



Company Registration Number: 196300098Z

Responses to Shareholders' Queries

Singapore, 6 June 2022: Sembcorp Marine Ltd (the "**Company**", together with its subsidiaries, the "**Group**" or "**Sembcorp Marine**") would like to respond to shareholders' queries on the Company's announcements on 27 April 2022 in relation to its entry into definitive agreements for the proposed combination of Sembcorp Marine and a restructured Keppel Offshore & Marine Ltd ("**Keppel O&M**") (the "**Proposed Combination**"), to create a premier global player in offshore renewables, new energy and cleaner offshore and marine (O&M) Solutions.

The Proposed Combination will involve the creation of a new combined entity (the "**Combined Entity**") through two schemes of arrangement: (i) a one-for-one exchange of Sembcorp Marine shares for Combined Entity shares and the transfer of Sembcorp Marine's listing status to the Combined Entity (the "**Sembcorp Marine Scheme**"); and (ii) the acquisition of Keppel O&M by the Combined Entity to be paid for via issuance of new shares of the Combined Entity (the "**Keppel O&M Scheme**").

Unless otherwise stated, capitalised terms used herein shall have the same meaning ascribed to them in the abovementioned announcement.

1. **Given the relative difference in book values where Sembcorp Marine's is equal to S\$4.0 billion and Keppel O&M's pro-forma book value is equal to S\$0.9 billion as of December 2021 – why is the Proposed Combination a 50:50 Enterprise Value Ratio? Can you explain how the Enterprise Value Ratio is calculated? How is this different from NAV? Were the historical financial performances of the two companies taken into account in the determination of the Enterprise Value Ratio?**

The Enterprise Value Ratio and the Equity Value Exchange Ratio were determined after considering an assessment conducted by DBS Bank Ltd., which acted as the Joint Financial Advisor to Sembcorp Marine and Keppel O&M with respect to the relative ratios assessment of Sembcorp Marine and Keppel O&M.

The 50:50 Enterprise Value Ratio reflects the equal enterprise values of the two companies, before taking into account their respective capital structures. Enterprise Value (EV) is a commonly used measure of a company's business value, while book value or Net Asset Value (NAV) refers to the net value of a company's assets on its balance sheet.

The 50:50 Enterprise Value Ratio between Sembcorp Marine and Keppel O&M was based on a discounted cash flow (DCF) methodology approach conducted by DBS Bank Ltd., as well as negotiations and due diligence by the parties.

The DCF methodology is a valuation methodology based on expected future cash flows of both businesses falling within the scope of the Proposed Combination, and was agreed to in the June 2021 Memorandum of Understanding (MOU) entered into by both companies. The DCF method also took into account the respective historical performances of the companies over the past 10 years.

The Equity Value Exchange Ratio (which will result in 44% of the Combined Entity being held by Sembcorp Marine shareholders and 56% of the Combined Entity being held by Keppel Corporation Ltd (“**Keppel**”) and its shareholders) was agreed on after due diligence and negotiations that considered the respective capital structures of the two companies (especially the different net debt levels as of 31 December 2021, being approximately S\$2.0 billion and S\$0.3 billion for Sembcorp Marine and Keppel O&M respectively), as well as other adjustments, including a S\$500 million payment by Keppel O&M to its parent, Keppel, as part of its restructuring. The negotiations and due diligence were driven by the boards and management of Sembcorp Marine and Keppel O&M.

Sembcorp Marine was advised by Credit Suisse (Singapore) Limited and Allen & Gledhill LLP, who were the sole financial advisor and legal counsel to Sembcorp Marine respectively. The Group's Board proceeded with entering into the Proposed Combination after consulting with its advisors and taking into consideration the compelling longer-term benefits of the Proposed Combination. The Board believes that the Proposed Combination will strategically position the Group in the O&M, renewable and clean energy sectors, while delivering long-term value creation for all stakeholders.

Unlike the Enterprise Value, the book value or NAV is an accounting metric capturing assets less liabilities at a certain point in time, and does not consider the expected future cash flows, current earnings and future earning potential of the two companies. For example, FY2021 reported losses were equal to S\$1,175 million for Sembcorp Marine and S\$108 million for Keppel O&M based on pro forma financials. Reported net orderbooks as of December 2021 were equal to S\$1.3 billion for Sembcorp Marine and S\$5.1 billion for Keppel O&M. The book value or NAV of the restructured Keppel O&M is thus not the most representative metric due to the multiple corporate actions as part of their restructuring.

