

# CHAIRMAN AND CEO'S JOINT REPORT



**TAN SRI MOHD  
HASSAN MARICAN**  
CHAIRMAN



**WONG WENG SUN**  
PRESIDENT & CEO

The Group is aligning its businesses with the rapidly changing energy dynamics and developing new products and solutions that will grow shareholder value. In FY2019, we achieved **\$1.49 billion** in new orders, of which **\$530 million** related to greener solutions, including gas and renewable energy projects.

**TAN SRI MOHD HASSAN MARICAN**  
CHAIRMAN

## Dear Shareholders,

2019 was the fifth difficult year the Company has had to ride through. We have done this while continuing to transform and diversify into a sustainable global business ready to seize opportunities in the new decade.

Following the global oil market crash in October 2014, the ensuing prolonged cyclical industry downturn severely impacted our financial performance. FY2019 remained challenging with volatile oil prices, intensifying competition, geopolitical uncertainties and ongoing structural changes in the global energy industry. All these factors continue to disrupt the offshore oil and gas value chain.

In response to the rapidly changing dynamics of the offshore, marine and energy industries, we are aligning our businesses with global

trends and developing new products and solutions that will strengthen shareholder value.

One key initiative is Sembcorp Marine's sustainability journey. We are making good progress in the new age of greener energy and the increased worldwide awareness of the impact of climate change and global warming. To underline our green commitment, Sembcorp Marine will for the first time publish a separate sustainability report covering our plans, objectives and achievements on this front. Our goal over the next five years is to move the Group towards businesses and product segments that focus on cleaner fuel sources and provide greener energy solutions in partnership with our key customers.

We are glad to report that we are seeing results from the Group's

transformation and diversification strategy and our active pursuit of projects involving a cleaner energy mix. Sembcorp Marine achieved \$1.49 billion of new orders in FY2019, including contracts from new and existing customers across our broadened suite of products and solutions.

This is a 26% improvement over FY2018's total of \$1.18 billion new contracts.

Some \$530 million of our new orders in FY2019 – over one-third of the total – related to greener solutions, including scrubber and ballast water management system retrofits, and gas and renewable energy projects. Among them, the Group won a design-and-build contract from Mitsui O.S.K. Lines (MOL) for a 12,000-cubic-metre (cbm) capacity LNG bunker vessel.

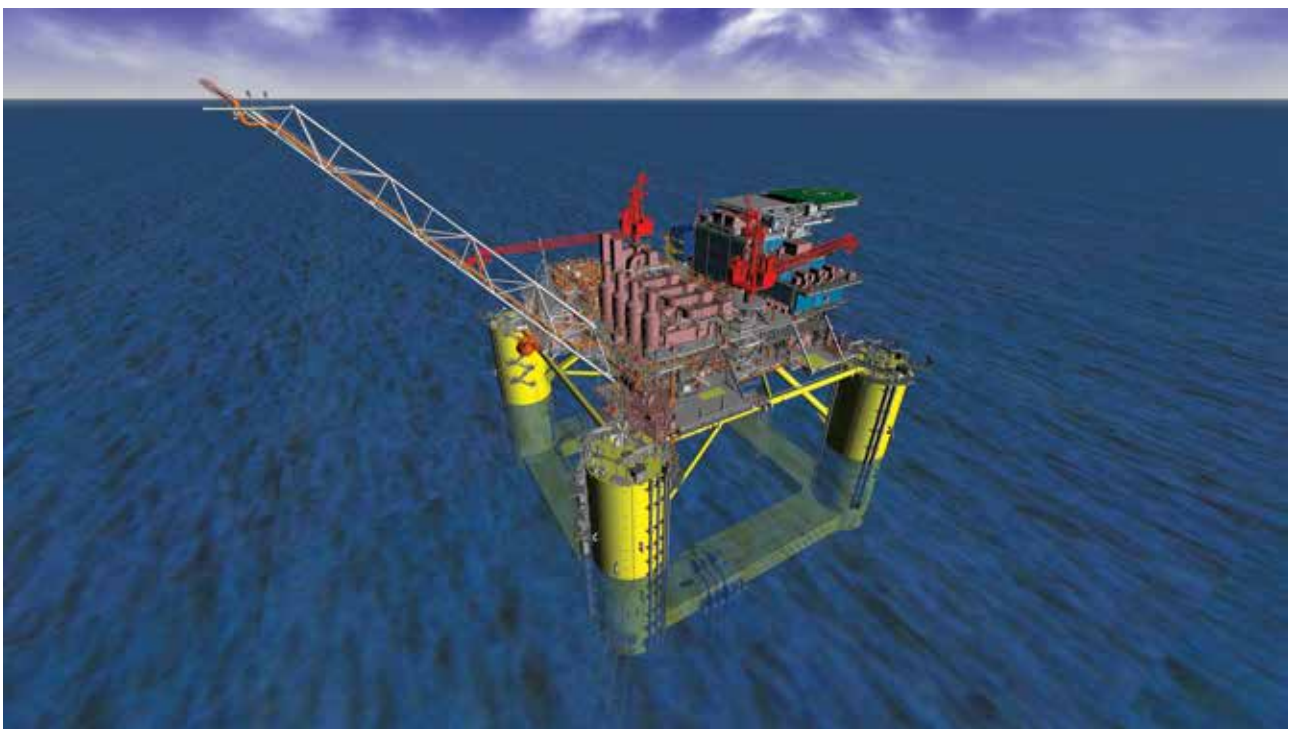
Equipped with GTT's industry-leading membrane tank system, the vessel is the largest of its kind to be built in Singapore.

