

## Keppel Corporation 4Q & FY 2015 Results Briefing

### Question & Answer Session

21 January 2016, 5.30pm, Keppel Leadership Institute

#### Panellists:

<b>LCH</b>	Mr Loh Chin Hua, CEO of Keppel Corporation
<b>CHC</b>	Mr Chan Hon Chew, CFO of Keppel Corporation
<b>CYY</b>	Mr Chow Yew Yuen, CEO of Keppel Offshore & Marine
<b>AWG</b>	Mr Ang Wee Gee, CEO of Keppel Land
<b>OTG</b>	Dr Ong Tiong Guan, CEO of Keppel Infrastructure

**Low Horng Han from CLSA:** Good evening everyone. Thank you very much for the detailed presentation. I have a few questions here. First, for the \$230 million provision made for Sete Brasil, may I understand what were the assumptions behind this? Is this for receivables outstanding, or is this perhaps for equipment cost or some impairment?

The second question is how much profit has been recognised from Sete Brasil so far for the first four semisubmersibles?

The third question is still on Sete Brasil. If we were to assume on a worst case basis that Sete goes into bankruptcy, what kind of writedown or impairment should investors expect?

Fourthly, the payout ratio is now at 40%. Could you give us some insights on what is the sustainable dividend payout ratio going forward? Thank you very much.

**LCH:** I'll ask CFO to do the first three.

**CHC:** As far as the provision for Sete Brasil goes, it was made after we assessed the situation including the construction progress, the amounts that we have received, what is outstanding to us and the amounts that we owe to vendors. So that has been the basis of our provision. Our assessment is that this \$230 million provision is adequate at this point in time.

As for your question on the profit, this is something that is commercially sensitive. We do not comment on profits by individual projects.

As for your question on bankruptcy. As you know, this situation has been quite fluid. There has been a lot of talk, a lot of speculation. If indeed there are legal proceedings, the process will not be straightforward. It will take some time. So we will have to look at the developments as they unfold to make the assessment and monitor the situation.

**LCH:** On the third question, the point is that Sete Brasil is still our customer. Of course, they are going through a difficult period at this point in time. In our assessment, we've taken into account different scenarios. This provision of \$230 million is what we believe is adequate and the right thing to do at this point.

On your fourth question on the dividend payout, as we have shared with many of you, when things are good we want to share with our stakeholders. We have always said we would pay around 40% to 50% but the key is that we want to make sure our dividends are sustainable. This is a level we believe is sustainable. We also have to take into account opportunities that could arise. We want to keep our balance sheet strong. Those are the factors that went into deliberation by the Board. We feel that this 40% payout is the right amount.

**Ajay Mirchandani from JP Morgan:** I have three questions from my side. The first one is, again, going to be on Sete Brasil. You did mention that you believe the provision is adequate. But just to get a sense, if we do go to the extreme case, do you see the profits that you've recognised till date on the projects to be relatively secure or is there a risk that you would need to reverse those?

My second question is on the associate income in the fourth quarter. When I'm looking at the number, it is quite large, around about \$250 million. Some colour on that would be useful.

The third and last question from me is with regards to how Keppel Corporation is thinking about cash flows for 2016. It is a tough environment. You are talking about expecting a number of deliveries into 2016, but in case those get further delayed, how is management thinking about cash flows, given the O&M business is obviously going through significant strain?

**LCH:** Thank you, Ajay. I will answer the first and third question. I'll let CFO answer the second question.

I guess the first question is an indirect way of asking what we have assumed in the provision. We have already shared what we wanted to share, based on what CFO said.

On the third question on cash flow—it is something that we are watching very closely, as I've said in my remarks. We've always said we are determined to keep an institutional-quality balance sheet. This has not changed. So far, the projects that we have remain strong, the net orders that we have remain strong. We're looking to deliver those projects this year. Our gearing is something that we're watching closely. At this point in time, we will still maintain a strong balance sheet to allow us to take advantage of any opportunities that may arise.

**CHC:** In your question on the share of associates, I believe you're referring to the \$251 million for the fourth quarter. It is actually quite comparable to the amount last year. This would include, of course, in the fourth quarter, revaluation adjustments at the end of the year.

**Gerald Wong from Credit Suisse:** I've got three questions. Firstly, just as a follow up on Sete Brasil. While this may not be your base case, what would be your contingency plans if Sete Brasil were to file for bankruptcy?

My second question relates to the O&M Division. You highlighted some of the measures that you've taken to rightsize the operations in a challenging environment. What are some further steps that you can potentially take if the market were to continue deteriorating?

