

LETTER TO Shareholders



Financial Performance

In 2000, SembCorp Marine reported a 2.3 per cent growth in profit after tax and minority interest amounting to \$80.2 million despite a 17.2 per cent decline in turnover to \$763.0 million.

Net tangible assets per share stood at 60.8 cents while earnings per share increased from 5.6 cents to 5.8 cents. Our return on equity was 9.52 per cent but our economic value-added stayed negative at \$27.3 million due mainly to a drop in our operating profits.

Our Board of Directors has recommended a final dividend of 9.9 per cent and a special dividend of 32.0 per cent, making a total final dividend of 41.9 per cent. Adding the interim payment of 22.5 per cent, our total gross dividend payout for 2000 will be 64.4 per cent. During the year, the Company declared a one-for-one bonus share issue for shareholders. On a comparable basis and after adjusting for the bonus share issue effect, our total dividend per share for 2000 is 6.44 cents which is higher than 1999's dividend of 6.0 cents.

Business Review

Strong competition from both local and regional shipyards resulted in lower revenue contribution from our ship repair business in 2000. This, coupled with the deconsolidation of Jurong Technologies Industrial Corporation (JTIC) when it became a public listed company in March 2000, brought about the decline in our turnover.

However, savings from the restructuring and streamlining of our shipyard operations together with the write-back of prior years tax over-provision as well as the exceptional profits from the divestments of JTIC shares and other long term quoted investments, contributed to the higher profitability for the year.

Ship repairs accounted for 50 per cent of our total revenue followed by ship conversion and offshore engineering at 32 per cent and shipbuilding at 11 per cent. The remaining 7 per cent was contributed by our other businesses including ship chartering.

Although the number of vessels repaired increased from 358 to 373 in 2000, the value per vessel declined from \$1.19 million to \$1.03 million over the same period. Gross tonnage increased from 16.09 million to 16.23 million in 2000, in tandem with the increase in the number of vessels repaired.

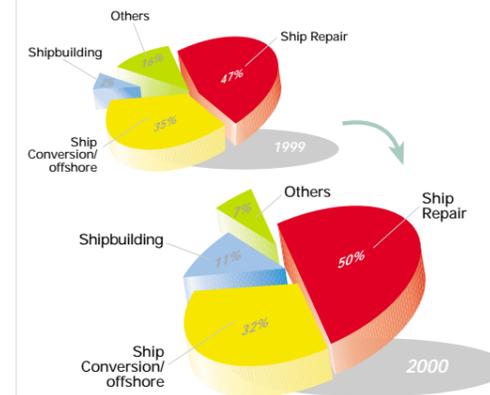
The breakdown of our ship repairs revenue by vessel types was as follows: tankers accounted for 50 per cent of repairs revenue, LPG/LNG tankers and bulk carriers were each at 10 per cent, container vessels at 8 per cent, passenger vessels and dredgers each at 5 per cent while cargo, navy and other vessels made up the remaining 10 per cent.

In 2000, we completed several major ship conversion and offshore

engineering projects. On the percentage of completion basis, this business contributed \$244 million to our total revenue for the year. Among the projects completed were FPSO Petrobras 37, lightering vessel Chevron Mariner, FPSO Sendje Berge, semi-submersible Ocean Epoch, power barge Estrella Del Mar, FSO Petrobras 38 and FPU Petrobras 40.

In the area of shipbuilding, we commenced work on six units of the 1,078 TEUs container vessels. Delivery of the first two units will be due in the first half of 2001 while the remaining four units will be delivered in the first quarter of 2002. Based on the percentage of completion method of revenue recognition, our shipbuilding business contributed \$84 million to our total revenue in 2000.

