

**Address by Mr Loh Chin Hua,  
Chief Executive Officer, Keppel Corporation Limited**

## **SECOND QUARTER AND HALF YEAR ENDED 30 JUNE 2017**

### **Welcome**

1. Good evening. On behalf of my colleagues on the panel, I welcome you to the conference and webcast on our results and performance in the Second Quarter and First Half of 2017.
2. We have had a busy quarter, during which Keppel continued to make important strides towards strengthening our track record as a solutions provider for sustainable urbanisation.
3. In June, we broke ground for Singapore's fourth desalination plant, designed and to be built, owned and operated by Keppel Infrastructure.
4. In China, Keppel Land China and Alpha Investment Partners, together with a co-investor, have committed to acquire a prime mixed-use development in Shanghai.
5. Three weeks ago, we held the naming ceremony for the world's first converted Floating Liquefaction (FLNG) vessel, the Golar Hilli Episeyo, at Keppel Shipyard.
6. Even as we navigate through the challenges faced in the offshore sector, we are seizing opportunities and developing new capabilities to strengthen Keppel Offshore & Marine (Keppel O&M).

### **Financial Performance**

7. In the first six months of 2017, our net profit was S\$421 million, slightly higher compared to the same period in 2016. Our Group has achieved creditable results in 1H 2017, despite the much lower contributions from the Offshore & Marine (O&M) Division, demonstrating our resilience as a multi-business company.
8. Economic Value Added for the period was a negative S\$25 million. On an annualised basis, our Return on Equity was 6.6%.
9. It is noteworthy that we had a free cash inflow of S\$237 million in 1H 2017, compared to an outflow of S\$262 million in 1H 2016.
10. Our net gearing remains comfortable at 0.58x as at end-June 2017. This is slightly higher compared to 0.57x as at end-March 2017, in part because we had paid out S\$218 million cash to shareholders in May 2017, as the final dividend for FY 2016.

11. Having considered the Group's performance and business requirements, the Board of Directors has approved an interim dividend of 8.0 cents per share for the first half of 2017, which will be paid out on 8 August 2017.

### **Multiple Earnings Streams**

12. We remain focused on improving the overall quality of our earnings.
13. Recurring income including those from our REITs & business trust, asset management, infrastructure services and operations & maintenance, as well as rental & charter activities continue to contribute to the Group, amounting to S\$150 million or 36% of our net profit in 1H 2017. This is 14% lower than in 1H 2016, in part due to lower contributions from property rentals, following the divestment of Life Hub @ Jinqiao, as well as lower distributions received from property funds.

### **Offshore & Marine**

14. I will now update you on the performance of our Offshore & Marine Division.
15. Amidst the continuing downturn, Keppel O&M achieved a million dollar in profit. Rightsizing efforts undertaken by Keppel O&M helped to achieve an operating profit of S\$36 million, but it was not sufficient to cover higher financing costs for the enlarged working capital. Contributions from associates helped the Division to break even.
16. Building on strong relationships with our network of customers, Keppel O&M secured contracts of around S\$300 million, year to date, including for new build LNG carriers and dredgers as well as FPSO conversions.
17. We have closed the deal for the novation of the five Transocean rigs to Borr Drilling and received the downpayment of US\$275 million, which has improved the Division's cash flow. The first two rigs will now be delivered in 2018 and a third in 2019, while the remaining two will be delivered in 2020.
18. Despite some pick-up in activity in the offshore market, the general consensus is that, with the prevailing uncertainty in the oil market, and oversupply in the jackup market, a quick recovery is unlikely. Our rightsizing will enable us to weather through a prolonged downturn. We will continue to build new capabilities, look for new markets in the gas industry and non-oil and gas plays such as Jones Act vessels and dredgers. We will also explore opportunities to re-purpose our offshore technology for other uses.

