



Company Registration Number: 196300098Z

Responses to Further Shareholders' Comments and Queries

Singapore, 20 June 2022: Sembcorp Marine Ltd (the "**Company**", together with its subsidiaries, the "**Group**" or "**Sembcorp Marine**") would like to respond to further shareholders' comments and queries in relation to the proposed combination of Sembcorp Marine and a restructured Keppel Offshore & Marine Ltd ("**Restructured Keppel O&M**") (the "**Proposed Combination**").

As stated in the Company's announcement titled "Announcement on the Proposed Combination of Sembcorp Marine Ltd and Keppel Offshore & Marine Ltd" dated 27 April 2022 (the "**27 April 2022 Announcement**"), the Proposed Combination will involve the creation of a new combined entity (the "**Combined Entity**") through:

- (i) **Internal restructuring of Sembcorp Marine** (the "**Sembcorp Marine Scheme**"). This involves the transfer of all the existing Sembcorp Marine shares and the listing status of Sembcorp Marine to the Combined Entity via a scheme of arrangement. Sembcorp Marine shareholders will exchange their Sembcorp Marine shares for shares in the Combined Entity on a one-for-one basis and will therefore hold the same number of shares in the Combined Entity as they hold in Sembcorp Marine. Upon completion of the Sembcorp Marine Scheme, Sembcorp Marine will become a wholly-owned subsidiary of the Combined Entity; and
- (ii) **Merger of the Combined Entity with a Restructured Keppel O&M** (the "**Keppel O&M Scheme**"). This involves the acquisition of a Restructured Keppel O&M by the Combined Entity in exchange for the issuance of new shares of the Combined Entity to Keppel via a separate scheme of arrangement. Upon completion of the Keppel O&M Scheme, the Restructured Keppel O&M will become a wholly-owned subsidiary of the Combined Entity.

Unless otherwise stated, capitalised terms used herein shall have the same meaning ascribed to them in the 27 April 2022 Announcement.

1. Rationale for the Proposed Combination and expected benefits

The O&M sector has faced a prolonged and severe downturn since 2015, exacerbated by the rapid global transition towards renewables and clean energy, as well as significant disruptions during the COVID-19 pandemic. While oil prices have rallied in recent months and conditions in the O&M sector are improving, the long-term outlook for the O&M sector will continue to shift amid the energy transition. These are unprecedented times.

Since 2015, Sembcorp Marine has embarked on a strategic business transformation journey. It has strengthened its core engineering capabilities and aligned its R&D programmes to key market verticals in offshore renewables, new energy, and cleaner solutions for the O&M sector. In the last several years, it has also made strategic investments and acquisitions to better position and align its businesses to meet evolving market demands. The Proposed Combination is a major development in this transformation journey.

While the market potential is tremendous, the need for a larger and more robust platform to take advantage of these opportunities cannot be overemphasised. Sembcorp Marine is ready to take a bold step to further augment the depth and breadth of its engineering and operational capabilities through the Proposed Combination.

The Proposed Combination offers the best way forward for Sembcorp Marine to play a long-term role in meeting the changing needs of its customers in the O&M sector, who themselves need new, cleaner energy solutions.

Sembcorp Marine and Keppel O&M are Singapore's home-grown marine icons, and the Proposed Combination will create a premier global player with a deep engineering heritage to offer offshore renewables, new energy and cleaner solutions in the O&M sector, creating significant value on multiple levels for all its stakeholders.

With increased agility, technical strength and operational efficiencies, the Combined Entity will be able to accelerate its advancement into the cleaner and greener O&M and energy market, ensuring it is well placed to respond to new challenges and the evolving priorities of a low carbon economy.

The Combined Entity is also envisaged to unlock synergies from the integration of two established industry players. For example, a potential immediate benefit is the optimisation of the Group's larger and newer yards in Singapore and Brazil for the enlarged orderbook of the Combined Entity, which is expected to result in financial and operating benefits.

Specifically, the Restructured Keppel O&M brings a net order book of S\$5.1 billion, which would add to the S\$1.3 billion net order book of Sembcorp Marine¹. The gearing of the Combined Entity on a proforma basis is also lower at 22% compared to 33% for Sembcorp Marine on a standalone basis.

