

A global leader in marine engineering, we specialise in ship repair, shipbuilding, ship conversion, rig construction and offshore engineering. We have an established global presence with seven strategically located shipyards in Brazil, China, Indonesia and Singapore. With a combined docking capacity of 2.3 million dead weight tonnes (dwt), we have the largest ship repair and marine-related facilities east of the Suez.

Operations Review

Revenue from our Marine Engineering business remained healthy at S\$1,068.0 million, with the improvement over 2002 due to an increase in both ship conversion and newbuilding job volume. Ship repair revenue however declined mainly due to the severe acute respiratory syndrome (SARS) outbreak experienced during the first half of 2003 as well as the postponement of vessel repairs as a result of high freight rates.

Net earnings contribution from SembCorp Marine (SembMarine) to the Group declined from S\$57.3 million to S\$49.0 million. The decline was mainly due to the subdued performance in ship repair as well as the lower exceptional gain in 2003 compared to 2002. Although starting from a small base, our overseas hubs such as Mauá Jurong in Brazil and Dalian COSCO Marine Engineering in China provided steady and growing contributions.

Our orderbook carried over to 2004 was a healthy S\$1.1 billion. In 2003, we secured four contracts worth a total of S\$220 million from Wan Hai Lines to design and build four units of 2,600 TEU container vessels. We also secured contracts worth S\$137 million, comprising two Floating Production Storage Offloading (FPSO) conversions for Modec

International and one unit of pipe-lay barge conversion for Consolidated Projects. In ship repair, our long-term strategic alliances with customers continue to provide us with the baseload orderbook, and in 2003 made up about 20% of our ship repair revenue. Together with our regular customers, they made up 82% of our total ship repair revenue for 2003. Over the years, our alliance partners and regular customers have consistently contributed over 80% of our ship repair revenues.

We delivered several key projects this year. We completed conversions on the 356,400 dead weight tonnes (dwt) FPSO Fluminense and the 357,023 dwt Floating Storage Offloading (FSO) Kome-Kribi 1 for Modec International. The Saipem 3000, a crane barge conversion and the W.D. Fairway, the largest trailing suction hopper dredger were delivered to owners Saipem and Boskalis Westminster respectively during the year. We also delivered the 2,500 TEU container vessel "Thomas Mann" to German shipping company, Reederei Karl Schlüter. Thomas Mann is the largest and most sophisticated newbuild containership subsidiary Jurong Shipyard has built to date.

In 2003, we upped our stake in PPL Shipyard from 50% to 85% in line with our

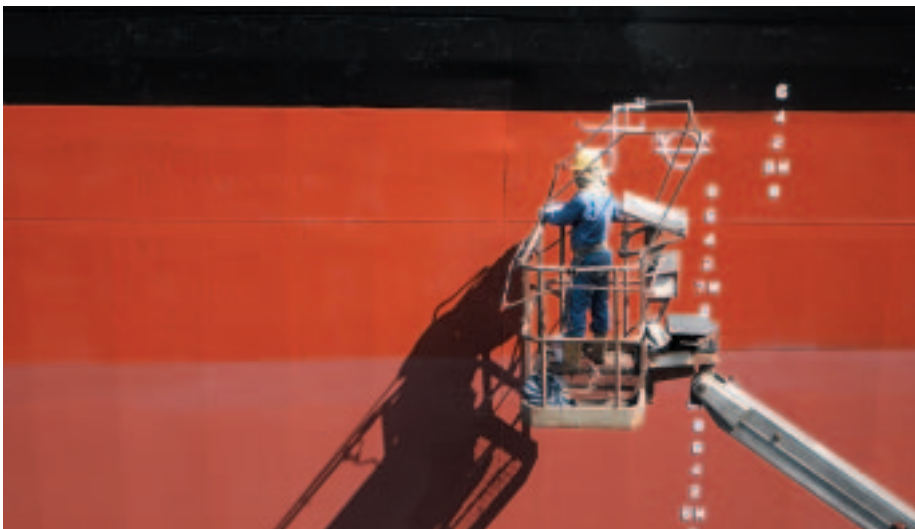
concerted effort to enter into the rig business. With the majority stake in PPL shipyard complemented by SembMarine's other facilities and capabilities, we are now better positioned to grow our offshore business. PPL Shipyard will be undertaking the US\$110 million contract to construct one unit of the Baker Marine Pacific Class 375 Deep Drilling Offshore Jack-up, a proprietary design it developed.

In 2003, our wholly-owned subsidiary Dolphin Shipping Company also entered into a joint venture with Pacific Carriers to operate and service offshore supply boats.

Meanwhile, we streamlined our investments in China with the disposal of our entire stake in Bohai Sembawang Shipyard for S\$25.3 million to our joint venture partner China Offshore Oil Bohai Corporation. With this, we are now better positioned to focus on our COSCO partnership to enhance participation in the growing ship repair market in China. In 2003, we also disposed our entire stake in Jurong Engineering for S\$10.7 million.

Outlook

Our orderbook carried over into 2004 remains strong at S\$1.1 billion with deliveries and completions from 2004 to the second quarter of 2006. Based on the





scheduled completion of projects, SembMarine expects to improve its operating profit in 2004.

