OPERATING & FINANCIAL REVIEW

FINANCIAL REVIEW & OUTLOOK

WE WILL SUSTAIN VALUE CREATION THROUGH EXECUTION EXCELLENCE, TECHNOLOGY INNOVATION AND FINANCIAL DISCIPLINE.

Total Assets

$31.3b

Up 18% from $26.6b for FY 2018, mainly due to increase in non-current assets.

Total Cash Dividend Per Share

20.0cts

This represents 51% of Group net profit for FY 2019.

PROSPECTS

The Offshore & Marine (O&M) Division's net orderbook, excluding the Sete Brasil (Sete) rigs, stood at $4.4 billion as at end-2019. The Division will continue to focus on delivering its projects well, exploring new markets and opportunities, investing in R&D and building new capabilities. The Division is also actively capturing opportunities in gas solutions, offshore renewables, production assets, specialised vessels and floating infrastructure, as well as exploring ways to re-purpose its technology in the offshore industry for other uses.

The Property Division sold about 5,150 homes in 2019, comprising about 250 in Singapore, 3,400 in China, 950 in Vietnam, 300 in Indonesia and 250 in India. Keppel REIT's office buildings in Singapore, Australia and South Korea maintained a high portfolio committed occupancy rate of 99% as at 31 December 2019. The Division will remain focused on strengthening its presence in key markets such as Singapore, China and Vietnam and scaling up in other markets such as Indonesia and India, while seeking opportunities to unlock value and recycle capital.

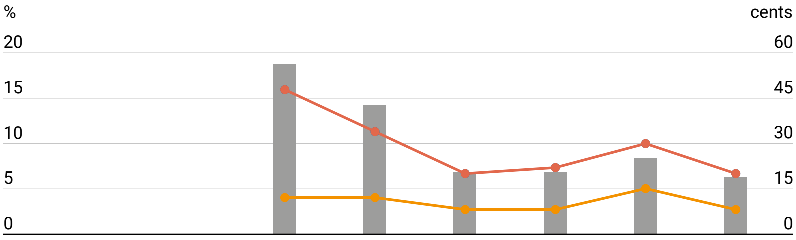
In the Infrastructure Division, Keppel Infrastructure will continue to build on its core competencies in the energy and environment-related infrastructure as well as infrastructure services businesses to pursue promising growth areas. Keppel Telecommunications & Transportation (Keppel T&T) will continue to develop its data centre business locally and overseas. Besides building complementary capabilities in the growing e-commerce business, it is transforming its logistics business from an asset-heavy business to an asset-light service provider in urban logistics.

In the Investments Division, Keppel Capital continues to leverage the Group's core competencies to create innovative investment solutions and connect investors with quality real assets in fast growing sectors fuelled by urbanisation trends. This includes seizing growth opportunities across our chosen sectors, as well as expanding into new markets and asset classes including the infrastructure, senior living and education sectors.

Keppel Urban Solutions (KUS) will harness opportunities as an integrated master developer of smart, sustainable precincts. Starting with Saigon Sports City in Ho Chi Minh City, Vietnam, KUS will also explore opportunities in other cities across Asia. The Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd. will continue the development of the Sino-Singapore Tianjin Eco-City (Eco-City), including selling land parcels to drive the Eco-City's further development.

The strategic acquisition of M1 complements the Group's mission as a solutions provider for sustainable urbanisation, which includes connectivity. M1 serves as a digital platform and connectivity partner to complement and augment the Group's suite of solutions. At the same time, M1 can benefit from harnessing the synergies of the Group.

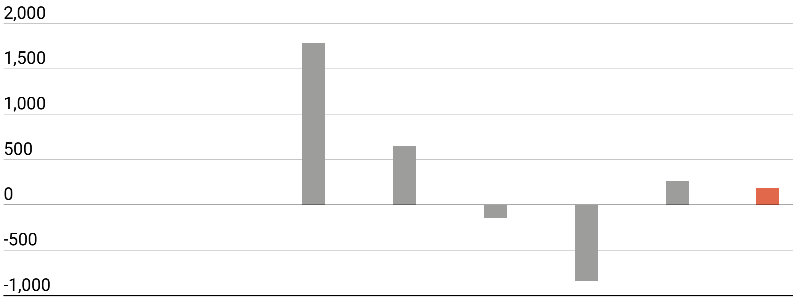
ROE & DIVIDEND



	2014	2015	2016	2017	2018	**2019**
ROE (%)	18.8	14.2	6.9	6.9	8.4[1]	**6.3**
Full-Year Dividend (cts)	48	34	20	22	30	**20**
Interim Dividend (cts)	12	12	8	8	15[2]	**8**

1 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) 1-23 *Borrowing costs eligible for capitalisation.*
2 Comprises an interim cash dividend of 10.0 cents per share and a special cash dividend of 5.0 cents per share.

EVA ($ million)



2014	2015	2016	2017	2018	**2019**
1,778	648	(140)	(839)	263[1]	**188**

1 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) 1-23 *Borrowing costs eligible for capitalisation.*

The Group will continue to execute its integrated business strategy to provide solutions for sustainable urbanisation, and deepen collaboration across divisions, while being agile and innovative, and investing in the future.

Return on Equity decreased to 6.3% in 2019 from 8.4% in the previous year, mainly due to lower net profit.

The Company will be distributing a total cash dividend of 20.0 cents per share for 2019, comprising a proposed final cash dividend of 12.0 cents per share as well as the interim cash dividend of 8.0 cents per share distributed in the third quarter of 2019. Total cash dividend for 2019 represents 51% of Group net profit. On a per share basis, it translates into a gross yield of 3.0% on the Company's last transacted share price of $6.77 as at 31 December 2019.

