FINANCIAL REVIEW & OUTLOOK

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

PROSPECTS

VISION 2030

A key highlight during the year was the unveiling of Keppel's Vision 2030 in May 2020. Vision 2030 is a roadmap to guide the Group's strategy and transformation as one integrated business providing solutions for sustainable urbanisation. Building on Keppel's strengths in engineering, developing and operating specialised assets, as well as capital and asset management, the Group will focus on four key business areas, namely Energy & Environment, Urban Development, Connectivity and Asset Management – all part of a connected value chain.

As part of the Group's sharpened business focus and asset-light model, Keppel is taking a disciplined approach to capital allocation, to deploy more capital to our growth platforms and create value from more integration and synergies within the Group, while continuing to recycle capital to enhance the Group's overall return.

In September 2020, the Group embarked on further steps in the Vision 2030 roadmap, including the strategic review of the offshore & marine (O&M) business, and a $3–5 billion asset monetisation programme over three years to free up the Group's balance sheet to pursue new growth opportunities. To this end, a transformation office was established to drive the implementation of Vision 2030 to create sustainable value for all stakeholders, while a 100-day programme was also launched to expedite execution.

Between October and December 2020, the Group announced divestments worth over $1.2 billion, well on its way to meeting the three-year target, as well as various new initiatives to take Keppel forward on its growth trajectory.

After a tumultuous year during which the COVID-19 pandemic caused immense human suffering and battered the global economy, the recent progress in vaccine development and distribution gives hope that the end of the pandemic may be in sight. However, the situation remains volatile as COVID-19 continues to spread internationally. Keppel would need to continue to rigorously implement safe management measures to curb the further spread of the virus, and safeguard the health and well-being of our employees and stakeholders.

Notwithstanding the adverse impact of COVID-19, the pandemic has also accelerated many macrotrends that the Group had identified as part of Vision 2030, including growing digitalisation and e-commerce. At the same time, international concerns about climate change continue to grow, accelerating the energy transition and spurring the need for different solutions that contribute to a more sustainable future. Together, these trends are expected to further drive the demand for solutions for sustainable urbanisation, and create new opportunities for the Group.

BUSINESS SEGMENTS

In the Energy & Environment segment, Keppel Offshore & Marine's (Keppel O&M) net orderbook, excluding the Sete rigs, stood at $3.3 billion as at 31 December 2020. The O&M industry continues to face severe challenges arising from the impact of COVID-19 and the fall in global demand for oil, which significantly impacted the performance of the segment. While the market for oil-related solutions remains weak, Keppel O&M has over the past few years pivoted to cleaner fossil fuels such as LNG and renewables, which together made up about 65% of the approximately $1 billion of new orders it had secured in 2020.

On 28 January 2021, the Group announced that, amidst the global energy transition and major disruptions facing the oil industry, it will carry out a comprehensive transformation of Keppel O&M to better align it to the Group's Vision 2030 and to create a more competitive Keppel O&M that is well-placed to support the energy transition. As part of the transformation, Keppel O&M's business will be reorganised into three parts, namely a Rig Co and a Development Co (Dev Co), which will be transient entities created to hold approximately $2.9 billion worth of completed and uncompleted rig assets, and an Operating Co (Op Co) comprising the rest of Keppel O&M. This reorganisation into distinct parts provides better clarity for Keppel O&M to focus on its plans. Keppel O&M's completed rigs will be placed under Rig Co, which will put the completed rigs to work, or sell them if there are suitable opportunities. Uncompleted rigs will come under Dev Co, which will focus on completing the rigs while prudently managing cash flow.

Op Co will progressively transit to a developer and integrator role, focusing on design, engineering and procurement. It will exit the offshore rigbuilding business and progressively exit low value-adding repairs and other activities with low bottom-line contribution. Op Co will seek opportunities in floating infrastructure and infrastructure-like projects that can deliver predictable streams of cash flow, including renewables projects such as offshore wind farms and solar farms, gas solutions, production assets and new energy solutions such as hydrogen and tidal energy. The reorganisation has commenced and the transformation is expected to be executed over the next two to three years. Reflecting its new focus, Keppel O&M will carry out a rebranding exercise and refine its vision and purpose.

Meanwhile, Keppel Infrastructure will continue to develop opportunities in its target markets with a focus on value-enhancing energy and environmental projects.

Keppel Infrastucture will further strengthen its retail and marketing capabilities, and also expand its district cooling business in Singapore and overseas. It will also leverage MET Group, in which it has a 20% stake, to grow its European presence.

With the goal of growing the Group's renewable energy portfolio to 7GW by 2030, a new business unit, Keppel Renewable Energy, was set up to explore opportunities as a developer and operator of renewable energy assets. In December 2020, Keppel Renewable Energy announced the planned development of a 500MW solar farm in Australia, and will continue to seek other opportunities in renewables.

In the Urban Development segment, Keppel Land sold about 3,340 homes in 2020, which comprised about 2,110 in China, 370 in Singapore, 550 in Vietnam, 140 in Indonesia and 170 in India. It will remain focused on its key markets such as China, Singapore and Vietnam, and scale up in other markets such as India and Indonesia, while actively seeking opportunities to unlock value and recycle capital. Keppel Urban Solutions will harness opportunities as an end-to-end master developer of smart, sustainable cities. Starting with Saigon Sports City in Ho Chi Minh City, Vietnam, Keppel Urban Solutions will also explore opportunities in other cities across Asia. The Sino-Singapore Tianjin Eco-City Investment and Development Company Ltd will continue to drive the further development of the Sino-Singapore Tianjin Eco-City (Eco-City), including selling land parcels to accelerate the Eco-City's development.

In the Connectivity segment, M1 will complement the Group's mission as a solutions provider for sustainable urbanisation. Through a multi-year transformation plan, M1 seeks to develop and implement new strategic and operational plans to sharpen its competitive edge, increase its momentum in digital transformation and undertake growth initiatives. It will focus on strengthening its consumer business to meet changing customer needs and expectations, developing platforms and initiatives to support enterprise customers, collaborating actively with other Keppel entities to create smarter and future-ready offerings, and working closely with Singapore government agencies, industry players and enterprises to co-develop 5G use cases. With the award of the 5G network licence to M1 and Starhub Limited by the Infocomm Media Development Authority (IMDA), M1 is starting to rollout its 5G standalone network coverage across Singapore.

FREE CASH INFLOW

$497m

As compared to outflow of $653 million for FY 2019.

