

## **Briefing for Media and Analysts on the Proposed Combination of Keppel O&M and Sembcorp Marine**

### ***Transcript of the Session***

**27 April 2022, 10.30am, Keppel Bay Tower**

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

### **Opening Remarks by Loh Chin Hua, CEO of Keppel Corporation**

Analysts and friends from the media, welcome to Keppel's briefing on the signing of definitive agreements in connection with the proposed combination of Keppel O&M and Sembcorp Marine (SMM) as well as the resolution of Keppel O&M's legacy rigs.

The proposed transactions mark a big step forward in Keppel's Vision 2030 strategy.

As part of Vision 2030, we have said that we would be disciplined, and would simplify and focus Keppel's business, from a conglomerate of diverse parts, to be one integrated business delivering solutions for sustainable urbanisation.

The proposed transactions would help Keppel achieve many of these objectives and accelerate Keppel's transformation.

It would allow us to realise S\$9.42 billion in value from the offshore & marine (O&M) business and legacy assets. Proceeds received over time, in connection with the repayment of vendor notes issued by Asset Co as well as the cash component of S\$500 million, can be used to fund Keppel's growth initiatives and create value for shareholders.

You have heard the statements by both Keppel O&M and SMM at the joint briefing earlier today, which I will not repeat. Both parties have outlined the structure and goal of the proposed combination, which is to create a premier global player offering offshore renewables, clean energy and cleaner solutions in the O&M sector. It would also strengthen Singapore's position in the global O&M industry.

In addition, Keppel has concurrently signed a definitive agreement for the sale of Keppel O&M's legacy rigs and associated receivables to a separate Asset Co, which is majority owned by external investors Baluran Limited (Baluran)<sup>1</sup> and Kyanite Investment Holdings (Kyanite)<sup>1</sup>.

I will focus my remarks on what these transactions mean for Keppel, and why we believe strongly that they are in the interest of Keppel Corporation, Keppel O&M and our stakeholders.

Under the agreement, Keppel will receive consideration shares representing a 56% stake in the Combined Entity, which will be separately listed, as well as cash of S\$500 million. When the

---

<sup>1</sup> Kyanite is an indirect wholly-owned subsidiary of Temasek. Baluran is an indirect wholly-owned subsidiary of ASM Connaught House Fund V (managed by Argyle Street Management Limited) and has TIH Investment Management Pte Ltd as its investment advisor.

proposed combination is successfully completed, Keppel will distribute in-specie to its shareholders a 46% stake in the Combined Entity.

This would allow Keppel's shareholders to enjoy the upside from synergies created through the proposed combination, as well as opportunities for the Combined Entity in the energy transition as well as the recovery in the O&M business.

The remaining 10% of the shares will be deposited into a segregated account for certain identified contingent liabilities. This account will be terminated no later than 48 months from the completion of the proposed combination, or as soon as these contingent liabilities have been dismissed or fully resolved. The balance amount in the account will then be returned to Keppel after making payments to the Combined Entity, if any.

Moving on to the Asset Co. The sale of Keppel O&M's legacy rigs and associated receivables to Asset Co, which is 90% owned by Baluran and Kyanite, paves the way for the resolution and monetisation of Keppel O&M's legacy rigs over time. Asset Co will be independently managed from the Combined Entity and Keppel, and it will maintain, complete and monetise the rigs over time. Asset Co will also enter into a separate master services agreement with the Combined Entity for the completion of certain uncompleted rigs and the provision of other services. The external investors of Asset Co will provide capital which can be used for completing uncompleted rigs, which would no longer be funded by Keppel.

The proposed combination will create a premier global player in offshore renewables, new energy and O&M solutions. Harnessing the synergy of the two leading O&M companies in Singapore, the Combined Entity will be better positioned to capitalise on opportunities in key areas of focus such as offshore wind energy, making select early investments in new energy sources such as hydrogen and ammonia, and also providing cleaner O&M solutions such as FPSO units with a focus on reducing the carbon footprint of such vessels.

