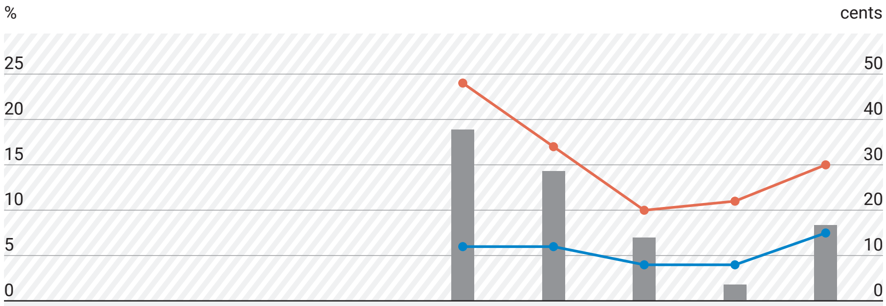
partner to complement and augment the Group's current suite of solutions, and at the same time benefit from harnessing the synergies of the Group. By end-February 2019, Konnectivity and its concert parties had obtained majority control of M1. Strong support for the Offer by M1's shareholders has resulted in M1 ceasing to have at least 10% of the total number of shares held by the public. Konnectivity will be de-listing M1 from the Main Board of the SGX-ST after the close of the Offer, and will be exercising its right to compulsorily acquire all the shares of M1 from shareholders who had not accepted the Offer.

In addition, Keppel Corporation and Keppel T&T are jointly proposing a Scheme of Arrangement to privatise Keppel T&T and provide Keppel T&T's minority shareholders with a cash exit at a compelling premium. The proposed Scheme is consistent with the Group's strategy to simplify its corporate structure, with a view to improving capital allocation and better aligning Keppel T&T's interests with the rest of the Group's.

The Group will continue to execute its multi-business strategy, capturing value by harnessing its core strengths and growing collaboration across its divisions to unleash potential synergies, while being agile and investing in the future.

ROE & Dividend



	2014	2015	2016	2017	**2018**
ROE	18.8	14.2	6.9	1.7^	**8.3**
Full-Year Dividend	48.0	34.0	20.0	22.0	**30.0**
Interim Dividend	12.0	12.0	8.0	8.0	**15.0@**

^ ROE for 2017 included the one-off financial penalty from the global resolution and related costs of $619 million and was adjusted following the adoption of the Singapore Financial Reporting Standards (International) ("SFRS(I)s").
@ Comprises an interim cash dividend of 10.0 cents per share and a special cash dividend of 5.0 cents per share.

Shareholders Returns

Return On Equity (ROE) increased to 8.3% in 2018 from 1.7% in the previous year, largely due to higher profits as net profit for 2017 included $619 million for the one-off financial penalty from the global resolution and related costs. Excluding the one-off financial penalty and related costs of $619 million from 2017, ROE was 6.9% in 2017.

The Company will be distributing a total cash dividend of 30.0 cents per share for 2018, comprising a proposed final cash dividend of 15.0 cents per share, as well as the interim cash dividend of 10.0 cents per share and the special cash dividend of 5.0 cents per share distributed in the third quarter of 2018 to commemorate Keppel's golden jubilee. Total cash dividend for 2018 represents 58% of Group net profit. Excluding the special dividend, the proposed final cash dividend together with the interim cash dividend represents 48% of Group net profit. On a per share basis, it translates into a gross yield of 5.1% on the Company's last transacted share price of $5.91 as at 31 December 2018.

Economic Value Added

In 2018, Economic Value Added (EVA) was positive $252 million as compared to negative $839 million in the previous year.

EVA

	2018 $ million	18 vs 17 +/(-)	2017^ $ million	17 vs 16 +/(-)	2016 $ million
Profit/(loss) after tax (Note 1)	**892**	909	(17)	(783)	766
Adjustment for:					
Interest expense	**198**	9	189	(36)	225
Interest expense on non-capitalised leases	**20**	(6)	26	(3)	29
Tax effect on interest expense adjustments (Note 2)	**(38)**	–	(38)	6	(44)
Provisions, deferred tax, amortisation & other adjustments	**76**	–	76	79	(3)
Net Operating Profit After Tax (NOPAT)	**1,148**	912	236	(737)	973
Average EVA Capital Employed (Note 3)	**16,539**	(2,152)	18,691	(428)	19,119
Weighted Average Cost of Capital (Note 4)	**5.42%**	(0.33%)	5.75%	(0.07%)	5.82%
Capital Charge	**(896)**	179	(1,075)	38	(1,113)
Economic Value Added	**252**	1,091	(839)	(699)	(140)