TOTAL CASH DIVIDEND PER SHARE

10.0cts

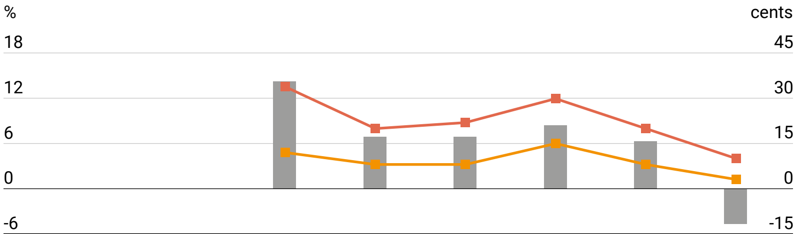
This comprises a proposed final cash dividend of 7.0cts/share, as well as an interim cash dividend of 3.0cts/share paid in 3Q 2020.

Keppel Telecommunications & Transportation (Keppel T&T) will, in collaboration with Keppel Capital, continue to actively pursue new development opportunities to grow its data centre footprint beyond its traditional areas of operation, while concurrently exploring innovative new solutions to reduce the environmental footprint of its data centres and strengthen its market position. Following a strategic review of the logistics business, Keppel T&T has decided to divest its logistics portfolio in Southeast Asia and Australia, and has launched the sale process through its financial advisor.

In the Asset Management segment, 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 alternative asset classes. During the year, Keppel Capital launched and achieved two closings for the Keppel Asia Infrastructure Fund, as well as first close for several funds, namely the Keppel-Pierfront Private Credit Fund, the Keppel MMP-Indonesia Logistics Fund, the Keppel Education Asset Fund and the Keppel Vietnam Fund. Riding on the success of the earlier funds, Keppel Capital also launched and achieved first close for the follow-on Alpha Asia Macro Trends Fund IV and Keppel Data Centre Fund II. The listed REITs and Trust also continued to grow through strategic acquisitions during the year.

The Keppel Group will continue to execute its integrated business strategy to provide solutions for sustainable urbanisation by deepening collaboration across business units, being agile and innovative as it invests in the future.

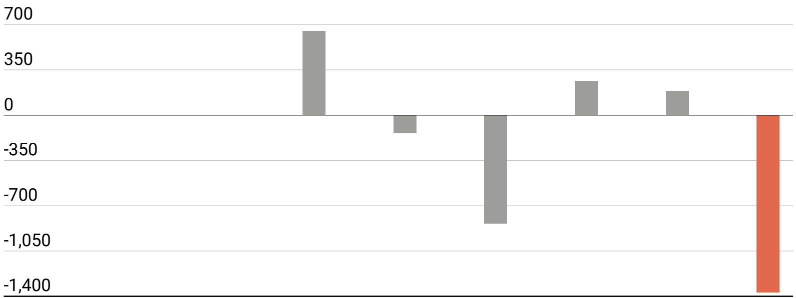
ROE & DIVIDEND



	2015	2016	2017	2018	2019	**2020**
ROE (%)	14.2	6.9	6.9[1]	8.4	6.3	**(4.6)**
Full-Year Dividend (cts)	34	20	22	30	20	**10**
Interim Dividend (cts)	12	8	8	15[2]	8	**3**

1 Excludes one-off financial penalty from global resolution & related costs.
2 Includes special cash dividend of 5.0cts/share.

EVA ($ million)



2015	2016	2017	2018	2019	**2020**
648	(140)	(839)	263	188	**(1,368)**

SHAREHOLDER RETURNS

Return on Equity (ROE) was negative 4.6%, compared to positive 6.3% in the previous year, mainly due to net loss recorded as compared to net profit in the previous year.

The Company will be distributing a total cash dividend of 10.0 cents per share for 2020, comprising a proposed final cash dividend of 7.0 cents per share as well as the interim cash dividend of 3.0 cents per share distributed in the third quarter of 2020. On a per share basis, it translates into a gross yield of 1.9% on the Company's last transacted share price of $5.38 as at 31 December 2020.

ECONOMIC VALUE ADDED

In 2020, Economic Value Added (EVA) decreased by $1,556 million to negative $1,368 million. This was attributable to net operating loss after tax and higher capital charge.

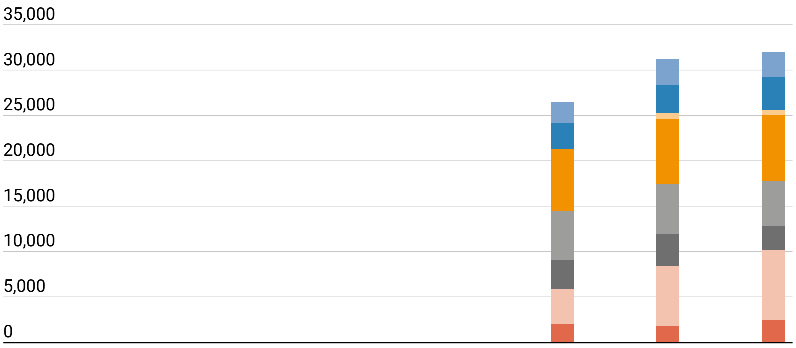
Capital charge increased by $15 million as a result of higher Average EVA Capital, partly offset by lower Weighted Average Cost of Capital (WACC). WACC decreased from 5.47% to 4.95% mainly due to a decrease in risk-free rate and lower Cost of Debt. Average EVA Capital increased by $2,188 million from $18.07 billion to $20.25 billion mainly due to higher borrowings.

EVA

	2020 $ million	**20 vs 19 +/(-)**	**2019 $ million**	**19 vs 18 +/(-)**	**2018 $ million**
Profit/(loss) after tax (Note 1)	**(732)**	(1,526)	794	(103)	897
Adjustment for:					
Interest expense	**292**	(21)	313	108	205
Interest expense on non-capitalised leases	**–**	–	–	(20)	20
Tax effect on interest expense adjustments (Note 2)	**(50)**	3	(53)	(14)	(39)
Provisions, deferred tax, amortisation & other adjustments	**125**	3	122	46	76
Net Operating Profit After Tax (NOPAT)	**(365)**	(1,541)	1,176	17	1,159
Average EVA Capital Employed (Note 3)	**20,254**	2,188	18,066	1,533	16,533
WACC (%) (Note 4)	**4.95**	(0.52)	5.47	0.05	5.42
Capital Charge	**(1,003)**	(15)	(988)	(92)	(896)
EVA	**(1,368)**	(1,556)	188	(75)	263

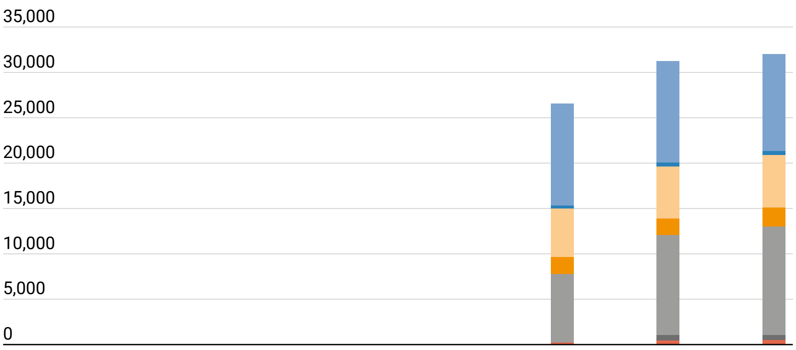
Notes:
1. Profit/(loss) after tax excludes net revaluation gain on investment properties.
2. The reported current tax is adjusted for statutory tax impact on interest expenses.
3. Average EVA Capital Employed is derived from the averages of net assets, interest-bearing liabilities, timing of provisions 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% (2019: 5.0%);
   b. Risk-free rate of 1.75% (2019: 2.27%) based on yield-to-maturity of Singapore Government 10-year Bonds;
   c. Unlevered beta at 0.72 (2019: 0.72); and
   d. Pre-tax Cost of Debt at 1.48% (2019: 2.09%) using 5-year Singapore Dollar Swap Offer Rate plus 60 basis points (2019: 60 basis points).

