Address by Mr. Wong Weng Sun – President & CEO, Sembcorp Marine

2Q & 1H 2016 Results Briefing

Greetings

1. Good evening and welcome to Sembcorp Marine's 2Q and 1H 2016 results briefing.

Challenging Macro Environment

2. Global economic growth continues to be subdued amidst the very challenging industry climate and volatile financial market conditions. The recent Brexit episode and uncertainty among Euro-zone countries have fuelled further concerns of weaker economic growth for the foreseeable future.

3. The collapse in oil prices since the second half of 2014 has continued to impact the entire upstream oil and gas industry value chain, particularly our customers and partners in the exploration segment. Day rates and utilisation for drilling rigs have fallen drastically, resulting from sweeping capex cuts in offshore oil & gas exploration. Despite oil prices recovering from recent lows of below US$30/barrel to the present US$45 - US$50/barrel range, industry experts continue to forecast a prolonged downturn for the upstream oil and gas industry. Understandably, with fewer drilling contracts and surplus of rigs, some drillers continue to be unable to take delivery of their new build rigs.

4. In the face of these headwinds, Sembcorp Marine continues to navigate with prudence and caution, guided by our strategic focus to preserve, sustain and grow shareholder value over the longer term and to ensure the best outcome for our investors and stakeholders.

Financial Performance for 2Q / 1H 2016

5. Our overall financial performance for the first half of 2016 has remained profitable despite the continued downward pressure from external factors such as delivery deferrals for some of our rigs, the lack of new awards of contracts to replenish our order book, and currency fluctuations due to market volatility.

- Group revenue was S$1.8 billion in 1H 2016 compared with S$2.5 billion in 1H 2015.
- Net profit was S$66 million in 1H 2016 compared with S$215 million in 1H 2015.
- Operating profit for 2Q 2016 before the effects of foreign exchange was $86 million, which was higher than the $65 million for 1Q 2016.

More details will be covered in our CFO's address to follow.

Successful Deliveries

6. We achieved a number of deliveries in 2Q 2016 (please refer to pictures on slides):

- Our most recent delivery in the quarter was the Maersk Highlander jack-up rig, formerly known as Hercules Highlander. The F&G JU2000E harsh environment jack-up was delivered to Maersk Highlander UK Ltd in May for deployment to the Culzean Field Development, in the UK sector of the North Sea.
- We also successfully delivered the engineering, procurement and construction of the Ivar Aasen Process, Drilling and Quarters (PDQ) Platform Topsides to Det Norske for North Sea operations. This milestone delivery is the biggest contract in value undertaken by our Offshore Platforms unit.

7. In the first quarter of this year, we had delivered the FPSO Prof. John Evans Atta Mills to MODEC, and the Safe Zephyrus, a harsh environment deepwater accommodation semi-submersible to Prosafe.

8. In July 2016, we also delivered another milestone project - the Noble Lloyd Noble, which is the world's largest harsh environment jack-up rig - to Noble Corporation.

Other key activities

9. For our non-drilling solutions segment, we are currently working on fabrication works for the world's largest semi-submersible crane vessel for Heerema at our state-of-the-art facility in Tuas Boulevard. We are also actively executing work on the engineering, procurement and construction of the harsh environment topside modules for Maersk Oil, which include a Central Processing Facility, a Wellhead Platform, and a Utilities & Living Quarters Platform. Work is also in progress to design and build a new harsh environment Floating Storage and Offloading (FSO) vessel for MODEC.

   Our Repairs and Upgrade segment continues to perform creditably, completing repairs and upgrade works for a steady stream of vessels. In May 2016, Sembcorp Marine's wholly-owned Brazilian yard subsidiary Estaleiro Jurong Aracruz (EJA) also marked a key operational milestone with the successful completion of the yard's first vessel repair project.

Update on Sete Brasil

10. Sembcorp Marine has announced on April 22, 2016 that Sete Brasil's shareholders had approved a resolution to file for judicial reorganization. We have been informed that Sete Brasil is preparing its restructuring plan and is in active negotiations with its various creditors.

    We have also announced on April 22, 2016 that we have commenced arbitration proceedings against various subsidiaries of Sete Brasil to preserve our interests under the Sete Brasil contracts. The arbitration proceedings are ongoing. Without prejudice to our arbitration proceedings, we continue to engage with Sete Brasil to better understand their restructuring plan and actively monitor the situation and its implications.

11. The Group had in the last financial year made provisions of S$329 million for the Sete Brasil contracts. We believe that the provisions remain sufficient under the present circumstances.

Delivery delays for other drilling rigs

12. Delivery of several rigs in our order book has been deferred, including 3 jack-ups for Oro Negro and 1 jack-up for Perisai. We are currently in discussions with these customers to develop solutions for the rigs. All completed rigs have been technically accepted by their respective customers.

13. Our standstill agreement with North Atlantic Drilling for the delivery of the West Rigel semi-submersible rig has been extended to September 2, 2016. During this period, both parties will be marketing the rig for a charter contract or for sale at an acceptable price.

14. Arbitration proceedings are ongoing against Marco Polo Drilling (“MPD”) and its parent company, Marco Polo Marine for MPD’s failure to make a partial payment in relation to a jack-up rig, for which we have terminated the contract last year.

