



Aerial view of Sembawang Shipyard.

# RISK MANAGEMENT & FINANCIAL REVIEW

## RISK MANAGEMENT

Supporting the Board Risk Committee (“BRC”) in the implementation of the Enterprise Risk Management (“ERM”) programme is the ERM Committee – a management working committee with members (business unit heads and their CROs) from the various Strategic Business Units (“SBUs”) and the representatives of the key corporate functions like Risk Management, Internal Audit, Finance, HR, Legal and Investor Relations. This all-inclusive make-up of the ERM Committee enables a comprehensive and in-depth consideration of the Group’s risk exposures and internal controls.

The ERM Committee has various sub-committees that look into certain critical areas in project management, finance, safety, human resource and procurement. These sub-committees are headed by appropriate functional heads. They meet regularly to discuss the latest developments and issues as well as consider and implement any corresponding mitigation actions. The outcome of these discussions are presented and further reviewed during the ERM Committee meetings before tabling to the BRC.

The senior management in consultation with the Board regularly review the Group’s strategies and operations to keep in line with the Group’s risk appetite and business objectives. The impact of the changes to the business environment are also considered during the reviews. Key risks that have emerged during the reviews include:

- Project management risks
- Financial risks
- Health, safety, security & environment risks
- Human resource risks
- External environment risks
- Investment risks
- Reputation risks

### a. Project management risks

As the Group’s main business activities relate to its projects, a significant proportion of the risks reside in the day-to-day operations of project execution. A set of contract bidding criteria and process flow has been established to guide the subsidiary companies in their bid for projects. This is further augmented by contract check lists by the various specialist departments to

ensure compliance with proper due diligence procedures. To tighten variation order (“VO”) management, a set of recommended VO clauses has been developed.

The SBUs provide regular updates on their project status and all issues arising thereon are discussed and addressed in the project risk management meetings chaired by the Group President/CEO and attended by the heads of the subsidiary companies and key management staff. The matters updated will include work schedules, costs, work variations, financial and contractual matters including adherence to payments schedules.

### b. Financial risks

Given the Group’s wide range of marine & offshore activities, exposure to financial risks takes various forms and magnitude. To mitigate these risks, policies and procedures have been established and communicated to the Group’s subsidiary companies. Policies cover areas in treasury operations including foreign exchange hedging, credit and inter-company transactions - parameters and limits are set out to institute controls and appropriate thresholds of approval.

Operationally, the policies seek to minimise the Group’s cost of capital, the adverse effects of fluctuations in currency and interest rate on income and ensure sufficient funds are available to meet financial obligations and operational needs. The Group’s treasury activities are centrally managed at the Sembcorp Marine Group Level.

The CFO heads the finance committee, attended by relevant key personnel from all the subsidiary companies. The key financial risks include the following:

#### i) 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. Surplus funds, if any, are placed with reputable banks. The Group obtains additional funding through bank borrowings and leasing arrangements. The Group’s policy is to obtain the most favourable interest rate available without increasing its foreign currency exposure.

# RISK MANAGEMENT

## ii) Foreign Exchange Risk

The Group is exposed to foreign exchange risk arising from sales and purchases denominated in foreign currencies, primarily the US dollar and Euro. To minimise exposures on foreign exchange risks, the Group arranges for natural hedging by matching costs in the same currency as sales. Where there are net foreign exchange exposures, the Group will hedge them. The only permitted instruments are plain vanilla forward contracts and spot transactions, managed centrally at Group Treasury.

## iii) Liquidity Risk

To manage liquidity risk, the Group monitors its net operating cash flow, maintains a level of cash and cash equivalent 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 flow. Short-term funding is obtained from overdraft facilities and bank loans.

## iv) Credit Risk

The Group manages credit risk arising from sales to customers through a stringent credit evaluation process and regular monitoring thereafter. The management of credit risk is on an aggregate basis by including all existing relationships with a particular customer or related entities of the same corporate organisation.

