

Address by Mr. Wong Weng Sun, President & CEO – Sembcorp Marine 2Q/1H 2017 Results Briefing

Greetings

1. Good evening. Welcome to Sembcorp Marine's first half 2017 results briefing.

Macro Update

2. The global economy continued on the recovery path in the second quarter of 2017 with investment, manufacturing and trade activities picking up. Although confidence is gradually improving, the growth outlook remains uneven and susceptible to various structural and geo-political risks in the macro environment.
3. Operating conditions in the offshore and marine sector continue to be challenging. Oil prices remain volatile, hovering between the US\$45 to US\$50 per barrel range, as the supply glut remains despite OPEC-led production cuts. While offshore day rates for drilling rigs appear to have stabilized and utilization levels have begun to improve, a more robust recovery will take longer.
4. We are monitoring the macro-economic environment closely and are ready to respond to the developments as they evolve.

Financial Performance for 2Q/1H 2017

5. Amidst the challenging operating environment, Sembcorp Marine recorded a net profit of \$45 million for the six months ended 30 June 2017. Overall performance was impacted mainly by lower contributions from rig building and offshore platform projects.
6. For 1H 2017:
 - Group revenue was \$1.42 billion, compared with \$1.83 billion in 1H 2016.
 - Net profit was \$45 million, compared with \$66 million in 1H 2016.

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

Review of Operations

Project Deliveries

5. Sembcorp Marine has successfully completed the conversion of the Randgrid FSO in early July for Teekay. The vessel has sailed away from Singapore and is in transit to the Gina Krog field development in the Norwegian North Sea, where it will operate under a charter with Statoil. Converted from a shuttle tanker, the Randgrid FSO is designed to operate for a minimum of 15 years of uninterrupted operations, without the need to leave the field for drydocking. In total, we achieved 4,979,713 man-hours without any Lost Time Incidents, an outstanding joint effort by Teekay, Statoil and Sembcorp Marine.
7. The Pioneiro de Libra FPSO, Sembcorp Marine's first full EPC (Engineering, Procurement and Construction) FPSO conversion, arrived in Brazil waters in May after its successful delivery to Odebrecht and Teekay in March this year. The FPSO is now undergoing installation, hook-up and commissioning for operations at the Libra field development in Brazil's Santos Basin.

Work-in-progress

8. We continue to make steady progress on various projects in our order book. These include:
 - Engineering and construction of the world's largest semi-submersible crane vessel for Heerema;
 - Design and construction of a new harsh-environment Floating Storage and Offloading (FSO) vessel for MODEC for deployment in the Culzean field in the UK North Sea;
 - Engineering, procurement and construction of Maersk Oil's Central Processing Facility, Wellhead Platform and Utilities & Living Quarters Platform Topsides for harsh-environment operations in the Culzean field in the UK North Sea;

- FPSO Kaombo Norte and FPSO Kaombo Sul for Saipem for operations in offshore Angola.

9. Ongoing projects at our overseas yards include:

- Construction of a power generation module and other infrastructure (part of our EPC project with Maersk Oil) at our SLP yard in the UK;
- Topside modules construction and integration for the Petrobras P-68 FPSO in our EJA Brazil yard;
- Additional work scope requested by the customer relating to the P-68 FPSO is also being finalized and scheduled for execution in 2H 2017 at our EJA Yard.

10. Transocean, which recently exited from the jackups segment, has also requested us to actively resume work for its two drillship orders with us. This will help contribute to our ongoing yard activities in the foreseeable quarters.

11. For 1H 2017, our ship repair business saw a total of 239 repairs and upgrades performed. Revenue per vessel remained steady largely due to an improved vessel mix with more higher value works.

12. For the cruise ship segment, Sembcorp Marine completed a series of cruise ship repairs, refurbishment and conversion in 1H 2017 for various partners and valued customers. Notable projects include the ***Pacific Explorer*** cruise ship conversion for P&O cruises, repair of ***Paul Gaugain*** for PG Cruise, as well as refurbishment of ***Mariner of the Seas*** for Royal Caribbean Cruises. This reinforces our leadership position in the niche cruise ship market.

13. For the LNG vessel segment, we completed the repairs and upgrades for 15 LNG ships in 1H 2017. With further jobs already secured for 2H 2017, we are on track to surpass the total number of LNG vessels serviced in 2016.

14. The International Maritime Organisation has allowed a two-year reprieve on the enforcement of the Ballast Water Management Convention. While this would delay the uptick in business for installations of Ballast Water Management Systems (BWMS), the medium term potential for such BWMS business for our Repairs & Upgrades segment remains intact.
15. Sembcorp Marine is pleased to have won the Shipbuilding & Repair Yard Award at the 2017 Seatrade Maritime Awards Asia, which is in recognition of our ship delivery reliability record, good safety performance, innovation in product offerings, commitment to the environment in operations, and investment in new yard facilities and technology.
16. The Group is also pleased to be recognised for its strong workplace safety and health (WSH) performance at the recent national WSH Awards 2017. Sembcorp Marine won a total of 19 awards, including the marine industry's first-ever Gold Award for WSH Performance. We also received a WSH Innovation Award and two WSH Supervisors Awards. These accolades are clear affirmation of our continuous commitment towards excellence in WSH management and innovation, which are also essential to help us win and retain businesses from our key customers.

Sete Brasil Drillships

17. Sete Brasil continues to be in discussions with creditors on its judiciary recovery plan. We understand that a general meeting of creditors is scheduled in August 2017.
18. We are monitoring the developments closely and continue to engage Sete Brasil as necessary to better understand its restructuring plan.
19. We believe that the \$329 million in provisions made in FY 2015 for the Sete Brasil contracts remain sufficient under the present circumstances.

