

IR Presentation

October 2018



HEAVY INDUSTRIES

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1. 2nd Quarter Earnings of 2018

Revenue rebounded while quarterly operating loss continued

■ Revenue : KRW 1.3t

- Rebound of revenue(QoQ) after four consecutive quarters of decline

■ Operating Loss : KRW -101b

- Increase in loss(QoQ) mainly due to one-off losses from drillship inventory
* Drillship related loss(net) : KRW -39b
as well as continuing fixed cost burden

(KRW b)

	2Q 2017 (YoY)	1Q 2018 (QoQ)	2Q 2018	QoQ
Revenue	2,300	1,241	1,347	8.5%
Operating Profit (Margin)	21 (0.9%)	-48 (-3.9%)	-101 (-7.5%)	-110.3%
Pretax Income (Margin)	30 (1.3%)	-91 (-7.3%)	-173 (-12.9%)	-91.2%

2. Earnings Outlook in 2018

■ Revenue : KRW 5.1t

- Revenue decreases mainly due to the lowest new orders of USD 0.5b in 2016
* -35% YoY
- Considering 1H revenue, annual revenue is forecasted to be slightly larger than KRW 5.1t
* KRW 2.6t

■ Operating Loss : KRW -240b

- Increased fixed cost burden results in an operating loss for 2018
* Due to decrease in revenue
- There is a mixture of upside potential and downside risk in annual operating profit
* Change Order in an offshore project * Additional steel cost hike

< Earnings trend(2014~2018) >

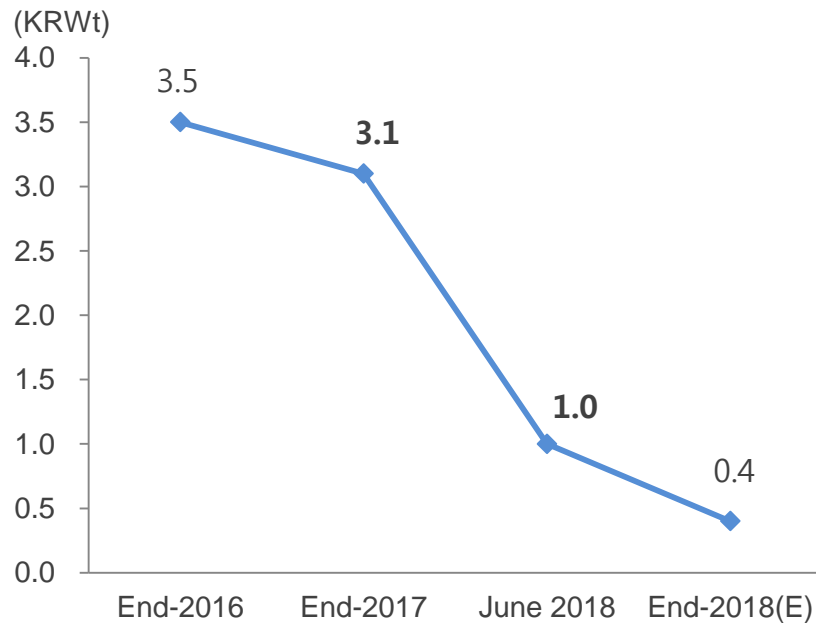
	Unit	2004-2013 (Avg.)	2014	2015	2016	2017	2018(F)
Revenue	KRW trillion	10.5	12.9	9.7	10.4	7.9	5.1
Gross profit (Ratio)	KRW billion (%)	1,088 (10.4)	763 (5.9)	- 962 (-9.9)	475 (4.6)	- 150 (-1.9)	139 (2.8)
Operating Income (Ratio)	KRW billion (%)	690 (6.6)	183 (1.4)	- 1,502 (-15.5)	- 147 (-1.4)	- 524 (-6.6)	- 240 (-4.7)