TOTAL ASSETS OWNED ($ million)



	2018	2019	2020
Fixed assets	2,373	2,902	**2,716**
Properties	2,851	3,022	**3,674**
Right-of-use assets	–	760	**583**
Associated companies, joint ventures & investments	6,825	7,121	**7,355**
Stocks	5,496	5,543	**4,959**
Contract assets	3,213	3,497	**2,657**
Debtors & others	3,849	6,693	**7,682**
Bank balances, deposits & cash	1,981	1,784	**2,480**
Total	26,588	31,322	**32,106**

TOTAL LIABILITIES OWED AND CAPITAL INVESTED ($ million)



	2018	2019	2020
Shareholders' funds	11,268	11,211	**10,728**
Non-controlling interests	309	435	**428**
Creditors	5,355	5,795	**5,831**
Contract liabilities	1,918	1,825	**2,072**
Term loans & bank overdrafts	7,549	11,060	**12,039**
Lease liabilities	–	597	**564**
Other liabilities	189	399	**444**
Total	26,588	31,322	**32,106**

FINANCIAL POSITION

Group shareholders' funds decreased by $0.48 billion to $10.73 billion at 31 December 2020. The decrease was mainly attributable to retained losses for 2020, payment of final dividend of 12.0 cents per share in respect of financial year 2019, payment of interim dividend of 3.0 cents per share in respect of the half year ended 30 June 2020 and fair value losses from cash flow hedges, partly offset by foreign exchange translation gains.

In 4Q 2020, the Group announced the divestment of interests in Chengdu Hilltop Development Co Ltd (Chengdu Hilltop), Dong Nai Waterfront City LLC (Dong Nai Waterfront), Keppel Bay Tower Pte Ltd (Keppel Bay Tower), and First King Properties Limited (First King Properties). These divestments would be completed upon the fulfillment of certain conditions precedent. In accordance with SFRS(I) 5 *Non-current Assets Held for Sale and Discontinued Operations*, the assets and liabilities of Keppel Bay Tower and First King Properties, as well as the investments in Chengdu Hilltop and Dong Nai Waterfront that are accounted for as associated companies, have been presented separately as assets classified as held for sale and liabilities directly associated with assets classified as held for sale as at 31 December 2020.

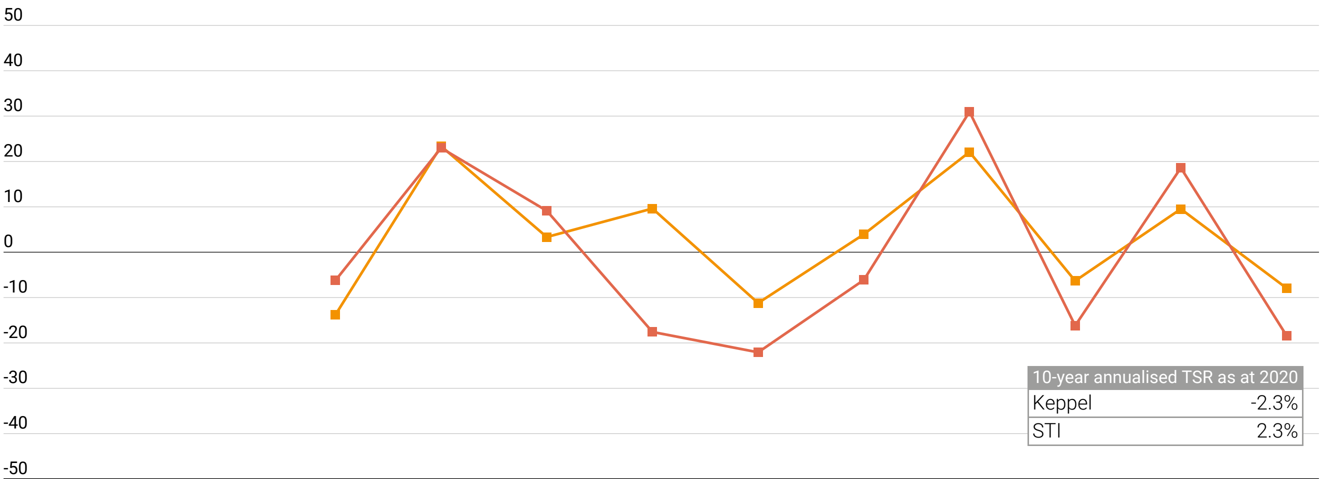
Group total assets were $32.11 billion as at 31 December 2020, $0.78 billion higher than the previous year-end. Non-current assets increased mainly due to a reclassification from stocks to investment properties, fair value gains in investment properties and an increase in investments and long-term assets, partly offset by a decrease in investments in associated companies, joint ventures and fixed assets, as well as the reclassification of investment properties, fixed assets, right-of-use assets and investments in associated companies to assets classified as held for sale in relation to the divestments mentioned above. The increase in current assets was due mainly to increases in bank balances and deposits & cash, partly offset by a reclassification from stocks to investment properties and decrease in contract assets.

Group total liabilities of $20.95 billion as at 31 December 2020 were $1.27 billion higher than the previous year-end. This was largely attributable to the increase in term loans and contract liabilities, partly offset by the decrease in amounts due to associated companies and joint ventures.

Group net debt increased by $0.25 billion to $10.12 billion as at 31 December 2020.