With improving conditions in the O&M sector, underpinned by the improving oil price and increasing utilisation and dayrates of offshore drilling rigs, we are confident that Asset Co can substantially monetise Keppel O&M's legacy rigs in the next 3-5 years. Over the past few months, Keppel O&M has received enquiries from potential charterers and buyers for several of the legacy rigs.

As Asset Co monetises the rigs, our economic exposure in Asset Co will be reduced over time. The vendor notes and perpetual securities held by Keppel will be gradually repaid by Asset Co and the freed-up funds can be re-invested into future growth initiatives and also used to reward shareholders.

The proposed transactions will allow Keppel to realise about S\$9.42 billion in value. This comprises S\$4.87 billion<sup>2</sup> from Keppel O&M's combination with SMM, S\$500 million in cash and S\$4.05 billion from the sale of Keppel O&M's legacy rigs and associated receivables to Asset Co.

---

<sup>2</sup> The sum of S\$4.87 billion, which is represented as the value attributable to 56% equity interest in the Combined Entity ("Pro Forma Value"), is computed based on (1) the assumption that 39,949,762,557 shares will be issued by Combined Entity to Keppel representing 56% of the issued and paid-up share capital of the Combined Entity, (2) the SMM shareholders being issued with, in aggregate, 44% of the issued and paid-up share capital of the Combined Entity, which for the purpose of the computation, is assumed to be the same number of shares, being 31,389,099,152 as held by SMM shareholders as at 26 April 2022 (the "Last Market Day"), being the last trading day immediately prior to the date of this Announcement; and (3) S\$0.122, being the volume weighted average price ("VWAP") of SMM shares for the last 10 trading days up to and including the Last Market Day.

This does not include S\$0.3 billion from the carrying value of the out-of-scope assets that Keppel will retain.

The proposed transactions, if successful, are expected to be earnings accretive to Keppel Corporation for the financial year ended 31 December 2021 on a pro forma basis.

Had the proposed transactions been completed on 1 January 2021, the earnings per share<sup>3,4</sup> for FY 2021 would have increased from 56.2 cents to approximately 72.5 cents, excluding the net disposal gain from the proposed transactions. Including the net disposal gain from the proposed transactions, the earnings per share would have increased to approximately S\$2.81.

Had the proposed transactions and proposed distribution been completed on 31 December 2021, the net gearing<sup>3,4</sup> as at end-2021 would have decreased from 0.68x to approximately 0.63x.

To sum up, this is a win-win proposition for Keppel's stakeholders.

For Keppel, this is a step forward in our Vision 2030 journey. Beyond the value unlocked from these transactions, we would significantly sharpen Keppel's focus, simplify our business and accelerate our Vision 2030 transformation plans.

For Keppel O&M, and the staff of Keppel O&M, they will be part of a larger, stronger platform that is better able to expand and compete effectively amidst the global energy transition. This is a historic moment for the O&M sector in Singapore, and I am confident that there will be many opportunities for Keppel O&M's talented workforce in the Combined Entity.

Keppel's shareholders will benefit from having shares in two companies: a transformed Keppel Corporation with a sharpened focus on delivering solutions for sustainable urbanisation, as well as shares in the separately listed Combined Entity, which would allow our shareholders to enjoy the benefits from the synergies arising from the proposed combination and recovery of the O&M sector.

The proposed combination is subject to approvals by Keppel's and SMM's shareholders at their respective extraordinary general meetings in the coming months, as well as the relevant regulatory approvals. Key milestones are reflected in the slides. Subject to obtaining the necessary approvals, the transactions are expected to be completed by the end of 2022.

Let me now open the floor to Q&As.