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 quarterly averages of net assets, interest-bearing liabilities, timing of provisions, present value of operating leases and other adjustments.
4. Weighted Average Cost of Capital 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% (2017: 5.0%);
   (b) Risk-free rate of 2.06% (2017: 2.41%) based on yield-to-maturity of Singapore Government 10-year Bonds;
   (c) Unlevered beta at 0.75 (2017: 0.75); and
   (d) Pre-tax Cost of Debt at 1.85% (2017: 2.30%) using 5-year Singapore Dollar Swap Offer Rate plus 60 basis points (2017: 60 basis points).

^ EVA for 2017 included the one-off financial penalty from the global resolution and related costs of $619 million and was adjusted following the adoption of SFRS(I)s.

Operating & Financial Review
Financial Review & Outlook

After taking into account the proceeds from divestments and dividend income of $1,057 million, as well as advances to associated companies of $217 million, free cash inflow was $515 million.

Total distribution to shareholders of the Company and non-controlling shareholders of subsidiaries for the year amounted to $546 million.

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 the Keppel Group Treasury Department in accordance with established policies and guidelines. These policies and guidelines are established by the Group Central Finance Committee and are updated to take into account changes in the operating environment. This committee is chaired by the Chief Financial Officer (CFO) of the Company and includes CFOs of the Group's key operating companies and Head Office specialists.

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

- The Group has receivables and payables denominated in foreign currencies with the largest exposures arising from United States (US) dollars and Renminbi. Foreign currency exposures arise mainly from the exchange rate movement 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 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/loan instruments with varying maturities. Where necessary, the Group uses derivative financial instruments to hedge interest rate risks. These may include cross currency swaps, interest rate swaps, swaptions and interest rate caps.

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

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

Borrowings
The Group borrows from local and foreign banks in the form of short-term and long-term loans, project loans and bonds. Total Group borrowings as at end-2018 were $7.5 billion (2017: $7.8 billion and 2016: $9.1 billion). At the end of 2018, 20% (2017: 22% and 2016: 20%) of Group borrowings were repayable within one year, with the balance largely repayable more than three years later.

Unsecured borrowings constituted 92% (2017: 91% and 2016: 87%) 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 $1.07 billion (2017: $1.89 billion and 2016: $2.81 billion).

Fixed rate borrowings constituted 67% (2017: 65% and 2016: 58%) of total borrowings with the balance at floating rates. The Group has cross currency swap and interest rate swap agreements with notional amount totalling $1,667 million whereby it receives foreign currency fixed rates (in the case of the cross currency swaps) and variable rates equal to SOR and LIBOR (in the case of interest rate swaps) and pays fixed rates of between 1.33% and 3.62% on the notional amount. Details of these derivative instruments are disclosed in the notes to the financial statements.

Singapore dollar borrowings represented 75% (2017: 73% and 2016: 69%) of total borrowings. The balance was mainly in US dollars. Foreign currency borrowings were drawn to hedge against the Group's overseas investments and receivables that were denominated in foreign currencies.

Cash Flow

	2018 $ million	18 vs 17 +/(-)	2017^ $ million	17 vs 16 +/(-)	2016 $ million
Operating profit	**1,043**	242	801	(100)	901
Depreciation, amortisation & other non-cash items	**(495)**	(213)	(282)	(689)	407
Cash flow provided by operations before changes in working capital	**548**	29	519	(789)	1,308
Working capital changes	**(183)**	(1,284)	1,101	1,687	(586)
Interest receipt and payment & tax paid	**(240)**	177	(417)	11	(428)
Net cash from operating activities	**125**	(1,078)	1,203	909	294
Investments & capital expenditure	**(450)**	(263)	(187)	(31)	(156)
Divestments & dividend income	**1,057**	228	829	369	460
Advances to associated companies	**(217)**	(174)	(43)	15	(58)
Net cash from investing activities	**390**	(209)	599	353	246
Free Cash Flow*	**515**	(1,287)	1,802	1,262	540
Dividend paid to shareholders of the Company & subsidiaries	**(546)**	(156)	(390)	232	(622)

* Free cash flow excludes expansionary acquisitions and capital expenditure, and major divestments.
^ 2017 financial figures have been adjusted following the adoption of SFRS(I)s.

in FY 2018, as well as the attendance of each Board member at these meetings, are disclosed in the table below.