Lastly, also on the O&M division. At the third quarter results in October 2015, you had mentioned you were expecting to deliver six jackups in the fourth quarter but it seems like only one was eventually delivered. Can you give some colour on the discussion with your customers on deferrals and the scope for further deferment? Thank you.

**LCH:** I'll ask YY to answer the third question. For the first question on bankruptcy—at this moment, it is definitely, from the reports being talked about. In our own estimation of the provision, we have taken into account all the possible scenarios. We believe that the amount we've factored in is adequate.

Your second question is on the rightsizing. As I have shared in my opening remarks, we've already taken decisive steps in 2015 to rightsize. We are watching the situation closely. We've developed plans and trigger points so if the workflow continues to drop, then we will be ready.

**CYY:** On the third question, in 2015, we talked about the delivery of 15 rigs at the beginning of the year, but we've actually already negotiated for three of them to be shifted to 2016. In the previous quarter, I mentioned that we will deliver four more rigs in the last quarter of 2015. You are right that we have not delivered the four rigs in the last quarter.

The four rigs are actually three from Grupo R and one from Falcon Energy. We have been working very closely with the customers as we have always done. For at least two of the Grupo R rigs, they have already signed contracts with PEMEX and Grupo R is likely to take delivery of them in the middle of February. The third one may have to be pushed back a little bit later. The Falcon Energy one is also going to be pushed back a bit later. But all these four rigs have been technically accepted by them, meaning that there is no performance or execution risk on our part. Sometimes it is important for us to let our customers have some time to conclude their contracts. This is precisely what we are doing. I hope that answers your question.

The second question, which Chin Hua has more or less answered, is about the rightsizing. Last year alone, we have already taken steps to rightsize the organisation. We have actually have lowered our direct workforce by about 17%, which translates into about 6,000 positions. Our labour structure is like an onion; we are able to peel layer by layer. On the subcontract side, we have actually reduced headcount by 25%.

This year we will monitor the situation very closely. If there is a need for us to do so, we are ready to go even further. When the top line is down, our overheads will have to come down. That means that we are striving to still become profitable even though the market situation is as such.

**LCH:** I know that the questions, understandably, are all concerning the downside risk. Maybe it is appropriate at this point that I share—whilst the situation in the O&M side is quite tough, there are also a couple of bright spots. For instance, on the gas side, we are also continuing to see good inquiries. We are also looking at some new markets out there. We are being realistic. We are getting ourselves ready for a longer winter but at same time we are also preparing for the upturn. The drilling side might be out for a while but there are also other areas which continue to look interesting including new markets that could open up, like Iran.

**Owen Lee from T. Cartel Pte Ltd:** Moving forward, how is Keppel Corporation going to react in the event that Sete Brasil decides to file for bankruptcy? Are there any plans in place that will reduce the damage that Keppel has sustained in this sour deal?

**LCH:** As I shared earlier, when we looked at the provision taken this quarter we had to factor in all the possible scenarios. Besides figuring out the appropriate provision, we've also come up with a strategy for dealing with different scenarios. Again, as I have said, Sete Brasil remains a customer of ours. They're going through a difficult time. Of course, we have to be realistic. We have to come up with our own plans. But these plans are to be kept to ourselves for now.

**Aaron Low from SPH Straits Times:** Could you please explain what you mean by natural attrition rate? Did the company retrench workers? If so, how many were Singaporeans?

**CYY:** By natural attrition, we are referring to our workforce in Singapore. As you know, we have a labour structure where we have a lot of NTS workers, and we also have people who are retiring. Those NTS workers who are here on contract, work permit—we have kept some of them for a long time, because the longer they work with us, the longer they understand the safety culture and the productivity. Some of these workers actually want to go back home after working with us for six, eight or ten years. So when they want to go back—these are the people who we do not replace. That is what we mean by natural attrition.

There is mention about Brazil in the news. What we did last year was to reduce our workforce there by about 2,000. But in Brazil, you must understand, we still have work—the Replicante with Petrobras directly. That project is coming along well. In fact, we are waiting for some of the modules to be delivered to us by Petrobras. On top of that, we have also recently announced that we have got some other FPSO project from MODEC. We are keeping ourselves occupied and busy on the FPSO side of the business and with some of the repair and upgrading work for drilling rigs and pipelay vessels in Brazil, despite the fact that we have stopped work on the Sete Brasil projects.

