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PRESS RELEASE

Sembcorp Marine reports FY 2019 net loss of $137 million

Key highlights

For the 12 months to Dec 31, 2019 (FY 2019):

- Group revenue of $2.88 billion
- EBITDA of $104 million
- Group net loss of $137 million
- Net order book of $2.44 billion

Singapore, February 20, 2020: Sembcorp Marine posted a net loss of $137 million for the 12 months ended December 31, 2019 (FY 2019), compared with the net loss of $74 million for FY 2018. This was due mainly to the accelerated depreciation for the Tanjong Kling Yard of $48 million and continued low overall business volume. It was partly offset by profits from the repairs and upgrades business, which rose on improved margins and better product mix.

Group revenue for FY 2019 totalled $2.88 billion, compared with $4.89 billion booked in FY 2018.

On a segmental basis:

- Revenue for **Rigs & Floaters** was $2.07 billion in FY 2019, compared with $4.15 billion in FY 2018. The higher revenue in FY 2018 had been due to revenue recognition on delivery of 7 jack-up rigs to Borr Drilling, one jack-up to BOTL and the sale of a semi-submersible rig. Revenue in FY 2019 was mainly contributed by higher percentage recognition from ongoing drill ship and floater projects. They included the two Transocean drill ships, the Shell Vito floating production unit (FPU), the Johan Castberg floating production, storage and offloading vessel (FPSO) and the Karish FPSO projects.

- **Offshore Platforms** revenue was $131 million in FY 2019 with revenue recognition from the Hornsea 2 wind farm substations and Tangguh gas modules projects. FY 2018 revenue of $184 million was higher on contributions from the Culzean platform projects, which were completed and delivered in June 2018.

- Revenue from **Repairs & Upgrades** totalled $605 million in FY 2019, which was 27% higher than the $476 million in FY 2018 with higher revenue per vessel at $2.16 million (FY 2018: $1.61 million) on improved vessel mix of higher-value works. A total of 280 vessels were repaired or upgraded at Sembcorp Marine yards in the year (FY 2018: 296 units).

The Group generated positive EBITDA of $104 million for FY 2019, compared with FY 2018 EBITDA of $143 million. Group operating loss for FY 2019 was $139 million, compared with FY 2018 operating loss of $52 million. While margins continued to be recognised from newly secured floater projects, FY 2019 operating loss was due mainly to continued low overall business volume, and accelerated depreciation of $48 million arising from the Group's transformation and yard consolidation strategy. The Group had announced it would relocate all operations from its Tanjong Kling Yard by end 2019, with resulting cost savings estimated at $48 million per annum gradually being realised from FY 2020 onwards.

The Group incurred net finance costs of $37 million, lower compared with $46 million for FY 2018, due to higher interest income earned in FY 2019.

FY 2019 net loss attributable to shareholders was $137 million, compared to the net loss of $74 million reported in FY 2018.

Despite difficult market conditions, the Group secured new contracts of $1.49 billion in FY 2019, higher than the $1.18 billion for FY 2018. These include:

- Construction and integration of the topside and hull of a floating production unit (FPU) for Shell Offshore Inc. for the Whale field in the Gulf of Mexico;

- Two Offshore Platform projects valued at $550 million - the fabrication and integration of two well-head platforms under North Oil Company's Gallaf Batch 2 Project at the Al Shaheen oil field in Qatar, and platforms and bridges fabrication for the Tyra field redevelopment project in the Danish North Sea;
- Fabrication of 15 jacket foundations for the Formosa 2 Offshore Wind Farm project;
- Design and construction of a 12,000 cubic metre LNG bunker vessel;
- Conversion of the Ariake tanker into an FPSO for Shapoorji Pallonji Oil and Gas and Bumi Armada;
- Conversion / Upgrade of 3 Floating Storage and Regasification Unit (FSRU) / Floating Storage Unit (FSU) projects;
- Upgrade of 13 cruise ships, and a large-scale refit of Japan's largest cruise ship, the Asuka II, for NYK Cruises.

