



Company Registration Number: 196300098Z

Sembcorp Marine Ltd 59th Annual General Meeting Information in Response to Questions from SIAS

Singapore, 19 April 2022 – Sembcorp Marine Ltd (“**Sembcorp Marine**” or the “**Company**”, and together with its subsidiaries, the “**Group**”) has received substantial and relevant questions from the Securities Investors Association (Singapore) (“**SIAS**”) on its 2021 Annual Report in advance of the 59th Annual General Meeting (“**AGM**”) to be held by electronic means at 11.00 a.m. on 20 April 2022.

The Company has prepared and is releasing with this announcement the responses to the said questions.

Written Responses to SIAS' Questions

Questions

1. As shown on pages 4 & 5 of the annual report, the group's 2021 highlights include a 23% increase in revenue to \$1.86 billion and a net order book of \$1.3 billion. The group had also successfully delivered several key projects, including a newbuild floating production unit for Shell, newbuild floating production storage and offloading (FPSO) project for Equinor, etc.

As noted in the chairman and CEO's joint report, the group is working on 12 key projects due for completion and delivery from 2022 to 2025 and has just announced a contract for the construction of a wind turbine installation vessel ("WTIV") based on an in-house design in collaboration with the customer on 23 March 2022.

For the full year ended 31 December 2021, the group registered a net loss of \$(1.17) billion, with provisions totalling \$839 million. The provisions for costs to be incurred is made up of three key items, namely additional labour and other costs to complete existing projects amounting to \$696 million; reinstatement costs for yards totalling \$75 million, as well as asset impairment loss and project stock write-down of \$68 million.

- (i) Can management elaborate further on the "additional labour and other costs" to complete existing projects that amounted to \$696 million?
 - a. In particular, please provide a breakdown of the additional labour costs and the anticipated manhours.
 - b. With regard to the additional labour costs, what is the breakdown between additional COVID-related costs and costs that are not due to the pandemic? How much of the \$696 million provision was due to operational requirements/management judgement which led to under-estimation of the labour requirements? For reference, in FY2021, the group recognised total staff costs of \$429.6 million (compared to the provision of \$696 million).
 - c. Please also provide a breakdown of the major components in "other costs". What is the total provision amount?
 - d. Did the board, especially the independent directors, carry out a review of the significant provisions and determine if improvements are needed?
 - e. While the group reported that it had successfully delivered to Equinor the engineering, procurement and construction of hull and living quarters for the Johan Castberg newbuild FPSO for completion in Norway, the project was reportedly delayed for more than a year. The Petroleum Safety Authority Norway (PSA) issued Equinor with an order following the identification of "serious breaches of the regulations". It was reported that the PSA became aware of weld-quality errors in the Johan Castberg FPSO hull in the first half of 2020. The safety authority said that extensive repair work was required.

According to the PSA, fabrication was transferred from the Tuas Boulevard Yard to three other yards. In addition, welding expertise and quality control were inadequate. Several identified risks remained unresolved over a long period, and the seriousness of some increased during the project period. Accordingly, PSA increased the scope of inspecting hull welds to 100 per cent to ensure safety and

quality. The PSA summary and the full investigation report can be viewed at the following URLs respectively:

- <https://www.ptil.no/en/supervision/investigation-reports/2021/order-to-equinor-following-investigation-of-the-johan-castberg-project/>
- <https://www.ptil.no/contentassets/90cba671f56443eea52a6e2a91704acc/investigation-report--johan-castberg-project.pdf>

Can management elaborate further on the challenges it faced in the FPSO project? What was the level of oversight provided by senior management and by the board, if any? Can management also explain in greater detail the reasons for PSA' observations on the group's expertise and quality control? What changes, if any, has the group implemented?

- (ii) With a net order book of \$1.3 billion, there is little visibility of the group's prospects although it is encouraging that 43% of the group's net order book are for renewables and other cleaner and green solutions sectors (page 11).
- What is management's strategy to secure firm orders with strong counterparties given the increase in oil prices in 2022?**
 - In addition, how is the group going to acquire new customers from renewables, other cleaner and green solutions segments?**
 - Are there opportunities to secure additional orders from the WTIV customer (as announced on 23 March 2022)?**

FY2021 Material Provisions

The past two years have been among the most challenging years for the industry. The outbreak of the COVID-19 pandemic in 2020 extended into 2021, pushing out the industry recovery and creating unprecedented disruptions. FY2021 marks the sixth year of a global oil & gas sector recession.

