

**INDEPENDENT AUDITOR'S REPORT**

to the Members of Keppel Corporation Limited  
For the financial year ended 31 December 2020

**Report on the audit of the financial statements****Our Opinion**

In our opinion, the accompanying consolidated financial statements of Keppel Corporation Limited ("the Company") and its subsidiaries ("the Group") and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act"), Singapore Financial Reporting Standards (International) ("SFRS(I)s") and International Financial Reporting Standards ("IFRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2020, the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group, and changes in equity of the Company for the financial year ended on that date.

**What we have audited**

The financial statements of the Company and the Group comprise:

- the balance sheets of the Group and of the Company as at 31 December 2020;
- the consolidated profit and loss account of the Group for the financial year then ended;
- the consolidated statement of comprehensive income of the Group for the financial year then ended;
- the consolidated statement of changes in equity of the Group for the financial year then ended;
- the statement of changes in equity of the Company for the financial year then ended;
- the consolidated statement of cash flows of the Group for the financial year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

**Basis for Opinion**

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

**Our Audit Approach**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the financial year ended 31 December 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR'S REPORT**

to the Members of Keppel Corporation Limited

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>1. Financial exposure in relation to contracts with Sete Brasil Participacoes S.A. ("Sete")</b> <i>(Refer to Notes 2.28 (b)(ii) and 12 to the financial statements)</i></p> <p>The Group had entered into contracts with Sete for the construction of six rigs for which payments from Sete had ceased since November 2014 and in April 2016, Sete filed for bankruptcy protection. In October 2019, Sete's creditors approved the Settlement Agreement as well as a proposal by Magni Partners (Bermuda) Ltd ("Magni") to purchase Sete's four subsidiaries, two of which are special-purpose entities ("SPEs") for uncompleted rigs constructed by the Group. As part of the Agreement, which is subject to fulfillment of certain conditions precedent, the Group will take over ownership of the remaining four uncompleted rigs and will be able to explore various options to extract the best value from these assets. In December 2019, Petrobras approved the continuation of four charter agreements with Sete, and for Magni and their operator Etesco to step in as the new party to the agreements. As a result of the global Coronavirus Disease 2019 ("COVID-19") pandemic and the extended time required for Magni to secure financing, finalisation of the agreements between the various parties were delayed. As at the balance sheet date, the agreements were not completed and in January 2021, Sete informed Petrobras that it would not be able to comply with the conditions precedent by the extended deadline of 31 January 2021. Sete and Petrobras agreed to begin a new negotiation, in search of a joint solution.</p> <p>Management believes that Petrobras, in approving a new negotiation with Sete, will continue to seek solutions on these rigs with the relevant stakeholders which may yield several other alternative arrangements between the stakeholders. The Group will also be in active discussions with Sete and Magni in the new negotiation.</p> <p>Management estimated the net present value of the cash flows relating to the construction contract for two rigs with Magni. In addition, management performed an assessment to estimate the cost of discontinuance of related contracts with Sete, offset by possible options in extracting value from the uncompleted remaining four rigs and possible payout from the Judicial Reorganisation Plan. The loss allowance for trade debtors of \$183 million and the provision for related contract costs of \$245 million made in prior years remain adequate to address the cost of discontinuance, salvage cost and unpaid progress billings relating to the contracts with Sete.</p> <p>The assessment is made with the following key assumptions:</p> <ul style="list-style-type: none"> <li>• Petrobras will continue to require the rigs for execution of its business plans and will charter them at the day rates and tenure previously agreed with Sete;</li> <li>• Magni will be able to secure financing to complete the purchase of the rigs with Sete and complete the construction contract with the Group at the terms previously discussed with Magni; and</li> <li>• The future cost of construction of the rigs are not materially different from management's current estimation.</li> </ul> <p>Should the conclusion of the negotiation result in significant changes to the key assumptions above, additional material provision may be required, including adjustments to the net carrying amounts (net of total cumulative losses recognised of \$476 million) relating to the Sete contracts amounting to \$114 million as at 31 December 2020.</p>	<p>We reviewed the term sheet with Magni and correspondences with Sete or its authorised representatives to validate the assumptions applied by management. We discussed with management on the latest developments and understood management's position on why they believe the settlement agreement will continue to progress.</p> <p>For the two impending construction contracts with Magni, we assessed the amount and timing of gross cash inflows from Magni to the term sheet. We also assessed the total cost of completing the construction of the rigs through discussions with project managers and corroborating the amounts to an approved budget plan. We obtained management's calculation of the discount rate used and evaluated its reasonableness based on our understanding of the settlement agreement with Magni.