With these new contracts, the Group's net order book stands at $2.436 billion (excluding the Sete Brasil drill ship contracts).

Table A: Financial Highlights:

Group (S$ million)	4Q 2019	4Q 2018	% change	FY 2019	FY 2018	% change
Turnover	624	913	(32)	2,883	4,888	(41)
Cost of sales	(696)	(893)	(22)	(2,974)	(4,885)	(39)
Gross (Loss)/ Profit	(72)	20	n.m.	(92)	3	n.m.
EBITDA	(31)	59	n.m.	104	143	(28)
Operating (Loss)/ Profit	(89)	2	n.m.	(139)	(52)	n.m.
Loss before tax	(96)	(6)	n.m.	(177)	(101)	75
Net (Loss)/ Profit	(78)	6	n.m.	(137)	(74)	85
EPS (basic) (cts)	(3.72)	0.28	n.m.	(6.57)	(3.55)	85
NAV (cts)				104.0	110.7	(6)

4Q 2019 versus 4Q 2018

Group turnover for 4Q 2019 was at $624 million with percentage recognition from drill ship & floater projects, mainly the two Transocean drill ships, Shell Vito, Johan Castberg and the Karish FPSO newbuilds.

This compares with the $913 million revenue booked in 4Q 2018. The higher revenue in 4Q 2018 had been due to revenue recognition on delivery of a jack-up rig as well as revenue recognition of the Heerema semi-submersible crane project which was delivered in July 2019.

The Group reported a negative EBITDA of $31 million compared with a positive $59 million for 4Q 2018. Net losses totalled $78 million in 4Q 2019 compared with a net profit of $6 million in 4Q 2018, mainly due to lower overall business.

Five-year $2.0 billion Subordinated Loan Facility

On June 21, 2019, Sembcorp Marine announced jointly with Sembcorp Industries Ltd (SCI) that it had secured a five-year subordinated loan facility totalling $2 billion from SCI, which will strengthen the Group's financial position. SCI is the largest shareholder of Sembcorp Marine with a 61% stake in the Company.

Approximately $1.5 billion of the subordinated loan was deployed to retire a majority of the Group's short-term borrowings and re-profile debt from short-term to longer term.

On October 23, 2019, the Group announced that it had obtained the consent of its bondholders to revise the definition of its debt covenant to exclude the $2 billion subordinated loan facility from the Group's net debt to improve its financial flexibility.

Balance Sheet and Cash Flow

As at December 31, 2019, the Group's net debt totalled $4.01 billion. Net debt to equity ratio was 1.14 times.

Operating cash flow generated before working capital changes was $103 million in FY 2019 compared with $157 million in FY 2018.

Net cash used in operating activities was $296 million, mainly for working capital for ongoing projects, offset by receipts for completed projects.

As at December 31, 2019, the Group had net current liabilities totalling $310 million arising mainly from loans which mature in FY 2020. The Group is finalising with lenders to refinance and re-profile these loans with longer term maturities. The Group also has adequate existing loan facilities to refinance current borrowings as they fall due.

Settlement Agreement with Sete Brasil

On October 7, 2019, the Group announced that it had reached a full and final settlement of the claims under all 7 drill ship contracts signed with the Sete Brasil Group, subject to certain conditions precedent being fulfilled.

On February 6, 2020, the Group announced that all conditions precedent had been fulfilled and the settlement agreement had become effective.

As part of the settlement agreement, the Group will also terminate its arbitration proceedings against the Sete Group.

The Group is now in discussions with a potential purchaser for the completion of 2 drill ships.

Final Dividend

The Board is not proposing a final dividend for the financial year ended 2019.

Market Outlook

Business activity levels remain low for all segments except for repairs and upgrades, which continues to improve, underpinned by IMO regulations that require installation of ballast water treatment systems and gas scrubbers.

Challenges remain, in particular supply chain disruptions due to the COVID-19 virus outbreak, which could affect execution of our projects. Competition remains intense for all segments of our business. The Group expects the trend of losses to continue into 2020.

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