The Board of Directors has considered various strategic options and believes that the Proposed Combination, which is a non-cash transaction, is the best and most compelling way forward for Sembcorp Marine to unlock long-term value for all of its stakeholders. The combination with a Restructured Keppel O&M allows Sembcorp Marine to immediately step up in terms of scale, capabilities and operational reach to tap into opportunities and better compete on the global stage in the new energy era.

As a standalone entity, Sembcorp Marine will not be able to benefit from the greater scale, strong balance sheet, and synergies that the Proposed Combination is expected to bring. Instead, Sembcorp Marine would have to navigate an even more competitive landscape where many offshore players have sought consolidation or were otherwise challenged by the radically changed fundamentals of the business and needs of customers.

2. A Restructured Keppel O&M enhances value of the Combined Entity and benefits Sembcorp Marine shareholders

The existing assets of Keppel O&M include legacy rigs and associated receivables, and Keppel Floatel International Ltd ("Floatel") and Dyna-Mac Holdings Ltd ("Dyna-Mac") – entities which were loss making in both 2019 and 2020. These assets have been deemed incongruent to the Proposed Combination and are excluded from the Restructured Keppel O&M.

Therefore, the Combined Entity will acquire a Restructured Keppel O&M free of its legacy rigs, associated receivables, and Floatel and Dyna-Mac. In addition, approximately S\$4 billion of

¹ Both as of 31 December 2021

inter-company payables due from Keppel O&M to Keppel have also been removed from the Restructured Keppel O&M's balance sheet as part of the Asset Co transaction.

The Restructured Keppel O&M will have minimal net debt upon completion of the Proposed Combination as Keppel has equitised most of its perpetual securities of approximately S\$1.8 billion in Keppel O&M.

With the revised and cleaner capital structure and without Keppel O&M's legacy rigs, the restructuring of Keppel O&M prior to the Proposed Combination is expected to be beneficial to the Combined Entity and Sembcorp Marine shareholders. This will ensure that the Combined Entity starts with the right operational footing and management focus of securing and delivering new orders.

3. Discounted Cash Flow (DCF) is a generally accepted valuation methodology for merger/combination transactions involving operating businesses as it takes into account both current financial and operational position and future prospects of both companies

As outlined in the [Sembcorp Marine Interim Business update for 1Q2022](#) and [Responses to Shareholders' Queries](#), the Enterprise Value Ratio and the Equity Value Exchange Ratio were determined after considering an assessment conducted by DBS Bank Ltd².

The DCF methodology is a comprehensive valuation methodology based on expected future cash flows of both businesses falling within the scope of the Proposed Combination, taking into account each business' historical financial performance and current competitive position, as well as future prospects. These include each business' current asset position, current and future profitability, as well as existing and prospective orderbook. The DCF methodology also took into account the respective historical performances of the companies (in terms of orderbook, revenue, and EBITDA) over the past 10 years, capturing a more representative period of past performance in recognition of the impact of COVID-19 in recent years. In addition, the DCF methodology considered the respective asset bases of the two companies, which was reflected, among other things, in capital expenditure assumptions for each company.

If other "static" metrics such as the NTA are applied instead of the DCF methodology, it is likely to result in a mixed and imperfect picture of the relative valuations of Sembcorp Marine and the Restructured Keppel O&M. A higher asset base does not necessarily translate into higher order book, revenue and profitability. The table below outlines the shortcomings of such "static" metrics. While these metrics can offer a snapshot of financial positions at a specific point in time, it may not be fully reflective of the historical performance and future prospects of both businesses. It is thus critical to ensure that a comprehensive assessment of both companies is undertaken.

² DBS Bank Ltd. acted as the Joint Financial Advisor to Sembcorp Marine and Keppel O&M with respect to the relative ratios assessment of Sembcorp Marine and Keppel O&M.