Economic Value Added

In 2019, Economic Value Added (EVA) decreased by $75 million to $188 million. This was attributable to higher capital charge, partially offset by higher net operating profit after tax.

Capital charge increased by $92 million as a result of higher Average EVA Capital Employed and higher Weighted Average Cost of Capital (WACC). WACC increased from 5.42% to 5.47% due mainly to an increase in risk-free rate and higher cost of debt. Average EVA Capital Employed

EVA

	2019 $ million	**19 vs 18 +/(-)**	**2018[1] $ million**	**18 vs 17 +/(-)**	**2017[2] $ million**
Profit/(loss) after tax (Note 1)	**794**	(103)	897	914	(17)
Adjustment for:					
Interest expense	**313**	108	205	16	189
Interest expense on non-capitalised leases	**–**	(20)	20	(6)	26
Tax effect on interest expense adjustments (Note 2)	**(53)**	(14)	(39)	(1)	(38)
Provisions, deferred tax, amortization & other adjustments	**122**	46	76	–	76
Net Operating Profit After Tax (NOPAT)	**1,176**	17	1,159	923	236
Average EVA Capital Employed (Note 3)	**18,066**	1,533	16,533	(2,158)	18,691
WACC (%) (Note 4)	**5.47**	0.05	5.42	(0.33)	5.75
Capital Charge	**(988)**	(92)	(896)	179	(1,075)
EVA	**188**	(75)	263	1,102	(839)

1 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) 1-23 *Borrowing costs eligible for capitalisation.*
2 Includes the one-off financial penalty and related costs of $619 million.

Notes:
1. Profit/(loss) after tax excludes net revaluation gain on investment properties.
2. The reported current tax is adjusted for statutory tax impact on interest expenses.
3. Average EVA Capital Employed is derived from the averages of net assets, interest-bearing liabilities, timing of provisions, present value of operating leases and other adjustments.
4. WACC is calculated in accordance with the Keppel Group EVA Policy as follows:
   a. Cost of Equity using Capital Asset Pricing Model with market risk premium set at 5.0% (2018: 5.0%);
   b. Risk-free rate of 2.27% (2018: 2.06%) based on yield-to-maturity of Singapore Government 10-year Bonds;
   c. Unlevered beta at 0.72 (2018: 0.75); and
   d. Pre-tax Cost of Debt at 2.09% (2018: 1.85%) using 5-year Singapore Dollar Swap Offer Rate plus 60 basis points (2018: 60 basis points).

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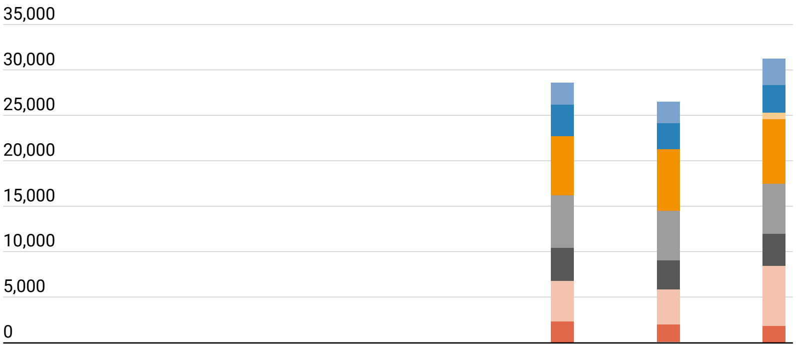
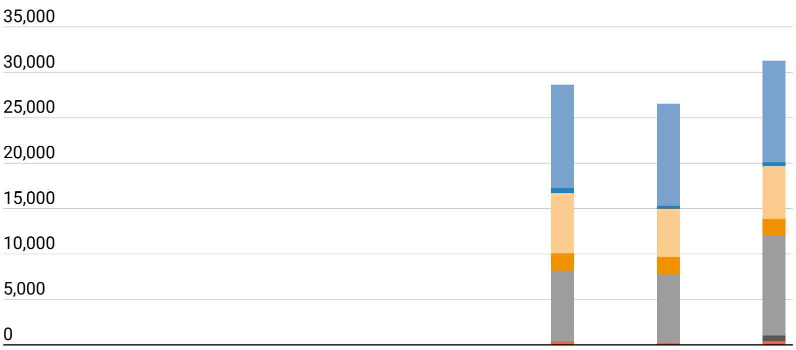
TOTAL ASSETS OWNED ($ million)



	2017	2018[1]	2019
Fixed assets	2,433	2,373	**2,902**
Properties	3,461	2,851	**3,022**
Right-of-use assets	–	–	**760**
Investments	6,575	6,825	**7,121**
Stocks	5,780	5,496	**5,543**
Contract assets	3,643	3,213	**3,497**
Debtors & others	4,520	3,849	**6,693**
Bank balances, deposits & cash	2,274	1,981	**1,784**
Total	28,686	26,588	**31,322**

[1] 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) 1-23 *Borrowing costs eligible for capitalisation.*

TOTAL LIABILITIES OWED AND CAPITAL INVESTED ($ million)



	2017	2018[1]	2019
Shareholders' funds	11,443	11,268	**11,211**
Non-controlling interests	530	309	**435**
Creditors	6,635	5,355	**5,795**
Contract liabilities	1,950	1,918	**1,825**
Term loans & bank overdrafts	7,793	7,549	**11,060**
Lease liabilities	–	–	**597**
Other liabilities	335	189	**399**
Total	28,686	26,588	**31,322**

[1] 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) 1-23 *Borrowing costs eligible for capitalisation.*

increased by $1,533 million from $16.53 billion to $18.07 billion mainly due to higher borrowings and recognition of lease liabilities following the adoption of SFRS(I) 16 *Leases*.