## c. Health, safety, security & environment risks

The Group Safety Committee continues to work towards an accident-free environment through a range of initiatives and programmes, including:

- Risk assessment & management for the top risks identified
- Information sharing – past incidents and safety innovation projects
- Review and update of the safety Best Practice Manual (“BPM”) in line with statutory requirements and changes in legislation
- Competency gap analysis and remedial training – collaboration with course providers (local tertiary institutions)

- Validation & audit by external safety consultants
- New internal programme – “REV” (review, evaluate & validate) for identified key areas in confined space, hotwork, work at height, lifting operations & electrical hazards

A new milestone was achieved when a FPSO (Floating, Production, Storage & Offloading) project undertaken jointly by SSPL and SMOE achieved 25 million LTI-free (Lost Time Injury) man-hours and recognition award from the Ministry of Manpower. This was also a new safety performance record for the customer, ConocoPhillips.

## d. Human resource (“HR”) risks

The successful realisation of the Group’s strategic business plan cannot be possible without the right people in place. Loss of key senior staff will jeopardise these plans. Recognising this, the Group is always looking to retain and hire the “right” people to maintain and enhance its competitive edge.

In this respect, comprehensive HR policies for recruitment, compensation and development for employees have been established. The Board Executive Resource and Compensation Committee has oversight of the Group’s remuneration policies and oversees management, development and succession plans for key management positions. On the working level, the Group HR Committee meets regularly to address key HR issues.

Key risk areas include management succession, selection and recruitment, compensation and benefits. A succession planning process is in place to promote smooth management transition and minimise operational disruptions arising from changes in key personnel. Talent management ensures potential successors are identified and groomed for future management appointments.

Attractive terms including remuneration, benefits and career development opportunities are offered in order to retain capable staff and attract new ones. Other schemes include implementing pro-family policies and encouraging work-life balance.



TTP (Third Transmission Pipeline) project by SMOE.

## e. External environment risks

With the unfolding of the global economic crisis, it is evident that the developments in the external environment can have far reaching influence and deep impact on the Group’s activities. Recognising this, the Group has placed even stronger emphasis on this area which basically encompasses everything outside of the Group’s control. These external environment factors include commodities price volatility, foreign exchange movements, credit crunch, recession, geo-politics and regulatory environment.

Other than affecting its own operations, some of the Group’s vendors, contractors, suppliers and customers as well. Given the interdependent relationships, steps have been taken to minimise adverse impacts, while maintaining the Group’s interests. This is evidenced by mutually agreeable payment deferment arrangements worked out with customers facing financing difficulties. At the same time, the Group monitors its exposures to its customers, vendors and other counterparties such as banks and engages them regularly.

## f. Investment risks

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 team of experienced managers and augmented by external professionals for specialised services. The business proposals are risk assessed and evaluated by senior management before seeking final Board of Directors’ approval.

## g. Reputation risks

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 its stakeholders at all times.

## h. Other initiatives

In 2008, in line with the Group’s continual improvement of its internal controls, a new risk-based governance programme, Control Self Assessment (“CSA”) was rolled out in Jurong Shipyard, covering the major business processes. This exercise was conducted in collaboration with external consultants. The programme will be expanded in scope and extended to the other SBUs. This programme entails staff to assess their compliance with key controls on a regular basis, highlight deviations and formulate action plans to rectify deviations. Counter checks by independent parties will be conducted to ensure compliance.

The Group will continue to review and improve its enterprise risk management system, policies and processes to ensure relevance and effectiveness towards achieving its business objectives. This is especially more essential and critical under current challenging macro financial and economic conditions. Nevertheless, the Group believes that there are opportunities to be seized amidst the tough times ahead.

