OFFSHORE & MARINE

We aim to be the preferred solutions partner in the global offshore and marine industry.

MAJOR DEVELOPMENTS IN 2014
Entrenched track record in ultra-high specification jackups by delivering the world’s largest jackups, and securing a contract to build the first proprietary KFELS N Plus jackup.

Secured two contracts to perform the world’s first-of-its-type Floating LNG conversions.

Secured contracts to build specialised vessels, such as the two ice-class supply vessels for a subsidiary of Bumi Armada, and a Subsea Construction Vessel (SCV) for BP Exploration (Shah Deniz) Ltd.

FOCUS FOR 2015/2016
Sharpen execution to extract value from backlog of orders.

Harness synergy of global yards to provide newbuild, repair and upgrading solutions to customers.

Maintain emphasis on technology development to sharpen competitiveness.

Seize opportunities in new markets and adjacent businesses for long-term growth.

PROFIT BEFORE TAX
$1,365m
as compared to FY 2013’s $1,202 million.

NET PROFIT
$1,040m
as compared to FY 2013’s $945 million.

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EARNINGS REVIEW
The Offshore & Marine Division was entrusted with $5.5 billion of new orders in 2014, bringing its net orderbook as at year end to $12.5 billion, with deliveries and revenue visibility extending to 2019.

Revenue of $8,556 million was $1,430 million or 20% higher due to higher revenue recognition from ongoing projects. Operating profit margin for FY 2014 was 14.3%, compared to last year’s 14.7%. Pre-tax earnings improved 14% to $1,365 million on better operating results and higher interest income, partially offset by lower share of associated companies’ profits. Net profit of $1,040 million was $95 million or 10% higher than in 2013. The Division remains the largest contributor to Group net profit with a 55% share.

MARKET REVIEW
After an unprecedented period of Brent oil price stability at levels of above US$90 per barrel for most of the last four years, oil prices declined sharply from June 2014 to less than US$50 per barrel at the start of 2015. This decline was mainly attributed to demand and supply factors and exacerbated by geopolitical tensions.

Returns for oil companies have also been eroded by rising costs and the sharp decline in oil price. These have in turn raised hurdle rates for new project sanctions, and caused some oil companies to reduce their exploration and production (E&P) budgets. Oil companies’ cost-cutting has likewise put the supply chain under pressure.

Dayrates for drilling rigs have also taken a beating. As at early-2015, the dayrates for ultra-deep and deepwater rigs have dropped around 34% from a year ago, while those for high-specification jackups have been more resilient, decreasing by about 15% since January 2014.

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<th>NET PROFIT ($ million)</th>
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<th>EARNINGS HIGHLIGHTS ($ million)</th>
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<td>2014</td>
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<td>Revenue</td>
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Keppel O&M’s CEO, Mr Chow Yew Yuen (middle) showcases the Company’s suite of innovative solutions to Mr S Iswaran, Minister, Prime Minister’s Office and Second Minister for Home Affairs and Trade and Industry.
However, even at current price levels, offshore prospects are still viable in certain geographies such as Southeast Asia, Latin America and the Middle East. With a slowdown in E&P activities, production capacity is expected to gradually fall, bringing the market to an equilibrium.

There is also a visible acceleration in the replacement cycle for aging rigs. Presently, over 50% of global jackups and semisubmersibles are 25 years old and above. 48 rigs alone were scrapped from 2011-2014, translating to an average attrition rate of 12 rigs per year in the last four years, compared to four rigs per year in the preceding 11 years from 2000-2010.

As older rigs are due for the five-year surveys and require massive investments to upgrade, scrapping will become an increasingly attractive option for drilling contractors seeking to preserve capital. Major drillers such as Transocean and Diamond have begun scrapping their old rigs. This scrapping trend bodes well for the offshore drilling business as capacity is being taken out from the market gradually, making headroom for dayrates to rise again.

