INTERVIEW WITH THE CEO

LOH CHIN HUA Chief Executive Officer

GUIDED BY VISION 2030, WE WILL GROW KEPPEL AS AN INTEGRATED BUSINESS PROVIDING SOLUTIONS FOR SUSTAINABLE URBANISATION, WITH SUSTAINABILITY AT THE CORE OF OUR STRATEGY.

Q 2020 was a very challenging year. Beyond the financial impact, how has the COVID-19 pandemic changed Keppel's outlook and strategy?

A COVID-19 caused considerable human suffering and disruption to the global economy. But it also engendered fast and furious experimentation the world over, giving rise to new ways of working and new business models. Keppel was fortunate to have embarked on our digitalisation journey a few years ago, which allowed us to transit quickly to working from home, or from almost anywhere.

In May 2020, despite the pandemic, we unveiled Vision 2030, our long-term roadmap to grow and transform Keppel into an integrated business providing solutions for sustainable urbanisation. We will focus on four key areas, namely Energy & Environment, Urban Development, Connectivity and Asset Management, all part of a connected value chain, while putting sustainability at the core of our strategy.

The macrotrends that Vision 2030 seeks to address, such as rapid urbanisation, the energy transition, climate change, digitalisation and super liquidity, were identified pre-COVID-19 but remain highly relevant today. If anything, some of these trends have been further accelerated by the pandemic, and we have to act quickly and decisively to transform and seize opportunities.

With a sharpened business focus and an asset-light model, we will take a disciplined approach to capital allocation, and proactively unlock capital that can be recycled into growth opportunities. As part of our Vision, we have identified a group of assets with a carrying value of $17.5 billion that can potentially be monetised over time. These assets do not include our key business platforms or fixed assets such as the yards that we operate, nor do they include some of the units that we hold in the REITs and business trust to align interests with their Unitholders.

We have set ourselves the target to monetise about $3–5 billion of this substantial asset pool over the next three years, which will provide the balance sheet space for us to invest in the many exciting growth opportunities we have identified across our business lines.

Q Vision 2030 seems quite far out. How will Keppel keep up the energy and momentum? Are there plans to bring the targets forward?

A Vision 2030 has been well-received by our stakeholders, and also the investment community. But I have sometimes been asked, "Why 10 years? Does Keppel plan to take this long to realise the Vision?"

2030 was chosen to give our younger leaders a longer runway to boldly re-imagine a Future Keppel, unencumbered by our current areas of businesses. It is not our intention to take a decade to execute the Vision. Now that we have determined our future direction, we will accelerate the execution of our Vision. Internally, we have adopted a rallying cry of "2030 by 2025". Most initiatives can be achieved by 2025, although some may take a bit longer.

To monitor and drive the implementation of Vision 2030, we established a Transformation Office and also launched a 100-day plan at end-September 2020 with the goal of expediting our plans and invigorating Keppelites with the excitement and urgency of a Day-1 company.

Our 100-day plan yielded very encouraging results. During this time, we announced over a dozen different initiatives, including asset monetisation as well as growth initiatives, such as securing new offshore and onshore renewables projects, growing our urban development business, and launching new funds aligned to Keppel's areas of business. Significantly, we announced over $1.2 billion in divestments between October and December 2020, putting us well on track to achieving our three-year target of $3–5 billion. In line with our sharpened business focus and financial discipline, we also carried out a strategic review of our offshore & marine (O&M) business.

With the conclusion of the 100-day plan, we are pursuing the next waves of initiatives. In the year ahead, we will continue our asset monetisation programme as we recycle capital into new opportunities and growth engines. We will not stop at the $3–5 billion monetisation target. If conditions are favourable, we will continue to do even more.

Q Can you share the thinking behind the strategic review of Keppel's O&M business? Are you still considering inorganic options?

A The intense headwinds faced by the O&M industry have been accelerated over the past year, with the Group taking $952 million of impairments in FY 2020, mainly in the O&M business. Quite clearly, business as usual is not an option. It is thus critical to have a good organic plan that we can work on immediately to tackle the pressing challenges facing Keppel O&M, even as we explore inorganic options.

We believe that we have a very compelling plan for the organic transformation of Keppel O&M. It would not only enhance Keppel O&M's competitiveness and relevance amidst the energy transition but also bring the company more in line with Keppel's Vision and Mission. The Group will also benefit from Keppel O&M's sharpened focus and capabilities as we provide diverse solutions for sustainable urbanisation. Should we decide in future to undertake inorganic actions, the organic restructuring of Keppel O&M would also enhance its attractiveness to other parties.

