**Keppel Corporation 4Q & FY2014 Results Announcement**

**Question & Answer Session**

**23 January 2015, 2:00PM, Marina Mandarin**

**Panellists:**

**LCH** Loh Chin Hua, CEO of Keppel Corporation

**CHC** Chan Hon Chew, CFO of Keppel Corporation

**CYY** Chow Yew Yuen, CEO of Keppel Offshore & Marine

**AWG** Ang Wee Gee, CEO of Keppel Land

**OTG** Ong Tiong Guan, CEO of Keppel Infrastructure

**Kevin Chong, Deutsche Securities Asia:** For the O&M division, how flexible are you in terms of offering payment terms to your customers, will you ever go below the 20/80 payment terms in the current environment? There were losses under investments in the fourth quarter, what is this about? In the Infrastructure Division, were there any charges relating to Doha and Manchester in the fourth quarter?

**LCH**: It is very important in today's environment that we continue to be very disciplined in the way we take orders, as we have always been. The quality of our Offshore & Marine orderbook is, I believe, one of the best in the industry. My colleagues have always been very careful in making sure that we do not take risks that we are not supposed to take and that we get good customers and provide good solutions. Our aim is to stay disciplined.

**CYY**: As far as payment terms are concerned, there are many factors involved. It also depends on the quality of the customer and so far we have been very prudent. If the customer is credible and the projects are good, we will decide on a case-to-case basis.

**CHC**: As for the investment division, do bear in mind that it is not meaningful to look at the quarter-on-quarter movement. The fourth quarter movement was largely due to the annual fair value gain/loss adjustment that we made at the year end. You can refer to the SGX-NET disclosure for the fair value loss on investments; it is about $22 million.

We are in the final lap of the EPC projects. On Runcorn I, we are in the process of handing over to the customer and on Runcorn II, we are looking at handing over within the first half of 2015. So, with better visibility, we have made some adjustments to the cost-to-complete. As you can see, there is no material impact on the Infrastructure Division's numbers.

**Neel Sinha, HSBC**: If we look at your order backlog, how many orders are without contracts? Where do you see the risks in the Petrobras jobs? In the Infrastructure Division, without the DC-REIT listing etc., what would be the core underlying profit for the Division in the fourth quarter?

**CYY**: Based on our order backlog, probably less than 20% of jackups are without (charter) contracts. The rest of the orders, other than our CAN-DO drillship, are all contracted. With regards to your question about the construction of the Sete Semis, I am happy to announce that we are on time and on budget. In fact, the first one has reached 85%, the second one 50%, and the third one has already crossed 25%.

**Neel Sinha, HSBC**: How much more capex is left in the Brazilian yard?

**CYY**: We are not spending anymore capex on the Brazilian yard. The capex that we have spent are all for maintenance in the last two years. For example, we have already put up our 2,000 tonne gantry crane and that has proven to be very productive and useful.

**CHC**: Following up on the earlier question on the Infrastructure Division, the performance this year included a few things, the main driver being the sale of the data centre assets. If you take that out, the Division is still profitable this year, which is a turnaround from the preceding year.

**Ajay Mirchandani, JP Morgan Securities**: During the presentation, you flagged the clearly challenging environment for the O&M business, I would love to get a bit more colour on how you are looking at this environment from an O&M business strategy standpoint. Are you looking to go slower in terms of potential order wins, will you be more focused on payment terms or a specific client mix? How should we think about potential order wins for the division? You had mentioned semis which come under a confidentiality agreement, any colour on the value of these contracts?

**LCH**: First of all, because there is a confidentiality agreement, we have to respect what our customers want. It is important in this trying environment that we work very closely with our customers. So, I do not think we can provide you with any more colour than what we have already told you.

As far as strategy for order wins is concerned, we are working very hard. There are clearly headwinds in the industry. We do not believe that oil price will stay this low forever; we believe that it will eventually move to a level that will allow supply and demand to reach equilibrium. We are not here to speculate how low will it go or how long it will take to recover.

Most of the reports suggest that oil will eventually recover to a level that will allow our solutions to be productive, economical for those fields that they are designed for. But, in the short term, we do see the headwinds. Our team is working very hard to win orders, but I think we have to win the right orders. We have some flexibility but again, it is precisely in market conditions like these that we have to continue to be very disciplined about the orders we take on and our execution. The hallmarks of Keppel O&M's excellence – safe, on-time, on-budget execution – are all very important.

**Simon Jong, Lion Global Investors**: Can you take us through what happened in 2008 when oil prices plunged sharply, and draw some parallels to the situation we are facing today? With regards to the Brazil contracts, this thing about the local operators stepping off, does that in any way affect the contracts that you have or the options that are remaining currently?

**LCH**: Before I ask YY to answer those questions, I am glad that you asked that question because although the big drop in oil price may seem like a major event, it is not something that is abnormal in the industry. We have gone through it before and each time, we have come out stronger.

