

Address by Mr Wong Weng Sun, President & CEO, at Sembcorp Marine Ltd 4Q and FY 2019 Results Briefing on 20 February 2020

1. Good morning, everyone. Thank you for joining us at the Sembcorp Marine 2019 4Q and full-year results briefing via tele-conference. First, I would like to wish all of you good health, and a safe and successful year ahead.
2. The Group has had a challenging year operating in an environment impacted by oil demand and supply uncertainties, rising geopolitical tensions, the US-China trade war, and intense market competition.
3. Despite this, Sembcorp Marine has persisted in our transformation strategy to strengthen our technology and engineering capabilities. This has enabled us to move up the value chain to offer higher value-adding engineering solutions, as well as broadening our product suites, especially in green solutions such as for gas value chain, offshore wind, battery-powered vessels, and ballast water treatment solutions.
4. Our strategy has enabled us to pursue new orders across wider opportunity areas. For FY 2019, we added \$1.49 billion of new orders to our order book, including contracts coming from new and repeat customers across our broadened suite of products and solutions.
5. Compared to \$1.18 billion of new orders in FY 2018, our improved order volume in FY 2019 reflects the Group's effective transformation and diversification strategy, which is also in line with the global transition towards a cleaner energy mix. Some \$530 million of our new orders in FY 2019 pertained to greener solutions, including scrubber and ballast water management system retrofits, and gas and renewable energy projects.
6. We will continue to selectively invest strategically in new innovations and technologies, and raise production capabilities to further enhance our competitive edge and improve our new orders flow.
7. During the year, we took efforts to strengthen our balance sheet to meet the Group's operational and capital needs. We generated positive EBITDA and operating cash flow surplus (before working capital changes). Together with a \$2.0 billion 5-year subordinated loan facility from our parent company, this has improved the Group's financial flexibility and strengthened our financial position to seize more opportunities as the industry recovers.

Financial Performance

8. For the financial year 2019, the Group generated revenue of \$2.88 billion, compared with \$4.89 billion for FY 2018. However, excluding the delivery of 7 jack-ups and sale of a semi-submersible rig in FY 2018, FY 2019 revenue would have been 6% higher.

9. EBITDA was \$104 million. Net loss for the year was higher at \$137 million, mainly due to the accelerated depreciation of \$48 million on our Tanjong Kling yard and the continued low overall business volume.
10. Our CFO, Cheng Tat, will cover more details on Sembcorp Marine's financial performance later.

Operational Review

New Projects

11. Sembcorp Marine's new orders in 2019 included a project with first-time customer Jan De Nul to fabricate jacket foundations for Formosa 2, the biggest offshore wind farm in Taiwan. Through this collaboration, we successfully entered the highly competitive Taiwanese offshore wind sector.
12. We also won a design-and-build project with Mitsui O.S.K. Lines (MOL) for a 12,000-cubic-metre capacity LNG bunker vessel – the biggest of its kind to be constructed in Singapore.
13. We secured a Floating Production, Storage and Offloading (FPSO) conversion job from Shapoorji Pallonji and Bumi Armada,
14. In 4Q 2019, we also clinched the Whale Floating Production Unit (FPU) project from Shell Offshore for the construction and integration of the FPU topside and hull, which came after the Shell Vito FPU awarded to us in 2018. The Whale FPU can expect to reap considerable synergies from the ongoing Vito FPU project. Both FPUs will be delivered from our Tuas Boulevard Yard as single integrated structures, facilitated by the Yard's 30,000-tonne lifting capability, the heaviest in the world for offshore construction.
15. Finally, in late December, we announced two new offshore platform contracts worth over S\$550 million for the Al Shaheen field and Tyra field redevelopment projects. The contracts were respectively awarded by the ultimate customers, North Oil Company and Total.
16. As at end 2019, the Group's net order book stood at \$2.44 billion, excluding the Sete Brasil drill ships contracts.
17. To strengthen our orders visibility, during 2019 we also made further progress to better position ourselves to compete for major complex offshore projects, with more field developments now located in deeper, harsher and colder environments. We are currently in talks for several such opportunities, having engaged our prospects early in the project life-cycle with solutions for optimising project execution as well as safety and efficiency in post-delivery field operations. Such additional technical requirements, which we believe play to our strengths, would however require longer planning and development durations before the projects are awarded.

18. Going into FY2020, we are optimistic about our negotiations for several major projects, including the Siccar Point Cambo FPSO, for which we have concluded an exclusive FEED using our proprietary Sevan Design and are moving into the next phase. This puts Sembcorp Marine in a favourable position to secure the contract once the customer and its partners make their Final Investment Decision in 2020.