**Kenny Lim from Orca Investments Pte Ltd:** I notice there is declining cash on hand on the balance sheet for the past three quarters. Please clarify if there will be any cash flow problems in the coming quarters?

**CHC:** If you look at 2015, we started the year with the privatisation of Keppel Land so that used up something like \$3 billion in funds to acquire the shares in Keppel Land that we didn't already own. So that was the biggest cash outflow. Then for rest of the year, we had working capital requirements coming from the O&M and Property Divisions.

Going forward, cash flow is something that we watch very closely but for sure, we do not have any cash flow problems. Our gearing at 53% still remains at a very healthy level. While we do not have a gearing target, as we have mentioned in the past, we have always operated based on the principle of maintaining an institutional-quality balance sheet. By that, what we mean is in terms of gearing, we don't see ourselves exceeding more than 1x. That still holds true for 2016.

**Lim Siew Kee from CIMB:** I've got four questions on O&M. Excluding Sete Brasil, your margin was 17%. That's extremely high compared to your past quarters. Is this a sustainable level? What's the reason for this?

My second question is, if Sete Brasil or any other contracts are cancelled and you are actually still working on it, are you liable to pay for the equipment? Can you go to vendors and also say "I want to cancel the equipment"? Or are you liable to just take it on even though your customer cancels?

The third question is on the interest expense for O&M which has shot up quite a fair bit, by \$90 million in 4Q. Is this a level that we should be looking at, or will it go higher?

My final question is on Infrastructure. 4Q profit was very high at \$47 million compared to 3Q and 1Q. What's the reason?

**LCH:** I will answer the first question. As we've said many times before, we shouldn't look at the margins quarter-on-quarter. So I'm quite fair—even when in the quarter that we do quite well, I would tell you not to look at it quarter-on-quarter. Projects are executed over a period of time. So we should really need to look at the long term. We've always said that in the long term, a sustainable margin level is 10% to 12%. Of course, in today's environment, 10% to 12% would be a very good margin. The reason why it's higher in any one quarter really depends on the work that has been recognised during that quarter. So things like repairs and conversion work will probably have higher margins compared to newbuilds.

**CYY:** On the question about equipment, as far as suppliers are concerned, we have been negotiating with them for quite some time. We've sat down with most of them and talked about the scenario. Since a lot of our deliveries have been pushed to the right, we've told them to slow down and to stop work.

Of course, under the contract with them, if we decide to cancel or terminate the contract, then there is a provision in those contracts to make proper compensation to them. I think that's fair. That's the way the contracts are being signed. In the same way, if Sete Brasil cancels the contract with us, we can claim damages from them.

**CHC:** I'll follow up on your question on the interest expense for O&M. The increase is arising from the higher working capital requirements during the year. As the funds are drawn down, the interest expense has gone up.

On your fourth question on Infrastructure, the increase was due to the revaluation surplus that is done only at the end of the year.

**Mayuko Tani from Nikkei:** You mentioned that you will look for the opportunities for mergers and acquisitions. What are the sort of inorganic growth opportunities you are looking at? Will it include the possibility of an acquisition of a competitor in Singapore? What's going to be your long-term vision for the O&M business and industry?

**LCH:** That's a very clever way of asking an interesting question. First of all, in my remarks I've already mentioned that we are in the process of acquiring LeTourneau. So that is an example of an acquisition we are undertaking currently, which we believe will add to our suite of services and products, especially aftersales services.

M&A covers the whole spectrum. I'd like to remind everyone here that we do have a multi-business approach. So it's not just Offshore & Marine. We also have Property and Infrastructure. Of course, we believe very strongly in growing organically. But from time to time, when there are dislocations in the market, there could be opportunities that come up. That could span not just Offshore & Marine, but Property as well as Infrastructure. All these will be looked at. There are always things that we look at. What you've asked is speculative at this point in time. We don't comment on speculation.

At present, looking at the Offshore & Marine side, you've heard what YY and I have said. We are really focused on our existing businesses, on making sure that we continue to deliver our rigs on

time and working very closely with our customers. We are also looking at rightsizing our organisation, especially on the Offshore & Marine side.

**Ling Xin Jin from Morgan Stanley:** I have three questions regarding the Offshore & Marine Division. Firstly, in terms of the margins that you mentioned in the fourth quarter, is there any extra interest payments that you've received from your customers with regards to them deferring the delivery of the rigs?

The second question is, given that you have already made a provision for Sete Brasil and frozen the recognition of revenue or earnings, at what point will you actually decide to write down the orders from your net orderbook?