Q What are some of the opportunities arising from the restructuring of Keppel O&M?

A The bold organic transformation of our O&M business will see us seizing opportunities in the energy transition and contributing further up the value chain, in line with Vision 2030. Through the restructuring, we aim to create a slimmer and more competitive Keppel O&M that is people- and asset-light. In creating the three different parts of the business, Rig Co, Dev Co and Op Co, we have ring-fenced the legacy assets and will contain any further capital outflow beyond the initial funding, as we work towards resolving this legacy issue.

In the meantime, Op Co, undistracted by the legacy assets, can focus on transforming the rest of Keppel O&M to be a developer and integrator of offshore energy and infrastructure assets, focusing on higher value aspects such as design, engineering and procurement. It will exit the offshore rigbuilding business, and progressively withdraw from low value-adding repairs and other activities with low bottom-line contribution.

In positioning Op Co higher up the value chain as a developer and integrator, we may not need the same yard capacity and footprint. In this respect, Op Co will review and streamline its yard operations, including repurposing the yards for other uses. Op Co will also work towards creating higher value-adding jobs, while subcontracting the more labour-intensive work to third parties, including other yards.

With the energy transition, there will be a stronger push in the energy mix for renewables and cleaner fuels like liquefied natural gas. Keppel O&M has a good head start in this respect, with gas and renewables solutions making up over 80% of its net orderbook of $3.3 billion at the end of 2020. Keppel O&M will continue to build on this traction to invest in new capabilities that will enable it to seize new opportunities. These include renewables, gas solutions, production assets such as Floating Production Storage and Offloading units, as well as new energy solutions like hydrogen and tidal energy.

Keppel announced the monetisation of over $1.2 billion of assets from October to December 2020, including Keppel Bay Tower in Singapore, and is well on track to achieving the Group's 3-year target.

The bold organic transformation of our O&M business will see us seizing opportunities in the energy transition and contributing further up the value chain.

We will also explore how Keppel O&M's offshore rig technology can be repurposed for other uses, including collaborating with other Keppel business units to offer diverse urbanisation solutions such as offshore and nearshore infrastructure and floating data centre parks.

I am confident that over time, Keppel O&M will be transformed into a nimble industry leader that is well-positioned for the global energy transition and also a strong contributor to the Group's target Return on Equity (ROE) of 15%.

Q What about the logistics business? What is the rationale for divesting the business when global demand for logistics seems to be growing, especially during the pandemic?

A It is true that the logistics business has been a beneficiary of the COVID-19 pandemic. We have seen strong growth in the demand for urban logistics and channel management. The decision to divest, however, is in line with the more focused and disciplined approach towards capital allocation which we have committed to as part of Vision 2030.

We believe we have a good logistics business, but it is currently subscale. While it is possible for us to invest more capital and grow the business over the long term, we believe that a third party may be able to provide a better eco-system to scale up the business. Thus far, we have received strong interest from potential buyers. We are currently evaluating the bids and have shortlisted a few parties for deeper engagement. We are keeping our options open and may decide either to divest our logistics business completely or continue holding a minority stake.

Q You have spoken about making sustainability a business for Keppel as part of Vision 2030. What are some of the key initiatives and developments on this front?

A We believe that our shareholders, as well as investors of our private funds, appreciate companies like Keppel, who embrace sustainable practices, and can also provide innovative solutions that contribute to a greener and better world. We are also seeing growing interest from other stakeholder groups, including governments and customers, to work with us on different infrastructure and urban development projects that contribute to a more sustainable future.

We are applying the lens of sustainability to the Group's major investment decisions. With the risks and impact of climate change becoming more evident, we have introduced a shadow carbon price in the evaluation of all major investments. This would help us better understand the carbon footprint of our business activities and the possible impact of future carbon taxes, and also avoid potential stranded assets.

Over and above running our business in a sustainable and environmentally responsible manner, we see Keppel playing a significant role in helping businesses and communities become more sustainable through the solutions that we provide. Beyond the solutions that Keppel is already well-known for, such as waste-to-energy (WTE) and water solutions, district cooling plants, green buildings and townships, we are pushing boundaries to explore and develop new solutions that can contribute to combatting climate change, while also opening up new profit pools for the Group.

