IR Presentation

June 2018

SAMSUNG HEAVY INDUSTRIES

Contents

1. 1st Quarter Earnings of 2018

Revenue decline led to operating loss in 1Q

- **Revenue : KRW 1.2t**

 - As expected considering annual revenue forecast (KRW 5.1t)

- **Operating Loss : KRW -48b**

 - Due to fixed cost burden

 - Change order gains from an offshore project were offset by steel cost hike

(KRW b)

	1Q 2017 (YoY)	4Q 2017 (QoQ)	**1Q 2018**	QoQ
Revenue	2,437	1,413	**1,241**	-12.2%
Operating Profit (Margin)	27 (1.1%)	-596 (-42.2%)	**-48 (-3.9%)**	92.0%
Pretax Income (Margin)	49 (1.8%)	-565 (-40.0%)	**-91 (-7.3%)**	83.9%

2. Earnings Outlook in 2018

Earnings in 2018 will be in line with forecasts announced in Dec. 2017

■ **Revenue : KRW 5.1t**

- Revenue will decrease mainly due to the lowest new orders of USD 0.5b in 2016
  * -35% YoY
- However, revenue will rebound from 2019 considering recovery of new orders in 2017
  * USD 6.9b

■ **Operating Loss : KRW -240b**

- Gross profit for 2018 is expected to be KRW 139b
- However, fixed costs such as SG&A inevitably result in an operating loss for 2018

〈 **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 will enhance company's financial stability significantly

* KRW 1.4t (New shares listed on May 4, 2018)

- **Net debt : KRW 3.4t in 2017 → KRW 0.8t in 2018**
- **Debt-to-equity ratio : 306% in 2015 → 138% in 2017 → 93% in 2018**

(KRW t)

	2017	1Q	2Q	3Q	4Q	2018
Cash from operation	0.4	0.2	0.5	0.3	0.2	1.2
Debt Repayments	-	-	- 1.3	- 0.1	- 0.1	- 1.5
Capital Increase	-	-	1.4	-	-	1.4
Cash in hand	0.9	1.1	1.7	1.9	2.0	2.0
Total Debt	4.3	4.3	3.0	2.9	2.8	2.8
Net Debt	**3.4**	3.2	1.3	1.0	0.8	**0.8**

* Cash, Total Debt, Net Debt : as the end of each period

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	0.72	0.44(61)	Dec. 2018	· Sold at 70% of the contract price
For Resale	PDC	0.52	0.18(35)	-	
	Seadrill #11	0.52	0.16(30)	-	
	Seadrill #12	0.52	0.16(30)	-	
Under Construction	OCR #9	0.72	0.31(43)	Sep. 2019	
	OCR #10	0.71	0.16(22)	Jan. 2019	
Total		**3.71**	**1.41(38)**		

■ 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 significantly reduced as Egina project is in the final stage

- **Egina FPSO is to sail away from SHI's Nigerian yard in 2H 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
Egina	FPSO	3.0	93%	Jul. 2018	EPC
Johan Sverdrup	P/F	0.6	73%	Dec. 2018	PC
Petronas	FLNG	1.6	74%	Jul. 2020	PC
ENI Coral	FLNG	2.5	2%	Jun. 2022	PC
BP Maddog	FPU	1.3	10%	Sep. 2020	EPC
Total		**9.0**			

6. New Orders

Brighter new order outlook in 2018 as market recovery continues

- **New order target in 2018 : USD 8.2b**
- **New order(as of May 31, 2018) : USD 2.3b**

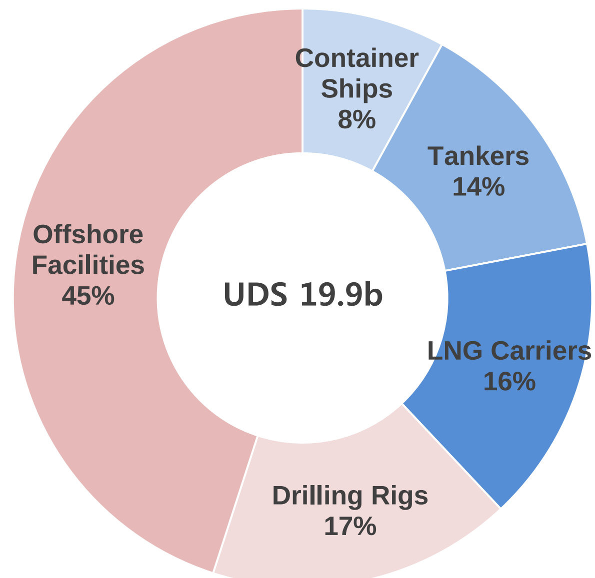
- 8 Containerships(USD 0.8b), 5 LNGCs(0.9), 11 Tankers(0.6)

〈 New Orders as of May 31, 2018 〉

(USD b)

	No	Amount
LNGCs	5	0.9
Containerships	8	0.8
Tankers	11	0.6
Commercial Vessels	24	2.3
Offshore Facilities	-	-
Total	**24**	**2.3**

〈 Order Backlog as of May 31, 2018 〉



1. Market Recovery Continues

Market recovery in 2017 will continue 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
- 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%)

2. LNGCs

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 1H 2018**

* 125 (estimation by SHI)