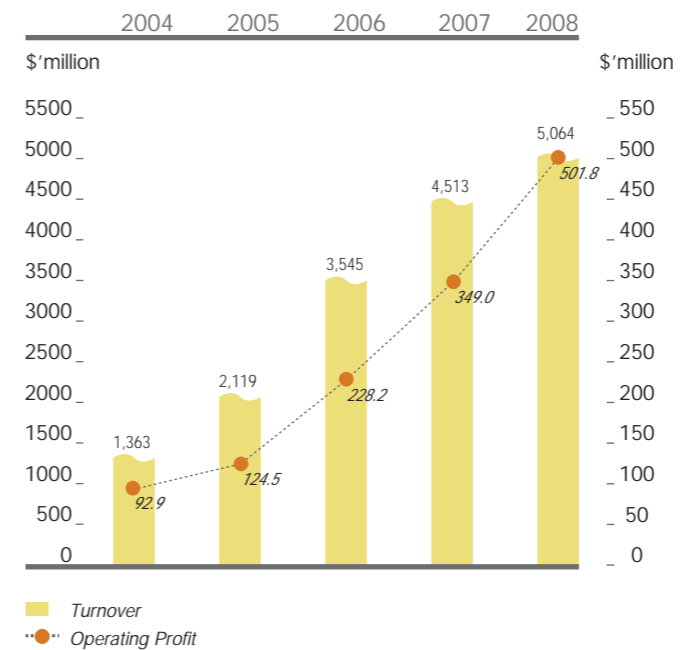
# FINANCIAL REVIEW

## GROUP FIVE-YEAR FINANCIAL SUMMARY

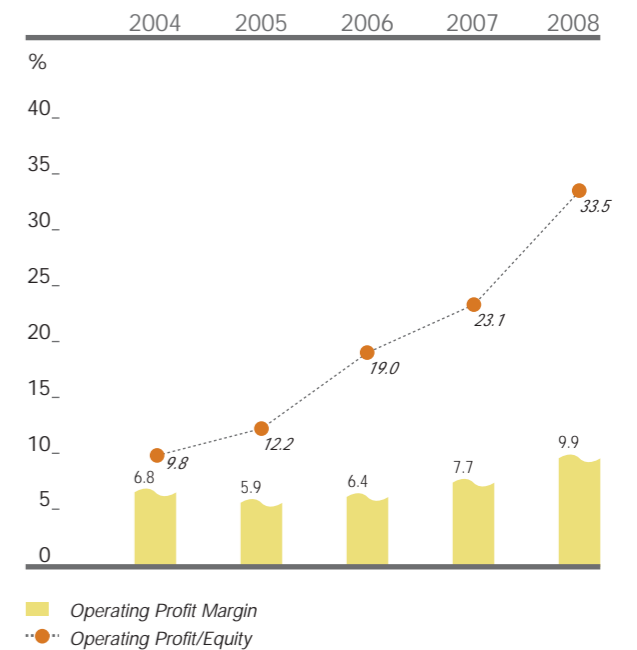
For the year	2004 (\$'000)	2005 (\$'000)	2006 (\$'000)	2007 (\$'000)	2008 (\$'000)
Turnover	1,362,764	2,119,279	3,545,049	4,513,123	5,063,948
Operating Profit	92,933	124,549	228,233	349,029	501,837
Profit Before Tax - include FX & Nol <sup>#</sup>	113,089	159,855	310,871	364,721	544,958
Profit Before Tax - exclude FX & Nol <sup>#</sup>	116,155	155,836	283,008	444,660	588,707
PATMI - include FX & Nol <sup>#</sup>	94,087	121,398	238,388	240,989	429,918
PATMI - exclude FX & Nol <sup>#</sup>	97,153	119,361	217,848	362,273	473,667
Dividend - Interim	17,067	28,880	40,867	73,783	102,906
Dividend - Final	69,157	81,495	142,483	106,353	123,350
Dividend - Total	86,224	110,375	183,350	180,136	226,256
Group Balance Sheet					
Property, plant and equipment	460,020	579,584	679,024	675,585	697,702
Associates & Joint ventures	67,487	106,880	147,255	205,502	269,609
Other Investments	23,666	77,931	346,987	689,554	138,376
Other Long Term Assets	88,258	68,628	69,583	45,990	70,611
Current Assets	1,219,934	1,493,114	2,186,652	2,846,216	3,435,519
Current Liabilities	(651,692)	(982,871)	(1,690,896)	(2,397,423)	(3,111,640)
Long Term Liabilities	(204,963)	(227,569)	(368,382)	(359,708)	(140,218)
	1,002,710	1,115,697	1,370,223	1,705,716	1,359,959
Share Capital	142,761	145,036	418,631	442,549	443,347
Capital, Foreign Currency Translation and Other Reserves	240,772	318,271	209,093	502,173	(81,359)
Retained Profits	585,367	602,238	710,615	735,338	955,997
Minority Interests	33,810	50,152	31,884	25,656	41,974
	1,002,710	1,115,697	1,370,223	1,705,716	1,359,959
Per Share					
EPS - include FX & Nol <sup>#</sup> (cents)	4.73*	6.03*	11.71*	11.72	20.83
EPS - exclude FX & Nol <sup>#</sup> (cents)	4.88*	5.93*	10.70*	17.62	22.95
Net Tangible Assets (cents)	48.00*	52.30*	64.64*	80.76	63.81
Net Assets Value (cents)	48.49*	52.48*	65.30*	81.13	64.11
Financial Ratios					
Return on Equity - include FX & Nol <sup>#</sup> (%)	9.92	11.93	19.83	15.97	28.68
Return on Equity - exclude FX & Nol <sup>#</sup> (%)	10.25	11.73	18.12	24.00	31.60
Return on Total Assets- include FX & Nol <sup>#</sup> (%)	5.56	5.80	8.28	6.11	9.48
Return on Total Assets - exclude FX & Nol <sup>#</sup> (%)	5.74	5.70	7.57	9.18	10.44
Operating Profit/Equity (%)	9.80	12.24	18.99	23.13	33.48
Current Ratio (times)	1.87	1.52	1.29	1.19	1.10
Net Gearing (times)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend Cover (times)	1.10	1.10	1.30	1.34	1.90