3. Enhanced Financial Stability

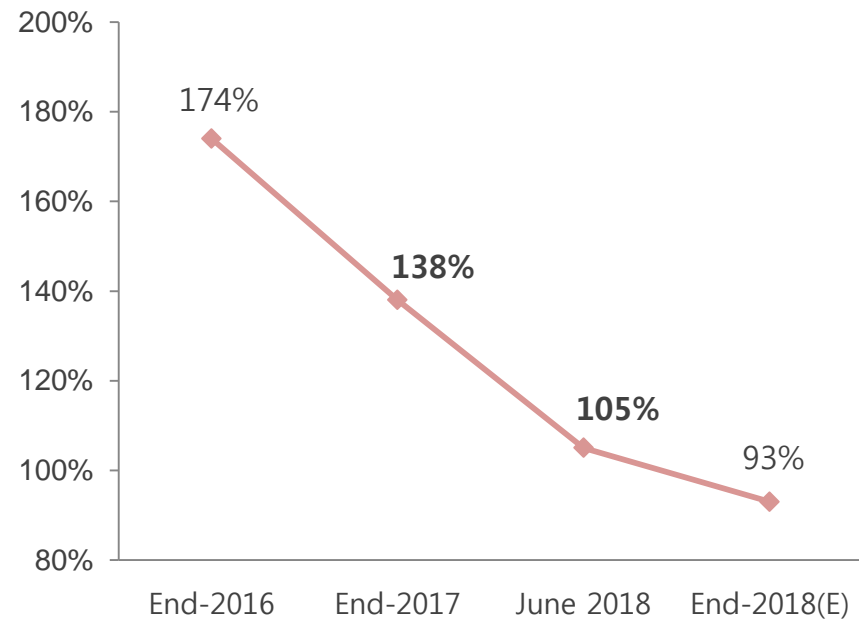
Successful capital increase and positive cash flow from operation enhanced company's financial stability significantly
* KRW 1.4t (New shares listed on May 4, 2018)

- **Net debt : KRW 3.1t at end-2017 → KRW 1.0t in June 2018**
- **Debt-to-equity ratio : 138% at end-2017 → 105% in June 2018**

< Net Debt >



< Debt-to-equity Ratio >



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	0.72	0.44(61)	Dec. 2018	· Sold at 70% of the contract price
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	0.16(22)	Sep. 2020	
Total		3.71	1.44(39)		

■ Arbitral proceedings are underway regarding Stena and PDC rigs

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

Risks eliminated as Egina project completed

- Egina FPSO sailed away from SHI's Nigerian yard in August 2018
- BP Maddog FPU is well under construction with application of all Lessons Learned in the past projects

< Offshore Projects under Construction >

(USD b)

	Type	Contract Price	Progress	Delivery	Remark
Johan Sverdrup	P/F	0.6	86%	Dec. 2018	PC
Petronas	FLNG	1.6	80%	Jul. 2020	Topside: PC
ENI Coral	FLNG	2.5	2%	Jun. 2022	Topside: PC
BP Maddog	FPU	1.3	15%	Sep. 2020	EPC
Total		6.0			

* Progress : As of end of June 2018

More new orders expected in 4Q as market recovery continues

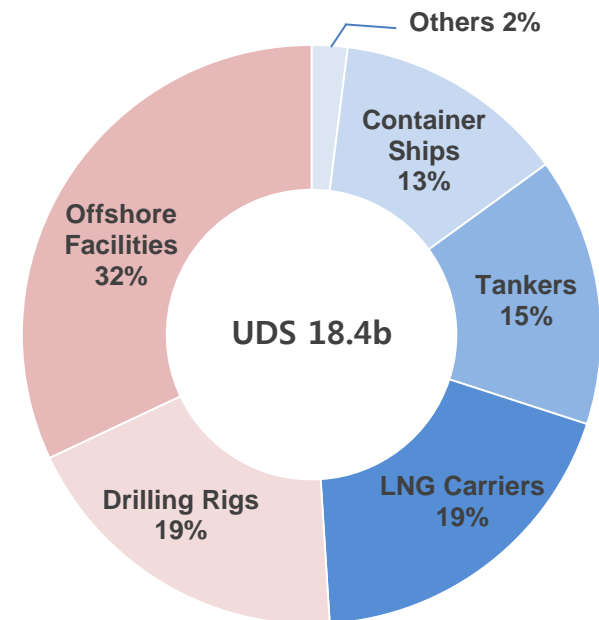
- **New order(as of September 30, 2018) : USD 4.7b**
 - 10 LNGCs(USD 1.8b), 13 Containerships(1.6), 17 Tankers & Others(1.3)
- ✕ New order target in 2018 : USD 8.2b

< New Orders as of September 30, 2018 >

(USD b)

	No	Amount
LNGCs	10	1.8
Containerships	13	1.6
Tankers	14	0.9
Others	3	0.4
Commercial Vessels	40	4.7
Offshore Facilities	-	-
Total	40	4.7

< Order Backlog as of September 30, 2018 >



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Market recovery in 2017 continues its momentum in 2018

- Demand of SHI's core products such as LNGCs, mega containerships and offshore facilities will increase
 - LNGC : Supply is tightening as global LNG export increases, Spot market grows
 - Containerships : Smaller vessels is being replaced by 10,000TEU+ vessels
 - Offshore facilities : New investment is increasing due to lack of CAPEX in 2015-2017 and lowered BEP level

< 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%	30%	63%	75%	87%	111%	129%

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

Demand for new LNGC accelerates

- Long-term demand for LNGCs is solid and yearly 30+ LNGC orders are expected considering LNG trade growth

	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.