Lastly, could you comment about the undrawn committed facilities that you still have for the marine sector?

In terms of Property, I noticed that there was a provision of about \$58 million in this quarter. Can you elaborate on that as well? Thank you.

**CHC:** I'll deal with the last question first. Yes, during the year there was over \$50 million in provision for the residential properties under the Property Division. Generally, all our projects are still selling at above breakeven but at the year end, we did a review of all the projects. There are certain projects where the selling price is slightly below breakeven so we made a provision for those projects.

You had a question on undrawn facilities. That's not something that we disclose.

As for the Offshore & Marine margins for fourth quarter—as we have mentioned in the past, it's not meaningful to look at margins quarter by quarter. So really, the margins are very much dependent on the mix of the projects that we are working on. Your suggestion that, is there interest that we charge our customers—no, there are no exceptional items in there. The margins really depend on the mix of projects.

**Jacqueline Woo from Straits Times:** Two quick questions from me. Regarding the manpower issue, how much in savings does that translate to?

Can you share what is the utilisation rate of your yards right now and how this has changed over the year? Thanks.

**LCH:** We don't give exact numbers on the savings. But just as an illustration, the 2,000 workers we have in Brazil, on an annual basis that would cost about \$100 million. It's a high cost place to operate. So clearly there are quite significant savings that can be made. But like I said, this is about rightsizing, about tailoring the organisation to fit the workload that we have.

Your second question is on utilisation. That's not how the Offshore & Marine yards are organised. We're not like a factory with a utilisation rate. There's some flexibility in terms of our capacity. This year, as YY might have said earlier, we remain very busy. We have to watch carefully. That's why we have plans in place. If the workload were to come down then we will have to continue to rightsize.

**CYY:** I'll just add on a little bit about utilisation. The marine industry, like Chin Hua said, the measure is not like a factory where there is production flow. In the marine industry, we have to be nimble.

Our ability to be flexible is actually a differentiator for the Singaporean yards compared to competitors in other countries. That flexibility means that we have the ability to rightsize and organise ourselves to where the market is. If we anticipate that the market is going to come down somewhat, let's say by 20%, the question is our ability to rightsize it so that our overhead and cost can still give us the kind of margins that we are looking for.

To also answer the question about the 17.1% margin in fourth quarter. Like Hon Chew said, comparing quarter by quarter is difficult because it depends on the mix. Sometimes you get good repair or upgrade projects, so your margin can go up. On average, we've always said that our range is 10% to 12%. So even when the market is a bit down, the question is how are we able to get within that operating margin range that we've always been talking about. That depends on our ability to rightsize, and still continue to motivate our people. We are still continuing to invest in R&D. All these things—productivity and all that—we are still continuing to do. So I think that is what it differentiates us.

**LCH:** Before I take the next question, I want to add a point here which I think is quite pertinent. I know that in today's environment, it's natural to ask some of these questions. They are all good questions and it is relevant as analysts and acting as investors you have to ask these questions on the downside risk.

But the point that we've made and have been making is that Keppel is a multi-business conglomerate. I actually asked my colleagues, just before this, to give me the different net profit contributions by the different groups in Keppel Corporation over the past years, starting from 2002.

The reason I chose 2002 was—for those of you old enough, we used to own a bank—that was the time when the bank was sold. At that point in time when the bank was sold, it constituted about 50% of our net profits. After the bank was sold, we used the capital from that sale to consolidate Keppel O&M pretty much like what we have done with Keppel Land in more recent times. That proved to be a very prescient strategy. It worked out very well for us. Keppel O&M has been able to be a very strong contributor to the Group's net profit over last 12, 13, 14 years.

Just to give you a sense, if you take that period after we sold the bank, for the contribution from Offshore & Marine from 2002 to 2015, the range was somewhere between 29% to a high of 64%. Last year it was at 32% and we explained the reasons why.

For the Property side, the range was from 12% to a high of 48%. Last year, it was at 46%, not insignificant.

Infrastructure is interesting. The range was a negative 12% to a high of 25%, but the 25% was in 2002 or 2003, in the early part. In recent times it has been single digit. For 2015, Infrastructure as a division contributed 14%.

Investments ranged from 1% to 49%. Of course, 49% would be when we disposed of big investments like SPC etc. Last year, Investments contributed 8%.