Under the auspices of the National Research Foundation, Keppel Data Centres Holding (KDCH) joined hands with several industry leaders to develop the first end-to-end decarbonisation process in Singapore that can help reduce carbon intensity across key sectors such as energy, chemicals and construction. Such carbon capture, utilisation and sequestration technologies can potentially be implemented in KDCH's own operations, as well as various parts of Keppel to create cleaner products and solutions that help to advance climate action and the circular economy. In the same vein, we are exploring floating data centre technologies as well as other innovative solutions including a cold energy harnessing facility and a hydrogen powered tri-generation plant to reduce the carbon footprint of data centres.

Detailed engineering of an offshore wind farm substation.

The new Keppel O&M will focus on higher value-adding work as a developer and integrator of offshore energy and infrastructure.

The Tuas Nexus Integrated Waste Management Facility, to be developed by a Keppel-led consortium, will contribute to Singapore's sustainable urbanisation.

We are also advancing our presence in the renewables space as a developer, owner and operator of renewable energy infrastructure. In December 2020, Keppel Renewable Energy announced the development of a large-scale, greenfield solar farm in Queensland, Australia. To be completed in 2023, the 500MW solar farm will be connected to the national energy market for consumers and also businesses seeking sustainable energy solutions, including Keppel-related companies in Australia. We have announced a target to expand the Group's portfolio of renewable energy assets to 7GW by 2030.

Collectively, our expertise in green data centre technologies and ability to tap renewable energy puts Keppel in a good position as we work with the authorities in Singapore and other countries to develop new low carbon data centres, as well as with our customers who are increasingly focused on sustainability. What I have shared are just a few examples of the many exciting opportunities that we see in various parts of our business. There would be even more growth opportunities, new profit pools and synergy unleashed as we link up our varied offerings and solutions across an integrated value chain as *OneKeppel*.

Q Keppel had secured WTE and district cooling contracts worth about $2.1 billion in 2020. What are some of the key opportunities ahead?

A Keppel Infrastructure continued to grow as a steady contributor to the Group. In 2020, Keppel Infrastructure secured $2.1 billion worth of WTE and district cooling contracts across Singapore, India and Thailand. Some of these come with long concessions of 20–30 years, adding to the visibility of recurring income from the operation and maintenance of the assets.

At the end of June 2020, commercial operations began at Keppel Marina East Desalination Plant (KMEDP). KMEDP was officially inaugurated by Singapore's Prime Minister Lee Hsien Loong on 4 February 2021. It was a proud moment for Keppel, having contributed to strengthening Singapore's water security with an asset that will also provide a steady stream of operating income and cashflow over the next 25 years.

Meanwhile, site works for Singapore's first Integrated Water and Solid Waste Treatment Facility, Tuas Nexus, commenced in September 2020. Over in Hong Kong, we continued to make progress on the construction of the integrated waste management facility project, albeit at a slower pace due to disruptions from the COVID-19 pandemic. As at October 2020, Keppel Electric was the leading Open Electricity Market retailer with an approximate 23% market share of residential consumers in Singapore.

We expect to see continuing urbanisation in the post COVID-19 world, which will present substantial opportunities for Keppel across our spectrum of energy and environmental infrastructure solutions. With the launch of new funds such as the Keppel Asia Infrastructure Fund (KAIF), we are well-positioned to seize growth opportunities and scale the business in partnership with co-investors, and without relying just on our own balance sheet.

Q What is the outlook for the property business and how is Keppel adapting to the changing landscape?

A Of the approximately $17.5 billion of monetisable assets that we have identified across the Group, about 30% or $5.3 billion comprises our quality residential landbank and residential development projects that are held at cost.

The strategy of activating our sizeable landbank has served us well. For the whole of 2020, Keppel Land announced asset divestments of about $1.3 billion. This includes four residential projects across China and Vietnam, which are equivalent to about 8,200 units sold en-bloc, over and above the 3,340 homes that Keppel Land sold in the normal course of business during the year.

The progress in capital recycling also reflects the discipline we have instilled in the business to evaluate and turn our assets regularly. We have shared earlier that Keppel Land's revalued net asset value (RNAV) was $10.3 billion at the end of 2018. This was approximately $5.68 per share of Keppel Corporation, which represents a good premium compared to its book value of about $4.49 per share then. The RNAV of Keppel Land had edged up further in our last internal evaluation in early-2020. In many Asian cities where land prices have risen significantly, we are well-placed to realise the true value of our assets by divesting some of our land parcels or projects, while working with like-minded partners to co-develop others.

