

## **Address by Mr. Wong Weng Sun, President & CEO – Sembcorp Marine 2Q/1H 2018 Results Briefing**

### **Greetings**

1. Good evening. Welcome and thank you for joining us today for Sembcorp Marine's 2Q/1H 2018 results briefing.

### **Macro Update**

2. The global economy has improved over the last six months. Despite this, the recovery is vulnerable to potential disruptions, including volatile financial markets, increased trade protectionism and geopolitical tensions.
3. Global oil prices have hovered at a range of between US\$60 to US\$75 per barrel. Oil demand continues to remain firm with an improving global economy.
4. Fundamentals in the offshore and marine sector continue to improve, with offshore rig utilization and day rates in certain segments showing signs of an initial recovery. More offshore production projects have reached their final investment decision stage and this trend is expected to continue.
5. While overall sentiment and offshore CAPEX spend have begun to improve, it will take some time before sustained new orders occur. Significant time and effort in project co-development with potential customers are needed before orders are secured. Competition continued to be intense.

### **Financial Performance for 2Q/1H 2018**

6. For the Group, we have achieved initial orders traction, with EPC projects for the production segment worth \$730 million secured in 1H 2018. Detailed engineering and construction planning will take some time before main construction activities and corresponding revenue recognition take place.
7. As such, as previously shared, overall business volume remained significantly below peak levels. However, to ensure that we can smoothly execute our new orders and other potential orders, we have right-sized our resource manning and cost base to current activity level, and also catered for business growth and resource sustainability.
8. The above has resulted in operating losses of \$45 million for 4Q17, \$33 million for 1Q 2018 and \$29 million for 2Q 2018. Work volume for the foreseeable quarters, while improving, is expected to remain low, and the trend of negative operating profit will continue for the current financial year before improving thereafter.
9. On the liquidity front, with the sale completion of West Rigel in 2Q 2018 for US\$500 million, our entire inventory of 10 rigs have been fully monetized. Liquidity in 1H 2018 remained within a stable range, with working capital needs for existing projects and capex offset by the partial proceeds from the West Rigel

sale. When the remaining proceeds of approximately US\$1.0 billion from the 10 rigs sale are collected, Group liquidity will further improve.

10. In summary, for 1H 2018:

- Group revenue was \$2.81 billion, compared with \$1.39 billion in 1H 2017.
- Net loss was \$50 million, compared with a Net profit of \$42 million in 1H 2017.
- Net gearing was 1.26 times, compared with 1.13 times at end 4Q/FY 2017 and 1.47 times at end 1H 2017.
- New orders worth \$730 million were secured in 1H 2018, bringing our total net orderbook to \$7.27 billion as at end June 2018.

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

## **Review of Operations**

### **Deliveries**

2Q 2018 saw the successful deliveries of several key projects:

#### 11. FSO Ailsa

We achieved a major milestone in June 2018 with the sail-away of FSO Ailsa – our first full turnkey floating storage and offloading (FSO) newbuild project. Constructed over 22 months, the FSO achieved an excellent safety record of zero lost-time incidents.

#### 12. Culzean Topsides and Ancillary Facilities

In 2Q 2018, we delivered within schedule and budget the Well Head, Utilities & Living Quarters as well as Central Processing Facility topsides to TOTAL for operation in the Culzean field located in the UK North Sea sector.

#### 13. 2 Jack-ups for Borr Drilling

In 2Q 2018, we delivered two proprietary designed Pacific Class 400 jack-up rigs to Borr Drilling.

14. Other deliveries made in 1Q 2018 include a Pacific Class 400 newbuild jack-up Hakuryu 14 to BOT Lease Co., Ltd, and the Kaombo Norte FPSO converted from a Very Large Crude Carrier to Saipem.