The point I'm making is that the businesses we are in have some cycles. They will tend to ebb and flow. As a Group, we have demonstrated through our track record that we've been able to weather the storm. When we had earnings from KOM, we've been able to redeploy them into building our KMC, for instance, and also into our Property portfolio. Even today, KOM is still performing very well. The industry is very tough. We are actively working to make sure that KOM will continue to be

profitable. Even then, even if the market for Offshore & Marine remains tough, we have other divisions. In Infrastructure, we've come to a point where a number of the EPC contracts that have been burdening us over last few years are now behind us. We are ready to see Infrastructure contribute more to the bottom line. On our Property side, with the privatisation, the alignment of interest with the Group is complete. Whilst headwinds are there, there are a number of markets such as China and Vietnam that remain very promising.

**Kyunghee Park from Bloomberg:** I want to ask just two questions. On the investment part, you've been selling some of your assets recently. I'm just wondering if you would be considering more asset sales and could that possibly include your stake in M1?

Secondly, you've set aside provision for the Brazilian contracts. Do you see the need for setting aside more provisions for other contracts considering that you said that more headwinds are coming in 2016? Thank you.

**LCH:** I will answer the first and second questions, and I think you have two parts to your question. The first question is on the potential sale of M1. First of all, there was an earlier question about cash flow. I just want to be very clear. Our cash position is not an issue. We have a very strong balance sheet. In the event we choose to sell something, it's because we think it's the right time to sell. We remain ready to take investments as and when we see fit. That's all I will say on M1. We have said before, M1 is not a core investment for us. But when we sell would depend on many things. In the meantime, we are quite happy with the contribution that M1 is making to Keppel T&T and to the Group.

We have also alluded earlier that other than Sete Brasil, while there have been some requests by customers on the Offshore & Marine side to push some of our projects to the right, by and large, they are not significant changes. Quite often, we do get compensated for the additional costs. And most importantly, these are projects that remain valid, so we don't feel there is a need right now to take provisions on them.

**Chong Wee Lee from Nomura:** First question, may we know the thought process behind lowering the dividend payout ratio to about 38% which is lower than past years? Should we expect this to be a benchmark going forward?

On the property division, may we know the target number of units to be sold in 2016 forecast and are there any particular cities that Keppel will focus relatively more in terms of marketing of the properties?

**LCH:** The first question I've already answered. We're really looking at keeping our balance sheet strong. We have always said about 40-50% payout. So it's not quite 38%, it's just in excess of 40%. Our goal is always to share with our shareholders when we make money and of course, we always look at something that we believe is sustainable. Second question can I ask Wee Gee to answer you.

**AWG:** Sure. In terms of the target of residential units we would like to sell this year, I think obviously we hope to sell as many units as possible at a good price. But certainly we are looking towards selling more than what we have sold last year.

On the second part of the question, are there any particular cities that we will be focusing on. As Chin Hua has mentioned just now, the two markets that we are in overseas, China and Vietnam, we are very positive about these markets in the next few years. In China, the property sector contributes about 15% to 20% of its GDP and if we count the other related industries, with the property industry, I think we are probably looking at even higher 25% to 30%. So we see the

government will continue to support the property market in China. With continued urbanisation, growing middle income, the growing wages in China in the first-tier cities and the fast-growing second-tier cities, and China moving towards a consumption-driven economy, all these augur well for the property market in China. We will continue to focus on our five key cities in China – Shanghai, Beijing, Wuxi, Tianjin and Chengdu – and we have a huge landbank in China of about 40,000 residential units and over the next few years we will continue to sell the units and we are very positive about that.

As for Vietnam, our focus would be Ho Chi Minh City. I think the market in Vietnam has turned around and turned around very rapidly. Last year we sold a record of almost 1,000 units in Vietnam. We have a landbank of about 20,000 residential units in Vietnam, mostly in Ho Chi Minh City, and we will be capitalising on the market upswing to launch more projects going forward.

**LCH:** Thank you Wee Gee. We have a question posted on the web. This is from Felix of Felix Investments. What is the expected outlook for the marine segment in 2016? I will ask YY to comment.

**CYY:** We have two divisions in our marine segment, one is ship repair and conversion and that one includes LNG, gas strategy, and the other one of course is specialised shipbuilding.

On the repair and conversion division, the number of vessels that we repaired has actually gone up by about 10% from the previous year. But of course there is margin pressure as there is spare capacity out there in the market place. But I think we are holding up quite well.

On the FPSO business, we actually did quite well last year. This year going forward we already secured some FPSO projects. Of course the FPSO market is softer than the previous year but that has been more than adequately made up for by our FLNG contract with Golar. So I think going forward, we expect that 2016 for the marine repair and conversion business, we will be neutral. In other words, we will be at about the same level as last year.

