

# IR Presentation

May 2019



HEAVY INDUSTRIES

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### Quarterly revenue increased

■ **Revenue : KRW 1.5t (7%↑ QoQ, 18%↑ YoY)**

- Workload continues to increase

※ Due to increased commercial vessel orders since 2H 2017, quarterly revenue will increase further from 2Q 2019, and thus annual revenue will reach KRW 7.1t  
\* USD 1.2b (1H 2017) → 1.9b (2H 2017) → 2.5b (1H 2018) → 3.8b (2H 2018)

■ **Operating Loss : KRW -33b**

- OP loss continued due to fixed cost burden, but decreased QoQ & YoY because there was no additional cost issues such as steel cost hike

(KRW b)

|                              | 1Q 2018<br>(YoY) | 4Q 2018<br>(QoQ) | 1Q 2019                      | YoY   | QoQ   |
|------------------------------|------------------|------------------|------------------------------|-------|-------|
| Revenue                      | 1,241            | 1,364            | <b>1,458</b>                 | 17.5% | 6.9%  |
| Operating Profit<br>(Margin) | -48<br>(-3.9%)   | -134<br>(-9.8%)  | <b>-33</b><br><b>(-2.3%)</b> | 30.3% | 75.1% |

# 2. Enhanced Financial Stability

Financial stability was significantly enhanced after capital increase in 2018 and is being maintained

\* KRW 1.4t

■ Net debt : KRW 3.1t at end-2017 → 1.5t at end-2018 → 1.0t in March 2019

\* Total Borrowings 2.9, Cash 1.9

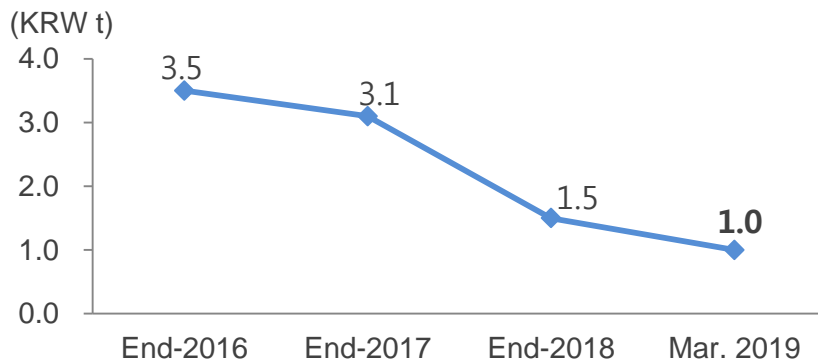
- Decreased due to improved cash flow in 1Q 2019

■ Debt-to-equity ratio : 138% at end-2017 → 112% at end-2018 → 120% in March 2019

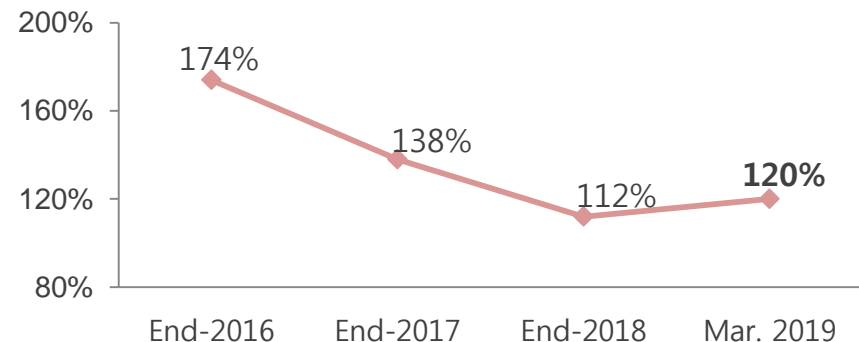
- Weaker KRW increased FX forward liabilities while total borrowings has not changed

\* KRW 2.9t

< Net Debt >



< Debt-to-equity Ratio >



## Drillships for resale in the market

- 3 drillships for resale, 2 drillships under construction

(USD b)

|                    | Project      | Contract Price | Cash Received(%) | Delivery  | Remark  |
|--------------------|--------------|----------------|------------------|-----------|---|
| For Resale         | PDC          | 0.52           | 0.18(35)         | -         | · Inventory<br>(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 |   |
| <b>Total</b>       |              | <b>2.99</b>    | <b>1.02(34)</b>  |           |   |