From time to time, we may still acquire land plots, but only when it makes sense. Through Keppel Urban Solutions (KUS), we will also be seeking opportunities as a horizontal master developer for integrated townships. KUS will work with other technology and solutions providers to create new smart districts, towns and cities. Keppel Land can develop some of the plots vertically into homes, offices and commercial spaces. In a sense, creating developable land from large tracts of raw land, by leveraging the Group's capabilities in energy, environmental engineering, urban development and connectivity, will ultimately provide better margins. KUS can also bring in other property developers to provide more diversity in the design and construction of the cityscape. We will also stay nimble, and focus on acquiring new capabilities and business models, such as in co-living and co-working, to address the new opportunities ahead, including the evolution of real estate as a service.

Q What is the outlook for the data centre business?

A As the world becomes more digitalised and connected, the demand for data centres will continue to grow rapidly. Our data centre business has been a foremost example of the potential and multiplier effect that our various business units have when they collaborate with one another to create better, smarter solutions.

KDCH, together with the private data centre funds under Keppel Capital and also Keppel DC REIT, generated total earnings of about $598 million, on average shareholders' funds of about $382 million since 2014. This does not include the approximately $541 million premium over the carrying value of Keppel's stake in Keppel DC REIT as at 31 December 2020.

Alpha Data Centre Fund (Alpha DC Fund), a collaboration between KDCH and Keppel Capital, has grown its portfolio to have over 1.38 million square feet of gross floor area in key economic centres across Asia Pacific and Europe. During the year, Alpha DC Fund announced that it was investing about RMB1.5 billion for a greenfield data centre development in Huizhou, Guangdong Province. This marked Keppel's first data centre development in mainland China.

M1 has increased its market share to have the second largest postpaid base in Singapore, based on both the number of customers and revenue.

Following the success of Alpha DC Fund, we have launched the US$1 billion Keppel Data Centre Fund II (KDC Fund II) and raised more than US$500 million as at December 2020. KDC Fund II will focus on making strategic investments in fast-growing cities across Asia Pacific and Europe, widening our presence in these markets.

As we expand our data centre business in collaboration with third-party investors, we will continue to draw on our engineering nous as well as the Group's diverse capabilities to create greener solutions and better assets that will be valued by our customers and investors.

Q Can you talk about M1's progress since its privatisation? What kind of opportunities does the securing of a 5G standalone licence in Singapore open up for the Group?

A M1 has been contributing meaningfully to the Group since its privatisation. The company has performed commendably over the past year in spite of COVID-19, increasing its market share to have the second largest postpaid base in Singapore, based on both the number of customers and revenue.

A significant milestone in 2020 was the securing of a 5G standalone (SA) licence jointly with StarHub. The sharing of resources with StarHub will enable M1 to provide 5G services at an affordable cost to consumers and businesses. Presently, M1 is in the process of rolling out its 5G SA network and has gained swift traction by becoming Singapore's first telco to open up 5G access to all its customers, without any restrictions on the number of sign-ups or plans.

The real benefits of 5G however, extend beyond faster download speed for consumers to enabling the low latency and network slicing that have vast applications for industries and businesses. To this end, M1 has been actively collaborating with industry leaders as well as government agencies to conduct trials of 5G use cases that will help to advance Singapore's smart nation ambition.

For instance, M1 is partnering IBM, Infocomm Media Development Authority and Samsung to conduct Singapore's first 5G Industry 4.0 trial that aims to demonstrate the transformative impact of 5G for enterprises. 5G's capabilities such as faster data transfer and more rapid response times, when coupled with other transformative technologies like artificial intelligence, can enable significant improvements to production, service, quality control and testing across a broad range of industries. M1 is also collaborating with DBS to jointly develop digital banking solutions and provide bundled services to large corporates and small-to-medium enterprises.

M1's expanding capabilities are a strong complement to the Group's business operations as well as diverse solutions for sustainable urbanisation. Whether in Singapore or overseas, we can leverage M1's data analytics capabilities to glean actionable insights that can be applied in our master development projects and smart cities, and to provide connectivity to the increasing number of smart assets, leveraging both Internet of Things and Industrial Internet of Things. This greatly amplifies the possibilities, and also the potential for unlocking synergy as our business units collaborate as *OneKeppel*.

Q The Asset Management business has achieved good traction in 2020, in spite of the pandemic. Why is this so, and can you talk about the opportunities that excite Keppel?