For the financial year ended 31 December 2021, the Group registered a net loss of S\$1,171 million, largely due to push-out of delivery for its ongoing projects, with significantly higher provisions for manpower and other costs to complete most of the projects during the year and over the next six to nine months.

The net loss took into account the following provisions totaling S\$839 million (post-tax basis):

- Additional labour and other costs to complete existing projects of S\$696 million;
- An increase in provisions for yards' reinstatement of S\$75 million; and
- An increase in asset impairment loss and project stock write-down of S\$68 million

The S\$696 million provisions for additional labour and other costs to complete the existing projects include the following:

- Additional labour costs** - Since the onset of the COVID-19 pandemic in 1Q2020, the majority of the Group's projects have been delayed by at least 12 months. The Group has actively recruited additional skilled labour from non-traditional sources in order to complete its projects with minimum further delays. On average, recruitment from non-traditional sources costs more than twice that from the Group's traditional sources, due to higher wages and costly upfront COVID-19 related recruitment costs (e.g. up to five weeks of quarantine in home country and Singapore). Consequently, significant additional manpower provisions have been incurred.

- (b) **Other Additional costs** - Arising from the delays in project execution, the Group also incurred additional costs due to work re-scheduling, extra sub-contract work, additional material usage and other staff turnover related costs.

Operational Challenges

The Group faced serious and unprecedented challenges in FY2021 as the COVID-19 pandemic persisted, which seriously affected its projects under execution. Despite the challenges, the Group did not see a single cancellation of projects. Instead, the Group managed to deliver a good number of projects during FY2021 to 31 Mar 2022, including the completion of the Johan Castberg FPSO (Floating, Production, Storage and Offloading) vessel and its delivery to Equinor.

Sembcorp Marine's scope of work for the Johan Castberg FPSO vessel comprises the construction of the hull and living quarters. The work on the hull and the living quarters was in an advanced stage when the COVID-19 pandemic occurred, resulting in various work restrictions which caused delays in the project. During the construction of the hull, there were also variations and additions to the scope of work which required more time to complete.

Johan Castberg is designed to FPSO hull main specifications, including Norsoks and DNV Class Rules. The newbuild FPSO also met the stringent requirements of the Norwegian and PSA (Petroleum Safety Authority) regulatory requirements.

The Johan Castberg FPSO project also attained laudable safety achievements of "Target Zero", "Zero Harm" and "Safety Starts with Me" goals and recorded 38 million man-hours without serious incidents. The cumulative Total Recordable Incident Rate (TRIR) stands at 0.16, one of the lowest ever recorded for a newbuild project.

For additional information related to Johan Castberg, please refer to the Company's announcements, Clarifications relating to media reports dated 24 October 2021 and Delivery of Johan Castberg FPSO Project dated 17 February 2022.

Operational Measures

The Group continues to actively undertake measures to reduce the operational cash burn rate and carefully manage working capital, including deferment of all non-essential capital expenditure.

The Group also worked with external consultants to develop a holistic Performance Improvement Plan ("**PIP**") to drive operational improvements and optimise its cost structure. The PIP includes strategic cost management initiatives, improved project execution and procurement processes, digitisation and overall reduction of overheads, to deliver significant savings and increase the competitiveness and profitability of the Group.

Strategic Business Transformation

With Sembcorp Marine's significant transformation and strategic diversification towards the renewables and cleaner energy space since 2015, it has built a creditable position and track record. The Group's renewable and other cleaner and green solutions account for approximately 30% of turnover and 43% of the net order book in 2021.

The Group has developed innovative capabilities and expanded into greener energy, such as offshore wind, hydrogen, ammonia and electrification, and cleaner solutions for the gas value chain, decarbonisation, as well as carbon capture and storage. Its range of sustainable products includes wind farm solutions, wind turbine installation vessels, zero-emission vessels

fuelled by electricity, hydrogen and ammonia, near-shore liquefied natural gas terminals, LNG-battery hybrid tugs, as well as small waterplane area cylindrical hull solutions for diverse green energy and sustainability applications.

