

Keppel Corporation Third Quarter and Nine Months 2016 Results Briefing for Analyst and Media

Questions and Answer Session

20 October 2016, 6.15pm, Keppel Leadership Institute

LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation
CYY	Chow Yew Yuen, CEO of Keppel Offshore and Marine
AWG	Ang Wee Gee, CEO of Keppel Land

Cheryl Lee from UBS: Good evening. On Offshore & Marine - why was there a loss in associates in the third quarter? Also, why was the tax rate for offshore higher in 3Q?

CHC: On the first question regarding associates, as you know, Floatel has a fleet of floating accommodation units. Some of them were actually undergoing repairs and some were in between charters. So as a result, their performance was lower for 3Q compared to last year. The other question on tax, the main reason for the higher effective tax rate was because there was higher contribution coming from overseas operations which have higher tax rates.

Nicholas, retail investor: Good day Mr Loh, I noticed in this year's AGM as well as 2Q 2016's webcast, you mentioned dividends are at a level that is sustainable. Can I clarify if this "sustainability" you are referring to is on a Payout Ratio basis or on the absolute amount of dividends to be paid out?

LCH: Well, Nicholas. I think the point that I made at the AGM, just to make sure that you have quoted me correctly is that dividends must be sustainable. So whatever dividends that we declare, it must be on the basis that looking at the Group's need for cash, looking at the growth opportunities that we have and the businesses that we are in. The dividends the Board declares for the shareholders to approve must be at a level that we believe is sustainable. We do not have an explicit dividend policy, but we have so far paid out about between 40-50% of the Group's earnings.

Low Pei Han from OCBC: Thanks for the briefing. Can you provide a breakdown for the \$34.5m impairment of fixed assets in the quarter? Did Infrastructure account for \$24.5m and O&M account for \$10m out of the total amount? What are the reasons behind the impairment?

CHC: The total impairment of fixed assets as disclosed in our SGXNET is \$34.5 million. Of which, \$24.5 million is actually coming from the Infrastructure division, in particular this is under KTT's buildings in China in the Logistics business. The other \$10 million is with regards to the other plants and equipment under Offshore and Marine.

Gerald Wong from Credit Suisse: Thank you for taking my questions. There was \$35 million impairment of fixed assets in the Infrastructure and O&M divisions. Could you provide more details on this impairment? Property Profit before Tax was lower year on year excluding the gain from disposal of LifeHub @ Jinqiao. Why might this be the case given strong sales momentum in the past few quarters?

LCH: We have already answered the first question. On the second question, units that are sold overseas are only recognised when they are completed so they may not have hit our numbers yet. Nonetheless, we may have also collected deposits and progress payments for these units.

Gerald Wong from Credit Suisse: Could you provide your thought process on the review of yard capacity, and when might such decision be taken?

CYY: In the rightsizing exercise that we have gone through in the last 18 to 19 months, we have left no stone unturned. As you know, with the lower revenue, there are excess capacities, so we have been looking at all our yards and where we can reduce capacity. There will be some yards that we could consider mothballing. We will make it known when the decision is made.

Lim Siew Khee from CIMB: The assets that you impaired in O&M - which country are they from?

LCH: I don't think we are at the liberty to disclose. But this, as you have heard from CFO, is related to plant and equipment.

Lim Siew Khee from CIMB: What were the O&M contracts that have been deferred in the 3Q?

CYY: In the third quarter, there was no deferment. We are still on track to deliver four more projects this year in 4Q.

Ling Xin Jin from Morgan Stanley: Good evening. Could you share how KrisEnergy is accounted for and is there a potential need for writedown due to its lower recoverable value?

CHC: KrisEnergy is actually an associated company, so we equity account for KrisEnergy's profit and loss. What I mean by that is we take our proportionate share of the profit and loss. Given that KrisEnergy is a listed entity, there is a one-quarter time lag. In other words, Keppel's 3Q results announcement has been taken into account up to KrisEnergy's 2Q results. As for your question on potential need for writedown, every quarter we do a review of the value of

investment in KrisEnergy and the conclusion for 3Q is that there is no need to writedown. But of course, we will monitor this and review it again at year-end.

Cheryl Lee from UBS: Regarding Property, what percentage of 3Q revenue was from Singapore and what percentage from overseas? Also, what percentage of 3Q Property revenue related to development of residential units?

CHC: For the first question, 56% of Property revenue came from overseas. That's in the segment report on page 39 of the slides. For the second question, if you look at the slides that the CEO presented in the earlier round, of the net profit of \$301 million, property trading is actually \$192 million, property investment is \$105 million, and contribution from the REITs is \$58 million. So this is the actual composition. This is in slide 12.

LCH: Ok, Cheryl. Refer to slide no.12, thank you.

