

IR Presentation

June 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 (YoY)	4Q 2018 (QoQ)	1Q 2019	YoY	QoQ
Revenue	1,241	1,364	1,458	17.5%	6.9%
Operating Profit (Margin)	-48 (-3.9%)	-134 (-9.8%)	-33 (-2.3%)	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

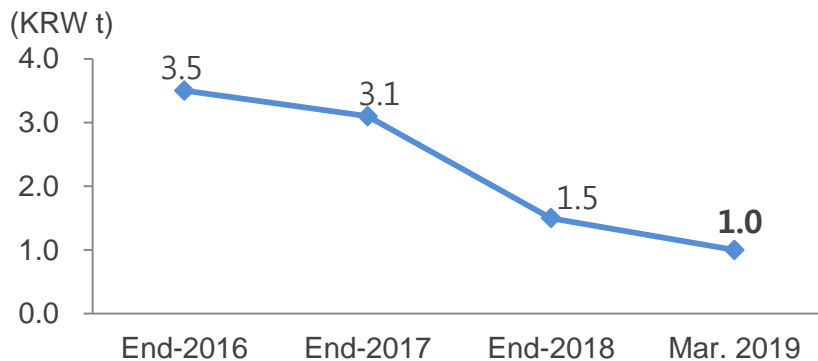
- Decreased due to improved cash flow in 1Q 2019

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

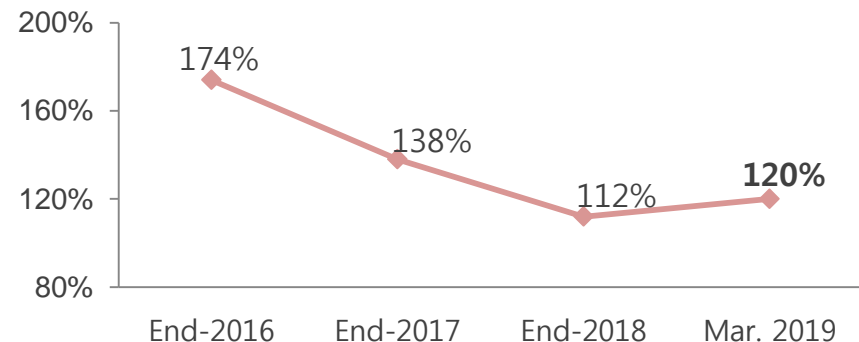
- Weaker KRW increased FX forward liabilities while total borrowings has not changed

* 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 (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		2.99	1.02(34)		

- **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 ³ /D
Total		6.5			-

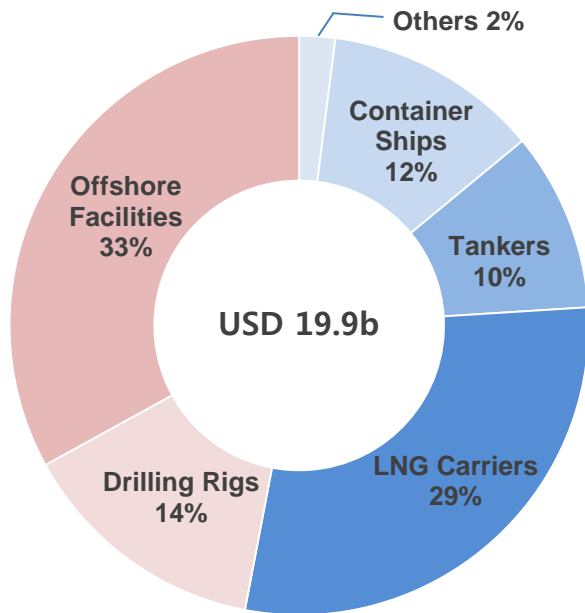
5. New Orders & Backlogs

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

- New orders target in 2019 : USD 7.8b
- New orders (as of May 31, 2019) : USD 2.6b
* Run rate : 33%
- 8 LNGC(USD 1.5b), 1 FPSO(USD 1.1b)

< Order Backlog as of May 31, 2019 >

(USD b)



	No	Amount
LNGCs	32	5.8
Containerships	19	2.4
Tankers	25	2.0
Others	3	0.4
Commercial Vessels	79	10.6
Drilling Rigs	5	2.8
Offshore Facilities	4	6.5
Total	88	19.9

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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 & CO₂ 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 & CO₂ 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