**CYY**: In my career with Keppel, I have seen at least four cycles. 2008 was largely affected by the Financial Crisis where we did not have orders in the first nine months but things started to pick up in the fourth quarter as orders poured in.

Right now, oil prices have dropped to the $40 range. Whether the recovery is V-shaped or the U-shaped, and how long it takes, is anybody's guess. What we can do is to concentrate on what we do best. We have demonstrated that we are very prudent in taking on contracts and we have been executing them very well. All our contracts have been delivered either on time or ahead of schedule, and well within budget. That is why we have done very well over the past two years, compared to some of our competitors.

Given our backlog, we will have a full year in 2015. In fact, we will have 15 rig deliveries this year. Next year, we are already over 80% full and the year after that we are over 60%. This puts us in a very comfortable position but we have to work very hard in the near term to ensure that we continue to grow our orderbook for 2017, 2018 and so on. Of course, we will continue to leverage our technology to differentiate ourselves.

**Gerald Wong, Credit Suisse**: Could you discuss some of your longer-term strategic plans for the Offshore & Marine Division? Given the current downturn, are you going to take the opportunity to invest or potentially cut back on some of your capex plans? On the Infrastructure Division, even if I stripped out some of the one-off divestment gains, the quarter-on-quarter profit has been rather strong. Could you comment on the performance of the Infrastructure Division, particularly on Keppel Merlimau Cogen?

**CYY**: With the low oil price environment, oil companies have cut back on their capital expenditures. Some of the projects that appear to be viable at $70-$80 oil have also been pushed back. We are mindful of that and we will prepare for the worst but hope for the best. In doing so, we are going through a major exercise to look at all our capital expenditure. We will continue to invest in those areas that are strategic to us for long-term growth while putting the nice-to-haves on hold. We are also monitoring our supply chain closely for any signs of weakness, so that we will be able to respond accordingly.

**OTG**: 2014 marks the first full year for Keppel Infrastructure. You have seen the power business face quite a lot of pressure. It is well known in the market that there are excess capacities. Despite that, our integrated power and gas business has turned in strong results, similar to 2013.

The other components of Keppel Infrastructure are also improving. The key element that we are focusing on is executing the EPC contracts. As CEO mentioned earlier, Runcorn is nearing completion while the Qatar project is in the commissioning phase right now.

**Thomas Yeh**: At the present moment, are there any withdrawals or cancellation of rig contracts?

**LCH**: No. There are headwinds but as I mentioned earlier, our orderbook is of the highest quality. And so far, we are okay.

There might have been an earlier question that we did not answered on the Sete contracts. There is a lot of news on that, and of course, Sete is facing some pressures. Based on our assessment and conversations with the customer, we are confident that our projects have made the most progress out of the 29 rigs on order. Thus, the risk of cancellation is very low.

**Toh Yew Chong:** Can you please explain how will Petrobras' corporate governance issues affect Keppel Corporation over the next 12-18 months? If the oil price stays below $45 for the next 12 months, how will this affect Keppel Corporation?

**LCH**: The challenges that Petrobras is going through at the moment is obviously not good for anyone in the industry. Some of the orders/projects that they might be looking to sanction would probably be moved a bit to the right. I imagine that they are under a lot of scrutiny at this present time.

Petrobras might be a bit hesitant to sanction projects even if it is the right thing to do. This will take a bit of time to work out but the fact remains that Petrobras still has very healthy reserves that it needs to exploit. In the longer term, we still see Brazil as a growth market for Keppel. As we said, nobody can predict whether this is going to be a V-shaped or U-shaped recovery. It is very hard to speculate, but even at $45, a lot of the shallow water fields are still economical.

**Lim Siew Khee, CIMB**: Just a few questions on offshore and marine. Can you confirm that there is no customer currently negotiating to defer deliveries or payments? Have there been any options that lapsed and how many options do you still have? Can you give us an update on the PEMEX yard and potential rig orders?

Does the $5.5 billion contract wins include the two semi-subs? Are these of the usual specifications because the amount appears low? On Infrastructure, have there been any write-backs on the provision made for the Middle East and UK projects in the fourth quarter?

**CYY**: So far, there has been no renegotiation of payment. There have been some requests to push the delivery of two projects to the right. Anyway, we are looking at it and there is no agreement just yet.

We still have valid options but so far nobody has cancelled. I suppose if oil price stays at this level, maybe they will let the option lapse.

On PEMEX, we are at an advanced stage of negotiation but the contracts that we talked about will only come about when PEMEX and us reach an agreement to develop the yard, which I think will likely happen in the first half of this year.

Separately, the semis are actually OFE-BFE, so they are not turnkey.

**CHC**: As for the last question on any write-back of provisions for Infrastructure? The answer is no.

**Somesh Agarwal, Macquarie Capital Securities**: My question is on the FLNG market. If you could outline the strategy for the FLNG market in the current oil price environment, do you still see big potential in that market over the next two years. Are you speaking to any customers other than Golar. Could FLNG be a recurring source of orders for Keppel? Also, are you just interested in doing conversions or will you also be interested in doing newbuilds like the Korean yards on the FLNG side. My second question is on the FPSO conversion market, it has been a little slow in 2014 as we have noticed only $600 million of orders for Keppel this year. What is your view on that?

