IR Presentation

December 2018

SAMSUNG HEAVY INDUSTRIES

Contents

1. 3rd Quarter Earnings of 2018

Quarterly operating loss continued

- **Revenue : KRW 1.3t**

 - Revenue slightly decreased from 2nd quarter due to reduced working days

- **Operating Loss : KRW -127b**

 - Increase in loss(QoQ) mainly due to material cost hikes in spite of one-off gain from Egina project while fixed cost burden continues

* KRW -138b from steel cost, KRW -40b from material cost, KRW -90b from wage negotiation

(KRW b)

	3Q 2017 (YoY)	2Q 2018 (QoQ)	**3Q 2018**	QoQ
Revenue	1,752	1,347	**1,314**	-2.4%
Operating Profit (Margin)	24 (1.3%)	-101 (-7.5%)	**-127 (-9.7%)**	-26.7%
Pretax Income (Margin)	22 (1.3%)	-173 (-12.9%)	**-116 (-8.8%)**	33.0%

2. Earnings Outlook in 2018

Steel cost hikes depress annual operating income outlook

■ **Revenue : KRW 5.5t**

- Revenue decreases mainly due to the lowest new orders of USD 0.5b in 2016

  * -30% YoY

- Forecasted annual revenue slightly increased due to change order from offshore projects

  * (Existing) KRW 5.1t → (Adjusted) KRW 5.5t

■ **Operating Loss : KRW -420b**

- Increased fixed cost burden because of decreased revenue in 2018

- Forecasted operating loss increased due to unexpected one-off expenses arising from steel cost hikes, wage negotiation, etc.

  * (Existing) KRW -240b → (Adjusted) KRW -420b

〈 **Earnings trend(2014~2018)** 〉

	Unit	2004-2013 (Avg.)	2014	2015	2016	2017	2018(F)
Revenue	KRW trillion	10.5	12.9	9.7	10.4	7.9	5.5
Operating Income (Ratio)	KRW billion (%)	690 (6.6)	183 (1.4)	- 1,502 (-15.5)	- 147 (-1.4)	- 524 (-6.6)	- 420 (-7.6)

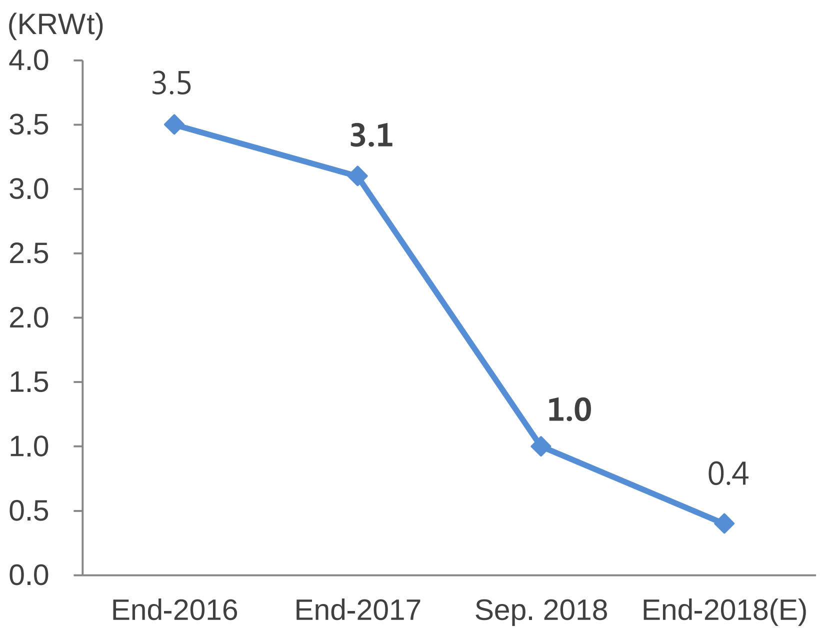
3. Enhanced Financial Stability

Successful capital increase and positive cash flow from operation enhanced company's financial stability significantly

