

Return on Equity

+46%

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DEAR STAKEHOLDERS,

REACHING NEW HIGHS

2007 marked five straight years of record-breaking performance in revenue and profit for Keppel Offshore & Marine (Keppel O&M) since the integration of our offshore and marine businesses in 2002.

Revenue at \$7.3 billion increased 26% over the previous year. Operating profit rose 6% year-on-year to \$590.0 million, while attributable profit was 17% higher at \$541.8 million.

New contracts secured totalled \$7.4 billion against the previous year's \$7.3 billion, bringing the net orderbook to a record \$12.2 billion at the end of 2007.

The Group's sterling results are also reflected in its return on equity of 46% and positive Economic Value Added of \$471.4 million, representing an increase of \$46.0 million over 2006.

These excellent results attest to the strength of our strategy to build a sustainable business through both good and challenging times.



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DELIVERING QUALITY SERVICES

In 2007, the Group completed a total of 33 major projects in a timely manner despite market tightness in labour, materials and equipment. Some of the projects were delivered ahead of schedule, and with outstanding safety records.

All our offshore operations except for Keppel FELS Brasil were profitable in 2007. During the year, the *P-52* Floating Production Unit (FPU), Keppel FELS Brasil's first major in-country construction project was delivered to Petrobras and achieved first oil and first gas within 2007. This was followed by the award of another FPU, *P-56*, for US\$1.2 billion from Petrobras. Experience gained from the *P-52* and *P-51* projects would benefit the construction of *P-56*.

For the first time since it became a wholly-owned subsidiary in 1992, Keppel AmFELS recorded an all-time high orderbook of 10 jackup rigs under construction. In 2007, it delivered two newbuild jackup rigs on time and clinched another four units from a new customer on account of its solid reputation as a first-class shipyard in the USA.

During the year, Keppel FELS delivered five newbuild jackups that are of our KFELS B Class rig design. It continued to reap the results of our investment in research and development (R&D), securing two KFELS N Class jackup rigs, one KFELS B Class, two semisubmersible (semi) accommodation platforms and one semi drilling tender that are of our

proprietary designs. It also won several contracts for other designs.

In the marine division, Keppel Shipyard achieved impressive results in 2007, amidst sustained strong freight rates, tight docking space worldwide and an increase in conversion activities. It completed seven Floating Production Storage Offloading (FPSO) and Floating Storage Offloading (FSO) vessel conversions and secured six new ones during the year.

Keppel Singmarine, with the support of Keppel Nantong, delivered seven vessels, including notably a second Ice-Class Anchor Handling Tug/Supply (AHTS) vessel for Russian customer LUKOIL Oil Company.

Our associate Asian Lift and subsidiaries Keppel Smit Towage and Regency Steel Japan bettered the previous year's performance, and plans are underway to enhance their facilities and services to meet sustained demand from customers.

The Group is expected to complete more than 40 major projects in 2008. Our focus will be on the execution of these projects to ensure that we deliver on our promises. No effort will be spared including making improvements to our work processes to increase productivity and further enhance operational performance.

Nearly \$300 million in capital expenditure have been allocated in 2008 to meet our contractual obligations and to expand our capacity in a prudent manner for future growth.

RIDING OUT DIFFICULT TIMES

The fundamentals in the oil and gas industry look strong. Major international

oil companies are increasing their investments with the focus on offshore deepwater Exploration and Production (E&P) and Liquefied Natural Gas (LNG) projects.

Day rates are holding up well. For example, our fourth semi for ENSCO, due for delivery in late 2010, will fetch around \$510,000 a day when operational. Our newly completed jackup rig for Awilco, *WilBoss*, commands a day rate of above US\$200,000 for its operation in Vietnam.

In the shipping industry, tanker charter rates are firm both for double and single hull vessels due to strength in the oil market. Other classes of vessels such as containerships and bulk carriers are also in demand, led by continued buoyant trading in goods and commodities.

With the anticipated massive growth in tonnage as a result of the worldwide fleet expansion, available shiprepair facilities are expected to be insufficient. This tight market situation will be exacerbated by shiprepair yards turning their attention to newbuildings and conversions. Keppel Shipyard is already benefiting from this trend.

However, clouding the current buoyant offshore and marine industry are the persistent rise in oil prices and the financial turbulence in the United States.

If the financial crisis in the United States leads to a serious economic recession and spreads to the rest of the world, 2008/9 will be very challenging. To weather the rough seas ahead of us, we will continue to build and sharpen our core competencies and solidify our position as the solutions provider of

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choice. A long orderbook and continuing high levels of demand for our products will help us manage any uncertainties that may lie ahead.

With resilience, innovation, a global mindset, strong partnerships with customers and suppliers, integrity and teamwork, I am confident we will ride out the storm.

EXECUTING ROBUST STRATEGIES

We will also stay on course with a disciplined execution of our strategies for long-term business growth. We will continue to make strategic investments to maintain our competitive advantage and meet future demand.

The last few years have witnessed a changed landscape in the oil and gas industry. National oil companies, which control the lion's share of the world's known reserves, are asserting their influence both in upstream and downstream activities. They want significant local content for goods and services. This is already happening in Asia, Latin America (led by Brazil), Central Asia, Russia and West Africa.

Our "Near Market, Near Customer" strategy puts us in a good position in these countries.