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

\* Resaled in 1Q 2018, Delivered in 1Q 2019

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

## ENI Coral FLNG and BP Maddog FPU projects are well underway

### ■ PC projects : 2 FLNGs

\* Procurement, Construction

- On the right track based on success in Prelude FLNG

\* Contracted in 2011(USD 3.0b), Delivered in 2017

### ■ EPC projects : BP Maddog FPU, FPSO

\* Engineering, Procurement, Construction

- Applying all Lessons Learned in Ichthys CPF and Egina FPSO

#### < Offshore Projects under Construction >

(USD b)

|                | Type | Contract Price | Progress | Delivery  | Production Capacity         |
|----------------|------|----------------|----------|-----------|-----------------------------|
| Petronas Rotan | FLNG | 1.6            | 91%      | Jul. 2020 | 1.5 Mtpa                    |
| ENI Coral      | FLNG | 2.5            | 12%      | Jun. 2022 | 3.3 Mtpa                    |
| BP Maddog      | FPU  | 1.3            | 39%      | Sep. 2020 | 110,000 B/D                 |
| -              | FPSO | 1.1            | -        | Mar. 2022 | 12.7 mil. m <sup>3</sup> /D |
| <b>Total</b>   |      | <b>6.5</b>     |          |           | -                           |

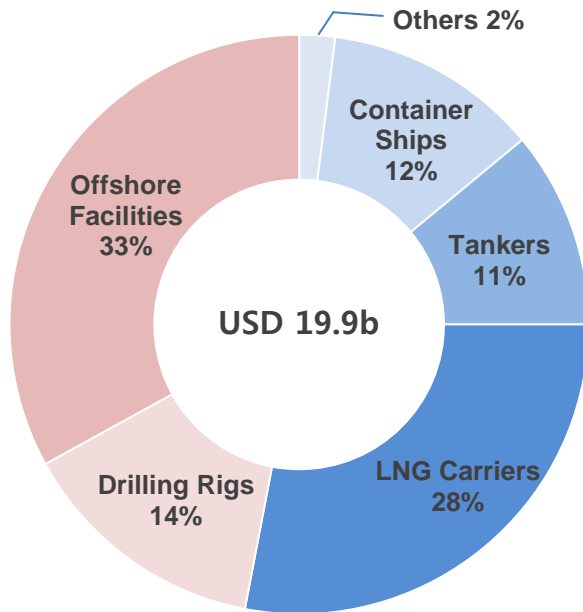
# 5. New Orders & Backlogs

Focusing on core products such as LNGCs, Offshore Facilities, etc.

- New orders target in 2019 : USD 7.8b
- New orders (as of April 30, 2019) : USD 2.4b  
\* Run rate : 30%
  - 7 LNGC(USD 1.3b), 1 FPSO(USD 1.1b)

< Order Backlog as of April 30, 2019 >

(USD b)



|                           | No        | Amount      |
|---------------------------|-----------|-------------|
| LNGCs                     | 31        | 5.6         |
| Containerships            | 19        | 2.4         |
| Tankers                   | 28        | 2.2         |
| Others                    | 3         | 0.4         |
| <b>Commercial Vessels</b> | <b>81</b> | <b>10.6</b> |
| Drilling Rigs             | 5         | 2.8         |
| Offshore Facilities       | 4         | 6.5         |
| <b>Total</b>              | <b>90</b> | <b>19.9</b> |

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### 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(E) |
|--|-------------------|------|------|------|------|----------------------|
| Sum of LNGCs, Containerships and Tankers | 100%              | 33%  | 67%  | 89%  | 78%  | 127%                 |

\* Source : Clarksons Forecast Club (Mar. 2019), 2011~2015 yearly average new order in 100%

### Strong demand for new LNGCs continues

- **In long-term view, demand for LNGCs will be more than 50 vessels a year**
  - Demand from global LNG trade growth : 30~35 vessels
  - Demand from ton miles increase : 15~17 vessels
  - Demand from replacement of old vessels : 4 ~ 5 vessels
  
- **Especially, short-term demand of new LNGC is expected to be strong considering global LNG export plans**
  - Up to 252 additional LNGCs would be required by 2024 considering increase of new LNG export plans, and currently around 90 LNGCs are to be ordered

\* 220 Mtpa

|            | Owner           | Vessels Required | Remark  |
|------------|-----------------|------------------|---|
| Qatar      | Qatar Petroleum | 40               | · Export Expansion Plan(77Mtpa in 2018 → 110 in 2023) |
| Mozambique | Anadarko        | 16               | · Start-up in 2024(13Mtpa)                            |
| Russia     | Novatek         | 10~15            | · Ice-breaking LNGCs                                  |
| US         | ExxonMobil      | 20               | · Start-up in 2024(Golden Pass LNG)                   |

\* Total : 86~91 7

### Demand of bigger containerships continues

- **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 \* Increased demand of bigger vessels for expanded Panama Canal
- **Additional demand of vessels are expected due to slower shipping speed to comply with IMO 2020 (“Slow steaming”)** \* Lower sulfur cap regulation
  - 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
- **Uncertainty of US-China trade dispute remains**