Another notable contract win in the offshore production segment is the Shell Whale Floating Production Unit (FPU) construction project. This follows the Shell Vito FPU project awarded to us in FY2018 for deep-water development in the US Gulf of Mexico. The Whale FPU began its construction phase with a strike-steel ceremony on Feb 12, 2020, and will draw considerable synergies from the ongoing Vito project.

Both the Vito and Whale FPUs will be delivered from our flagship Tuas Boulevard Yard (TBY) as single integrated structures, facilitated by the yard's new 30,000-tonne lifting capability, the world's heaviest for offshore construction.



*Artist's impression of the 12,000cbm MOL LNG bunker vessel*



*Artist's impression of the Shell Whale FPU*

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In FY2019, we made further progress as a contender for big, high-value offshore projects, with more oil and gas exploration and production now taking place in deeper, harsher and colder environments. We are currently in talks for several such opportunities, having engaged these prospects early in the project life-cycle with solutions that optimise project execution as well as safety and efficiency in post-delivery field operations. We believe the more exacting technical requirements play to our strengths, but will require longer planning and development durations before the projects are awarded.

To sustain our business growth over the next few years, we will continue our selective investment in strategic innovations, technologies and production capabilities to strengthen our competitive edge and improve our new orders flow. Our wealth of proprietary designs, for all types of ships and offshore engineering solutions, puts us in a strong position to vie for a wide spectrum of projects, including those related to oil, gas, offshore wind, battery and hydrogen fuel cell-powered applications.

## FINANCIAL PERFORMANCE

In FY2019, the Group generated \$2.88 billion in revenue, compared to \$4.89 billion the year before. If the 2018 delivery of seven jack-ups and sale of a semi-submersible rig are excluded, our revenue in FY2019 would have recorded a 6% growth. We posted positive EBITDA of \$104 million for the year, compared with \$143 million in FY2018. Our group operating loss was \$139 million in FY2019, compared with \$52 million operating loss the year before.

While margins continued to be recognised from newly secured

“Sembcorp Marine has drawn further impetus from the challenging market conditions to diversify into new segments. And we are constantly honing our ability to compete for bigger and higher-value projects. We will continue to execute our ongoing jobs safely and efficiently, and manage our cost levels carefully.”

**WONG WENG SUN**  
PRESIDENT & CEO

projects, FY2019's operating loss was mainly due to continued low overall business volumes and accelerated depreciation of \$48 million arising from the Group's yard consolidation strategy. We relocated all operations from our Tanjong Kling Yard by end 2019, with resulting cost savings estimated at \$48 million per annum gradually being realised from FY2020 onwards.