---

<sup>3</sup> For the purpose of the pro forma ("PF") financial effects, PF earnings per share ("EPS") assumes the proposed transactions are completed on 1 January 2021 while PF net gearing assume the proposed transactions and proposed distribution-in-specie ("DIS") are completed on 31 December 2021. The PF EPS (including disposal gain) is computed based on PF net profit of approximately S\$5.1 billion.

<sup>4</sup> For the purpose of the PF financial effects, the net disposal gain arising from the proposed transactions and the value of the proposed DIS are based on the Pro Forma Value. In this regard, the actual net disposal gain and the value of the DIS on completion of the proposed transactions and proposed DIS will depend on the last traded price of the shares of Combined Entity on the first market day immediately following the date of such completion and the actual number of Combined Entity Shares to be issued on such completion which may not be the same as that used in this pro forma financial effects.

## **Question & Answer session**

Questions from Terence Chua, Philip Securities Research

**Is there any indication of the management team that will run the Combined Entity?**

**LCH:** For the last couple of months, both sides have been quite engaged in terms of negotiating the transaction, negotiating the definitive agreement, and conducting mutual due diligence on each other. So, time has been spent doing that. After this definitive agreement has been signed, the next step would be for the two companies to come together to develop the integration plan, as well as to put together the actual business plan for the Combined Entity, in the next couple of months. We would expect the management team to be fully fleshed out at that time. We would expect that the management team will comprise senior management, as well as management, from both sides. This is a merger of the two companies.

**What is management's intention for the 10% Combined Entity shares over time, given that it is not a substantial stake?**

**LCH:** We will look at this closer to when the 10% share stake is released from the segregated account, after the specific indemnities have been resolved.

**When can we expect regulatory approvals to be obtained?**

**LCH:** This will take a bit of time. A couple of months at least. Both companies are operating not just in Singapore but in various jurisdictions. So there will be some anti-trust as well as regulatory approvals that we will need to run through.

Questions from Low Horng Han, CLSA

**What is the book value of Keppel O&M? I understand the NTA (net tangible assets) is S\$900 million?**

**LCH:** I will ask Hon Chew to address that.

**CHC:** The book value of Keppel Offshore & Marine, excluding the out-of-scope assets and the legacy rigs that are going to Asset Co, and netting off the S\$500 million cash consideration, is S\$900 million. So, your understanding is correct. The NTA is S\$900 million.

**Can you give us details of the vendor notes in terms of interest payment and duration?**

**CHC:** The vendor notes have tenure of 10 years and the coupon is 2%.

Questions from Anita Gabriel, The Business Times

**What are the key unique strengths of Keppel O&M and SMM, which they bring to the Combined Entity?**

**CO:** The key strength for both companies would be the talents that we have in the companies. On top of that, the engineering expertise and track records, not only in the legacy industry, but both companies also have track records and strengths in the renewables business and in clean

energy. So, these unique strengths will bring two very strong companies together to compete in a global market.

**What is the enterprise value of each – Keppel O&M and SMM – that make up the Combined Entity?**

**LCH:** As disclosed in the joint announcement, both Keppel O&M and SMM retained DBS as an independent financial advisor to work on the enterprise value. This is on a relative basis, taking into account the orderbooks, discounted cash flow, future order wins, margins, etc. That was undertaken by DBS as an independent financial adviser for both Keppel O&M and SMM, and it is on a relative basis. So, the enterprise value of both is not disclosed. But in the end, the enterprise value ratio is 50:50. After factoring in the differences in capital structure and liabilities, etc., we ended up with the exchange ratio of 56% to Keppel O&M and 44% to SMM.

**Can you give us an idea of how big the Combined Entity will be in terms of staff strength and yard capabilities?**

**CO:** For the Combined Entity, they will come up with their structure and also the business plan after this. So it is premature to comment; but suffice to say there are still ongoing projects for both companies that are moving into the Combined Entity, and those projects still have to be executed properly.