Through ongoing investments in innovation and technology, the Group will continue to enhance its competitive edge to seize opportunities in the oil and gas segment, as well as renewable energy and other green solutions which are expected to grow exponentially. Global offshore wind expenditure is projected to grow at a compound annual growth rate (CAGR) of 11% this decade to reach US\$126 billion per year by 2030, according to independent energy research firm, Rystad Energy.

Sembcorp Marine will continue to leverage its global footprint and integrated facilities across Singapore, Indonesia, the United Kingdom, Norway and Brazil to support the industry's diverse project requirements and to contribute to the global transition towards a low-carbon sustainable future.

For more information, please refer to the response to Question 3.

2. On 24 June 2021, the company announced that it had entered into a non-binding Memorandum of Understanding with Keppel Corporation Limited to explore the potential combination of Sembcorp Marine and Keppel Offshore & Marine ("Keppel O&M"). If completed, the potential combination would create an entity to increasingly seize emerging opportunities, particularly in the renewable and clean energy sectors.

The company has stated that due diligence process is ongoing and that it is working towards a definitive agreement in the first half of 2022. Keppel Corporation has announced that it is working towards a definitive agreement by 30 April 2022.

- (i) Can the board help shareholders understand who is leading the negotiation with Keppel?**
- (ii) What is the level of involvement by the directors?**
- (iii) What is causing the delay in the negotiation?**
- (iv) Can management (re)state the expected synergies? Given that Keppel O&M will be exiting the rig business, how will the group leverage its relatively stronger position to make an opportunistic acquisition of Keppel O&M since Keppel is looking to restructure and dispose of Keppel O&M?**
- (v) It was also reported that the company may pay Keppel a cash consideration of up to \$500 million. Does the board and management consider it more prudent to minimise any cash component and structure any potential combination with the issuance of new shares (and not cash)?**
- (vi) How does management ensure that it does not overpay for any potential combination as risks remain elevated despite the increase in oil prices?**

Ongoing Discussions & Due Diligence

Parties from Sembcorp Marine and Keppel are involved in the ongoing discussion and due diligence with support from their respective advisers.

The Board is involved in the due diligence process through timely updates and discussions with the Sembcorp Marine team and advisers, with a view to protect the interest of the Company's shareholders.

As per the joint announcement made by Sembcorp Marine on 31 March 2022, whilst both parties have made progress with the negotiations, additional time and deliberation is required to complete ongoing due diligence, reach mutual agreement on the transaction terms and finalise definitive legal documentation. Both parties remain committed to continuing with the exclusive negotiations.

Rationale of Proposed Combination

Reference is made to the 24 June 2021 Announcement where the Company shared that the objective of the Proposed Combination is to create a stronger combined entity which will deliver sustainable value over the long term for Sembcorp Marine and Keppel O&M and our respective stakeholders.

The Proposed Combination is in response to dramatic changes in the global O&M engineering and energy sectors, which are seeing a major transition away from oil globally. If and when completed, the potential combination would create a stronger player to capitalise on growing opportunities in the O&M, renewable and clean energy sectors.

With the complementary strengths of both businesses, the combined entity would be able to accelerate the Combined Entity's expansion into O&M renewables opportunities. The Combined Entity would be better positioned to participate in larger contracts, whilst pursuing the synergies that can arise from the increased operational scale, broader geographic footprint and enhanced capabilities of a larger entity.

The Combined Entity brings together the best talent, engineering skills, intellectual property, technical know-how, and complementary yard capabilities of both parties. This will enhance the strength and resilience of the Combined Entity to better address its target market segments globally.

Details of Proposed Combination

According to the terms of the MOU, Sembcorp Marine and Keppel Corporation will undertake mutual due diligence and discuss the terms of the Proposed Combination. Given the ongoing due diligence and discussions, we are unable to comment on the transaction terms.

The Company will update shareholders in due course in the event of any material developments in relation to the Proposed Combination.

The Board and management of Sembcorp Marine would like to assure shareholders that it is cognizant of its fiduciary responsibilities to shareholders and will do their utmost to secure a win-win outcome for both parties.

