

Sembcorp Marine FY 2015 Results Briefing - CEO Presentation

Greetings

1. Good evening ladies and gentlemen, a warm welcome and thank you for taking time to come to our Tanjong Kling yard for Sembcorp Marine's 4Q2015 and FY2015 results briefing.
2. For this results briefing, I will give a review of our performance in light of the challenging macro environment; the measures we have taken to weather the storm, and the strategies we have in place, not just to enable us to ride out a protracted downturn, but also to lay stronger foundations for the future when the market recovers. First, the macro environment.

Challenging macro environment

3. As all of you are well aware, the global oil and gas industry is going through extremely difficult times following the collapse in oil prices which started in mid-2014. In fact, the year 2015 has turned out to be one of the toughest in recent history, with billions of dollars' worth of oil and gas exploration projects being curtailed globally, and excess rigs inventory and manpower were quickly shed to reduce costs and rein in losses.
4. Political upheavals and economic slowdown involving major oil producing and consuming countries, such as Brazil and China, added to the volatility and uncertainty.

Contagion effect on Asian and global shipyards

5. The resulting contagion effect on the entire E&P value chain has been swift and severe. Offshore & Marine engineering yards around the world are faced, not just with the lack of new projects to replenish their order books, but also deferment or cancellation of some of their existing rigs deliveries. As we had cautioned last December, our performance has also been impacted by the challenging macro environment.

Review of Operations:

Sete Brasil drillships

6. In our last quarterly update, we highlighted that Brazil remained fraught with political and economic uncertainty. A crisis of confidence in the country has led to a worse-than-expected economic recession and sovereign credit downgrade.

7. As you know, Sembcorp Marine had secured seven drillship contracts in 2012 from Sete Brasil. These drillships are in various stages of completion, and to-date, we have been paid a total of approximately S\$2.7 billion, progressively for work done, before the payments stopped in Nov 2014.
8. In light of the payment stoppage, during the course of 2015, we have taken measures to minimise our exposure by significantly slowing down construction; focusing on the four more advanced units, mainly work to preserve their value, with minimal work on the rest.
9. In the meantime, we have been engaging Sete to explore solutions to progress the projects. Sete has also been trying to resolve its financing problems through various restructuring plans, but has yet to obtain consensus from all key stakeholders. In November last year, the media had reported that Sete was considering filing for judicial reorganisation (JR), the Brazilian equivalent of a Chapter 11 in the US. At a shareholders' meeting held on 19 Jan 2016 to vote on this matter, the decision was postponed.
10. We are monitoring the situation closely and are preparing to strategically respond to various potential outcomes. However, in light of such uncertainty, we have decided to adopt a prudential approach to this matter by making a provision of \$329 million for the Sete projects in our 4Q 2015 results. This figure takes into consideration, in our view, the full extent of our exposure to the Sete contracts, including, the amount of unpaid invoices and construction progress, and amounts to be paid to our suppliers and vendors. We believe that under the present circumstances, our provision is sufficient to address any potential adverse outcomes to the Sete contracts. Our current order book will also be reduced by approximately S\$3.2 billion should all seven Sete contracts be cancelled.

Delivery delays and possible cancellation of rigs

11. Several of our customers have requested for delivery deferrals in light of delays in chartering out their rigs. Given the current depressed environment in the upstream sector, we have tried to accommodate their requests, while preserving our commercial interests. As has been reported, one of our customers has failed to take delivery of its rig, and we have terminated the contract and taken legal action to recover the amount due to us. For the rest of our completed rigs with deferment requests, they have all been technically accepted by our

customers and we have arrived at or are finalising mutually acceptable solutions with them. To-date, there has been no cancellation of any rig orders.

12. However, we have decided to conservatively make provisions of approximately S\$280 million, in case of prolonged deferment or possible cancellation of rigs. We believe such provisions are adequate under present circumstances.

Share of Loss in Associates & Non-Operating Items

13. Our 30% investment in the Cosco Shipyard Group Co. Ltd in China (CSG) has also been affected by this severe down cycle. CSG has advised that it has decided to make certain significant provisions in its FY2015 accounts. In this regard, we have equity accounted for our share of such provisions. Including our share of losses in other associates and non-operating items, the net impact is a negative S\$192 million.