If a director were unable to attend a board or board committee meeting, he/she would still receive all the papers and materials for discussion at that meeting. He/she would review them and advise the Chairman or board committee chairman of his/her views and comments on the matters to be discussed so that they may be conveyed to other members at the meeting.

Internal Limits of Authority: The Company has adopted internal guidelines setting forth matters that require board approval. Under these guidelines, all transactions exceeding $150 million by any Group company (not separately listed) require the approval of the Board. For transactions between $30 million and $150 million, IMPAC will determine if Board approval is required, depending on the individual considerations for each case. Each Board member has equal responsibility to oversee the business and affairs of the Company. Management on the other hand is responsible for the day-to-day operation and administration of the Company in accordance with the policies and strategy set by the Board.

Director Orientation: A formal letter is sent to newly-appointed directors upon their appointment explaining their roles, duties, obligations and responsibilities as a board director. All newly-appointed directors receive a director tool-kit and undergo a comprehensive orientation programme which includes site visits and management presentations on the Group's businesses, strategic plans and objectives.

Training: The directors are provided with continuing education in areas such as directors' duties and responsibilities, corporate governance, changes in financial reporting standards, changes in the Companies Act, continuing listing obligations and industry-related matters, so as to update and refresh them on matters that may affect or enhance their performance as board or board committee members. A training programme is also in place for directors in areas such as accounting, finance, risk governance and management, the roles and responsibilities of a director of a listed company and industry specific matters. In FY 2018, some KCL directors attended talks on topics relating to corporate governance and ethics (including case studies), cybersecurity governance, health safety and environment (HSE) performance, and macroeconomic trends. Sites visits are also conducted periodically for directors to familiarise them with the operations of the various businesses so as to enhance their performance as board or board committee members.

Board Composition and Succession Planning

Principle 2:

Strong and independent element on the Board

Board Composition and Succession Planning: To discharge its oversight responsibilities, the Board must be an effective board which can lead and control the business of the Group. There is a process of refreshing the Board progressively over time so that the experience of longer serving directors can be drawn upon while tapping into the new external perspectives and insights which more recent appointees bring to the Board's deliberation. Please refer to page 75 of this report for details on the process.

Board Independence: The NC determines on an annual basis whether or not a director is independent. In January 2019, the NC carried out the review on the independence of each non-executive director based on the respective directors' self-declaration in the Directors' Independence Checklist and their actual performance on the Board and board committees, taking into account the recent amendments to listing rules on the circumstances in which a director will not be deemed independent and guidance in the 2018 CG Code as to the circumstances in which a director should not be deemed independent.

In this connection, the NC (save for Mr Alvin Yeo who abstained from deliberation in this matter) noted that Mr Alvin Yeo is Senior Partner of WongPartnership LLP, which is one of the law firms providing legal services to the Group. Mr Yeo had declared to the NC that although he is a partner with a 5% or more stake in WongPartnership LLP, he did not involve himself in the selection and appointment of legal advisers for the Group, and that he supported the selection of legal advisers based on assessment of quality, and for their remuneration to be based on market rate. In addition, the NC noted that Keppel Infrastructure (KI) management had, of their own accord, appointed Mr Yeo as lead counsel to represent KI in its arbitration proceedings with the State of Qatar in relation to the Doha South Waste Management Centre project, based on merit and taking

Board and Committee Meetings and Attendance

		Board Committee Meetings				
	Board Meetings	**Audit**	**Nomination**	**Remuneration**	**Safety**	**Risk**
Lee Boon Yang	11	–	3	4	4	–
Loh Chin Hua	11	–	–	–	4	–
Tow Heng Tan	8	–	3	2	–	4
Alvin Yeo Khirn Hai	9	5	1	–	–	–
Tan Ek Kia	9	5	–	–	4	4
Danny Teoh	10	5	–	4	–	4
Tan Puay Chiang[1]	10	–	3	–	4	4
Till Vestring	11	–	3	4	–	–
Veronica Eng	11	5	–	–	–	4
Jean-François Manzoni[2]	3 out of 3	–	–	–	–	–
No. of Meetings Held	**11**	**5**	**3**	**4**	**4**	**4**

Notes:
1 Mr Tan Puay Chiang ceased to be a member of the Board Risk Committee with effect from 2 January 2019.
2 Prof Jean-François Manzoni was appointed to the Board as a non-executive and independent director with effect from 1 October 2018, and was appointed as a member of the Board Risk Committee on 2 January 2019.