**LCH:** As I shared earlier, the next step after this definitive agreement has been signed is for the respective teams to work together to look at the integration plan, and more importantly, the plan for the future – developing the business plan for the Combined Entity. So that will take a couple of months.

Questions from Lim Siew Khee, CGS-CIMB Research

**What is the NTA for Keppel's Op Co that is transferred?**

**CHC:** I think this was addressed earlier. The NTA of the Op Co that is travelling to the Combined Entity is S\$900 million. That is after excluding the out-of-scope assets, the legacy rigs going to Asset Co and after the S\$500 million in cash has been paid to Keppel.

**What is the NTA of the Combined Entity? Is it S\$8.7 billion or S\$4.7 billion?**

**CHC:** The NTA for Keppel O&M's Op Co is S\$900 million. The S\$8.7 billion you are referring to is basically the fair value of the Combined Entity, estimated based on the 10-day VWAP share price of SMM from the last market day. So, it is not the NTA. We would not comment on the NTA coming from SMM's side; so I can only tell you the NTA from Keppel's side, which is S\$900 million.

**How much of Keppel O&M's debt is remaining in the Group?**

**CHC:** The debt in Keppel O&M actually travels to the Combined Entity. So that will be deconsolidated from KCL's balance sheet. There will be none remaining in the Group.

**Why is Keppel O&M paying the Keppel Group S\$500 million and not the Combined Entity?**

**CHC:** This is part of the agreement that was already mentioned at the MOU stage in June 2021. So, it is actually an agreed term.

**LCH:** Just to give a bit of colour, because we were always planning to distribute in-specie the shares that we receive from the Combined Entity, we needed some cash included in the transaction to ensure that the net gearing of the Group is not affected. In this case, the net gearing in the Group has actually remained quite stable. In fact, it would improve on a pro forma basis from 0.68x to 0.63x, assuming the transaction was completed at the end of last year.

Question from Adrian Loh, UOB Kay Hian

**Could you please give us more details on the PIK perpetual securities in terms of tenure and interest rate?**

**LCH:** Hon Chew, you have already addressed that right?

**CHC:** Yes, I believe you are talking about the perpetual securities in Asset Co. It is a perpetual, so there is no tenure as such, and it has a coupon of 10%.

Questions from Mayuko Tani, Nikkei

**What are the indemnities that you have said on the reason you need to keep the 10% of the Combined Entity shares? I believe the intention originally was to release all the shares to shareholders? Am I right to say Keppel is still waiting to release all the shares to shareholders eventually, and if so, when?**

**LCH:** We have mentioned in the announcement that this segregated account that we created, where 10% of the Combined Entity shares will reside, is to take care of any potential liabilities. I stress the word "potential". At this point in time, we do not expect these contingent liabilities to come through. We have said earlier that closer to the time when the shares are released, which could be as long as 48 months, but hopefully it could be sooner, the company will then make a decision on what to do with the shares, whether we will also distribute in-specie or dispose of them in other ways.

**Who are the investors that own 90% of Asset Co?**

**LCH:** One is Kyanite and the other one is a fund management entity. They will own 90% of the Asset Co. Most importantly, the funding to complete unfinished rigs will now be funded by third-party investors, rather than by Keppel.

Questions from Ho Pei Hwa, DBS Securities

**Congratulations and thanks for the presentation. What is the NTA for Asset Co?**

**LCH:** Hon Chew will address this.

**CHC:** The Asset Co will be holding all the legacy rigs and is largely funded by core equity, perpetual securities, and vendor notes. The net tangible assets is S\$624 million.

**I remember there was supposed to be a 50-50 JV (joint venture) between Keppel Corporation and the Combined Entity to jointly manage Keppel's projects. Is it still the case? How would the profit sharing for the JV be?**

**LCH:** Pei Hwa, I think you are probably referring to the IP JV that was announced when we signed the MOU. At this point in time, we have decided to dispense with that. The IP that is relevant to Keppel will be retained by us. Of course, the IP that is relevant to the Combined Entity would travel with Keppel O&M to the Combined Entity.

