Operating and Financial Review

MARINE

Competitive Edge

- A global leader in integrated offshore and marine solutions with more than 50 years' proven track record
- Able to offer diversified, innovative solutions across the offshore and marine value chain, both within and beyond the oil and gas sector
- Established capabilities in rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding, and enhanced capabilities to serve the gas value chain
- Global network of strategic locations in Singapore, Indonesia, the UK and Brazil

Total Net Orderbook

S$7.6 billion

Clockwise from left:

FPSO Pioneiro de Libra, Sembcorp Marine's first full engineering, procurement and construction FPSO conversion

The Sembcorp Marine Tuas Boulevard Yard in Singapore is equipped with berthing and docking facilities for mega-sized vessels, deep-draft rigs and one of the largest and most advanced steel fabrication facilities in the region

Good progress is being made on the construction of topsides for Maersk Oil, which are to be deployed for harsh-environment operations in the UK North Sea upon completion

Contracts Secured in 2017

S$2.7 billion

Marine Review

Performance Scorecard

Financial Indicators *(S$ million)*

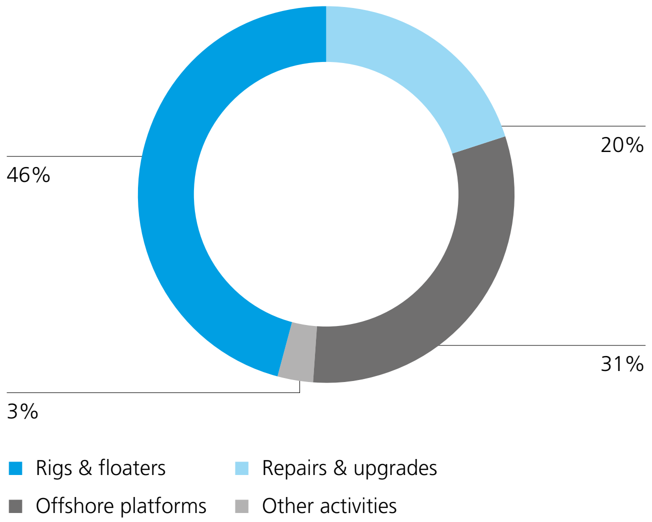
	2017	2016	Change (%)
Turnover	**2,387.4**	3,544.8	(33)
Earnings before interest, tax, depreciation and amortisation	**267.6**	384.5	(30)
Profit from operations	**64.7**	170.7	(62)
– Earnings before interest and tax	**68.3**	205.8	(67)
– Share of results: Associates & JVs, net of tax	**(3.6)**	(35.1)	90
Net profit	**14.1**	78.8	(82)
Return on equity *(%)*	**0.6**	3.1	(81)

Note: Figures taken at Sembcorp Marine level

Operational Indicators *(S$ billion)*

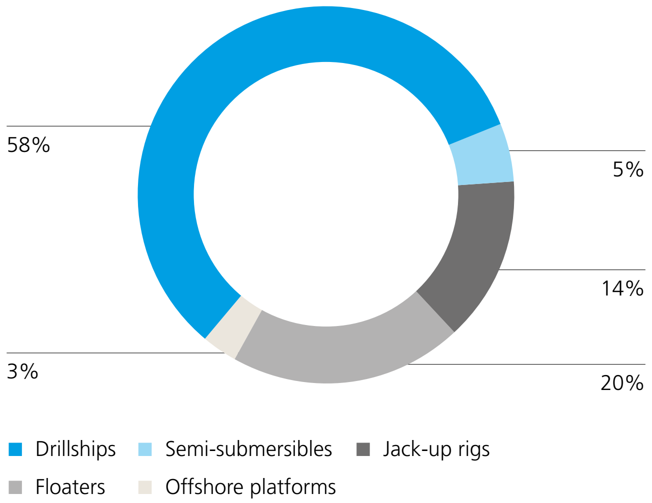
	2017	2016
Total net orderbook	**7.6**	7.8

Turnover by Segment



Orderbook Composition

Total net orderbook:
S$7.6 billion*



* *As at December 31, 2017. Excluding the Sete Brasil drillship contracts, net orderbook is S$4.4 billion*

Key Developments

Secured S$2.7 billion in new contracts in 2017, including a contract from Statoil Petroleum for the engineering, procurement and construction of the hull and living quarters for a newbuild FPSO

Signed letters of intent with US-based SeaOne Caribbean for the design and construction of compressed gas liquid carriers and with Shell Offshore for the hull and topside of the Vito FPU

Successfully delivered four projects in 2017 including the FSO Randgrid to Teekay which has been chartered out to Statoil. The vessel is deployed at the Gina Krog Field in the Norwegian North Sea

In October 2017, Sembcorp Marine signed agreements for the sale of nine jack-up rigs to Borr Drilling for US$1.3 billion. US$500 million of upfront payment has been received and delivery is over a 14-month period

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Remaining profitable amidst a tough operating environment

The Marine business continued to face a tough operating environment in 2017 but remained profitable for the year.