Rig Delivery Deferrals

20. We continue to work with our customers for solutions relating to the deferment of their rigs, which have been technically completed and accepted. A number of new potential customers have emerged and we are in discussions for them to acquire or take over delivery of these assets.
21. The standstill agreement between North Atlantic Drilling and Sembcorp Marine for the West Rigel semi-submersible rig has been extended to 6 January 2018. Both parties will continue to actively market the rig for sale or charter.
22. We believe that the provisions of \$280 million made in FY 2015 for prolonged deferment or possible cancellation of rigs are adequate under the present circumstances.

Net Order book

23. Our net order book stands at \$6.7 billion, with \$75 million in new orders secured in 1H 2017 (all non-drilling solutions). Excluding the Sete Brasil drillships, our net order book stands at \$3.6 billion.
24. As mentioned earlier, additional work scope requested by the customer relating to the P-68 FPSO is also being finalized and will contribute to our order book in 2H 2017.
25. Active enquiries continue for non-drilling solutions and we are in ongoing discussions with various parties for potential projects in the floaters, production platform, LNG and specialized shipbuilding segments.
26. We continue to make progress in the development of projects for our proprietary Gravifloat technologies for near-shore gas infrastructure solutions. We are in close discussions with several potential customers and remain hopeful of realising some new orders in the coming year.

Human Resources

27. Amidst the protracted downturn, the Company is focused on staying lean and nimble through effective resource and cost management. To this end, we have been optimising our workforce and redeploying employees from drilling to non-drilling work. In addition, we have made active efforts to manage excess manpower and right-size our workforce through natural attrition, non-renewal and early termination of service contracts. Our sub-contractor workforce has also been optimised to align with the workload. Our EJA yard in Brazil has also implemented similar measures to right-size the workforce in tandem with work requirements.
28. Apart from the right-sizing measures, since 2015, we have adopted a freeze on salary and variable remuneration adjustments for key management staff. For 2017, the wage freeze will be carried out across the board for all employees, and a 10% monthly variable component wage cut has been implemented for senior management staff across the Group. We will continue our review and management of manpower costs.
29. Skills training and upgrading will continue to be a key focus in enhancing competencies, raising productivity and optimising our workforce for flexibility in deployment. Selective recruitment of talent in specialised areas will continue to be made to build on our strengths and support our expansion into new business segments.

Singapore Yards - Tuas Boulevard Yard Phase II Fully Operational

30. Sembcorp Marine's Tuas Boulevard Yard (TBY) completed its Phase II development during the 1st quarter of this year.
31. These new facilities will further deepen our capacity and capabilities, especially for the EPC construction of major offshore structures; and further enhance our operational capabilities and production efficiency. We believe this is essential to enable us to sharpen our competitive edge, diversify into new business areas and compete in the challenging business environment ahead.

32. As mentioned during our 1Q 2017 results brief, our plans to return the Shipyard Road Yard and the Tuas Road Yard in 2017 remain on schedule; and we also plan to return our Tanjong Kling Yard ahead of its lease expiry date.

Cash Flow and Liquidity Management

33. We continue to exercise prudence and discipline in our financial management to conserve cash and strengthen our balance sheet. The majority of our order book contracts continue to be on progress payment terms to minimise our need for significant working capital.

34. Operating cash flow used in 1H 2017 was \$295 million, mainly due to increased payment to creditors. Capex for 1H 2017 was about \$98 million. We expect capex to continue to trend lower as most of our yard capex have been expended. Going forward, we will only proceed with yard capex that are needed for execution of our secured contracts or which will realise cost-savings, while deferring non-essential capex.

35. Net gearing increased marginally during the quarter, with net debt to equity at 1.31 times at end of 1H 2017, compared with 1.18 times at end 1Q 2017; mainly due to timing of receipts and payments for certain projects.

36. We believe our debt headroom is sufficient and are confident we will be able to execute our orders and meet our liquidity needs with our existing facilities and continued support of our bankers and bondholders.

Dividend

37. The Board of Directors is recommending an interim cash dividend of 1.0 cents per share which is scheduled to be paid on 29 August 2017. This represents a dividend payout ratio of 46% compared to 47% for 1H 2016.

Outlook

38. Global exploration and production spending is expected to increase. Offshore day rates appear to have stabilized and utilization levels have begun to improve. However, a more robust recovery will take longer.
39. Enquiries for non-drilling solutions continue to be encouraging. We have been actively involved with our potential customers in developing engineering solutions for the production segment. We remain cautiously optimistic of new orders for production facilities in the next few years.
40. We continue to make steady progress in the development and commercialisation of our Gravifloat technology for near-shore gas infrastructure solutions. However, it will take time for such efforts to translate into orders.
41. Niche markets in LNG carrier and cruise ship repairs and upgrades have held up well and have relatively outperformed other segments. We expect this trend to continue.
42. Sembcorp Marine's strategy and focus remain anchored on strengthening and optimising our talent pool; pursuing operational excellence in executing our projects; investing in new capabilities, products and technological innovation to help grow our order book; and prudently managing our financial resources to preserve financial flexibility and ensure overall sustainability of our business.
43. Our CFO Tan Cheng Tat will now take you through the Group's detailed financial performance.

This release may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, exchange rate movement, cost of capital and capital availability, competition from other companies and venues for sale and distribution of goods and services, shifts in customer demands, customers and partners, changes in operating expenses, including employee wages, benefits and training, governmental and public policy changes. The forward-looking statements reflect the current views of Management on future trends and developments.