Deliveries during the year

14. Let me touch on key deliveries during the year:
 - Pacific Class 400 Jackup Rig to BOT Leasing
 - Safe Boreas – a high spec semi-submersible accommodation vessel - to Prosafe
 - Q5000 semi-submersible well intervention vessel to Helix.
15. I am also happy to share that we have delivered our first vessel in 2016 - the Safe Zephyrus - to Prosafe at the end of January. This is the second vessel we have built for Prosafe which can operate in deep waters and harsh environment. According to Prosafe, the Safe Zephyrus is the world's most advanced and versatile offshore accommodation unit.

LNG vessels repairs and upgrade

16. We achieved the highest number in the global market for the fourth consecutive year. 34 vessels were repaired and upgraded at our yards.

New orders secured in FY2015 replenishes order book

17. Let me now share some perspectives on our new orders. Despite the tough environment in 2015, we secured S\$3.2 billion in new orders; credit to our team.

18. In July, we won a contract valued at over USD1 billion against global competition to build the world's largest semi-submersible crane vessel for the Netherlands-based Heerema Marine Contractors. We will be building this giant crane vessel in our state-of-the-art facility, the Tuas Boulevard Yard.
19. In September, we secured a more than USD1 billion Engineering, Procurement and Construction (EPC) contract from Maersk Oil North Sea UK Limited to build three topsides for the Culzean Field Development in the UK North Sea. The project scope includes a Central Processing Facility plus 2 connecting bridges, a Wellhead Platform, as well as a Utilities & Living Quarters Platform.
20. In November, we also secured a contract to design and build a new harsh environment Floating Storage and Offloading (FSO) vessel for MODEC, also to be deployed for the Culzean Field in the UK North Sea.
21. The diversified nature of our businesses and new yard facilities at Tuas have enabled us to secure the above major contracts. With \$3.2 billion in new contracts secured, our net order book backlog as at 31 Dec 2015 stands at \$10.4 billion, with deliveries to 2020. Excluding the Sete Brasil drillships, our orders backlog remains robust at \$7.2 billion.

Financial Performance for 4Q 2015, full year 2015

22. Despite the challenging business environment, our overall financial performance remains reasonably robust and profitable:
 - Net Profit of S\$384 million for FY2015, compared with a Net Profit of S\$560 million for FY2014
 - After Provisions and Share of Loss in Associates and Non-Operating Items, Sembcorp Marine is reporting a FY2015 Net Loss of \$290 million.
23. Taking into consideration the Group's performance and the need for sustainable growth, and in recognition of the support of our shareholders, the Board of Directors will be proposing a final cash dividend of 2.0 cents per share. Together with the interim cash dividend of 4.0 cents per share paid last August, for the whole of FY2015, we will be paying a total cash dividend of 6.0 cents per share to our shareholders.

Outlook & Prospects

24. Let me move on to the outlook and prospects for our business. In my opinion, this down-cycle is expected to be more protracted than previous cycles. As a diversified Offshore & Marine service provider, we are prepared to weather and ride out the storm. We have laid the foundations for our future growth through our investments in hard and soft infrastructure, and ready to capitalise when the market recovers.

Strategic Response to competition and challenging environment

25. As all of you are aware, the competitive landscape for standard drilling rigs, both jackups and floaters, have intensified significantly, with the entrance of new players from China; while the Korean yards broadened their suite of solutions, and offered competitive pricing, especially for their standard drillships.
26. We have responded to this competitive landscape by moving up the technology curve to offer premium harsh environment jackups and semi-sub. Our new compact drillship design has been well received by international players.
27. More importantly, we see the need to further diversify within the E&P value chain, from the exploration segment to the development & production segment.
28. We continue to develop and enhance our technology and engineering expertise. Our 2 EPC contracts secured last year are testimony to this.
29. We recognise the need to deepen and broaden our yard capabilities to enable cost-effective execution to compete globally. Our Tuas Boulevard Yard, an integrated facility, includes a highly automated steel fabrication facility, allowing us to undertake more complex projects, in a more cost effective manner and with shorter delivery times.
30. As a major player in the Brazilian market, and recognising the local content requirements, we decided to invest in a dedicated yard in Brazil. EJA, with its advanced production capabilities and high level of automation, will provide competitive advantage for us to serve, not only the Brazilian market, but also the Latin American and West Africa markets.

