

CHAIRMAN AND CEO'S REPORT



“While global exploration and production capex is improving, the offshore and marine sector is impacted by geopolitical conflicts and oil price volatility. Competition remains intense.

In 2018, Sembcorp Marine secured \$1.2 billion of new orders. We continue to respond actively to enquiries and tenders for innovative engineering solutions, amidst these challenging market conditions.”

TAN SRI MOHD HASSAN MARICAN
CHAIRMAN

**TAN SRI MOHD
HASSAN MARICAN**
CHAIRMAN

WONG WENG SUN
PRESIDENT & CEO

Dear Shareholders,

We would first like to thank all our shareholders and stakeholders for their patience, support and faith in the Board and Management as we continue to steer the Group through the difficult and protracted downturn in the offshore oil and gas industry, and build a sustainable global business for the future.

2018 was another challenging year. The current downcycle stands among the longest in the history of the offshore and marine industry. Oil prices remain volatile, driven by geopolitics and the imbalance in supply and demand. OPEC and its partners continue to implement production cuts to stabilise oil prices. Some success has been achieved, with prices firming between US\$60 and US\$65 per barrel.

In 2019, oil prices will be driven by a number of factors: the overall high global output particularly from the US; market concerns about the future drop in demand from a slowdown in global economic growth; and geopolitics.

With some stability in the price outlook, we see some light at the end of the tunnel. Offshore rigs utilisation and day rates for most segments have continued to stabilise or improve, underpinned by more drilling activities. Offshore capex is also rising with more production projects moving towards final investment decision (FID) stage.

While the overall industry outlook is brightening, significant time and effort for project co-development with potential customers are required before we secure new orders. We also expect competition to remain intense.

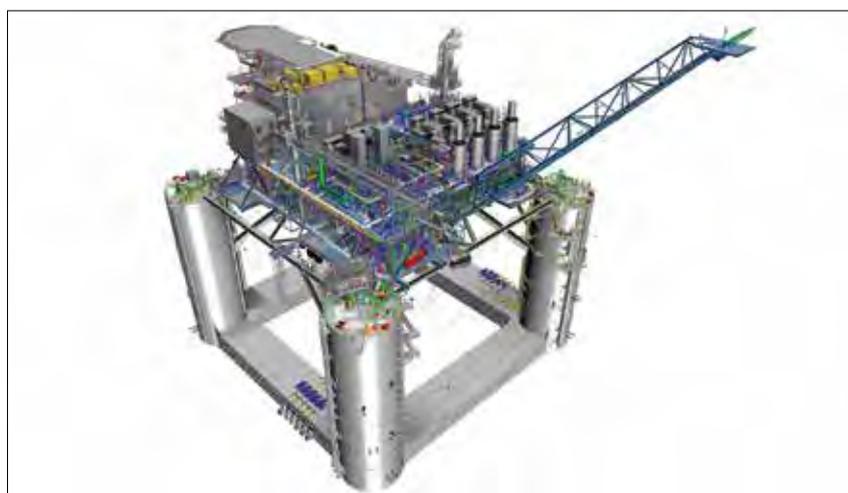
In 2018, we replenished our order book with about \$1.2 billion in new orders, including two new Floating Production, Storage and Offloading (FPSO) newbuilding contracts and two green energy-related projects.

In the face of tough competition from globally renowned shipbuilding and offshore shipyards, the Group secured a contract from TechnipFMC to undertake the engineering, procurement and construction of the hull and living quarters for a newbuild FPSO. The FPSO's hull is approximately 227m long and 50m wide, with a total oil storage capacity of 800,000 barrels and gas production of 8 billion cubic metres (bcm) per annum. When completed in the fourth quarter of 2020, the FPSO will be deployed at the Energean-operated Karish deepwater field development in the Eastern Mediterranean, approximately 90km off Israel's shore.



Sembcorp Marine Rigs & Floaters won the TechnipFMC contract to build a new FPSO, to be deployed at the Karish field offshore Israel

Shell Offshore Inc. awarded Sembcorp Marine a contract to construct and integrate the hull, topsides and living quarters of the Vito newbuild semi-submersible Floating Production Unit (FPU). This contract includes installation of Shell-furnished equipment. Supported by the Vito FPU's 4-column semi-submersible hull, the topsides weigh 9,200 tonnes and are designed to produce 100,000 barrels per day (bpd) of oil and 100 million standard cubic feet per day (MMSCFD) of gas. Vito will be Shell's 11th deep-water production facility in the Gulf of Mexico, and is located about 150 miles southeast of New Orleans.