In Central Asia, Caspian Shipyard in Azerbaijan and Keppel Kazakhstan are well-placed to service the emerging market there. Caspian Shipyard is currently using part of SOCAR's Zykha yard for fabrication work in support of Keppel Kazakhstan. We plan to expand the yard to meet upcoming opportunities. We have also set up a representative office in Russia.

In the Middle East, our joint venture shipyard with NAKILAT in Qatar is expected to be ready by 2010. The 43-hectare yard will be well-positioned for the repair and maintenance of very large LNG carriers and a wide range of other vessels, including the conversion of tankers to FPSOs and FSOs.

Closer home in the Asia Pacific, our Philippine yards plan to further upgrade their facilities and expand capacity to take on higher value projects. Officially opened in August 2007, Keppel Nantong has already delivered three vessels and is currently building 22 vessels. We are in negotiation with the Nantong Government to expand the capacity.

Our network of overseas yards, together with the Singapore yards, is supported by our strong operational services units including technology, design and development, engineering and procurement.

More than that, our broad spectrum of expertise allows us flexibility and agility in project execution in order to meet customers' needs. While each yard is specialised to serve its niche target market, they also complement and support one another.

DEVELOPING HUMAN CAPITAL

Competition for experienced and skilled manpower is stiff. Fortunately, we have been able to recruit a large pool of talent, attracted by our comprehensive training programmes, competitive remuneration packages and structured career paths.

Tremendous management time and resources are being put into training and developing our people. Training

Economic Value Added (\$ million)



\$471m
+11%

EVA for 2007 was \$471.4 million, an increase of \$46 million over the previous year.

expenditure in 2007 amounted to \$17 million.

Our human capital strategy will give us a healthy succession of personnel, imbued with the strong Keppel culture, to take the organisation to new heights.

STRENGTHENING TECHNOLOGY FOCUS

Technology development has been pivotal to our ability to be the solutions provider of choice in our selected business segments.

To further boost our research and technology capability and meet the rigorous demands of E&P deeper waters and harsher environments, we have set up the Keppel Offshore & Marine Technology Centre (KOMtech) with a budget of \$150 million over five years. We are grateful to the Singapore Government, particularly the Economic Development Board, for its support of this centre.

KOMtech is an extension and strengthening of the current R&D initiatives undertaken by our technology units, Offshore Technology Development, Deepwater Technology Group and Marine Technology Development. As these units continue to work closely with the business operations and customers to develop solutions in the field, KOMtech will focus on developmental technology and position us for long-term technical excellence and growth.

KOMtech's scope of work includes managing, stimulating and carrying out R&D, product development, technology foresight, shipyard process improvement and knowledge building activities to enhance innovation within the Keppel O&M Group. The present staff strength of 30 is expected to grow to about 100 in the near future.

Together with existing technology units, KOMtech will play an important role to move Keppel O&M up the technology value chain while differentiating and distancing ourselves from the competition.

ACHIEVING SAFETY EXCELLENCE

Our commitment to the health and safety of our people paid off in 2007 with continuing reduction of reportable cases per one million man-hours worked (Accident Frequency Rate) to 0.37 compared to 1.30 in 2006. Our accident severity rate also came down to 187 from 207 man-days lost per one million man-hours worked.

This is a solid achievement in the light of the expanded workload and longer working hours. Credit for this accomplishment goes to all the

personnel in our yards including our subcontractors. They were very committed to inculcate the safety mindset and ensure that new workers who join our ranks are given proper safety induction.

No one should get hurt at his or her workplace. We will strive to further improve safety in our yards.

CELEBRATING FIVE YEARS

2007 also marked a very momentous milestone for Keppel O&M as we celebrated our fifth anniversary. Our strategy of integrating our global operations gave us the muscle to take full advantage of the buoyancy in the offshore and marine industry.

To commemorate the occasion, we produced a book entitled *More than Mettle, the Keppel Offshore & Marine Story*, which was launched at our celebration event in December. The book is a tribute to Keppelites around the world who have soldiered through the ups and downs of the industry cycles. It is our hope that the book will inspire our people to bring the Group to greater heights in the years ahead.

ACKNOWLEDGEMENTS

I thank all our customers for their partnership and confidence in Keppel, and our business associates, class, vendors, suppliers and contractors for working hard alongside us.

Our union leaders stood shoulder to shoulder with us. This has enabled us to achieve sterling results and the harmonised industrial relations that we enjoy. The men and women who form the backbone of our workforce are our most important assets. I am so proud of them.

It is most gratifying for me also to have a dedicated team of talented colleagues in Tong Chong Heong, Sit Peng Sang, Charles Foo, Michael Chia, Nelson Yeo, Hoe Eng Hock, Wong Kok Seng, Chow Yew Yuen, Ho Cheok Yuen, Tan Geok Seng, Harold Linssen, Leong Yew Kong, Lee Tai Kwee, Yick Ping Wong, Tay Kim Hock, Daniel Chang and many others. They live and lead by example and hence bring forth the best in our people.

I would like to acknowledge the support and co-operation of local, state and federal authorities in all the countries where we have operations.

Last but not least, I am also indebted to our Board of Directors for their invaluable contributions and wise counsel.

Yours sincerely,



CHOO CHIAU BENG
Chairman & Chief Executive Officer

15 March 2008