

**Keppel Corporation Limited 1Q 2014 Results Webcast  
Question & Answer Session  
16 April 2014, 5:30PM**

**Speakers:**

<b>LCH</b>	Loh Chin Hua, CEO of Keppel Corporation
<b>CHC</b>	Chan Hon Chew, CFO of Keppel Corporation
<b>CYY</b>	Chow Yew Yuen, CEO of Keppel Offshore & Marine
<b>AWG</b>	Ang Wee Gee, CEO of Keppel Land
<b>PT</b>	Paul Tan, Group Controller of Keppel Corporation

**Mohammad Razali, retail investor:** What is the status of the option for Petrobras for the conversion of one FPSO at your Brazil yard? Is it still valid or has the option lapsed? Similarly, what is the status of the option which Ensco has for another order of a jackup rig?

**CYY:** The option for Petrobras for the FPSO is still valid. Out of the eight newbuild FPSO hulls, Petrobras has more definitive plans for the first six FPSOs. Their plans for the seventh and eighth FPSO hulls are still unknown at this point in time. As for the option which Ensco has for another jackup rig, it is still valid.

**Peter Gylfe, Balyasny:** Any update on the FLNG contract you had talked about? Apart from that customer, have you seen others interested in FLNG as a solution?

**CYY:** We continue to be in discussion with Golar LNG on the conversion of the first FLNG vessel, and certainly there are other customers who are interested in our FLNG solution.

**LCH:** This is an area where we are looking at with great interest as it is a growth opportunity for us. This first project will be very important. As YY said, we are in advanced discussions with Golar and we will make an announcement at the appropriate time.

**Mohammad Razali, retail investor:** To date, how much is the total provision which Keppel has provided for the delayed Qatar EPC project? How is the progress of this project and do you expect any further delay?

**LCH:** We do not disclose provisions which we have made for the Qatar EPC projects. On the EPC project, as we had announced in January, it is ready for sewage but we still need to get the commissioning done. We expect to complete the project by end of this year.

**Abhijit Attavar, Jefferies:** Why is there a higher group level tax rate of 20% in 1Q2014 vs 15% last year? Infrastructure profits have dropped 40% year-on-year. Were there any provisions taken in 1Q2014? Is the Keppel Merlimau Cogen expansion project generating net profits given the sharp drop in WEP prices in 1Q2014? How do you see the outlook for the Singapore power business for 2014?

**CHC:** As mentioned earlier, there were tax write-backs last year by the Property Division, hence last year's effective tax rate was lower than 1Q this year. Infrastructure profits dropped due to provisions which were reversed in 1Q2013 which was mentioned in the presentation. Last year

in 1Q2013, we sold our power barge in Ecuador, so we reversed some provisions. As a result, this year's profits look lower by comparison.

Our Keppel Merlimau Cogen, after the expansion of its capacity, has been achieving positive returns and it is a good asset generating good profits.

Our colleagues are still working hard under challenging conditions to complete the Qatar EPC contracts within the total costs which we have provided in December 2013. While we believe at this point that the provisions are adequate, we can't be certain until those projects are completed. We did not make any provisions for 1Q2014.

**LCH:** As for the outlook of the power business, it is very competitive and a lot of supply has come on stream, but we have a very efficient new 800MW expansion to the plant which will allow us to compete effectively. At the same time, we are also improving our market share in the contestable market, and these are things we are doing to improve our business.

**Lim Siew Khee, CIMB:** How much revenue have you recognised for the first, second and third semis for Sete Brasil? Can you provide an update on your yard facility in Mexico and the six jackup contracts?

**CHC:** We have recognised about 60% for the first semi, while for the second semi we have just started to recognise revenue at 20% completion.

**CYY:** We are still in discussions with our partner in Mexico. We will provide more updates when we have finalised our negotiations.

**Gerald Wong, Credit Suisse:** The share of results of associates for O&M fell to S\$1m from S\$18m in 1Q2013. What is the reason for the decline?

**CHC:** Our OM business has a number of associates which came in with weaker results for the first quarter. One of them is FloaTEC.

**Vincent Fernando, Religare:** I noticed the tax rate has picked up during the last two quarters. What is driving higher tax rate this quarter and should we expect the current level to persist through 2014?

**CHC:** 1Q2014's effective tax rate by comparison with last year is higher due to the write-backs last year by our Property Division. The effective tax rate is very much a function of the mix in our profits. As Keppel has very diversified businesses which span across many geographical regions with different tax rates, the mix in net profits of these businesses will therefore have an impact on the effective tax rate for each reporting period.

**LCH:** I would like to add that for this quarter, our OM Division recognised earnings from overseas where the tax rates are much higher.

**Vincent Fernando, Religare:** I have heard that the Keppel Nantong yard is expanding and that it has doubled in operational size. Is this a correct characterisation?

**CYY:** Yes, in fact our Nantong yard is coming along very well. Our investment in the last one and a half years has more than doubled our operational capability in that yard.

**LCH:** I just want to add that this is part of our strategy to upgrade our sister yards in the region, that includes Nantong, Bintan and our two yards in the Philippines, to undertake more work.

**Cheryl Lee, UBS:** Regarding FloaTEC - what were the conditions which resulted in earnings being materially weaker year-on-year and Q-on-Q? On infrastructure: May we have an update on the completion status of the Manchester projects?

**PT:** FloaTEC benefitted from some variation orders for P-61 in 1Q2013. For 1Q2014, they did not have this benefit.

**LCH:** For the Manchester project, we have completed the first burn for Phase 1. We are targeting to complete Phase 1 and 2 by end of the year.