Sembcorp Marine Rigs & Floaters secured the Vito newbuild semi-submersible FPU project from Shell Offshore Inc.

These two offshore production newbuild projects came on the heels of Equinor's Johan Castberg newbuild FPSO hull and living quarters contract, which the Group won in December 2017.

The award of three sizeable contracts over a period of just six months is testament to our customers' firm belief in our capability and reliability in executing such projects safely, on time, and in keeping with Sembcorp Marine's

benchmark quality and efficiency standards. Work commenced on these prestigious projects at our state-of-the-art Tuas Boulevard Yard (TBV) in Singapore. Those shareholders who were able to join us at our yard tours last year saw

CHAIRMAN AND CEO'S REPORT

first-hand how our investments in building and shaping our capabilities and facilities have reaped sizeable contract awards for highly sophisticated engineering solutions.

Besides the projects secured, the Group is actively bidding for a growing list of global offshore production projects which have reached, or are nearing, FID.

Growth remains on track

A key part of Sembcorp Marine's ongoing Transformation strategy is to diversify into new product segments and provide innovative solutions across the offshore, marine, and energy value chains. We continue to make good progress in commercialising our proprietary Gravifloat technologies for a variety of nearshore LNG terminal and gas infrastructure applications.

To grow our order book, we are proactively pursuing leads, responding to, and tendering for projects in the floaters, production platforms, gas and renewable energy solutions as well as specialised shipbuilding segments. We are optimistic that we can secure several of these projects over the next three to five years.

Over the decades, our steadfast strategic efforts – investments in new capabilities, technologies and facilities; our training, nurturing and valuing a core talent pool; and our focus on building close alliances with key customers – have imbued a strong culture of partnership, innovation and resilience in the organisation. This has and continues to serve us well in the current cyclical downturn.

As we forge ahead to grow and leverage our capabilities in the green technology and renewable energy solutions segment, we are pleased

to have clinched the two earlier mentioned contracts from new customers late last year.

Optimus Wind Limited, a subsidiary of Ørsted Wind Power, awarded us a contract for engineering, procurement, construction, hook-up and commissioning works on two wind farm substation topsides, to be deployed at the Hornsea 2 Offshore Wind Farm in the UK North Sea. With a combined weight of approximately 8,700 tonnes, the two substation topsides will be delivered in the first quarter of 2021. The 1.4-gigawatt (GW) capacity Hornsea 2 Offshore Wind Farm – the world's largest when operational in 2022 – is located 89km north-east of Grimsby, and will be capable of supplying green electricity to over 1.3 million UK households.

We also secured our first design-and-construct ropax passenger ferry project. Three identical plug-in ropax ferries will be built to a proprietary design from Sembcorp Marine subsidiary LMG Marin, for delivery to Norled AS in the fourth quarter of 2020. The 82.4-metre long multi-deck, double-ended ferries can each carry up to 300 passengers and crew, as well as 80 cars. Highly energy-efficient, they will operate on zero-emission battery power at a service speed of 10 knots. The Norled ropax ferries will use lithium-ion batteries for propulsion, complemented by energy-efficient solutions throughout the vessels' design as well as shore-side charging points.

As our Transformation journey continues, we remain focused on broadening our capabilities and refining our competitive edge and performance in the energy, offshore oil and gas, and marine engineering businesses.

In 2018, we expanded and up-scaled our design and engineering solutions platform by acquiring interests and titles to all of Sevan Marine ASA's intellectual property, as well as a 100% stake in Sevan subsidiary HiLoad LNG AS. This provided us the unique opportunity to own and market Sevan's cylindrical hull design and design applications, and to consolidate them with those patented by our subsidiary, Sembmarine SSP.

We strengthened our leading position in the Repairs & Upgrades segment by acquiring five groups of Semb-Eco core patents for the development of offshore and marine solutions in ballast water treatment, exhaust gas cleaning as well as biofouling and corrosion control.