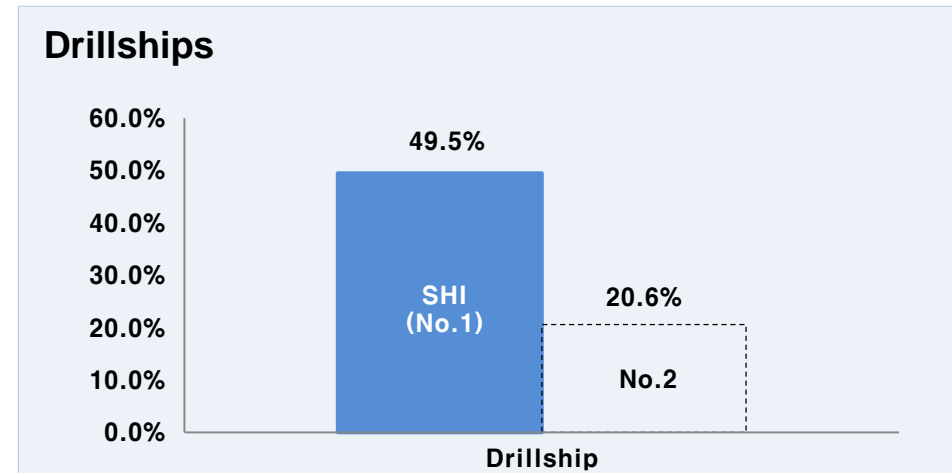
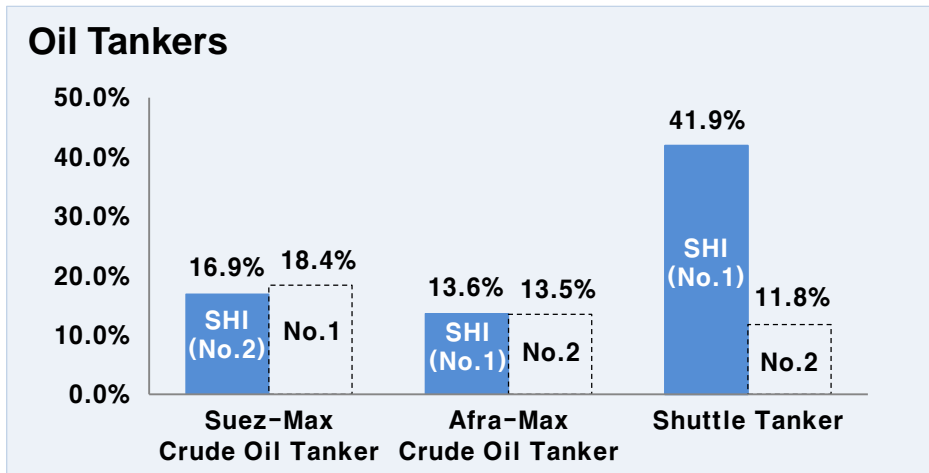
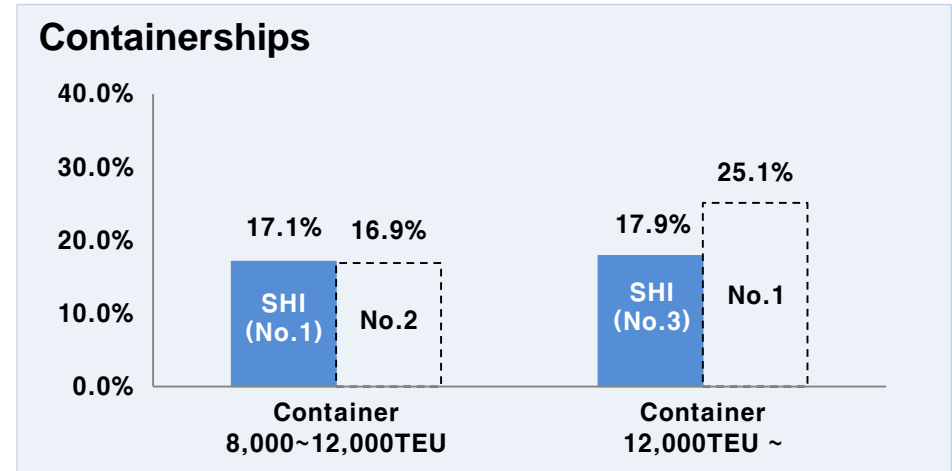
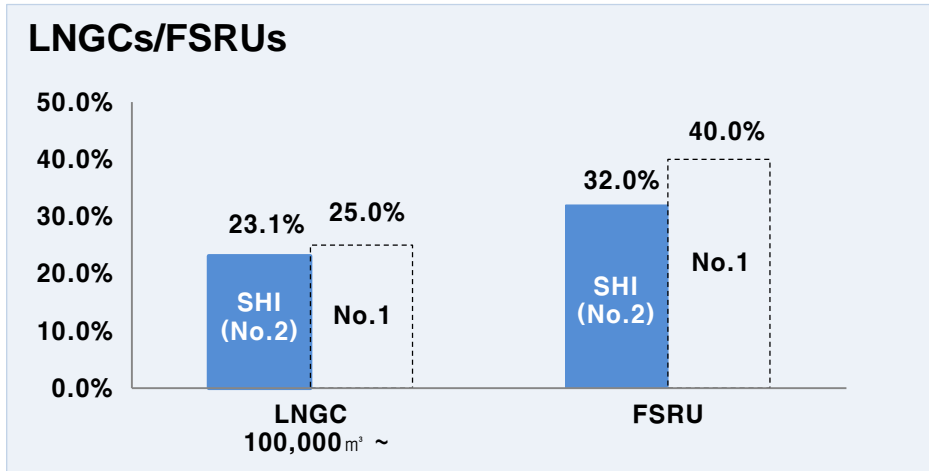
<Earnings>

		(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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