### **Major Deliveries**

19. As at 30 June 2017, Keppel O&M's net orderbook was S\$3.4 billion, excluding our projects for Sete Brasil. We will continue to focus on executing our projects safely, on time and on budget, and with the quality synonymous with Keppel.

20. In the first six months of 2017, Keppel O&M delivered three major projects - an FPSO conversion for Yinson Production, an FPSO integration for BW Offshore and a semisubmersible for SOCAR (State Oil Company of Azerbaijan Republic).
21. In the second quarter, we reached agreements with our customers to defer three offshore projects. The delivery of two semisubmersibles will be moved from 2019 to 2020. The projects are cash flow neutral and we will be compensated for the deferrals. The liftboat for Crystal Heights will also be deferred from 2018 to 2019. We will likewise be compensated for this deferral.
22. We are on track to deliver the world's first FLNG vessel conversion in partnership with Golar LNG within three years and with a safety record of 18 million manhours worked without Lost Time Incidents. The converted FLNG vessel will be a game changer in the LNG industry, providing a solution that is not only significantly more cost effective but also much faster to market.
23. The second vessel for Golar, the Gandria FLNG, is slated for deployment by Ophir in Equatorial Guinea. In May 2017, Ophir announced the signing of the Umbrella Agreement, one of the four key milestones required for the Final Investment Decision (FID). We look forward to embark on the conversion once we receive the Notice to Proceed after the FID is achieved, which is expected to be in 2H 2017.
24. To streamline operations and effectively capture new opportunities, Keppel O&M recently reorganised its operations into two divisions - the *New Builds* division, covering Offshore as well as Gas & Specialised Vessels, and the *Conversions & Repairs* division.
25. The reorganisation saw the integration of key functions in the *New Builds* division, comprising Keppel FELS and Keppel Singmarine, which allows Keppel O&M to improve efficiency and more importantly, better leverage synergies and different capabilities within its group for new build solutions. In the *Conversions & Repairs* division, Keppel Shipyard can similarly draw on the group's diverse resources to undertake a wider variety of complex projects. For example, by combining Keppel FELS' expertise from complex offshore projects with Keppel Shipyard's capabilities in executing LNG-related EPC (engineering, procurement, construction) projects, Keppel O&M would be even better able to provide customers with reliable end-to-end solutions. We have already benefitted from such collaboration recently, with Keppel FELS and Keppel Shipyard working together on the commissioning phase of the Golar Hilli FLNG vessel.
26. In line with Keppel O&M's efforts to rationalise its global yard network according to business needs, we have completed the sale of a supporting yard in the Netherlands to the Damen Shipyards Group for a total consideration of EUR 23.5 million. Keppel O&M has the capacity and resources to continue servicing its customers in Europe and the North Sea region, as well as pursue new opportunities in these markets through our global network of yards. Our commitment to *Near Market, Near Customer* execution remains intact.

### **Gas Industry Partner & Enabler**

- 27. With our ability to design, develop and integrate solutions across the gas value chain, Keppel is poised to be the gas industry's preferred partner and enabler.
- 28. Keppel O&M's deep cryogenic expertise is supplemented by a strong track record in oil and gas projects, including over 110 complex conversions and 400 new build vessels. We had completed the world's first FSRU conversion and will soon deliver the world's first FLNG vessel conversion. We have also won a LNG bunkering licence with Shell in Singapore, and are building dual-fuel LNG tugs and small-scale LNG carriers.
- 29. Keppel's value proposition extends beyond that of an EPC yard. We are pushing boundaries to meet growing demand for small-scale LNG in archipelagic markets across Southeast Asia, the Caribbean and the Mediterranean, in regions unserved by pipelines. Our contribution in the gas value chain also extends to playing a role as a co-owner and co-developer. We can help source for funds to invest in these floating infrastructure assets which can generate long-term recurring income for Keppel and our co-investors.

