



LETTER TO SHAREHOLDERS

Dear Shareholders

Sembcorp Marine achieved an outstanding year of solid growth in 2008, posting record highs in revenue and profit.

Record Earnings in 2008

Group turnover grew by 12 per cent from \$4.5 billion in 2007 to \$5.1 billion in 2008, driven mainly by its core businesses of rig building, ship conversion and offshore, and ship repair.

At \$430 million, profit after tax and minority interest (PATMI), following a one-off charge of \$44 million in the fourth quarter arising from the commercial settlement with BNP Paribas of foreign exchange transactions, was 78 per cent higher than the \$241 million in 2007.

Were this one-off charge of \$44 million excluded, the PATMI for 2008 would have been \$474 million. This is 31 per cent higher than the PATMI for 2007 which would have been \$362 million had the one-off foreign exchange charge and non-operating items for that year been excluded.

Group operating profits recorded an increase of 44 per cent from \$349 million in 2007 to \$502 million in

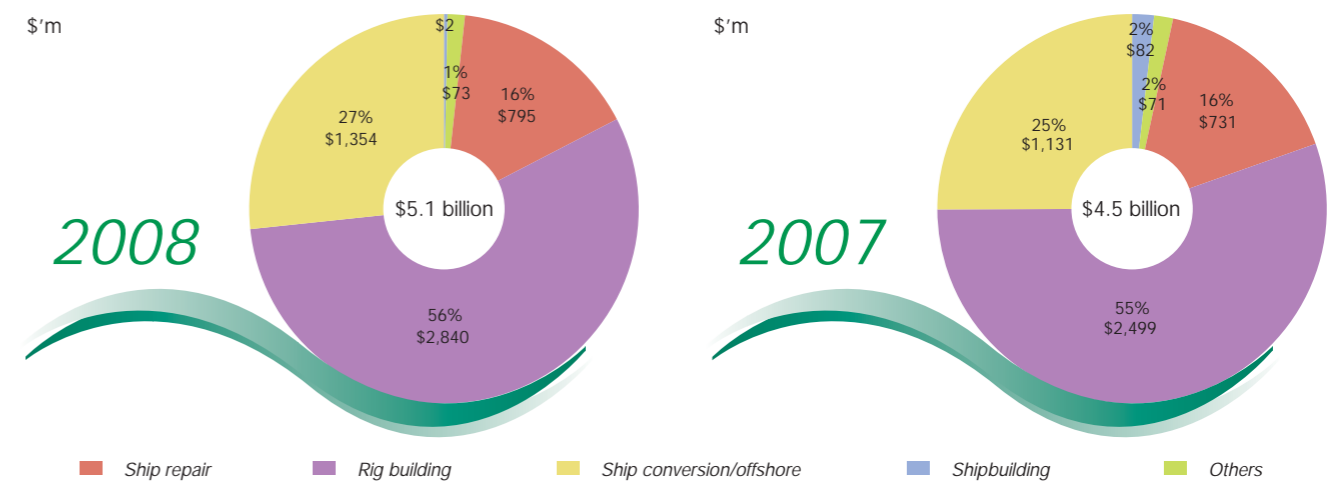
2008, while group pre-tax profits rose 49 per cent from \$365 million in 2007 to \$545 million in 2008. These increases came mainly from the higher revenue and operating margins from the rig building and ship repair businesses, offset by the lower contributions from the Cosco Shipyard Group.

Earnings per share increased 78 per cent to 20.83 cents in 2008. Return on equity improved 80 per cent to 29 per cent, while economic value added saw an increase of 843 per cent to \$337 million.

