

CHAIRMAN AND CEO'S REPORT



**TAN SRI MOHD
HASSAN MARICAN**
Chairman

“Overall business conditions continued to be challenging.

The Group remained profitable and generated positive operating cash flow for the year.

We secured \$2.74 billion of new orders.”



WONG WENG SUN
President & CEO

“Reflecting on the nascent recovery in the offshore sector, we continue to receive enquiries and tenders for projects that will come on stream over the next few years.”

DEAR SHAREHOLDERS,

At the outset, the year 2017 could be described as a year of significant adjustments for the global oil and gas industry as the international oil companies, national oil companies and service providers came to terms with average oil prices which continued to hover around their lowest levels in the past decade.

Even as OPEC and oil-producing countries maintained their production cuts, higher shale oil production kept a lid on further oil price increases. On 30 November 2017, OPEC and its partners agreed to extend their production cut to the end of 2018, continuing their plan to rebalance global inventories.

With an improving global economy, oil and energy consumption, particularly in Asia, continued to rise. Coupled with the reduction of inventories, oil prices climbed to a recent high of US\$70 per barrel, before retreating to the US\$60-65 per barrel range.

We believe this continued global economic growth, increase in oil demand and the reduction of inventories will result in the increase of CAPEX spend by the oil companies. We have seen an uptick in enquiries and invitations to tender in recent months, particularly in the offshore production sector. However, competition remains strong and margins remain depressed.

For Sembcorp Marine, our key focus has been: (i) active business development to secure new orders and replenish our order book; (ii) continue to strengthen our liquidity and balance sheet; and (iii) continue to build our capabilities, especially in engineering to ensure the long-term sustainability of our businesses.

In 2017, we secured a US\$490 million contract from Statoil Petroleum AS for engineering, procurement and construction (EPC) of the hull and living quarters for a newbuild FPSO (floating production, storage and offloading) vessel, to be deployed in the Johan Castberg field; and hull carry-over works for the Petrobras FPSO P68 project for US\$145 million.

In FY2017, we were able to replenish our order book with \$2.74 billion in new orders.

NEW ORDERS

\$2.74
BILLION

We signed a letter of intent (LOI) with Shell Offshore for the construction of the hull and topside as well as integration of a floating production unit (production semi-submersible newbuild) for the Vito field. In Specialised Shipbuilding, we signed an LOI with SeaOne Caribbean for the design and construction of two Compressed Gas Liquid (CGL®) carriers.

To improve our liquidity, we recently sold all nine jack-up rigs in our inventory for approximately US\$1.3 billion plus a market-based fee calculated based on an uplift in the value of rigs sold. We also announced the sale of the West Rigel semi-submersible rig for US\$500 million, which is pending the fulfillment of certain conditions.

The sale of these 10 rigs amidst challenging market conditions is a testament to the market's confidence in the quality and capabilities of Sembcorp Marine's premium and high-specification drilling units. These transactions, when fully completed, will further improve our cash flow and liquidity position and strengthen our balance sheet.

As a global offshore and marine engineering company, Sembcorp Marine has weathered through several industry cycles. Over the last five decades, we have demonstrated a strong resolve to regroup, refocus and reinvent ourselves through difficult times and to grow strongly during market upturns. As we reflect on the past three years, from 2015 to 2017, we acknowledge that these have been extremely challenging years marked by severe market volatility and uncertainty. It was through prudential and proactive decision-making that we were able to navigate the many obstacles faced.

With our full spectrum of innovative offshore and marine engineering solutions, and state-of-the-art facilities and capabilities, our business is a globally competitive one. While the macro-environment remains challenging, we are beginning to see encouraging developments in global exploration and production (E&P) CAPEX spend, as well as

stabilisation of day rates and utilisation of offshore drilling rigs. We remain cautiously optimistic as we position ourselves to respond strategically and seize opportunities in the evolving business landscape.

FINANCIAL PERFORMANCE

A major part of our business remains cyclical in nature, and it takes time for the improvement in E&P CAPEX spend to translate into new orders and revenue for Sembcorp Marine. Hence, even though the offshore oil and gas industry has begun to show signs of improvement, the flow of new orders remained weak, while competition within the sector intensified.