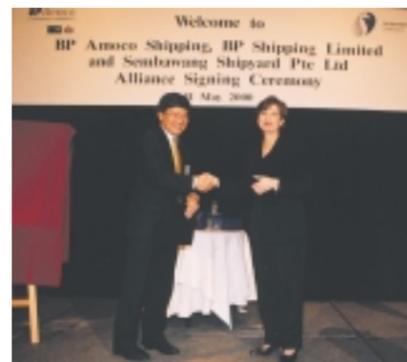
TURNOVER BREAKDOWN





Significant Events

SembCorp Marine's shipyards received several accolades during the year. Our subsidiary, Sembawang Shipyard, signed an evergreen alliance agreement with UK oil major, BP Shipping (BPS), which committed the future refitting and drydocking of its S- class vessels to the shipyard.



BHP Transport of Australia, JO Tankers of Norway and Primorsk Shipping of CIS also signed similar agreements and term contracts, making Sembawang Shipyard their exclusive ship repairer.

For 2001, four BPS vessels and eight BHP vessels will be due for repairs at our yard while JO Tankers have also scheduled for a total of six dockings, including a major upgrading job, with Sembawang Shipyard.

In recognition for our continuous drive in developing and maximising the potential of each individual employee, Sembawang Shipyard received the 2000 National Training Award under the manufacturing sector from the Singapore Productivity and Standards Board (PSB). In addition, Jurong Shipyard was conferred the

Singapore Quality Class Award by the PSB in December 2000. This award accords recognition to Jurong Shipyard in achieving business excellence through benchmarking against world-class performance standards.



Major Acquisition

To gain a foothold in the rig building business, we have acquired a 50 per cent stake in PPL Shipyard in April 2001. PPL Shipyard's business is primarily in oil rig and vessel construction as well as steel fabrication. This has a synergistic fit with SembCorp Marine's ship conversion and offshore engineering business.



With an established track record in rig building, PPL Shipyard's international clientele includes US offshore drilling companies like Transocean Sedeco Forex Inc and Santa Fe International Corporation. It has recently won a contract to build two jack-up drilling rigs for Santa Fe worth US\$250 million with the options to build another four jack-up drilling rigs.

Outlook for 2001

The ship repair market will no doubt remain highly competitive. But with the current buoyancy in the freight market and global ship repair demand, we expect our repair volume to improve this year.

Our ship conversion and offshore engineering business currently has an order book of \$400 million, with job completions stretching into 2002. With the increase in oil price and planned expenditure in oil exploration and production activities, we are optimistic in securing more jobs during the year.



In the area of shipbuilding, we have a strong order book of \$600 million. This comprises of six units of 1,078 TEUs container vessels with deliveries due in 2002 and 2003, one cable-laying and repair vessel for delivery in 2002, and five units of 2,500 TEUs container vessels with deliveries scheduled in 2003 and 2004.

With a combined order book of \$1 billion and based on the percentage of completion method of revenue recognition, shipbuilding as well as ship conversion and offshore engineering businesses are expected to contribute approximately \$400 million to our total revenue in 2001.



Moving Forward

Now that our corporate restructuring is over, our top priority is to focus on our core activities of ship repair, shipbuilding, and ship conversion and offshore engineering. With each of our seven shipyards having developed its expertise in a particular niche of the marine engineering market, we will continue to leverage on our established and reputable shipyard brands to become a leader in each segment of the market.

To preserve our market share in ship repair as well as ship conversion and offshore engineering, and to position ourselves for longer term growth, we are developing a global network of strategically located shipyards in China, Brazil and the Middle East. In fact, we are in the final stage of negotiations to acquire a shipyard in Brazil to take advantage of the offshore engineering opportunities there and in the West Africa region. We are negotiating to buy a significant stake in a shipyard in China. Both acquisitions are expected to complete by end 2001.

Board and Management

In closing, we wish to thank our shareholders, customers and business associates for their unwavering support. We would also like to put on record the Board's appreciation for the efforts put in by the management, the union and staff for their tremendous dedication and contributions throughout the year.

Wong Kok Siew
Chairman

April 2001

Tan Kwi Kin
President