15. We believe we are well prepared to strategically respond to various possible outcomes to the above as the developments unfold. In the last financial year, we have made provisions of S$280 million in case of prolonged deferment or possible cancellation of these rigs. We believe these provisions remain adequate given the current circumstances and will continue to monitor the developments and their implications as we progress.

Net Order book

16. Despite the challenging market conditions, we secured S$320 million in new orders (all non-drilling solutions). Our net order book remains reasonably robust at S$9.2 billion. Excluding the Sete Brasil drillships, our net order backlog stands at S$6.0 billion. We will continue to actively pursue opportunities in existing markets and are hopeful that our new business segments will win orders during the year to further grow our order book.

Cash flows and liquidity management

17. The Group remains committed to actively manage its balance sheet to maintain a healthy financial position. We remain focused on the timely and effective execution of our order book to ensure successful deliveries of our projects so as to improve our cash flows and liquidity position. The majority of our current S$9.2 billion order book is with progress payment terms. Less than 20% of our order book is for drilling rigs which are on back-ended payment terms. As such, the need for fresh working capital to fulfil such orders in the next years will continue to decrease.

18. During our FY 2015 results briefing, we have shared that a large part of our new yard capex has been expended. Going forward, we will continue to only proceed with yard capex that are needed for execution of our secured contracts, while deferring non-essential capex. Total capex for FY2016 is expected to be less than half that of FY2015.

19. In 1H2016, we generated S$175 million of Operating Cash flow (before working capital changes). Following further receipts from recent deliveries, including the Noble Lloyd Noble rig and fixed platform projects, we generated a further positive operating cash flow of S$909 million in the month of July 2016. This will reduce our net gearing from 1.07x in 1Q2016 to less than 1.0x presently. As shared during our FY15 results briefing, we believe our working capital needs have peaked, and gearing should improve in the course of 2016.

Dividends

20. In view of our financial performance and to recognise our valued shareholders for their support, the Board of Directors is recommending an interim cash dividend of 1.5 cents per share which is scheduled to be paid on August 29, 2016. This represents a dividend payout ratio of 47% compared to 39% for 1H 2015.

Outlook and Prospects

21. Looking ahead, we expect conditions in the offshore oil and gas sector to remain challenging in the short to medium term. Due to low oil prices and reduced day rates, many companies in the offshore oil and gas sector continue to face slowing demand, difficulties in replenishing their order books as well as deferment or cancellation of their existing contracts. Despite these tough conditions, we believe that the long-term fundamentals of the industry remain strong and opportunities still exist even during this down-cycle.

22. Strategically, while our immediate focus is on smooth execution of our existing order book, we continue to strengthen our capabilities so as to be well positioned to ride the industry recovery when it occurs.

Investing for the future

23. We believe that in order to meet the present and future needs of the industry for cost effective solutions, new yard facilities and capabilities are essential. Our new flagship yard facility at Tuas Boulevard, including its highly automated mega steel fabrication facilities, has helped unlocked new opportunities for us; enabling us to move up the value chain and take on projects of greater complexity and scale. With these new facilities, we were able to venture into new markets to secure mega construction contracts in 2015, such as the Heerema semi-submersible crane vessel, the Culzean platform topsides and new build FSO projects, all of which are traditionally done outside Singapore.

    We believe our new yard capabilities will position us well to compete with the global players for further projects of such nature.

24. Globally, we are well-placed to tap on opportunities in Brazil, the rest of Latin America and West Africa with our Brazilian shipyard Estaleiro Jurong Aracruz (EJA). With similarly advanced production facilities and automated capabilities, the yard is equipped to serve the market for marine and offshore repairs and construction, FPSO integration and topside modules fabrication.

25. In May this year, EJA marked a key operational milestone with the successful completion of the yard's first vessel repair project – the bulk carrier Olympic Gemini – for Athens-based Springfield Shipping Company. The fast-turnaround and successful completion of the repairs within short notice is testament to EJA's integrated marine and offshore capabilities.

26. Recognising the importance of diversification in staying competitive, we have continued to expand beyond drilling solutions to non-drilling solutions and other product segments within the oil and gas value chain. As example, through our controlling stake 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.

27. Recently, we acquired a 50% equity stake in KANFA Aragon AS, a process design and engineering group with a focus on delivering tailored solutions to the worldwide floating production, storage and offloading market. Such acquisition will further strengthen our technology capabilities to offer new products and solutions globally.

28. In terms of headcount, workforce sustainability is key to enabling us to ride the future industry recovery. Nevertheless, the Group continues to rigorously optimise its manpower requirements. Reallocation of headcounts from our drilling segment to our non-drilling segments continues in support of our large projects, where production activities remain high. We will continue to allow natural attrition and removal of less efficient sub-contractors to help optimise our workforce needs.

Resilient and Ready

29. Sembcorp Marine's strategic investments in infrastructure and technology over the years have enhanced our resilience to navigate safely through these tough times. We have gone through several down-cycles in the past and have built up a strong core that will enable us to weather the elements during this difficult period.

30. While it is unclear how protracted this downturn will be, we have taken prudent steps to position ourselves for the challenges ahead. We will continue to adopt a disciplined approach in managing our costs and finances to maintain a healthy balance sheet to ensure adequate cash and improved gearing. Our key priority remains the timely and effective execution of our order book.

31. We will continue to proactively seek fresh opportunities to grow our business and order book to deliver sustainable returns for the Group and our shareholders.

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