by the middle of 2009 could be as much as 15% lower than levels in 2008.

In Singapore, the Ministry of Trade and Industry is forecasting a negative growth of between 5% and 2% in 2009 for the Singapore economy. In the UK, the independent forecasts collated by Her Majesty’s Treasury indicate an average projected negative growth of 2.8% for the UK’s gross domestic product (GDP) in 2009.

As a result of the worldwide economic slowdown, our customers are facing a challenging environment with falling product demand and margins. The fourth quarter of 2008 saw facilities around the world scheduling early maintenance and lowering output, as well as a deceleration of new project announcements due to waning demand and tightening global credit markets.

Singapore

In Singapore, this is expected to affect companies located on Jurong Island as well as the pace of overseas investments into Singapore’s petrochemical and chemical sector.

Singapore’s Economic Development Board forecasts that fixed asset investments will be lower in 2009 compared to 2008 but could still exceed S$10 billion. In 2008, Singapore saw S$18 billion of fixed asset investments compared to S$17.2 billion in 2007. Some investors such as Lanxess and Jurong Aromatics Corp have announced potential delays to investment decisions on their new proposed facilities on Jurong Island. However, major projects in Singapore such as the two petrochemical crackers, being built by Shell and ExxonMobil, remain on track to be completed by 2010 and 2011 respectively.

In addition, electricity and gas demand, which have historically tracked movements in GDP, may moderate in line with Singapore’s projected economic slowdown.

UK

For the first time since 2003, the European Union’s (EU) chemicals industry’s output excluding pharmaceuticals experienced negative growth in 2008. The European Chemical Industry Council is expecting a decline in output of 1.3% in 2009 for the EU chemical industry, excluding pharmaceuticals. This is expected to affect our customers located in the Wilton International site in the UK and consequently their demand for utilities.

At the end of 2008, following a review of the viability of its aromatics operations, SABIC Europe restructured its operations and closed its paraxylene plant on the Wilton International site. A major on-site customer has also announced that it has begun consultation with trade unions and employee representatives regarding a proposal to cease production at its facilities. Should the closure of the facility take place, a variety of operational optimisation initiatives would be undertaken to mitigate its impact.

In 2009, we expect to commence the supply of utilities to SABIC’s new 400,000 tonnes per annum low density polyethylene plant and to Enensu’s new 400 million litres per annum bio-ethanol plant. Newly secured customer Yara’s carbon dioxide liquid facility is scheduled to commence operations in 2010. We continue to pursue further opportunities in renewable energy and also continue to seek suitable opportunities to grow the business in Europe.

China and other markets

In 2009, our 15,000 cubic metres per day high concentration wastewater facility in Zhangjiagang and 10,000 cubic metres per day wastewater treatment plant in Tianjin are expected to come onstream. Operations in Shanghai, Nanjing and Zhangjiagang are expected to continue to be profitable.

Our performance in Vietnam and the UAE is expected to continue to be underpinned by long-term agreements. Our one-third-owned Phu My 3 power plant in Vietnam has a 20-year power purchase agreement with Electricity of Vietnam, while 40%-owned Fujairah 1 independent water and power plant has a 22-year power and water purchase agreement with the Abu Dhabi Water and Electricity Company. In addition, the 225 megawatt expansion of the Fujairah 1 plant is on track to start commercial operation in March 2009.

For the first time since 2003, the European Union’s (EU) chemicals industry’s output excluding pharmaceuticals experienced negative growth in 2008. The European Chemical Industry Council is expecting a decline in output of 1.3% in 2009 for the EU chemical industry, excluding pharmaceuticals. This is expected to affect our customers located in the Wilton International site in the UK and consequently their demand for utilities.

At the end of 2008, following a review of the viability of its aromatics operations, SABIC Europe restructured its operations and closed its paraxylene plant on the Wilton International site. A major on-site customer has also announced that it has begun consultation with trade unions and employee representatives regarding a proposal to cease production at its facilities. Should the closure of the facility take place, a variety of operational optimisation initiatives would be undertaken to mitigate its impact.