FY2019 net loss attributable to shareholders was \$137 million, compared to a net loss of \$74 million reported in FY2018.

### Five-year \$2 Billion Subordinated Loan Facility

On June 21, 2019, Sembcorp Marine announced jointly with Sembcorp Industries Ltd (SCI) that it had secured a five-year subordinated loan facility from SCI totalling \$2 billion. SCI is our largest shareholder, with a 61% stake in the Company.

Approximately \$1.5 billion of the subordinated loan has been deployed to retire a majority of our short-term borrowings and re-profile debt from short-term to longer term. The balance \$500 million will be drawn down for working capital and general corporate purposes. These moves will improve the Group's financial

flexibility and strengthen our financial position to seize more opportunities as the industry recovers.

### Balance Sheet and Cash Flow

As at Dec 31, 2019, Sembcorp Marine's net debt totalled \$4.01 billion. Excluding the \$1.5 billion drawn down from our \$2 billion subordinated loan facility, our net debt to equity ratio was 1.14 times.

Our operating cash flow generated before working capital changes was \$103 million in FY2019, compared to \$157 million in FY2018. Net cash used in operating activities was \$296 million, mainly for working capital for ongoing projects, offset by receipts for completed projects.

As at Dec 31, 2019, the Group had net current liabilities totalling \$310 million, arising mainly from loans which will mature in FY2020. We are finalising arrangements with our lenders to refinance and re-profile these loans with longer term maturities. We have adequate existing loan facilities to refinance current borrowings as they fall due.

### Final Dividend

In view of the challenging conditions, the Sembcorp Marine Board is not proposing a final dividend for the financial year ended 2019.

## NEW CONTRACTS

Other than the Shell Whale FPSO and MOL LNG bunker vessel, Sembcorp Marine's contract wins in FY2019 included a project with first-time customer Jan De Nul to fabricate jacket foundations for Formosa 2, the biggest offshore wind farm in Taiwan. Through this collaboration, we have managed to penetrate the highly competitive Taiwanese offshore wind industry.

The Group also secured a Floating Production, Storage and Offloading (FPSO) conversion job from Shapoorji Pallonji and Bumi Armada. We closed the year with an announcement in late December of two new offshore platform contracts worth over \$550 million for the Al Shaheen field and Tyra field redevelopment projects. The contracts were respectively awarded by the ultimate customers, North Oil Company and Total.

Going into FY2020, we are optimistic about our negotiations on several major projects, including the Siccar Point Cambo Field FPSO, for which we have concluded an exclusive FEED using our proprietary Sevan cylindrical hull design and will be moving into the next phase. This puts Sembcorp Marine in pole position for the contract once Siccar Point and their partners make the Final Investment Decision in 2020.

The Group's net order book now stands at \$2.44 billion, excluding the Sete Brasil drill ships.

### Sete Brasil Drill Ship Contracts

In October 2019, we announced a full and final settlement with the Sete Brasil Group on the claims under all seven drill ship contracts signed with them in 2012.

Under the settlement agreement, we retain the titles to five of the seven



Sembcorp Marine upgraded FPSO BW Magna in 2019



Concurrent repair projects: Genting Cruise Lines' Explorer Dream (foreground, formerly Superstar Virgo) and Norwegian Cruise Line's Norwegian Joy at Sembcorp Marine Admiralty Yard

drill ships, while ownership of the remaining two vessels in advanced construction stages is apportioned between Sembcorp Marine and Sete Brasil based on payments we have already received from the latter.

The settlement agreement is subject to certain conditions precedent which have since been fulfilled. We have also terminated our arbitration proceedings against the Sete Brasil Group as part of this agreement.

Sembcorp Marine is now negotiating with a potential purchaser on

completing two of the seven drill ships. We hope this will soon progress to new orders for us.