Jacqueline Woo from SPH: How much of a salary or fee cut will directors and senior management be taking?

LCH: At least for the salaries, it's private. For the fee proposal, you can wait until next year's AGM to find out. The way we've gone about it is that Keppel O&M, which is facing the harshest headwinds, most of the senior management team there will bear the burden of the cut. That's one principle. I think the rest of the business units, especially when they are doing well, this is really more of an act of solidarity. Within the business unit, or within the Group, I think the most senior officers will always take the biggest cut. We will need to bear in mind also that our salary structure has a lot of variable components so as the businesses do well or don't do so well, there's a lot of flexibility. The total compensation will correspond.

Aradhana Aravindan from Thomson Reuters: Have there been any new requests for project deferrals this quarter? Have there been any cancellations?

LCH: The answer is no.

Aradhana Aravindan from Thomson Reuters: On the broader Singapore economy, there has been a string of weak data over the last few days. Sitting in the CEO's chair of a large Singapore company, what does your outlook for the local economy look like over the next year?

LCH: I don't really want to comment on the overall economy. Clearly for Keppel, we are facing strong headwinds in a number of businesses. We remain very optimistic in the medium to long term. I think so long as we can continue to relook at how we can capture value, at least for Keppel, the future ahead is very bright despite the headwinds that we are currently facing. In a way, Singapore is also going through these challenges and I'm sure that the future will be very bright for Singapore's economy in the long-term.

Mayuko Tani from Nikkei: Hi, thank you for taking my question. On the suspicious transactions associated with Zwi Skornicki in Brazil, would you please give us an idea why it took some time before you found out it could be suspicious, and how did you come to the change of the view? The management denied the media report that the senior management of Keppel O&M knew about it. Is there a possibility that you may need to change this statement as well?

LCH: This so called “Lava Jato” investigation in Brazil is quite wide ranging. As we have said in the statement, our internal investigation has been ongoing. As we found some transactions we believe to be suspicious, we have stated that and we have started to look at working with the relevant authorities. As this matter is still under investigation, I can’t say much more than that. At the appropriate time, as I’ve said in my remarks, if there is something to announce, we will announce. Thank you.

Anita Gabriel from Business Times: At this point, is it still the company's stance that the provision of \$230 million made in the fourth quarter 2015 for the Brazil project is adequate?

LCH: As I have stated in my remarks, at this point in time, we believe it is appropriate and adequate. I think we have said this on past webcast that this is something that we will constantly evaluate at every quarter. This is not just done by management but by working in conjunction with our auditors, as well as our audit committees both at Keppel Offshore & Marine, as well as Keppel Corp. As at end of third quarter, we believe this provision to be adequate.

Gerald Wong from Credit Suisse: Could you provide an update on the Can-Do drillship? Could you provide an update on the 2nd and 3rd FLNG conversion by Golar? What has been the feedback to Golar Hilli, and what is holding back the notification to proceed?

CYY: The CAN DO drillship is ongoing and work in progress. I can report that it is going well. As you know, CAN DO drillship is a speculative build built by ourselves so I think we are timing it for the market. We are looking at timing it in such a way so that the project, by the time it comes out, will be able to meet the market requirements.

The second FLNG unit is being targeted for Equatorial Guinea, so there’s a lot of discussion going on right now. For the third FLNG, there are a lot of enquiries in different parts of the world. I think we will make an announcement when something more concrete surfaces.

On the last question, actually Golar Hilli is confirmed. In fact, that project is already fully financed. Golar Hilli is on track for delivery sometime in the middle of next year. Thank you.

Mayuko Tani from Nikkei: To follow up the pay cut question, how much will be the total saving for the group from the salary and fee cut? Thank you.

LCH: As I said, our compensation is not just based on base salary, which is just one component of our total compensation. The salary pay cut is really a show of solidarity within the Group and also to reflect the understanding of hardship that our stakeholders are going through, particularly those on the Offshore and Marine side. Overall compensation will be tied very much to how we as a Group perform. So as I said earlier, there are a lot of levers and our variable component will naturally adjust accordingly. Thank you.

Joshua Lee from Deutsche Bank: Good evening, could you help us understand what Keppel Land's strategy in Myanmar is? There has been a slew of M&A, especially by Keppel Land. Any possibility of divestments in Keppel O&M and at what conditions? Thank you.

AWG: Hi Joshua, thanks for the question. Keppel Land has been operating in Myanmar for more than 20 years now. Over the past 20 years, we have built up a strong network of relationships in that country. We have built up our reputation. We have a strong team of staff operating there so we are in a very good position to capitalise on the opportunities in Myanmar to invest further. Currently, we would consider Myanmar as a country with huge potential and we are monitoring the market very closely. When opportunities open up, we'll be keen to invest further in Myanmar. Thank you.