Illustrative FY2021 pro forma financial and operating metrics of the Combined Entity

	 sembcorp marine	 Keppel Offshore & Marine ^(a)	Combined Entity
Net Order Book^(b)	S\$1.3bn	S\$5.1bn	S\$6.4bn
Revenue	S\$1.9bn	S\$2.0bn	S\$3.9bn
Net Loss	-\$1.2bn	-\$0.1bn ^(c)	-\$1.3bn
NTA^(d)	S\$3.8bn	S\$0.9bn	S\$4.7bn
Gearing^(e)	33%	17%	22%
EPS^(f)	-\$6.5 cents		-\$2.2 cents
NTA per Share^(g)	S\$0.12		S\$0.07

Note: Assumes Sembcorp Marine is the accounting acquiror solely for the purposes of illustrating the financial effects after the Proposed Combination. Combined Entity illustrative calculations for net order book, revenue, net loss, NTA are based on summations of Sembcorp Marine and the Restructured Keppel O&M's respective metrics.

- Excludes Keppel O&M's legacy rigs and associated receivables to be sold to a separate Asset Co that will be 10.0%-owned by Keppel and 90.0%-owned by other investors while Floatel International Ltd and Dyna-Mac Holdings Ltd to be retained by Keppel.
- Net order books of Sembcorp Marine and the Restructured Keppel O&M are as of 31 December 2021.
- Net loss from the Restructured Keppel O&M includes both net loss attributable to equity holders of the company and holders of perpetual securities.
- NTA is calculated as Total Assets – Intangible Assets – Total Liabilities – Non-Controlling Interest. Keppel O&M's NTA is based on book value.
- Assumes the Proposed Combination had been effected on 31 December 2021. Gearing is calculated as Total Debt (excluding Lease Liabilities) / Total Assets as at 31 December 2021.
- Assumes the Proposed Combination had been effected on 1 January 2021. The weighted average number of issued shares before the Proposed Combination is based on Sembcorp Marine's weighted average number of issued shares for the year ended 31 December 2021 of 18,033,907,000. The number of shares to be issued to Keppel as part of the Proposed Combination is based on the agreed equity value exchange ratio.
- Assumes the Proposed Combination had been effected on 31 December 2021. Based on Sembcorp Marine's number of issued shares outstanding as of 31 December 2021 of 31,389,099,152, the KOM Consideration Shares of 39,949,762,557, and the Issue Price of S\$0.122 (based on the 10-Trading Day VWAP as of 26 April 2022).

As per the above table, based on the Restructured Keppel O&M's pro forma financials, as of 31 December 2021, the Restructured Keppel O&M's NTA is approximately S\$859 million. As of 31 December 2021, the total number of issued shares in the capital of Keppel is 1,810,943,450³. Therefore, the illustrative NTA of the Restructured Keppel O&M that is attributable to each Keppel share is approximately S\$0.47 for FY2021. For illustrative purposes only, the Combined Entity's NTA per share for FY2021 would be approximately S\$0.07⁴. The Proposed Combination is accretive on an EPS-basis for shareholders of Sembcorp Marine based on the illustrative pro forma numbers shown above.

The Proposed Combination is based on a 50:50 Enterprise Value Ratio between Sembcorp Marine and the Restructured Keppel O&M which is the outcome of a DCF analysis. This points to the operating businesses of Sembcorp Marine and the Restructured Keppel O&M being valued at the same valuation.

The 44:56 (Sembcorp Marine: Restructured Keppel O&M) Equity Value Exchange Ratio took into consideration the respective capital structures of both companies, as well as other adjustments.

³ Per Keppel's FY2021 Annual Report; number of issued shares (excluding treasury shares).

⁴ Assumes the Proposed Combination had been effected on 31 December 2021. Based on Sembcorp Marine's number of issued shares outstanding as of 31 December 2021 of 31,389,099,152, the KOM Consideration Shares of 39,949,762,557, and the Issue Price of S\$0.122 (based on the 10-Trading Day VWAP as of 26 April 2022).

The impact of the S\$500 million cash repayment by Keppel O&M to Keppel as part of its restructuring prior to the Proposed Combination was considered when determining the Equity Value Exchange Ratio. In determining the Restructured Keppel O&M equity value, the S\$500 million cash payment was deducted from the Restructured Keppel O&M enterprise value for the benefit of Sembcorp Marine.