**OPERATING REVIEW**

With strong operational capabilities and extensive experience in delivering a wide spectrum of offshore and marine projects, Keppel Offshore & Marine (Keppel O&M) remained the choice partner for newbuild, repair and upgrading services amongst international owners and operators in 2014.

It continued to stay ahead in the industry, delivering differentiated and value-adding solutions to a diversified customer base. Worldwide, Keppel O&M’s yards delivered seven rigs, seven Floating Production Storage and Offloading (FPSO) conversions, and nine specialised vessels in a timely and safe manner during the year. In particular, the delivery of the world’s largest jackups, Maersk Intrepid and Maersk Intrepid, to Maersk Drilling, further strengthened Keppel FELS’s (Keppel FELS) sterling rigbuilding track record.
Keppel O&M marked significant milestones with some of the new orders, such as sealing the first-of-its kind Floating LNG (FLNG) vessel conversion contracts with Golar LNG, as well as signing the first proprietary KFELS N Plus newbuild contract with TS Offshore. Baku Shipyard, which was inaugurated at end-2013, also secured its first major newbuild contract – a subsea construction vessel from BP Exploration (Shah Deniz).

Our Near Market, Near Customer strategy and focus on innovation in technological offerings were evident in Keppel O&M’s strategic moves during the year.

Keppel O&M signed a 30-year management services agreement with the Titan Petrochemicals Group to manage the Titan Quanzhou Shipyard in Fujian, China.

Titan Quanzhou Shipyard is one of the largest shipyards in China, occupying a total area of 110 hectares along 3,600 metres of coastline. In light of the growth in oil and gas consumption and focus on domestic production in China, we expect an increasing demand for high-specification offshore rigs and production vessels in the country.

Across its global network, Keppel O&M continued to enhance its yards’ capabilities and upgrade their facilities to improve productivity and competitiveness. These well-equipped and strategically located yards around the world are well-positioned to leverage Keppel O&M’s technological edge and execution track record to seize pockets of opportunities in the market, amidst a challenging macro environment.

SIGNIFICANT EVENTS

February

- Mr Chow Yew Yuen was appointed CEO of Keppel O&M on 1 February 2014.
- Keppel FELS secured a KFELS B Class jackup rig contract from UMW Oil & Gas Corporation worth US$218 million.
- Keppel FELS also secured contracts to build three high-specification KFELS B Class jackup rigs worth about US$650 million from new customer, Fecon International Corp.

March

- Keppel FELS delivered the world’s largest jackup, the CJ70 Maersk Intrepid, to Maersk Drilling. This would be followed by the delivery of an identical second unit, Maersk Interceptor, in August 2014.
- Keppel FELS secured a contract from TS Offshore to construct the first proprietary KFELS N Plus jackup worth about US$500 million.
- Keppel Singmarine secured three contracts from a subsidiary of Bumi Armada to build two ice-class supply vessels and an ice-class multi-purpose duty-rescue vessel.
- Keppel Nantong secured an order from KSP Towage to construct two tugs, to be deployed in Malaysia.
OFFSHORE

In 2014, Keppel FELS completed six rigs on time or ahead of schedule for drilling contractors such as Maersk Drilling, ENSCO, UMW Oil & Gas, Gulf Drilling International and Star Drilling. Notably, the two mammoth Maersk Drilling CJ70 jackup rigs delivered during the year are the largest jackups ever built in the world, and are now drilling on long-term contracts offshore Norway for oil majors, Total and Det norske oljeselskap ASA.

Keppel FELS also delivered 15 repair and upgrading projects to its longstanding clients such as Diamond Offshore, Ensco, Transocean, Seadrill, Japan Drilling and COSL, amongst others.

Keppel FELS not only secured jackup and semisubmersible orders from repeat clients, but also expanded its product offerings and clientele during the year. Besides the proprietary KFELS N Plus newbuild contract from TS Offshore, Keppel FELS won three newbuild contracts from new customer, Fecon International, for its proven and high-performance KFELS B Class jackup.