Turnover was S$2.4 billion, compared to S$3.5 billion in 2016. The decline in turnover was mainly due to lower revenue recognition for rig building and offshore platform projects, as well as reversal of revenue from the termination of five rig contracts. In contrast, the Repairs & Upgrades segment showed resilience and delivered an improved turnover compared to last year. Despite fewer ships repaired this year, our average revenue per vessel increased, due to an improved vessel mix and higher-value work undertaken.

Turnover *(S$ million)*

	2017	2016	Change (%)
Rigs & Floaters	**1,098**	1,887	(42)
Repairs & Upgrades	**471**	460	3
Offshore Platforms	**732**	1,116	(34)
Other Activities	**86**	82	5
Total	**2,387**	3,545	(33)

The business' profit from operations was S$64.7 million, compared to S$170.7 million in 2016 due to lower overall business volume and additional cost accruals for floater projects which are pending finalisation with customers. Net profit was S$14.1 million compared to S$78.8 million in 2016.

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Sale of rigs improves liquidity position

During the year, our Marine business achieved a significant step forward in monetising its rig inventory that had arisen from prolonged customer delivery deferments. These transactions, when completed, will significantly improve the business' liquidity position, putting it on a stronger footing to ride through the cycle.

In October, Sembcorp Marine entered into agreements for the sale of nine Pacific Class 400 jack-up rigs to Borr Drilling and its subsidiaries for approximately US$1.3 billion (S$1.77 billion). The consideration also included a market-based fee, calculated based on an uplift in the value of the rigs sold. Borr Drilling will take delivery of the rigs progressively over a 14-month period, from the fourth quarter of 2017 to the first quarter of 2019.

An upfront down payment of about US$500 million has been paid, while the balance US$800 million will be paid within five years from the respective delivery dates of the rigs. In addition, Borr Drilling will pay interest at market rates from the respective delivery dates of the rigs, until the full payment of the remaining balance.

The business followed this up with the signing of an agreement for the sale of the semi-submersible rig *West Rigel* to a secondary buyer for US$500 million. *West Rigel* was originally constructed for North Atlantic Drilling, a subsidiary of Seadrill. A standstill agreement for the project was signed in December 2015, and extended several times until July 2018. Upon fulfilment of conditions precedent, the new buyer will take delivery of the rig, which will remain in Sembcorp Marine's yard for certain works to be undertaken for its reactivation.

The sale of these rigs is a testament to the quality of these high-specification drilling units and their ability to attract a buyer despite challenging market conditions.

Making Good Progress for Ongoing Projects

Measuring 220 metres by 102 metres, the 273,700-metric tonne semi-submersible crane vessel Sleipnir, currently under construction at our yard for Heerema Offshore Services, is the largest in the world

The FSO Ailsa is Sembcorp Marine's first full turnkey FSO newbuilding project. Built for MODEC and to be delivered in 2018, the FSO is part of Sembcorp Marine's modern integrated solutions for the Culzean Field

One of three topsides under construction for Maersk Oil. On completion, the topsides, comprising a central processing facility plus two connecting bridges, a wellhead platform and utilities and living quarters platform, will be installed in the Culzean field in the UK North Sea

New orders and orderbook development

Following a letter of intent signed in November 2017, Sembcorp Marine was awarded a US$490 million contract from Statoil Petroleum for turnkey engineering, procurement and construction (EPC) of the hull and living quarters of a newbuild floating production, storage and offloading vessel (FPSO) in December 2017. The FPSO, which will be deployed at the Johan Castberg field development in Norway's Barents Sea, will be self-contained for harsh-environment operations and will include living quarters for up to 140 personnel. Project completion is expected in the first quarter of 2020.

Also in December 2017, the Marine business signed a letter of intent with Shell Offshore for the construction of the hull and topside of the *Vito* floating production unit (FPU), as well as integration works for the vessel. The *Vito* FPU comprises a single topside module supported by a four-column semi-submersible floating hull, and is designed for a throughput capacity of 100,000 barrels of oil per day and 100 million standard cubic feet of gas per day. The finalisation of the contract is dependent on Shell and its partners sanctioning the project. If sanctioned, the *Vito* FPU will be a new facility in the Mississippi Canyon in the US Gulf of Mexico, and will operate at water depths of 4,050 feet.

A letter of intent was also signed with SeaOne Caribbean for the design and construction of at least two large compressed gas liquid (CGL) carriers. In Brazil, Estaleiro Jurong Aracruz (EJA) secured a contract worth US$145 million from Tupi B.V., a Petrobras majority-owned consortium, to perform hull carry over works for the full integration of the FPSO *P-68*.