</p> <p>For the remaining four undelivered rigs, we reviewed management's computation of the provisions and corroborated the inputs against supporting documents and externally available information.</p> <p>Based on our procedures, we found management's assessment in respect of the provisions for expected credit loss and contract related costs from these contracts to be reasonable on the basis of the key assumptions made by management. The ongoing negotiations may result in significant changes to the key assumptions and additional material provision may be required, including adjustments to the net carrying amounts relating to the Sete contracts.</p> <p>We also considered the disclosures in the financial statements in respect of this matter and found that the disclosures in the financial statements in respect of this matter to be adequate.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>1. Financial exposure in relation to contracts with Sete Brasil Participacoes S.A. ("Sete") (continued)</b></p> <p>We focused on this area because the assessment of the outcome of the negotiation and the estimation of the recoverable value of the rigs and other assets relating to the Sete contracts requires management judgment in which several estimates and key assumptions are applied.</p>	
<p><b>2. Recoverability of trade receivables, contract assets and stocks (work-in-progress) in relation to Offshore and Marine ("O&amp;M") business unit</b> (Refer to Notes 2.28(b)(ii), 2.28(b)(ix), 12, 14 and 15 to the financial statements)</p> <p>As at 31 December 2020, the Group has:</p> <ul style="list-style-type: none"> <li>(i) Stocks under work-in-progress ("WIP") amounting to \$1,073 million;</li> <li>(ii) Contract assets relating to certain rigbuilding contracts where the scheduled delivery dates of the rigs had been deferred and have higher counterparty risks, amounting to \$1,654 million; and</li> <li>(iii) Trade receivables amounting to \$848 million where the rigs had been delivered but the receipt of construction revenue deferred under certain financing arrangements.</li> </ul> <p>In 2020, the Group recognised the following impairment from its assessment of recoverability of these assets:</p> <ul style="list-style-type: none"> <li>(i) \$42 million to write down its WIP to their net realisable value ("NRV");</li> <li>(ii) \$431 million of expected credit loss on its contract assets; and</li> <li>(iii) \$170 million of expected credit loss on its trade receivables.</li> </ul> <p>We focused on this area because significant judgment and assumptions are required in:</p> <ul style="list-style-type: none"> <li>(i) estimating the NRV of the WIP balance; and</li> <li>(ii) estimating the expected credit loss of the contract assets and trade receivables balance.</li> </ul> <p>For the above contract assets and secured trade receivables, in the event that the customers are unable to fulfil their contractual obligations, management has considered the most likely outcome is for the Group to take possession of the rigs delivered or under construction and charter it out to work with an operator. On this basis, the value of the rigs delivered or under construction and the NRV of the WIP balance is their Value-in-use ("VIU") estimated using the Discounted Cash Flow ("DCF") model.</p> <p>Management assessed the VIU of the rigs with the assistance of independent professional firms. In addition to the independent professional firm responsible for estimating the VIU based on DCF model, management has also engaged a separate industry advisor to provide a view of the market outlook, assumptions and industry parameters used as inputs to the DCF calculations. The most significant inputs to the DCF calculations include day rates, cost assumptions, utilisation rates, discount rates and estimated commencement of deployment of the assets. The valuation of the assets based on their estimated VIUs are most sensitive to discount rates and day rates.</p> <p>Management had also appointed an independent financial advisor to conduct an assessment of the recoverability of unsecured trade receivables as at 31 December 2020.</p>	<p>We reviewed management's estimation of the NRV of the WIP and estimation of the expected credit loss on contract assets on deferred delivery and trade receivables under certain financing arrangements.</p> <p>We assessed the most significant inputs to the DCF calculations of the NRV/VIU of the rigs and engaged our valuation expert to review the discount rates applied. We also assessed the basis of estimating the recoverable amounts of the unsecured receivable adopted by the independent financial advisor. We assessed the sensitivity of the cash flow projections with respect to the key assumptions including discount rate and day rates, on the estimation of the VIU of the rigs.</p> <p>Based on our procedures, we found management's key judgments and basis of estimation over the NRV of the WIP and the recovery of contract assets on deferred delivery and trade receivables under certain financing arrangements to be appropriate.</p> <p>In respect of the independent professional firms, we found that the firms possessed the requisite competency and experience to assist management in the assessment of the valuations.</p> <p>We also considered the adequacy of the disclosures in the financial statements in respect of this matter and found the disclosures in the financial statements in respect of the key judgments and sources of estimation uncertainty to be adequate.</p> <p>Subsequent to 31 December 2020, the Group announced that it will be transforming its O&amp;M business unit, involving the reorganising of these assets, over the next two to three years. The eventual execution of the transformation plan, together with the future development in the oil market may cause the recoverable amounts of these assets to be different from those estimated as at 31 December 2020.</p>