### Environmental regulations trigger expansion of new building demands

\* BWTS, SOx & CO<sub>2</sub> 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<sub>2</sub> 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

#### ■ Expansion of LNG Value-Chain such as LNG fueled, LNG bunkering, FSRU where SHI has competitive advantages will lead to enhanced profitability

### New offshore investments are set to increase

- **IOC's radical Capex Cuts will return with enormous pressure for new investments**

\* USD 220b in 2011 → 100b in 2014 → 65b in 2018

- New offshore investments : USD 65b in 2018 → USD 170b in 2022  
\* Clarksons forecast(March 2019)

- **New offshore orders are expected to increase from 2019**

→ **Concerns over competition will be reduced**

#### < Major Offshore Projects in 2019 >

|                   | Owner          | Field Location | FID              | Remark                    |
|-------------------|----------------|----------------|------------------|---------------------------|
| CoP. Barrosa FPSO | ConocoPhillips | Australia      | 2H 2019          | · FEED underway           |
| Bonga SW FPSO     | Shell          | Nigeria        | End-2019~1H 2020 | · ITT issued in Feb. 2019 |
| Marjan P/F        | Aramco         | Saudi Arabia   | 2Q 2019          | · Bidding underway        |
| Anchor FPU        | Chevron        | US             | 2Q 2019          | · Bidding underway        |

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# 1. 1Q Earnings & Financial Status

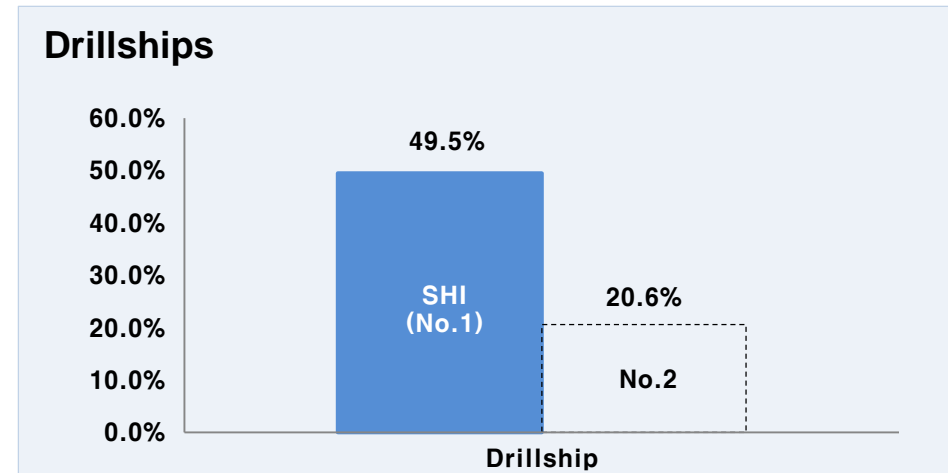
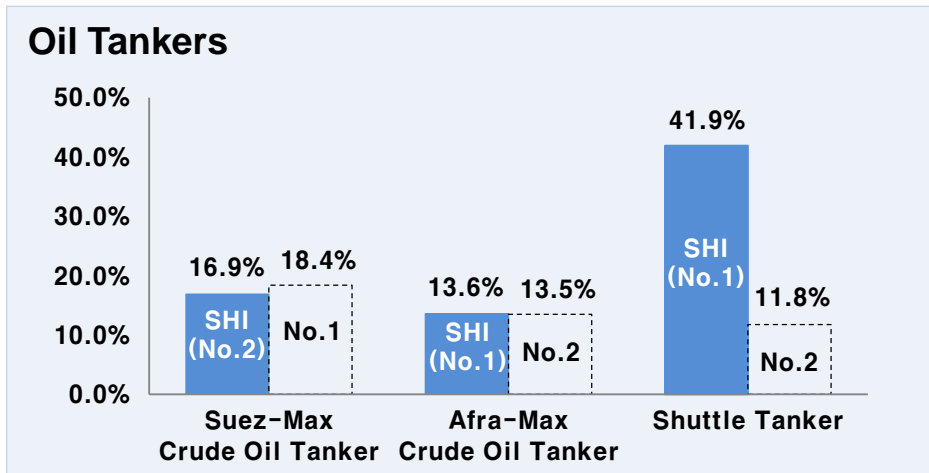
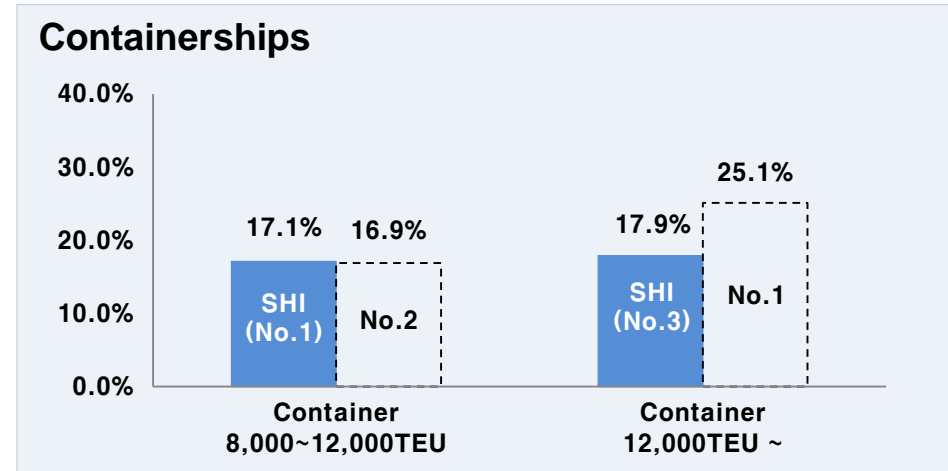
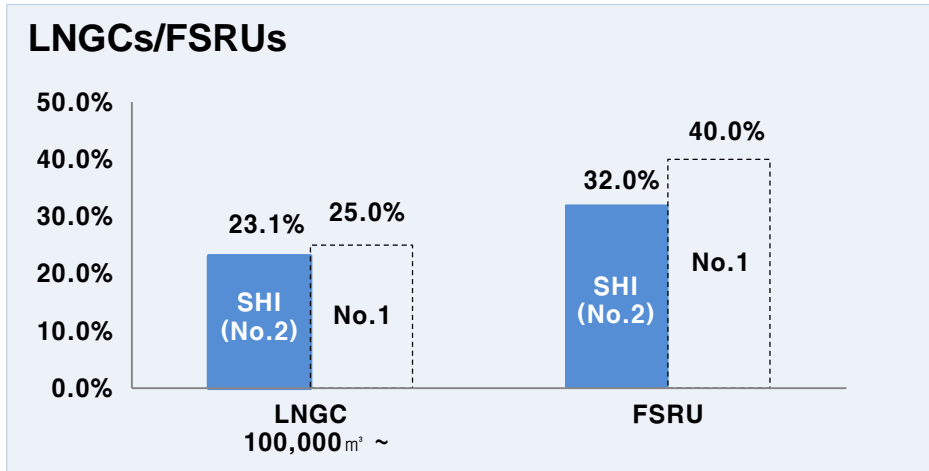
## <Earnings>