As part of ongoing yard enhancements, a new gantry crane with a 700-tonne lifting capacity was installed in Keppel FELS’ Pioneer Yard in Singapore in 2014. This enables the yard to construct rig modules in larger blocks so as to expedite the rig building process and increase productivity and cost efficiency.

As part of Keppel O&M’s network of satellite yards in Asia, Keppel Nantong Heavy Industries continued to contribute to the smooth execution of the Group’s offshore projects, such as the fabrication of pontoons and columns of the accommodation semi, Floatel Triumph. Total steel fabrication output in the yard reached a commendable 32,000 tonnes.

Keppel O&M’s yards in the Americas were also bustling with newbuild and repair works during the year. Well-positioned to tap local demand, Keppel FELS Brasil’s yard in Angra dos Reis, BrasFELS, and Keppel AmFELS have continued to deepen their presence and leadership in the Americas.
BrasFELS secured projects from repeat customers such as Ensco, Diamond, Noble as well as new customers such as Aban Abraham. To enhance work efficiency, the yard added a new 2,000-tonne Goliath Gantry Crane together with other equipment and workshops.

Keppel AmFELS has been active in supporting Mexican operators. In 2014, it fortified its longstanding partnership with Perforadora Central with the on-time and safe delivery of its fourth jackup rig and the ongoing construction of the fifth.

Leveraging its capabilities and track record for drilling rigs, Keppel AmFELS diversified its solution offerings with an engineering, procurement and construction contract for one of the world’s largest land drilling rigs capable of operating in harsh conditions.

With one of the largest drydocks in Europe and a strategic location in Rotterdam, Netherlands, close to the oil and gas fields of the UK and Norway, Keppel Verolme has been the choice yard for seagoing vessels and floating offshore units in the region.

During the year, Keppel Verolme secured several significant repair projects including jackups, semis heavy lift vessels, as well as the world’s largest cruise ship, “Oasis of the Seas”.

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Keppel FELS signed a conditional management services agreement with Titan Petrochemicals Group to manage the Titan Quanzhou shipyard in Fujian, China.

Baku Shipyard secured a contract worth US$378 million from BP Exploration (Shah Deniz) to design and build a Subsea Construction Vessel (SCV).

Keppel FELS signed an engineering services agreement with Workfox B.V, a subsidiary of the Seafox Group, to embark on an engineering study for a purpose-built Plug & Abandonment jack up with accommodation features.

Keppel Shipyard secured a contract to convert an FPSO for Armada Kraken, a wholly owned subsidiary of Bumi Armada.

Keppel Shipyard sealed a contract worth about US$735 million with Golar LNG to perform the world’s first-of-its-type conversion of an existing Moss LNG carrier, the HILLI, into a Floating Liquefaction Vessel. This was followed by the inking of a second FLNG contract with Golar LNG in December 2014.

Significant Events

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To improve workflow and enhance the safety and productivity of its workforce, Keppel Shipyard extended and deepened its quays in Benoi Yard. The Load Out Quay at Benoi Quay 1 was completed in early 2014.

Besides being a builder of robust tugs and offshore support vessels, Keppel Nantong Shipyard (Keppel Nantong) is an important support yard for the Singapore home base. To augment its capabilities, Keppel Nantong will be constructing a new slipway in 2015, allowing it to launch and service larger and heavier offshore vessels.

Keppel Nantong delivered two units of 50-Tonne ASD tugs on schedule and received a safety bonus in 2014. The yard also delivered the Boskalis Giant 5 Submersible Barge ahead of schedule and the sister vessel, Giant 6, is on track to be delivered by 2Q 2015. Boskalis’ confidence in the yard was reflected by the repeat order for the Giant 7 Submersible Barge in September 2014.

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The two shipyards under Keppel Philippines Marine (KPMI), Keppel Batangas Shipyard (Keppel Batangas) and Keppel Subic Shipyard (Keppel Subic), leveraged their close business relationships fostered over the years to clinch repair projects from both major domestic shipping companies and foreign clients. The two shipyards repaired a total of 98 vessels in 2014.

