Group revenue hits a high of $1.012 billion

SembCorp Marine’s revenue hit a record high at $1.012 billion in 2002. This was 18.4 per cent higher than that achieved in 2001 at $845.4 million. Our profit after tax and including exceptional items grew by 11.7 per cent to $92.1 million. The improvement was due mainly to the increased revenue from newbuilding jobs from $104.0 million in 2001 to $184.0 million in 2002 and ship conversion and offshore jobs that increased from $204.0 million in 2001 to $337.1 million in 2002.

Operating profit registered a 6.4 per cent increase from $84.5 million in 2001 to $89.9 million in 2002. Despite a 26.4 per cent decline in interest and investment income, the Group’s pre-tax profit increased from $103.4 million in 2001 to $116.3 million in 2002. The exceptional items contributed $6.7 million, while the associated companies contributed $6.1 million.

Net tangible assets per share increased by 1.9 per cent to 65.7 cents per share, while earnings per share increased by 11.0 per cent to 6.5 cents. Our return on equity increased by 8.8 per cent to 9.9 per cent.

Our Board of Directors is recommending a final dividend of 1.0 cent per share and a special dividend of 4.0 cents per share, making a final dividend of 5.0 cents per share for 2002.

Business Review

Ship repair registers a decline by 13% to $423 million

In 2002, ship repair contributed $423 million or 42 per cent of our total revenue as compared with $486 million or 57 per cent of total revenue in 2001. On a year-on-year comparison, the ship repair sector showed a decline of 13 per cent. A total of 483 vessels were repaired in 2002 as compared with 486 vessels in 2001, a decline of 17 per cent. However, the average value per vessel showed an increase from $21 million in 2001 to $27 million in 2002.

Tanks accounted for 58 per cent of total repairs, followed by passenger vessels at 8 per cent, dredgers at 7 per cent, gas carriers at 6 per cent, bulkers and container vessels at 5 per cent each. Newvessels accounted for 2 per cent, cargo vessels took up 1 per cent and a mixture of other ship types made up the remaining 8 per cent.

In 2002, we secured three new alliance partners when we signed the Favouried Customer Contracts with Tschudi & Eitzen Holding of Norway as well as Alaska Tanker Company of USA. We also signed an evergreen alliance with BHP & T-Billiton of Australia. Exclusive customers contributed 19 per cent of our ship repair revenue in 2002.

Newbuilding increases by 77% to $184 million

Newbuilding, which comprises the construction of semi-submersibles and the container vessels, contributed $184 million or 18 per cent of our total revenue. This was 77 per cent higher than that achieved in 2001 at $104 million or 12 per cent of total revenue. In 2002, we delivered three units of 1078 TEUs container vessels and one unit of a cable laying and repair vessel.

Ship Conversion and Offshore Engineering registers an increase by 65% to $337 million

Ship conversion and offshore projects accounted for $337 million or 33 per cent of our total revenue as compared with $204 million or 24 per cent recorded in 2001. Contributions from the ship conversion and offshore engineering sector came from nine projects completed in 2002 comprising three jack-ups upgrade, one passenger-ship upgrade, one lightering vessel, two shuttle tanker and two FPSO conversions.

Work-in-progress projects from 2002 to 2003 comprise the construction of two units of the fifth-generation dynamic positioning semi-submersible rigs capable of operating in 7,500 feet water for Global Santafe International Corp. The first unit is due for delivery by end-2003, while the second unit is scheduled for delivery by end-2004. Two units of 2,500 TEUs container vessels are also under construction with deliveries due end-2003 and September 2004.

Our subsidiary, Jurong SMV secured a contract to construct four units of fast boats from DML (Overseas) Limited. Measuring 34.5 metres by 7.0 metres and with maximum speed exceeding 25 knots, these fast boats are due for delivery in the first quarter of 2004.

Our strategy to strengthen our presence with a network of strategically located shipyards paid off with a full-year maiden contribution from Mauá Jurong, our shipyard in Brazil. The Dalian Cosco Marine yard, where our investment was made in April 2002, also contributed to our profitability. Mauá Jurong is currently busy with the fabrication of the topside production modules for two FPSOs, the P-43 and P-48, with deliveries due in August 2003. New contracts secured by Mauá Jurong included the fabrication of six units of utilities modules for the P-50 FPSO project with completion due end-2003.