Market fundamentals for FPSO/FSOs remain buoyant and the outlook for offshore rig utilisation strong particularly in West Africa, Brazil and the Asia-Pacific region. Due to aging rig fleets, there is ongoing demand for the repair and upgrading of the existing fleet as well as opportunities for the newbuilding of offshore rigs. In view of the strong fundamentals in this market, we expect a growth of 10% to 15% in the revenues from our offshore businesses.

Ship repair in Singapore will remain competitive with increasing competition from low cost centres around the region. This together with strong freight rates will continue to put pressure on our ship repair

activities for 2004. However ship owners will continue to repair their vessels due to more stringent requirements. Our long-term strategic alliances with our customers and the advanced block bookings that we have secured to date will also cushion such effects and provide us with a steady and growing baseload for 2004.

As we continue to strengthen our home-based shipyards to provide complementary facilities and capabilities, our Global Hub Strategy of building a strong international network of shipyards will enable us to continue to dominate the marine engineering market against the backdrop of increasing competitive pressure. This strategy is bearing fruit, and we expect contributions from our overseas yards, namely in Brazil and China, to grow 20% in 2004.

Our Long-term Strategic Alliances

Alaska Tanker	USA
BHP & T-Billiton	Australia
BP Shipping	United Kingdom
Chevron Texaco Shipping	USA
JO Tankers	Norway
Kumaiai Senpaku	Japan
NOL Shipping	Singapore
Primorsk Shipping	Russia
PT Humpuss Intermoda	Indonesia
Shell Shipping	United Kingdom
Tschudi & Eitzen	Norway
V Ships of Monaco	Monaco

Key Facts

- A global leader in marine engineering
- Global network of seven shipyards in key international locations
- The largest ship repair and marine-related facilities east of the Suez, with a combined docking capacity of 2.3 million dwt
- A world leader in the repair of VLCCs, the conversion of FPSO/FSO units, and the repair, upgrading and building of jack-ups and semi-submersibles
- A key niche player in the newbuilding of product tankers, feeder container vessels and offshore supply vessels

Competitive Edge

- An established reputation with international ship owners and oil majors with more than 40 years of proven track record
- An extensive track record for quality, timely delivery and the ability to handle complex turnkey projects with high Health, Safety and Environment standards and within budget
- Global network of strategically located shipyards providing service hubs along major shipping routes, each with a strong brand name and its own niche market
- Long-term contracts and partner alliance arrangements that provide a stable client base

Orderbook

As of end December 2003, our orderbook for Marine Engineering was S\$1.1 billion at the Group level.

Sector	Project	Total Value for Sector (S\$m)	Client	Completion Date
Ship conversion and offshore engineering	<ul style="list-style-type: none"> • Conversion of a VLCC to an FPSO unit (P-50) • To complete, outfit and commission an offshore dynamic positioning Class 3 pipe-lay/ construction barge • TT Nina-FPSO conversion • MT Fairway-FPSO conversion • Topsides fabrication and installation on new hull 	424	Petrobras Netherlands Consolidated Projects	End 2 nd quarter 2004 1 st quarter 2004
			Modec International	4 th quarter 2004
			Modec International	4 th quarter 2004
			Saipem	2 nd quarter 2005
Rig building	<ul style="list-style-type: none"> • Construction of the 1st unit of a semi-submersible • Construction of the 2nd unit of a semi-submersible • 2nd unit of jack-up • 1 unit of Baker Marine Class 375 deep drilling offshore jack-up 	269	GlobalSanteFe International	2 nd quarter 2004
			GlobalSantaFe	4 th quarter 2004
			GlobalSantaFe	2 nd quarter 2004
			Sinvest	1 st quarter 2006
Shipbuilding	<ul style="list-style-type: none"> • 4 units of 2600 TEU container vessels • 4 units of coastal vessels • 4 units of tugs 	259	Wan Hai Lines	From 1 st quarter 2005 to 2 nd quarter 2006
			DML Overseas	4 th quarter 2004
			–	4 th quarter 2004
Topsides and utility modules	<ul style="list-style-type: none"> • P-43 topsides fabrication, integration and commissioning • P-50 topsides fabrication, integration and commissioning 	160	Brown & Root Halliburton	3 rd quarter 2004
			Petrobras Netherlands	1 st quarter 2005

Global Network of Shipyards

Shipyards	% Ownership	Location	Capacity/Facilities	Activities
Jurong Shipyards	100	Singapore	1,100,000 dwt Berthing quays, workshops, cranes, docks	Ship repair, shipbuilding, ship conversion, rig construction and offshore engineering
Sembawang Shipyards	100	Singapore	775,000 dwt Berthing quays, workshops, cranes, docks	Ship repair, ship conversion and refurbishment and modification of passenger vessels
Jurong SML	100	Singapore	52,500 dwt 3 slipways	Repair of small and medium-sized vessels, construction of mid-sized vessels
PPL Shipyards	85	Singapore	700 metres water frontage, water depth of 6.5 metres	Design and construction of offshore drilling rigs
Karimun Sembawang	100	Karimun, Indonesia	Workshop and engineering facilities	Ship repair, fabrication works, tank cleaning
Dalian COSCO Marine Engineering	20	Dalian, China	340,000 dwt 1,582 metre-long berths, workshops and docks	Ship repair ship conversion and offshore engineering
Mauá Jurong	35	Brazil	60,000 dwt Berths, workshops and docks	Ship repair, topside fabrication, conversion and construction of floating production and drilling units

Alliances with our Global Customers

SembMarine's long-term partnerships and alliances enable both the ship owner as well as the shipyards to develop and improve on our systems and cost structures, and help us at SembMarine serve our customers better.

