

Marine



Total Net Orderbook
S\$6.2 billion

Contracts Secured in 2018
S\$1.2 billion

A leading industry player providing innovative engineering solutions to the global offshore, marine and energy industries, drawing on more than 50 years of track record



Far left to right:
Kaombo Sul, the second of two FPSO conversion projects delivered to Saipem for the Kaombo project in offshore Angola
With 10 projects delivered, Sembcorp Marine was Asia's top cruise ship repair and upgrade solutions provider in 2018
Sembcorp Marine Admiralty Yard in Singapore has a proven track record in the sectors of tankers, bulk carriers as well as container and cargo vessels

Competitive Edge

50 Years of Proven Track Record

A global leader in integrated offshore, marine and energy solutions with more than 50 years of experience

Diversified and Innovative Solutions

Able to offer diversified and innovative engineering solutions across the offshore, marine and energy value chain

Enhanced Capabilities

Established capabilities in rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding, and enhanced capabilities to serve the gas value chain

Global Network

Strategically located shipyards and facilities in Singapore, Indonesia, Norway, the UK, the US and Brazil

Marine Review

Performance Scorecard

Financial Indicators (\$ million)

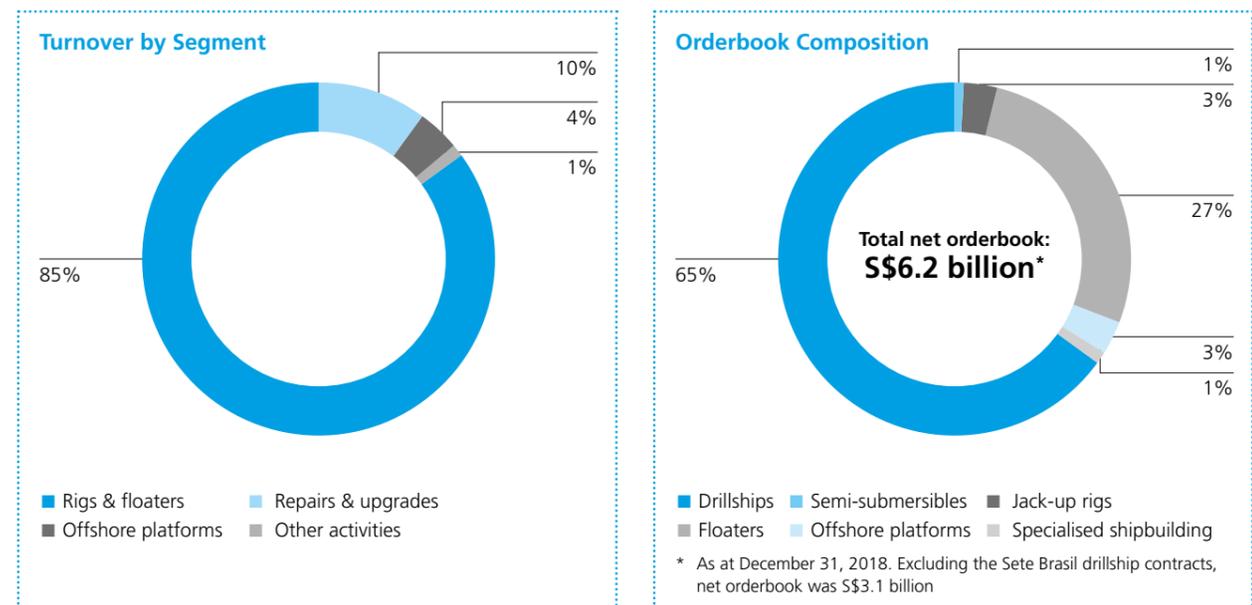
	2018	2017*	Change (%)
Turnover	4,888	3,035	61
Earnings before interest, tax, depreciation and amortisation (EBITDA) ¹	148	522	(72)
Profit / (Loss) from operations	(55)	354	NM
– Earnings / (Loss) before interest and tax	(53)	358	NM
– Share of results: Associates & JVs, net of tax	(2)	(4)	(50)
Net profit / (loss)	(74)	260	NM
Return on equity (%)	(3.1)	11.1	NM

Note: Figures taken at Sembcorp Marine level

¹ EBITDA excludes major non-cash items such as the effects of fair value adjustments, re-measurements, impairments and write-offs