Overall business conditions continued to be challenging, which contributed to lower revenue for FY2017. We are pleased to report that the Group remained profitable and generated positive operating cash flow for the year.

GROUP REVENUE

\$2.39
BILLION

Group revenue was \$2.39 billion for the year ended 31 December 2017, down 33% from \$3.54 billion in FY2016. Revenue for Rigs & Floaters declined 42% to \$1.1 billion, compared with \$1.89 billion in FY2016, reflecting the still depressed conditions for rig building. Offshore Platforms revenue also declined 34% year-on-year, from \$1.12 billion to \$732 million, with fewer projects on hand. Revenue from Repairs & Upgrades increased a marginal 2.5%, from \$460 million to \$471 million, with lower number of vessels but on average higher spending per ship.

Rigs & Floaters continued to account for the largest share of revenue at 46%. Offshore Platforms contributed 31%; Repairs and Upgrades 20%; and other activities the remaining 3%.

Group net profit in FY2017 was \$14 million, against \$79 million in FY2016. The reduction in overall business volume has impacted the absorption of overhead costs, resulting in

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a lower operating profit for the year. Additional cost accruals made during Q42017 for some projects, which are pending finalisation with customers, further contributed to the lower net profit for FY2017.

OPERATING CASH FLOW

\$144
MILLION

We generated operating cash flow of \$144 million last year to support our operations and investments. Net gearing improved from 1.31 times as at the end of September 2017 to 1.11 times at 31 December 2017 (December 2016 at 1.13 times), primarily due to the initial payments received on the disposal of the jack-up rigs.

Sale of 9 Jack-up Rigs and Semi-submersible Rig

In October 2017, we announced the sale of nine Pacific Class 400 jack-up drilling rigs to Borr Drilling and its subsidiaries for approximately US\$1.3 billion plus a market-based fee calculated based on an uplift in the value of the rigs sold, with an initial payment of US\$500 million. The balance of about US\$800 million will be paid any time within five years from the respective rig delivery dates.

Delivery of the rigs will be over 14 months, starting from 4Q2017. To date, we have delivered three rigs, with a further five scheduled for delivery this year and one in early 2019.

In December 2017, we announced an agreement for the sale of the semi-submersible drilling rig West Rigel for US\$500 million. Under the terms of the agreement, the buyer will take delivery of the rig once the conditions precedent are fulfilled by both parties.

Divestment of Cosco Shipyard Group and Cosco Shipping International

We completed the sale of our 30% stake in Cosco Shipyard Group (CSG) during the year. Total net proceeds for the CSG sale were \$206 million, resulting in a gain of \$47 million. Following the sale of our CSG stake, we subsequently divested our equity in Singapore-listed entity Cosco Shipping International (Singapore) Co. Ltd (formerly Cosco

Corporation) during the year. Total proceeds from the sale were \$46 million, with a gain of \$17 million.

Sete Brasil drillships

In 2012, Sembcorp Marine secured seven drillship contracts from Sete Brasil with a contract value of US\$5.6 billion. We have continued to provide quarterly updates on this project in our results announcements during FY2017. To summarise, we received some \$2.70 billion in progressive payments for the work performed on these projects, up until November 2014 when Sete Brasil was unable to continue with the payments. We have ceased construction work on all the drillship units and focused instead on preserving the value of the work-in-progress. We believe the \$329 million provisions the Group made in FY2015 for the Sete Brasil contracts remain adequate under the present circumstances. We have since initiated arbitration proceedings against various Sete Brasil subsidiaries to safeguard our interests under the Sete Brasil contracts. The proceedings are ongoing.

On 29 April 2016, Sete Brasil filed for judicial restructuring and accordingly submitted its restructuring plan to the Brazilian court. In early March 2018, the media reported a tentative agreement between Sete Brasil and Petrobras, with Petrobras chartering four drilling units from the Sete Brasil fleet, subject to the satisfaction of certain conditions.

Without prejudice to our arbitration proceedings, we continue to engage with Sete Brasil as necessary to better understand their restructuring plan. We are monitoring the situation actively and are well prepared to respond to the developments, as appropriate.

Cash flow and liquidity management

Financial discipline and prudence are key considerations as we continue to build on the Group's globally recognised track record and capabilities in the international marine, offshore oil and gas, and energy space.