**Lee Yue Jer, DMG & Partners:** Is there any update for us on the sale of the CAN DO drillship?

**CYY:** We are not quite ready to go to the market to sell the Can Do drillship. We have just achieved strike steel and construction is progressing well. We will be able to provide more updates in a few months' time.

**Lim Siew Khee, CIMB:** What are the key reasons for your strong OP margins in O&M of 14.6% vs. 1Q2013 (14%) and 4Q2013 (14.2%)?

**CHC:** For the OP margin for the OM Division for 1Q2014, it is actually 14.2% and it is 0.2% higher compared to 1Q2013, due to a number of factors. Firstly, it is the mix in terms of profit recognition on different projects with different margins. Mix is one factor and currency too has influence on margins. The last reason is costs. We are always working to raise productivity so for 1Q2014, we have managed to achieve slightly lower costs especially for Keppel FELS' yards in Singapore. That said, we should not look at margins on a quarter-to-quarter basis. Due to the three factors mentioned, the margins can vary from quarter to quarter.

**Abhijit Attavar, Jefferies:** At current WEP prices, it seems that power producers may not be able to cover their fuel costs let alone their fixed costs. How soon do you think longer term customer contracts will also reflect the competition in the power sector? Do you expect your power business to continue to be profitable for the rest of 2014?

**LCH:** Firstly, we do not provide forward guidance on the financials of our business. As I said earlier, there is a lot of competition but so far we have been able to weather this competition well. The competition is quite intense, so we will continue to work very hard to increase our share of the contestable market. The efficiency of our plant would also be an advantage for us.

**Travis Teo, MediaCorp:** You mentioned confidence in the long-term fundamentals for the offshore and marine industry. But in the near term are you concerned about the economic growth in China and competition from the Chinese yards?

**LCH:** When you talk about economic growth in China, I suppose you are referring to the potential impact on our property business there. While the growth in China has moderated downwards in recent years, it is still a very good growth number and we think that in the medium to long term, the outlook, prospects and fundamentals of our property business in China will remain positive.

As far as the competition from the Chinese yards is concerned, in any business where there is a growing profit pool, you would expect competition to be intense. Our conditional management agreement with Titan which we have just announced would allow us to have access to the otherwise closed Chinese market.

**AWG:** We remain confident about the Chinese property market in the long term. With the rising urbanisation the Chinese government is using to spur economic growth, and with growing affluence, we see that the property sector in China will remain an interesting and lucrative business for us.

**CYY:** Competition in China would always put pressure on our pricing and payment terms, and our margins, but I think we have always emphasised on being nimble and being able to deliver projects on time and with quality. We also constantly innovate to stay ahead. With our yard in China and our partner Titan, these are additional factors which will put us in a more favourable position in the Chinese market. Before this, we were building largely for the international market, so I think that this is a good development for us.

**Cheryl Lee, UBS:** How many newbuilds achieved its first 20% milestone in 1Q2014?

**LCH:** As mentioned earlier, the first and second Sete semis have reached that milestone. We have also achieved the 20% milestone for the SOCAR semi and two jackups being built by Keppel FELS.

**Adrian Loh, Daiwa Capital Markets:** Could you please give us an idea of the condition of: 1) order enquiries for shallow and deepwater rigs - especially given commentary by US offshore drillers about weak dayrates and 2) FPSO conversions?

**CYY:** On the shallow water business, the Brent crude oil today is still at US\$107/8 a barrel and WTI is at US\$103/4 a barrel, which are still good levels. The utilisation rate for shallow water rigs are still high, currently hovering between 96% and 98%. So in our opinion, the shallow water market is still holding up well.

For the deepwater market, we are seeing a weakening of dayrates, which have dropped by about 10%. However, when we look at the reserves, numbers given by independent oil companies, oil majors and NOCs, these indicate that they are looking at reserve replacement. With the depletion rate of reserves in shallow water running fairly high, the oil companies are in fact still encouraging E&P spending albeit the spending has dropped slightly. E&P spending this year only slowed down by 1% from 7% to 6%. So we see the shallow water market softening in the near term, the next 1.5 to two years.

Having said this, we are keeping a close watch on the number of rigs, drillships in particular, which are being delivered. We believe all the newbuild rigs will be absorbed by the market in the next one to two years. Overall, the fundamentals of the deepwater market are still strong.

As for FPSO conversions, there was actually a slowdown in the 2000-2010 period due to the global economic situation. From 2011 to 2013, investments in the FPSO sector recovered and doubled that of the entire period from 2000 to 2010. Looking ahead, we expect quite a strong market for FPSOs – last year, we delivered four FPSOs and for this year, we expect to deliver between six to eight FPSOs. So the FPSO market is still quite positive for us.

**CHC:** I would like to clarify the 1Q2014 OM OP margins of 14.2% which we mentioned earlier. We adjusted the number by excluding items like gains we made from divestments of our investments. For 1Q2014, as we have a gain in the divestment of Keppel Kazakhstan which yielded a profit of \$6m, we excluded this number when we look at operating margins.

**Mohammad Razali, retail investor:** Does Keppel expect any further interest from SOCAR for more semi-sub new builds?

**CYY:** Yes, there is interest for more newbuild semis in the Caspian region and we are closely following this interest. We want to make sure we have a good understanding of the specifications required so there are some ongoing discussions on this front.

**<End of Q&A session>**