LCH: Thank you Wee Gee. I think on the second question, I'm not sure how it is related to Myanmar because Keppel O&M has currently no exposure in Myanmar but I just want to add that Keppel O&M is very important and a core business to Keppel. As we review our business, as we rightsize, if there are some shipyards or business associates that are deemed to not fit in with the overall long-term plan, then there could be divestments. But other than that, the business will likely stay intact.

Lim Siew Khee from CIMB: On Floatel - have the units in between charter found jobs post 3Q16? For units under repair, when will they return to work? Thanks for the clarification.

CYY: The unit that is under repair has already gone back to work. And for the other unit that we just delivered, the Floatel Triumph, it is going for contract in Australia so there is work there. The first contract is for the short-term, about six months, and there is a slightly longer contract for about a year. So I think all those charters are there. I think there is only one unit that is currently looking for work. Thank you.

Wayne Lau from Morgan Stanley: Good evening, 2 questions: 1) When will Property pre-sales be recognised? Are we expecting a lumpy recognition from Keppel? 2) Can you share more about MOU details with Shell regarding the LNG? What will the MOU involve?

LCH: On first question, as I have earlier answered, for Property projects that are outside Singapore, we recognise only on completion of the projects. That means any sales will only be

recognised when the project is completed. It's not ideal and it's quite lumpy but I suppose if you have enough projects over time, it evens out. Of course this is a bit different for the Singapore projects, which are recognised on a construction progress basis.

CYY: On the MOU with Shell, basically it is that Shell is interested in selling the molecules and Keppel is interested in the logistics side of things - bunkering services, break bulk services and also the FSRU business. I think that is where Keppel is able to contribute. The MOU is not just Southeast Asia, but also any other part of the world where it makes sense for us to collaborate.

Kyunghee Park from Bloomberg: Hello Mr. Loh. Is there need to cut more jobs in the fourth quarter? How do you see 2017 shaping out for Keppel?

LCH: As I have alluded to in my remarks earlier, the rightsizing for KOM has yielded, in very difficult times, quite creditable results in the sense that we are still making money whereas many of our peers in our industry are not doing as well. Given our expectations that the market is going to continue to be slow for the foreseeable future, we have to continue to rightsize and we have been relying on natural attrition up till now. Moving forward, as I have said, we have to look at ending contracts a bit earlier and possibly retrenchment but I can't tell you more than that because we don't have anything concrete that we can share at this point in time.

For 2017, we believe that Offshore and Marine will continue to be quite challenging. As for our other businesses, we are seeing growth in data centres and also for Keppel Capital. On the Property side, we are doing as well as we can. I think you've heard Wee Gee say at the first half results that we expect to sell more units this year compared to last year. How will next year shape up? It's very hard for us to say. It depends on the economy and on policies, so we are hopeful for a brighter 2017 but we are actually in a posture where we are prepared that things will continue to stay quite tough as we have seen in 2016.

Lim Siew Khee from CIMB: Apologies for the piecemeal questions. When is the new delivery date for Grupo R? Which quarter in 2017? Which month are you targeting to deliver the rig for Falcon? Thanks much!

CYY: Well, we don't really give a breakdown by quarter but I think we are now planning for Grupo R's rigs to be delivered towards the end of 2017 and we are still planning to deliver the Falcon rig this year. I think Falcon is actually in active conversation with potential customers but at this point in time, we are still planning for delivery of Falcon by this year. Thank you.

Anita Gabriel from Business Times: To what extent would Keppel Corp lend a helping hand to KrisEnergy, which is facing its fair share of challenges and has flagged that it could have problems meeting some of its debt covenants?

LCH: As you have heard from CFO, KrisEnergy is an associate. It is an investment that we have made and it is a listed company. I think they will have plans to try and solve the challenges they face. As a shareholder, we will have to look at those plans and make a decision at that point in time.

Foo Zhiwei from UOB Kay Hian: Thank you for taking my question. Looking at your Residential Launch Readiness on slides 54 and 55, it appears that you have scaled back residential launches by 10-30% in areas like Jiangyin, Chengdu, Shenyang, Zhongshan and Kunming in 2017. You've also scaled back launch readiness by 20% in Vietnam. Could you comment on why this is so?

AWG: Hi Zhi Wei. One of the factors could be that some of the projects we have in these cities are coming to an end. So when it comes to future launches, the numbers will be lower because we are selling out the project. The data that we provide in the slides are basically indicative numbers. Of course these numbers don't take into consideration the projects that we may secure in the coming months and years, so the number will be adjusted accordingly. We have a landbank of 70,000 units. We'll be monitoring the market very closely, and if conditions are favourable and attractive, we will be launching more units over the next several years.

– END of Q&A session –