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<p><b>3. Impairment assessment of investments in associated companies</b> (Refer to Notes 2.28(b)(iii) and 10 to the financial statements)</p> <p>As at 31 December 2020, the Group has investments in associated companies and joint ventures amounting to \$5,991 million. Material associated companies where impairment indicators exist included KrisEnergy Limited ("KrisEnergy") and Floatel International Limited ("Floatel").</p> <p><i>Investment in KrisEnergy and related exposures</i></p> <p>As disclosed in Note 10(c), as at 31 December 2020, the Group's investment in KrisEnergy and related exposures comprise:</p> <ul style="list-style-type: none"> <li>• \$35 million of zero-coupon notes;</li> <li>• \$77 million of project financing loan receivable;</li> <li>• \$29 million of contract assets in relation to a production barge; and</li> <li>• guarantee amounting to \$247 million in respect of a bank loan granted to KrisEnergy.</li> </ul> <p>In August 2019, trading of KrisEnergy's shares on the Singapore Exchange was suspended as KrisEnergy applied for a debt moratorium to the High Court of Republic of Singapore. Further extension of the debt moratorium was approved till 16 April 2021.</p> <p>On 30 December 2020, the maturity date of KrisEnergy's bank loan was extended to 30 June 2021 and this will be further extended to 30 June 2024 upon successful completion of KrisEnergy's restructuring. A scheme of arrangement ("Scheme") setting out details of the restructuring terms was approved by the Scheme creditors on 14 January 2021. On 11 February 2021, the zero-coupon note holders approved the amendment of the terms of zero-coupon notes. The restructuring is pending final approval from the shareholders of KrisEnergy.</p> <p>Management performed an impairment assessment to estimate the recoverable amount of the Group's exposure in KrisEnergy as at 31 December 2020 on the basis of a successful restructuring. Management reviewed the cash flow projections prepared by its financial advisor who estimated the amount of cash available from producing assets and forecasted production from assets under development, taking into consideration the relative priority and rights to cash flows of each group of stakeholders. The cash flow estimates were based on forecasted oil prices, determined by taking reference from external information sources, ranging from US\$50 to US\$62 per barrel for 2021 to 2029. The impairment assessment had also taken into consideration the terms of the restructuring.</p> <p>Arising from the impairment assessment, an impairment loss of \$39 million was recognised in 2020 against the carrying amount of the zero-coupon notes. No impairment was recognised against the other exposures as the Group has priority over the cash flows on the assets under the terms of these instruments.</p> <p>We focused on this area as the assessment of the recoverable amount involves making projections of cash flows arising from producing assets and assets under development in which several estimates and key assumptions were applied.</p>	<p>We read recent public announcements made by KrisEnergy to obtain an understanding of the financial position of KrisEnergy and the proposed terms of restructuring. We read relevant agreements between the Group and KrisEnergy. We held discussions with management and the independent financial advisor to understand the relative priority of each group of stakeholders over cash flows from KrisEnergy and the impact of the terms of the restructuring to the recoverability of the Group investments in KrisEnergy.</p> <p>For cash flows prepared by the independent financial advisor, we evaluated the reasonableness of the estimates and assumptions in the cash flow projections, including the estimates of reserves available and estimated future oil prices of US\$50 to US\$62 per barrel for 2021 to 2029. We assessed the sensitivity of the cash flow projections with respect to key assumptions including discount rate and future oil prices.</p> <p>In respect of the independent financial advisor for the Group, we assessed that they possessed the requisite competency and experience to assist management in the assessment of the recoverable amount of KrisEnergy.</p> <p>We also considered the adequacy of the disclosures in the financial statements in respect of this matter.</p> <p>Based on our procedures, we found the key judgments and basis of estimating the available cash flows for the Group's investment in KrisEnergy to be reasonable, on the basis of a successful restructuring that is still pending approval by the shareholders of KrisEnergy. We also found the disclosures in the financial statements in respect of the key judgments and sources of estimation uncertainty to be adequate.