But both sides remain very constructive in wanting to work together. And I think this would probably be on areas of mutual interest, such as offshore wind projects where we could be a potential developer, owner and operator of these projects, and the Combined Entity could potentially be the yard that we go to, to do the construction. Thank you.

Questions from Jame Osman, Citi Research

**Thank you for the presentation and congrats on securing the agreement. Would you be able to share more details on the relationship of Keppel O&M and Keppel Corporation, post the formation of the Combined Entity?**

**LCH:** Jame, as I mentioned, we are looking to distribute in-specie. Keppel O&M will become a very important part of the Combined Entity going forward. I have also mentioned that in areas where there are mutual interests, Keppel Corporation will be very keen to continue to develop a collaborative, mutually beneficial relationship between Keppel and the Combined Entity.

**Are there still plans to form a JV to allow Keppel to continue accessing Keppel O&M's capabilities?**

**LCH:** I think I have already addressed that point. Thank you.

Questions from Stefan Tudor, Daiwa Securities

**Congratulations on the deal. Please elaborate on the reasons the transactions will bring down Keppel's leverage level, assuming the transaction was closed at the end of 2021.**

**LCH:** Hon Chew will address that.

**CHC:** The net gearing comes down post transaction to 0.63x. The reason for the leverage coming down is basically because of the S\$500 million of cash that we are receiving as part of the transaction, and at the same time because of the deconsolidation of the debt from offshore & marine as it travels to the Combined Entity.

**Please elaborate on the reasons the combination would increase Keppel's earnings.**

**CHC:** As you saw in the presentation, even without considering the one-time gain from the transaction, it is EPS accretive on a pro forma basis by about 29%. On a continuing basis, we expect that to be the case. As we streamline, stay focused and re-invest in some of the growth areas, we will also benefit from the earnings from those growth areas.

**LCH:** If you are referring to the 2021 pro forma numbers, we can also see that if you look at 2021, because Keppel O&M, together with the legacy assets, was loss making, if you had done this

transaction on a pro forma basis in 2021, then the earnings would have been accretive. Of course, if the transaction was completed, then we would also make a gain, and if you recognise the gain in 2021, assuming it is completed at that time, then the pro forma EPS would be about \$2.81.

**There are no impairments when transferring the legacy rigs to Asset Co?**

**LCH:** The short answer is no.

Question from Lim Siew Khee, CGS-CIMB Research

**What is the valuation you divested Keppel's Op Co at?**

**CHC:** As you saw in the presentation, the consideration is in the form of S\$500 million cash, and also the 56% shares in the Combined Entity. On a pro forma basis, that 56% is worth S\$4.87 billion. So that is the valuation that we divested Keppel's Op Co at.

Question from Anita Gabriel, The Business Times

**Will the new board and management of the Combined Entity have familiar faces from both groups or be led by a new team?**

**LCH:** As I mentioned in the answer to the first question, we expect that the management of the Combined Entity would have representation from both management teams. I would also expect the same for the new board. But of course, the final composition of the Board will be decided at a later date, when plans for the Combined Entity are fleshed out.

Questions from Rahul Bhatia, HSBC

**What are Keppel's aspirations in the O&M business, post completion of this merger? Will Keppel continue to pursue new projects like FPSOs, offshore renewables, etc.?**

**LCH:** Rahul, you have been following our Vision 2030 fairly closely. You understand that as part of Vision 2030, we are moving away from an orderbook business, and that is probably one key reason for the transaction that we announced today. Keppel O&M is a very good business. But if you look at where the Group is headed, where we are trying to move away from an orderbook business and more to a recurring income business that will be valued by the market on multiples rather than price-to-book, the strategic fit is not as good.

On top of that, we think that this is a very opportune time for us to strengthen Keppel O&M through this combination, to create a stronger global champion that can pursue the tremendous opportunities in the energy transition.