Operational Indicators (\$ billion)

	2018	2017*
Total net orderbook	6.2	8.4



Key Developments



Secured an order for the construction and integration of hull, topsides and living quarters for Shell's Vito semi-submersible FPSO



Secured a contract for the EPC of newbuild hull, living quarters and topside modules for TechnipFMC's FPSO



Signed an agreement with Varg for EPC works related to the modification, repair and life extension of the Petrojarl Varg FPSO



Successfully moved into renewable energy engineering solutions with two project wins from Ørsted Wind Power and Norled

Operating and Financial Review

Challenging operating environment

2018 was a challenging year for the Marine business. Despite the moderate uptrend in offshore rig utilisation and increased day rates for most segments, competition remained intense and work volume was significantly below peak levels.

Turnover was S\$4,888 million, 61% higher than the S\$3,035 million in 2017. On a segmental basis, turnover for Rigs & Floaters was higher due to revenue recognition on delivery of seven jack-up rigs to Borr Drilling, one jack-up rig to BOT Lease (BOTL), the sale of a semi-submersible rig and revenue recognition for newly secured projects. Offshore Platforms revenue was lower due to fewer contracts and completion of existing contracts. Turnover for the Repairs & Upgrades segment was lower as fewer ships were repaired. Despite fewer ships serviced during the year, the average

Turnover (\$ million)

	2018	2017*	Change (%)
Rigs & Floaters	4,148	1,717	142
Repairs & Upgrades	476	499	(5)
Offshore Platforms	184	732	(75)
Other Activities	80	87	(8)
Total	4,888	3,035	61

* In accordance with SFRS(I). Please see page 28 for details

revenue per vessel increased due to an improved vessel mix of higher-value works.

Excluding the effects of the delivery to Borr Drilling and BOTL and the sale of the semi-submersible rig, turnover in 2018 would have been S\$2,530 million compared to S\$2,550 million in 2017.

* In accordance with SFRS(I). Please see page 28 for details

Marine Review

The Marine business recorded a loss from operations of S\$55 million compared to profit from operations of S\$354 million in 2017. The business posted a net loss of S\$74 million compared to net profit of S\$260 million in 2017 mainly due to continued low overall business volume and loss from the sale of a semi-submersible rig, partially offset by margin recognition from new projects and delivery of rigs.

Entire inventory of 10 rigs fully monetised

In addition to the sale of nine Pacific Class 400 jack-up rigs to Borr Drilling in 2017, the Marine business completed the sale of the *West Rigel* semi-submersible rig (renamed *Transocean Norge*) for US\$500 million in 2018. With this, the entire inventory of 10 rigs has been fully monetised.

The Marine business has delivered all nine rigs to Borr Drilling. One rig was delivered in November 2017, seven in 2018 and the final one in January 2019. Borr Drilling had made a down payment of about US\$500 million upon signing the sale agreement, while the balance will be paid within five years from the respective delivery dates of the rigs. The liquidity of the business will further improve over the next five years as the business collects the remaining proceeds of approximately S\$1.2 billion from the sale of these 10 rigs.

Placing priority on effective and timely project execution and securing orderbook

While the overall industry outlook continues to improve, significant time and effort for project co-development with

potential customers are required before new orders are secured, and competition remains intense.

At the end of 2018, the Marine business' net orderbook stood at S\$6.2 billion, with completions and deliveries stretching to 2021. Excluding the Sete Brasil drillships, net orderbook stood at S\$3.1 billion. The majority of projects in the current net orderbook are based on progress payment terms.

A total of S\$1.2 billion in new contracts was secured during the year. These included the engineering, procurement and construction (EPC) of newbuild hull, living quarters and topside modules for TechnipFMC's newbuild floating production storage and offloading (FPSO) and a contract from

Shell Offshore for the construction and integration of the hull, topsides and living quarters for the *Vito* semi-submersible floating production unit (FPU). Sembcorp Marine also secured two projects for renewable energy engineering solutions worth over S\$200 million from Ørsted Wind Power and Norled. These projects are for the EPC, hook-up and commissioning works of two topsides for the Hornsea 2 Offshore Wind Farm, one of the world's biggest wind farms when operational in 2022, as well as the design and construction of three identical battery-powered RoPax ferries which will be built based on Sembcorp Marine's proprietary design by its subsidiary LMG Marin.