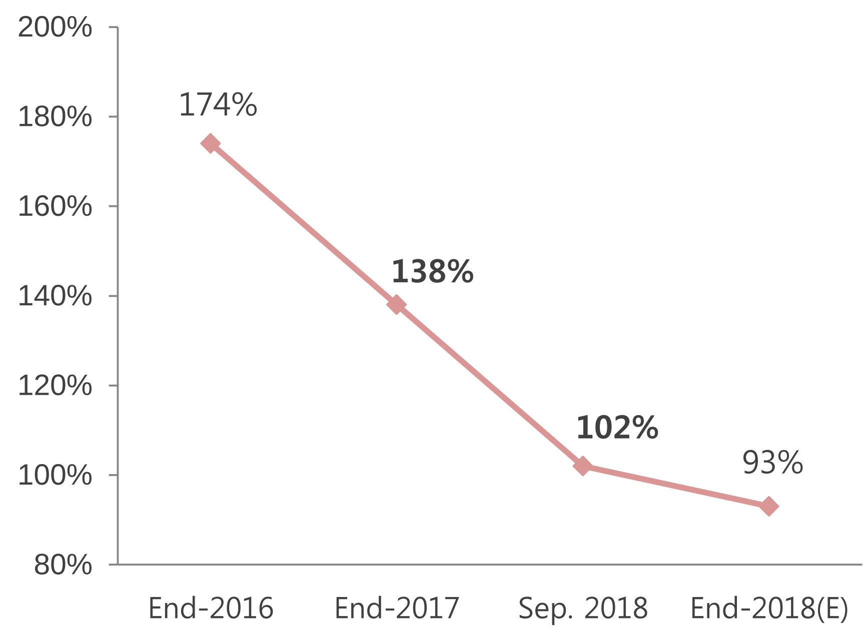
* KRW 1.4t (New shares listed in May 2018)

- **Net debt : KRW 3.1t at end-2017 → KRW 1.0t in September 2018**
- **Debt-to-equity ratio : 138% at end-2017 → 102% in September 2018**

〈 Net Debt 〉



〈 Debt-to-equity Ratio〉



4. Drilling Rig Backlogs

Reducing risks through resale in the market

■ **1 Semi-rig sold, 3 Drillships for resale**
* Jan. 2018

(USD b)

	Project	Contract Price	Cash Received(%)	Delivery	Remark
Resale Completed	Stena	0.51	0.23(45)	Dec. 2018	· Sold at 70% of initial contract price * USD 0.72b
For Resale	PDC	0.52	0.18(35)	-	· Inventory (Fair value : 60% of the contract price)
	Seadrill #11	0.52	0.16(30)	-	
	Seadrill #12	0.52	0.16(30)	-	
Under Construction	OCR #9	0.72	0.34(48)	Sep. 2019	
	OCR #10	0.71	0.18(25)	Sep. 2020	
Total		**3.50**	**1.25(36)**		

■ **Arbitral proceedings are underway regarding Stena and PDC rigs**

- Around 50% of cash received for each rig was recognized as provision

5. Offshore Facility Backlogs

Risks eliminated as Egina project completed

■ **Egina FPSO sailed away from SHI's Nigerian yard in August 2018**

■ **BP Maddog FPU, which is only EPC project in the backlog, is well under construction with application of all Lessons Learned in the past projects**

* Engineering, Procurement, Construction

- PC projects have been successful because of less complexity

* Procurement, Construction

〈 Offshore Projects under Construction 〉

(USD b)

	Type	Contract Price	Progress	Delivery	Remark
Johan Sverdrup	P/F	0.6	92%	Dec. 2018	PC
Petronas	FLNG	1.6	85%	Jul. 2020	Topside: PC
ENI Coral	FLNG	2.5	3%	Jun. 2022	Topside: PC
BP Maddog	FPU	1.3	23%	Sep. 2020	EPC
Total		**6.0**			

* Progress : As of end of September 2018

6. New Orders

Pursuing additional new orders of LNGC, SHTL, FPSO in 4Q

* shuttle tanker

■ **New order(as of November 30, 2018) : USD 5.0b**

- 11 LNGCs(USD 2.0b), 13 Containerships(1.6), 18 Tankers & Others(1.4)