Sete Brasil Drill Ship Contracts

19. In October 2019, we announced that we had reached a full and final settlement with the Sete Brasil Group on the claims under all seven drill ship contracts signed with them in 2012.

20. Under the settlement agreement, we retain the titles to five of the seven drill ships, while ownership of the remaining two vessels in advanced construction stages is apportioned between Sembcorp Marine and Sete Brasil, according to payments we have already received from the latter.

21. The settlement agreement is subject to certain conditions precedent which have since been fulfilled. We will also be terminating our arbitration proceedings against the Sete Brasil Group as part of the settlement agreement and are now talking to a potential purchaser on completing two of the seven drill ships. We hope the negotiation will soon progress to new orders for Sembcorp Marine.

Repairs & Upgrades and Green Retrofit Solutions

22. Meanwhile, Sembcorp Marine's Repairs & Upgrades business did well in 2019, having serviced 280 vessels with an average per-vessel revenue of \$2.16 million, compared to \$1.61 million in 2018.

23. In the FSU/FSRU segment, we won five conversion and upgrading contracts, valued at \$71 million in total. These projects were among 55 LNG-related repair and upgrade jobs we received in 2019, which was a new record for the highest number of such contracts awarded to a single service provider in the global LNG segment.

24. We also landed 16 cruise ship projects last year, and with that, the Group retained its position as Asia's top vessel repair and upgrading company in the cruise segment.

25. The new IMO regulations on ballast water treatment and fuel sulphur reduction have brought good opportunities to our Repairs & Upgrades business. Over the last 18 months, we secured more than 200 orders for ballast water management system and gas scrubber retrofits, with some to be completed in 2020. These green technology retrofit solutions and related works contributed close to \$100 million of revenue in 2019.

Projects in Progress and Deliveries

26. Sembcorp Marine's projects in progress include: the Johan Castberg and Karish newbuild FPSOs; Shell Vito and Whale FPUs; Transocean drill ships; Ørsted Hornsea 2 offshore wind farm substations; Norled battery-powered roll-on/roll-off passenger (ROPAX) ferries; and the MOL LNG bunker vessel.
27. In July 2019, we completed and delivered Sleipnir, the biggest and strongest semi-submersible crane vessel ever built. Following its delivery to Heerema Offshore Contractors, the vessel with its two 10,000-tonne cranes has been in high demand for offshore installation and decommissioning jobs.
28. Our Brazilian facility Estaleiro Jurong Aracruz (EJA) handed over the P-68 FPSO to Petrobras in September 2019, successfully completing its first major project and showcasing the yard's full engineering, procurement, construction and commissioning (EPCC) capability. EJA is now executing modules fabrication and integration work for the Petrobras P-71 FPSO. Besides these two projects, the yard last year took on a number of repair and upgrade jobs for FPSOs, semi-submersibles, drill ships and other ship types.
29. In November 2019, we delivered the Q7000 well intervention semi-submersible rig to Helix Energy Solutions. This vessel combines the customer's well intervention technology with our twin-pontoon hull design optimised to reach an 11.5-knot maximum transit speed – faster than any other semi rigs in the market. With its minus 20-degree-Celsius (°C) structural design temperature, Q7000 demonstrates the Group's advanced engineering solutions for deeper, colder and harsher operating environments.

Investing in future growth

30. As the Group navigates its current business challenges, we are at the same time gearing up for the global economy's shift towards cleaner energy use, with long-term investments in innovation, technologies and expertise for developing new engineering solutions. We are also selectively adding new production capabilities, with an emphasis on optimising yard efficiency and sustainable operations.
31. Although offshore oil and gas remains our key market, offshore wind as a growing sector is opening up good possibilities for the Group. To grow our order volume in this segment, we will raise our brand awareness especially in market regions that are unfamiliar with our solutions and track record.
32. We are also developing new design solutions for the battery- and hydrogen fuel cell-powered ship segments and are ready for more projects as we work towards completing three zero-emission battery-powered ROPAX ferries for Norwegian operator Norled, to be delivered in late 2020.

33. Our strategy of embracing new innovation and technologies, developing future-ready capabilities and solutions will open up more opportunities for the Group. Although this implies certain functions like engineering are becoming fixed costs, the investment will boost our ability to cater for our customers' increasingly complex field developments.

Strengthening our operations at Tuas Boulevard Yard

34. Sembcorp Marine's new 30,000-tonne capacity gantry cranes at our flagship Tuas Boulevard Yard (TBY) will support a number of projects in 2020, including the installation of the Shell Vito FPU's 9,200-tonne assembled topside on to its hull.