31. Our investment in the Tuas and EJA yards were made during the up-cycle years, and both are now near full completion. Most of our capex have been incurred for both yards. Therefore, going forward, remaining capex will be much reduced.
32. When completed, these two yards will be able to meet our future requirements for the next 50 years.

Strong long term relationships and strategic partnership with customers

33. Over the last 5 decades, we have also developed strong relationships with many customers, including national and international oil companies, and key players in the drilling and production markets. With our diversified and enhanced capabilities, we will continue to further cement such relationships and build strategic partnerships with them.

Human resources

34. In this down cycle, many companies have cut their headcounts. We have conducted a rigorous assessment of our labour requirements. Given the current net order book and reasonable demand for our other business segments, we have, for the time being, continue to maintain most of our loyal and experienced workforce to ensure a high standard of execution.
35. However, we have taken measures to contain overall manpower cost base. These include reallocation of excess headcounts from yards focused on new build rigs, to yards undertaking non-drilling solutions. We have also allowed natural attrition and removal of less efficient sub-contractors. For Brazil EJA yard, our manning level is commensurate with our level of activities, which is significantly lower than our planned headcount numbers.
36. Our strategy remains, that we will not sacrifice our core skilled and efficient workforce, and will continue to selectively recruit talents, so as to achieve longer term workforce sustainability, and be better positioned when market recovers. We constantly monitor our needs and will continue to optimise our resources and operations on a global basis.

Transformation

37. Sembcorp Marine is continuing its 'Transformation for Growth' journey which started in 2013, in line with our sustainable growth strategy. Becoming 'One Sembcorp Marine' enables us to harness the combined scale and expertise of our global operations to become more flexible,

innovative and responsive. This enables the company to rise to new challenges and undertake even larger and more complex projects.

R&D and New Products

38. We continue to invest prudently in R&D to improve operational efficiency and develop new capabilities. Our Espadon compact drillship design, and our Q-series well intervention rig design, have both won orders from international players. Our next generation drillship design, compliant for 20k BOP capabilities, has been accepted by international oil companies.
39. As part of our diversification strategy, we have also been developing other product segments within the offshore oil & gas value chain. Through our investment in Gravifloat, we have acquired the technologies to design, deliver and operate re-deployable, gravity-based, modularised terminals for gas and power generation installations near shore.
40. We have also acquired SSP Offshore, a Houston-based company that specialises in the design, engineering and delivery of innovative floating production and drilling solutions for the oil and gas industry. This company has been renamed Sembmarine SSP.
41. Through SSP's proprietary suite of satellite services platform solutions, Sembcorp Marine is able to offer next-generation innovative and cost-effective solutions for deepwater oil & gas drilling, production and storage, and logistic hub applications in harsh environments and extreme arctic conditions.
42. We believe the above strategic initiatives in yards, technology, people, and the way we operate, will position us well for the future.

Cash flow and liquidity management

43. The majority of our current S\$10.4 billion order book is with progress payment terms. Only about S\$2 billion of our order book is for drilling rigs which are on back-ended payment terms. The average upfront payment for these rigs contracts is close to 30%. The above will minimise the need for fresh working capital to fulfil such orders in the next years.
44. In 2015, we generated \$536 million of Operating Cash flow (before working capital changes). We believe that our working capital needs have peaked, and we expect to see a reduction this year.

45. On capital expenditure, as shared earlier, a large part of our new yard capex has been incurred. Going forward, we will only proceed with yard capex that are needed for execution of our secured contracts, while deferring non-essential capex.
46. We continue to adopt a disciplined approach to cash flow and liquidity management. Barring unforeseen developments, we believe we have sufficient debt headroom, and with existing facilities and continued support of our bankers and bondholders, we will be able to execute our secured orders. It is our intention that future orders will be on progress payment basis.

Summary

47. In summary, we remain focussed on the timely and effective execution of our current order book, and efficient cost and working capital management. We continue to be confident of the longer term fundamentals of the offshore and marine industry. Together with our strategic investments in new capabilities and facilities, we believe that Sembcorp Marine, will be able to ride out the current down cycle, and be strategically better positioned for the upturn, so as to continue to generate acceptable risk-adjusted sustainable returns for the Group, and its shareholders.

Our CFO Tan Cheng Tat will now take you through the Group's detailed financial performance.