On specialised shipbuilding, actually we have got quite a good number of backlog there and we are working on some of the higher end projects, such as pipelay vessels and diving support vessels. And while the PSVs and OSVs are oversupplied right now, we have concentrated on the higher end. So this year we expect activity in the marine segment to be actually on the higher side than even last year.

But having said that, on the gas strategy, which Chin Hua has alluded to, we are getting some enquiries for FSRU. Actually there's still quite a lot of enquiry on FSRU and there is also enquiry on distribution, break bulk, LNG type units, power barges, gas-fired, all those kinds of things are what we consider as non-drilling opportunities, so we are putting a lot of effort in those areas too. But having said that, we also have certain niches because of our *Near Market, Near Customer* strategy. In places like Caspian, new frontiers like Iran, there are also non-sanctioned areas for Russia, of course even in Mexico.

**Rumi Hardasmalani from Today Newspaper, Mediacorp Press:** What is the update on investigation by Brazilian authorities into alleged improper payments by Keppel's subsidiary?

**LCH:** I think this is referring to the Lava Jato enquiries, as we had said at the time when the allegation was first made a year ago, Keppel has a very strict policy on conduct and we do not condone such activities improper payments. That is our stand, and there is nothing further to report on that.

**Lim Siew Khee from CIMB:** One question for YY. On the Petrobras FPSO Topside, you said that work is still ongoing right? How much have you completed and when will you deliver those?

**CYY:** For Brazil FPSO, the two Replicantes directly from Petrobras, for the first one we've already completed our installation and we are completing mechanical completion. So, we are actually at the phase of commissioning, but of course you cannot commission yet because there are four modules that Petrobras is supposed to deliver to us. Those have not been delivered. The latest is that they may be delivered in June this year, so I think that is well in hand. As for the second unit we are now waiting for the FPSO to be delivered to us for integration.

**Lim Siew Khee from CIMB:** So the first one you will complete, you will deliver by when?

**CYY:** That depends on when the module from Petrobras is delivered to us. I would say that for those kind of work, roughly I would think that about eight months after they deliver to us and these are key modules. These are not the modules that are insignificant. These are major modules, so after they have delivered the modules, I think eight months later. That is basically our time line.

**Lim Siew Khee from CIMB:** And payment is okay?

**CYY:** Payment is okay.

**Nancy Wei from UOB Kay Hian:** First question on Sete Brasil, you mentioned that you have received milestone payments totaling \$1.3 billion. How much of this relates to deposits for units that have not commenced construction. Should these units not be required by the customers, will you have to refund the deposits?

**LCH:** I suppose the quick answer to that is that, if the units are cancelled, we also have obligations and I think these deposits would be kept. Second question on the four jackup deliveries that have slipped from 4Q 2015 to 2016, how much payment, percentage of contract is outstanding. These will all be deferred, so we don't give you the exact amount but typically we would collect 20% upfront.

**Tan Hwee Hwee from SPH, Business Times:** You have flagged Iran as an opportunity. Which of the O&M sector - drilling, production, offshore support - do you think will take off first in terms of demand in Iran? How do you think O&M players can work around US sanctions that are still in place to tap the immediate opportunities from Iran?

**LCH:** I will answer first and then YY perhaps you can add to it. I think first and foremost, we respect all sanctions. So, we will not work around the sanctions. Not sure what you mean by that but clearly that's not something that we will do. But I think clearly it is as you've seen in the reports likely that they will come off the sanctions. But because of the sanctions, many of their production as well as their rigs are quite old, so there is clearly a need for replacement and maybe even new rigs to be delivered, or they could use new rigs, more efficient rigs, more productive rigs, safer rigs. I suppose to start off with, production will be very strong. I think demand should be strong for production and on the offshore support, but I imagine that there will be demand for the whole value chain.

**CYY:** I think Chin Hua is correct to say that we think that there will be demand for the whole value chain because when the market opens up like this, there will be a lot more repair and maintenance because there have been platforms that may be quite old and also they are under sanction. The question is to what extent they have maintained those platforms.

Drilling for sure because there will be new fields that need be drilled and reserves production. Production will of course take time because it will take a couple of years for a production platform to be built. So I think the whole spectrum and that's where O&M side of the business can come in. I

mean if they want to have an FPSO, we can produce an FPSO for them. If they want to do repair and maintenance, we can do liftboat, we can do supply vessels. But of course there are a lot of supply vessels already in certain markets. So I think we look at it as a country. So when we analyse the opportunity, we will look at the whole spectrum. For O&M, we have the capability to provide the range of services and products that they need. So it's an interesting market for us.