In 2009, we expect to commence the supply of utilities to SABIC’s new 400,000 tonnes per annum low density polyethylene plant and to Enensu’s new 400 million litres per annum bio-ethanol plant. Newly secured customer Yara’s carbon dioxide liquid facility is scheduled to commence operations in 2010. We continue to pursue further opportunities in renewable energy and also continue to seek suitable opportunities to grow the business in Europe.

China and other markets

In 2009, our 15,000 cubic metres per day high concentration wastewater facility in Zhangjiagang and 10,000 cubic metres per day wastewater treatment plant in Tianjin are expected to come onstream. Operations in Shanghai, Nanjing and Zhangjiagang are expected to continue to be profitable.

Our performance in Vietnam and the UAE is expected to continue to be underpinned by long-term agreements. Our one-third-owned Phu My 3 power plant in Vietnam has a 20-year power purchase agreement with Electricity of Vietnam, while 40%-owned Fujairah 1 independent water and power plant has a 22-year power and water purchase agreement with the Abu Dhabi Water and Electricity Company. In addition, the 225 megawatt expansion of the Fujairah 1 plant is on track to start commercial operation in March 2009.

In addition, electricity and gas demand, which have historically tracked movements in GDP, may moderate in line with Singapore’s projected economic slowdown.

UK

For the first time since 2003, the European Union’s (EU) chemicals industry’s output excluding pharmaceuticals experienced negative growth in 2008. The European Chemical Industry Council is expecting a decline in output of 1.3% in 2009 for the EU chemical industry, excluding pharmaceuticals. This is expected to affect our customers located in the Wilton International site in the UK and consequently their demand for utilities.

At the end of 2008, following a review of the viability of its aromatics operations, SABIC Europe restructured its operations and closed its paraxylene plant on the Wilton International site. A major on-site customer has also announced that it has begun consultation with trade unions and employee representatives regarding a proposal to cease production at its facilities. Should the closure of the facility take place, a variety of operational optimisation initiatives would be undertaken to mitigate its impact.

In 2009, we expect to commence the supply of utilities to SABIC’s new 400,000 tonnes per annum low density polyethylene plant and to Enensu’s new 400 million litres per annum bio-ethanol plant. Newly secured customer Yara’s carbon dioxide liquid facility is scheduled to commence operations in 2010. We continue to pursue further opportunities in renewable energy and also continue to seek suitable opportunities to grow the business in Europe.

China and other markets

In 2009, our 15,000 cubic metres per day high concentration wastewater facility in Zhangjiagang and 10,000 cubic metres per day wastewater treatment plant in Tianjin are expected to come onstream. Operations in Shanghai, Nanjing and Zhangjiagang are expected to continue to be profitable.

Our performance in Vietnam and the UAE is expected to continue to be underpinned by long-term agreements. Our one-third-owned Phu My 3 power plant in Vietnam has a 20-year power purchase agreement with Electricity of Vietnam, while 40%-owned Fujairah 1 independent water and power plant has a 22-year power and water purchase agreement with the Abu Dhabi Water and Electricity Company. In addition, the 225 megawatt expansion of the Fujairah 1 plant is on track to start commercial operation in March 2009.

In addition, electricity and gas demand, which have historically tracked movements in GDP, may moderate in line with Singapore’s projected economic slowdown.