Furthermore, it is a restructured Keppel O&M (which excludes Keppel O&M's legacy rigs and associated receivables to be sold to a separate Asset Co) that will be acquired by the Combined Entity. –The restructured Keppel O&M will have minimal external debt at the point of the combination as Keppel has equitised all its shareholder loans and perpetual securities.

Accordingly, the book value or NAV of the restructured Keppel O&M is not the most representative metric due to the multiple corporate actions as part of their restructuring.

With regard to the differences in book value between Sembcorp Marine and Keppel O&M, Sembcorp Marine has a higher book value as its yards are relative newbuilds, whereas Keppel O&M's yards are nearly fully depreciated, which lowers their carrying values.

Consequently, both companies agreed to adopt Enterprise Value, which is a fairer representation of the business value and potential of the Combined Entity, and this view was supported by the respective advisers.

Sembcorp Marine's independent directors have also separately engaged an independent valuer and an independent financial adviser in relation to the Proposed Combination. The reports of these advisers will be presented to shareholders when approvals are sought for the Proposed Combination.

2. **Can you elaborate more on the adjustments that resulted in the 44:56 (Sembcorp Marine:Keppel O&M) Equity Value Exchange Ratio? How has the S\$500 million that Keppel O&M is to pay to Keppel affected this ratio? Is not Sembcorp Marine ultimately paying for the S\$500 million cash payment? After all, while the original sum comes from Keppel O&M, this ultimately reduces the value of Keppel O&M as it enters the Combined Entity.**

The Proposed Combination is based on a 50:50 Enterprise Value Ratio between Sembcorp Marine and Keppel O&M. The 44:56 (Sembcorp Marine:Keppel O&M) Equity Value Exchange Ratio was agreed after due diligence and negotiations that took into account the respective capital structures of the two companies, as well as other adjustments, including the S\$500 million payment by Keppel O&M to its parent, Keppel, as part of its restructuring.

- The impact of the S\$500 million cash payment was considered when determining the Equity Value Exchange Ratio. In determining the Keppel O&M equity value, the S\$500 million cash payment was deducted from the Keppel O&M enterprise value.
- Sembcorp Marine is not paying the abovementioned S\$500 million cash. The S\$500 million cash is a repayment by Keppel O&M to Keppel comprising accrued interest and partial redemption of principal amounts related to certain perpetual securities previously issued by Keppel O&M to Keppel. To finance this cash component, Keppel O&M has entered into a commitment letter with DBS Bank Ltd. for financing arrangements of up to S\$500 million, subject to the satisfaction of the terms and conditions contained in the commitment letter.
- Capital structure adjustments considered in the determination of the Equity Value Exchange Ratio from the Enterprise Value Ratio included amongst others the net debt of both companies as of 31 December 2021, about S\$2.0 billion and S\$0.3 billion for Sembcorp Marine and Keppel O&M based on pro forma financials respectively.
- For the Proposed Combination, it is a restructured Keppel O&M (which excludes Keppel O&M's legacy rigs and associated receivables to be sold to a separate Asset Co) that will be acquired by the Combined Entity.

The Enterprise Value Ratio and the Equity Value Exchange Ratio were determined after taking into account an assessment conducted by DBS Bank Ltd., which acted as the Joint Financial Advisor to Sembcorp Marine and Keppel O&M with respect to the relative ratios of Sembcorp Marine and Keppel O&M. The relative ratios were based on a DCF methodology conducted by DBS Bank Ltd., as well as negotiations and due diligence by the parties.

3. **Why are Sembcorp Marine shareholders getting fewer shares in the Combined Entity than Keppel shareholders? Does this mean that Keppel shareholders are getting a better deal than Sembcorp Marine shareholders?**

The Proposed Combination is based on a 50:50 Enterprise Value Ratio, which was then adjusted to account for the respective capital structures of the two companies, as well as the S\$500 million cash that Keppel O&M will pay to Keppel, as part of its pre-combination restructuring. The number of shares to be issued as part of this transaction reflects the Equity Value Exchange Ratio of 44:56 (Sembcorp Marine:Keppel O&M).

For more information, please refer to the responses to Questions 1 & 2.