Keppel Batangas has been actively formalising repair fleet agreements to meet the drydocking requirements of major domestic shipping operators in the Philippines. These are expected to generate sustainable revenue from the local shipping industry. Keppel Batangas also expects to tap demand arising from the vessel acquisition programme of the Philippine Navy.

In 2014, Keppel Subic delivered the coal transshiper crane barge, “Ratu Giok 5”, to Indonesian client, PT Pelayaran Kartika Samudra Adijaya. It has also delivered the Malampaya Phase 3 Depletion Compression Platform (DCP) for Shell Philippines Exploration, which was subsequently delivered in February 2015.

Both Keppel Batangas and Keppel Subic are upgrading their yard facilities to construct offshore support vessels and
Keppel Shipyard is converting two FLNG vessels for longtime customer Golar LNG.

Keppel O&M’s yards in the Arabian Gulf, Arab Heavy Industries (AHI) and Nakilat-Keppel Offshore & Marine (N-KOM), were formed through landmark partnerships with the Ajman Government in the United Arab Emirates, and the world’s leading LNG transporter, Nakilat, respectively.

AHI has built a solid track record as one of the most established shipyards in the Gulf region. In 2014, AHI repaired 113 vessels for a mix of international and local clients such as Boskalis, Smit Lamnalco, Van Oord Ship Management and Middle East Dredging Co. AHI also converted an offshore support vessel, Deep Cleaner, into a well-stimulation vessel for Navispec Marine Services.

SIGNIFICANT EVENTS

July
• Keppel FELS delivered ENSCO 122, the third ultra-premium harsh environment jackup rig in the ENSCO 120 Series, ahead of schedule.

• N-KOM clinched a liftboat newbuild contract and a six-year repair and maintenance contract with a combined value of US$110 million from Gulf Drilling International (GDI), a subsidiary of Gulf International Services.

August
• Keppel FELS delivered its fourth KFELS B Class jackup rig, Dukhan, to GDI of Qatar nine days ahead of schedule, on budget and with a perfect safety record.

• Keppel FELS secured a contract from GDI to build a repeat KFELS B Class jackup rig worth US$227 million, with options for two more units.
Keppel Singmarine, which helms Keppel O&M’s specialised shipbuilding business, clinched multiple contracts in 2014. These include a contract from repeat customer, Seaways International, to build a 100-tonne bollard pull Anchor Handling Tug (AHT) vessel, and another contract for hull construction and outfitting works for BP’s Subsea Construction Vessel won by Keppel O&M’s Baku Shipyard.

Since building its first icebreaker in 2006, Keppel Singmarine has continued to build up its capabilities in the design and construction of ice-class vessels. In 2014, it bolstered its expertise with contracts for two ice-class supply vessels and a ice-class multipurpose duty-rescue vessel from Bumi Armada, and another ice-class multipurpose vessel from New Orient Marine.

During the year, N-KOM clinched a liftboat newbuild contract and a six-year repair and maintenance contract from Gulf Drilling International, a subsidiary of Qatar’s largest oilfield service company, Gulf International Services. Besides the contract from Qatar Primary Materials Company for the construction of a floating jetty, N-KOM has attracted new customers on both the marine and offshore fronts, such as Odfjell, Dynacom, V Ships, Aegean Bunkering and Shelf Drilling.

Since its inauguration in 2010, N-KOM has undertaken more than 300 projects for the marine, offshore and onshore industries. Its regional shiprepair market share increased to about 18% in 2014. Leveraging its shareholders’ strengths and capabilities, N-KOM continued to widen its solutions offerings and climb up the value chain.

Keppel Subic has delivered the Malampaya Phase 3 Depletion Compression Platform to Shell Philippines Exploration in February 2015.
Keppel Singmarine successfully delivered two projects including a bulk carrier and a catamaran air dive support vessel (DSV). DLV 2000, the derrick pipe-laying vessel for McDermott was also launched safely during the year.