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

• Over 30 LNGC could be ordered in 2018 after 2 years of downturn

3. Containerships

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**

(million TEU)

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

* 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 is expected in 2018 mainly due to replacement demand

- CMA-CGM, Yangming, HMM have plan to order 10,000TEU+ vessels

4. Regulations

Environmental regulations trigger expansion of new building demands

* BWTS, SOx & CO_2 emissions

■ **SOx & CO_2 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

5. Offshore Facilities

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%↓)

- Oil production : 26 million barrels/day in 2017 → 19 in 2021 (27%↓)
- 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)

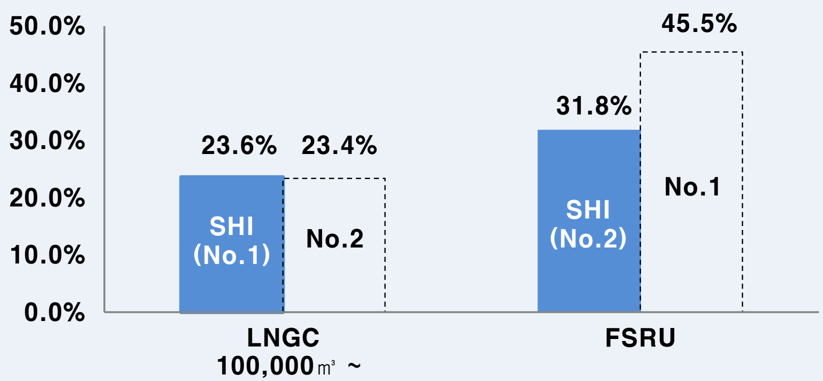
* 1 FLNG, 2 FPU　　* 9 FLNG, 8 FPSO, 9 FPU, 2 Platform, etc.

• SHI maintains core competence and know-hows through continuous execution of offshore projects, which provide advantages in future biz opportunities

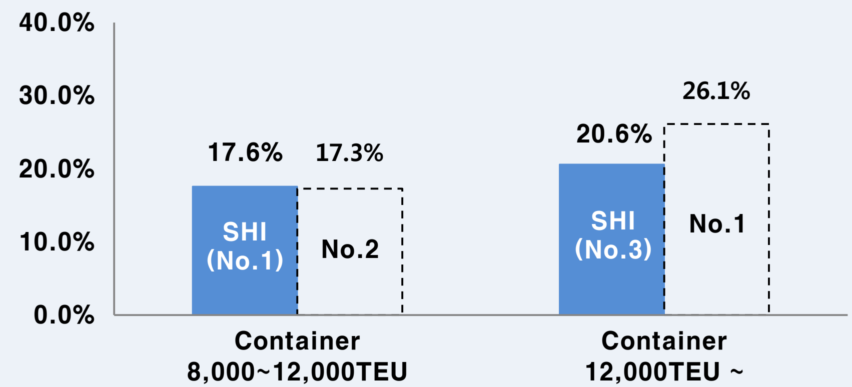
1. Market Share (SHI-built vessels / Global Fleet, by End-2017)

Global Top-tier Shipbuilder in Major Products

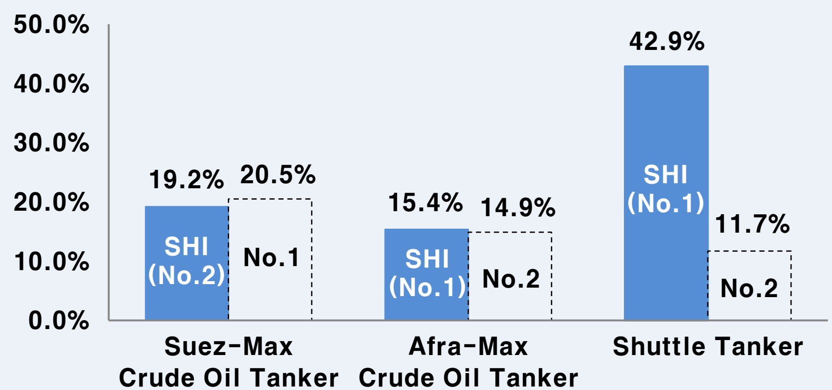
LNGCs/FSRUs



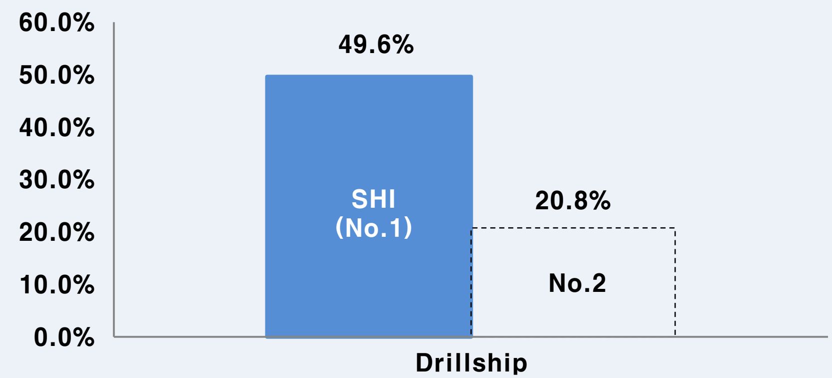
Containerships



Oil Tankers



Drillships



* Source : Clarksons

2. 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)

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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