### **Property**

- 30. I will turn now to our Property Division.
- 31. Our Property Division made a net profit of S\$200 million for 1H 2017, higher than the S\$198 million achieved in 1H 2016. Apart from achieving strong home sales, Keppel Land is seizing opportunities to scale up in markets and cities in Asia where we have established a firm foothold.

### ***Deepening presence in regional markets***

- 32. In Yangon, Myanmar, where there is growing demand for quality commercial developments, Keppel Land has completed its acquisition of a 40% stake in a joint venture with the Shwe Taung Group for the second phase of the Junction City development.
- 33. In Shanghai, Keppel Land China and Alpha Investment Partners, together with a co-investor, have collaborated to acquire an office and retail mixed-use development, SOHO Hongkou, for approximately US\$525 million.
- 34. This is the second time that Keppel Land China and Alpha are harnessing strengths within the Group to seize an acquisition opportunity in Shanghai, after the successful repositioning and divestment of Life Hub @ Jinqiao last year.

## ***Residential***

- 35. The Property Division sold about 2,470 homes in the first half 2017, with a total sales value of about S\$1.2 billion. This is about 15% higher than the 2,140 homes we sold in the same period last year.
- 36. We sold about 1,810 homes in China, comparable to the sales volume over the same period in the previous year. In Vietnam, we sold 390 homes which is four times higher than a year ago.
- 37. In addition, earlier this month, Keppel Land launched Tilia Residences, the second phase in Empire City, HCMC, and sold about 80% or 372 of the launched units, within one weekend. These units were sold at higher prices than those achieved for the first phase, Linden Residences, in Empire City.
- 38. Back on our home shores, we sold 220 homes in Singapore, a 16% increase year-on-year.
- 39. We expect to recognise profits from some 5,860 units of overseas homes sold as they are progressively completed from 3Q 2017 through to 2019.

## ***Property Portfolio***

- 40. In our residential pipeline, we have about 62,000 homes, of which about 17,000 units are ready for launch from now till end-2019.
- 41. On the commercial front, we have a combined office and retail GFA of about 1.5 million square metres. This comprises about 500,000 square metres in completed projects and about 970,000 square metres under development.
- 42. As our commercial projects are progressively completed, they will contribute to our recurring income, revaluation gains and eventually, divestment gains when we monetise the assets.

## **Infrastructure**

- 43. I will now update on our Infrastructure Division.
- 44. On the screen, you see another image of the Keppel Marina East Desalination Plant, for which Keppel Infrastructure has a 25-year Water Purchase Agreement with the PUB. The first of its kind in Singapore, and possibly also the first in the world, this will be a large-scale dual-mode desalination plant that can treat both seawater and freshwater.

45. All of the plant's water treatment equipment will be located underground, and it will have a green lawn as its roof, which can be used for public recreation. This project is a reflection of Keppel's capabilities and also demonstrates how engineering and design excellence can go hand in hand in our sustainable urbanisation solutions.
46. The Infrastructure Division's net profit for 1H 2017 was S\$57 million, up from S\$41 million year-on-year.
47. With the aim of becoming a key contributor to the Group's bottom line, Keppel Infrastructure has been pursuing opportunities in energy and environmental infrastructure, both in Singapore and overseas.
48. Earnings from energy, environment and infrastructure services grew strongly to S\$47 million, compared to S\$26 million last year. Earlier this week, we have also announced that we will be providing technology solutions to two other waste-to-energy (WTE) plants in Beijing and Hunan, thus entrenching our position as a leading provider of imported WTE technology in China.
49. On our data centre business, we announced this week that Keppel Data Centres has entered into a share purchase agreement with a 70-30 joint venture company held by Alpha Data Centre Fund (Alpha DC Fund) and Keppel Data Centres, for the injection of Keppel DC Singapore 4 into the Fund. Following the transaction, Alpha DC Fund, managed by Alpha Investment Partners which is the private fund management arm of Keppel Capital, will hold a 70% stake in the data centre.
50. The transaction allows Alpha DC Fund's investors to participate in a fast-expanding sector underpinned by strong growth trends and for Keppel T&T to unlock and redeploy capital to take advantage of strong demand for quality data centre space.
51. Separately, Keppel Data Centres has also signed two MOUs, one with JTC Corporation and another with the Infocommunications Media Development Authority of Singapore and Huawei International to explore developing data centres in high-rise buildings and below ground. This reflects our efforts to provide alternatives to conventional above-ground data centres in land-scarce Singapore, as we continue to grow our data centre business.
52. We are also in the midst of transforming our Logistics business, building new muscles for solutions in omni-channel distribution and urban logistics.