FINANCIAL POSITION

Group shareholders' funds of $11.21 billion at 31 December 2019 were $0.06 billion or 1% lower than the previous year end. The decrease was mainly attributable to payment of final dividend of 15.0 cents per share in respect of financial year 2018, payment of interim dividend of 8.0 cents per share in respect of half year ended 30 June 2019, adoption of SFRS(I) 16 *Leases*, and acquisition of the remaining stake in Keppel T&T, foreign exchange translation losses, decrease in value of investments accounted for at fair value through other comprehensive income, partly offset by retained profits for 2019.

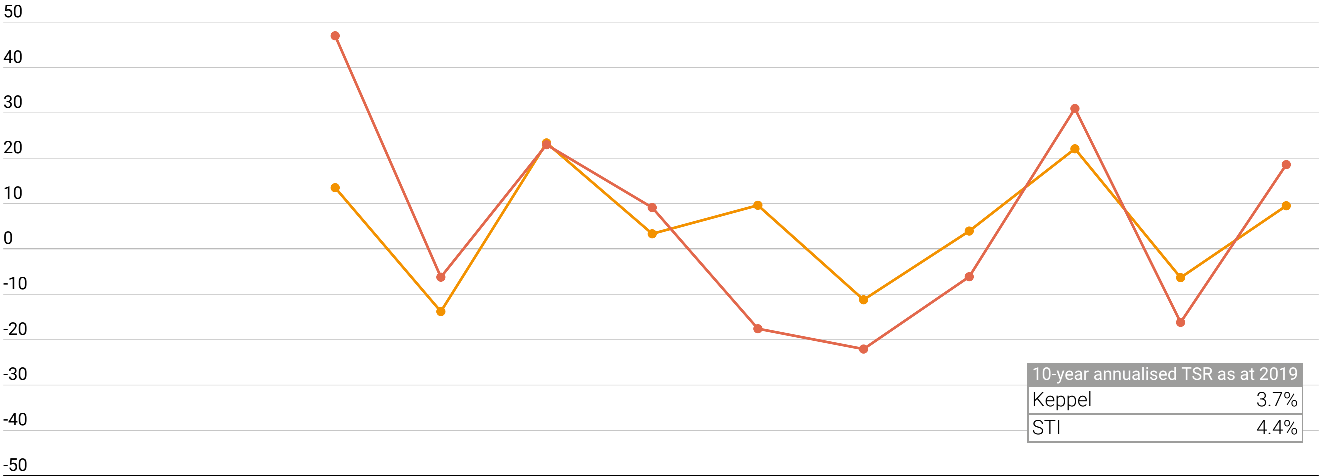
Group total assets of $31.32 billion at 31 December 2019 were $4.73 billion or 18% higher than the previous year end. Non-current assets increased due mainly to increase in fixed assets following the consolidation of M1, recognition of intangibles due to the M1 acquisition, recognition of right-of-use assets arising from the adoption of SFRS(I) 16 *Leases* and increase in long-term assets. Increase in current assets was due mainly to the increase in contract assets and advances to associated companies, partly offset by decrease in bank balances, deposits and cash.

Group total liabilities of $19.68 billion at 31 December 2019 were $4.66 billion or 31% higher than the previous year end. This was largely attributable to the increase in term loans, recognition of lease liabilities arising from the adoption of SFRS(I) 16 *Leases*, as well as deposits by and advances from associated companies.

Group net debt of $9.87 billion at 31 December 2019 was $4.31 billion or 77% higher than the previous year end. This was due mainly to the acquisition of M1 of $1.23 billion, consolidation of M1's net debt of $0.34 billion, acquisition of remaining interest in Keppel T&T of $0.22 billion, payment of the final dividend in respect of financial year 2018 of $0.27 billion, payment of the interim dividend in respect of half year ended 30 June 2019 of $0.15 billion, the recognition of lease liabilities arising from adoption of SFRS(I) 16 *Leases* of $0.60 billion, as well as working capital requirements of $1.44 billion.

Group net gearing ratio increased to 85% at 31 December 2019 from 48% at 31 December 2018. This was largely driven by the increase in Group net debt.

TOTAL SHAREHOLDER RETURN (%)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Keppel	47.0	(6.4)	22.9	9.0	(17.8)	(22.3)	(6.3)	30.9	(16.4)	**18.5**
STI	13.4	(14.0)	23.3	3.2	9.5	(11.4)	3.8	22.0	(6.5)	**9.4**

Source: Bloomberg

TOTAL SHAREHOLDER RETURN

Keppel is committed to delivering value to shareholders through earnings growth. To achieve this, the Group will rely on our multi-business strategy and core strengths to build on what we have done successfully, as well as to proactively seize new opportunities.

Our 2019 Total Shareholder Return (TSR) of 18.5% was 9.1 percentage points above the benchmark Straits Times Index's (STI) TSR of 9.4%. Our 10-year annualised TSR growth rate of 3.7% was lower than STI's 4.4%.

CASH FLOW

To better reflect our operational free cash flow, the Group had excluded expansionary acquisitions (e.g. investment properties) and capital expenditure (e.g. building of new logistics or data centre facilities), meant for long-term growth for the Group, and major divestments.