While aiming to grow our order book and product offerings, we remain committed to actively managing our balance sheet and maintaining a healthy financial position. We will focus on safe, timely and effective execution of our order book to ensure smooth progress of our projects, so as to improve our cash flows.

Sembcorp Marine generated operating cash flow of \$144 million in FY2017, mainly from successfully delivering key projects, meeting the scheduled milestones of projects under execution, and the partial payment received from the sale of

our rigs inventory. The majority of our order book contracts and new orders continue to be on progress payment terms to minimise our need for significant working capital. This remains a key consideration as we build up our order book.

FY2017 capital expenditure of \$178 million was less than half of the \$421 million we spent in the prior year, as a large part of our new yard investment programme was mostly completed, and some CAPEX was deferred as part of liquidity management measures. We expect CAPEX to trend slightly higher as we execute the final development phase of our Tuas Boulevard Yard in response to business needs in the foreseeable years. We continue to only proceed with yard CAPEX needed for execution of our secured contracts or for realising cost-savings, while deferring non-essential CAPEX.

With cash inflow from the sale of our rigs inventory and ongoing projects, our liquidity position has improved to a net gearing of 1.11 times as at end of December 2017, compared with 1.13 times at end December 2016 and 1.31 times at 9M 2017.

The Group takes a disciplined approach to cash flow and liquidity management. With sufficient debt headroom, existing facilities and the continued support of our bankers and bondholders, we will be able to execute our orders and meet our liquidity requirements.

Dividend

To recognise our valued shareholders for their loyalty and support, for the year under review, the Sembcorp Marine Board has proposed a final ordinary one-tier tax-exempt cash dividend of 1.0 cent (\$0.01) per share. Including the interim tax-exempt cash dividend of 1.0 cent (\$0.01), the Group will be paying a total dividend of 2.0 cents (\$0.02) per share for FY2017.

The proposed final cash dividend, if approved at the 55th Annual General Meeting on 18 April 2018, will be paid on 11 May 2018.

REVIEW OF BUSINESS OPERATIONS

Contracts secured in 2017 boost order book

After a relatively quiet first half, the Group secured new orders totalling \$2.74 billion in the second half of FY2017. New orders for the production segment reflect our modest but encouraging success in pursuing opportunities outside the drilling and exploration segments, which continue to be challenging.

On 6 December 2017, the Group announced that it had secured a US\$490 million turnkey EPC contract from Statoil Petroleum AS for a newbuild FPSO's Hull and Living Quarters. To be deployed at the Johan Castberg field development in the Barents Sea, about 240km from Hammerfest, Norway, the FPSO will have a hull approximately 55m wide and 295m long. It will be self-contained for harsh-environment operation, with living quarters accommodating up to 140 personnel. The project is scheduled for completion in the first quarter of 2020.

On 30 August 2017, Sembcorp Marine's wholly-owned Brazilian subsidiary Estaleiro Jurong Aracruz Ltda (EJA) secured US\$145 million worth of hull carry-over works from Tupi B.V. for the FPSO P68 Tupi Project. Tupi B.V. had in July 2012 awarded EJA the contract for the Modules Construction and Integration of FPSO P68.

As at 31 December 2017, the Group's net order book backlog totalled \$7.58 billion. Excluding the Sete Brasil drillships, the order backlog remains reasonably robust at \$4.45 billion.

NET ORDER BOOK AS AT 31 DECEMBER 2017

\$7.58
BILLION

Rigs & Floaters

Building on its established track record, Sembcorp Marine Rigs & Floaters delivered the Pioneiro de Libra FPSO, its first full EPC FPSO conversion, to joint owners Odebrecht Oil and Gas and Teekay Offshore Partners in March 2017. The FPSO was deployed at Brazil's giant Libra field, achieving first oil in November last year.

Converted from the Navion Norvegia shuttle tanker, the FPSO is equipped with the capacity to produce 50,000 barrels of oil and four million cubic metres of gas per day. The vessel can operate in water depths of up to 2,400 metres. It is chartered to the consortium formed by Petrobras (the field operator, with 40% ownership), Total (20%), Shell (20%), CNPC (10%) and CNOOC (10%) for a period of 12 years, and will conduct Early Well Tests in the Libra block.

