

Independent Auditor's Report

to the Members of Keppel Ltd. (formerly known as Keppel Corporation Limited)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our Opinion

In our opinion, the accompanying consolidated financial statements of Keppel Ltd. (formerly known as Keppel Corporation Limited) ("the Company") and its subsidiaries ("the Group") and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 ("the Act"), Singapore Financial Reporting Standards (International) ("SFRS(I)s") and International Financial Reporting Standards ("IFRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2023 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the financial year ended on that date.

What we have audited

The financial statements of the Company and the Group comprise:

- the balance sheets of the Group and of the Company as at 31 December 2023;
- the consolidated profit or loss account of the Group for the financial year then ended;
- the consolidated statement of comprehensive income of the Group for the financial year then ended;
- the consolidated statement of changes in equity of the Group for the financial year then ended;
- the statement of changes in equity of the Company for the financial year then ended;
- the consolidated statement of cash flows of the Group for the financial year then ended; and
- the notes to the financial statements, including material accounting policy information.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year ended 31 December 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
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| <p>1. Accounting and fair valuation of notes receivables arising from the completion of the Asset Co Transaction (Refer to Notes 2.27(b)(vii) and 16 to the financial statements)</p> <p>Arising from the completion of the Asset Co Transaction on 27 February 2023, the Group subscribed to notes amounting to approximately \$4,251,144,000 issued by Rigco Holding Pte Ltd ("Rigco"), which bear interest of 4.0% per annum and the interest is payable annually in arrears for a tenure of 12 years, with an option held by Rigco to extend the maturity date by an additional 3 years ("vendor notes"). Details of the Asset Co Transaction are disclosed in Note 16 to the financial statements.</p> <p>These vendor notes issued by Rigco are classified as financial assets carried at fair value through profit or loss. Given the unique business and risk profile of Rigco, the transaction price of the vendor notes was assessed to not represent the fair value on initial recognition. The fair value of the vendor notes amounted to \$3,003,599,000 at initial recognition. As the fair value of the vendor notes is neither evidenced by a quoted price in an active market (i.e. Level 1 input) nor based on a valuation technique that uses only data from observable markets, the difference of \$1,247,545,000 between the fair value at initial recognition and the transaction price was deferred ("deferred loss"). This deferred loss is amortised using a straight-line method over the expected tenor of 7 years based on the projected repayment of the vendor notes in Rigco's business plan, or recognised in the profit or loss when there are observable market inputs, or when there is a redemption of the vendor notes.</p> <p>Management engaged an independent professional advisor to assist in the determination of the fair value of the vendor notes, which is based on the Discounted Cash Flow ("DCF") calculations using the estimated cash flows available for repayment of the vendor notes, derived based on a probability weighted range of scenarios per Rigco's business plan and financial projections. In addition to the independent professional firm responsible for estimating the fair value based on the DCF calculations and calculating the discount rates, management also relied on an independent industry expert engaged separately by Rigco to provide the estimated future rig sale values used in the financial projections, taking into consideration the market outlook, assumptions and industry parameters.</p> <p>As at 31 December 2023, the carrying value of the vendor notes, measured at fair value, amounted to \$4,286,354,000 which included an unamortised deferred loss amounting to \$1,107,501,000.</p> | <p>We evaluated the appropriateness of management's accounting treatment of the vendor notes, including the conclusion reached on the deferred loss.</p> <p>We reviewed management's estimation of the fair value of the vendor notes. We also assessed the appropriateness of key assumptions. Our procedures included:</p> <ul style="list-style-type: none"> • Obtained the business plan and financial projections of Rigco and validated the inputs applied by management in the DCF calculations. • Involved our valuation expert to review the DCF methodology and the discount rate used by management. • Evaluated the competency and experience of the independent professional firm and the industry expert who had assisted management in the valuation of the vendor notes. • Held discussions with the independent industry expert to gain an understanding on the approach adopted in estimating the future rig sale values used in the financial projections including the market outlook and industry parameters. <p>Based on our procedures, we found management's key judgements and estimation of the fair value of the vendor notes to be reasonable.</p> <p>We also considered the adequacy of the disclosures in the financial statements in respect of this matter and found the disclosures in the financial statements in respect of the key judgements and sources of estimation uncertainty to be adequate.</p> |