Net cash used in operating activities was $825 million for 2019 as compared to net cash from operating activities of $125 million for 2018, mainly to higher working capital requirements.

After excluding expansionary acquisitions, capital expenditure and major divestments, net cash from investment activities was $172 million. The Group spent $338 million on investments and operational capital expenditure. After taking into account the proceeds from divestments and dividend income of $413 million and net advances from associated companies of $97 million, free cash outflow was $653 million.

Total distribution to shareholders of the Company and non-controlling shareholders of subsidiaries for the year amounted to $430 million.

CASH FLOW

	2019 $ million	**19 vs 18 +/(-)**	**2018[2] $ million**	**18 vs 17 +/(-)**	**2017 $ million**
Operating profit	**877**	(178)	1,055	254	801
Depreciation, amortisation & other non-cash items	**117**	611	(494)	(212)	(282)
Cash flow provided by operations before changes in working capital	**994**	433	561	42	519
Working capital changes	**(1,437)**	(1,241)	(196)	(1,297)	1,101
Interest receipt and payment & tax paid	**(382)**	(142)	(240)	177	(417)
Net cash (used in)/from operating activities	**(825)**	(950)	125	(1,078)	1,203
Investments & capital expenditure	**(338)**	112	(450)	(263)	(187)
Divestments & dividend income	**413**	(644)	1,057	228	829
Advances from/(to) associated companies	**97**	314	(217)	(174)	(43)
Net cash (used in)/from investing activities	**172**	(218)	390	(209)	599
Free cash flow[1]	**(653)**	(1,168)	515	(1,287)	1,802
Dividend paid to shareholders of the Company & subsidiaries	**(430)**	116	(546)	(156)	(390)

1 Free cash flow excludes expansionary acquisitions and capital expenditure, and major divestments.
2 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) 1-23 *Borrowing costs eligible for capitalisation.*

OPERATING & FINANCIAL REVIEW
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FINANCIAL RISK MANAGEMENT

The Group operates internationally and is exposed to a variety of financial risks, comprising market risk (including currency, interest rate and price risks), credit risk and liquidity risk. Financial risk management is carried out by Keppel's Group Treasury department in accordance with established policies and guidelines. These policies and guidelines are established by the Group Central Finance Committee and are updated to take into account changes in the operating environment. This committee is chaired by the Chief Financial Officer (CFO) of the Company and includes CFOs of the Group's key operating companies and Head Office specialists.

The Group's financial risk management is discussed in more detail in the notes to the financial statements. In summary:

- The Group has receivables and payables denominated in foreign currencies with the largest exposures arising from US dollars, Brazilian Real and Renminbi. Foreign currency exposures arise mainly from the exchange rate movement of these foreign currencies against the functional currencies of the respective Group entities, which are mainly in Singapore dollars. The Group utilises forward foreign currency contracts to hedge its exposure to specific currency risks relating to receivables and payables. The bulk of these forward foreign currency contracts are entered into to hedge any excess US dollars arising from the O&M contracts based on the expected timing of receipts. The Group does not engage in foreign currency trading.

- The Group hedges against price fluctuations arising from the purchase of natural gas that affect cost. Exposure to price fluctuations is managed via fuel oil forward contracts, whereby the price of natural gas is indexed to benchmark fuel price indices of High Sulphur Fuel Oil 180-CST and Dated Brent.

- The Group hedges against fluctuations in electricity prices arising from its daily sales of electricity. Exposure to price fluctuations is managed via electricity futures contracts.

- The Group maintains a mix of fixed and variable rate debt/loan instruments with varying maturities. Where necessary, the Group uses derivative financial instruments to hedge interest rate risks. These may include cross currency swaps, interest rate swaps, swaptions and interest rate caps.

- The Group maintains flexibility in funding by ensuring that ample working capital lines are available at any one time.

- The Group adopts stringent procedures on extending credit terms to customers and the monitoring of credit risk.

BORROWINGS*

The Group borrows from local and foreign banks in the form of short-term and long-term loans, project loans and bonds. Total Group borrowings excluding lease liabilities as at end-2019 were $11.1 billion (2018: $7.5 billion and 2017: $7.8 billion). As at end-2019, 41% (2018: 20% and 2017: 22%) of Group borrowings were repayable within one year with the balance largely repayable more than three years later.

Unsecured borrowings constituted 96% (2018: 92% and 2017: 91%) of total borrowings with the balance secured by properties and other assets. Secured borrowings are mainly for financing of investment properties and project finance loans for property development projects. The net book value of properties and assets pledged/mortgaged to financial institutions amounted to $0.96 billion (2018: $1.07 billion and 2017: $1.89 billion).

Fixed rate borrowings constituted 63% (2018: 67% and 2017: 65%) of total borrowings with the balance at floating rates. The Group has cross currency swap and interest rate swap agreements with notional amount totalling $2,752 million whereby it receives foreign currency fixed rate (in the case of the cross currency swaps) and variable rates equal to SOR and LIBOR (in the case of interest rate swaps) and pays fixed rates of between 1.41% and 3.62% on the notional amount. Details of these derivative instruments are disclosed in the notes to the financial statements.

Singapore dollar borrowings represented 78% (2018: 75% and 2017: 73%) of total borrowings. The balance was mainly in US dollars. Foreign currency borrowings were drawn to hedge against the Group's overseas investments and receivables that were denominated in foreign currencies.

The weighted average tenor of the Group's debt was about four years at the end of 2018 and about three years at the end of 2019 with a decrease in average cost of funds as compared to end of 2018.