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Pioneiro de Libra FPSO, Sembcorp Marine's first full EPC FPSO conversion, was delivered to joint owners Odebrecht Oil and Gas and Teekay Offshore Partners in March 2017



The Randgrid FSO was completed and delivered in July 2017 to Teekay for a charter under Statoil

In July last year, the Randgrid FSO was successfully delivered to Teekay for a charter with Statoil's Gina Krog oil and gas field in the North Sea. The vessel was converted from one of Teekay's shuttle tankers into an FSO (floating storage and offloading) vessel. The unit was designed for a minimum of 15 years of uninterrupted operations, without the need to leave the field for dry docking.

Following the sale of the nine Pacific Class 400 jack-up rigs to Borr Drilling, we delivered three of the rigs on 15 November 2017, 4 January 2018 and 23 February 2018 respectively. Five more rigs are scheduled for delivery in 2018 and another in 2019.

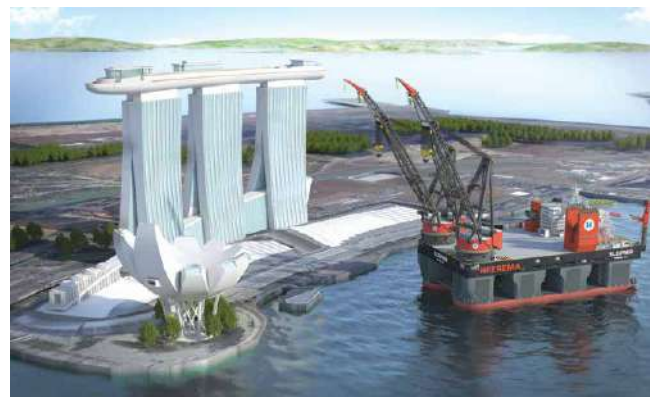


Sembcorp Marine's Pacific Class 400 jack-up

Projects in Progress

In 2017, Sembcorp Marine Rigs and Floaters continued with the execution of its existing order book. Following strike steel for Heerema's semi-submersible crane vessel (SSCV) Sleipnir in March 2016 and keel-laying in September 2016, the project advanced quickly throughout the year, with upper hull work now in progress after the launch of the vessel for quayside work in December 2017.

At 220m long, 102m wide and with a displacement of 273,700 MT, Sleipnir will be the largest and first dual-fuel (LNG and MGO) SSCV in the world when completed. It is designed for the installation and decommissioning of major offshore facilities worldwide, with two Huisman offshore cranes of 10,000-tonne lifting capacity each and a large reinforced work deck area.



Artist's impression of SSCV Sleipnir (courtesy of Heerema): When fully extended, the vessel's 10,000-tonne capacity Huisman cranes will be as tall as the Marina Bay Sands in Singapore

Sleipnir's dynamic ballast and de-ballast system is a joint-engineering effort by Sembcorp Marine and Heerema. Its Liquefied Natural Gas (LNG) system is the world's first Type-C LNG tank installed in an enclosed column. We also provided in-house detailed engineering analyses that allow us to customise the vessel based on site and project requirements. Our engineering team is now working with engine makers MAN and Wartsila to install a prototype engine and thruster design on the vessel.

The Sleipnir is on track for delivery in 2019. We are pleased to have won this engineering and construction project in July 2015 on the strength of our all-round engineering, design and construction capabilities, and our flagship Tuas Boulevard Yard's ability to support massive offshore structures, especially with its dedicated offshore dry-dock and automated high-capacity steel fabrication facility.



Launch of SSCV Sleipnir from Tuas Boulevard's offshore dry dock for quayside work

Sembcorp Marine's construction of the FSO Ailsa reached another milestone with the launch of the vessel in September 2017. Work commenced in November 2015 and the FSO is scheduled for delivery in 2018.

FSO Ailsa is being built at Tuas Boulevard Yard for MODEC Offshore Production Systems (Singapore) Pte. Ltd., a subsidiary of MODEC, Inc. It is Sembcorp Marine's first full turnkey FSO newbuilding project that includes Engineering, Procurement, Construction and Commissioning (EPCC).

The vessel will be able to operate continuously for 25 years without the need to dry dock, and has a 40-year hull lifespan. When completed, it will be deployed at Maersk Oil's Culzean field.