Group net gearing ratio increased from 85% as at 31 December 2019 to 91% at 31 December 2020. This was largely driven by the impact from lower equity due to the

TOTAL SHAREHOLDER RETURN (%)



	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
Keppel	(6.4)	22.9	9.0	(17.8)	(22.3)	(6.3)	30.9	(16.4)	18.5	**(18.6)**
STI	(14.0)	23.3	3.2	9.5	(11.4)	3.8	22.0	(6.5)	9.4	**(8.1)**

Source: Bloomberg

CASH FLOW

	2020 $ million	20 vs 19 +/(-)	2019 $ million	19 vs 18 +/(-)	2018 $ million
Operating profit	**8**	(869)	877	(178)	1,055
Depreciation, amortisation & other non-cash items	**30**	(87)	117	611	(494)
Cash flow provided by operations before changes in working capital	**38**	(956)	994	433	561
Provisions made for stocks, contract assets and doubtful debts	**701**	662	39	(84)	123
Working capital changes	**(107)**	1,369	(1,476)	(1,157)	(319)
Interest receipt and payment & tax paid	**(430)**	(48)	(382)	(142)	(240)
Net cash from/(used in) operating activities	**202**	1,027	(825)	(950)	125
Investments & capital expenditure	**(451)**	(113)	(338)	112	(450)
Divestments & dividend income	**687**	274	413	(644)	1,057
Advances from/(to) associated companies & joint ventures	**59**	(38)	97	314	(217)
Net cash from investing activities	**295**	123	172	(218)	390
Free cash flow[1]	**497**	1,150	(653)	(1,168)	515
Dividend paid to shareholders of the Company & subsidiaries	**(297)**	133	(430)	116	(546)

[1] Free cash flow excludes expansionary acquisitions & capital expenditure, and major divestments.

significant impairments recorded in the current year, as well as increase in net debt arising from investments made, working capital requirements and dividend payments.

TOTAL SHAREHOLDER RETURN

Keppel is committed to delivering value to shareholders through earnings growth. Guided by Vision 2030, the Group will leverage our business model and harness our unique strengths, as well as the synergies of the Group, to seize opportunities.

Our 2020 Total Shareholder Return (TSR) of negative 18.6% was 10.5 percentage points below the benchmark Straits Times Index's (STI) TSR of negative 8.1%. Our 10-year annualised TSR growth rate was negative 2.3% as compared to STI's positive 2.3%.

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 data centre facilities), meant for long-term growth for the Group and major divestments.

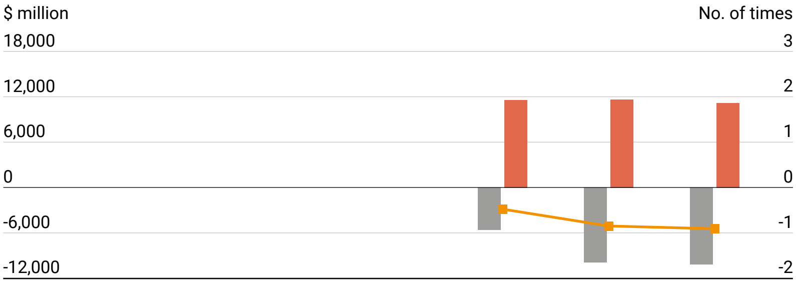
Net cash from operating activities was $202 million for 2020 as compared to net cash used in operating activities of $825 million for 2019. This was due mainly to lower working capital requirements.

After excluding expansionary acquisitions, capital expenditure and major divestments, net cash from investment activities was $295 million. The Group spent $451 million on investments and operational capital expenditure. After taking into account the proceeds from divestments, dividend income of $687 million and net advances from associated companies and joint ventures of $59 million, the free cash inflow was $497 million.

Total distribution to shareholders of the Company and non-controlling shareholders of subsidiaries for the year amounted to $297 million.

NET CASH/(GEARING)

Net Gearing = (Borrowings + Lease Liabilities – Cash) / Total Equity



	2018	2019	**2020**
Net Debt	(5,567)	(9,874)	**(10,123)**
Total Equity	11,577	11,646	**11,156**
Net Gearing	(0.48)	(0.85)	**(0.91)**

FINANCIAL RISK MANAGEMENT

The Group operates internationally and is exposed to a variety of financial risks, comprising market risk (including currency risk, interest rate risk and price risk), 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 of the Company and includes Chief Financial Officers 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 movements of these foreign currencies against the Singapore dollar, which is the Group's measurement currency. 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 the benchmark fuel price indices of High Sulphur Fuel Oil (HSFO) 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 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[1]

The Group borrows from local and foreign banks in the form of short-term and long-term loans and project loans. The Group also taps the debt capital market via issuance of primarily Singapore dollar bonds. Total Group borrowings excluding lease liabilities as at end-2020 were $12.0 billion (2019: $11.1 billion and 2018: $7.5 billion). As at end-2020, 37% (2019: 41% and 2018: 20%) of Group borrowings were repayable within one year, with the balance largely repayable more than three years later.

Unsecured borrowings constituted 94% (2019: 96% and 2018: 92%) 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 $2.22 billion (2019: $0.96 billion and 2018: $1.07 billion).

Fixed rate borrowings constituted 62% (2019: 63% and 2018: 67%) of total borrowings after taking into account the effect of derivative financial instruments with the balance at floating rates. The Group has cross currency swap and interest rate swap agreements with notional amounts totalling $4,681 million whereby it receives foreign currency fixed rate or variable rate equal to EURIBOR (in the case of the cross-currency swaps) and variable rates equal to SOR and LIBOR (in the case of the interest rate swaps) and pays fixed rates of between 0.19% and 3.62% on the notional amount. Details of these derivative financial instruments are disclosed in the notes to the financial statements.

Singapore dollar borrowings represented 73% (2019: 78% and 2018: 75%) of total borrowings after taking into account the effect of derivative financial instruments. 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 three years at end-2019 and at end-2020 with a decrease in average cost of funds as compared to end-2019.

CAPITAL STRUCTURE & FINANCIAL RESOURCES

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

New investments are evaluated against strict criteria including return on investment, cash flow generation, risk management as well as environmental, social and governance considerations. 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 end-2020 was $11.16 billion as compared to $11.65 billion as at end-2019 and $11.58 billion as at end-2018. The Group was in a net debt (including lease liabilities) position of $10,123 million as at end-2020, which was above the $9,874 million as at end-2019 and the $5,567 million as at end-2018. The Group's net gearing ratio was 0.91 times as at end-2020, compared to 0.85 times as at end-2019.

[1] Borrowings exclude lease liabilities.

OPERATING & FINANCIAL REVIEW
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Interest coverage decreased from 5.99 times in 2018 to 3.77 times in 2019 before decreasing to 0.11 times in 2020. Interest coverage in 2020 was lower due to lower Earnings before Interest expense and Tax (EBIT).

Cash flow coverage decreased from 1.52 times in 2018 to -1.46 times in 2019 before increasing to 1.60 times in 2020. This was mainly due to operational cash inflow in 2020, as compared to an outflow in 2019.

At the annual general meeting in 2020, shareholders gave their approval for the mandate to buy back shares. During the year, 3,866,628 shares were bought back and held as treasury shares. The Company also transferred 2,829,890 treasury shares to employees upon vesting of shares released under the KCL Share Plans. As at end-2020, the Company had 3,051,474 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.