\* Adjusted for two Bonus Shares for every five existing ordinary shares  
<sup>#</sup> FX & Nol - Foreign exchange transactions and Non-Operating Items

### TURNOVER AND OPERATING PROFIT



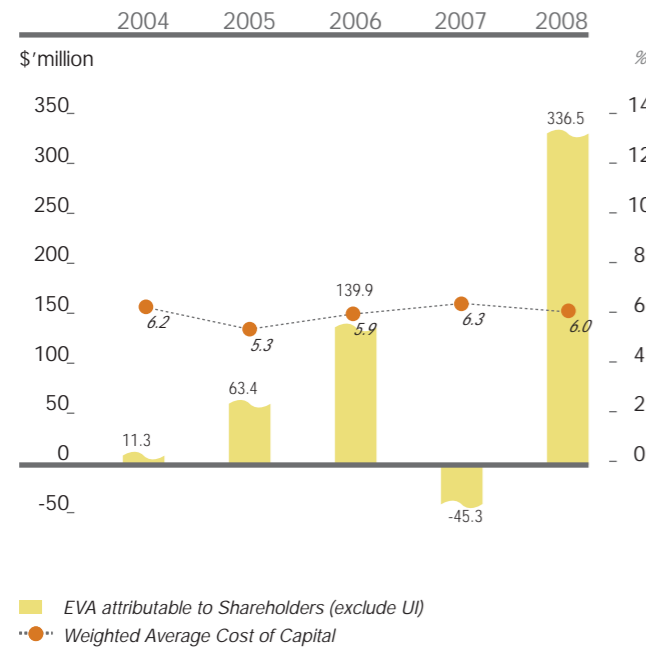
### OPERATING PROFIT MARGIN



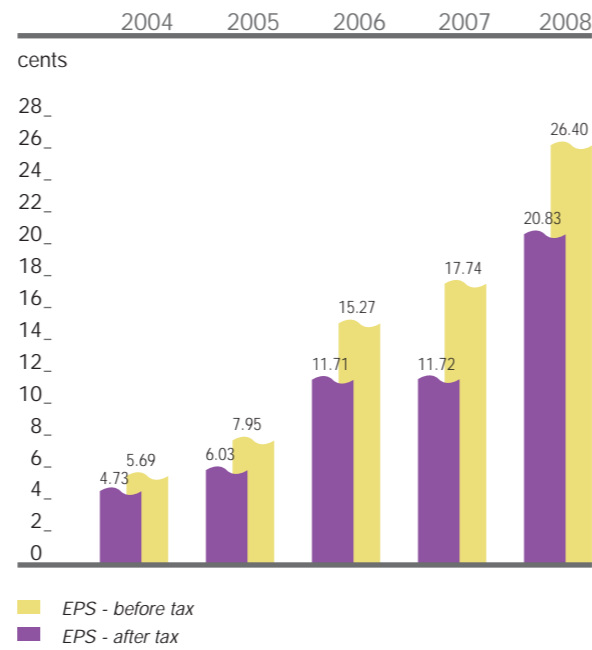
The Chevron-Jurong Shipyard alliance team celebrating their repair achievement.