35. The 30,000-tonne cranes will greatly enhance TBY's value proposition as a one-stop production centre for fabricating, assembling and installing larger, heavier and more complex projects. Mega-structures can be completely integrated before leaving TBY, instead of being transported out in several smaller parts that require further assembly and which will incur more cost and logistics for customers. We believe our superior lifting capability will be a game-changing differentiator for Sembcorp Marine's project execution.

Sharpening our sustainability focus

36. On the sustainability front, TBY in 2019 replaced over 5 gigawatt hours (GWh) of grid-supplied electricity with clean energy harnessed from the solar-roof installed at its steel fabrication facility. This helps the yard avoid about 2,400 tonnes of carbon emissions (tCO₂). To reduce our carbon footprint further, we will progressively scale up the solar power generation at TBY.

37. The Group's sustainability achievements in 2019 also included gaining DNV GL certifications that qualified our 3D printing procedures and specifications for making and restoring parts used in construction and repair projects. We will strengthen our 3D printing capability with large-format metal additive manufacturing printers that allow us to custom-make more components, lower material wastage and production lead-time, and better manage Sembcorp Marine's supply chain risks by reducing our reliance on external procurement.

38. Our 3D printing development will come under an advanced manufacturing lab at Tuas Boulevard, which we will set up soon with Singapore's Agency for Science, Technology and Research (A*STAR) for test-bedding and implementing Industry 4.0-related technologies. Other than 3D printing, this facility will look at integrated digital robotic systems, tracking of assets, materials and manpower through Internet of Things (IoT), as well as Virtual and Augmented Reality applications for production control and visualisation.

39. We are also working with DNV GL and Nanyang Technological University to research marine electric solutions for onshore, nearshore and seagoing applications. This collaboration will help us realise zero-emission energy use in offshore and marine activities.

Empowering our workforce competency, safety and sustainability performance

40. Driving the Group's business excellence is a quality-oriented workforce with the expertise and commitment to execute work effectively and safely. As we continue to optimise manpower resources according to variations in work volumes, we are making sure our employees have the right type and level of skills to deliver good productivity and safety outcomes while adapting to new and disruptive technologies introduced into our operations.

41. Our ongoing competence development covers such areas as Industry 4.0 Digitalisation Readiness, Gas and Process Training, and application-based Leadership Development for middle and senior managers.

42. In particular, up-skilling and re-skilling are important features of Sembcorp Marine's technical competence profile that enable both our employees and resident contractors to support the widening spectrum of projects in our order book. And to better achieve the increasingly complex project requirements, we will strengthen and expand the role of our engineers in developing and implementing innovative solutions.

43. In 2019, Sembcorp Marine's workforce also did well in Workplace Safety and Health (WSH). We won 24 WSH awards from various industry bodies, including the WSH Council of Singapore. Our key safety performance indicators, Lost Time Injury Rate and Total Recorded Incidents Rate, improved 25% and 34% respectively, compared to the previous year.

44. A safe, healthy and empowered workforce underpins our global competitiveness. It further reinforces our compatibility with an increasing number of customers who not only want the best solutions, but now also see contractors like Sembcorp Marine as partners of their sustainability efforts. We welcome the opportunity to create a bigger and concerted impact with our customers in environmental care, employee well-being and human rights. To take this forward, we are actively aligning customers' requirements with the Group's sustainability goals, strategies and daily practices.

Termination of Quarterly Reporting

45. With the SGX decision in January 2020 to do away with the quarterly reporting (QR) requirement for most listed companies, Sembcorp Marine will accordingly cease QR from 1Q 2020 onwards and release only the Group's half-year and full-year financial results. However, we will continue to engage our stakeholders regularly and will publish quarterly updates on key market and industry trends as well as our contract wins, projects in progress, major

company developments and other pertinent matters. We will also maintain our practice of announcing all material developments related to the Group as and when necessary.

Market Outlook

46. 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.
47. 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.

Summary

48. In summary, notwithstanding the challenging market conditions, Sembcorp Marine has continued to strengthen its capabilities and broaden its products suite and solutions to better compete for more orders. Our overall orders visibility continues to improve as we execute our existing projects with improving efficiency without compromising on quality and safety. We remain confident that Sembcorp Marine will generate long term sustainable value for our stakeholders.
49. I will now ask our CFO Cheng Tat to brief us on Sembcorp Marine's 2019 4Q and full-year financial results in detail. Thank you.

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.