



Company Registration Number: 196300098Z

Proposed Combination of Sembcorp Marine Ltd and Keppel Offshore & Marine Ltd

Response to Questions from SIAS

Unless otherwise stated, capitalised terms used herein shall have the same meaning ascribed to them in the Circular dated 31 January 2023 on the Proposed Combination.

Singapore, 11 February 2023: Sembcorp Marine Ltd (the “**Company**” or “**Sembcorp Marine**”, together with its subsidiaries, the “**SCM Group**”) has received a list of questions from the Securities Investors Association (Singapore) (SIAS) in relation to its Circular dated 31 January 2023 on the Proposed Combination (the “**Circular**”). The Company’s responses to these questions are set out below.

Q1. In disregarding the "NAV approach", how robust is the IFA's opinion given the seller-appointed IFA had carried out a P/NAV comparison of the comparable companies?

The IFA’s Letter to the Independent Directors of the Company is attached in its entirety as **Appendix A** of the Circular.

The IFA had in fact also considered the NAV approach, as well as other valuation approaches (see paragraph 7.2(c) of the IFA Letter).

However, the IFA expressed this view:

“We are of the view that it is not meaningful to evaluate the reasonableness of the consideration for the proposed acquisition of the Restructured KOM Group based solely on the NAV or net asset backing valuation approach, in view of the different capital structure of a privately held company (with respect to KOM) compared to a publicly listed company (with respect to SCM).”

The IFA Letter also outlined their methodology in evaluating the transaction, and the multiple factors considered, including:

- Rationale for the Proposed Combination;
- Assessment of the consideration for the Restructured KOM Group;
- Assessment of the Issue Price for the KOM Consideration Shares;
- Dilution impact on existing SCM Shareholders; and
- Other relevant considerations.

Shareholders are encouraged to read carefully the IFA Letter and its recommendations, and the Independent Directors’ Recommendation in conjunction with the full text of the Circular.

Q2. What is the estimated amount of goodwill that will be created because of the Proposed Combination?

Q3. How confident is management that the goodwill will not be impaired in the near future? Is there a risk that SCM is paying Keppel upfront all the expected benefits of the recovery and the merger while holding on to all the execution and market risks?

The question of goodwill arising from the Proposed Combination is discussed in paragraph 5.2.5 of the Letter to Shareholders of the Circular, and in page C-8 of Risk Factors in Appendix C of the Circular, namely: “There may be substantial goodwill arising from the Proposed Combination, which if subject to an impairment charge, may adversely affect the Enlarged Group’s financial performance”.

The actual amount of goodwill can only be determined after a purchase price allocation exercise is completed, which takes into account the difference between (a) the fair value of the net identifiable assets acquired and liabilities assumed and (b) the actual amount of the consideration for the Proposed Combination (calculated based on the number of KOM Consideration Shares and the prevailing market price of the SCM Shares on the Closing Date).

However, in the compilation of the Unaudited Pro Forma Financial Information of the Enlarged Group, presented in Appendix L to the Circular, provisional goodwill amounts of S\$3.596 billion as at 31 December 2021 and S\$3.433 billion as at 30 June 2022 were used (see Note 5, page L-34). Shareholders should note that these figures are for illustrative purposes only, and that the actual figure can only be determined when the purchase price allocation and acquisition accounting are performed after the completion of the Proposed Combination.

On possible impairment of goodwill in future years, this will depend on the performance of the Enlarged Group going forward. The Company is not able to provide any forecasts on this.

Shareholders should note that goodwill is not amortised but is reviewed for impairment at least annually.

As for risks and expected benefits, this can cut both ways in all transactions. If the synergies from the Proposed Combination are achieved, the expected benefits could potentially outweigh the risks. Similarly, if the risks described in the Risk Factors in Appendix C of the Circular materialise, this could potentially have a material and adverse impact on the Enlarged Group.

Q4. In addition, the board of SCM will be re-constituted (with all but one current SCM director retiring from the board). Mr Chris Ong Leng Yeow, the current CEO of KOM, will be appointed as the new CEO of the enlarged SCM. Is there a lack of continuity and where is the accountability given that all the major decision makers of SCM leading up to the acquisition of KOM will no longer be in the enlarged entity after the acquisition?

(Q5. See below)

Q6. Given that all but one of the directors of SCM have indicated that they would leave the board if the acquisition is successful, what assurance can the board give to the shareholders on the composition of the new board? Do the directors feel that the acquisition of KOM will turn out to be successful?