FSO Ailsa is Sembcorp Marine's first turnkey FSO newbuilding project, including Engineering, Procurement, Construction and Commissioning

The FSO Ailsa will be part of Sembcorp Marine's modern integrated solutions for the harsh-environment Culzean field in the UK North Sea. Our solutions include three topsides (a central processing facility, wellhead platform and utilities & living quarters), two connecting bridges, and a high-specification jack-up rig (Maersk Highlander).

Meanwhile, we continue to make good strides in other ongoing Rigs & Floaters projects. These include:

- Conversion of Saipem's FPSO Kaombo Norte and FPSO Kaombo Sul for operations in offshore Angola;
- Construction of two units of proprietary Jurong Espadon III high-specification ultra-deepwater drillships for Transocean; and
- Four newbuild Pacific Class 400 jack-up drilling rigs under construction for delivery to Borr Drilling (three units), and one which was completed and delivered in 1Q2018 to BOT Leasing.

Repairs & Upgrades

Under our Repairs and Upgrades business, we performed a total of 390 dry-dockings, repairs and upgrades in FY2017. Revenue per vessel for the year was higher than 2016, mainly attributed to higher value works and improved vessel mix.

Sembcorp Marine repaired and upgraded a record of 16 cruise ships during the year, including the completion of Star Legend from Star Cruises in December 2017. We have exclusive Favoured Customer Contracts (FCC) with Carnival Corporation and Royal Caribbean Cruises – the world's top two cruise companies – as well as strong working relationships with Asia's leading cruise line Star Cruises and other major cruise companies. With the steady growth of global cruise tourism especially in Asia, we are well-positioned to capitalise on the boom in this niche market.

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Princess Cruises vessel Diamond Princess undergoing repairs and refits at Sembcorp Marine Admiralty Yard

In the LNG repairs and upgrades segment, Sembcorp Marine topped the list globally for the fifth time with a total of 34 LNG ships repaired and upgraded in 2017. We have continuously enhanced and broadened our LNG engineering solutions, repair and upgrade capabilities and facilities to provide holistic solutions to LNG owners and managers.



Concurrent repairs of LNG carriers Arkat and Sevilla Knutsen at Sembcorp Marine Tuas Boulevard Yard

Despite the deferment of the Ballast Water Management Convention to 2019, we completed 11 installations and retrofits of different types of ballast water management systems (BWMS) in 2017 for various owners.

The BWMS installations and retrofits are offered under Sembcorp Marine's Green Technology Retrofit (GTR) Solutions, which include our own award-winning Semb-Eco LUV Ballast Water Management System. Utilising ultra-violet and patented bio-fouling control technology to disinfect invasive species in challenging water conditions,

the chemical-free and highly energy-efficient Semb-Eco LUV BWMS received the Outstanding Maritime R&D and Technology Award at the 2017 Singapore International Maritime Awards. This prestigious accolade reflects Sembcorp Marine's successful innovation and inroads into the green solutions markets.



Sembcorp Marine achieved another milestone in our BWMS development with the successful completion of US Coast Guard shipboard tests

Offshore Platforms

Sembcorp Marine Offshore Platforms focused on the work-in-progress of the Maersk Oil Culzean topsides project during the year. Valued at over US\$1 billion, Sembcorp Marine won this EPC contract from Maersk Oil North Sea UK Limited in September 2015 and is on schedule to complete the project in June 2018.



Maersk Oil's Utilities & Living Quarters topside for the Culzean field

Other projects completed and in progress at Sembcorp Marine's overseas yards

These include:

- Completed fabrication of Yamal LNG modules at PT SMOE Indonesia;
- Ongoing construction of a power generation module and other infrastructure (part of our EPC project with Maersk Oil) at Sembmarine SLP yard in the UK;
- Ongoing hull carry-over works for the P68 FPSO; as well as topside modules construction and integration for P68 and P71 FPSOs in our Estaleiro Jurong Aracruz (EJA) yard in Brazil for the Tupi Project.



Sembmarine SLP is constructing a power generation module for Maersk Oil's Culzean field

OUR TRANSFORMATION JOURNEY CONTINUES

In line with Sembcorp Marine's 'Transformation for Growth', which began in 2013, we continue to consolidate, renew and refresh the Group's strategic direction towards sustainable growth.