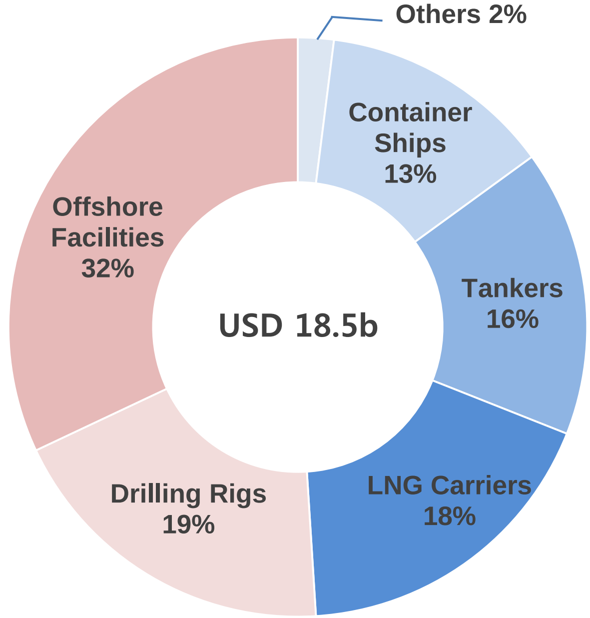
※ New order target in 2018 : USD 8.2b

〈 New Orders as of November 30, 2018 〉

(USD b)

	No	Amount
LNGCs	11	2.0
Containerships	13	1.6
Tankers	15	1.0
Others	3	0.4
Commercial Vessels	42	5.0
Offshore Facilities	-	-
Total	**42**	**5.0**

〈 Order Backlog as of November 30, 2018 〉



1. Market Recovery Continues

Market recovery continues its momentum

■ **Demand of SHI's core products such as LNGCs, mega containerships and offshore facilities will continue in 2019**

- LNGC : Demand is strong as global LNG export increases
- Containerships : Demand of 10,000TEU+ vessels is sustainable because of "Economy of scale" and "Slow steaming" in the market
- Offshore facilities : New investment increases due to lack of CAPEX in 2015-2017

〈 **Forecasted Global New Order Trend** 〉

	2011~2015 Average	2016	2017	2018	2019	2020~2023 Average	2024~2027 Average
Sum of LNGCs, Containerships and Tankers	100%	32%	64%	84%	93%	126%	122%

* Source : Clarksons (2011~2015 yearly average new order in 100%)

2. LNGCs

Strong demand for new LNGCs continues

■ **Long-term demand for LNGCs is solid and yearly 35~40 LNGC orders are expected as LNG trade grows and ton miles increase**

* 4,140miles/ton in 2018 → 4,609miles in 2021(11%↑)

	2017	2020	2030
LNG trade(mtpa)	290	350	550~600
LNGC Fleet(No.)	502	605	952~1,039 (Avg. 35~40 vessels/year)

* Forecasts by Gaslog, BP, etc.

■ **Demand of new LNGC is expected to be strong in 2019 considering global LNG export plans in 2021-2024**

* 220Mtpa(US 115, Australia 37, Qatar 23, etc.)

- Spot rate is skyrocketing to USD 190,000 per day due to lack of vessels

* 160,000㎥ LNGC, End of Nov. 2018

• Over 40 LNGC could be ordered in 2019

3. Containerships

Demand of bigger vessels continues because of replacement demand and slower shipping speed to comply with IMO 2020

* Lower sulfur cap regulation

■ **Smaller vessels will continue to be replaced by bigger vessels ("Economy of Scale")**

- Vessels under 10,000TEU in Asia/Europe and Asia/North American routes are being replaced by 10,000TEU+ vessels

  * 3.7 millionTEU as of end of 2017

■ **Additional demand of vessels are expected due to slower shipping speed to comply with IMO 2020 ("Slow steaming")**

- While major shipping companies are expected to use low sulfur fuel oil(LSFO), they need to slow down the shipping speed to save fuel costs