Moving into 2019, Sembcorp Marine remains cautiously optimistic as we position ourselves to respond strategically and seize opportunities in the evolving business landscape.

FINANCIAL PERFORMANCE

We are pleased that the Group remained profitable at the EBITDA (earnings before interest, tax, depreciation and amortisation) level.

Group revenue increased to \$4.89 billion for the year ended December 31, 2018, from \$3.03 billion in FY2017. The higher revenue was led by stronger contributions from the **Rigs & Floaters** segment, while all other segments saw a year-on-year revenue decline.

Revenue for Rigs & Floaters increased to \$4.15 billion, compared with \$1.72 billion in FY2017. This is due to: revenue recognition on the delivery of seven jack-up rigs to Borr Drilling and one to BOT Lease; the sale of the West Rigel semi-submersible rig; and

**GROUP
REVENUE**

\$4.89
BILLION

higher percentage recognition for ongoing drillships and newly secured offshore production projects in FY2018. **Offshore Platforms** revenue declined year-on-year, from \$732 million to \$184 million, on fewer projects; while revenue from **Repairs & Upgrades** slipped from \$499 million in FY2017 to \$476 million in FY2018. Even though fewer vessels called at our yards last year, average spend per vessel was more on higher value works secured. In FY2018, Rigs & Floaters continued to account for the largest share of revenue at 85%; Offshore Platforms contributed 4%; Repairs and Upgrades 10%; and other activities, the remaining 1%.

The Group reported EBITDA of \$143 million in FY2018. We incurred a net loss of \$74 million, compared with \$260 million net profits in FY2017 (restated for SFRS (I)). This was mainly due to lower contributions from projects, and less turnover resulting in lower recovery of fixed and variable overhead costs. The Group generated operating cash flow before working capital changes of \$157 million last year.

Yard Capacity Management

Our Transformation journey includes the eventual relocation of operations from older yards in Singapore to TBY.

As we prepare to return the Tanjong Kling Yard to the Government in

EBITDA

\$143
MILLION

2019 – four years ahead of schedule – depreciation of the yard's lease and certain fixed assets, which amounts to about \$60 million, will be accelerated over 15 months starting from the fourth quarter of 2018. This is likely to impact our operating and net profits, although EBITDA will remain mostly intact. After the move, the Group expects to realise about \$48 million of cost-savings annually.

Dividend

The Group's dividend payment remains guided by its earnings performance. We seek to reward shareholders with a sustainable and consistent dividend, while taking into consideration the need to reinvest for long-term sustainable growth.

Due to the significant losses incurred in FY2018 and the need to preserve cash, the Sembcorp Marine Board has proposed that no dividend be paid for the year.

Sete Brasil Drillships

In November 2018, Sete Brasil's judicial recovery plan was approved by its creditors. According to media reports, the plan includes the sale of four drilling rigs being built at two Singapore-owned yards in Brazil. We continue to monitor these developments and will respond accordingly. Meanwhile, the \$329 million provisions made by the Group in FY2015 for the Sete Brasil

**OPERATING CASH FLOW
GENERATED BEFORE WORKING
CAPITAL CHANGES**

\$157
MILLION

contracts remain adequate under the current circumstances.

Safe Delivery of 9 Jack-up Rigs to Borr Drilling

On Oct 9, 2017, we announced that Sembcorp Marine had successfully sold nine jack-up rigs to Borr Drilling for around US\$1.3 billion. Following a US\$500 million upfront payment, Borr Drilling has to date taken delivery of all nine rigs on a progressive basis. The balance of US\$800 million will be paid within five years from the respective delivery date of each rig. Interest payments on the outstanding amounts have been received.

Sale of West Rigel

On May 10, 2018, we announced that the Group had completed the sale of the West Rigel semi-submersible rig for US\$500 million. The rig's buyers, Transocean and its partners, had made a 50% upfront payment. Following the completion of reactivation works in February 2019, Transocean made a further payment of US\$150 million. The balance US\$100m will be collected within the next 12 months.

Cash Flow and Liquidity Management

Financial prudence and discipline remain key considerations as we rebuild and strengthen the Group's financial position in the face of

CHAIRMAN AND CEO'S REPORT

a prolonged cyclical downturn. Growing our order book, maintaining a strong balance sheet and ensuring healthy cash flow are key priorities.