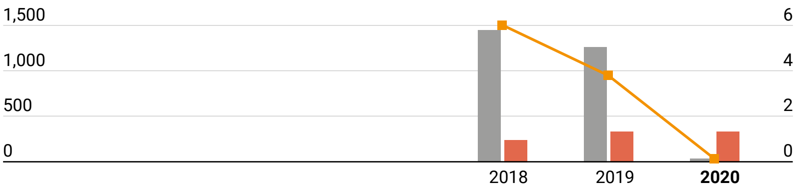
The Group maintains flexibility in funding by ensuring that ample working capital lines are available at any one time. Cash flow, debt maturity profile and overall liquidity position are actively reviewed on an ongoing basis.

As at end-2020, total available credit facilities, including cash at Corporate Treasury and bank guarantee facilities, amounted to $6.53 billion (2019: $8.19 billion).

INTEREST COVERAGE

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

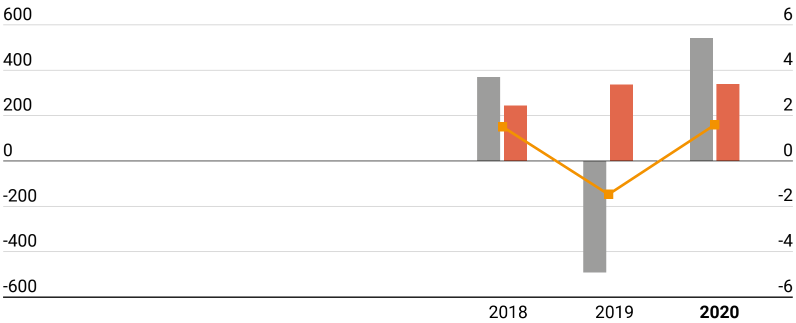
Note: EBIT = Profit before tax + Interest expense



	2018	2019	**2020**
EBIT	1,450	1,266	**38**
Total Interest Cost	242	336	**337**
Interest Cover	5.99	3.77	**0.11**

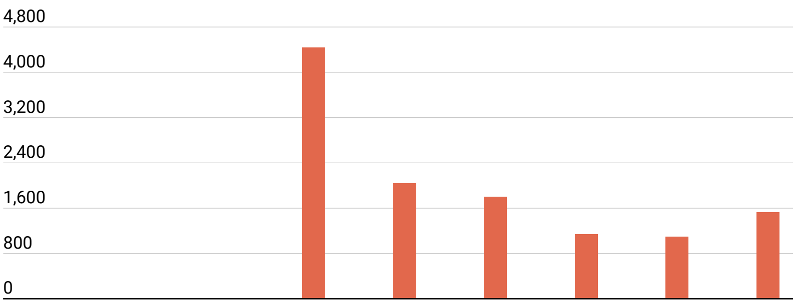
CASH FLOW COVERAGE

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



	2018	2019	**2020**
Operating Cash Flow + Interest	367	(489)	**539**
Total Interest Expense + Interest Capitalised	242	336	**337**
Cash Flow Coverage	1.52	(1.46)	**1.60**

DEBT MATURITY ($ million)



<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
4,432	2,037	1,798	1,142	1,099	1,531

Note: The borrowings exclude lease liability.

FINANCIAL CAPACITY

	$ million	Remarks
Cash at Corporate Treasury	728	29% of total cash of $2.48 billion
Available credit facilities to the Group	5,806	Credit facilities of $12.08 billion, of which $6.28 billion was utilised
Total	**6,534**	

CRITICAL ACCOUNTING JUDGMENTS & 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 judgments and estimates are described below.

COVID-19 and volatility in oil prices

The evolving situation of the COVID-19 pandemic and volatility in oil prices, including the sharp reduction in global oil demand, could impact the assessment of the carrying amounts of the Group's assets and liabilities. As these events and conditions have significant financial reporting implications, Accounting and Corporate Regulatory Authority of Singapore (ACRA) had published financial reporting practice guidance notes in May and December 2020 highlighting key focus areas when preparing and reviewing the financial statements, especially in areas where estimates, assumptions and judgment are required. In the assessment for the current year, management has carried out a review to assess the assumptions used in the assessment of the carrying values of certain assets of the Group. Management has exercised judgment in determining the significant assumptions used and has relied on information currently available, including the COVID-19 official updates from the authorities, experts' consensus on global oil prices and the work performed by independent advisors on certain assets, in the assessment of the appropriateness of the carrying values of the Group's assets, including but not limited to the following assets as at 31 December 2020:

- Recoverability of contract assets and receivable balances in relation to offshore & marine construction contracts with Sete Brasil and other customers
- Valuation of investment properties
- Estimation of net realisable value of stocks
- Impairment of non-financial assets
- Investments in associated companies and joint ventures, including KrisEnergy Limited (KrisEnergy) and Floatel International Limited (Floatel) and related exposures

As the COVID-19 situation continues to evolve, the Group will proactively implement measures to mitigate the potential impact on the Group. Should the COVID-19 situation take a longer than expected period to recover and/or the recovery of long-term oil prices, dayrates or utilisation rates take a longer period or fall to a lower level than expected, the assessment of the carrying amounts of the assets of the Group could be impacted, and material provisions may be made and additional liabilities may arise in the subsequent financial years.

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 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 subsidiaries, two of which are special-purpose entities (SPEs) for uncompleted rigs constructed by the Group, were 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, its Judicial Reorganisation Plan.

In December 2019, Petrobras issued a press release to communicate their Board's approval on the continuation of four charter agreements, and for Magni and their operator Etesco to step in as the new party to the agreements. Since then, the Group has been in constructive discussions with Magni to finalise the construction contracts for the two rigs and with Sete to close out the condition precedents in the Settlement Agreement. As a result of the global COVID-19 pandemic and the extended time required for Magni to secure financing, finalisation of the agreements between the various parties has been delayed. On 12 November 2020, Petrobras issued a press release stating that their mediation agreement deadline with Sete had been extended to 31 January 2021 for Sete to conclude their sale transaction. As of the date of these financial statements, Magni had yet to secure the full financing required to complete the sale transaction with Sete.

On 26 January 2021, Petrobras issued a media release to inform that it had received notification from Sete that it would not be able to comply with the conditions in the mediation agreement by the extended due date of 31 January 2021 and Sete had requested to begin a new negotiation with Petrobras. The Executive Board of Petrobras has authorised this request from Sete, in search of a joint solution with Sete.

Notwithstanding that the deadline to complete the mediation agreement has not been extended, the Group believes that Petrobras, in approving a new negotiation, will continue to seek solutions for these rigs with the relevant stakeholders which may yield several other alternative arrangements between the stakeholders. The Group will also be in active discussions with Sete and Magni, as Sete enters into the new negotiation with Petrobras.