### **Investments**

53. Now to report on Keppel's fourth vertical, Investments.
54. Our Investments Division achieved a net profit of S\$163 million for 1H 2017, compared to S\$21 million in the same period last year.

- 55. It has been an active first half for our Investments arm. In 2Q 2017, Keppel REIT announced that it will acquire a 50% stake in a premium office tower to be developed in Melbourne, Australia, for A\$347.5 million. With completion expected in 4Q 2019, it will be Keppel REIT's second asset in Melbourne.
- 56. As mentioned earlier, Keppel Land China and Alpha, through the Alpha Asia Macro Trends Fund III, announced that they will jointly acquire SOHO Hongkou, in Shanghai, China.
- 57. We are also pleased to announce that our Alpha DC Fund has secured capital commitments of close to its US\$500 million target. Keppel Capital is also currently in advanced discussions with other investors.
- 58. These developments augur well for our asset management business under Keppel Capital, which we have ambitious internal targets to grow. For a start, we aim to double Keppel Capital's S\$25 billion AUM over the next five years.

#### **Tianjin Eco-City continues to progress**

- 59. The Sino-Singapore Tianjin Eco-City continues to make steady progress. Last month, Singapore's Deputy Prime Minister Tharman Shanmugaratnam officially opened the Sino-Singapore Tianjin Eco-City Water Reclamation Centre, a joint venture between Keppel Infrastructure and our Chinese partner TECID. It reflects how different parts of the Keppel Group are contributing to make the Tianjin Eco-City a model for sustainable urbanisation.
- 60. As the project matures, we are seeing increasing demand for homes and land in the Eco-City. The business model of our joint venture, SSTECH, the master developer of the Eco-City, includes masterplanning, land development and land sales. Cost of land for injection into SSTECH is fixed by agreement. More than 45% of land in the Eco-City has been sold or developed so far, and the price of land sold by SSTECH has been rising steadily. However, with the recent cooling measures imposed by the Tianjin authorities, we may see the growth in land and home prices reverting to a more stable and sustainable rate.
- 61. The Tianjin Eco-City is a long-term undertaking and we are committed to making sure that the objectives set by both the Singapore and Chinese governments at the inception of the project are achieved. Commercially, SSTECH has started to turn in a profit from last year when land prices moved up in tandem with the maturing of the Eco-City and as connectivity improves. We expect the Eco-City to be a more regular contributor to Keppel's bottom line in the years ahead.
- 62. To conclude, we are driving collaboration across the different verticals, and capturing higher value from all parts of Keppel. Through our business model, we are creating an ecosystem that is robust and scalable, to take Keppel into the future.

63. I shall now invite our CFO, Hon Chew, to take you through the Group's financial performance.
64. Thank you.

**ADDRESS BY MR CHAN HON CHEW, CHIEF FINANCIAL OFFICER,  
KEPPEL CORPORATION**

**SECOND QUARTER ENDED 30 JUNE 2017**

**2Q 2017 Financial Performance (Slide 21)**

1. Thank you, Chin Hua, and a very good evening to all. I shall now take you through the Group's performance for the second quarter of 2017.
2. In the second quarter of 2017, the Group recorded a net profit of \$161 million, which was 21% below the same quarter last year.
3. Earnings per share correspondingly decreased by 21% to 8.9 cents, while EVA was at negative \$48 million.