### **Projects in Progress**

15. Our ongoing projects continue to progress well. These include:

- Engineering and construction of Sleipnir, the world's largest semi-submersible crane vessel (SSCV ) for Heerema, which is on track for delivery in 1H 2019;
  - Conversion of FPSO Kaombo Sul for Saipem for operations in offshore Angola;
  - Construction of two high-specification ultra-deepwater drillships for Transocean based on Sembcorp Marine's proprietary Jurong Espadon III drillship design;
  - Three newbuild Pacific Class 400 jack-up drilling rigs for delivery to Borr Drilling
16. Initial works have also started for several recently secured contracts. These include:
- Turnkey engineering, procurement and construction of newbuild FPSO hull and living quarters for Equinor (formerly known as Statoil), for the Johan Castberg field development in the Barents Sea.
  - Construction and integration of hull, topsides and living quarters for Shell's Vito semi-submersible Floating Production Unit (FPU).
  - Engineering, procurement, construction and integration of a newbuild FPSO hull, living quarters and topside modules, including owner-furnished equipment, for TechnipFMC for deployment in the Energean-operated Karish and Tanin deepwater field developments in the Eastern Mediterranean.
17. Key projects in progress overseas include:
- Hull carry-over works as well as topside modules construction and integration for the FPSO P-68 and FPSO P-71 for Tupi Project in our EJA Brazil yard;
  - Polar expedition cruise ship design contract, signed with Brodosplit Shipyard of Croatia, for Quark Expeditions®, which specialises in expeditions to the Arctic and Antarctic aboard purpose-built expedition vessels.

### **Repairs and Upgrades**

18. During 1H 2018, we performed a total of 158 dry-dockings, repairs and upgrades. While the number of vessels serviced was lower than the 239 units for 1H 2017, revenue per vessel for 1H 2018 was higher than 1H 2017 on higher value works and improved vessel mix.

### **Sete Brasil Drillships**

19. In early March 2018, the media reported a tentative agreement between Sete Brasil and Petrobras, under which Petrobras will charter four drilling units from the Sete Brasil fleet, subject to the satisfaction of certain conditions.

20. We continue to engage Sete Brasil to better understand their restructuring plan. We are following the developments closely and are ready to respond to any further developments.
21. The \$329 million provisions we made in FY 2015 for the Sete Brasil contracts remain adequate under the present circumstances.

### **Semi-submersible Rig Sale – West Rigel**

22. We have announced on 10 May 2018 that the conditions precedent in the agreement for the sale of the West Rigel semi-submersible rig at the price of US\$500 million, have been fulfilled by the buyer.
23. We have completed the delivery of title for West Rigel to the buyer, and have received partial payment for the sale. The rig will remain in our yard for certain reactivation works to be undertaken. The sale will further contribute to improving our liquidity position.

### **New Orders and Order Book Development**

These include the following:

24. EPC construction and integration of a newbuild FPSO hull, living quarters and topside modules, including owner-furnished equipment, for TechnipFMC
25. Construction and integration of hull, topsides and living quarters for Shell's Vito semi-submersible Floating Production Unit (FPU).
26. We are actively engaging SeaOne Caribbean (SeaOne) to advance the LOI signed for the building of at least two large Compressed Gas Liquid carriers, following the completion of preliminary studies.
27. We are making progress in marketing our range of proprietary Gravifloat technologies for near-shore LNG terminal and gas infrastructure solutions.
28. We continue to actively respond to enquiries and tenders for projects in the floaters, production platforms, gas solutions and specialised shipbuilding segments to further develop and strengthen our order book.
29. These efforts form Sembcorp Marine's strategy of diversifying into new product segments and providing innovative solutions across the offshore and marine, and energy value chain.

## **Net Order Book**

30. With the award of TechnipFMC FPSO contract and Shell Vito FPU contract, our net order book as at end 1H 2018 stands at \$7.27 billion, with completion and deliveries stretching into 2021 (FY 2017: \$7.58 billion). Excluding the Sete drillship contracts, our net order book stands at \$4.15 billion (FY 2017: \$4.45 billion).

## **Strengthening Intellectual Assets and Capabilities**

31. As part of our strategy to strengthen our intellectual assets portfolio and position the Group for future growth, the Group entered into a sale and purchase agreement with Norway's Sevan Marine ("Sevan") in June 2018 to acquire Sevan's interests and title to all its intellectual property, its 95% equity interest in HiLoad LNG AS, and other Sevan's operation assets and employees at a cash consideration of US\$39 million.
32. Pending satisfaction of conditions precedent, transaction completion is expected in the next few months.
33. With the above acquisition, the Group will be well placed with a suite of intellectual properties and knowledge to execute leading-edge design and engineering solutions for the global offshore and marine sectors. This puts the Group in a better position to offer alternative and innovative products and solutions to our customers and partners.