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| <p>1. Accounting and fair valuation of notes receivables arising from the completion of the Asset Co Transaction (continued) (Refer to Notes 2.27(b)(vii) and 16 to the financial statements)</p> <p>We focused on this area because of the complexity in the accounting of the vendor notes and the significant judgement required in:</p> <ul style="list-style-type: none"> Assessing the extent and significance of unobservable inputs used in the valuation of the vendor notes which determined the accounting for the deferral of the loss on initial recognition. Estimating the fair value of the vendor notes as the inputs to the valuation are not market observable. Such inputs and assumptions used in the valuation include estimated future rig sale values, dayrates, cost assumptions, utilisation rates, discount rates, duration of charters and estimated timing of future rig sales. These inputs are subject to high estimation uncertainty. The valuation of the vendor notes based on the DCF calculations was most sensitive to discount rates and the estimated future rig sale values. | |
| <p>2. Revenue recognition based on measurement of progress towards performance obligation (Refer to Notes 2.27(b)(ii), 24 and 26 to the financial statements)</p> <p>During the financial year, the Group recognised \$382 million of revenue from continuing operations from long-term engineering contracts ("construction contracts"). The Group recognises revenue over time by reference to the Group's progress towards completing the construction of the contract work.</p> <p>The stage of completion was measured by reference to the proportion of contract costs incurred to date to the estimated total contract costs.</p> <p>When it is probable that the costs of a contract will exceed the contract revenue, the expected loss is recognised as an expense immediately. As at 31 December 2023, management assessed that for some projects, total contract costs of each project would exceed the total contract sum. Costs yet to be incurred for these projects as at 31 December 2023 had been included in provision for onerous contracts amounting to \$47 million as presented in Note 24.</p> <p>We focused on this area because of the significant management judgment required in:</p> <ul style="list-style-type: none"> the estimation of the expected completion dates of the contracts, including expectations of any potential delays; and the estimation of total costs on the contracts, including contingencies that could arise from variations to original contract terms, and claims. | <p>In respect of construction contracts where progress was measured based on the proportion of contract costs incurred to date to the estimated total contract costs, we evaluated the effectiveness of management's controls over the estimation of total costs and assessed the reasonableness of key inputs in the cost estimation. We tested the appropriateness of estimated costs by comparing these against actual costs incurred.</p> <p>We then recomputed the revenues recognised for the current financial year based on the respective percentage of completion and traced these to the accounting records.</p> <p>In relation to total contracts costs, we:</p> <ul style="list-style-type: none"> validated costs incurred by tracing to supplier invoices or subcontractor progress billings; reviewed management's estimates of cost-to-complete for projects that were in-progress at the year end, by agreeing the costs to quotations and contracts entered for subcontracting costs and reviewing the estimation of construction costs with reference to the remaining activities of the projects, including the consideration for the expectation of potential delays and cost escalations; and reviewed claims from suppliers and subcontractors and traced to the recording of the costs. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
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| | <p>We assessed the need for provision for liquidated damages via discussions with management and project managers and examination of project documentation.</p> <p>We also considered the adequacy of the Group's disclosures in respect of this matter.</p> <p>Based on our procedures, we found assumptions made in the measurement of the progress of construction contracts and the estimation of total contract costs to be reasonable. We also found the disclosures in the financial statements to be adequate.</p> |
| <p>3. Valuation of properties held for sale <i>(Refer to Notes 2.27(b)(v) and 18 to the financial statements)</i></p> <p>As at 31 December 2023, the Group has residential properties held for sale of \$2,053 million mainly in China, Singapore, Indonesia and Vietnam.</p> <p>Properties held for sale are stated at the lower of cost and net realisable values. The determination of the carrying value and whether to recognise any foreseeable losses for properties held for sale is highly dependent on the estimated cost to complete each development and the estimated selling price.</p> <p>For certain development projects, fair values based on independent valuation reports are used to determine the net realisable value of these properties.</p> <p>We focused on this area as significant judgment is required in making estimates of future selling prices and the estimated cost to complete the development project. In instances where independent valuation reports are used, the valuation process involves significant judgment in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied in deriving the discount rate and price of comparable plots and properties.</p> <p>Continued unfavourable market conditions in certain markets in which the Group operates might exert downward pressure on transaction volumes and residential property prices. This could lead to future trends in these markets departing from known trends based on past experience. There is, therefore, a risk that the estimates of carrying values at the date of these financial statements exceed future selling prices, resulting in losses when the properties are sold.</p> | <p>We found that, in making its estimates of future selling prices, the Group took into account macroeconomic and real estate price trend information in the estimates. Management applied their knowledge of the business in their regular review of these estimates.</p> <p>We corroborated the Group's forecast selling prices by comparing the forecast selling price to, where available, recently transacted prices and prices of comparable properties located in the same vicinity as the properties held for sale.</p> <p>We compared management's budgeted total development costs against underlying contracts with vendors and supporting documents. We discussed with the project managers to assess the reasonableness of estimated cost to complete and corroborated the underlying assumptions made with our understanding of past completed projects.</p> <p>For projects where management has used independent valuation reports as a basis to determine the net realisable value, we evaluated the qualifications and competence of the external valuers and considered the valuation methodologies used against those applied by other valuers for similar property type. We tested the reliability of inputs used in the valuation and corroborated key inputs such as the discount rate and price of comparable plots and properties used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors. Where the inputs were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the valuers.</p> <p>We focused our work on development projects with slower than expected sales or with low or negative margins. For projects which are expected to sell below cost, we checked the computations of the foreseeable losses.</p> <p>We also considered the adequacy of the disclosures in the financial statements, in describing the allowance for foreseeable losses made for properties held for sale. Based on our procedures, we were satisfied that management's estimates and assumptions were reasonable. We also found the related disclosures in the financial statements to be adequate.</p> |

