair sector, there is continued demand for repair, upgrading and life extension work, in particular in the niche segments of LNG carriers, passenger/cruise vessels and offshore vessels. Demand for the Group's big docks remains strong as our alliance and long-term customers continue to provide a stable and steady base-load.

Overall, the Group continues to receive healthy enquiries for the various segments although competition remains keen with effects on margin.

**Appreciation**

On behalf of the Board, we would like to record our appreciation to Mr Richard Hale, OBE, for his years of wise counsel and dedicated service. Mr Hale, appointed a director since 2008, retired under Section 153 of the Companies Act, Cap.50 and did not offer himself for re-appointment at the 49th Annual General Meeting.

We would also like to convey our heartfelt appreciation to our valued customers, partners and business associates for their strong support and continued trust in us. Our appreciation also extends to the Board of Directors for their stewardship and counsel as well as our dedicated management team, employees, union and sub-contractor partners for their tireless efforts, loyalty and contributions in the past year.

Finally, we would like to express our sincere thanks to all our valued shareholders for their sustained interest and steadfast confidence in Sembcorp Marine. We will continue to strive towards delivering sustained value creation for our shareholders.

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Sail-away of **Seven Borealis**, the world's largest heavy lift crane carrier, built by Sembawang Shipyard for Subsea 7.