|                  |      | (KRWb)  |         |         |         |         |
|------------------|------|---------|---------|---------|---------|---------|
|                  |      | 1Q 2019 | 4Q 2018 | QoQ (%) | 1Q 2018 | YoY (%) |
| Revenue          | Qr.  | 1,458   | 1,364   | 6.9     | 1,241   | 17.5    |
|                  | Acc. | 1,458   | -       | -       | 1,241   | 17.5    |
| Operating Profit | Qr.  | -33     | -134    | 75.1    | -48     | 30.3    |
|                  | Acc. | -33     | -       | -       | -48     | 30.3    |
| Pretax Income    | Qr.  | -69     | -117    | 41.5    | -91     | 24.3    |
|                  | Acc. | -69     | -       | -       | -91     | 24.3    |
| Net Income       | Qr.  | -103    | -106    | 2.9     | -60     | -72.4   |
|                  | Acc. | -103    | -       | -       | -60     | -72.4   |

## <Financial Status>

|                    |  | (KRWb)            |             |            |
|--------------------|--|-------------------|-------------|------------|
|                    |  | End of March 2019 | End of 2018 | Difference |
| Total Assets       |  | 14,665            | 14,283      | 382        |
| Cash & Cash Equiv. |  | 1,937             | 1,365       | 572        |
| Total Liabilities  |  | 7,997             | 7,537       | 460        |
| Borrowings         |  | 2,921             | 2,915       | 6          |
| Advance Payment    |  | 2,265             | 2,207       | 58         |
| Total Equity       |  | 6,668             | 6,746       | -79        |
| Capital Stock      |  | 3,151             | 3,151       | -          |
| Retained Earnings  |  | 2,702             | 2,800       | -98        |

### Global Top-tier Shipbuilder in Major Products



\* Source : Clarksons



# 3. Major Offshore Projects

## Continuity in Offshore Biz over the last 8 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, delivered)



**Mad Dog II FPU**  
(2017~2020)



**ENI FLNG**  
(2017~2023)



**FPSO**  
(2019~2022)

**Under Construction**

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