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| <p>4. Valuation of investment properties <i>(Refer to Notes 2.27(b)(iv) and 8 to the financial statements)</i></p> <p>As at 31 December 2023, the Group owns a portfolio of investment properties of \$4,665 million comprising mainly office buildings, hotels, retail malls and mixed-use development projects, located primarily in China, Singapore, Indonesia and Vietnam.</p> <p>Investment properties are stated at their fair values determined by independent professional property valuers.</p> <p>We focused on this area as the valuation process involves significant judgment in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied such as the capitalisation rate, discount rate, net initial yield and price of comparable plots and properties.</p> | <p>We evaluated the qualifications and competence of the independent professional property valuers. We found that the valuers engaged by management are members of recognised professional bodies for professional property valuers and they possessed the requisite competency and experience to assist management in the assessment of the valuations.</p> <p>We considered the valuation methodologies used against those applied by other valuers for similar property types in determining the valuation of investment properties. We also considered other alternative valuation methods. We found the valuation methodologies used to be in line with generally accepted market practices and the key assumptions used were within the range of market data.</p> <p>We tested the reliability of the projected cash inflows and outflows used in the valuation against supporting lease agreements, construction contracts and other documents. We corroborated other inputs such as the capitalisation rate, net initial yield, discount rate and price of comparable plots used in the valuation methodology by comparing them against historical rates and available industry data, taking into consideration comparability and market factors. Where the inputs were outside the expected range, we undertook further procedures to understand the reasons for these and, where necessary, held further discussions with the valuers.</p> <p>We also considered the adequacy of the disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions used in the estimates on the valuation of investment properties, as we consider them as likely to be significant to users of the financial statements given the estimation uncertainty and sensitivity of the valuations. We found the disclosures in the financial statements to be adequate.</p> |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
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| <p>5. Impairment assessment of goodwill arising from acquisition of subsidiary – M1 Limited (“M1”) (Refer to Notes 2.27(b)(i) and 10 to the financial statements)</p> <p>In February 2019, the Group obtained controlling interest in M1 and recognised a goodwill of \$988 million upon the acquisition.</p> <p>An annual impairment assessment has been performed on the goodwill where the recoverable amount of M1 as a Cash generating unit (“CGU”) is estimated. Where the recoverable amount of M1 is determined to be less than the Group’s carrying amount of the M1 CGU (including the goodwill), an impairment loss will be recognised.</p> <p>The recoverable value of the M1 CGU as at 31 December 2023 was determined on a VIU basis using a DCF model.</p> <p>The assessment of the VIU of M1 CGU as at 31 December 2023 required significant judgment in estimating the underlying assumptions including the revenue growth rate, long term growth rate and discount rate. Based on management’s assessment, no impairment loss was recognised as the recoverable amount was estimated to be higher than the carrying value (including goodwill) of the M1 CGU.</p> | <p>We assessed the appropriateness of the underlying assumptions made by management in their cash flow projections, including the revenue growth rate, long term growth rate and discount rate based on the economic and industry conditions relevant to M1. We checked whether the cash flow projections were based on the approved business plan. We involved our valuation expert in evaluating the valuation methodology, the long term growth rate and the discount rate applied by management.</p> <p>We assessed the sensitivity of the cash flow projections and other key assumptions including discount rate and long term growth rate on the impairment assessment and the impact on the headroom over the carrying value.</p> <p>Based on our procedures, we were satisfied that management’s estimates and assumptions used in the impairment assessment of the goodwill on acquisition of M1 were reasonable.</p> <p>We also considered the adequacy of the disclosures in the financial statements in respect of this matter. We found the disclosures in the financial statements to be adequate.</p> |

Other Information

Management is responsible for the other information. The other information comprises the Directors’ Statement (but does not include the financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and the other sections of the Keppel Ltd. (formerly known as Keppel Corporation Limited) Annual Report 2023 (“the Other Sections”), which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Other Sections, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and take appropriate actions in accordance with SSAs.

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Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act, SFRS(I)s and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Lam Hock Choon.



PricewaterhouseCoopers LLP

Public Accountants and Chartered Accountants

Singapore
1 March 2024