4. **Are Sembcorp Marine shareholders being diluted? How does this preserve shareholder value for Sembcorp Marine shareholders?**

Sembcorp Marine believes that the Proposed Combination, if approved by the shareholders, will be the best pathway to unlock long-term value for all stakeholders. Amid the changing global energy environment, many offshore players have sought consolidation to achieve the scale and synergies needed to become more competitive and build a sustainable order book. Sembcorp Marine holds the same view and firmly believes that all shareholders will benefit from being part of a larger Combined Entity.

- Since 2015, Sembcorp Marine has made strategic investments and acquisitions to begin aligning its businesses to the global energy transition. It has also strengthened its core engineering capabilities and aligned its R&D programmes to key market verticals, namely, offshore renewables, new energy, and clean solutions for the O&M sector. Today, Sembcorp Marine has a broad suite of sustainable and renewable product solutions.
- Sembcorp Marine is ready to take a bold step to further augment its depth and breadth of engineering and operational capabilities through the Proposed Combination – to create a pure play Combined Entity with greater scale and broader geographical footprint to capitalise on the global energy transition and advance into the cleaner and greener O&M and energy markets.
- The Combined Entity will also be in a better position to undertake the necessary R&D, investments and attract the requisite talent to compete effectively on the global stage.

On a pro forma basis, as at 31 December 2021, the Combined Entity would have a significantly larger order book comprising more than 50 projects worth about S\$6.4 billion, FY2021 revenue of S\$3.9 billion, along with improved gearing and NTA.

5. **The impact of COVID-19 is easing, and the O&M industry appears to be facing better days ahead? Would not Sembcorp Marine be better off in seizing the upturn on its own?**

The Combined Entity will create a premier global player that will be well-positioned to capture opportunities in the US\$260 billion offshore renewables market, as well as the US\$290 billion O&M sector.

The O&M sector has faced a prolonged and severe downturn, following oil price weakness since 2015 and a sudden collapse in 2020. The difficult conditions were exacerbated by a rapid global transition away from oil towards renewables and clean energy, as well as significant disruptions during the COVID-19 pandemic, including acute manpower shortages.

Amid this downturn, competition for a shrinking pool of projects has intensified, contributing to an increased level of debt across the industry and necessary equity issuances to strengthen financial positions. Industry players have had to compete intensely for a slice of the shrinking O&M pie, contributing to an increased level of debt across the industry and necessitating fund-raising efforts to shore up their balance sheets.

Even as conditions in the O&M sector are improving, the long-term outlook is shifting, given the global energy transition. With many players having sought consolidation to achieve the scale and synergies to become more competitive, it is imperative that Sembcorp Marine remains competitive and in a position to play a significant role in the energy transition.

Through the Proposed Combination, Sembcorp Marine will be better positioned, both operationally and financially, to weather future market volatility and capture growth opportunities.

6. With the Proposed Combination you talked of bidding for larger projects. Can you give a quantum i.e., can you give us a sense of your current project size and how will this grow post combination?

On a pro forma basis, as at 31 December 2021, the Combined Entity would have a significantly larger order book of more than 50 projects worth about S\$6.4 billion – this comprises Sembcorp Marine’s order book of S\$1.3 billion and the restructured Keppel O&M’s order book of S\$5.1 billion.

As at 31 March 2022, Sembcorp Marine’s net order book stands at S\$1.75 billion. This consists of S\$1.51 billion of projects under execution (with a total original contract sum of S\$5.45 billion) and S\$0.24 billion of ongoing Repairs & Upgrades projects.

Post-Combination, the Combined Entity will be able to leverage the combined technical and engineering abilities, as well as in-house design and R&D know-how, to expand its suite of technological capabilities. These, together with the much-expanded combined yard capacity, would allow the Combined Entity to carry out a wider scope of work and more complex projects.

For more information, please refer to Sembcorp Marine Announcement Presentation dated 27 April 2022.

7. What are the plans for the Combined Entity if the Keppel O&M Scheme does not proceed?

The Board and Management of Sembcorp Marine believe that the Proposed Combination, if approved by the shareholders, will be the best pathway to unlock long-term value for all stakeholders.

While the Sembcorp Marine Scheme is separate from and not contingent on the Keppel O&M Scheme, Sembcorp Marine can only achieve the benefits from the Proposed Combination if the Keppel O&M Scheme is approved by the respective shareholders.