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Investments in Floatel International Limited ("Floatel")</b></p> <p>As disclosed in Note 10(f), as at 31 December 2020, the Group's investment in Floatel amounted to \$96 million, after equity accounting for its share of operating loss of Floatel of \$83 million and share of impairment losses on the carrying value of Floatel's vessels amounting to \$228 million. The Group also recognised \$10 million of fair value loss on its investment in preference shares issued by Floatel in 2020.</p> <p>In February 2020, Floatel reported that its liquidity was under pressure and there were conditions which cast significant doubt on Floatel's ability to continue as a going concern. On 5 December 2020, Floatel, the Group, an ad hoc group of holders of Floatel's 9% senior secured 1L Bondholders, other consenting 1L Bondholders and certain 2L Bondholders entered into a lock-up agreement, (the "Lock-Up Agreement") which committed the parties to use reasonable endeavours to implement a comprehensive financial and corporate restructuring of the Floatel group (the "Restructuring").</p> <p>A successful restructuring is critical in ensuring the long term viability of Floatel's business and consequently the recoverability of the Group's investment in Floatel. The restructuring entails various steps, including the commitment of the Group to use reasonable endeavours to procure the provision and funding of a new US\$100,000,000 revolving credit facility ("RCF") for Floatel, as well as the possible provision of credit support for the RCF in the form of a risk participation.</p> <p>On 8 January 2021, bank lenders of Floatel accepted a cash settlement of US\$46,000,000 for full settlement of amounts owing to them and release of the charge on Floatel Endurance.</p> <p>On 12 February 2021, the 2L Bondholders approved the restructuring which will facilitate a more expeditious restructuring process.</p> <p>Management has engaged an independent financial advisor to support the review of Floatel's business plan and cash flow projections, as well as the recoverable amount of the Group's investment in Floatel as at 31 December 2020 on the basis of the Restructuring.</p> <p>With respect to the impairment of Floatel vessels, the recoverable amounts of the vessels were determined, with the assistance of an independent industry advisor, based on their VIU, using a DCF model.</p> <p>We focused on this area as the assessment of the recoverability of the Group's investment in Floatel and impairment of vessels held by Floatel required management's judgment in which several estimates and key assumptions were applied.</p>	<p>We read the public announcements made by Floatel on its financial results for the current financial year as well as those relating to the ongoing restructuring.</p> <p>We discussed with management to obtain an understanding of the restructuring progress of Floatel. We corroborated the information obtained to the reports and analysis from the independent financial advisor and the independent industry advisor, as well as our understanding of the business environment that Floatel is operating in.</p> <p>For the recoverability of the net investment in Floatel, we reviewed the valuation report prepared by the independent financial advisor and held discussions to understand their basis of determining the recoverable amount of the Group's investment in Floatel.</p> <p>For the recoverable amounts of the Floatel vessels, we reviewed the estimated VIU calculation prepared based on industry parameters provided by an independent industry advisor and held discussions to understand their analysis of the market outlook and method of estimating the VIUs. We engaged our valuation expert to evaluate the appropriateness of the discount rate used in the estimation of the recoverable amount of Floatel's vessels as part of the impairment review of the vessels.</p> <p>In respect of the financial advisor and industry advisor engaged by the Group, we assessed that they possessed the requisite competency and experience to assist management in the assessment of the recoverable amount of the Group's investment in Floatel.</p> <p>For the fair value of preference shares, we reviewed the valuation report prepared by the independent financial advisor and assessed the reasonableness of the inputs.</p> <p>We also considered the adequacy of the disclosures in the financial statements in respect of this matter.</p> <p>Based on the procedures performed, we found management's assessment to be consistent with the results of the audit procedures performed on the basis of the Restructuring of Floatel, including the conclusion of the US\$100,000,000 RCF from financial institutions. We also found the disclosures in the financial statements in respect of this matter to be adequate.</p>