Foreign Exchange Transactions

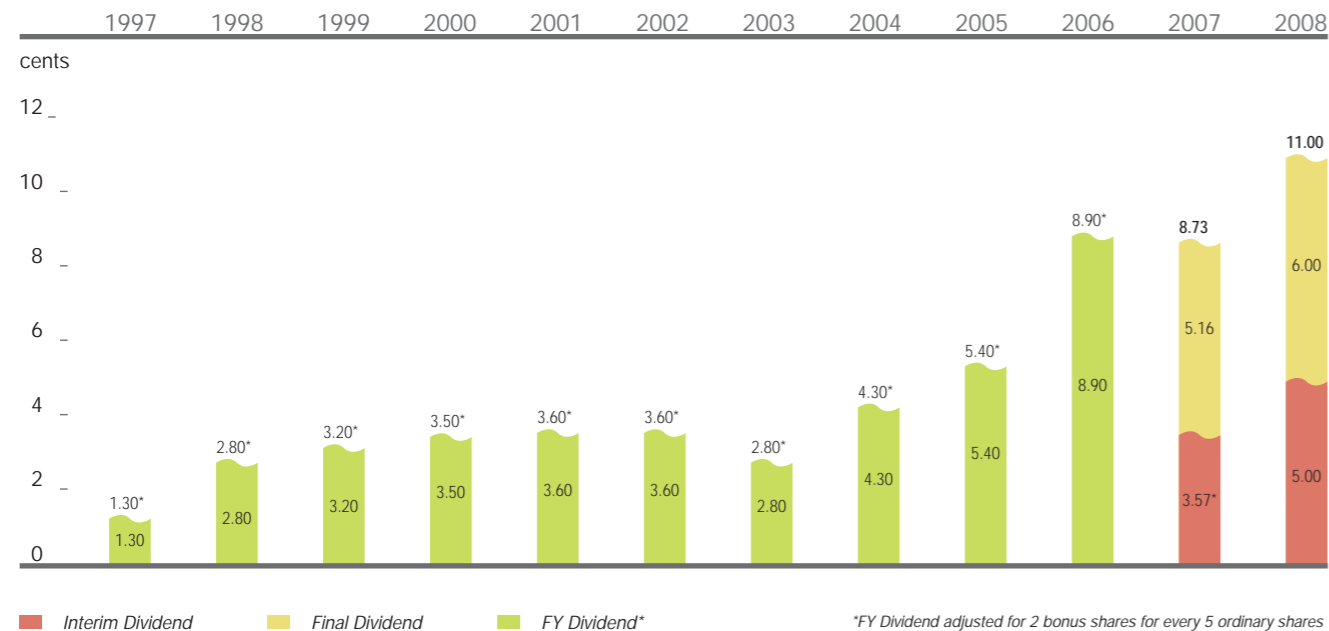
During the year, Sembcorp Marine's subsidiary Jurong Shipyard had reached a full and final amicable settlement with BNP Paribas for the claim of US\$50.7 million, strictly on commercial basis. Arising from the settlement, a charge of US\$30.0 million was expensed in the Group's Income Statement in the fourth quarter of 2008. Going forward, any other settlements arising from the foreign exchange transactions, if any, will be recognised as and when they are realised.

REVENUE BY SECTORS (FY 2008 VS FY 2007)



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DIVIDEND



Dividend

The Board of Directors has recommended a final one-tier tax-exempt dividend of 6.00 cents per share to be paid on 13 May 2009, subject to the approval of shareholders at the Annual General Meeting on 17 April 2009. This is in addition to the interim one-tier tax-exempt dividend of 5.00 cents per share paid on 1 September 2008. Total dividend for 2008 will be 11.00 cents per share, an increase of 26 per cent from 8.73 cents per share paid in 2007.

Review of Business Operations

All three core businesses of the Group grew in 2008. Group turnover increased 12 per cent from \$4.5 billion in 2007 to \$5.1 billion in 2008 on the back of strong growth in the rig building, ship conversion and offshore, and ship repair businesses. Rig building accounted for 56 per cent of total turnover in 2008, followed by ship conversion and offshore at 27 per cent, ship repair at 16 per cent and others at 1 per cent.

• Ship Conversion and Offshore

The ship conversion and offshore business registered the highest growth at 20 per cent from \$1.1 billion in 2007 to \$1.4 billion in 2008. Major completions within