## REPAIRS & UPGRADES AND GREEN TECHNOLOGY RETROFIT SOLUTIONS

Meanwhile, Sembcorp Marine's Repairs & Upgrades business did well in FY2019, having serviced 280 vessels with an average per-vessel revenue of \$2.16 million, compared to \$1.61 million in FY2018.

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In the Floating Storage Unit (FSU) and Floating Storage & Regasification Unit (FSRU) business, we won five conversion and upgrading contracts, valued at \$71 million in all. These projects were among 55 LNG-related repair and upgrade jobs we received in FY2019, which was a world record for the highest number of such contracts awarded to a single service provider in the global gas segment.

We also completed 16 cruise ship projects in FY2019, and with that, the Group retained its position as Asia's

top cruise repair and upgrading company.

The new IMO regulations on ballast water treatment and fuel sulphur reduction have brought good opportunities to the Group. Over the past 18 months, we secured more than 200 installation orders for ballast water management systems and gas scrubber units, with some to be completed in 2020. These Green Technology Retrofit Solutions and related works contributed close to \$100 million of revenue in FY2019.

## PROJECTS IN PROGRESS AND DELIVERIES

Sembcorp Marine's projects in progress include: the Johan Castberg and Karish newbuild FPSOs; Shell Vito and Whale FPU's; Transocean drill ships; Norled battery-powered roll-on/roll-off passenger (ROPAX) ferries; MOL LNG bunker vessel; and the Ørsted Hornsea 2 offshore wind farm substation topsides, fabricated at our yard in Batam, Indonesia, and now undergoing additional work at Admiralty Yard in Singapore.

In July 2019, the Group delivered *Sleipnir*, the biggest and strongest semi-submersible crane vessel ever built, to our customer Heerema Marine Contractors. The dual-fuel (LNG and MGO) vessel, with its two 10,000-tonne capacity cranes, has since been in high demand for offshore installation and decommissioning jobs. *Sleipnir* recently set a world record for hoisting 15,300 tonnes in a single lift at Noble Energy's Leviathan field development in the Mediterranean.

Our Brazilian yard facility Estaleiro Jurong Aracruz (EJA) handed over the P-68 FPSO to Petrobras in September 2019, successfully completing its first major project and demonstrating the yard's full capabilities in engineering, procurement, construction and commissioning (EPCC). EJA is now executing module fabrication and integration work for the Petrobras P-71 FPSO.



Shell Vito FPU topside and living quarters under construction at Sembcorp Marine Tuas Boulevard Yard



Johan Castberg FPSO under construction at Sembcorp Marine Tuas Boulevard Yard



Hornsea 2 Offshore Wind Farm topsides, fabricated at Sembcorp Marine's Batam Yard



*SSCV Sleipnir, delivered to Heerema Marine Contractors in July 2019*



*Q7000, delivered to Helix Energy Solutions in November 2019*



*The newly completed P-68 FPSO sailing away from EJA in September 2019*

Besides the two projects, EJA last year took on a number of repair and upgrade jobs for FPSOs, semi-submersibles, drill ships and other ship types.

In November 2019, we delivered the Q7000 well intervention semi-submersible rig to Helix Energy Solutions. This vessel combines the customer's well intervention technology with our twin-pontoon hull design optimised to reach 11.5 knots maximum transit speed - faster than any other semi-submersible rigs in the market. With its minus 20-degree-Celsius (°C) structural design temperature, Q7000 showcases Sembcorp Marine's advanced engineering solutions for deeper, colder and harsher operating environments.



*In 2019, EJA took on a number of repair and upgrade jobs for FPSOs, semi-submersibles, drill ships and other ship types*

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## INVESTING IN FUTURE GROWTH

As the Group navigates its current business challenges, we are well-placed for the global shift towards cleaner energy use. Our long-term investment in innovation, Industry 4.0 technologies and specialised expertise will steer the development of new engineering solutions for gas and renewable energy production, storage, transportation and consumption. We are also selectively adding new production capabilities with an emphasis on optimising yard efficiency and sustainable operations.