# FINANCIAL REVIEW

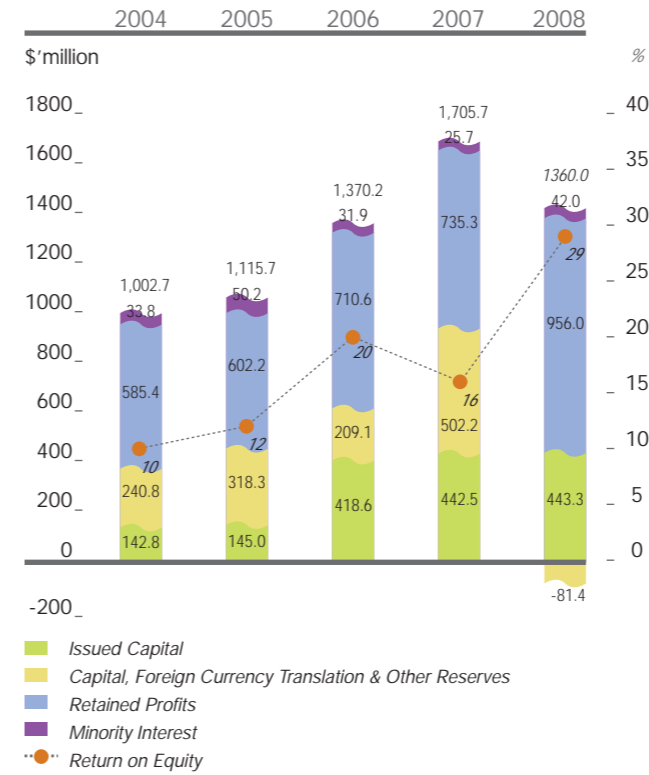
## ECONOMIC VALUE ADDED (EVA)