Significant Events

We divested our entire 25.49 per cent share in non-core Jurong Technologies Industrial Corporation for $28.1 million and our 50 per cent interest in Neptune Associated Lines, a ship owning and chartering company. We also restructured our cross-shareholdings in JPL Industries. SembCorp Marine’s shareholding in JPL Industries is now 53.8 per cent, while...
Jurong Clavon, a 50 per cent-owned associated company ceased to be a shareholder of JPL Industries.

Our investment in Dalian Cosco Marine Engineering Co. Ltd took effect in April 2002, and key personnel have been posted to the Dalian Cosco Marine yard in China. We also streamlined our operations in Singapore. Jurong SML was created from a merger between Atlantic Shipyard and SML Shipyard and became a wholly-owned subsidiary. This move gives us a single vehicle specialising in the repair and conversion of mid-sized vessels. We also secured the remaining 35 per cent interest in PT Kariun Sembawang Shipyard in Indonesia with a view to restructuring its operations.

In October, the proposed privatisation of SembCorp Marine by its parent, SembCorp Industries, did not secure the requisite approval of the minority shareholders. SembCorp Marine thus remains a 63.55 per cent-owned listed subsidiary of SembCorp Industries.

**Our Growth Strategy**

While we continue to focus on delivering consistently good results from our local operations, we are mindful of our vision to establish a global presence to become a world leader in ship repair, ship conversion and offshore engineering.

We continue to develop long-term alliance partnerships with our customers. These not only provide us with a stable baseload, but also help the ship owners and shipyards to further develop and improve on our systems and cost structures.

We will continue to strengthen our presence with a network of strategically located shipyards. We have a substantial sphere of influence in the Asia Pacific with four shipyards in Singapore, two in China, and one in Indonesia. At the same time, our shipyard in Brazil serves the market needs closer to the offshore and conversion markets in the Gulf of Mexico, South America and the West African region. This global presence will enable us to continue to dominate the marine engineering market against the backdrop of increasing competitive pressure from low-cost shipyards. We will continue to explore the establishment of new hubs to meet our customer needs.

We will continue to operate our shipyards under distinct brand names, each developing expertise in its particular niche area. We will capitalise on strong branding, individual reputation and differentiated services to become a market leader across the different market segments within the global marine industry.

As for newbuilding, there will be continual demand in the niche markets of product tankers, feeder container vessels and offshore supply vessels. Due to the ageing fleet of offshore drilling rigs, potential demand for replacements is projected in these niche markets. We expect newbuilding to be healthy.

**Outlook for 2003**

Our orderbook carried over into 2003 was at a healthy $1.43 billion including ship conversion, offshore and newbuilding projects with deliveries and completions due through 2003 to the first quarter of 2005. We expect to maintain our performance in 2003.

Ship repair will remain competitive with increasing competition from low-cost centres such as China and Vietnam. However, an increase in the freight rates as experienced in the fourth quarter of 2002 and the stringent requirements on ship owners are expected to have positive impact on the ship repair market. We thus expect to maintain our ship repair volume.

For ship conversion and offshore, market fundamentals for FPSO and FSOs remain strong despite short-term geopolitical uncertainties. The offshore deepwater rig utilisation remains strong in particular in the West Africa, Brazil and the Asia Pacific regions. This, together with the strong on-going demand for repair and upgrading of the existing rig fleet, will have positive impact on the offshore market. We expect ship conversion and the offshore to remain strong.

**Board and Management**

Mr Masahiro Miyazaki, who has been a director of SembCorp Marine since June 1999, and a nominee of substantial shareholder, Ishikawajima-Harima Heavy Industries Co. Ltd of Japan resigned in May 2002. We would like to record our appreciation to Mr Miyazaki for his invaluable contributions during his term as a Director.

The Board also extends a warm welcome to two new directors, Mr Naoteru Tsuda and Ms Low Sin Leng. Mr Tsuda, President of IHI Marine United Inc. and a director with Ishikawajima-Harima Heavy Industry Co. Ltd of Japan, succeeds Mr Miyazaki as a director with SembCorp Marine Board. Ms Low is presently the Group Chief Operating Officer of SembCorp Industries Ltd.

The Board would also like to thank our valued clients and business associates for their continuous support. Our appreciation must also go to our employees for their dedication and contributions that have brought about the achievements of the past year. Last but not least, we would like to thank all our shareholders for their continued interest and support of our company.

Tan Kwee Kin
President
March 1, 2003