Capital structure adjustments considered in the determination of the Equity Value Exchange Ratio from the Enterprise Value Ratio included amongst others the net debt of both companies as of 31 December 2021, of about S\$2.0 billion and S\$0.3 billion for Sembcorp Marine and Restructured Keppel O&M respectively based on pro forma financials. (Note: In terms of gross debt, Sembcorp Marine and the Restructured Keppel O&M had about S\$3.1 billion and S\$0.7 billion in debt, respectively, as of 31 December 2021. The Restructured Keppel O&M's debt figure is inclusive of the S\$500m financing entered into with DBS Bank Ltd. via a commitment letter that will be used to fund the cash repayment to Keppel).

4. Independent Financial Advisor and Independent Valuer have been appointed

Sembcorp Marine's independent directors have also separately engaged an independent valuer and an independent financial adviser in relation to the Proposed Combination. The reports of these advisers will be presented to Sembcorp Marine shareholders when the approval of Sembcorp Marine shareholders is sought for the Proposed Combination.

5. The Rights Issues in 2020 and 2021 were pre-emptive exercises to strengthen the Group's balance sheet amidst challenging market conditions

The rationale for the Rights Issues undertaken by Sembcorp Marine in 2020 and 2021 were set out in the respective Offer Information Statements dated 14 August 2020 and 26 August 2021.

The Rights Issues undertaken in 2020 and 2021 were pre-emptive and necessary corporate exercises to help strengthen the Group's balance sheet amidst challenging market conditions, especially with Sembcorp Marine recording net losses of S\$583 million and S\$1,175 million respectively in FY2020 and FY2021.

In 2020, in conjunction with the demerger of Sembcorp Marine and Sembcorp Industries, Sembcorp Marine was recapitalised in a S\$2.1 billion renounceable rights issue, of which S\$1.5 billion was used to set-off against the S\$1.5 billion subordinated loan extended by Sembcorp Industries to Sembcorp Marine. It is important to keep in mind that Sembcorp Marine only raised S\$0.6 billion net cash proceeds in this exercise.

The prolonged disruptions from COVID-19 created near-term challenges for the Group and the remaining proceeds of the 2020 Rights Issue were deemed insufficient for the Group to ride through the industry downturn and pandemic-led supply chain constraints and impacts. A further recapitalisation via the 2021 Rights Issue was critically required to further strengthen the Group's balance sheet, address the temporary working capital depletion and replenish liquidity to meet the projected operational funding requirements through to end 2022. The 2021 Right Issue was supported by the irrevocable undertaking by Startree Investments Pte. Ltd. ("**Startree**"), an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited ("**Temasek**"), to subscribe for its pro-rata entitlement and apply for excess rights shares. For the avoidance of doubt, the net proceeds from the 2021 Rights Issue will neither be used to fund the S\$500 million cash payment by Keppel O&M to Keppel as part of its restructuring prior to the Proposed Combination, nor be paid to the Restructured Keppel O&M or Keppel for the Proposed Combination.

In its interim business update for 1Q2022, the Group reported the successful completion and delivery of multiple projects. Of the 17 projects under execution, with 12 projects scheduled for completion and delivery in FY2022, six have been completed year-to-date. The proceeds from the 2020 and 2021 Rights Issue enabled the Group to fulfil its existing commitments.

As per the Sembcorp Marine interim business update for 1Q2022, the remaining balance from the 2021 Rights Issue is approximately S\$720 million, and is to be used for general corporate purposes, including working capital. The challenging and competitive global operating environment coupled with additional upward pressure on inflation is likely to weigh on the Group's overall liquidity. The Rights Issues in 2020 and 2021 provided the temporary liquidity required by the Group, while the Proposed Combination is expected to enhance the business model and prospects of the Group and strategically position the Combined Entity for the global energy transition.

6. Keppel's undertaking to the Combined Entity

As outlined in question 10 of [Responses to Shareholders' Queries](#) dated 6 June 2022, Keppel has undertaken to the Combined Entity that it shall not for three years engage directly or indirectly in select businesses that might position it as a direct competitor to the Combined Entity (for more information, please refer to above link)

As and when suitable opportunities arise, the Combined Entity and Keppel will be open to exploring possible collaboration in areas such as floating data centres and floating infrastructure solutions, which could translate into more growth opportunities for the Combined Entity.

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