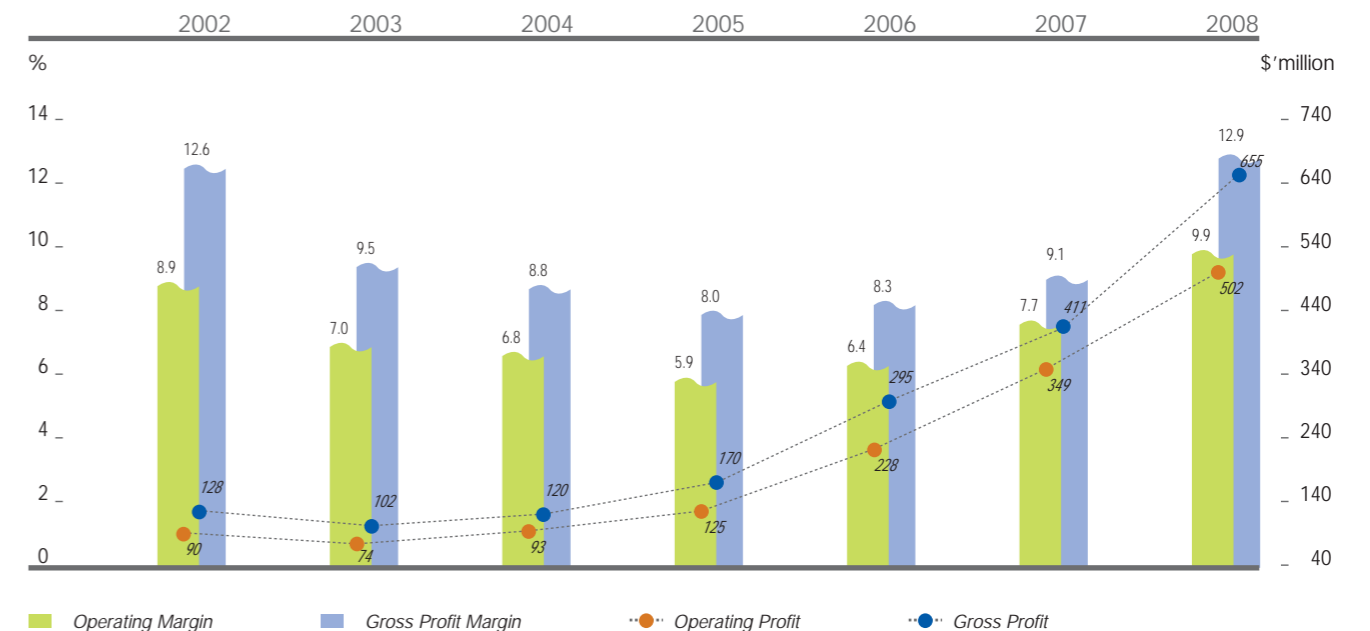
the year included three tankers converted to floating-production-storage-offloading (FPSO) vessels and one tanker converted to a floating-storage-offloading (FSO) vessel. Other specialised conversions completed included a newbuilt hull to heavy-lift derrick pipelay vessel and the topsides fabrication and integration of a newbuilt FPSO.

At year end, work-in-progress projects included the conversion of a scientific vessel to an integrated ocean drilling scientific vessel; the conversion of two FPSOs; the conversion of a heavy-lift crane vessel; the conversion of a passenger and car carrier into an accommodation and repair vessel; the conversion of two hulls to ultra-deepwater semi-submersible drilling rigs; the construction of an offshore platform integrated deck, and the construction of an offshore platform. Other projects in the planning and engineering stages included the HBD offshore platform, a fallpipe rock dumping vessel and a floating-drilling-production-storage-offloading (FDPSO) conversion.

• Rig Building

The rig building business registered a 14 per cent growth at \$2.8 billion compared with \$2.5 billion in 2007. A record total of 11 rigs were delivered on time

MARGIN & PROFIT EXPANSION



or ahead of schedule during the year. These included two units of sixth-generation semi-submersible rigs and nine units of jack-up rigs.

Landmark deliveries during the year included the turnkey construction of two ultra-deepwater semi-submersible drilling rigs built based on the Friede & Goldman Millennium Class design. This accomplishment of delivering two sixth-generation semi-submersibles in a year was made possible by Jurong Shipyard's proprietary breakthrough 'Load-out and Mating-in-dock' and 'Transverse Skidding' rig construction techniques.

An impressive nine deep drilling offshore jack-up rigs were delivered during the year. These turnkey jack-up rigs were built based on the Group's proprietary Pacific Class 375 design.

The Group's rig building order book as at year end comprised eight units of sixth-generation Friede & Goldman design ultra-deepwater semi-submersible drilling rigs, 11 units of proprietary design Pacific Class deep drilling jack-up units, a CJ70 design harsh-environment jack-up rig and a heavy-lift jack-up barge, all of which were in varying engineering, production and construction stages.