While we have successfully monetised our entire 10-rigs inventory, significant improvement in our liquidity will only occur over the next five years as we collect the balance ~\$1.2 billion of deferred payment for the rigs. The rigs inventory (previously recorded as Current Assets) are now recorded as Non-current Assets (Trade Receivables), which explains our reducing Net Current Assets balance.

Capex for FY2018 was about \$343 million, which included installation of certain new facilities and completion of our corporate headquarters at TBY. We expect capex in the foreseeable future to be moderate, as we defer non-essential spend and proceed with only those needed for executing secured contracts, realising cost-savings or enhancing our project execution capabilities.

In FY2018, operating cash flow generated before working capital changes was \$157 million. Net gearing was 1.44 times, compared with 1.37 times as at 3Q2018 and 1.13 times as at end December 2017.

While the majority of our ongoing contracts and new orders are on progressive payment terms, future new orders may increase working capital needs as the industry adjusts to changing business models and constrained capital availability.

We continue to manage our gearing and cash flows prudently to ensure sustainable development and growth.

“Financial prudence and discipline remain key considerations as we rebuild and strengthen the Group’s financial position in the face of a prolonged cyclical downturn. Growing our order book, maintaining a strong balance sheet and ensuring healthy cash flow are key priorities.”

WONG WENG SUN
PRESIDENT & CEO

REVIEW OF BUSINESS OPERATIONS

New contracts in offshore production, green and renewable energy segments lift order book

The Group started out on a strong note in the first half of 2018 with two FPSO contracts, followed by two green and renewable energy contracts later in the year. As at 31 December 2018, the Group’s net order book totalled \$6.21 billion. Excluding the Sete Brasil drillships, our order book was \$3.09 billion. We remain upbeat on the offshore production market, as some large projects in both newbuilds and converted floating production units are reaching FIDs in 2019.

Rigs and Floaters

Sembcorp Marine continued to strengthen our reputation for innovative offshore and marine engineering with the successful delivery of the newbuild FSO Ailsa to MODEC Systems (Singapore) Pte. Ltd., a subsidiary of MODEC, Inc. This was the Group’s first full turnkey FSO newbuild project that included engineering, procurement, construction and commissioning (EPCC) works.

NET ORDER BOOK
AS AT 31 DECEMBER 2018

\$6.21
BILLION
(\$3.09 billion excluding
Sete Brasil drillships)

Completed in May 2018 with a hull designed to have twice the average hull fatigue lifespan of other newbuild FSOs, Ailsa has a 430,000-barrel condensate storage capacity. The vessel boasts a 25-year continuous operability without dry-docking and full compliance with strict UK safety regulations for harsh-environment operations in the Culzean field.

To date, we have delivered all nine Pacific Class 400 jack-up drilling rigs to Borr Drilling. One of them set a record for being the first drilling rig to be awarded a Cybersecurity-



FSO Ailsa was delivered to MODEC in 2Q2018 for deployment at the TOTAL-operated Culzean field in the UK North Sea



Proprietary design Pacific Class 400 jack-up rigs (from left to right): Groa (delivered Jul 2018), Gyne (delivered Sep 2018), Natt (delivered Oct 2018), and Njord (delivered Jan 2019)

Ready (CS-Ready) Notation by the American Bureau of Shipping (ABS). We are proud to have facilitated this first-of-a-kind certification and to help our customers achieve an enhanced degree of cybersecurity for their assets.

Other key deliveries in 2018 included the conversion of Kaombo Norte FPSO and Kaombo Sul FPSO, both for Saipem.

Projects in progress

Our ongoing projects in the Rigs & Floaters segment continue

to progress well. These include engineering and construction of Sleipnir, the world's largest semi-submersible crane vessel (SSCV) for Heerema, and the construction of two high-specification ultra-deepwater drillships for Transocean.