CAPITAL STRUCTURE & FINANCIAL RESOURCES

The Group maintains a strong balance sheet and an efficient capital structure to maximise return for shareholders.

Every new investment will have to satisfy strict criteria for return on investment, cash flow generation, EVA creation, risk management and environmental impact. New investments will be structured with an appropriate mix of equity and debt after careful evaluation and management of risks.

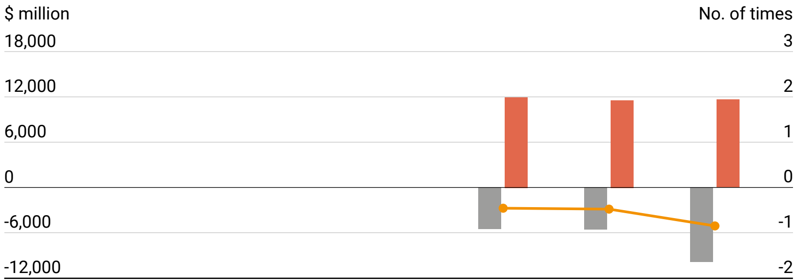
Capital Structure

Total equity as at the end-2019 was $11.65 billion as compared to $11.58 billion as at end-2018 and $11.97 billion as at end-2017. The Group was in a net debt (including lease liabilities) position of $9,874 million as at end-2019, which was above the $5,567 million as at end-2018 and the $5,519 million as at end-2017. The Group's net gearing ratio was 0.85 times as at end-2019, compared to 0.48 times as at end-2018.

* Borrowings exclude lease liabilities.

NET GEARING

$$\text{Net Gearing} = \frac{\text{Borrowings + Lease Liabilities – Cash}}{\text{Total Equity}}$$



	2017	2018[1]	2019
Net Debt	(5,519)	(5,567)	**(9,874)**
Total Equity	11,973	11,577	**11,646**
Net Gearing	(0.46)	(0.48)	**(0.85)**

[1] 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) *1-23 Borrowing costs eligible for capitalisation.*

Interest coverage increased from 2.61 times in 2017 to 5.99 times in 2018 before decreasing to 3.77 times in 2019. Interest coverage in 2019 was lower due to lower Earnings before Interest expense and Tax (EBIT).

Cash flow coverage decreased from 5.98 times in 2017 to 1.52 times in 2018 before decreasing to negative 1.46 times in 2019. This was mainly due to operational cash outflow in 2019, as compared to cash inflow in 2018.

At the Annual General Meeting in 2019, shareholders gave their approval for mandate to buy back shares. During the year, 770,000 shares were bought back and held as treasury shares. The Company also transferred 4,691,308 treasury shares to employees upon vesting of shares released under the KCL Share Plans and Share Option Scheme. As at end-2019, the Company had 2,014,736 treasury shares. Except for the transfer, there was no other sale, transfer, disposal, cancellation and/or use of treasury shares during the year.

Financial Resources
The Group continues to be able to tap into the debt capital market at competitive terms.

As part of its liquidity management, the Group has built up adequate cash reserves as well as sufficient undrawn banking facilities and capital market programmes. Funding of working capital requirements, capital expenditure and investment needs was made through a mix of short-term money market borrowings, bank loans, as well as medium/long term bonds via the debt capital market.

The Group maintains flexibility in funding by ensuring that ample working capital lines are available at any one time. Cash flow, debt maturity profile and overall liquidity position are actively reviewed on an ongoing basis.

As at end-2019, total available credit facilities, including cash at Corporate Treasury and bank guarantee facilities, amounted to $8.19 billion (2018: $9.37 billion).

CRITICAL ACCOUNTING POLICIES & ESTIMATES

The Group's significant accounting policies are discussed in more detail in the notes to the financial statements. The preparation of financial statements requires management to exercise its judgment in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions which affect the reported amounts of assets, liabilities, income and expenses. Critical accounting estimates and judgment are described below.

Expected credit loss on financial assets measured at amortised cost and fair value through other comprehensive income
The Group assesses on a forward looking basis the expected credit losses (ECLs) associated with its financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income (FVOCI). The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 34 details how the Group determines whether there has been a significant increase in credit risk.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset. At each balance sheet date, the Group assesses whether financial assets carried at amortised cost and at FVOCI are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. These events include probability of insolvency, significant financial difficulties of the debtor and default or significant delay in payments.

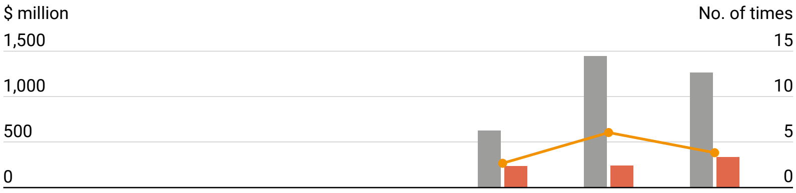
The carrying amounts of trade, intercompany and other receivables, and financial assets at FVOCI are disclosed in the balance sheet.