This year marks the 60th anniversary of SCM. Over these six decades, the Company has taken strategic steps to evolve and transform. From its humble beginning in ship repairs, the Company is today internationally recognised as an innovative solutions provider in the offshore, marine and renewable energy sectors.

The Board believes that the Company has to consider taking the next strategic steps to ensure that it continues to thrive. The Board believes that the Proposed Combination is the best and most compelling way forward for Sembcorp Marine to unlock long-term value for all of its stakeholders.

A key issue is the proposed re-constitution of the Board. This response will cover the following:

- Rationale for Re-constitution of the Board
- Change versus Continuity
- Accountability and Assurance

Rationale for Re-constitution of the Board

To recap, the Company's Chairman, Tan Sri Mohd Hassan Marican, joined the Board in 2011 and was appointed Chairman from 2014. During his nine-year tenure as Chairman, he led the Board and Management in shaping the strategic vision for the Company. During his Chairmanship, the Company also achieved the following:

- weathered the longest down cycle in the O&M industry from 2015 and the unprecedented COVID-19 pandemic, and navigated the energy transition to offshore renewables;
- successfully concluded two rights issues which helped to strengthen the Company's balance sheet;
- post COVID-19, successfully delivered all outstanding key projects to its customers' satisfaction;
- developed a state-of-the-art integrated yard at Tuas South Boulevard, a major milestone in the Company's growth and expansion strategy;
- diversified its suite of engineering solutions beyond traditional oil and gas to renewables and new energy;
- established close partnerships with global industry leaders.

The Company is now well-positioned for the Proposed Board to steward the Enlarged Group to greater heights on completion of the Proposed Combination.

The Enlarged Group will further accelerate the strategic transition into offshore renewables, new energy and cleaner O&M solutions. This will require new perspectives and competencies at the Board level and across the organisation.

Change versus Continuity

Having positioned the Company for its next strategic move, and if Shareholders approve the Proposed Combination, the Company will have to weigh the pros and cons of continuity versus change at the board level.

If the Proposed Combination is approved, this would be an opportune time for the Board to be re-constituted.

Continuity is expected to be preserved at the board level with Mr Yap Chee Keong (who joined the Board in 2021 as a Non-Executive Independent Director and Deputy Chairman of SCM) and Mr Chris Ong (currently a Director and CEO of KOM since 2017) being

members of the Proposed Board. Mr Wong Weng Sun, the President & CEO and Director of SCM since 2009, will continue to support the Enlarged Group as a Senior Advisor to the Proposed Board.

Upon completion of the Proposed Combination, the rest of the Board will step down to allow for the re-constitution of the Board to bring new perspectives and competencies to the Enlarged Group.

Information on the working experience, qualifications and particulars of the Proposed New Directors (including the Proposed Chairman and Proposed CEO) is set out in paragraph 2 of **Appendix F** to the Circular.

The Proposed Board will be chaired by Mr Mark Gainsborough, an experienced global business leader working in the field of energy transition and renewable energy. Mr Gainsborough spent 39 years with Royal Dutch Shell where he held various senior appointments. He brings to the Proposed Board his extensive experience in the field of energy transition, with deep expertise in renewables and new energy solutions.

The composition of the proposed re-constituted Board will be in compliance with the relevant practice guidance under the Code of Corporate Governance 2018. The Proposed New Directors will seek re-election at the Company's next AGM on 26 April 2023, if completion of the Proposed Combination occurs before then and the Proposed New Directors are appointed to the board. The Proposed Board will also be augmented as and when there are further suitable candidates who can add new perspectives and competencies to the Enlarged Group.

Accountability and Assurance

The Board believes that in light of the compelling strategic rationale, the Proposed Combination will be beneficial to stakeholders of the Enlarged Group.

The present Board has spent considerable time and resources in getting the Proposed Combination to this point. The Board is unanimous in supporting the Proposed Combination. All Directors have recommended that shareholders vote in favour and will be voting in favour of the resolution at the EGM.

As a significant shareholder of both SCM and KCL, 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 has joined both companies in asking for the support of their shareholders for the Proposed Combination as they believe it is the best way to deliver long term value creation for shareholders and other stakeholders.

Q5. Has the board critically reviewed the performance of management in the past 2-5 years? If so, is the board fully satisfied and confident that the management team is able to navigate the competitive landscape as a standalone entity?

In addition to setting the mission, vision and values of the Company and its strategic objectives, the Board provides guidance to Management and reviews Management's performance regularly.