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<p><b>4. Global resolution with criminal authorities in relation to corrupt payments</b> <i>(Refer to Note 2.28(b)(vi) to the financial statements)</i></p> <p>In December 2017, a wholly-owned subsidiary, Keppel Offshore and Marine Ltd ("KOM") reached a global resolution with the Corrupt Practices Investigation Bureau ("CPIB") in Singapore, the U.S. Department of Justice ("DOJ"), and the Public Prosecutor's Office in Brazil, Ministério Público Federal ("MPF") in relation to corrupt payments made in Brazil by Zwi Skornicki, a former agent of certain Keppel subsidiaries in the O&amp;M division.</p> <p>In December 2020, KOM has successfully complied with its obligations under the Deferred Prosecution Agreement ("DPA") with the DOJ and the DPA has accordingly concluded. In addition, KOM has also been in compliance with its obligations under the Conditional Warning issued by CPIB and the Leniency Agreement with MPF. As part of the applicable fines payable under the global resolution, a further US\$52,777,123 (less any penalties that KOM may pay to specified Brazilian authorities) was payable to CPIB within three years from the date of the Conditional Warning and has been included in accrued expenses since FY 2017. The discussions with the specified Brazilian authorities remain ongoing, and CPIB has agreed to extend this three-year period for a further 12 months until 22 December 2021.</p> <p>In 2020, the Office of the Comptroller General of Brazil ("CGU") published a notice in the Official Gazette ("Notice") to the effect that CGU had initiated an administrative enforcement procedure ("AEP") against KOM and certain subsidiaries, in relation to alleged irregularities under the Brazilian Anti-Corruption Statute. Following the issuance of the Notice, the CGU would carry out further internal investigations and summons may be served. Neither the Notice nor any summons has been served on any of the foregoing entities to date.</p> <p>The Notice did not provide any factual particulars and the Company is therefore currently unable to assess the matter or its impact, if any. The Company understands from CGU that the AEP will not affect the ongoing negotiations with the Brazil authorities, and that the AEP has been suspended pending these ongoing discussions.</p> <p>As part of the global resolution with the authorities, the Group had also committed to strengthening the compliance and governance regime in KOM. Anti-bribery and corruption compliance audits were also performed on entities within the KOM Group. These audits revealed that the enhanced policies and procedures put in place to date were, in general, functioning as intended.</p> <p>Based on currently available information, no additional provision was made in relation to the ongoing discussions with the specified Brazilian authorities.</p> <p>We focused on this area because of the management judgment required in determining whether additional provision is required in view of the ongoing discussions with the specified Brazilian authorities.</p>	<p>We obtained an understanding of management's compliance and governance regime, including the progress of its implementation, through enquiries of appropriate personnel within the Group and attendance at the board of directors' meetings.</p> <p>We read the reporting by KOM to DOJ and CPIB. We discussed with management to understand the results of the anti-bribery and corruption compliance audits performed during the year.</p> <p>We obtained an understanding of the progress of ongoing discussions that the Group is having with the relevant authorities. We discussed the reasonableness and the adequacy of the provision made by management with an external legal counsel appointed by the Group.</p> <p>In respect of the external legal counsel engaged by the Group, we assessed that they possessed the requisite competency and experience in the assessment of the adequacy of provision made by management.</p> <p>Based on our procedures and representations obtained from management, we found management's assessment of the matter, including the ongoing discussions with the specified Brazilian authorities to be appropriate.</p> <p>We also considered the adequacy of the disclosures in the financial statements in respect of this matter. We found the disclosures in the financial statements to be adequate.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>5. Revenue recognition based on measurement of progress towards performance obligation</b> <i>(Refer to Notes 2.28(b)(iv) and 24 to the financial statements)</i></p> <p>During the year, the Group recognised \$1,705 million of revenue relating to its rigbuilding, shipbuilding and repairs, and long term engineering contracts (“construction contracts”). The Group recognises revenue over time by reference to the Group’s progress towards completing the construction of the contract work.