• Ship Repair

Ship repair recorded turnover growth of 8.7 per cent from \$731 million in 2007 to \$795 million in 2008. A total of 269 vessels were docked for repairs and maintenance, an improvement over 256 vessels in 2007. Vessels from customers under Alliance, Favoured Customer Contracts and other regular customers accounted for 86 per cent of the repairs.

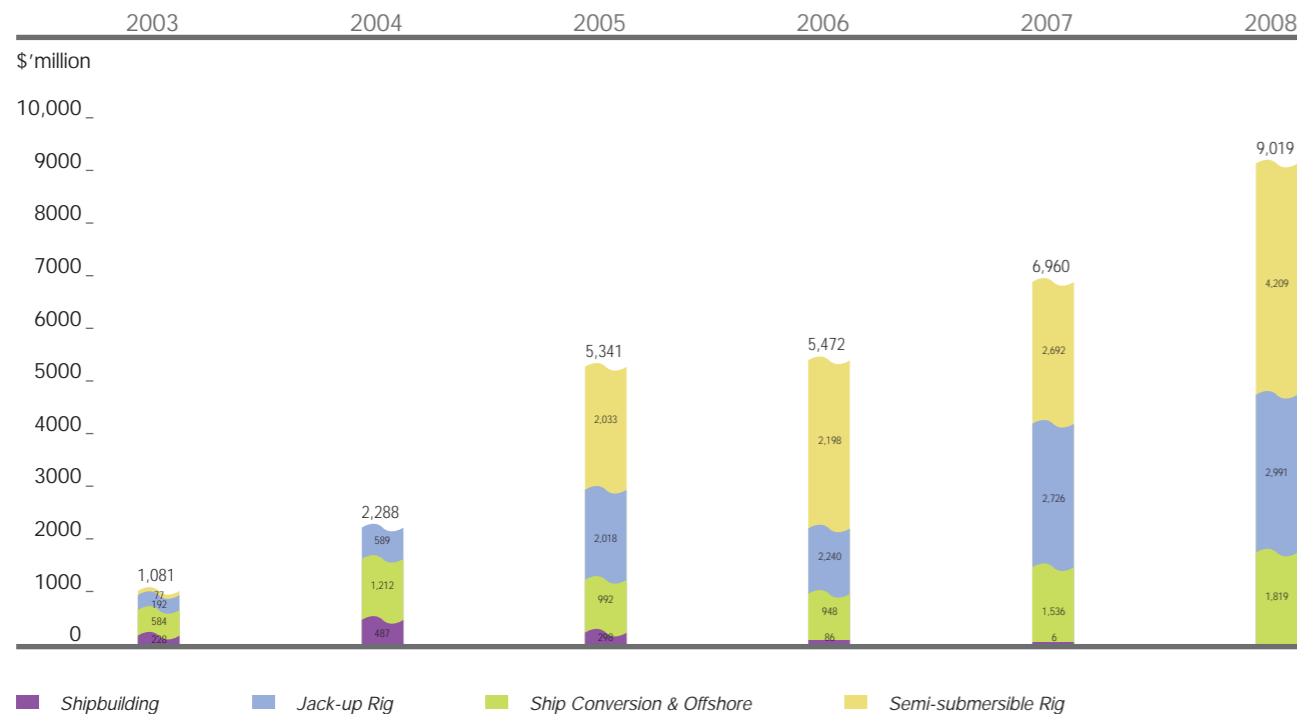
The average value per vessel grew 3 per cent from \$2.86 million per vessel in 2007 to \$2.95 million per vessel in 2008. Tankers accounted for 42 per cent of vessels repaired followed by offshore vessel upgrading at 15 per cent, liquefied natural gas (LNG) and liquefied petroleum gas (LPG) carriers at 12 per cent, container vessels at 11 per cent, bulk carriers at 8 per cent, passenger vessels at 2 per cent and the remaining 10 per cent comprising a mix of vessels such as dredgers and cargo vessels.

Associate and Joint-Venture Contributions

Total pre-tax profit contributions from associates and joint-venture companies declined 20 per cent to \$65.3 million in 2008 from \$81.8 million in 2007. This decline came mainly from the Cosco Shipyard Group.