So, to answer your question directly, we will continue to look at projects in offshore wind; not as a builder or EPC contractor, but more as a developer, owner, and operator. The business pursuits will be different and the business model is quite different.

**Could you share the book asset value of Op Co and Asset Co?**

**LCH:** Hon Chew will address that.



**CHC:** The Op Co's net asset value is S\$900 million, as mentioned earlier. As for Asset Co, the total asset value is S\$4.05 billion.

**On vendor notes and perpetual securities' interests, are there any conditions for this payment to happen to Keppel from Asset Co? Such as payment starts only after some level of monetisation of rigs?**

**CHC:** Asset Co is going to be independently managed. So we do not have control. Of course, the source of funds to pay interest and also vendor notes will have to come from the charter agreements plus the sale of rigs.

Question from Anita Gabriel, The Business Times

**Given the scale of this merger, what would you say was the most challenging part in bringing both parties together on the same page? For example: valuation, the ownership ratio etc?**

**LCH:** It is a very complex transaction. And both sets of management and boards were quite deliberate in making sure that the deal that is finally arrived at is win-win for all. It has taken us a while to get here. I would not want to dwell on the details of how we got here, but I think the important part is that we are here and we got the definitive agreement signed. The focus should now really fall on executing the plan, which besides getting all the approvals, would also include working out the integration plan, and charting the future business plan for the Combined Entity.

Questions from Chen Lin, Reuters News

**Are you open to getting new investors in the Combined Entity down the line?**

**LCH:** I think that is really a question that will have to be decided later on. Just to be clear, the Combined Entity will be listed. So it will be open for investments, besides the respective shareholdings from the current shareholders of SMM as well as, when we distribute in-specie, the Keppel shareholders. It is a listed entity, so it is open for investments.

**What are the estimated job cuts following the merger?**

**LCH:** This is not something that we can go into. We do see that there are a lot of opportunities from the merger. Besides the synergies in terms of costs, there are also new areas that we can go into, that individually, we are not going into right now. So you can create a bigger pie. It does not necessarily mean that it will automatically lead to job cuts.

Both SMM and Keppel O&M are very focused on making sure that we continue to retain employment, and local employment; and more importantly, develop them so that they will be ready to take on the many opportunities that we see for the Combined Entity in the energy transition.

**How will this merger help both companies in coping with global rivals? Do we expect to win more deals?**

**LCH:** Both Keppel O&M and SMM have very enviable track records, great history and experience. Both are great companies with very good staff and good engineering know-how. So we believe that combining will lead to a stronger player for the global industry. Naturally, we would expect

that this would help improve the competitive advantage of the Combined Entity versus each individual company, whether it is SMM or ourselves.

In terms of whether we expect to win more deals, I think the Combined Entity certainly would have a plan to grow. This is not just about merging, but it is really about how can we merge to create a stronger enterprise that is relevant and can compete more effectively and grow. This is something that would be the focus for the respective teams to work out – besides the integration plan – what is the future plan to grow the Combined Entity?

Question from Terence Chua, Phillip Securities Research

**Thanks for the answers. I have one more follow-up question. Does management have any plans for the S\$500 million in cash it is expected to receive from the deal?**

**LCH:** The short answer, Terence, is that these are part of the cash that we will generate. It will be invested into the growth opportunities that we see. At the same time, of course, in the totality of things, at the end of the year, we will then look at how the Group has performed, how our monetisation plan has gone, and the Board will then decide on the appropriate rewards that we will share with shareholders.

Questions from Foo Zhiwei, Macquarie Securities

**Thanks for the presentation. May I ask two questions? The first question is: for the uncompleted rigs at Asset Co, does Keppel capture any upside from managing the completion of the rigs?**

**CHC:** About the rigs, the legacy rigs travel to Asset Co, and in return, we will get vendor notes, core equity, and also the perpetual securities. The vendor notes do come with a 5% redemption premium. So that is the mechanism for some upside capturing.