A Our Asset Management business serves as a financial twin to our other segments, providing funding and opportunities for monetisation once a solution is commercialised, de-risked and cashflow generative. In FY 2020, our Asset Management business was the second largest contributor to the Group (after Urban Development), with a net profit of $280 million for FY 2020, which included a mark-to-market gain of $131 million from the reclassification of the Group's interest in Keppel Infrastructure Trust from an associated company to an investment.

2020 was a prolific year for Keppel Capital, which launched a series of new private fund initiatives across data centres, education, infrastructure, logistics, mezzanine debt and real estate, and raised total equity of about $4.5 billion from global institutional investors. While COVID-19 imposed restrictions on travel, Keppel Capital was able to leverage its strong network and overseas offices to continue engaging investors. During the year, Keppel Capital completed over $7 billion worth of acquisitions and divestments and saw a healthy increase in asset management fees. By end-2020, Keppel Capital's assets under management had risen to $37 billion, a 12% growth over $33 billion in the year before.

These achievements not only reflect strong demand from investors for assets with long-term sustainable cashflow, but also their desire to work with Keppel Capital, which is part of the larger Keppel Group and eco-system. The Group's capabilities in creating and operating real assets are an attractive proposition for the investors of Keppel Capital's funds. Another added advantage that Keppel has is our established platform consisting of listed REITs and a business trust that can help to monetise these assets when they have been de-risked and are cashflow generating.

As we continue to advance our asset-light model, gains from the monetisation of assets would add to the pool of profits from which we pay out dividends.

Keppel, as co-investor and sponsor in these private funds and listed vehicles, has also benefitted from this virtuous cycle of value creation. In FY 2020, our stakes in the various private funds and listed trusts yielded $195 million in net contributions to the Group. In addition, the private funds, such as KAIF and KDC Fund II, enable us to scale our business by tapping third-party funds while reducing the burden on our balance sheet. And as we continue to provide services, such as development, operation and maintenance or asset management, these various sources of fees will give us multiple bites of the cherry and contribute towards growing the Group's recurring income.

Q What are the plans to allocate the capital unlocked from the asset monetisation programme? Will the Company consider giving special dividends to shareholders?

A An integral part of Vision 2030 is to have a more disciplined approach to asset allocation. We have in place a set of metrics, and will prudently assess each investment based on its ability to meet the Group's ROE target, scalability, the potential for synergy and creation of new profit pools, and also alignment with our Vision, Mission and environmental, social and governance goals.

Funds unlocked from the monetisation of assets would initially go toward reducing our net gearing. This is already taking place, and we have seen our net gearing lower from 1.0x as at end-June 2020 to 0.91x as at end-2020. Looking ahead, we will also have funding requirements for our growth initiatives. There are a number of exciting areas across our segments including renewable energy, environmental solutions, data centres, smart and connected urban developments, as well as asset management.

We recognise that dividends are important to our shareholders. Even though 2020 was a difficult year, the Board has proposed a final dividend of 7.0 cents per share, taking into consideration metrics such as the free cash inflow.

As we continue to advance our asset-light model, gains from the monetisation of assets would add to the pool of profits from which we pay out dividends. We will also explore how best to create value with the surplus funds unlocked. This could include returning some capital to shareholders over time, particularly in periods where growth opportunities may be fewer or priced inappropriately.

Q How is Keppel developing its people to drive the achievement of Vision 2030?

A To achieve Vision 2030, we need to have the right people, with the right mindsets and skillsets, who are agile and ever-ready to learn and adapt in this fast-changing world.

I am heartened to see that despite the challenging external environment, we continue to have a high employee engagement score of 87%; higher than Mercer's global average of 80%. In the same survey, more than 90% of Keppelites indicated that they were motivated to do more than what was required to help the Company succeed.

We are committed to leadership development and succession planning, which are pivotal to the long-term success of any company. We have announced leadership renewal in several key business units, which took effect from 15 February 2021. These next generation leaders were personally involved in formulating Vision 2030 and will work together with the rest of the Group in pursuit of our common vision.

In 2020, we were honoured to be named again by Forbes as one of the World's Best Employers. We will continue to invest in training and developing our employees, to allow them to reach their full potential.

Despite the impact of COVID-19, I am cautiously optimistic about the future. We will continue to build on our strengths, harness technology and promote collaboration as *OneKeppel*, as we work towards the achievement of Vision 2030.