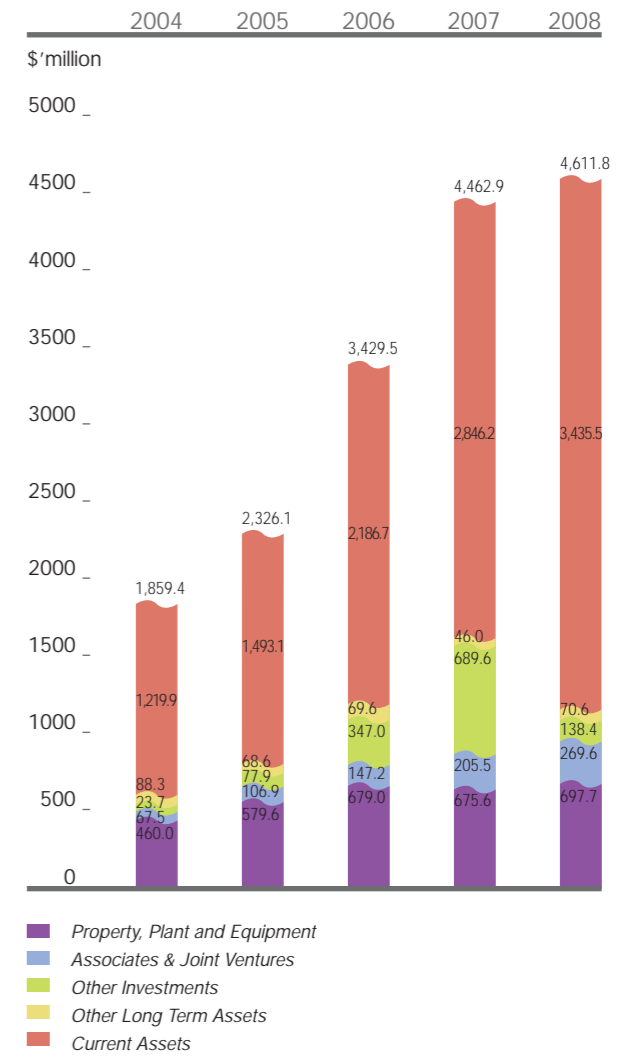
## EARNINGS PER SHARE



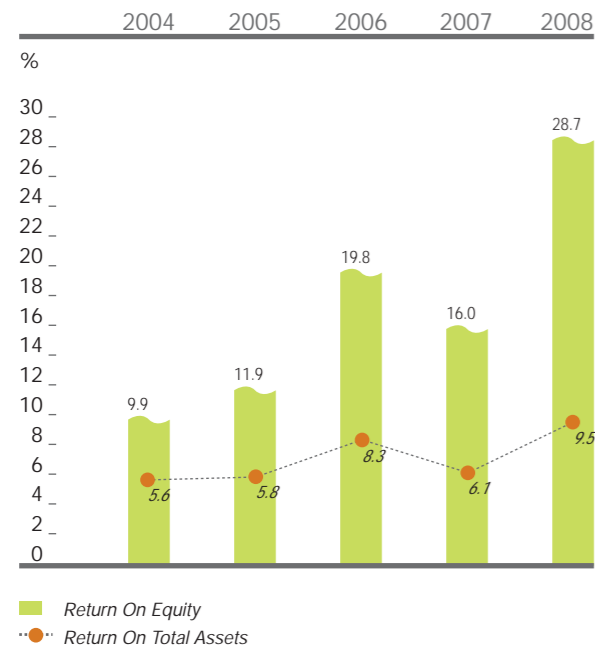
## SHAREHOLDERS' FUND



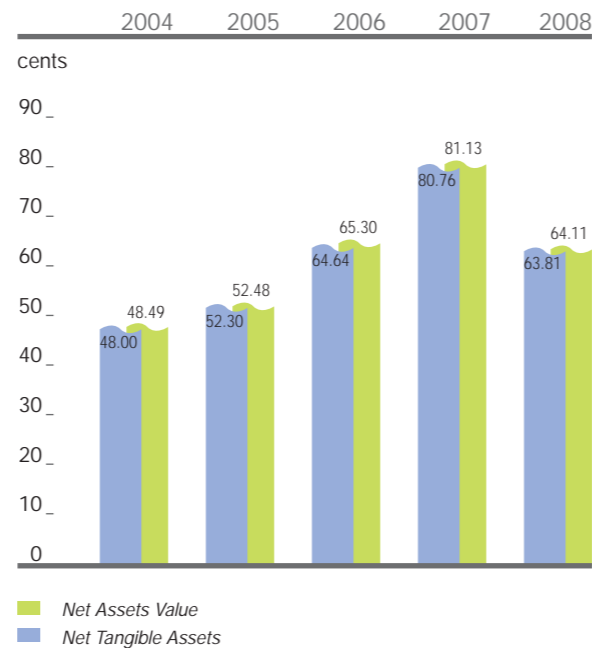
## ASSETS



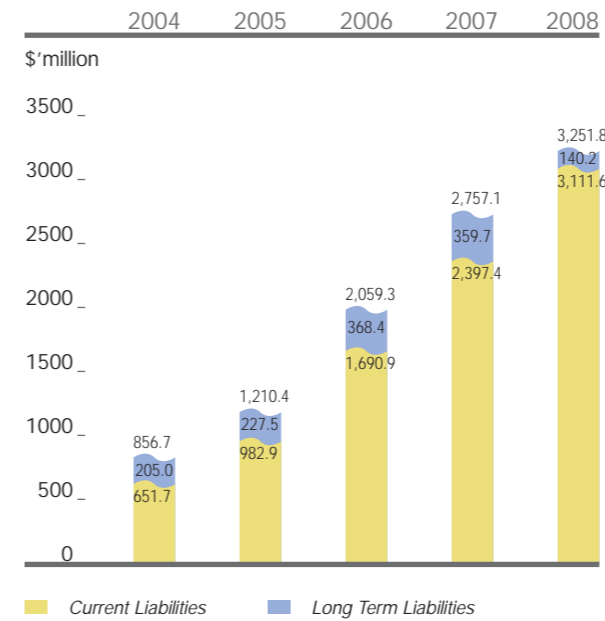
## RETURN ON EQUITY AND RETURN ON TOTAL ASSETS