Recoverability of contract assets and receivable balances in relation to Offshore & Marine construction contracts
Contracts with Sete Brasil (Sete)
The Group had previously entered into contracts with Sete for the construction of six rigs for which progress payments from

INTEREST COVERAGE

$$\text{Interest Coverage} = \frac{\text{EBIT}}{\text{Interest Cost}}$$

Note: EBIT = Profit before tax + Interest expense

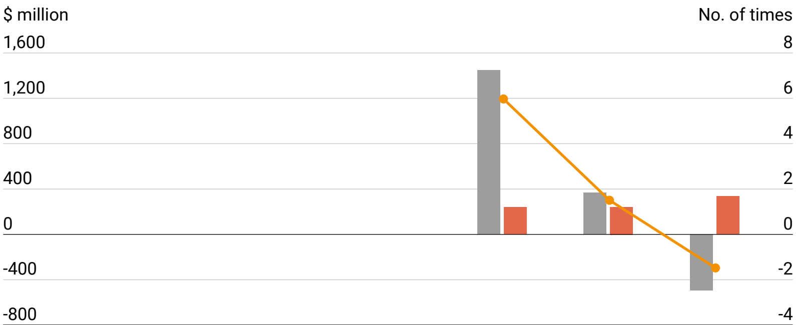


	2017	2018[1]	2019
EBIT	631	1,450	**1,266**
Total Interest Cost	241	242	**336**
Interest Cover	2.61	5.99	**3.77**

[1] 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) 1-23 *Borrowing costs eligible for capitalisation.*

CASH FLOW COVERAGE

$$\text{Cash Flow Coverage} = \frac{\text{Operating Cash Flow + Interest Cost}}{\text{Interest Cost}}$$



	2017	2018[1]	2019
Operating Cash Flow + Interest	1,444	367	**(489)**
Total Interest Expense + Interest Capitalised	241	242	**336**
Cash Flow Coverage	5.98	1.52	**(1.46)**

[1] 2018's financial figures have been restated due to an IFRIC agenda decision on SFRS(I) 1-23 *Borrowing costs eligible for capitalisation.*

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FINANCIAL CAPACITY

	$ million	Remarks
Cash at Corporate Treasury	397	22% of total cash of $1.78 billion
Available credit facilities to the Group	7,794	Credit facilities of $13.16 billion, of which $5.37 billion was utilised
Total	**8,191**	

Sete had ceased since November 2014. In April 2016, Sete filed for bankruptcy protection and its authorised representatives had been in discussion with the Group on the eventual completion and delivery of some of the rigs. In October 2019, the Settlement Agreement as well as the winning bid proposal for Magni Partners (Bermuda) Ltd (Magni) to purchase four Sete Brasil subsidiaries, two of which are special-purpose entities (SPEs) for uncompleted rigs constructed by Keppel Offshore & Marine Ltd (KOM), was approved by the creditors. As part of the Settlement Agreement, which is subject to fulfilment of certain conditions precedent, the Group will take over ownership of the remaining four uncompleted rigs and will be able to explore various options to extract the best value from these assets. The engineering, procurement and construction (EPC) contracts and related agreements entered into in relation to these four rigs will be deemed to be amicably terminated, with no penalties, refunds and/or any additional amounts being due to any party, and the parties will waive all rights to any claims. The Group has a receivable of approximately US$260 million from Sete and this amount has been included in Sete's court-approved Judicial Reorganisation Plan.The outstanding amount will be paid to the Group proportionally and pari passu with other creditors of Sete as part of, and out of proceeds of, the Judicial Reorganisation Plan.

Management has performed an assessment to estimate the cost of discontinuance of related agreements of the EPC contracts, offset by possible options in extracting value from the uncompleted rigs and possible payout from the Judicial Reorganisation Plan. In addition, management has estimated the net present value of the cash flows relating to the impending construction contract for two rigs with Magni.

Arising from the above assessment, management is of the opinion that the loss allowance for trade debtors of $183,000,000 (Note 12) (2018: $183,000,000) and the provision for related contract costs of $245,000,000 (Note 20) (2018: $245,000,000) are adequate to address the cost of discontinuance, salvage cost and unpaid progress billings relating to these EPC contracts.

Taking into consideration the cost of completion, cost of discontinuance, salvage cost and unpaid progress billings with regards to these rigs, the total cumulative loss recognised in relation to these rig contracts amounted to $476,000,000 (2018: $476,000,000).

Other contracts
As at 31 December 2019, the Group had several rigs that were under construction for customers, where customers had requested for deferral of delivery dates of the rigs in prior years. See Note 15 on contract assets balances.

Management has assessed each deferred construction project individually to make a judgment as to whether the customers will be able to fulfil their contractual obligations and take delivery of the rigs at the revised delivery dates.

Management has also performed an assessment of the ECL on contract assets and trade receivables of deferred projects to determine if a provision for expected loss is necessary.

In the event that the customers are unable to fulfil their contractual obligations, the Group can exercise their right to retain payments received to date and the legal possession of the rigs under construction. Management has further assessed if the values of the rigs would exceed the carrying values of contract assets and trade receivables. Management has estimated, with the assistance of an independent professional firm, the values of the rigs using Discounted Cash Flow (DCF) calculations that cover each class of rig under construction. The most significant inputs to the DCF calculations include dayrates and discount rates.

During the financial year ended 31 December 2019, no further (2018: $21,000,000) ECL on contract assets was recognised.

Impairment of non-financial assets
Determining whether the carrying value of a non-financial asset is impaired requires an estimation of the value in use of the cash-generating units. This requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. The carrying amounts of fixed assets, investments in subsidiaries, investment in associates and joint ventures, and intangibles are disclosed in the balance sheet. Management performed impairment tests on these non-financial assets as at 31 December 2019. Refer to Notes 6, 9, 10 and 13 to the financial statements for more details.

KrisEnergy
As at 31 December 2019, the carrying value of the Group's investment in KrisEnergy amounted to $74,284,000 in zero-coupon notes. In addition, the Group also had $20,541,000 of contract assets in relation to a construction contract for a production barge for KrisEnergy and, through a bilateral agreement between the Group and a bank, guaranteed $262,825,000 in respect of the bank loan granted to KrisEnergy (Note 32). The zero-coupon notes and guarantee are secured by the assets of KrisEnergy.