All business units in the Group have been reorganised into 'One Sembcorp Marine' since July 2015, enabling us to harness the combined scale and expertise of our global operations to become more flexible, innovative and responsive. With our pooled resources, we are achieving the vital synergies to take on projects of any scale and complexity and in any location.

Strategic acquisitions, consolidation and divestments

Given the continuing challenges in the offshore, marine and energy markets, Sembcorp Marine must evolve and adapt in tandem by enhancing our capacities and capabilities and fine-tuning our business strategies to remain abreast of the changes.

In 2017, our key acquisitions made in the previous year had already begun to contribute further value to the Group. The acquisition of full ownership of PPL Shipyard helped pave the way for the successful sale of the nine jack-up rigs, completed and under construction at the yard, to Borr Drilling. These rigs were built to our own proprietary Pacific 400 design, which has a strong reputation in the market for high reliability and low downtime.

Over the years, PPL has helped propel the Group into a global player in the design and construction of jack-up and semi-submersible rigs. Having full control of PPL Shipyard has enabled us to fully align its business management and corporate strategies with the Group for sustainable returns.

Several years ago, we identified the market potential for offering innovative solutions to the gas value chain. Gas, as a cleaner fuel, is expected to be increasingly used for power generation and bunkering, amongst other applications.

In September 2017, our subsidiary Sembcorp Marine Specialised Shipbuilding and SeaOne Caribbean LLC (SeaOne) of USA signed an LOI for the design and construction of two large Compressed Gas Liquid (CGL®) carriers. These vessels will be deployed for SeaOne's Caribbean Fuels Supply Project. Sembcorp Marine will provide a unique design for the neo-panamax CGL carriers based on SeaOne's single gas and liquids cargo delivery requirements.

The design will incorporate proprietary ship component ideas from Sembcorp Marine subsidiary LMG Marin, a leading naval architect and ship design house in Europe. Front-end engineering design (FEED) studies for the project are in progress.



A small-scale offshore LNG power plant, designed by LMG Marin

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Acquired in 2016, LMG Marin brings to the Group a cache of design patents and more than 70 years of experience in designing drillsips, offshore production and storage floaters, OSVs, LNG carriers, LNG-powered ships, car ferries and cruise ships. The firm has also developed an extensive portfolio of vessel designs tailored for ice environments. Synergising LMG Marin's experience and Sembcorp Marine's track record in delivering sophisticated vessels, the Group's arctic marine engineering and ship design capabilities will be important for future business growth.

Following our acquisition of an additional 44% stake in **Gravifloat** in March 2016, which raised our stake to 56%, we are in active discussions with potential customers to customise the cost-effective, modular, scalable and gas-based Gravifloat terminal solutions for gas-based import and export and power-generation projects.

These re-deployable and versatile near-shore gravity-based solutions include import and export terminal infrastructure for treatment, storage, liquefaction, re-gasification and offloading of LNG and LPG, as well as for the installation of offshore power plants.

As a floating platform fully constructed at Sembcorp Marine yards, the Gravifloat system is well suited for near-shore LNG production. Each module is fixed to the seabed and can be joined with rigid and cryogenic connections. The Gravifloat modular system provides the flexibility to support efficient and low-hazard plant configuration.



A Gravifloat solution of CCGT plants with integrated LNG storage, regasification and terminal functions

Moving forward, our strategic investments in Gravifloat and LMG Marin will broaden and deepen the Group's proprietary design and engineering capabilities. These enhanced capabilities, in turn, support our ongoing strategy

of diversifying into new product segments and providing innovative solutions across the offshore and marine value chain – both within and outside the oil and gas and energy sectors.

Tuas Boulevard Yard – a vital part of Sembcorp Marine's value proposition

Sembcorp Marine Tuas Boulevard Yard Phase II development swung quickly into a busy schedule upon its completion in January 2017. The dedicated offshore dry-dock was actively deployed with the Heerema SSCV Sleipnir project.

Along with an extensively automated steel fabrication facility – in operation since November 2015 – Tuas Boulevard Yard strengthens the Group's value proposition as a one-stop solutions provider offering optimal production efficiency, cost-effective execution and shorter project delivery times.