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NET ORDER BOOK (excluding ship repair)



Managing the Challenges

The Group's focus on increasing operational efficiency through innovation, production process improvements and well-accepted proprietary designs saw operating margins increasing from 5.9 per cent in 2005 to 9.9 per cent in 2008.

In line with its innovation strategy, the Group continues to improve and streamline its work processes for maximum operational efficiency, resource utilisation and cost efficiency. Critical in ensuring its competitive edge and relevance in the fast-changing offshore and marine market, the Group will continue to invest in research and development to further enhance its proprietary engineering, design and production capabilities. It is also in partnership with various technology partners from the government, educational and private sectors for several research and development projects, including the development of the region's first water ballast treatment system.

Equally important is the need to raise health, safety, security and environmental standards and to invest in people development. These efforts will support the

Group's efforts to maintain the trust and confidence of customers and stakeholders and to build a safety-conscious, well-trained and capable workforce to deliver added value and service excellence.

Going forward, the Group will continue to strive towards delivering creditable performance and value to shareholders. Its strategy to ride through these challenging times is to maintain a strong balance sheet and to be in a net cash position.

Outlook and Prospects

The world economy continues to deteriorate since the end of 2008. While we remain cautiously optimistic of our results in 2009, we are also prepared that should the financial market deteriorate further as the year progresses, we may receive possible requests for cancellations from our customers. If these situations should arise, the Group will naturally make the necessary announcements expeditiously.

Despite the uncertain global economic climate, the Group is confident that the long-term fundamentals and outlook for the marine and offshore industry

continue to be positive in the light of continued global reliance on oil and gas and the accelerating depletion of oil and gas reserves.

Having weathered through several economic down-cycles since its inception in 1963, Sembcorp Marine has proven its resilience, adaptability and fortitude. The Group is optimistic about riding through this downturn buoyed by a strong \$9.0 billion net order book for rig building, ship conversion and offshore projects, including new orders of \$5.7 billion secured in 2008. These marine and offshore engineering projects will provide the Group with a solid base-load of orders to keep its shipyards busy with progressive completion and deliveries from 2009 to early 2012.

For ship repair, the Group believes that Singapore's strategic location and reputation as an international maritime centre coupled with its strategic alliances and partnerships fostered with long-term customers will provide a stable base-load to cushion the impact of the current economic turmoil.

The market for large FPSO units and production platforms is expected to remain strong based on owners' long-term commercial viability of the projects. Such projects have longer gestation periods and constitute part of the owners' investment portfolio designed to provide future output to replace depleting reserves.

Board & Management

The Board would like to extend a warm welcome to Mr Richard Edward Hale OBE and Mr Lim Ah Doo, both of whom were appointed directors of Sembcorp Marine.

Mr Richard Edward Hale OBE, appointed a non-independent director to the Board on 22 April 2008, was subsequently appointed Deputy Chairman on 7 May 2008. His vast experience in the corporate world would further add value to the Group and its operations.

Mr Lim Ah Doo, who joined the Board as an independent director on 7 November 2008, brought with him more than 25 years of experience in the investment banking industry and corporate world.

His appointment underscored Sembcorp Marine's commitment to further enhance effective corporate governance.

Mr Kiyotaka Matsuzawa stepped down as an independent director due to health reasons with effect from 7 May 2008. The Board would like to thank Mr Matsuzawa and his alternate director Mr Hirohiko Sakurai for their contributions.

Mr Tan Tew Han, an independent director appointed to the board on 17 April 2003 and serving as Chairman of the Audit and Special Committees, has decided to step down with effect from 24 February 2009 due to his personal commitments. The Board would like to thank him for his invaluable contributions during his six-year tenure.

On behalf of the Board, we would like to express our heartfelt gratitude to our valued customers, partners and business associates for their steadfast support and continued trust in us. We also like to thank our dedicated team of management, employees and subcontractors for their hard work and commitment. As we brace ourselves for the challenges ahead, it is important for us to forge ahead and rise above the odds as one united team.

Finally, we would like to express our sincere appreciation to all our valued shareholders for their continued interest and unwavering belief in the Group during these challenging times. We are grateful for your relentless support and will continue to deliver on our commitment to maximise returns on our shareholders' investments.

Goh Geok Ling
Chairman

Tan Kwi Kin
Group President & CEO

2 March 2009