As a standalone entity, Sembcorp Marine can continue to pursue its normal course of business and operations. However, it will not be able to benefit from greater scale and synergies from the larger operational scale, broader geographical footprint and enhanced capabilities that the Proposed Combination is expected to bring to the Combined Entity. Such scale and synergies will allow it to compete effectively amidst the global energy transition, as well as to capitalise on the growing opportunities in the renewable and clean energy sectors.

Through the Proposed Combination, the Combined Entity will be better positioned to undertake the necessary research and development, as well as investments that would allow it to attract and retain talent that will be critical for its future growth.

Most importantly, the Proposed Combination will allow Sembcorp Marine to accelerate its strategic transformation towards becoming a premier global player with a deep engineering heritage that provides offshore renewables, new energy and cleaner solutions in the O&M sector.

8. Why are the financial statements of Keppel O&M being prepared on a pro forma basis? Is this optimisation to derive a better Equity Value Exchange Ratio?

The pro forma financial statements of Keppel O&M represent the relevant assets and liabilities that will be transferred to the Combined Entity as part of the Proposed Combination and excludes the Keppel O&M legacy rigs and associated receivables, as well as certain out-of-scope assets comprising mainly Keppel Floatel International Ltd (Floatel) and Dyna-Mac Holdings Ltd (Dyna-Mac) that will be retained by Keppel and excluded from the Proposed Combination.

These assets, in particular, Floatel and Dyna-Mac which are loss-making entities, are incongruent with the rationale for the Proposed Combination. The exclusion of these non-core assets from the scope of the Proposed Combination is beneficial to the Combined Entity as the Combined Entity will be free of legacy assets.

9. When will the EGM to vote on the Sembcorp Marine Scheme and the Keppel O&M Scheme be convened?

The extraordinary general meeting (EGM) for Sembcorp Marine shareholders to vote on the Sembcorp Marine Scheme and the Proposed Combination via Keppel O&M Scheme is expected to be convened in the fourth quarter of 2022.

Prior to that, both Sembcorp Marine and Keppel would need to undertake and comply with anti-trust and other processes in consultation with the relevant regulatory bodies in the various jurisdictions in which both companies have operations.

As a significant shareholder of both Sembcorp Marine and Keppel, Temasek has given its full support for the Proposed Combination. Temasek agrees that the Proposed Combination will be transformational for both O&M companies, while reinforcing Singapore's position as both a maritime and O&M hub.

Temasek joins both companies in asking for the support of their shareholders for the Proposed Combination as they believe that it is the best way to deliver long term value creation for shareholders and other stakeholders.

Temasek will abstain from voting in both Schemes and all other resolutions relating to the Proposed Combination. This means that minority shareholders will decide on all the resolutions relating to the Proposed Combination.

10. Will Keppel Corporation continue to be a competitor to the Combined Entity post-closing?

As outlined in the Proposed Combination Announcements, subject to the completion of the Proposed Combination, Keppel has undertaken to Sembcorp Marine and the Combined Entity that it shall not for three years following the completion of the Proposed Combination, directly or indirectly carry on any of the following businesses:

- provision of design, engineering, procurement, construction (including full EPC or EPCIC), installation and/or commissioning of all vessels, rigs, platforms, modules and structures for use nearshore or offshore;
- repair, upgrades, conversion of all vessel types, rigs, platforms, or units and structures for use nearshore or offshore; and

- shipyard operations and the provision of ancillary services to shipyards generally,

provided that Keppel is not prohibited from any development, design, engineering procurement, operation and maintenance, and/or investment in near-shore infrastructure, such as near-shore power solutions, waste-to-energy, water treatment and desalination plants, data centres, floating cities and coastal defence.

As disclosed in the Company's announcement dated 27 April 2022, all the yards owned by Keppel are to be transferred to the Combined Entity.

In addition, Asset Co and Keppel O&M will enter into a master services agreement under which the Combined Entity, through Keppel O&M, will provide construction, berthing and maintenance, and other associated services for the legacy rigs held by Asset Co for an initial period of 10 years.

As and when suitable opportunities arise, the Combined Entity and Keppel will be open to exploring possible collaboration in areas such as floating data centres and floating infrastructure solutions. This would translate into more growth opportunities for the Combined Entity.

11. Should the shareholders expect any change in the exchange ratio by the time of the EGM due to the passage of time and updated financial performance of both companies?

No, the exchange ratio will not be adjusted and is independent of the respective performances of the companies. However, there are provisions in place to safeguard Sembcorp Marine from contingent liabilities and other material adverse events should these arise.