Since the start of the industry downturn in 2015 and the subsequent COVID-19 pandemic, the Board has worked much more closely with Management to jointly navigate the industry challenges. A key challenge was to ensure that the Company's projects, many of which

involved complex technical specifications, are completed and delivered on time to meet customers' requirements.

While several key projects were delayed and were not profitable, the Board recognised that Management did its utmost to achieve project completions with no project cancellations.

Management has:

- strengthened its close customer relationships at key levels and its international reputation;
- successfully secured a pipeline of new projects worth approximately S\$7 billion in 2022;
- continued to transform the SCM Group to stay relevant to the energy transition.

This is testament to the leadership, commitment and teamwork of the SCM Management team. The Board is confident that the Management team is able to continue to navigate the competitive industry landscape

The Company would like to highlight the key rationale for the Proposed Combination is a strategic one. Shareholders should read paragraph 3 of the Circular, particularly paragraph 3.3 below:

"If the Proposed Combination does not proceed, as a standalone entity, SCM 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. Instead, as a standalone entity, SCM would have to navigate an even more competitive landscape where many offshore players have sought consolidation or were otherwise challenged by the radically changed fundamentals of the business and needs of customers. The challenging and competitive global operating environment coupled with additional upward pressure on inflation and various other factors, including the pace of recovery in the O&M sector and the continued impact of COVID-19, may weigh on the SCM Group's overall liquidity, and there is no assurance that as a standalone entity, the SCM Group would continue to receive the necessary support from its banks, financiers and significant shareholder, Temasek."

(Q7. There was no Question 7 in the SIAS list)

Q8. As part of a robust risk management framework, did the board pro-actively seek the continued support of its financiers and significant shareholder REGARDLESS of the outcome of the EGM vote? If not, why not?

Yes. The Board and Management engaged SCM's banks, financiers and significant shareholder to ascertain and seek their support in the event of either outcome of the EGM vote on the Proposed Combination.

Q9. What levers are available to SCM to help to facilitate the market to function efficiently post-DIS by Keppel and that the DIS will not distort the share price of SCM?

Shareholders should note that the SCM Shares have never been traded on an enlarged group basis and there can be no assurance that an active trading market for the SCM Shares will develop or, if developed, will be sustained. Please refer to the Risk Factor "The Price of the SCM Shares following completion of the Proposed Combination may fluctuate

and may be affected by factors different from those currently affecting SCM Shares” in Appendix C of the Circular.

However, as stated in paragraph 9.3 of the Circular, Temasek, through Startree, will remain the single largest shareholder of SCM holding 35.5% of SCM and it is expected that no other single shareholder will hold more than 15% of the issued share capital of SCM.

Shareholders should also note this statement in paragraph 9.3 of the Circular:

“Startree has undertaken to comply, and will procure that Temasek will comply, with the applicable moratorium requirements imposed by the SGX-ST to maintain (i) for a period of six months following the Closing Date, 100 per cent. of its effective interest in SCM as at completion of the Proposed Combination; and (ii) for the six-month period thereafter, 50 per cent. of its effective interest in SCM as at completion of the Proposed Combination.”

The Board and Management of the Enlarged Group can be expected to continue to actively engage its shareholders and other external stakeholders so that the strategy, challenges, opportunities and financial performance of the Enlarged Group are well understood.

Q10. With 68.2 billion issued shares if the acquisition is approved, when will the company be in a position to declare a meaningful dividend?

Any dividend distributions will ultimately be a function of the Enlarged Group’s profits and distributable reserves, as well as ongoing operating cashflow and investment requirements.

The Company is unable to provide any guidance on future dividend distribution at this point in time.

Q11. The EGM does not appear to be in line with the current guidelines set by MOH and the government? What are the safeguards to ensure that all relevant questions asked during the virtual EGM are answered before the resolution is put to vote? Is the company appointing an independent moderator to manage the online Q&A?

The holding of a virtual EGM is in line with the guidelines set by the relevant government agencies as at the time of issuance of the Circular.

Several options were considered within the approved guidelines prescribed by the relevant government agencies. A key consideration was the large number of SCM shareholders.

In deciding on a virtual EGM, the Company had to consider the prospect of any COVID-19 exigencies, even though the COVID-19 situation has improved.

However, Shareholders should note that they can participate in the SCM EGM by observing and/or listening to the SCM EGM proceedings via live audio-visual webcast or live audio-only stream and voting at the SCM EGM live.

Please refer to the EGM Notice and the accompanying announcement dated 31 January 2023 for details.

As in all EGMs, the SCM Chairman, who will chair the EGM, will ensure that all relevant and substantive questions are responded to before the resolution is put to a vote.