- **New LNGC demand by 2020 considering global LNG export plans exceeds current backlogs, which expedited new order flow in 2018**

* 125 (estimation by SHI)

* 99 vessels(150K cbm+, delivery by 2020)

- Also, demands targeting spot market are increasing as the market grows

- Over 40 LNGC could be ordered in 2018 after 2 years of downturn

Containership market is recovering as container trade is increasing and smaller vessels are being replaced by bigger vessels

■ **Global container trade jumps over 5.0% in 2017 and 2018**

	2015	2016	2017	2018
Container Trade	175	182	192	202
Growth	2.3%	4.0%	5.5%	5.2%

(million TEU)

* 2018 : Clarksons forecast

■ **Vessels under 10,000TEU are losing competitiveness and being replaced by 10,000TEU+ vessels**

- Abundant chances of replacement considering 2.2 million TEU orderbook of 10,000TEU+ versus 3.7 million TEU fleet in smaller sizes in Asia/Europe and Asia/North America routes

- Market recovery in 2018 mainly due to replacement demand
 - 58 big boxships ordered (36 vessels ordered in 2017)

Environmental regulations trigger expansion of new building demands

* BWTS, SOx & CO₂ emissions

- **SOx & CO₂ Emission Regulations will require more LNG-fueled vessels and other LNG related solutions**
 - New orders in 2017 applied LNG-fueled engines & Scrubbers to comply with regulations
- **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%

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

IOC's lack of investments in 2015-2017 and lowered BEP level will lead to remarkable rebound of new offshore demand

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

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

* USD 140b in 2020(forecasted)

- Oil production : 26 million barrels/day in 2017 → 18 in 2025 (31% ↓)
- Supply & demand is approaching its balance, which results in the rise of oil & gas prices

■ IOC's BEP level Lowered to USD 50/bbl range throughout Cost-Saving Efforts

- Value-chain activities in entire oil-service sector improved by collaboration, standardization and technology enhancement

- Remarkable increase of offshore inquiries which leads to new orders after 2018
- The number of market inquires : 3 (1H 2016) → 30 (Current)
* 1 FLNG, 2 FPU * 9 FLNG, 8 FPSO, 9 FPU, 2 Platform, etc.
- SHI maintains core competence and know-hows through continuous execution of offshore projects, which provide advantages in future biz opportunities

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1. 2Q Earnings & Financial Status