The Tuas Boulevard Yard investment was made during the up-cycle years, with most of the required CAPEX already incurred. This facility is expected to meet our production needs for the next 50 years.



Sembcorp Marine Tuas Boulevard Yard Phase II development was completed in January 2017

Memorandum of Understanding on Disruptive Technologies

On 9 November 2017, Sembcorp Marine, DNV GL, A*STAR's Singapore Institute of Manufacturing Technology (SIMTech) and National Additive Manufacturing Innovation Cluster (NAMIC) signed a Memorandum of Understanding to develop disruptive applications in Additive Manufacturing, Drone and Digital Twin technologies.

Sembcorp Marine will test-bed the three projects at the Tuas Boulevard Yard. In supporting the projects, the yard augments its role as a living lab for incubating and verifying disruptive applications for the offshore and marine sector.

SUSTAINABILITY AND GROWTH

The extremely challenging business environment has put many in our industry through the crucible of severe testing in the past three years since the oil price collapse at the end of 2014, and while many have emerged stronger, there are those which have succumbed under these difficult times.

The Group's sustainability goals remain focused on value creation for our employees, customers, contractors, suppliers, partners and other key stakeholders. Good corporate governance, upholding of health and safety standards, reduction of environmental impact, efficient resource utilisation as well as community care and engagement remain our core ideals as we build a sustainable business for the generations ahead. With this in mind, the Sustainable Business Award Sembcorp Marine received at the 2017 Singapore Apex Corporate Sustainability Awards greatly encourages us to continue doing our best for our stakeholders and the environment.

Cleaner Energy at the Shipyard

The Group is collaborating with the SP Group (Singapore Power) to develop a new digital system to harness solar energy at the Tuas Boulevard Yard. In what will be the largest single solar rooftop at a shipyard in Southeast Asia, the system will generate and manage enough solar power to reduce 30 per cent of grid-supplied electricity consumed at the yard's steel fabrication facility during peak load.

Scheduled for completion in 2019, the solar rooftop will deliver up to 5.38GWh of energy annually – enough to power approximately 1,120 four-room flats and reduce as much as 2,500 tonnes of carbon emissions per year. The digital energy-saving system will feature energy storage capabilities, energy sensors and a real-time digital platform to monitor, analyse and optimise energy usage in the yard.

Workplace Safety and Health

As Sembcorp Marine advances its technology and innovation development, we are well aware that we must at the same time maintain a high standard of workplace safety and health (WSH) in order to deliver our best engineering solutions reliably.

To this end, we have adopted a Vision Zero incidence goal. Such an ambitious target requires a multi-stakeholder approach that not only rallies employees, customers, sub-contractors and vendors to collectively enhance Health, Safety and Environment (HSE) competencies and safeguards,

but more importantly, to build a cohesive WSH culture. We are pleased that the strong stakeholder commitment and HSE processes at our yards have helped Sembcorp Marine earn plaudits consistently for safety performance, including 19 wins at the 2017 WSH Awards.

Last year, we were also invited to share our WSH best practices at the XXI World Congress on Safety and Health at Work 2017 in Singapore. Through this event, and other similar platforms, Sembcorp Marine gleans knowledge from industry leaders that enables us to improve our WSH performance continuously.

Human Resource

On the human resource front, we continue to implement cost-management strategies to enhance productivity and optimise our headcount. They include reduction in manpower cost through wage cuts and wage freeze, productivity improvement measures to enhance competitiveness, and right-sizing, re-training and re-organising our employees to cater to evolving changes in our product mix, especially in non-drilling solutions and the gas value chain.

We would like to place on record our appreciation to the senior management of Sembcorp Marine for volunteering a salary reduction of between 10% and 15% during this challenging year.

In 2018, we will focus on re-skilling and up-skilling our workforce, including selective recruitment of specialist talent to position the Group for new opportunities, diversification and growth. We aim to nurture an inclusive Sembcorp Marine culture and provide a safe work environment that respects equal opportunities and rights for all. The Sembcorp Marine Code of Business Conduct guides our employees and partners on how we do business.

Supporting the Community

Sembcorp Marine works closely with our community to make a positive impact. We accomplish this through a range of platforms, including educational causes and community care.