In another positive development, Transocean has requested Sembcorp Marine to resume work on its two high-specification ultra-deepwater drillship orders, and has also decided to proceed with enhancing the capabilities of the units. This has resulted in a corresponding increase in the value of the contracts, as well as an extension for the delivery of the units to the second and fourth quarters of 2020 respectively.

For the year, total orders secured amounted to S$2.7 billion, including S$1.77 billion from the sale of the nine jack-up rigs. Total net orderbook was S$7.6 billion, with completions and deliveries stretching till 2020. Excluding the Sete Brasil drillships, our net orderbook stood at S$4.4 billion. The majority of projects in the current net orderbook are based on progress payment terms.

Disciplined execution of orderbook

During the year, the Marine business successfully delivered two FPSO conversion projects. The FPSO *Pioneiro de Libra*, which sailed away in the first quarter of 2017 for deployment at the Libra field in Brazil's Santos Basin, was Sembcorp Marine's first full EPC FPSO conversion. Its successful completion demonstrates the business' ability to execute complex specialised offshore projects. In the second quarter, we also successfully completed the conversion of a shuttle tanker into the floating storage and offloading vessel (FSO) *Randgrid*. On delivery, the FSO was deployed at the Gina Krog field in the Norwegian North Sea.

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The FPSO Pioneiro de Libra is Sembcorp Marine's first full engineering, procurement and construction FPSO conversion project. It was deployed to Brazil's Libra field and achieved first oil in November 2017

We also continued to make good progress on our ongoing construction projects. These included a semi-submersible crane vessel for Heerema, a newbuild FSO vessel for MODEC, harsh-environment topside modules bound for the Culzean field for Maersk Oil and the conversion of the FPSOs *Kaombo Norte* and *Kaombo Sul* for Saipem. Meanwhile, work on a power generation module for Maersk Oil, which is part of our EPC project with Maersk Oil, and the Tupi Project FPSO *P-68* are progressing well at our UK and Brazil yards respectively.

Prudent cost and balance sheet management and a focus on sustainable, innovative solutions to position the business for the future

Amidst the tough operating market, the Marine business is working hard to retool and build a more competitive business through the offering of innovative solutions, automation, as well as cost and quality improvement, to position the business for the future.

Following the strategic acquisitions of LMG Marin, Aragon and Gravifloat in 2016, the business' proprietary design and engineering capabilities have been enhanced. This has allowed Sembcorp Marine to successfully diversify its offerings and provide innovative solutions to players in the gas value chain. For example, the SeaOne CGL carriers will incorporate proprietary ship component ideas from LMG Marin. The business is also working towards securing orders for its proprietary Gravifloat near-shore gas infrastructure solutions and is in advanced discussions with prospective customers.

The next-generation Sembcorp Marine Tuas Boulevard Yard is also a cornerstone in the Marine business' sustainable growth strategy. With its second phase completed since early 2017, the yard is equipped for mega-sized vessels and deep-draft rigs and has one of the largest and most advanced steel fabrication facilities in the region. These features will enable Sembcorp Marine to venture into turnkey EPC of mega offshore projects, and pursue new opportunities across the offshore and marine and energy value chain. The business intends to maximise utilisation of its Tuas Boulevard Yard, while reviewing the schedule for the return of its other Singapore yards and progressively returning these other yards on or before their respective lease expiry dates.

Meanwhile, Sembcorp Marine continues to maintain prudent cost and balance sheet management. This includes active management of manpower requirements in line with changing needs; wage cuts and wage freeze; rightsizing; skills training and upgrading and selective recruitment of specialist talent with niche skill sets. Going forward, the business' capital expenditure is expected to trend slightly upwards with further development of the Tuas Boulevard Yard in response to business needs. Capital expenditure will also be incurred for the execution of secured contracts, or to realise cost savings.

A Focus on New Technologies and Solutions
Diversifying product capabilities

Gravifloat: *Modularised LNG and LPG terminals*

SSP Offshore: *Next-generation circular hull forms*

LMG Marin: *Advanced ship design and engineering*

Outlook

Global exploration and production capex spending continues to show signs of improvement. However, recovery may take some time as the oversupply in most drilling segments has yet to rebalance.

The production segment remains encouraging. Sembcorp Marine continues to make progress in its efforts to develop and commercialise its Gravifloat technology.

Demand for repairs and upgrades, especially for LNG carriers and cruise ships, remains strong.

The immediate outlook remains challenging. It will take some time for capex spending to translate into new orders. Industry activities remain low and competition for orders remains intense. Against this background, Sembcorp Marine will continue to strengthen its balance sheet and pursue new orders.