**2Q 2017 Financial Highlights (Slide 22)**

4. Next, the summary Group profit and loss statement.
5. The Group's revenue for the second quarter was 4% or \$71 million lower than the same quarter last year. Lower revenues from Offshore & Marine were partially offset by higher revenues from the other three divisions.
6. Operating profit at \$139 million was 41% or \$95 million lower than the second quarter of 2016. This was due mainly to lower profit from the Offshore & Marine Division.
7. Profit before tax, at \$218 million, decreased 24% or \$67 million. This is smaller than the drop in operating profit, due mainly to higher share of profit from associated companies.
8. After tax and non-controlling interests, net profit decreased by 21% to \$161 million, translating to an earnings per share of 8.9 cents.

## **2Q 2017 Revenue by Segments (Slide 23)**

9. In the second quarter of 2017, the Group earned total revenues of \$1.55 billion, 4% lower than the same quarter last year.
10. This was driven largely by a 38% decline in the Offshore & Marine Division as a result of lower volume of work and deferment of some projects.
11. Property Division saw a 16% growth in revenue, primarily due to higher revenue from residential projects such as Park Avenue Heights in Chengdu, and Highline Residences in Singapore. This was partly offset by the absence of revenue from Eight Park Avenue in Shanghai, which obtained Occupancy Permit in the first quarter last year.
12. Infrastructure Division too registered higher revenue due to increased sales in the power and gas businesses.

## **2Q 2017 Pre-tax Profit by Segments (Slide 24)**

13. The Group recorded a \$218 million pre-tax profit for the second quarter of 2017, 24% lower than last year.
14. Offshore & Marine Division recorded \$8 million in pre-tax profit, 91% or \$80 million lower as compared to the second quarter of 2016. This was driven mainly by lower operating results, higher net interest expense and lower contribution from associated companies. The division's operating margin was 6.4% compared to 12.8% in the same quarter last year.
15. Property Division's pre-tax profit was relatively stable at \$123 million.
16. Infrastructure Division's pre-tax profit decreased by 8% despite higher revenues, due mainly to lower contribution from associated companies.
17. Investments recorded a 47% or \$17 million increase in pre-tax profit due to higher share of profit from associated companies and profit on sale of investments. These were partly offset by fair value loss on KrisEnergy warrants.

## **2Q 2017 Net Profit by Segments (Slide 25)**

18. After tax and non-controlling interests, the Group's net profit for the quarter decreased by 21% or \$44 million to \$161 million as compared to the same quarter last year, with Property Division being the top contributor to the Group's earnings at 60%, followed by Investments at 24% and Infrastructure at 15%.

## **1H 2017 Financial Performance (Slide 26)**

19. Next, I shall take you through the performance for the first half of 2017.
20. Compared to the same period last year, net profit for the first six months was 1% higher at \$421 million.
21. Earnings per share also increased by the same extent to 23.2 cents. Annualised ROE declined to 6.6% while EVA was lower at negative \$25 million.
22. Free cash flow for the period was an inflow of \$237 million, compared to an outflow of \$262 million in the first half of 2016, due mainly to lower working capital requirements from Offshore & Marine and Property divisions.
23. Net gearing increased from 56% at the end of 2016 to 58%, due to the payment of the final dividend for 2016.
24. We are also pleased to announce an interim cash dividend of 8.0 cents per share for this half of the year.

