

Keppel Corporation 1Q results briefing 2017

Questions and Answers Session

20 April 2017, 5.45pm, Keppel Leadership Institute

LCH Loh Chin Hua, CEO of Keppel Corporation
CHC Chan Hon Chew, CFO of Keppel Corporation
CO Chris Ong, Acting CEO of Keppel Offshore & Marine

Ajay Mirchandani from JP Morgan: (1) Can I clarify under which division the "project based" earnings of \$125 million comes from? (2) Can we see similar such performance from "project based" segment in coming quarters?

CHC: The project based earnings are mainly from offshore and marine and sale of residential homes.

LCH: So this would depend on the recognition over the quarters on the second question.

CHC: That's right.

Cheryl Lee from UBS: May we have an update on the jack up rigs for Grupo R and Clearwater. It still appears in the slides as scheduled for 2017 delivery. In which quarter is this expected?

CO: Just an update for Grupo R and Clearwater. For Grupo R, there are four rigs to be delivered in 3Q and 4Q of 2017. For Clearwater rig, it will be delivered in the last quarter of the year.

Cheryl Lee from UBS: Regarding the \$46 million writeback of investments and infrastructure, could we clarify what had changed, which allowed the writeback?

CHC: The \$46 million writeback on impairments of investments that you are referring to pertains to KrisEnergy. As KrisEnergy is an associate company, we equity account for our share of their results. Given that they are a listed company, there is a one quarter time lag in our equity accounting their results. So the 1Q 2017 share of losses from KrisEnergy in our books is actually KrisEnergy's 4Q 2016 results. We have to recognise our share of their loss, which amounts to \$90 million.

Given that last year we also made a provision for impairment of KrisEnergy at our level, we have to writeback the provision made last year after equity accounting for our share of losses. Otherwise, it would be double counting given that we have already recognised part of that in the provision last year. That is the reason why we are able to writeback the provision. Even after the writeback of the provision, it is still a net share of loss this year.

Ajay Mirchandani from JP Morgan: Can Keppel management help explain the break-up of RIDs of \$57 million, given on page 2 of accounts we see over \$150 million on (i) writeback of impairments, (ii) gain on disposal of subsidiaries & associates and (iii) gain on investments?

LCH: As I covered in my speech, this pertains to the divestment of our associate, GE Keppel Energy Services and also partly from the various divestments that we have made in Keppel Land for the quarter.

CHC: There are three parts. The writeback on the impairments we have already covered, that's \$46 million pertaining to KrisEnergy. There was also a gain of disposal of subsidiary and associates. For associates, that pertains to the sale of our interest in Central Park City in Wuxi and also the sale of Botanica in Chengdu. As for the gain on disposal of subsidiaries that also includes our share of the sale of Central Park City in Wuxi. This is because the holding in Central Park City in Wuxi was held through a subsidiary and an associate.

Jacqueline Woo from Straits Times: How many Singaporeans have been let go in your rightsizing efforts since 2015? How many in the first quarter? You said headcount in Keppel O&M is approaching a steady state that is appropriate for the level of work in the yard. Are you expecting further staff reduction in the next quarter?

LCH: As I have mentioned for the first quarter of 2017, Keppel O&M had reduced its workforce by 1,246 or by about 6% from the previous quarter. We don't give a breakdown of the different nationalities. I think it is not pertinent as far as the results are concerned. What is more important is that we are approaching a steady state. So for now, we think that we are at about the level that we are comfortable with, given what we can see to be the workload for the yards. But of course, we will have to monitor this closely to make sure that this level of work, and the workforce that we have, is appropriately sized for the work that we can see going forward.

Abhishek Nigam from Nomura: How has been your order inflow in O&M division so far this year, and what is the outlook for the orderbook for the entire year?

LCH: We do not give any outlook for the orderbook, but maybe I can get Chris Ong to give some colour on how the industry is doing in terms of orderbook.

CO: For the order inflow itself for the first quarter this year, we have Jan De Nul exercising its option for the third dredger. Moving forward, the team is working hard to pursue other

opportunities in terms of LNG, specialised vessels, Jones Act vessels and also repurposing our offshore technology for non-drilling applications.

Lim Siew Khee from CIMB: First question, why did O&M revenue come down so much in 1Q 2017? Second question is that the O&M Earnings before Interest & Tax (EBIT) is so low. Were there any one-offs? Thanks.

LCH: On your first question, this was due to lower volume of work. On your second question, there were no one-offs. As I shared in my speech, the key is because the volume was quite low. The gross operating profit was not sufficient to entirely cover our fixed costs, and it shows how important it is to keep you know our rightsizing efforts have been since 2015.

Foo Zhi Wei from UOB Kay Hian: Thank you for taking my question. Could you elaborate on the 0.8% operating profit for the O&M division? Was there any one-off that were included resulted in the low margin? And how should we look at this going forward?

LCH: I think this question has been answered previously.

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