  → Additional vessels are necessary

• Demand of 10,000TEU+ containerships will continue, especially, from shipping companies with smaller fleet of big boxships

4. Regulations

Environmental regulations trigger expansion of new building demands

* BWTS, SOx & CO_2 emissions

■ **SOx & BWTS Regulations will stimulate replacement of old vessels**

	Tankers	Bulkers	Containerships	Gas Carriers
Units (18yr~)	4,896	2,247	1,655	765
(%)	48%	20%	32%	41%

■ **SOx & CO_2 Emission Regulations will require more LNG-fueled vessels and other LNG related solutions**

- New orders applying LNG-fueled engines or Scrubbers to comply with regulations

- Replacement of old vessels will improve supply and demand
- Expansion of LNG Value-Chain such as LNG fueled, LNG bunkering, FSRU where SHI has competitive advantages will lead to enhanced profitability

5. Offshore Facilities

IOC's lack of investments in 2015-2017 will lead to remarkable rebound of new offshore investments

■ **IOC's radical Capex Cuts will return with enormous pressure for New Investments**

* USD 100b in 2014 → USD 48b in 2017(52%↓)

- New offshore investments(forecasted) : USD 80b in 2018 → USD 170b in 2022

* Clarksons

■ **Increase of new offshore orders are expected in 2019**

- The number of market inquiries : 3(1H 2016) → 35 (Current)

* 1 FLNG, 2 FPUs   * 18 FPSOs, 5 FLNGs, 6 FPUs, 6 Platforms

- Increase of new orders will ease the burden of competition
- SHI maintains core competence and know-hows through continuous execution of offshore projects, which provide advantages in future biz opportunities

1. 3Q Earnings & Financial Status

〈Earnings〉

(KRWb)

		2Q 2018	1Q 2018	QoQ (%)	3Q 2017	YoY (%)
Revenue	Qr.	**1,314**	1,347	-2.4	1,752	-25.0
	Acc.	**3,901**	-	-	6,489	-39.9
Operating Profit	Qr.	**-127**	-101	-26.7	24	Turn (-)
	Acc.	**-276**	-	-	72	Turn (-)
Pretax Income	Qr.	**-116**	-173	33.0	22	Turn (-)
	Acc.	**-380**	-	-	101	Turn (-)
Net Income	Qr.	**-80**	-143	43.7	23	Turn (-)
	Acc.	**-283**	-	-	105	Turn (-)

〈Financial Status〉

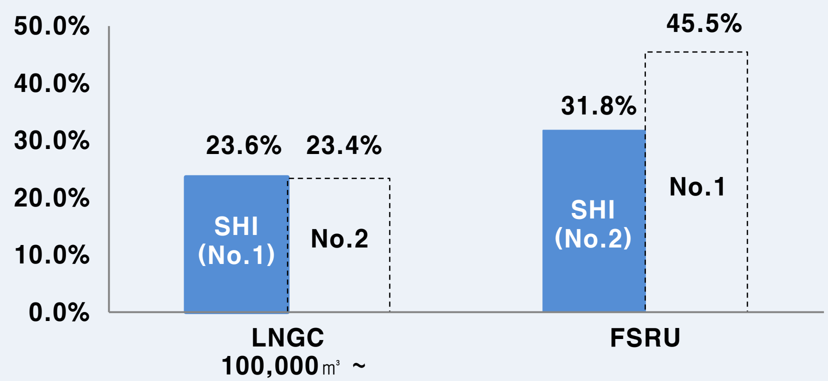
(KRWb)

	End of Sep. 2018	End of 2017	Difference
Total Assets	**13,997**	13,818	179
Cash & Cash Equiv.	**1,562**	1,123	439
Total Liabilities	**7,074**	8,021	-947
Borrowings	**2,594**	4,246	-1,652
Advance Payment	**1,783**	1,514	269
Total Equity	**6,923**	5,798	1,125
Capital Stock	**3,151**	1,951	1,200
Retained Earnings	**2,887**	3,198	-311