CHAIRMAN AND CEO'S REPORT



FPSO Kaombo Norte (delivered Mar 2018)



FPSO Kaombo Sul (delivered Dec 2018)

Engineering and construction works have also commenced for three key offshore production contracts secured in late 2017 and in 2018. These comprise:

- Turnkey engineering, procurement and construction of newbuild FPSO hull and living quarters for Equinor, to be deployed at the Johan Castberg field development in the Barents Sea;
- Construction and integration of hull, topsides and living quarters for Shell's Vito semi-submersible FPU; and
- Engineering, procurement, construction and integration of a newbuild FPSO hull, living quarters, topside modules and owner-furnished equipment for TechnipFMC.



Heerema's Sleipnir, the world's largest semi-submersible crane vessel (SSCV), undergoing commissioning

At our Estaleiro Jurong Aracruz (EJA) facility in Brazil, work is progressing on the hull carry-over works and topside modules construction and integration for the FPSO P-68, as well as topside modules construction for FPSO P-71. Both these vessels will be deployed at the Tupi Project.



Artist's impression of Transocean Jurong Espadon 3T; two drillships under construction



Artist's impression of Johan Castberg FPSO



Artist's impression of Karish FPSO



Artist's impression of Shell Vito Floating Production Unit (FPU)



Johan Castberg FPSO structural blocks



Karish FPSO hull fabrication



Shell Vito FPU column assembly

Repairs and Upgrades

In FY2018, we carried out a total of 296 dry-dockings, repairs and upgrades. Total revenue was \$476 million, compared with \$499 million in FY2017. Revenue per vessel was higher than FY2017 on higher value works and improved vessel mix.

In 2018, Sembcorp Marine again emerged as the world's top LNG vessel repair yard (for the sixth time) with a total of 41 LNG ships serviced and upgraded in 2018. We expect this strong performance to continue into 2019, having already secured a significant number of LNG shiprepair and upgrading orders year to date.

Major offshore repairs and upgrading completed in 2018 included the upgrading of FPSO Pyrenees Venture for MODEC as well as repair and demucking works for Chevron Thailand's Benchamas FSO.

In the cruise ship market, we cemented our position as Asia's

top cruise ship repair and upgrade solutions provider in 2018 with the completion of 10 cruise vessel projects, including one for our new customer, Norwegian Cruise Line.

Green Technology Solutions – Ballast Water Management System and Gas Scrubber Installations

Sembcorp Marine completed a number of ballast water management system (BWMS) retrofit projects in 2018, including three for Princess Cruise Lines. We also completed scrubber installation projects on a cruise ship and two tankers.

In FY2018, we achieved \$160 million new orders for retrofitting BWMS and gas scrubbers on 58 vessels. These included a major green technology retrofit contract from Greek owner Maran Tankers for the installation of 13 marine scrubbers and four BWMS. The contracts attest to our expertise and experience in green technology solutions.

Going forward, we expect orders for BWMS and scrubber retrofits to remain strong.

Offshore Platforms

Sembcorp Marine Offshore Platforms delivered the Maersk Oil Culzean topsides project in May 2018. Comprising Well Head, Utilities & Living Quarters as well as Central Processing Facility, the approximately 30,000-tonne integrated topsides were constructed at Sembcorp Marine Admiralty Yard over 32 months. These topsides can handle up to 500 MMSCFD of gas and 25,000 bpd of condensate. In addition, a power generation module and two interconnecting bridges, which formed part of the integrated topsides, were separately completed at our subsidiary Sembmarine SLP in Lowestoft, UK, and delivered in June last year. The topsides comply fully with UK safety regulations for harsh-environment operations in the Culzean field.

CHAIRMAN AND CEO'S REPORT

The Culzean topsides strengthen our track record of satisfying the world's most demanding oil and gas field requirements, including high-pressure/high-temperature (HP/HT) operating conditions. Along with FSO Ailsa and high-specification jack-up rig Maersk Highlander, they form an integrated suite of Sembcorp Marine engineering solutions for the Culzean gas field.

SUSTAINABILITY AND GROWTH

Sustainability is a core focus for Sembcorp Marine in driving growth and delivering long-term value to our stakeholders. We are committed to: operating ethically and responsibly by ensuring good corporate governance; maintaining workplace safety and health excellence; mitigating environmental impact; optimising resources and energy; as well as promoting community care and engagement. We actively encourage our employees, customers, contractors, suppliers, partners and other stakeholders to advance shared goals for sustainable progress.