- 3. On 8 December 2021, the company announced the appointment of Yap Chee Keong as an independent director of the board. Mr Yap Chee Keong has also been appointed deputy chairman of the board and a member of the board's executive committee.**

The profiles of the directors, including Mr Yap Chee Keong, can be found on pages 38 to 42 of the annual report. Additional information on directors seeking re-election or re-appointment can be found on pages 202 to 209 of the annual report.

In particular, it is noted that Mr Yap Chee Keong has been a director of Sembcorp Industries since 1 October 2016. The company demerged from Sembcorp Industries in September 2020.

- (i) Has the nominating committee (NC) reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?
- (ii) What was the search and nomination process for directors, especially independent directors? How widely did the NC cast its net to identify potential director(s)?
- (iii) In particular, can the board and the NC elaborate further on the selection criteria and the search and nomination process (as required in the SGX template; see below) that led to the appointment of Mr Yap Chee Keong?
- (iv) As Mr Yap Chee Keong is seeking his re-election at the AGM, can the director let shareholders know if he has any experience in the shipbuilding and oil & gas industry? How does Mr Yap expect to contribute to the board and to the group as the group is still faced with serious challenges in the industry?

The company will be seeking shareholders' approval at the forthcoming 2022 AGM for payment of directors' fees of up to \$2.25 million. Shareholders' approval is being sought for a higher amount of directors' fees for FY2022 mainly because of the inclusion of an all-in fee for the deputy chairman of the board who was appointed in December 2021.

- (v) What are the roles and responsibilities of the deputy chairman of the board? Can the NC help shareholders understand if there is a significant overlap in the roles and responsibilities of the chairman and that of the deputy chairman?

In addition, four other directors retire by rotation pursuant to article 94 of the company's constitution and are seeking their re-appointment as directors. They are Mr Wong Weng Sun (Resolution 2), Mrs Gina Lee-Wan (Resolution 3), Mr Patrick Daniel (Resolution 4) and Mr Tan Wah Yeow (Resolution 5).

Mrs Gina Lee-Wan, Mr Patrick Daniel and Mr Tan Wah Yeow are deemed independent directors who were first appointed to the board on 20 April 2015, 20 April 2018 and 10 December 2018 respectively.

In June 2020, the board of directors of the company (which includes the three retiring IDs mentioned above), recommended a renounceable underwritten rights issue to raise gross proceeds of approximately \$2.1 billion (the "2020 Rights Issue"). The \$0.6 billion net proceeds from the 2020 Rights Issue turned out to be insufficient for the group to ride through the ongoing industry downturn and continuing COVID-19 impacts. Just 12 months later, the group launched a "\$1.5 billion Recapitalisation" exercise to strengthen the group's liquidity and balance sheet.

- (vi) Can the independent directors let shareholders know their individual contribution to the group since their appointment? How effective have they been?
- (vii) With the benefit of hindsight, can the NC and the directors seeking re-election help shareholders understand if the non-executive directors on the board have the appropriate balance and mix of skills, knowledge, experience, especially in the shipbuilding and O&M sector to engage in effective and constructive debate with the executive directors?

- (viii) **In particular, did the independent directors, collectively, have sufficient industry knowledge to value-add and to contribute to the board in operational matters, such as the Johan Castberg newbuild FPSO project?**
- (ix) **In addition, did the independent directors seeking their re-election review their roles and the board's decision-making in the 2020 Rights Issue that turned out to be grossly insufficient just 12 months later? If so, what are the key findings?**

Appointment of a New Director

The Board has put in place a process for the selection and appointment of directors. The process is led by the Nominating Committee (“NC”), which recognises that an effective and cohesive board requires the right balance of industry knowledge, experience, core competencies, skills and professional qualifications, as well as diversity.

With respect to the appointment of a new director, the NC reviews the range of expertise, skills and attributes of the Board and its composition. The NC then identifies and shortlists a few candidates with appropriate profiles for nomination. The NC also conducts an assessment to review the candidates (including their qualifications, attributes, capabilities, skills, age, past experience); and ascertain that the candidates are independent from any substantial shareholders of the Group and/or from Management and business relationships with the Group.