**The second question is: the valuation of S\$4.9 billion for Keppel O&M is predicated on SMM's VWAP of 12.2 cents. Would Keppel have gotten a higher stake in the Combined Entity if SMM's share price was lower?**

**LCH:** That number is for Keppel O&M's Op Co. There is also S\$500 million cash. So the question is not exactly correct. It should be S\$4.9 billion, plus S\$500 million.

The answer is no. The exchange ratio is arrived at looking at enterprise value, and then making the adjustments in the equity bridge to get to the fixed exchange ratio of 56:44.

Question from Anita Gabriel, The Business Times

**Do you foresee any stumbling blocks for the merger in terms of anti-trust laws?**

**LCH:** The short answer is – I do not believe so. Obviously, and I do not want to curse it by saying so, there are clearly steps that we will have to undertake. But if you look at the respective products and services of both Keppel O&M and SMM, I do not believe it should create too much of an issue for most of the jurisdictions that we are in. Of course, in Singapore, both companies are quite large and quite dominant in the industry here. So we will have to work very closely with the agencies etc., to ensure that the impact is not negative.

Question from Low Horng Han, CLSA

**SMM's NTA is significantly higher compared to Keppel O&M's, yet Keppel O&M has a majority of shares in the Combined Entity. So clearly, there is a significant variation between Keppel O&M and SMM's forecast, in terms of earnings quality and orderbook. Can you share if there are any industry metrics management looked at when assessing the valuation? Also, what are the specific company-specific factors such as benchmarks?**

**LCH:** Horng Han, in our announcement on the MOU in June of last year, we had already said at that time that both companies will use discounted cash flow to work out the exchange ratio. So that was exactly what was done. As I shared earlier, both companies retained DBS as an independent financial adviser to work out the enterprise value, and then the exchange ratio. In that sense, the NTA does not quite factor in. It is more about the earnings capabilities of both entities. And if you look at the exchange ratio, it is 50:50, so it is actually quite close. So it is like a merger of equals, but when you get to the equity bridge, you have to deduct from the balance sheet the different capital structures and the different liabilities, and you end up with 56:44. I hope that answers your question.

Questions from Mayuko Tani, Nikkei

**May I know the size of the Combined Entity? The enterprise value ratio from both companies is 50:50, what is the enterprise ratio, or what will be the market capitalisation of the company?**

**CHC:** As explained earlier, the fair value of the Combined Entity is estimated based on the 10-day VWAP share price of SMM. On that basis, the total market capitalisation on a pro forma basis of the Combined Entity is S\$8.7 billion. But of course, the actual number will really depend on the actual share price on the first trading day of the Combined Entity. For example, if we complete on 31 December 2022, that would be 1 Jan 2023's actual share price of the Combined Entity.

Questions from Jame Osman, Citi Research

**Would you be able to quantify the total payments which will accrue from the vendor notes and perpetual securities?**

**CHC:** The face value of the vendor notes and perpetual securities is S\$4.05 billion, and the repayments from the notes and perpetual securities will be dependent on the actual cash flow coming from all the assets going into Asset Co. This cash flow would include lease income from charters and the eventual sale of the rigs. So the cash flow coming in would be repayment of principal plus the coupon of the vendor notes and also the perpetuals. As I mentioned earlier, there is also a 5% redemption premium on the vendor notes. So that is the total expected future cash flow.

**Can they be redeemed at any point, for example, upon monetisation of the rigs?**

**LCH:** Well, just to be clear, Asset Co is not intended to be a permanent vehicle. The plan is always to monetise the rigs. As we have shared during the presentation, the rig market is actually improving quite rapidly. We see the dayrates and charter rates improving, and we believe that over the next three to five years, substantially most of these rigs will be monetised; at which point,

we would then obviously be paid the vendor notes plus all the interests and perhaps even the premium.