Cleaner operations

As part of our new-generation, smart and sustainable yard programme at TBY, Sembcorp Marine will design and construct a series of up to 12 LNG hybrid-powered tugs which will progressively replace our existing diesel-powered tug fleet by 2025. The replacement of our fleet with LNG hybrid-powered tugs is part of our commitment towards greener operations and compliance with IMO emission targets.

The Group's collaboration with the Singapore Power Group to



Fixed platform topsides for the Culzean field, delivered in May 2018

develop a new digital system for harnessing solar energy at TBY is currently in its final phase of development. This system is set to be the largest single solar rooftop at a shipyard in Southeast Asia, capable of producing and managing sufficient solar energy to reduce 30 per cent of grid-supplied electricity consumption at the yard's steel fabrication facility during peak load. The digital energy management system is equipped with energy storage capabilities, energy sensors and a real-time digital platform to track, evaluate and optimise energy utilisation in the yard.

Due for completion in 2019, the solar rooftop will generate approximately 5,380MWh of green energy each year – equivalent to powering about 1,120 four-room flats and reducing up to 2,500 tonnes of carbon emissions annually.

Workplace safety and health

Workplace safety and health (WSH) continues to be of foremost priority as we design, develop and execute our engineering solutions.

We continue to pursue our Vision Zero incidence goal through a multi-stakeholder approach involving employees, customers, subcontractors and vendors to jointly strengthen Health, Safety and Environment (HSE) capabilities and safeguards, as well as build a robust WSH culture. Sembcorp Marine's commitment towards HSE, and specifically our proactive Stop-Work Authority Programme, won the Safety Initiative Award at the Seatrade Maritime Awards Asia in April 2018. In addition, the continuous efforts of our stakeholders, coupled with stringent HSE systems at our yards, helped the Group win 15 accolades at the 2018 WSH Awards.

To learn and exchange HSE best practices, we also participated in several knowledge-sharing platforms with customers and contractors in 2018.

Human resources

Workforce optimisation, right-sizing, cost-control and productivity enhancement measures remain in place at Sembcorp Marine, ensuring operational efficiency and prudent resource allocation.

Employee training, re-skilling and up-skilling are ongoing to gear our workforce with the appropriate skill sets and core competencies to successfully execute turnkey EPC newbuild projects and gas value chain solutions.

As the Group aspires to grow new business segments and move further up the value chain, we will continue our training and development efforts as well as selective recruitment of staff with specialised skills.

Continuous Research & Development

Given the growing relevance of LNG as a more environmentally-friendly fuel, Sembcorp Marine is expanding our technologies and capabilities in the gas sector. In 2018, we signed a Memorandum of Understanding (MOU) with ABS and A*STAR's Institute of High Performance Computing (IHPC) to develop new technologies, applications and capabilities that advance the adoption of LNG as a globally preferred fuel.

Research areas include: small-scale LNG applications such as LNG-battery hybrid tugs, LNG bunker vessels and LNG terminals; offshore LNG processing, fuel transfer and containment; and new LNG uses, especially in offshore applications. The collaboration further seeks to enhance local knowledge and skill sets in LNG technology by developing training capabilities and conducting technical workshops.

Specific to TBY's renewal of its tugboat fleet with LNG hybrid vessels, Sembcorp Marine is also teaming up with ABS to enhance and optimise the design and energy efficiency of our replacement tugboats.

In our ongoing research projects, we have been working with DNV GL, A*STAR's Singapore Institute of Manufacturing Technology (SIMTech) and the National Additive Manufacturing Innovation Cluster (NAMIC) on various initiatives: developing smart technologies and innovative engineering solutions; test-bedding and integrating automation and artificial intelligence; as well as incubating and verifying disruptive applications. Examples include drone-based ship inspections, digital twin, and 3D printing of ship repair parts as well as bigger structures for offshore constructions.



Tuas Boulevard Yard boasts Southeast Asia's largest single solar rooftop in a shipyard

CHAIRMAN AND CEO'S REPORT

Supporting the community

Giving back to the community is an important part of Sembcorp Marine's corporate social responsibility. In 2018, we contributed \$1.68 million to support causes in youth and education, environmental care, community care, active lifestyle and culture as well as industry development. The Group's employees also volunteered more than 6,680 hours at community events.