ChevronTexaco Alliance with Jurong Shipyard, into its 15th year

The management of ChevronTexaco shared SembMarine's belief in alliances for mutual benefit. As they were often quoted to say – "You cannot repair ships with adversaries". Based on this premise, Chevron found in Jurong Shipyard their staunch alliance partner in the Far East and on November 30, 1989, ChevronTexaco became SembMarine's first alliance partner.

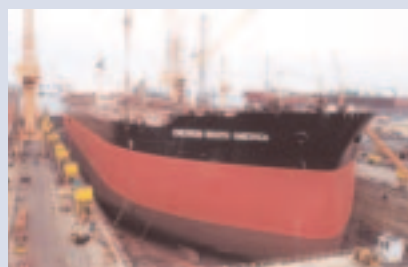
ChevronTexaco's support and commitment to Jurong Shipyard was demonstrated when in 1996 its newly opened Ultra Large Crude Carrier (ULCC) Drydock witnessed the docking of the largest ULCC, the 413,159 dwt S.S. Chevron South America in Singapore.

"Chevron is proud to have developed a very successful business relationship with Jurong Shipyard, which began in May 1966 ... we will continue to bring

our vessels to this very productive, customer-focused, and well equipped facility, with its highly skilled workforce and responsive management. Chevron and Jurong are committed to similar values in our business perspectives, most notably in protecting people and the environment"

V.M. Short, Shipping Manager of the Pacific Region, Repair and Maintenance Division, ChevronTexaco.

This relationship has seen more than 250 ships in a variety of sizes docked and overhauled in Jurong Shipyard.



(Above) SS Chevron South America in Jurong Shipyard in a 1996 photograph.

achieving both short and long-term mutually compatible goals. The alliance e-collaboration portal enables improved joint planning, and with faster and more extensive information sharing, the committed Alliance partners can leverage market information, skills, capabilities, knowledge, experiences, technology and design to achieve safer, faster and more cost-effective ship refits.

"STASCo is pleased that our alliance partnership with Sembawang Shipyard has resulted in safer repairs, reduced refit time and improved quality of repairs thus achieving greater end user value at reduced cost. This shows how innovative thinking can create value for both partners."

Jan Kopernicki, Vice President of Shipping in STASCo

STASCo and Sembawang Shipyard's e-collaboration portal

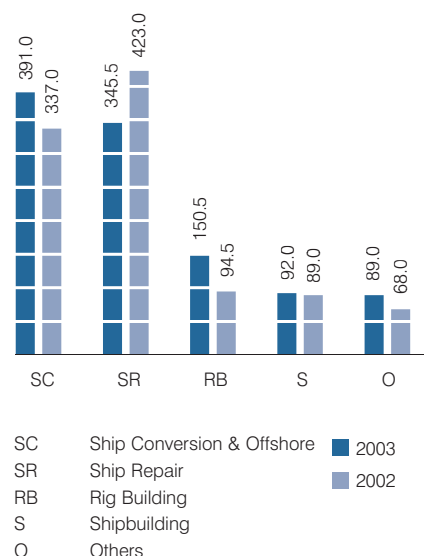
The Shell International Trading and Shipping Company (STASCo) and Sembawang Shipyard ship repair alliance e-collaboration portal www.semballiance.com is another example of the success of SembMarine's alliances with its customers.

The portal is an innovative web-based application designed to facilitate ship refits between Sembawang Shipyard and its alliance partners. STASCo and Sembawang Shipyard were two of the first companies in the marine industry to have entered into a highly innovative evergreen alliance agreement on ship repair. With this alliance, both companies have redefined the conventional owner-shipyard relationship into a forward-looking partnership with a clear focus on

	2003 S\$m	2002 S\$m
Revenue	1,068.0	1,011.5
PATMI	78.5	92.1
SembCorp Industries' share of PATMI	49.0	57.3

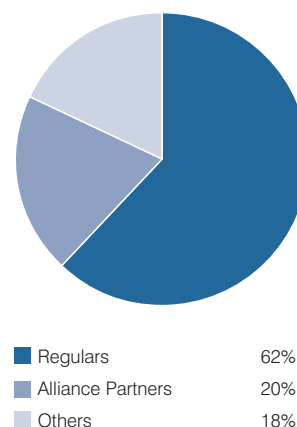
Note: Figures are taken at SembCorp Marine's Group Level

Turnover by Business (S\$m)



Note: Figures are taken at SembCorp Marine's Group Level

Ship Repair Turnover by Customer Type



Note: Figures are taken at SembCorp Marine's Group Level