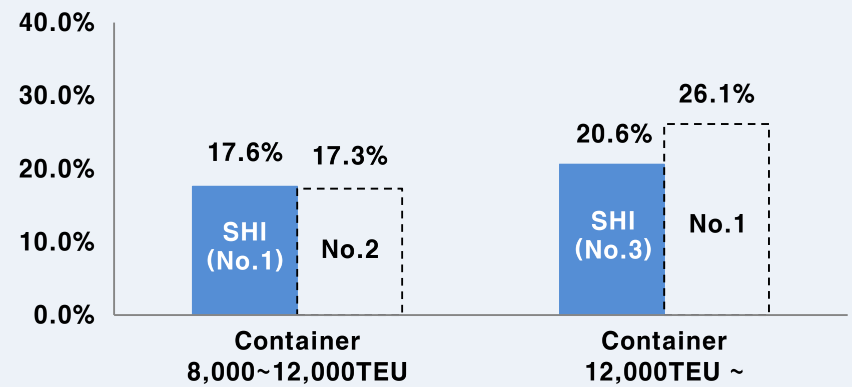
2. Market Share (SHI-built vessels / Global Fleet, As of End-2017)

Global Top-tier Shipbuilder in Major Products

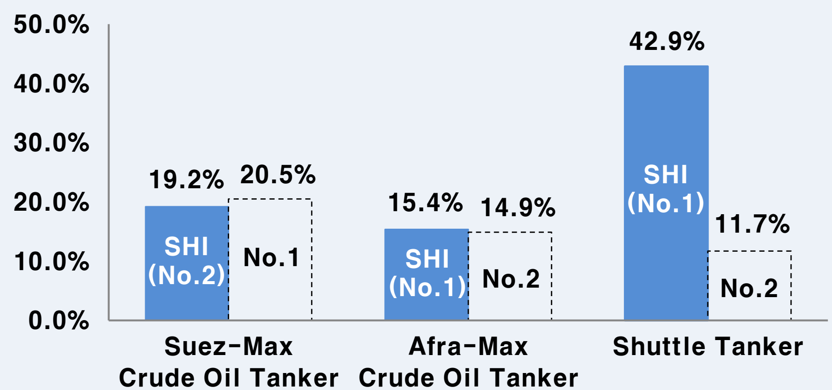
LNGCs/FSRUs



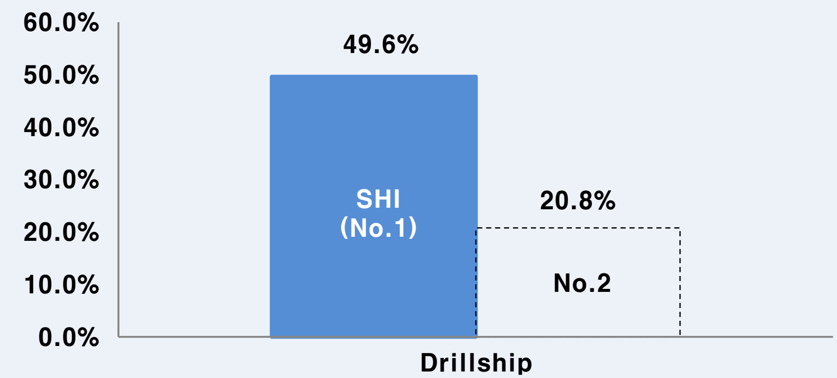
Containerships



Oil Tankers



Drillships



* Source : Clarksons

3. Major Offshore Projects

Continuity in Offshore Biz over the last 7 years


Prelude FLNG
(2011~2017, delivered)


Ichthys CPF
(2012~2017, delivered)


Martin Linge
(2012~2018, delivered)


Egina FPSO
(2013~2018, delivered)


Petronas FLNG
(2014~2020)


Appomattox
(2015~2017, delivered)


Johan Sverdrup P/F(2 units)
(2015~2018, 1 unit delivered)


Mad Dog Ⅱ FPU
(2017~2020)


ENI FLNG
(2017~2023)

Under Construction

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