**Simon Cheong from DBS:** First question Sete Brasil. Are you able to disclose the amount of capital that has been deployed to date for the Sete Brasil rigs?

**LCH:** Answer is no.

**Simon Cheong from DBS:** And also how much in payments have you received?

**LCH:** I think we have mentioned that it is \$1.3 billion.

**Simon Cheong from DBS:** Second question on gearing. Are you currently comfortable with the level of debt? If there are plans to de-gear, what would they involve? Would you consider further sale of property assets? Could you also disclose the amount of undrawn committed facilities that you currently have.

**LCH:** I think CFO has already given the answers. I just want to stress that we do sell property assets as part and parcel of our business and as what Wee Gee has already shared, where markets such as China and Vietnam lends itself to us selling units or launching our projects. We have been in China and Vietnam for more than 20 years. We actually have a good pipeline, I think over 20,000 launch ready units. So when the market opportunity allows us to do so, we would but this is what I call the normal course of business. It is also our way of recycling capital and making sure that Keppel Land remains the top in terms of return on equity for which it has been one of the top over the last 10 years.

**AWG:** If I may add, apart from residential units, we are also developing about 380,000 sm of commercial space in the region. So when the time is right, as the properties are being developed and completed over the next few years, when the opportunity is right, we will also recycle those. But that is part of business, part of our strategy of recycling assets.

**Kang Wan Chern from The Edge Singapore:** When and where will Sete creditors meet with the company? What you think will be the likely outcome?

**LCH:** When you say meet the company, you are talking about Sete, I suppose? Not with us. I think that is something we can't tell you. This is obviously from what you read, from what we all read in the papers. They have some important meetings ahead to discuss their future.

**Abhijit Attavar from Jefferies:** Net debt has increased to \$6.4 billion this year. Net debt to EBITDA has gone up to 3.7x from very comfortable levels earlier. At what point will you be concerned enough to cut dividends further to conserve capital?

**CHC:** Well, as we have mentioned earlier, clearly we are not in a cash flow crunch. I think we still have a very strong balance sheet. Our gearing at 53% is still at a comfortable level. As for dividends, we do not have an explicit dividend policy. But of course when the Board meets to deliberate on dividends each year, we have to take into consideration matters like how the Group has performed, the cash flow situation and so on. That has to be reviewed on an on-going basis.

**LCH:** I think as I also shared earlier, if I could add, 40 to 50% is what we have told you. So this is at the lower end of the range, but still within the range. And besides what Hon Chew has said about

looking at conserving cash, we are not only looking at that. We are also looking at opportunities that could arise. So we want to make sure that there is sufficient dry powder.

**Chor Khieng Yuit from Money Mind, CNA:** I just want to ask, what opportunities does Keppel see in the LNG space? And can you elaborate how are you positioning for growth in that space?

**LCH:** Well, I think the LNG chain is quite interesting because it's actually of interest to a number of our business units. I think what YY and I have said earlier about KOM side, the Offshore & Marine side. We are already a very major player in that market in terms of building, re-gas as well as FSRU and FLNG. So these are solutions that would be important in the value chain, in the LNG side that KOM is involved, so we can come up with proprietary solutions for this gas strategy. It includes potentially going into some of our neighbouring countries. I think it's quite interesting with a lot of opportunities there. I think the other business area we have is of course our gas-to-power business. This is Keppel Infrastructure. We do have piped gas coming in and besides generating power we also sell gas. Maybe I'll ask TG to add something.

**OTG:** I think the lowering of oil prices also present an opportunity for the gas-to-power business because we are buyer of energy, piped gas or LNG. So, as our portfolio in Singapore, we take in about just in excess of a million ton of LNG equivalent a year. When the market presents an opportunity for us to enter into long term contract purchase of LNG, we will do so.

**Ramakrishna Maruvada from Daiwa Capital Markets:** Do you intend to hunker down and ride out the O&M downturn or do you see any investment opportunities? If so, would it be for technology or customers and in what areas? Additionally, are there any business segments or areas you intend to diversify into over the next three years even with the long winter scenario for O&M segment?

**LCH:** I think the first question on hunkering down is something that we are already doing. But it is not mutually exclusive in terms of looking for investment opportunities. I think as I shared in the third quarter results, hunkering down and rightsizing doesn't mean we are just blindly cutting costs. We are also looking very closely at those areas that we need to maintain, those core competencies, Indeed there could also be new muscles that we need to build in the Offshore & Marine side. A good example would be our intended acquisition of the LeTourneau business. So it's not just about hunkering down.