Expanding its suite of technological solutions to meet the demands of the specialised shipbuilding market, Keppel Singmarine signed a Technical Assistance and License Agreement with France’s Gaztransport & Technigaz (GTT) in early 2014. GTT is a global leader in the design and construction of membrane containment systems used in LNG carriers. The strategic partnership makes Keppel Singmarine the only shipbuilder in Singapore with a license for GTT’s design.

2014 also marked Keppel Singmarine’s foray into the buoyant liftboat market. It clinched its first contract from N-KOM to support the construction of a liftboat, which is seen as a more efficient and cost-effective alternative to the traditional offshore service vessels.

Keppel Singmarine Brasil, which focuses on the construction of offshore support vessels to service Brazil’s offshore oil fields, delivered three 45-tonne bollard pull ASD harbour tugs to SMIT Rebras in 2014. Three harbour tugs for SMIT Rebras and two 4,500 DWT platform supply vessels for Guanabara Navegacao Ltda are under construction.

Over in Azerbaijan, an important oil and gas supplier to the European markets, Keppel O&M is well-positioned in the captive Caspian market through its two yards, Caspian Shipyard Company (CSC) and Baku Shipyard.

Leveraging the synergy of Keppel O&M’s yards in Singapore and Azerbaijan, the construction of the DSS™38M semisubmersible for SOCAR progressed on track, with the columns and bracings built in Singapore and towed to CSC for integration.

Besides newbuild projects, CSC also undertook several repair projects during the year. These include shipyard services to Swire’s Seabed Supporter vessel, and repair and upgrading works on four of BUE Marine Limited’s vessels.

CSC added equipment to improve efficiency and execution. These included a new CNC plasma cutting machine, a rotary telescopic handler, forklifts, a 15-tonne side loader and a semi-auto welding machine. Upgrading of the blasting and painting halls started in September 2014, and are expected to be completed in early 2015.

Inaugurated by the President of Azerbaijan, H.E. Ilham Aliyev, in September 2013, Baku Shipyard has since achieved several milestones. In 2014, it secured a contract from BP Exploration (Shah Deniz) to design and build a Subsea Construction Vessel. This new flagship vessel for the Caspian Sea will provide essential support for the construction of subsea structures which will form the biggest subsea production system in the region. Baku Shipyard also secured a contract to build three 80-men crew boats for Caspar.

Complementing CSC, Baku Shipyard delivered two pontoons for CSC’s DSSTM38M semisubmersible. Building up its track record in shiprepair in the region, Baku Shipyard secured and completed 27 such jobs for customers such as Topaz Marine, Swire, Caspian Marine Services and Azerbaijan Caspian Shipping Company.

Baku Shipyard is ramping up its capabilities in terms of infrastructure and human capital to improve offerings to international ship owners in the Caspian Sea, complement its sister yard CSC, as well as position itself to capture spillover jobs from the Shah Deniz II development.

In recognition of its quality management system, Baku Shipyard secured the ISO 9001-2008 certification in 2014.

SIGNIFICANT EVENTS

October
- Keppel Shipyards and Keppel Nantong secured contracts worth a total of $153 million for the conversion of an FPSO vessel for Armada Cabaca Limited and the construction of a submersible barge, Giant 7, for Smit Shipping.
- Keppel FELS secured a contract from BOT Lease Co Ltd, an affiliated company of The Bank of Tokyo-Mitsubishi UFJ, for a KFELS Super B Class jackup rig worth about US$240 million.

November
- Keppel AmFELS delivered its fourth jackup rig, CoatzaCoalos, to Perforadora Central on time, within budget and with zero lost-time incidents.
- Keppel FELS was conferred the title of “Largest manufacturer of offshore rigs - current” by the Guinness World Records for delivering 21 rigs in 2013.