Question from Adrian Loh, UOB Kay Hian

**Did the spot oil and gas price increase over the past four to six months, and also the increase in longer-term oil price over that same period, lead to any change in the valuation of this merger?**

**LCH:** The short answer is no. Both Keppel O&M and SMM are in the same industry. So, this increase in oil and gas price, in a sense, will benefit both in the short term. But I would like to stress that we have said, including in the opening address, that even with the higher energy prices today, we believe that the energy transition will continue. So one of the key rationales for having this combination is to create a global champion that can participate more effectively and take advantage of the opportunities that will emerge from the renewables business, and from going green for O&M solutions etc.

Questions from Anita Gabriel, The Business Times

**If I need to assign a value to this merger deal, what will be the accurate figure?**

**CHC:** If you refer back to the slide that Chin Hua presented earlier, Slide 9 sums it up quite well. In return for the Keppel O&M in-scope business going to the Combined Entity, we receive S\$4.87 billion worth of shares in the Combined Entity plus S\$500 million. As we have mentioned earlier, the legacy rigs do not go to the Combined Entity. They go into Asset Co, and in return we receive total vendor notes, perpetual securities plus core equity of S\$4.05 billion. So taken together, this is S\$9.42 billion, as disclosed earlier on. We also have some out-of-scope assets which we will retain, that is about S\$0.3 billion. Just to be clear, that is not part of the consideration and is not part of the deal, so we retain those assets. So the answer is a total of S\$9.42 billion.

Questions from Rahul Bhatia, HSBC

**I have a few follow-up questions. First question: what is the debt in absolute amount that travels to the Combined Entity?**

**CHC:** We have in total, external debt of about S\$549 million remaining in Op Co. Also, because of the S\$500 million in additional bonds underwritten by DBS that will enable Keppel O&M to make a partial redemption of KCL's perpetuals, the total of about S\$1,049 million of gross debt<sup>5</sup> will travel to the Combined Entity.

**LCH:** Of course, there could be some business-as-usual working capital related to that, so that might also travel to the Combined Entity.

**CHC:** Yes, this is just talking about the external debt currently.

**Next question: can you please clarify how the S\$2.1 billion of perpetual securities that were earlier present at Keppel O&M is being adjusted in this transaction overall?**

---

<sup>5</sup> S\$1,049 million of gross debt is on a pro forma basis for the financial year ended 31 December 2021.

**CHC:** The mechanism is all spelled out in the Chapter 10 announcement. Basically, as we mentioned earlier, Keppel O&M will issue fixed-rate notes underwritten by DBS, the S\$500 million will then go towards the partial redemption of this S\$2.1 billion. The remaining amount will then be capitalised and will be turned into ordinary shares as part of the internal restructuring of Keppel O&M before the actual completion of the transaction.

Question from Paul Chew, Phillip Securities Research

**Slide 8 on the rigs' outlook appears optimistic over the next three to five years. Which oil companies have aggressive drilling plans?**

**CHC:** Chris would you like to address this?

**CO:** The rigs outlook is not just an in-house projection. We had Pareto Securities to do updates on the market outlook too. On the outlook for the next three to five years, because of the increased activity in most of the geographies in terms of drilling plans, we believe that our premium rigs will have a home, because it is still one of the recognised designs that goes into many of the geographies. In terms of which oil companies, suffice to say most of the national oil companies and international oil companies, as you have seen in the press, have started looking at drilling plans. So we are looking from that angle to approach the market and seize the opportunities present right now.

**Closing remarks by Loh Chin Hua, CEO of Keppel Corporation**

To conclude, I would like to say that both Keppel O&M and SMM have rich histories, enviable reputations and strong track records that their staff and stakeholders are very proud of. Through this proposed combination, we have an opportunity to create a new, and even stronger organisation, with a meaningful purpose, which the management and staff can rally around, as they build the Combined Entity to meet the needs of the future. Thank you.

-End-