## NET ASSETS VALUE AND NET TANGIBLE ASSETS PER SHARE



## LIABILITIES

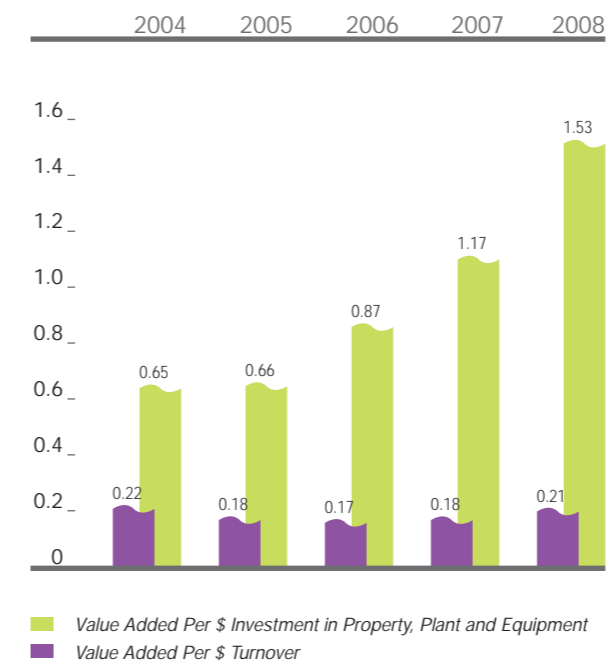


# FINANCIAL REVIEW

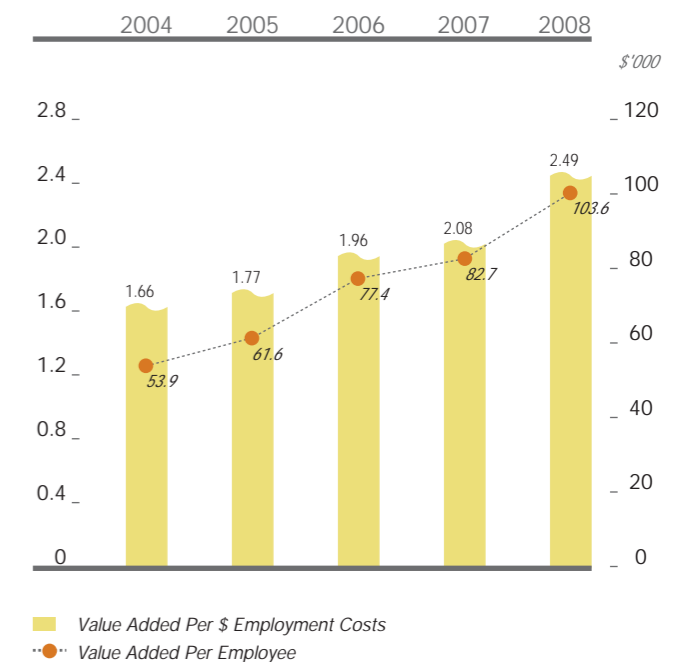
## VALUE ADDED STATEMENT & PRODUCTIVITY RATIOS

	2004 \$'000	2005 \$'000	2006 \$'000	2007 \$'000	2008 \$'000
Turnover	1,362,764	2,119,279	3,545,049	4,513,123	5,063,948
Less: Bought In Materials	(1,062,339)	(1,734,961)	(2,957,566)	(3,722,062)	(3,993,848)
Gross Value Added From Operations	300,425	384,318	587,483	791,061	1,070,100
Investment, Interest & Other Income	49,654	42,917	79,514	292,629	67,140
Share Of Associates' Results	12,208	12,313	40,923	74,075	56,995
Share Of Joint Ventures' Results	1,070	1,011	3,441	7,718	8,305
Other Non-Operating Expenses	(14,307)	(12,409)	(30,792)	(20,143)	(78,108)
Foreign Exchange Transactions	-	-	-	(302,922)	(43,749)
	349,050	428,150	680,569	842,418	1,080,683
Distribution:					
To Employees : Salaries, Wages & Benefits	180,833	216,533	299,052	379,897	429,895
To Government : Income & Other Taxes	21,844	41,888	73,880	130,198	111,677
To Providers of Capital :					
Interest Paid on Borrowings	2,822	4,785	10,549	13,692	11,370
Dividends	56,881	98,036	122,362	216,266	209,259
Retained in Business :					
Depreciation and Amortisation	37,497	37,766	45,514	66,353	70,592
Retained Profits	38,121	23,362	116,026	24,723	220,659
Minority Interests	3,017	4,186	10,143	10,738	21,324
Non-Production Costs	8,035	1,594	3,043	551	5,907
Total Distribution	349,050	428,150	680,569	842,418	1,080,683
Average Number of Employees	5,572	6,241	7,592	9,570	10,330
Employment Costs	180,833	216,533	299,052	379,897	429,895
Value Added Per Employee	53.92	61.58	77.38	82.66	103.59
Employment Cost Per Employee	32.45	34.70	39.39	39.70	41.62
Value Added Per Employment Costs	1.66	1.77	1.96	2.08	2.49
Value Added Per Dollar Investment in Property, Plant and Equipment	0.65	0.66	0.87	1.17	1.53
Value Added Per Dollar Turnover	0.22	0.18	0.17	0.18	0.21