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

Arising from the above assessment, the loss allowance for trade debtors of

$183,000,000 (2019: $183,000,000) and the provision for related contract costs of $245,000,000 (2019: $245,000,000) made in prior years remain adequate to address the cost of discontinuance, salvage cost and unpaid progress billings relating to EPC contracts with Sete.

Taking into consideration 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 as at 31 December 2020 (31 December 2019: $476,000,000).

The above assessment had been made with the following key assumptions:

i. Petrobras will continue to require the rigs for execution of its business plans and will charter them at the dayrates and tenure previously agreed with Sete;

ii. Magni will be able to secure financing to complete the purchase of the rigs with Sete and complete the construction contract with the Group at the terms previously discussed with Magni; and

iii. The future costs of construction of the rigs are not materially different from management's current estimation.

At the date of these financial statements, the commencement of a new negotiation between Petrobras and Sete has been authorised by the Executive Board of Petrobras. Should the conclusion of the negotiation result in significant changes to the key assumptions above, additional material provision may be required, including adjustments to the net carrying amounts (net of total cumulative losses as described above) relating to the Sete contracts amounting to $113,645,000 as at 31 December 2020.

Other contracts
As at 31 December 2020, 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 and have higher counterparty risks. In the event that the customers are unable to fulfil their contractual obligations, the Group can exercise the right to retain payments received to date and retain the titles to the rigs.

The Group had also delivered rigs to customers where receipt of the construction revenue had been deferred under certain financing arrangements, amounting to $848,117,000 as at 31 December 2020 (2019: $778,734,000) of which $772,443,000 (2019: $638,973,000) is secured on the rigs and $75,674,000 (2019: $139,761,000) is unsecured but the Group has obtained parental guarantee from the customers.

Management has assessed each deferred construction project individually to make 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 expected credit loss on contract assets and trade receivables of deferred projects and of rigs delivered on financing arrangements to determine if a provision for expected loss is necessary.

The global economic environment has been and continues to be significantly affected by COVID-19. The oil & gas industry, in particular, has experienced an unprecedented and very difficult period as a result of lower expected demand. The Group remains cognisant of these developments and has been closely monitoring the market and industry developments relating to utilisation rates, dayrates, oil price outlook and other relevant information.

For the above contract assets and secured trade receivables, in the event that the customers are unable to fulfil their contractual obligations, management has considered that the most likely outcome for the rigs delivered or under construction is for the Group to take possession of these assets and charter them out to work. The value of the rig on this basis would be based on an estimation of the Value-in-use (VIU) of the rig, i.e. through estimating the net present value of cash flows from operating the rig over the useful life of the asset.

Management has engaged independent professional firms to assist in their assessment on whether the VIU of the rigs would exceed the carrying values of contract assets and trade receivables as at 31 December 2020. The VIU model used by the independent firm is consistent with prior years and is based on Discounted Cash Flow calculations that cover each class of rig. In addition to the independent firm responsible for the valuation based on VIU calculations, management has also engaged a separate industry expert to independently provide a view of the market outlook, assumptions and parameters

		Financing to customers		
	Contract assets $'000	Secured $'000	Unsecured $'000	Total $'000
As at 31 December 2020				
Gross balance	2,933,715	871,605	138,595	3,943,915
Less: Expected credit loss				
Balance, 1 January	21,000	–	–	21,000
Currency alignment	–	(4,634)	(2,894)	(7,528)
Impairment charged	430,842	103,796	65,815	600,453
Reclassification (Note 15)	(19,301)	–	–	(19,301)
Balance, 31 December	432,541	99,162	62,921	594,624
Net balance	2,501,174	772,443	75,674	3,349,291
As at 31 December 2019				
Gross balance	3,345,020	638,973	139,761	4,123,754
Less: Expected credit loss				
Balance, 1 January and 31 December	21,000	–	–	21,000
Net balance	3,324,020	638,973	139,761	4,102,754

which are used in the valuations based on the estimation of VIU. Key inputs into the estimation of the VIU include dayrates and cost assumptions, utilisation rates, discount rates and estimated commencement of deployment of the assets. The valuation of the rigs would decrease if the expected income from operating the rigs decline, or discount rates were higher, or the estimated commencement of deployment was delayed.

Management has also appointed an independent advisor to conduct an assessment of the recoverability of unsecured receivables as at 31 December 2020.

Accordingly, the Group recognised an expected credit loss allowance of $430,842,000 (2019: $nil) on contract assets, and $169,611,000 (2019: $nil) on long-term receivables during the financial year ended 31 December 2020, as shown in the table on page 72.

The valuations of the rigs based on estimated VIU are most sensitive to discount rates and dayrates.

- A discount rate of 7% has been used in the valuation as at 31 December 2020 (31 December 2019: 6.8%). An increase of 1% of the discount rate would increase the expected credit loss by approximately $7,000,000 (31 December 2019: $nil).
- A decrease in dayrates of US$5,000 per day across the entire asset useful life of 25 years would not result in any further expected credit loss (31 December 2019: $nil).

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 (CGUs). This requires the Group to estimate the future cash flows expected from the CGUs and an appropriate discount rate in order to calculate the present value of the future cash flows. Management performed impairment tests on fixed assets (Note 6), investments in subsidiaries (Note 9), investments in associated companies and joint ventures (Note 10), and intangibles (Note 13) as at 31 December 2020.

Management has performed the impairment assessment of its investments in KrisEnergy and Floatel and related exposures on the basis of the restructuring steps taken by these investees. Refer to Note 10(c) and Note 10(f) respectively for more details on the impairment assessment of Group's investments in KrisEnergy and Floatel.

Management has also performed an impairment assessment of the goodwill arising from acquisition of M1. Details of the impairment testing is disclosed in Note 13.

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 has also requested a suspension of trading of its securities on Singapore Exchange Securities Trading Ltd (SGX). At the date of these financial statements, the moratorium has been further extended to 16 April 2021.

In April 2020, the Group entered into a credit facility agreement with two wholly-owned indirect subsidiaries of KrisEnergy (the Borrowers), with the Group agreeing to grant a project financing loan in two or more tranches for an aggregate principal amount not exceeding US$87 million (the CBA Loan Facility) to the Borrowers. As at 31 December 2020, the total aggregate amount of funds drawn down by the Borrowers through the CBA Loan Facility was US$57,700,000.