During the year we contributed approximately \$1.26 million and 5,100 employee-hours towards community projects and volunteer activities.

Two of our cornerstone events are the Green Wave Environmental Care Competition and School Book Assistance Grant (SchoolBAG).

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Education Minister (Schools) Mr Ng Chee Meng interacting with students at the Green Wave Awards Ceremony & Exhibition in February 2017

Green Wave

Since its inception in 2003, the annual Green Wave competition has attracted participation from close to 15,000 students from primary and secondary schools, junior colleges, Institutes of Technical Education and tertiary institutions.

Over 1,000 local and regional students took part in the year-long competition in 2017, with 75 projects out of 307 entries receiving awards.

The Green Wave competition is part of our long-term commitment to inculcating a sustainability culture among the young people. By providing Green Wave as an avenue for students to develop and showcase their creativity and innovation, we look forward to the day when a global sustainability breakthrough can be traced back to one of the entries we have received in this competition.

SchoolBAG

Sembcorp Marine School Book Assistance Grant (SchoolBAG) was launched in 2001 to assist students from low-income families. In 2017, \$210,450 in bursaries were disbursed to 1,065 primary, secondary and junior college students, bringing the programme's total contributions to over \$4 million since its introduction in 2001.



Senior Minister of State for Culture, Community and Youth Ms Sim Ann was the guest-of-honour at the 2017 SchoolBAG presentation ceremony

Corporate Social Responsibility in Sembcorp Marine's global network

Sembcorp Marine's global yards and offices continue to play an active role in their communities.

Last year, Sembmarine SLP in Lowestoft, UK, donated £18,000 (\$32,800) to 14 local charities.

In Brazil, EJA employees provided technical expertise in community projects, which included bee farming and upcycling wood byproducts for handicraft production classes.

OUTLOOK & PROSPECTS

The global economic growth outlook appears to be improving, but remains challenging. Exploration and production CAPEX continues to show signs of improvement. Offshore rigs utilisation and day rates have stabilised, but rig orders recovery may take some time as the oversupply in most drilling segments has yet to rebalance. We continue to make progress in our efforts to develop and commercialise our GraviFloat technology for near-shore gas infrastructure solutions. Demand for vessel repairs and upgrades, especially for LNG carriers and cruise ships, remains strong. Regulations on ballast water treatment requirements coming into force in the foreseeable future will further support the potential of this segment.

However, 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 is intense. Sembcorp Marine will continue to further strengthen its balance sheet and actively pursue the conversion of enquiries into new orders. We remain focused on operational excellence to execute our orders efficiently; disciplined investment in new capabilities and technological innovation; and active customer engagement and business development to grow and ensure the sustainability of our business.

The Group is confident of the longer term fundamentals of the offshore and marine industry. Bolstered by our strategic investments in new capabilities and facilities, we believe Sembcorp Marine is well-equipped to ride out the current down cycle and be well-positioned for the upturn.

APPRECIATION

On behalf of the Board, we would like to extend a warm welcome to Mr Neil McGregor and Mr William Tan Seng Koon, who were respectively appointed Non-executive & Non-independent Director and Non-executive & Independent Director of the company in April 2017.

Our appreciation and thanks to Mr Ajaib Haridass and Mr Lim Ah Doo, who will retire as Board directors of Sembcorp Marine in April 2018. Mr Haridass was appointed Non-executive and Independent Director on 31 October 2003. In 2017, he served as chairman of the Nominating Committee and as member of both the Executive Resource & Compensation Committee and the Special Committee. Mr. Lim was appointed Non-executive and Independent Director on 7 November 2008. During 2017, he served as chairman of the Board Risk Committee, chairman of the Special Committee, and as a member of the Audit Committee.

Thank you to the Board of Directors for their continued stewardship, wise guidance and counsel; and to the management team, employees, unions, sub-contractor partners, bankers and bondholders for their contributions

and support in the past year. To the Non-executive Directors, thank you for volunteering to reduce your total fees by 10% for 2017.

Thank you to our customers for their continued trust and confidence in Sembcorp Marine.

Finally, we sincerely thank our valued shareholders for their continuous support, especially in the current downturn.



TAN SRI MOHD HASSAN MARICAN
Chairman



WONG WENG SUN
President & CEO

6 March 2018