On 14 August 2019, KrisEnergy made an application to the High Court of the Republic of Singapore to commence a court-supervised process to reorganise its liabilities and seek a moratorium against enforcement actions and legal proceedings by creditors against KrisEnergy pursuant to section 211B of the Companies Act (Cap. 50). It had also requested a suspension of trading of its securities on Singapore Exchange Securities Trading Ltd. The High Court of Republic of Singapore approved the application for an initial period of three months up to 14 November 2019. At the date of these financial statements, the debt moratorium was extended to 27 May 2020. As at the end of the current financial year, KrisEnergy had not presented a restructuring plan.

Management performed an impairment assessment to estimate the recoverable amount of the Group's exposure in KrisEnergy as at 31 December 2019. With assistance from its financial advisor, management estimated the amount of cash available from producing assets and forecasted production from assets under development, taking into consideration the relative priority of each group of stakeholders to these cash flows based on their respective rights. Management will evaluate the above assessment when a restructuring plan is presented by KrisEnergy in due course, which may give rise to the adjustments to be made. The estimates and assumptions used are subject to risk and uncertainty.

Based on the assessment, the Group recognised an impairment loss of $37,000,000 during the financial year, and the carrying value of the Group's equity investment was reduced to zero. In 2018, management had performed an assessment on the recoverable amount using a DCF model based on a cash flow projection and recognised an impairment charge of $53,000,000.

Floatel

The carrying amount of the Group's investment in Floatel International amounted to $476,874,000 as at 31 December 2019 (2018: $524,404,000), comprising $311,000,000 in equity shares (2018: $362,760,000), $10,449,000 in preference shares (2018: $21,845,000) (Note 11) and $155,425,000 in long-term receivables (2018: $139,799,000) (Note 12).

In November 2019, credit rating agencies downgraded Floatel's credit rating, citing market environment for accommodation vessels remaining difficult with limited activity and pressure on dayrates. The rating agencies also commented that if Floatel fails to contract work for its idle vessels in the near future, it may not be able to meet its leverage covenant at its first test at the year-end 2020.

Floatel subsequently reported that its financial situation is unsustainable as liquidity is under pressure. There is a material uncertainty as to whether Floatel will be able to service its secured financial liabilities and net working capital requirements for the coming 12 months, which casts significant doubt on Floatel's ability to continue as a going concern. The long term viability of Floatel's business depends on it finding a solution to its financial situation and Floatel's management has initiated discussions with key creditors, in which, in the view of Floatel's board of directors, there is reasonable expectations of success. In a situation where going concern for Floatel no longer can be assumed, there is a risk for significant write down of its assets.

Management performed an impairment assessment of the recoverability of the Group's total exposure in Floatel by first performing an assessment to ascertain whether Floatel would reasonably continue as a going concern in the next 12 months. If Floatel cannot reasonably continue as a going concern in the next 12 months, the carrying amount of the Group's investment in Floatel may be subject to significant write down.

Management conducted a review of the business and cash flow projections through discussions with Floatel's management and corroborated those information based on management's understanding of the business environment that Floatel operates in. Management also discussed with Floatel's management to understand the ongoing dialogue with Floatel's lenders and advisors. Based on the results of the review, discussions and information currently available, management concurred with the judgment made by Floatel's management and board of directors in relation to the going concern matter.

In assessing impairment of the equity shares, management had focused on whether Floatel's vessels were stated at their appropriate recoverable amounts. The Group's carrying value of investment in Floatel's equity shares was reduced by its share of loss of $50,724,000, which included impairment loss on the carrying value of three vessels amounting to $19,642,000. The recoverable amounts of the vessels were determined on their value-in-use, using a DCF model. Management reviewed the appropriateness of key inputs used in the estimation of the recoverable amount of Floatel's vessels.

With respect to the preference shares, management had performed an estimation of its fair value as at 31 December 2019 using a dividend discount model, and recognised a fair value loss of $11,395,000.

In assessing the ECL of the loan receivable repayable on 31 December 2025, management expects full recovery of the receivable on the basis that Floatel operates in a niche market and supply of similar services should normalise over time. Given the extended date before the loan is due for repayment, management expects Floatel to continue as a viable business in the longer term and will be able to repay the loan when due in 2025.

Revenue recognition and contract cost

The Group recognises contract revenue and contract cost over time by reference to the Group's progress towards completing the construction of the contract work. The stage of completion is measured in accordance with the accounting policy stated in Note 2.20. Significant assumptions are required in determining the stage of completion and significant judgment is required in the estimation of the physical proportion of the contract work completed for the contracts; and the estimation of total costs on the contracts, including contingencies that could arise from variations to original contract terms and claims. In making the assumption, the Group evaluates by relying on past experience and the work of engineers. Revenue from construction contracts is disclosed in Note 24.

Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant assumptions are required in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of taxation and deferred taxation are disclosed in the balance sheet.

Claims, litigations and reviews

The Group entered into various contracts with third parties in its ordinary course of business and is exposed to the risk of claims, litigations, latent defects or review from the contractual parties and/or government agencies. These can arise for various reasons, including change in scope of work, delay and disputes, defective specifications or routine checks. The scope, enforceability and validity of any claim, litigation or review may be highly uncertain. In making its judgment as to whether it is probable that any such claim, litigation or review will result in a liability and whether any such liability can be measured reliably, management relies on past experience and the opinion of legal and technical expertise.