INSIGHT Programme

Sembcorp Marine's INSIGHT programme aims to spark students' interest and passion in offshore and marine engineering by providing them with hands-on guidance and direct industry experience. During the year, several groups of students and lecturers visited our yards to witness key project construction milestones, such as topside mega-structures load-out for the Culzean offshore platforms project as well as the launch and construction of a high-specification newbuild jack-up rig.

ITE Financial Assistance Grant

Under the Sembcorp Marine-sponsored Institute of Technical Education (ITE) Financial Assistance Grant scheme, ITE engineering students requiring financial support receive monthly allowances of \$600. This corporate financial assistance programme, valued at \$576,000, is implemented over two years and benefited 40 students in 2018.

SchoolBAG

Since 2001, the Sembcorp Marine School Book Assistance Grant (SchoolBAG) has been providing financial help to students from low-income families. In 2018, \$203,800 in bursaries were awarded to 1,002 primary, secondary and junior college students. This brings



A SchoolBAG 2018 recipient from the Secondary School Level with Education Minister Mr Ong Ye Kung

the programme's cumulative contributions over the years to more than \$4.2 million.

Green Wave

Sembcorp Marine's Green Wave Environmental Care Competition is a major platform for promoting environmental protection and sustainability among students. Launched in 2003, the annual competition attracts participants from primary and secondary schools, junior colleges, ITEs and tertiary institutions. The 2018 Green Wave competition saw 843 local and regional students teaming up to develop 234 innovative projects for environmental improvement. We hope this platform will continue to inspire creativity among students and serve as a springboard for future sustainability innovations.

CSR in overseas yards and offices

Beyond Singapore, Sembcorp Marine's overseas yards and offices actively champion community engagement and social development in their respective countries.

In Indonesia, P.T. SMOE and P.T. Karimun Sembawang Shipyard have several corporate social responsibility initiatives in place to support local communities. These include: conducting technical training and skills enhancement for locals; providing free healthcare services; organising donation drives; and supporting community organisations in their renovation and infrastructure upgrading projects.

EJA, the Group's Brazil yard, promotes social responsibility and environmental sustainability through a host of initiatives, including its Notice for Project Support Programme where charities and non-profit organisations can apply for project funding. In 2018, the yard also held charity campaigns to raise funds for the elderly and participated in an ecological tour to promote environmental awareness.

EJA also advances skills training and employment creation for locals through its ongoing Joint Education Programme and Apprenticeship Programme.

In recognition of its commitment to corporate social responsibility, EJA received two sustainability awards from the Brazilian Association of Human Resources in 2018 for contributing to local training and development as well as empowering women in the community.

In the UK, our subsidiary yard Sembmarine SLP supported various social causes and charities in 2018.

OUTLOOK AND PROSPECTS

Global capex for offshore exploration and production (E&P) is expected to improve further. While offshore drilling activities have increased, offshore rig orders will take some time to recover as the market remains over-supplied.

Offshore production units are expected to dominate the order pipeline and Sembcorp Marine is responding to increasing enquiries and tenders for innovative engineering solutions.

The shiprepairs and upgrades segment remains intensely competitive although the market is expected to improve with a higher work volume from the new IMO regulations requiring the installation of BWMS and gas scrubbers on vessels.

Overall business volumes and activities for the Group, while stabilising, are expected to remain relatively low. We will continue to manage our costs, cash flows and gearing prudently to address our balance sheet and to capitalise on new business opportunities.

APPRECIATION

On behalf of the Board, we would like to extend a warm welcome to Mr Patrick Daniel and Mr Tan Wah Yeow, who were both appointed as non-executive, independent directors of the Group in April and December 2018 respectively.

We thank the Board of Directors for their wise counsel and stewardship. We also thank our management team, employees and union for their contributions and subcontractor partners, bankers and bond holders for their support in the past year.

A heartfelt thank-you also goes to our customers for their continued trust and confidence in Sembcorp Marine.

Finally and once again, we thank our valued shareholders for their steadfast support, as we steer the Group into a more promising year ahead.



**TAN SRI MOHD HASSAN
MARICAN**
Chairman



WONG WENG SUN
President & CEO

4 March 2019