## PRODUCTIVITY RATIOS

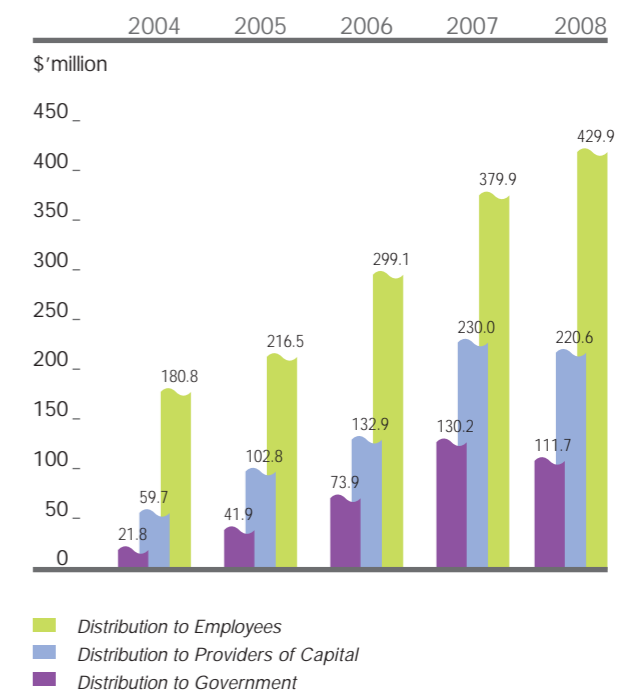


## PRODUCTIVITY RATIOS



Raroa FPSO setting sail from Jurong Shipyard after a successful conversion.

## DISTRIBUTION OF VALUE ADDED



## FINANCIAL REVIEW

### ECONOMIC VALUE ADDED

	2008 \$'000	2007 \$'000
Net Operating Profit Before Tax	479,658	282,928
Adjust for:		
Share of Associates and Joint Ventures' Profit	65,300	81,793
Interest Expenses	13,066	15,835
Others	13,360	253
Adjusted Profit Before Interest and Tax	571,384	380,809
Cash Operating Taxes (Note 1)	(98,612)	(114,446)
NOPAT	472,772	266,363
Average Capital Employed (Note 2)	1,951,809	1,807,838
Weighted Average Cost of Capital (Note 3)	6.0%	6.3%
Capital Charge	117,109	113,894
EVA	355,663	152,469
Less: Minority Share of EVA	19,166	8,491
EVA Attributable to Ordinary Shareholders	336,497	143,978
Less: Unusual Items (UI) Gains (Note 4)	-	189,272
EVA Attributable to Shareholders (exclude UI)	336,497	(45,294)

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:

- Cost of Equity using Capital Asset Pricing Model with market risk premium at 6.0% (2007: 6.0%);
- Risk-free rate of 2.74% (2007: 3.05%) based on yield-to-maturity of Singapore Government 10 years Bonds;
- Ungeared beta 0.6 (2007: 0.6) based on Sembcorp Industries risk categorisation; and
- Cost of Debt rate at 3.53% (2007: 4.12%) using 5-year Singapore Dollar Swap Offered rate plus 55 basis point. (2007: 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 property, plant and equipment.

# Bound for Gulf of Mexico on a 5-year Charter with Petrobras America



## Congratulations

on the official naming of the

6<sup>th</sup> Generation

Semi-submersible Rig

**PetroRig I**

built by

**JURONG SHIPYARD**

17 January 2009

Lady Sponsor:

**Mrs Liv Berge Halvorsen**

“The fast-track and on-time completion of *PetroRig I* – our first of a series of four ultra-deepwater semi-submersible drilling rigs with Jurong Shipyards marks another landmark achievement in the Larsen-Jurong partnership. Jurong Shipyards’ innovative rig-building capabilities and strong management expertise have played a vital role in *PetroRig I*’s success in this challenging environment and we salute each and everyone in the team for achieving this significant milestone. We are confident that Jurong Shipyards will continue to deliver results and meet our high expectations.”

Mr Martin Nordaas  
Project Director, PetroRig I  
General Manager, Larsen Oil & Gas