UK

For the first time since 2003, the European Union’s (EU) chemicals industry’s output excluding pharmaceuticals experienced negative growth in 2008. The European Chemical Industry Council is expecting a decline in output of 1.3% in 2009 for the EU chemical industry, excluding pharmaceuticals. This is expected to affect
Sembcorp’s Marine business delivered strong results in 2008 underpinned by its rig building, offshore & conversion and ship repair businesses. Turnover grew 12% from $4.5 billion to $5.1 billion, while profit after tax and minority interest (PATMI) before exceptional items (EI) increased 33% to $473.7 million, surpassing 2007’s PATMI before EI of $335.6 million. 2008 PATMI grew 78% from $241.0 million to $428.9 million. During the year, a one-off charge of $43.7 million was recorded arising from the full and final commercial settlement of foreign exchange transactions between subsidiary Jurong Shipyard and BNP Paribas. Gross profit and operating margins improved during the year. 2008 gross profit was $655.2 million and the business’ operating margin was 10% compared to $441.5 million and 8% respectively in 2007. Return on equity for the year stood at a strong 29%.

Net orderbook stood strong at $90.0 billion as of December 2008, with completions and deliveries until 2012. A record S$5.7 billion of orders were secured during the year.

Ship repair
During the year, ship repair turnover increased 9% to $779.5 million. A total of 269 vessels docked at our yards in 2008 and the average value per vessel increased by 3%, from $2.2 million in 2007 to $3.0 million. Long-term strategic alliances continued to provide a steady and growing baseload. Together with our regular repeat customers, they made up 86% of total ship repair revenue in 2008.

High value repairs to oil tankers, container vessels, storage and offloading (FPSO) upgrading as well as rig repairs dominated the vessel mix for the segment.

Oil & Gas and two deep drilling jack-up rigs and an ultra-deepwater semi-submersible drilling rig for Seadrill. In 2008, we also secured a contract to build a deep drilling jack-up from Sinopec International (Hong Kong), a subsidiary of China Petroleum & Chemical Corporation. This would be the first jack-up rig to be constructed outside China for China Petroleum and Chemical Corporation.

A total of 29 jack-up rigs have been secured to date since 2004, comprising 27 units based on our propriety Baker Marine Pacific Class 375 (BMC Pacific 375) deep drilling offshore jack-up rig design, a harsh environment jack-up rig and a heavy lift jack-up barge. Since 2005, a total of 10 units of sixth generation DP ultra-deepwater new build semi-submersible drilling rigs based on the Friede & Goldman design have also been secured.

During the year, we also completed and delivered nine BMC Pacific 375 jack-up rigs either on or ahead of schedule. These included PetroJack II, Maersk Convincer, Hakuryu-10, Aban VIII, WilForce, WilSeeker, Emerald Driller, Deep Driller 7 and PetroJack IV.

Strategic partnership in Brazil

During the year, Sembcorp Marine’s Jurong Shipyard entered into a strategic alliance agreement with Rio de Janeiro-based Mac Laren Shipyard to operate a shipyard in Brazil. Well-positioned to leverage on the abundance of experienced workforce, offshore related materials and equipment suppliers, the shipyard will enable Sembcorp to be a key player in Brazil’s oil and gas construction industry.

MARKET REVIEW AND OUTLOOK

Although the current financial turmoil has a damaging impact on the world economy and the current oil prices, long-term fundamentals and outlook for the marine and offshore industry continue to be positive in light of continued global reliance on oil and gas and accelerating depletion of oil and gas reserves.

Our Marine business however has a strong net orderbook. As at end 2008, its net orderbook stood at $59.0 billion with completions and deliveries until 2012, including $55.7 billion of contracts secured in 2008. These projects are expected to provide the business with a sufficient baseload, and will keep our shipyards busy with progressive completions and deliveries from 2008 until 2012.

For ship repair, our strategic alliances and partnerships with long-term customers should provide a stable baseload. Meanwhile, the market for large FPSO units and production platforms is expected to remain strong based on owners’ long-term commercial viability of projects. Such projects have longer gestation period and constitute part of the owners’ investment portfolio designed to provide future output to replace depleting reserves. Although the immediate economic outlook is uncertain, Sembcorp Marine is well positioned to ride out the challenges of the year ahead with its strong net cash and balance sheet position.