The Board considers the NC's recommendations before appointing a candidate as a director of the Company in accordance with the Company's Constitution. Upon appointment, the NC also reviews and recommends to the Board the new director's appointment to the appropriate Board committee(s) after matching the director's skill set to the needs of each Board committee and taking into consideration an equitable distribution of responsibilities among the existing Board members.

The Company has implemented a board diversity policy. The Company recognises and embraces the benefits of having a diverse Board. The benefits include adopting a broad strategic perspective, enhancing decision-making and ensuring effective governance. The Board is made up of members from diverse backgrounds (gender, ethnicity and nationality) and expertise (including but not limited to the core competencies of accounting, finance, business management experience and industry knowledge). While striving for diversity, all Board appointments are made on merit, taking into account the skills, experience, independence and knowledge needed for the Board as a whole to be effective. The composition of the Board meets the diversity targets adopted by the Company.

The tenure of the directors reflects a good balance between continuity and fresh perspectives. The Board's size and composition are appropriate given the size and geographic footprint of the Group's operations.

The NC considered Mr Yap Chee Keong's skillsets, experience and independence, and determined that he was suitable for the appointment as the Deputy Chairman of the Sembcorp Marine's Board. Please refer to the Company's announcement dated 8 Dec 2021.

The NC ensures that new directors are aware of their duties and obligations. The Company has adopted a directors' training and development policy whereby directors will be trained and informed of their duties and obligations. Each director is expected to allocate sufficient time and commitment to the Company so as to diligently carry out his duties. The Company has adopted a policy to address directors' competing time commitments when they serve on multiple boards and have other principal commitments. The NC conducts a review of the time commitment of each director annually. Each director in general cannot hold more than four directorships in listed companies. Information on each director's other listed company

directorships and principal commitments is disclosed on pages 38 to 42 of the Annual Report 2021.

The Board considered the NC's recommendation and assessment on Mr Yap's background, knowledge, expertise, experience and commitment in the discharge of his duties as a director of Sembcorp Marine, as well as the overall size and composition of the Board, and is satisfied that he will continue to contribute to the Board, and to the combination of skills, talents, experience and diversity required on the Board in order to serve the needs and plans of the Group. Please refer to the Supplementary Information provided on pages 202 – 209 of the Annual Report 2021.

Formal Annual Assessment of the Board

The NC assesses at least once annually whether the Board and its committees are performing effectively so as to identify steps for improvement. The Board believes that active participation and valuable contributions are essential to the overall effectiveness of the Board.

The NC has reviewed the performance of each individual director based on factors such as the director's attendance, preparedness, participation, industry and business knowledge, and contributions at Board meetings. The Chairman acts on the results of the performance evaluation. He proposes, where appropriate, new members to be appointed to the Board or seeks the resignation of directors.

The NC uses an evaluation questionnaire to analyse the performance of the Board and Board committees. The results of the questionnaire are vital to helping the Board and Board committees improve and perform to their maximum capability. For the 2021 Board evaluation, each director submitted a set of completed questionnaires directly to the Company Secretaries who collated the responses and produced a summary report for the NC. The NC analysed the report and submitted its findings to the Board. Every director also participated and gave feedback on a range of issues.

The Board has discussed the findings of the evaluation and will implement changes in response to the feedback given by the directors. Based on the assessment for 2021, the Board and Board committees were effective as a whole.

The NC also reviews annually, and as and when circumstances require, if a director is independent based on the Code and any other salient factors. None of the current independent directors are or have been employed by the Company or any of its related corporations for the current or any past three financial years. None of them have an immediate family member who is employed or has been employed by the Company or any of its related corporations for the past three financial years, and whose remuneration is determined by the Executive Resource & Compensation Committee.

The NC reviews the size and composition of the Board from time to time and seeks to ensure that:

- (i) the size of the Board is conducive for effective discussion and decision-making, and
- (ii) the Board has the requisite number of independent directors, with a broad range of experience and deep industry knowledge, and taking into account age, gender and other factors.

Information on our Board of Directors, including Independent Directors, can be found on Pages 38 to 42 of Sembcorp Marine's 2021 Annual Report. Further details on the directors seeking re-election/re-appointment can be found on Pages 202-209 of the 2021 Annual Report. The Board is satisfied that each director has contributed meaningfully to the Group during his/her tenure.