December
- Keppel FELS delivered a third KFELS B Class jackup drilling rig to Star Drilling, an associate company of India’s D P Jindal Group.
- Keppel Shipyard delivered the FPSO vessel Bertam to Lundin Petroleum and the Petronas group.
INDUSTRY OUTLOOK
Exploration and production activity in shallow waters will likely stay muted in the short to medium term. According to Pareto Securities, National oil companies such as Saudi Aramco and PEMEX are expected to keep their overall rig count steady in 2015. Nonetheless, these oil companies will be looking to optimise their costs by seeking reduced dayrates for the jackups that they are chartering.

The floater market is expected to be challenging, according to RS Platou which expects a drop in floater demand of around 2-3% in 2015. Floater backlog will continue to be eroded, with 40% of the actively marketed floater fleet coming off contract from 4Q 2015 to 2Q 2016.

With a sizeable contract backlog stretching into 2019, Keppel O&M is well-positioned to tide over the slowdown in the industry. It will also leverage its global network of yards to tap demand in regions that are more resilient.

OFFSHORE RIGS
There are still pockets of opportunities for oilfield services in shallow-water reservoirs where breakeven oil prices for production is lower than current oil prices. The Middle East oil and gas market for example, remains robust as many of the fields are in shallow waters, fully developed and have low marginal costs of production.

For Mexico and India, oil and gas exploration and development remains necessary for energy self-sufficiency. Upstream licensing in Mexico has kicked off with the release of 109 exploration and 60 production blocks, including shallow-water acreage, on offer to foreign oil companies.

This could stimulate rig demand in Mexico in the longer term. According to Wood Mackenzie, the local content requirement in Mexico is set to reach 35% by 2025.

Having kept a keen eye on developments in Mexico over the years and signed an MOU with PEMEX for the development of a yard in Mexico, Keppel O&M is well-positioned to support the country’s oil and gas development.

Keppel O&M continues its focus on technology and Research & Development (R&D) to meet customers’ requirements for robust and cost-effective solutions. It is expanding its suite of proprietary designs, such as the harsh-environment capable KFELS E and J Class jackup designs for the North Sea.

SHIPREPAIR AND PRODUCTION UNITS
The shiprepair market is expected to be challenging as recovery for most shipping sectors remains slow. The container shipping sector continues to grapple with overcapacity, facing pressure on freight and charter rates, although the increase in scrapping activity could improve the supply-demand equilibrium in the longer term.

There is optimism for tankers as rates have been boosted due to higher demand for lower-priced crude oil and for use as storage for crude oil. Lower bunker fuel costs also translate to better margins for shipping companies, which could provide a lift for shiprepair activities.

Despite the recent drop in crude oil prices likely to delay oil field Final Investment Decisions, the long-term fundamentals for FPSO/ FSO/FLNG projects remain intact. According to the Energy Market Authority, regions like Southeast Asia, Africa and Brazil are still active for production unit projects.
The outlook for FLNG conversions remains promising. The two FLNG conversions that Keppel Shipyard is undertaking are both near-shore vessels, providing efficient alternative liquefaction solutions for piped gas from onshore terminals. Aside from FPSO/FSO/FLNG projects, there are also opportunities in turret fabrication for newbuild FPSO/FSOs.

**SPECIALISED SHIPS**
Maintaining and/or enhancing oil production levels for existing fields should remain a key theme for the industry. This will entail the repair and maintenance of existing production platforms, which, in turn, require a diverse supply of offshore support vessels, liftboats and accommodation semisubmersibles.

Versatile and experienced in building a wide spectrum of specialised ships, Keppel O&M is well-placed to meet this demand.

Keppel O&M has successfully navigated numerous challenging cycles in the past four decades and has emerged stronger each time. Keppel O&M’s overarching strategy of delivering solutions that can create value for customers will continue to be relevant amidst a challenging market environment.

With a sizeable contract backlog stretching into 2019, Keppel O&M is well-positioned to tide over the slowdown in the industry, and enhance its niche products to provide customers with the best value propositions.