**CYY**: We have been looking at the gas market for quite a few years and ultimately secured two FLNG contracts last year, which are already quite an achievement. There are always active enquiries on gas and you will hear about new contracts when we are able to announce them. For now, we will concentrate on the execution of those two FLNG projects.

Because of the low oil price environment, a lot of the FPSO projects that were previously sanctioned have been pushed to the right. The fewer number of projects available in the marketplace is actually quite challenging, even for the world's leading FPSO conversion yard.

However, it is not necessarily a negative thing for Keppel O&M if some of the FPSO projects get shifted to the right. Our resources are currently well-deployed for the two FLNG projects. Moreover, we have been very prudent on FPSO projects as we want to be adequately compensated for the risks that we take.

**Ling Xin Jin, Morgan Stanley**: Just wanted to check in terms of the semi contract, could you provide a little more colour as to whether it is being built in Singapore or overseas? When you talk about cuts to capital expenditure, would you be able to indicate any percentage? Are there any changes in terms of labour, will you be required to cut staff? Lastly, do you see any opportunities for right-sizing your Offshore & Marine operations overseas or in Singapore?

**LCH**: Let me take up on the last two questions. Maybe you did not hear us correctly. We are not cutting capex and we are certainly not cutting on staff. Our yard is actually going to be very busy for the next two years. With the foreign workers ratio coming down starting from this year, we have also been working hard in the last couple of years to upgrade our yards in the region like in Bintan and Nantong, into production yards. And that effort has gone on very well. Because of the way regulations work here, we do see ourselves having to make better use of resources and do more of the work outside Singapore over time.

**CYY**: You misunderstood a lot of what I said. Actually, this year is going to be a very full year for us. In fact, the number of deliveries is even higher than last year's. We are projecting an increase in activity for all our (offshore & marine) divisions this year.

As you know, there is a regulation that governs the ratio of foreign workers in Singapore. This year, we have to comply with a ratio of 1:4.5, so we are actively preparing ourselves to meet that target. The year after next, we have to go down to 4, and the year after that, it will be down to 3.5. Having said that, our strategy is to develop our overseas satellite yards in Bintan (Indonesia), China and the Philippines.

Just to give you a sense, we were only handling about 6-7,000 tonnes of steel throughput a year in Nantong about 2.5 years ago. Today, we are handling about 35,000 tonnes; so we have more than quadrupled the throughput over there.

Even for projects that we undertake in Singapore, our strategy is to build them where we think can give us the best returns and allow us to achieve the best productivity and resource allocation. In that sense, we will be building projects - whether they are the two semis, a jack-up or a drillship - wherever we think is the best place or places to execute them. These projects that we undertake will be delivered in Singapore as the final commissioning and testing will still be very much done here.

**Saurabh Chugh, CLSA**: With the oil price decline, we have seen valuations of a lot of your competitors, suppliers as well as customers come down. Will the group be using this opportunity to build up its competitive strengths by either acquiring someone in your supply chain or in related adjacencies so that you can strengthen your competitive advantage versus your Korean and Chinese competitors? On the FLNG side, can you please confirm that you have one more option with Golar and if you expect it to be taken up this year or next year?

**LCH**: On the second question, yes, we have one more option with Golar. I do not believe we have disclosed when that option expires. So it will be either this year or next year.

On your first question about opportunities, as I had alluded to in my opening remarks, there will be opportunities that come up in times like these. We are constantly being approached on various acquisitions whether they are in the close adjacencies or bolt-on. These are things that we can afford to look at because our balance sheet is strong. But, we will have to look very carefully to make sure that it is not just a good investment but also a good fit for the Group.

**CYY**: I will say this: do not waste a good crisis.

**Cheryl Lee, UBS**: Can I ask a question on the semis again? When will these be delivered? Can you give a sense of payment terms? The second question is on capex for the Group and not just for offshore.

**CYY**: Delivery is in 2017 if I am not mistaken. We are quite happy with the payment terms.

**Cheryl, UBS**: Just one more follow-up question. You mentioned that some customers have asked for deliveries to be pushed to the right, can you give us a sense of this?

**LCH**: We want to make sure that we do not mislead. There are such, but very few. The other thing is that sometimes, this also works quite well for us. I am not trying to paint a silver lining. The point is that because our yards are quite busy, this also gives us an opportunity to move some work to next year, so actually it works out quite well for us as well.

**Cheryl, UBS**: But, was this like a deep water, shallow water, drilling or production?

**LCH**: I do not think that we want to go into so much detail. Regarding your question on capex, we are looking at about $200-300 million across the whole group. But just to be clear, this does not include land that Wee Gee buys.

**CHC**: That will be under working capital for land.

**<End of Q&A session>**