Although offshore oil and gas remain our key markets, offshore wind is an area with attractive possibilities for us. To grow our order volume in this segment, we will raise our brand awareness especially in market regions that are unfamiliar with Sembcorp Marine's engineering solutions and track record.

With our new design solutions for the battery- and hydrogen fuel cell-powered segments, we are ready for more projects as we complete three zero-emission, battery-powered ROPAX ferries for Norwegian operator Norled, to be delivered in late 2020.

Our strategy of embracing new innovation and technologies, and developing future-ready capabilities and solutions, means that certain functions like engineering are becoming fixed costs. But the investment will boost our ability to cater for our customers' increasingly complex field developments. It will also open up exciting opportunities for the Group.

### Strengthening Our Operations

Sembcorp Marine's new 30,000-tonne capacity gantry cranes at TBY will greatly enhance our value proposition as a one-stop production centre for fabricating, assembling and installing



Sembcorp Marine's new gantry cranes at Tuas Boulevard Yard can hoist 30,000 tonnes in a single lift

larger, heavier and more complex projects. Mega-structures can be completely integrated before leaving TBY, instead of being transported out in several smaller parts that require further assembly and which will incur more costs and logistics for customers. We believe our superior lifting capability will be a game-changing differentiator.

In 2020, the 30,000-tonne cranes will support a number of projects, including the installation of the Shell Vito FPU's 9,200-tonne assembled topside on to its hull.

### Sharpening Our Sustainability Focus

On the sustainability front, we replaced in 2019 over 5 gigawatt-hours (GWh) of grid-supplied electricity with clean energy harnessed from the solar-roof installed at TBY's steel fabrication facility. This amount of solar electricity - enough to power about 1,100 four-room flats for one full year - helps us avoid over 2,100 tonnes of carbon emissions (tCO<sub>2</sub>e), which translates to taking 660 cars off the road for a year.

To improve our carbon footprint further, we will progressively scale up the solar power generation at TBY.

One other significant sustainability achievement last year was that we gained DNV GL certifications for our 3D printing procedures and specifications. We can now use 3D printing to make and restore parts for construction and repair projects. To strengthen our 3D printing experience and output, we will use large-format, metal-additive manufacturing printers to custom-make more components. This lowers material wastage, shortens production lead-times, and allows us to better manage supply chain risks by reducing our reliance on external procurement.

Our 3D printing development will come under an advanced manufacturing laboratory which we will set up soon at TBY, together with Singapore's Agency for Science, Technology and Research (A\*STAR), to test-bed and implement Industry 4.0-related technologies. Besides 3D printing, this facility will develop integrated digital robotic systems,



Sembcorp Marine President & CEO Mr Wong Weng Sun (right) receiving the 3D printing certifications from Mr Remi Eriksen, Group President & CEO of DNV GL

new solutions for tracking of assets, materials and manpower through the Internet-of-Things (IoT), as well as Virtual and Augmented Reality applications for production control and visualisation.

We are also working with DNV GL and Nanyang Technological University on marine electric solutions for onshore, nearshore and seagoing applications. This collaboration will help us realise zero-emission energy use in offshore and marine activities.



Samples of 3D printed parts certified fit for repair and construction purposes

### Empowering Our Workforce

Driving the Group's business excellence is a quality-oriented workforce with the expertise and commitment to execute work safely and effectively. As we continue to optimise manpower resources in the face of variations in work volumes, we are making sure our employees have the right type and level of skills to deliver good safety and productivity outcomes. They must also adapt to

new and disruptive technologies introduced into our operations.

Our ongoing competence development covers such areas as Industry 4.0 Readiness, Digitalisation, Gas & Process Engineering Training, and application-based Leadership Development for middle and senior managers. We have as well

rolled out up-skilling and re-skilling programmes in various trades that enable both our employees and resident contractors to support the widening spectrum of projects in our order book. Our engineers will also play a bigger role in developing and implementing innovative solutions to meet the more stringent requirements of our customers.