## **1H 2017 Financial Highlights (Slide 27)**

25. The Group earned total revenue of \$2.8 billion in the first half of 2017, a decline of 17% or \$566 million compared to the same period last year. Lower revenues from Offshore & Marine and Property divisions were partially offset by higher revenues in Infrastructure and Investments divisions.
26. Operating profit at \$326 million was 36% or \$186 million lower than the corresponding period last year. Lower profits were recorded in Offshore & Marine and Property divisions, partially offset by higher profits from Infrastructure and Investments divisions.
27. Despite lower operating profit, profit before tax remained at about the same level as last year, due mainly to higher share of profits from associated companies, in particular the share of gains from the divestment of stakes in property trading projects in China, as well as contributions from the Sino-Singapore Tianjin Eco-City from the sale of three land parcels earlier this year.
28. After tax and non-controlling interests, net profit was 1% higher at \$421 million.
29. Similarly, earnings per share increased by 1% to 23.2 cents.

## **1H 2017 Revenue by Segments (Slide 28)**

- 30. For the first half of 2017, the Group earned total revenues of \$2.8 billion, 17% lower than last year. This was driven largely by the 39% decrease in Offshore & Marine revenues resulting from lower volume of work and deferment of some projects.
- 31. Property revenues dropped by 17%, due mainly to absence of revenue from Eight Park Avenue in Shanghai and lower revenue from The Glades, partially offset by higher revenues from Highline Residences in Singapore, Park Avenue Heights in Chengdu, Waterfront Residences in Tianjin and Waterfront Residences in Wuxi.
- 32. Infrastructure revenues increased by 24%, led by increased sales in the power and gas businesses.
- 33. Revenue from Investments Division was higher, resulting from sales of equity investments.

## **1H 2017 Pre-tax Profit by Segments (Slide 29)**

- 34. The Group recorded a pre-tax profit of \$564 million for the first half of 2017, which is almost the same level as that for the corresponding period in 2016.
- 35. This was despite Offshore & Marine Division pre-tax profit being 96% or \$201 million lower as a result of lower operating profit, lower contribution from associated companies and higher net interest expense. The Division's operating margin for the first six months was 3.5%, compared to 13.2% in the same period last year.
- 36. In the Property Division, pre-tax profits decreased by 6% due mainly to lower contribution from China property trading projects, partially offset by gains on divestment of stakes in property trading projects in China and Indonesia.
- 37. Pre-tax profit from Infrastructure Division was higher by 29%, driven by higher contributions from Energy Infrastructure and Infrastructure Services, as well as gain from the divestment of GE Keppel Energy Services Pte Ltd.
- 38. Investment Division's pre-tax profit was \$202 million higher, led mainly by higher share of profit from the Sino-Singapore Tianjin Eco-City, write back of provision for impairment of investment and profit on the sale of investments. These were partially offset by fair value loss on KrisEnergy warrants.

## **1H 2017 Net Profit by Segments (Slide 30)**

- 39. After tax and non-controlling interests, the Group's earnings increased by 1% to \$421 million, with the Property Division being the top contributor at 47%, followed by Investments at 39% and Infrastructure at 14%.

### **Net Profit and EPS (Slide 31)**

40. The Group's net profit of \$421 million for the first half of 2017 is comparable to the same period last year, and it translates to earnings per share of 23.2 cents for the first half of this year.

### **ROE & Dividend (Slide 32)**

41. In this first half of 2017, our annualised ROE decreased slightly to 6.6%.

42. Our proposed interim distribution to our shareholders for this period will be 8.0 cents per share.

### **Free Cash Flow (Slide 33)**

43. Cash flow from operations was \$289 million in the first six months of this year, down from \$629 million last year.

44. After accounting for working capital changes, interest and tax, net cash inflow from operating activities was \$213 million, as compared to an outflow of \$325 million in the same period last year, due mainly to lower working capital requirements in Offshore & Marine and Property divisions.

45. Net cash generated from investing activities amounted to \$24 million, comprising dividend income from associated companies and divestment proceeds of \$131 million, less investments and operational capital expenditure of \$107 million.

46. As a result, there was an overall cash inflow of \$237 million for the first half of 2017, as compared to a cash outflow of \$262 million last year.

47. With that, we have come to the end of the results presentation segment, and I shall hand the time back to our CEO, Chin Hua, for the Q&A section. Thank you.