KrisEnergy published an initial restructuring proposal on 16 June 2020, followed by the publication of the final restructuring proposal on 21 August 2020. The final restructuring proposal is to be implemented via four inter-conditional processes that require the consent of the requisite majority of each respective group of creditors and shareholders:

- reaching an agreement for an extension of secured Revolving Credit Facility (RCF) with the lender;
- conversion of debts and claims into equity for unsecured creditors under the Scheme of Arrangement (Scheme);
- partial conversion of claims into equity for Zero Coupon Noteholders under the Consent Solicitation Exercise (CSE)
- requisite approval from the shareholders for the issuance of new shares in the restructuring proposal in Extraordinary General Meeting (EGM)

On 30 December 2020, the RCF maturity date was extended for an initial period of 6 months to 30 June 2021 with a further extension to 30 June 2024 upon successful completion of restructuring. A Scheme was released by KrisEnergy on 20 November 2020 setting out the details of the proposed restructuring terms. On 14 January 2021, the unsecured creditors of KrisEnergy approved the Scheme through a Singapore court supervised process. The Scheme was effective on 15 February 2021, following the lodgment of a copy of the order of the Court approving the Scheme with the Registrar of Companies. The CSE process for KrisEnergy's zero coupon noteholders that was launched on 20 January 2021 has been approved on 11 February 2021. As at the date of these financial statements, the final component of the restructuring, which is the EGM to seek KrisEnergy shareholders' approval for the issuance of new shares pursuant to the Scheme and the CSE, had not yet taken place.

Management performed an impairment assessment to estimate the recoverable amount of the Group's exposures in KrisEnergy as at 31 December 2020. Management reviewed the cash flow projections prepared by its financial advisor who 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. The cash flow estimates were based on forecasted oil prices, determined by taking reference from external information sources, ranging from US$50 to US$62 per barrel for 2021 to 2029 (2019: US$63 to U$70 per barrel for 2020 to 2028). The impairment assessment has taken into consideration the terms of restructuring.

Based on the impairment assessment, an impairment provision of $39,200,000 was recognised for the year ended 31 December 2020, and the carrying amount of the Group's investment in the zero-coupon notes was reduced to $35,084,000. No impairment allowance was made against the loan receivable and contract assets, and no liabilities were recorded for the Group's guarantee given to the bank for the loan granted to KrisEnergy as the Group has priority over the cash flows on the assets of KrisEnergy. In the financial year ended 31 December 2019, management had performed a similar assessment and recognised an impairment charge of $37,000,000 on the equity investment.

The estimates and assumptions used are subject to risk and uncertainty. If the oil prices were to decrease by 2% across the forecasted period of 2021 to 2029, the estimated cash available from producing assets and forecasted production from assets under development would decrease, and this would result in an additional impairment of $34,400,000.

Floatel
In February 2020, Floatel reported that its financial situation was unsustainable as liquidity was under pressure. There was a material uncertainty as to whether Floatel would be able to service its secured financial liabilities and net working capital requirements for the coming 12 months, which cast 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.

On 5 December 2020, at the expiry of the forbearance under a Forbearance Agreement entered into between Floatel and certain bondholders, Floatel entered into a Lock-Up Agreement with FELS Offshore Pte Ltd (the member of the Group with the equity interest in Floatel), an ad hoc group (the AHG) of holders of Floatel's 9% senior secured 1L Bondholders, and other consenting 1L Bondholders holding in aggregate over 56% by value of the 1L Bonds and 2L Bondholders holding in aggregate close to 13% of the 2L Bonds (the Lock-Up Agreement). The Lock-Up Agreement commits Floatel, the Group, the AHG and any acceding 1L Bondholders and 2L Bondholders to use reasonable endeavours to implement a comprehensive financial and corporate restructuring of the Floatel group (the Restructuring). As part of the Lock-Up Agreement, FELS Offshore Pte Ltd has committed to use reasonable endeavours to procure the provision and funding of a new US$100,000,000 Revolving Credit Facility (RCF) for Floatel and another member of the Group may provide credit support for the RCF in the form of a risk participation.

On 16 December 2020, Floatel announced an increased level of support of the Lock-Up Agreement by the 1L (more than $^2/_3$) and 2L Bondholders. In addition, the terms of new warrants to be issued were also agreed in a revised Lock-Up Agreement on 14 December 2020. On 8 January 2021, bank lenders of Floatel agreed to accept a cash settlement of US$46,000,000 less Lenders' advisory fees for full settlement of amounts owing to them and release of the charge on one of the five vessels owned by Floatel. On 12 February 2021, the 2L Bondholders approved the restructuring.

As the loan from the relevant member of the Group to Floatel is considered as part of the Group's net investment in Floatel (i.e. settlement is neither planned nor foreseen), management has continued to equity account for its share of loss in Floatel's results against the carrying value of the loan to Floatel, after reducing the carrying value of the equity investment in Floatel to zero as of 30 June 2020. For the financial year ended 31 December 2020, the Group has recognised a total share of operating loss from Floatel of $82,779,000 and share of impairment loss of vessels of $228,107,000. The latter was estimated based on industry parameters provided by an independent industry advisor and adopted in the VIU calculation of the vessels. In addition, the carrying value of preference shares, based on the fair value assessment conducted by an independent financial advisor using the dividend discount model had similarly been written down to nil as at 31 December 2020.

The Group has considered that the recovery of its net investment in Floatel is dependent on Floatel successfully carrying out the Restructuring and continuing operation of its fleet of vessels. Management has retained an independent financial advisor to support the review of Floatel's business plan and cash flow projections. In the event that the Restructuring of Floatel fails to go through, Floatel would not have adequate cash from its operations and cash on hand to continue as a going concern beyond year 2021 and in this scenario the Group's investment in Floatel is not expected to be recoverable.

As at the date of these financial statements, the Restructuring is progressing positively and the Group is in advanced stages of discussion with financial institutions to provide the US$100,000,000 RCF.

Revenue recognition and contract cost
The Group recognises contract revenue and contract cost over time by referencing 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 determinations are 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 etc. 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.

EIG Energy Fund XIV, L.P., et al. v. Keppel Offshore & Marine Ltd., (United States District Court, Southern District of New York)
In February 2018, the Company's subsidiary, Keppel Offshore & Marine Ltd (Keppel O&M) 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 sought 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 Keppel O&M. The case was dismissed by the Court on 30 March 2017.

In March 2018, Keppel O&M submitted a letter pursuant to the Court's rules seeking permission to file a motion to dismiss the Complaint. In April 2018, in response to Keppel O&M's letter, the Plaintiffs filed the First Amended Complaint which added, among other things, a state law claim for aiding and abetting fraud.

In July 2018, Keppel O&M filed a motion to dismiss the First Amended Complaint. The Plaintiffs filed their brief in opposition to the motion in August 2018 and Keppel O&M filed its reply brief in August 2018.

In May 2020, the Court issued an order granting in part and denying in part Keppel O&M's

motion to dismiss. The Court dismissed the Plaintiffs' civil RICO conspiracy claim but found that the First Amended Complaint adequately pleaded an aiding and abetting fraud claim under New York state law and denied Keppel O&M's motion to dismiss that claim.

Consequently, the Plaintiffs currently seek damages of US$221,000,000 (without the earlier treble damage claim of US$663 million under RICO in respect of which Keppel O&M has been successful in dismissing the claim), plus punitive damages, interest, attorneys' fees, costs and disbursements, based on their remaining claim for aiding and abetting fraud.