## **Singapore Shipyards**

34. With our Tuas Boulevard Yard's enlarged capacity, optimised facilities, and automated steel fabrication facility, we were able to secure mega-scale newbuild projects which are the first of their kind for the Group.
35. These milestone projects include Shell's Vito FPU project, Equinor's Johan Castberg FPSO project, TechnipFMC's Karish and Tanin FPSO project, the world's largest SSCV for Heerema, and the FSO Ailsa newbuild which we recently delivered to MODEC. Our continuous investments in enhancing our capabilities and advancing up the value chain have enabled us to break into new markets and stay ahead of the curve.
36. Our Tuas Boulevard Yard also serves as a living lab for developing innovative technologies and engineering solutions as well as incubating and verifying disruptive applications. We are collaborating with several technology partners to test-bed the integration of smart technologies, automation and artificial intelligence to transform our operations and enhance our competitive edge.

## **Human Resources**

37. Ongoing efforts to optimise our workforce and manage our resources for improved productivity and efficiency remain in place. Right-sizing, re-training and reorganisation measures will continue to ensure resilience and successful execution of our full turnkey EPC newbuild orders and meeting future requirements for on-going project tenders.
38. The selective recruitment of specialist talents with niche capabilities to grow our new business segments will continue as part of our future business growth.

## **Workplace Safety & Health Recognition**

39. Ensuring high standards of workplace safety and health continues to be a top priority in managing our workforce. In recognition of Sembcorp Marine's commitment towards occupational health and safety excellence, the Group was accorded the Safety Initiative Award at the 2018 Seatrade Maritime Awards Asia in April 2018.

## **Cash Flow and Liquidity Management**

40. We continue to adopt a prudent and disciplined approach in our financial management to maintain a healthy balance sheet, cash flow and gearing. We remain focused on building our orderbook, executing projects on time through safe, smooth and effective execution, and achieving progressive revenue recognition. The monetisation of our entire rigs inventory will have a positive impact on our liquidity position over time.
41. Capex for 1H 2018 was about \$113 million. Capex for the foreseeable future will continue to be incurred mainly for execution of our secured contracts or which will realise cost-savings or enhance our execution capabilities.
42. In 1H 2018, operating cash flow generated before working capital changes was \$66 million, compared with \$135 million in 1H 2017. Net gearing remained relatively stable at 1.26 times, compared with 1.13 times as at 4QFY 2017 and 1.47 times as at 1H 2017.
43. To minimise the need for significant working capital as we grow our orderbook, the majority of our contracts and new orders continue to be on progress payment terms.
44. We are carefully managing our gearing to ensure that we have sufficient debt headroom. We are confident that with our existing facilities and the continued support of our bankers and bondholders, we have the ability to execute our orders and meet our liquidity requirements.

## Outlook

45. CAPEX spend on global exploration and production (E&P) continues to improve with firmer oil prices in the first half of 2018.
46. However, offshore rig order recovery will take some time as the market remains oversupplied, particularly for jack-up rigs. There are some pockets of initial demand for mid and deep water rigs.
47. The majority of new orders have been for offshore production projects. This trend is expected to continue and Sembcorp Marine is responding to an encouraging pipeline of enquiries and tenders for innovative engineering solutions.
48. Competition in the repairs and upgrades segment remains intense. The segment will be underpinned by regulations that require ballast water treatment systems and gas scrubbers to be installed over the next two to five years.
49. The overall industry outlook remains challenging. While improvement in E&P CAPEX spending is projected to continue, it will take some time before we see a sustained recovery in new orders. The Group's transformation efforts to move up the value chain have resulted in new business opportunities but they require significant time and effort in project co-development with potential customers before orders are secured. Such new-build engineering, procurement and construction (EPC) projects have detailed engineering and construction planning phase, which may take as long as six to twelve months before main construction activities and corresponding revenue recognition can take place. Margins remain compressed with intense competition.
50. Overall business volume and activity for the Group is expected to remain low for the immediate quarters. The trend of negative operating profit will continue in the near term. Our cash resources remain sufficient and we will prudently manage our costs and cash flows to align them with business volume and potential opportunities.
51. We will actively pursue the conversion of as many enquiries into new orders, execute existing orders efficiently and position the Group well for the industry recovery.
52. 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.*