</p> <p>The stage of completion was measured by reference to either the percentage of the physical proportion of the contract work completed or the proportion of contract costs incurred to date to the estimated total contract costs.</p> <p>We focused on this area because of the significant management judgment required in:</p> <ul style="list-style-type: none"> <li>• the estimation of the physical proportion of the contract work completed for the contracts; and</li> <li>• the estimation of total costs on the contracts, including contingencies that could arise from variations to original contract terms, and claims.</li> </ul>	<p>In respect of construction contracts where progress was measured based on the percentage of the physical proportion of the contract work completed, we sighted certified progress reports from engineers, performed site visits, and obtained confirmations from project owners to assess the appropriateness of management’s estimates of the physical proportion of work completed.</p> <p>In respect of construction contracts where progress was measured based on the proportion of contract costs incurred to date to the estimated total contract costs, we evaluated the effectiveness of management’s controls over the estimation of total costs and assessed the reasonableness of key inputs in the cost estimation. We tested the appropriateness of estimated costs by comparing these against actual costs incurred.</p> <p>We then recomputed the revenues recognised for the current financial year based on the respective percentage of completion and traced these to the accounting records.</p> <p>We also considered the adequacy of the Group’s disclosures in respect of this matter.</p> <p>Based on our procedures, we found assumptions made in the measurement of the progress of construction contracts to be reasonable. We also found the disclosures in the financial statements to be adequate.</p>
<p><b>6. Valuation of properties held for sale</b> <i>(Refer to Notes 2.28(b)(ix) and 14 to the financial statements)</i></p> <p>As at 31 December 2020, the Group has residential properties held for sale of \$3,597 million mainly in China, Singapore, Indonesia and Vietnam.</p> <p>Properties held for sale are stated at the lower of cost and net realisable values. The determination of the carrying value and whether to recognise any foreseeable losses for properties held for sale is highly dependent on the estimated cost to complete each development and the estimated selling price.</p> <p>For certain development projects, fair values based on independent valuation reports are used to determine the net realisable value of these properties.</p> <p>We focused on this area as significant judgment is required in making estimates of future selling prices and the estimated cost to complete the development project. In instances where independent valuation reports are used, the valuation process involves significant judgment in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied in deriving the discount rate and price of comparable plots and properties.</p>	<p>We found that, in making its estimates of future selling prices, the Group took into account macroeconomic and real estate price trend information, and the potential financial impact of the COVID-19 pandemic in the estimates. Senior management applied their knowledge of the business in their regular review of these estimates.</p> <p>We corroborated the Group’s forecasted selling prices by comparing the forecasted selling price to, where available, recently transacted prices and prices of comparable properties located in the same vicinity as the properties held for sale.</p> <p>We compared management’s budgeted total development costs against underlying contracts with vendors and supporting documents. We discussed with the project managers to assess the reasonableness of estimated cost to complete and corroborated the underlying assumptions made with our understanding of past completed projects.</p> <p>For projects where management has used independent valuation reports as a basis to determine the net realisable value, we evaluated the qualifications and competence of the external valuer and considered the valuation methodologies used against those applied by other valuers for similar property type. We tested the reliability of inputs used in the valuation and corroborated key inputs such as the discount rate and price of comparable plots and properties used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors. Where the inputs were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the valuers.</p>