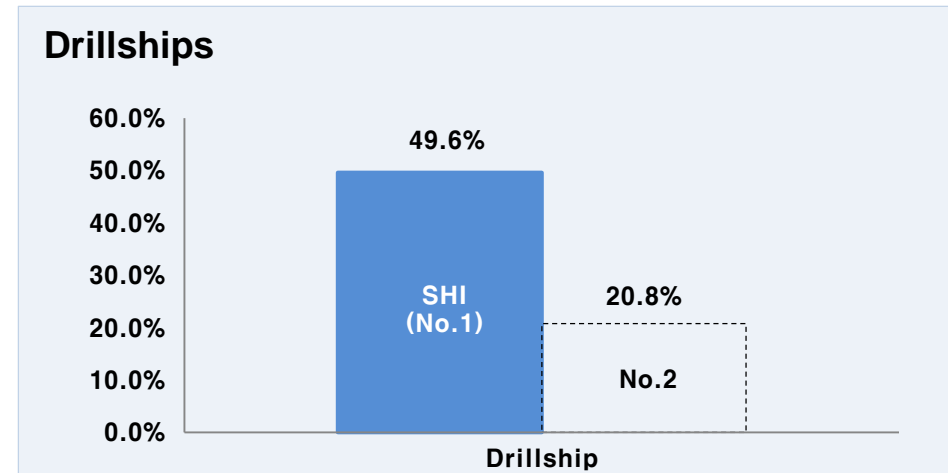
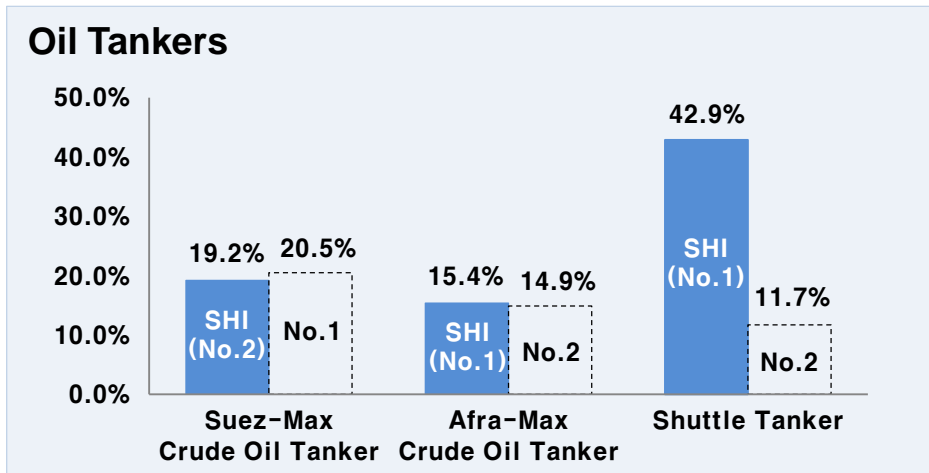
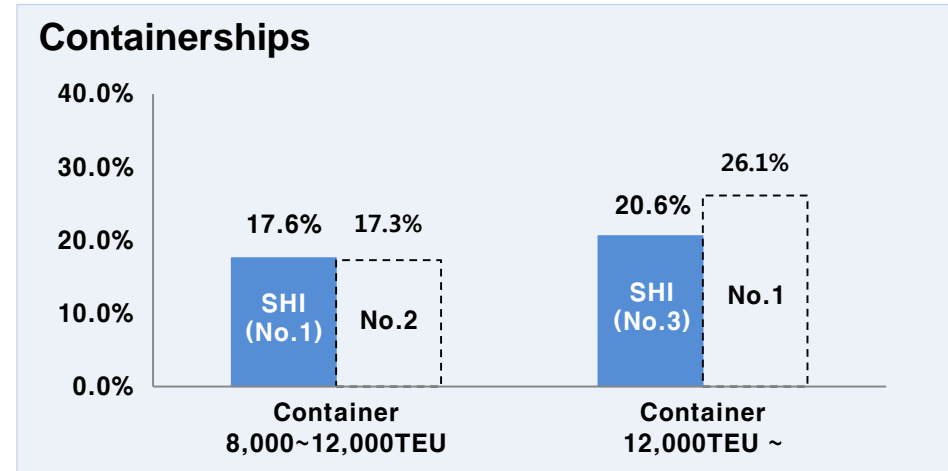
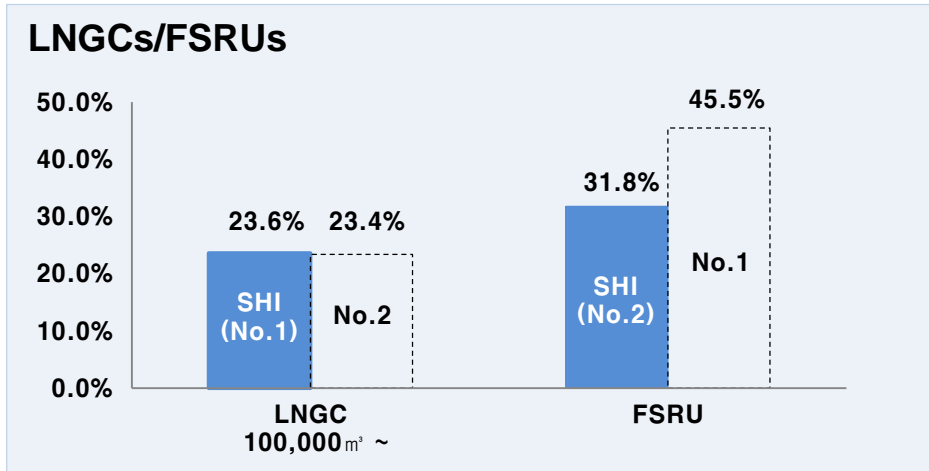
<Earnings>

		(KRWb)				
		2Q 2018	1Q 2018	QoQ (%)	2Q 2017	YoY (%)
Revenue	Qr.	1,347	1,241	8.5	2,300	-41.4
	Acc.	2,587	-	-	4,737	-45.4
Operating Profit	Qr.	-101	-48	-110.3	21	Turn (-)
	Acc.	-148	-	-	48	Turn (-)
Pretax Income	Qr.	-173	-91	-91.2	30	Turn (-)
	Acc.	-264	-	-	79	Turn (-)
Net Income	Qr.	-143	-60	-139.8	23	Turn (-)
	Acc.	-202	-	-	81	Turn (-)

<Financial Status>

		(KRWb)		
		End of June 2018	End of 2017	Difference
Total Assets		14,237	13,818	419
Cash & Cash Equiv.		1,649	1,123	526
Total Liabilities		7,290	8,021	-731
Borrowings		2,675	4,246	-1,571
Advance Payment		1,563	1,514	49
Total Equity		6,947	5,798	1,149
Capital Stock		3,151	1,951	1,200
Retained Earnings		2,965	3,198	-233

Global Top-tier Shipbuilder in Major Products



* 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 FPSO
(2017~2020)



ENI FLNG
(2017~2023)

Under Construction

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