In addition to the S\$1.2 billion in new orders above, the Repairs & Upgrades segment also secured S\$160 million of orders for the retrofitting of ballast water treatment systems and / or gas scrubbers for 58 vessels in 2018.

Notable Deliveries in 2018



Delivered to MODEC, the newbuild FPSO *Ailisa* is the world's first with a 40-year hull lifespan



The converted *Kaombo Norte* (pictured) and *Kaombo Sul* FPSOs were successfully delivered to Saipem



Delivered to TOTAL, this project involved the construction of wellhead, utilities and living quarters as well as central processing facility (pictured), for deployment in the Culzean field in the UK North Sea



Eight jack-up rigs were delivered to Borr Drilling and BOT Lease in 2018

Making good progress on ongoing projects

The business continued to make good progress on its ongoing construction projects. These include the engineering and construction of *Sleipnir*, the world's largest semi-submersible crane vessel for Heerema, and the construction of two high specification ultra-deepwater drillships for Transocean. Engineering and initial works also commenced for the construction and integration of the newbuild FPSO hull and living quarters for Equinor (formerly Statoil) for the Johan Castberg field development, the hull, topsides and living quarters for Shell's *Vito* FPU and the turnkey newbuild FPSO project for TechnipFMC. Meanwhile, hull carry-over works as well as topside modules construction and integration for the FPSO *P-68* and topside modules construction for FPSO *P-71* for the Tupi project are underway at the Brazil yard.

Enhancing intellectual assets and competencies

To enhance the business' capabilities in green technology solutions, Sembcorp Marine increased its shareholdings in Semb-Eco in January 2019 and will acquire five groups of core patents in ballast water treatment, exhaust gas cleaning, bio-fouling control and corrosion control.

In September 2018, the business further expanded its capabilities with the acquisition of Sevan Marine's intellectual property rights, particularly in cylindrical platform solutions for floating production and drilling. The strategic acquisition of Sevan Marine, together with prior investments in Sembmarine SSP, LMG Marin, Gravifloat and Aragon, will further enhance Sembcorp Marine's intellectual assets and knowledge base, as well as design and engineering capabilities to provide innovative products and leading-edge solutions for the offshore, marine and energy industries.

Yard capacity management

As part of Sembcorp Marine's transformation and yard consolidation strategy, the business will continue to consolidate and maximise the utilisation of its integrated Tuas Boulevard Yard, while reviewing the schedule for the return of older yards in Singapore on or before their lease expiry dates. To date, Sembcorp Marine has returned the Pulau Samulun Yard to the Singapore government, with two other yards in the process of being returned. Sembcorp Marine is scheduled to move out completely from the Tanjong Kling Yard by the end of 2019, four years ahead of schedule. This will result in an accelerated depreciation of the lease and certain fixed assets over 15 months starting from the fourth quarter of 2018 but will lead to cost savings from 2020.



The Tuas Boulevard Yard strengthens Sembcorp Marine's value proposition as a one-stop solutions provider offering optimal production efficiency, cost-effective execution and shorter project delivery times

Diversifying Product Capabilities

Moving up the value chain



Sevan SSP: Innovative circular hull as a cost-effective alternative to traditional ship-shaped, turret moored designs



LMG Marin: Advanced ship design and engineering



Gravifloat: Modularised liquefied natural gas and liquefied petroleum gas terminals

Continuing disciplined financial management

Financial prudence and discipline continue to remain key considerations for the business in the face of a prolonged cyclical downturn. While the majority of ongoing contracts and new orders secured are on progress payment terms, future new orders may have increased working capital needs as the industry continues to adapt to changing business models and constrained capital availability.

Capital expenditure is expected to be moderate in the future and will primarily be for the execution of secured contracts, realisation of cost savings or enhancement of project execution capabilities. Non-essential capital expenditure will be deferred.

Outlook

Overall business volume and activity for the Marine business, while stabilising, is expected to remain relatively low. While offshore drilling activities have increased, offshore rig orders will take some time to recover as the market remains over-supplied. However, offshore production units are expected to dominate potential orders and Sembcorp Marine is responding to increasing enquiries and tenders for innovative engineering solutions.

Sembcorp Marine will continue to take steps to manage costs, cash flows and gearing to address the balance sheet and to capitalise on new business opportunities.