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<p><b>6. Valuation of properties held for sale (continued)</b></p> <p>Continued unfavourable market conditions in certain of the markets in which the Group operates might exert downward pressure on transaction volumes and residential property prices. This could lead to future trends in these markets departing from known trends based on past experience. There is, therefore, a risk that the estimates of carrying values at the date of these financial statements exceed future selling prices, resulting in losses when the properties are sold.</p> <p>Furthermore, the COVID-19 pandemic has resulted in significant economic uncertainty in the current and future economic environment and there is heightened uncertainty inherent in estimating the impact of the pandemic on future selling prices of the development properties.</p>	<p>We focused our work on development projects with slower-than-expected sales or with low or negative margins. For projects which are expected to sell below cost, we checked the computations of the foreseeable losses.</p> <p>We also considered the adequacy of the disclosures in the financial statements, in describing the allowance for foreseeable losses made for properties held for sale.</p> <p>Based on our procedures, we were satisfied that management's estimates and assumptions were reasonable. We also found the related disclosures in the financial statements to be adequate.</p>
<p><b>7. Valuation of investment properties</b> <i>(Refer to Notes 7 and 34 to the financial statements)</i></p> <p>As at 31 December 2020, the Group owns a portfolio of investment properties of \$3,674 million comprising mainly office buildings, hotels, retail malls and mixed-use development projects, located primarily in China, Singapore, Indonesia and Vietnam.</p> <p>Investment properties are stated at their fair values based on independent external valuations.</p> <p>We focused on this area as the valuation process involves significant judgment in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied such as the capitalisation rate, discount rate, net initial yield and price of comparable plots and properties.</p> <p>Furthermore, the valuation reports obtained from independent property valuers for certain investment properties have highlighted the heightened uncertainty of the COVID-19 outbreak and material valuation uncertainty, where a higher degree of caution should be attached to the valuation than would normally be the case. Accordingly, the valuation of these investment properties may be subjected to more fluctuation than during normal market conditions.</p>	<p>We evaluated the qualifications and competence of the external valuers. We considered the valuation methodologies used against those applied by other valuers for similar property types, and how the impact of the COVID-19 pandemic and market uncertainty has been considered by the independent property valuers in determining the valuation of investment properties. We also considered other alternative valuation methods.</p> <p>We tested the reliability of inputs of the projected cash flows used in the valuation to support lease agreements and other documents. We corroborated the inputs such as the capitalisation rate, net initial yield, discount rate and price of comparable plots used in the valuation methodology by comparing them against historical rates and available industry data, taking into consideration comparability and market factors. Where the inputs were outside the expected range, we undertook further procedures to understand the reasons for these and, where necessary, held further discussions with the valuers.</p> <p>We also considered the adequacy of the disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions used in the estimates and the impact of COVID-19 on the valuation of investment properties, as we consider them as likely to be significant to users of the financial statements given the estimation uncertainty and sensitivity of the valuations.</p> <p>The valuers are members of recognised professional bodies for external valuers. We found the valuation methodologies used to be in line with generally accepted market practices and the key assumptions used were within the range of market data. We also found the disclosures in the financial statements to be adequate.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>8. Impairment assessment of goodwill arising from acquisition of subsidiary – M1 Limited (“M1”)</b> <i>(Refer to Notes 2.28(iii) and 13 to the financial statements)</i></p> <p>In February 2019, the Group obtained controlling interest in M1 through an 80% owned subsidiary at a purchase consideration of \$1,232 million. A goodwill of \$988 million was recognised on acquisition of M1.</p> <p>An annual impairment assessment was performed on the goodwill arising from acquisition of M1 where the recoverable amount of M1 as a Cash-generating unit (“CGU”) is estimated. Where the recoverable amount of M1 is determined to be less than the Group’s carrying amount of the M1 CGU (including the goodwill), an impairment loss will be recognised.</p> <p>The recoverable value of the M1 CGU as at 31 December 2020 was determined on a VIU basis using a DCF model.</p> <p>The assessment of the VIU of M1 CGU required significant judgment in estimating the underlying assumptions including the revenue growth rate, long term growth rate and discount rate. Based on management’s assessment, no impairment loss was recognised as the recoverable amount was higher than the carrying value (including goodwill) of the M1 CGU.</p>	<p>We assessed the appropriateness of the underlying assumptions made by management in their cash flow projections, including the revenue growth rate, long term growth rate and discount rate based on the economic and industry conditions relevant to M1 business. We checked whether the cash flow projections were based on the approved business plan. We involved our valuation expert in evaluating the valuation methodology and the discount rate applied by management.</p> <p>We assessed the sensitivity of the cash flow projections and other key assumptions including discount rate and long term growth rate on the impairment assessment and the impact on the headroom over the carrying value.</p> <p>Based on our procedures and representations obtained from management, we found management’s impairment assessment of the goodwill on acquisition of M1 to be appropriate.</p> <p>We also considered the adequacy of the disclosures in the financial statements in respect of this matter. We found the disclosures in the financial statements to be adequate.</p>

**INDEPENDENT AUDITOR'S REPORT**

to the Members of Keppel Corporation Limited

**Other information**

Management is responsible for the other information. The other information comprises the "Directors' Statement" (but does not include the financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report and other sections of the Keppel Corporation Limited Annual Report 2020 ("Other Sections of the Annual Report") which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

**Responsibilities of Management and Directors for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act, SFRS(I)s and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Yeoh Oon Jin.

**PricewaterhouseCoopers LLP**

Public Accountants and Chartered Accountants  
Singapore, 26 February 2021