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A Yishun Innova Junior College student receiving the SchoolBAG award from Ms Indranee Rajah, Minister, Prime Minister's Office, and Second Minister for Finance and Education, Singapore

A competent and empowered workforce underpins the Group's global competitiveness. An increasing number of our customers not only demand the best solutions but also see Sembcorp Marine as a partner in their own sustainability efforts. We welcome the opportunity to work with them to create a bigger and concerted impact in environmental care, employee well-being and human rights. To take this forward, we are actively aligning customers' requirements with our sustainability goals, strategies and daily practices.

## SUPPORTING OUR COMMUNITY

As a global entity, Sembcorp Marine values the opportunity to support

the local communities within our operational network. Both the Group and our employees contribute to diverse charitable causes, including: fund-raising for the medical needs of the elderly and infirm; bursaries for students from low-income families; activities promoting and preserving local cultures; and environmental conservation events.

The Group has a tradition of helping youths succeed as we believe they are the future leaders who can catalyse positive change for society and the environment. In 2019, Sembcorp Marine gave out \$1.07 million worth of scholarships and bursaries through various programmes, such as the annual School Book Assistance Grant which we have organised since 2001.

The Sembcorp Marine Green Wave Environmental Care Competition, another yearly corporate social responsibility (CSR) event, attracted over 280 project submissions from 1,000 students in Singapore and Indonesia, with the top sustainability ideas winning prize monies of up to \$10,000.

In all, we committed \$1.81 million and more than 10,000 employee-volunteering-hours towards CSR initiatives last year.

## LOOKING AHEAD

Sembcorp Marine's overall business activity levels are likely to remain low in FY2020, except for repairs and upgrades which will grow further, bolstered by IMO regulations for

ballast water treatment systems and gas scrubbers.

We expect competition to remain intense in all our business segments. We will continue to face tough market and operating conditions, particularly with the COVID-19 virus outbreak disrupting supply chains and possibly affecting our project executions. As our topmost priority, we have taken all necessary measures and precautions at Sembcorp Marine facilities to protect our employees, customers and business associates from the virus outbreak.

Notwithstanding the foreseeable challenges, we have been steadily strengthening our capabilities and broadening our engineering designs, products and solutions. We have drawn further impetus from the challenging market conditions to diversify into new segments and are now competing more aggressively for bigger and higher-value works.

In 2020, we aim to bring our negotiations on several major projects to fruition. We will also stay focused on executing ongoing jobs safely and efficiently, and manage our cost levels carefully.

As always, the Group will strive to deliver long-term value to our stakeholders.

## TERMINATION OF QUARTERLY REPORTING

In January 2020, the Stock Exchange of Singapore announced their decision to discontinue the mandatory quarterly reporting (QR) requirement for most listed

companies. Sembcorp Marine will accordingly cease QR from the first quarter of FY2020 onwards and release only the Group's half-year and full-year financial results. However, we will continue to engage our stakeholders regularly and publish quarterly updates on key market and industry trends as well as our contract wins, projects in progress, major company developments and other pertinent issues. We will also maintain our practice of announcing all material developments related to the Group as and when necessary.

## APPRECIATION

We wish to thank the Sembcorp Marine Board of Directors for their counsel and leadership in the past year. We are especially grateful to Mr Ron Foo and Mr Neil McGregor, who will both retire from the Board at the Annual General Meeting this year.

Mr Foo is currently the chairman of the Audit Committee. He joined Sembcorp Marine as a Non-executive and Independent Director in 2006 and has guided the Group in fulfilling our fiduciary duties over the past 14 years.

Mr McGregor, a Non-executive and Non-independent Director of Sembcorp Marine since 2017, has supported us as a member of the Executive Committee.

Next, we would like to thank the management team, employees, unions, sub-contractor partners, suppliers, bankers and bondholders for their contributions in 2019.

We are also grateful to all Sembcorp Marine customers for their trust and confidence in us.

Last but not least, we sincerely thank our valued shareholders for their continuous support during this challenging period.



**TAN SRI MOHD HASSAN MARICAN**  
Chairman



**WONG WENG SUN**  
President & CEO

9 March 2020