Hunkering down is, as what we have said, to make sure that operationally we continue to perform well, continue to make profits even if the topline is reduced. But there will be opportunities in all the segments and of course including Offshore & Marine. Are there any businesses or areas you intend to diversify into? We run a multi-business strategy. As I shared earlier, O&M has been a huge contributor to the Group and we believed that O&M will continue to be a big contributor to the Group going forward even if the next few years there could be leaner times. We would expect the other businesses, Infrastructure, Property and Investments to contribute. So whether we will go into new areas, I think we have shared before as well, we are a multi-business conglomerate, but we will not stray too far from our core competencies.

**CYY:** Just to add a bit more to what Chin Hua said about the hunkering down. In this market, there is a big capex reduction and so on by the oil majors and more upstream players. I think for us, hunkering down means that we have to make sure that our operations are rightsized, anticipating what the market will be. And we have done that since the beginning of last year.

But I always said that rightsizing is about value engineering. The reason for our intended investment in LeTourneau is because the design has got a very sizeable market share. Secondly, they are in the aftermarket segment of the business. A lot of our designs, the B class, A class design, and even some

of our semi designs, some of them will be 15 years old. It offers us the channel for us to go into the aftermarket business too.

Having said that, I've already emphasised earlier on that we continue to invest in new products, R&D, innovation and we are certainly looking at all different kind of opportunities. The FLNG is an example. When we hunker down, it doesn't mean that everything stops.

Despite oil prices being at this level, there is demand for LNG as oil and gas prices have somewhat decoupled. We have to make use of our facility to be able to convert existing LNG tankers, which are 30, 40 years old, just like we have done for the FPSO, to be able to capture that segment of the market. So I think for the LNG side of the business, there are other things like FSRU. There are break bulk, distribution vessels, and there are tug boats that eventually, in my opinion, will run on LNG. These are all the opportunities that we are pursuing.

So while we are hunkering down, we are making sure that our opportunities in those areas will be enhanced. So when we come out on the other side after this downturn, I think we would definitely become stronger.

**LCH:** Thank you YY. Given the time, we will take two more questions. I think I will take one from the net and I will take one from the floor. So whilst the people here think about the last question, I will take this one from Wee Lee from Nomura.

**Chong Wee Lee from Nomura:** Hi Mr Loh, with regard to Keppel Land's 22.4% stake in 112 Katong lifestyle mall in collaboration with Alpha Asia Macro Trends Fund, may we know if this is the beginning where Keppel would put his balance sheet behind future property projects initiated by Alpha?

**AWG:** First of all, Wee Lee, just to correct you, this is not the beginning because this is not first project that Keppel Land has collaborated with Alpha. The first project was actually in Shanghai, our Jinqiao shopping mall or Lifehub shopping mall. These are good examples of the collaboration that we have among business units in Keppel Land. I think when Alpha finds an interesting project and it's an opportunity for Keppel Land to invest, Keppel Land will evaluate it independently and if it's a good investment, we will come into the project. From the strategic standpoint to support Alpha, our fund management business, as well as from the financial standpoint to earn a good return from the project.

**LCH:** Thank you. Do we have a question from the floor?

**Cheryl Lee from UBS:** I have one more question about Sete Brasil. So on the comment that the construction of the first four semis progress by less than 4% each quarter since 2015, does this mean that the revenue booked in for Brazil this year is about \$640m? Actually my question is how much revenue have you booked in in total on the Sete Brasil rigs cumulatively to date.

**CHC:** We don't actually disclose the revenue by project. So, we are not able to tell you what is the revenue for the Sete rigs.

**Cheryl Lee from UBS:** So, can I just clarify one more point. When you said the construction has progressed by less than 4% for each quarter, this is on each rig right? So it's 4% for the first, 4% for the second.

**LCH:** No, it's for the first four.

**Cheryl Lee from UBS:** Sorry, obviously the first one is much more.

**CYY:** Anyway, I think that one is that, just for your information, the last two project actually we have less than 10%. The number 5, number 6 less than 20% and number 4 we are at 21% I believe.

**Cheryl Lee from UBS:** And then just for completeness, what about the first three?

**CYY:** The first three, roughly around 91%, 92% for the first one and about 70 for the second one and for the third one about 40%.

**LCH:** Thank you very much for all your questions. Have a good evening. Thank you.

**- End of Q&A session -**