Management is of the view that the remaining claim for aiding and abetting fraud is without merit and Keppel O&M will vigorously defend itself. As at the date of these financial statements, it is premature to predict or determine the eventual outcome of this remaining claim and hence, the potential amount of loss cannot currently be assessed.

Termination of two mid-water semisubmersible drilling rig contracts
As disclosed in Note 2.28(b)(ix), a subsidiary of Keppel Offshore & Marine Ltd (KOM subsidiary) terminated two contracts with subsidiaries of a customer for the construction of two mid-water semisubmersible drilling rigs for harsh environment use:

i. In June 2020, the buyer under the first of these contracts (First Contract) alleged a breach of contract by the KOM subsidiary and purportedly terminated the First Contract and sought recovery of the payments already made to the KOM subsidiary with interest. The allegations by the buyer were refuted and the purported termination of the contract was rejected by the KOM subsidiary. The buyer subsequently failed to pay an instalment due under the First Contract. Non-payment of any instalment by the customer is a default in accordance with the First Contract, entitling the KOM subsidiary to terminate the First Contract, retain all payments received to date (approximately US$54 million), and seek compensation for the work done to date and claim ownership of the rig. The KOM subsidiary had therefore issued a notice of termination of the First Contract to the buyer and commenced arbitration to enforce its rights under the First Contract against the buyer.

ii. In December 2020, the KOM subsidiary issued a notice of termination of the second of these contracts (Second Contract) and commenced arbitration to enforce its rights under the Second Contract against the buyer, which rights include the right to retain the amounts already paid by the buyer to date of approximately US$43 million and to seek reimbursement of the KOM subsidiary's costs of the project to the date of termination.

    Subsequent to the issuance of this notice of termination, the KOM subsidiary has received a notice from the buyer purporting to terminate the Second Contract, alleging breaches under the Second Contract. As it had already terminated the Second Contract, the KOM subsidiary's position is that the notice of termination can have no effect. In any event, the KOM subsidiary refutes the abovementioned allegations by the buyer in the notice.

The Group is working with legal advisors to enforce its rights and will continue to evaluate the potential financial impact in consultation with its advisors. Based on currently available information, no provision was made in respect of the recovery of the payments already made to the Group by the two buyers.

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

As part of the global resolution, Keppel O&M 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 Keppel O&M, 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 Keppel O&M, 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.

Keppel O&M has successfully complied with its obligations under the DPA and the DPA has accordingly concluded. Keppel O&M has also been in compliance with its obligations under the Conditional Warning issued by the CPIB and the Leniency Agreement entered into with the MPF. As part of the applicable fines payable under the global resolution, a sum of US$52,777,122.50 (less any penalties that Keppel O&M may pay to specified Brazilian authorities) was payable to CPIB within three years from the date of the Conditional Warning and has been included in accrued expenses since FY 2017. The discussions with the specified Brazilian authorities remain ongoing, and CPIB has agreed to extend this three-year period for a further 12 months until 22 December 2021.

In June 2020, the Company announced that it was brought to the Company's attention that the Office of the Comptroller General of Brazil (CGU) has published a notice in the Official Gazette (Notice) to the effect that CGU has initiated an administrative enforcement procedure (AEP) against Keppel O&M, Prismatic Services Ltd., Keppel FELS Ltd., Keppel FELS Brasil S.A., and BrasFELS S.A., in relation to alleged irregularities under the Brazilian Anti-Corruption Statute, and appointed two CGU officials to form a panel to preside over the proceedings. The Company has been advised that, following the issuance of the Notice, the CGU would carry out further internal investigations, and the panel has to thereafter decide whether any summons is to be served on the defendants, and if so, the defendants will then have 30 days thereafter to file a defence. Neither the Notice nor any summons has been served on any of the foregoing entities to-date.

The Notice does not provide any factual particulars and the Company is therefore currently unable to assess the matter or its impact, if any. The Company understands from CGU that the AEP will not affect the ongoing negotiations with the Brazil authorities, and that the AEP has been suspended pending these ongoing discussions.

Over the course of the DPA reporting period, Keppel Group continued its remediation efforts and implemented significant compliance enhancements across its businesses. Keppel O&M's successful completion of the DPA reflects Keppel Group's ongoing commitment to ethics, integrity and robust controls in all its business operations. In 2019, Keppel O&M successfully achieved global certification for the ISO 37001 Anti-Bribery Management System, and Keppel is progressively implementing the same standard throughout the Group.

Anti-bribery and corruption compliance audits were also performed on entities within the Keppel O&M Group. These audits revealed that the enhanced policies and procedures put in place to-date were, in general, functioning as intended. The results of the audits performed in 2020 were satisfactory with no adverse findings requiring follow-up actions.

Based on currently available information, no additional provision was made in relation to the ongoing discussions with the specified Brazilian authorities.

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 profit and loss account, determined annually by independent professional valuers on the highest and best use basis except for significant investment properties which are revalued on a half-yearly basis.

For the purpose of the financial statements for the year ended 31 December 2020, valuations were obtained from the valuers for the Group's investment properties, and the resultant fair value changes were recognised in the profit and loss account.

In determining the 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, price of comparable plots and properties, net initial yield and discount rate. The valuation reports obtained from independent valuers for certain properties have highlighted the heightened uncertainty of the COVID-19 outbreak and material valuation uncertainty where a higher degree of caution should be attached to the valuation than would normally be the case. Accordingly, the valuation of these investment properties may be subjected to more fluctuation than during normal market conditions.

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 of stocks represents the estimated selling price for these stocks less all estimated cost of completion and costs necessary to make the sale.

As at 31 December 2020, stocks under work-in-progress amounted to $1,072,890,000 (after a provision of $41,508,000 recognised in FY 2020 and $50,000,000 in prior years). This amount included a balance of $447,337,000 which were transferred from contract assets during FY 2020 as described in Note 2.28(b)(vi) – Termination of Two Mid-Water Semisubmersible Drilling Rig Contracts.

The assessment of the carrying value of these stocks were performed in conjunction with the recoverability assessment of contract assets based on a VIU approach as described in Note 2.28(b)(ii).

Based on the results of the assessments, the Group recognised an impairment provision of $41,508,000 on stocks under work-in-progress during the financial year ended 31 December 2020.

The valuation of these stocks under work-in-progress based on estimated VIU are most sensitive to discount rates and dayrates.

- An increase of 1% of the discount rate would result in an impairment of approximately $158,000,000 (31 December 2019: $nil).
- A decrease in dayrates of US$5,000 per day across the entire asset life of 25 years would result in an impairment of approximately $21,000,000 (31 December 2019: $nil).

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 estimates and assumptions used are subject to risk and uncertainty in view of the economic uncertainty brought about by the COVID-19 pandemic. 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.