

## **Sembcorp Marine 1Q 2016 Results Briefing - CEO Address**

### **Greetings**

1. Good evening ladies and gentlemen, a warm welcome and thank you for dialling in for the teleconference this evening for Sembcorp Marine's 1Q 2016 results briefing.
2. For this results briefing, I will give a review of our performance in light of the ongoing challenging macro environment; and share some of the key developments during the quarter.

### **Macro Environment – market equilibrium pushed out further**

3. The upstream oil and gas industry is now well into its second year of weak prices and capex cuts following the collapse of oil prices since the second half of 2014. Offshore rig charter contracts continue to be negotiated at lower levels and utilisation remains on a downtrend for all rig segments.
4. Hopes of market equilibrium for global oil demand and supply have been pushed out further in the horizon as the April OPEC and non-OPEC producers meeting in Doha failed to reach an agreement for a production freeze. The recent oil price rally appears to be fizzling out and Sembcorp Marine maintains its cautious outlook in the midst of such continued volatility and uncertainty.

## **Financial Performance for 1Q 2016**

5. Despite the challenging business environment, our overall financial performance for the quarter has been reasonably robust and profitable:
  - Revenue of S\$918 million for 1Q 2016, compared with S\$1.3 billion for 1Q 2015.
  - Net Profit of S\$55 million for 1Q 2016, compared with S\$106 million in 1Q 2015.

## **Sete Brasil update**

6. In Brazil, the political upheavals remain unabated, with the ongoing process to impeach the Brazilian President. Such development and the deteriorating economy have contributed to the ongoing volatility and uncertainty of the situation in Brazil.
7. Sembcorp Marine has announced on 22 April, 2016 that the Group has been informed by Sete Brasil that its shareholders had approved a resolution to file for judicial recovery. As such, we have commenced arbitration proceedings against various subsidiaries of Sete Brasil to preserve our interests under the Sete Brasil contracts. We have also had preliminary conversations with Sete Brasil.
8. The Group had in the last financial year made provisions of S\$329 million for the Sete Brasil contracts. We believe that the provisions remain sufficient under the present circumstances.

## **Delivery delays of other drilling rigs**

9. Our subsidiary PPL Shipyard (“PPLS”) had on 1 December 2015 terminated the Contract with Marco Polo Drilling (I) Pte Ltd (“MPD”) after MPD failed to make the 2<sup>nd</sup> payment of 10% of the Contract Price of US\$21.43 million by 30 November 2015.

PPLS then commenced an action in the Singapore High Court on 1 December 2015 against Marco Polo Marine Ltd (“MPM”), the parent company and guarantor of MPD, for the amounts due under the Contract. PPLS also started arbitration proceedings on 7 April 2016 against MPD.

On 22 April 2016, MPM obtained a stay of proceedings in the High Court action. This decision did not mean that the action was dismissed, but that the Court ruled that we needed to refer the claim to arbitration. This is a procedural ruling and does not decide on the merits of our claim against MPM. PPLS will pursue the claim either by way of an appeal against the stay to continue the action in the High Court or pursue the claim at the arbitration proceedings.

The arbitration proceedings commenced by PPLS against MPD are not affected by the stay and will continue.

10. The rest of our completed rigs with deferment requests have all been technically accepted by our customers and we have arrived at or are finalising mutually acceptable solutions with them.
11. The Group has in the last financial year made provisions of S\$280 million (in addition to the S\$329 million provisions for the Sete Brasil contracts) in case of prolonged deferment or possible cancellation of rigs. We believe that the provisions are sufficient under the present circumstances.

## **Deliveries and other activities during 1Q 2016**

12. We delivered our first vessel for the year - the Safe Zephyrus - to Prosafe at the end of January. The Group also successfully delivered the FPSO Ghana Ten to Modec during the quarter.
13. Our non-drilling solutions segments continue to be active with the striking of steel to build the world's largest semi-submersible crane vessel for Heerema, and commencement of construction for Maersk Oil's harsh environment topside modules for operations in the UK North Sea.
14. We continue to perform repairs and upgrades for a steady stream of vessels.
15. For the three months to March 2016, Sembcorp Marine has secured S\$60 million in new orders for LNG modules fabrication. With these new contracts, the Group's net order backlog as at 31 March 2016 stands at S\$9.7 billion, with deliveries extending into 2020. We expect to continue to grow our order book.

## **Outlook and Prospects**

16. Sembcorp Marine believes this down-cycle is likely to be more protracted than in previous cycles. The Group continues to take necessary measures to overcome these challenges, and also lay stronger foundations for the future when the market recovers.
17. On March 9, 2016, we had announced our acquisition of an additional 44% equity stake in Gravifloat AS for US\$38 million, bringing our total stake to 56%. Under the agreement, we will eventually increase our stake to 100% through an equity purchase at the same price. Our increased stake underlines our confidence in Gravifloat designs to provide globally competitive solutions for our customers. It also reflects our strategy to broaden and deepen the Group's range of proprietary designs and solutions; in this case, to develop

innovative infrastructure solutions for the fast evolving LNG and LPG industries.

18. In terms of headcounts, the Group continues to rigorously evaluate its labour requirements. Given the reduced work volume for our drilling segment, we have reallocated a significant number of such headcounts to our non-drilling segments, where production activities remain high. We have also allowed natural attrition and removal of less efficient sub-contractors. For Brazil EJA yard, in light of the latest developments at Sete Brasil, we may see further reduction in our present headcounts. While we continue to rigorously manage our labour costs, we remain mindful of preserving our longer term workforce sustainability.

19. The Group will continue to actively manage its balance sheet to maintain a healthy financial position. We believe our current gearing level is manageable and we expect it to improve in the course of the year. We remain focused on the timely and effective execution of our current healthy order book of S\$9.7 billion and are confident of the longer term fundamentals of the offshore and marine industry. We believe our investments in new facilities and capabilities, such as Gravifloat, will enable us to deliver sustainable returns for the Group and its shareholders.

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.*