Civil action by EIG funds

In February 2018, the Company's subsidiary, KOM was served a summons by eight investment funds (plaintiffs) managed by EIG Management Company, LLC (EIG) where a civil action was commenced by the plaintiffs pursuant to the Racketeer Influenced and Corrupt Organizations Act (RICO) in the United States District Court, Southern District of New York. The plaintiffs were seeking damages for its loss of investment of US$221 million in Sete, trebled under RICO to US$663 million, plus interest, costs and mandatory attorneys' fees under RICO.

This new lawsuit came after an earlier civil action commenced by eight of EIG's managed funds in the United States District Court, District of Columbia against, among others, the Company and KOM. The case was dismissed by the Court on 30 March 2017.

Management is of the view that the reported cause of action by the plaintiffs is without merit and KOM will vigorously defend itself. As at the date of these financial statements,

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it is premature to predict or determine the eventual outcome of the action and hence, the potential amount of any loss cannot currently be assessed. KOM has filed a motion to dismiss EIG's complaint.

Global resolution with criminal authorities in relation to corrupt payments

In 2017, KOM reached a global resolution with the criminal authorities in the United States of America (USA), Brazil and Singapore in relation to corrupt payments made in relation to KOM's various projects with Petrobras and Sete in Brazil, which were made with knowledge or approval of former KOM executives. Fines in an aggregate amount of US$422,216,980, or equivalent to approximately S$570 million, paid/payable had been allocated between the three jurisdictions.

As part of the global resolution, KOM accepted a Conditional Warning from the Corrupt Practices Investigation Bureau (CPIB) in Singapore, and entered into a Deferred Prosecution Agreement (DPA) with the U.S. Department of Justice (DOJ), while Keppel FELS Brasil S.A., a wholly-owned subsidiary of KOM, entered into a Leniency Agreement with the Public Prosecutor's Office in Brazil, the Ministerio Publico Federal (MPF) which became effective following the approval of the Fifth Chamber for Coordination and Review of the MPF in April 2018. In addition, Keppel Offshore & Marine USA, Inc (KOM USA), also a wholly-owned subsidiary of KOM, pleaded guilty to one count of conspiracy to violate the U.S. Foreign Corrupt Practices Act and entered into a Plea Agreement with the DOJ.

Pursuant to the DPA, KOM paid a monetary penalty of US$105,554,245, of which US$4,725,000 was paid as a criminal fine by KOM USA, to the United States Treasury in 2018. In addition, KOM paid a monetary penalty of US$211,108,490 to MPF and a monetary penalty of US$52,777,122.50 to CPIB in 2018. A further US$52,777,122.50, which amount payable has been included as accrued expenses since FY 2017, will be payable to CPIB within three years (or an extended period as approved by CPIB and DOJ) from the date of the Conditional Warning (less any penalties that KOM may pay to specified Brazilian authorities during this period, for which discussions with the specified authorities are ongoing).

As part of the global resolution with the authorities, the Group had also committed to strengthening the compliance and governance regime in KOM. Amongst others, it included a commitment to secure certification of ISO 37001 Anti-Bribery Management System and testing of the effectiveness of the policies and procedures put in place. As of the date of these financial statements, KOM entities in Singapore, Brazil, Bulgaria, China, India, Philippines, United Arab Emirates and the USA had secured certification of the ISO 37001 Anti-Bribery Management System.

Anti-bribery and corruption compliance audits were also performed on entities within the KOM Group. These audits revealed enhanced policies and procedures put in place to-date were, in general, functioning as intended. The audits performed in 2018 had, however, identified certain matters relating to contracts entered into several years ago which required follow-up actions and further review. The follow-up actions and further reviews were concluded in 2019.

Based on currently available information, management is of the opinion that no additional provision is required.

Useful lives of network and related application systems
The cost of network and related application systems is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimated the useful lives of these fixed assets to be within five to 25 years. These are common life expectancies applied in the telecommunications industry. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amounts of the Group's network and related application systems at the end of the reporting period are disclosed in Note 6 to the financial statements.

Revaluation of investment properties
The Group carries its investment properties at fair value with changes in fair value being recognised in the profit and loss account. In determining fair values, the valuers have used valuation techniques which involve certain estimates. The key assumptions to determine the fair value of investment properties include market-corroborated capitalisation rate, terminal yield and discount rate.

In relying on the valuation reports, management has exercised its judgment to ensure that the valuation methods and estimates are reflective of current market conditions. The carrying amount of investment properties and the key assumptions used to determine the fair value of the investment properties are disclosed in Notes 7 and 34.

Estimating net realisable value of stocks
The net realisable value (NRV) of stocks represent the estimated selling price for these stocks less all estimated cost of completion and costs necessary to make the sale.

For construction projects under work-in-progress, the Group determines the estimated selling price based on based on recent sale transactions for similar assets or DCF models where recent sale transactions for similar assets were not available. For properties held for sale, provision is arrived at after taking into account estimated selling prices and estimated total construction costs. The estimated selling prices are based on recent selling prices for the development project or comparable projects and the prevailing market conditions. The estimated total construction costs include contracted amounts plus estimated costs to be incurred based on historical trends. The provision is progressively reversed for those residential units sold above their carrying amounts.

The Group has stocks (work-in-progress) amounting to $598,800,000 (after a provision of $50,000,000 made in the prior year) (Note 14). The carrying amount represented the estimated NRV of the stocks. Management has determined the NRV of the stocks based on arrangements to market the asset and a DCF model.