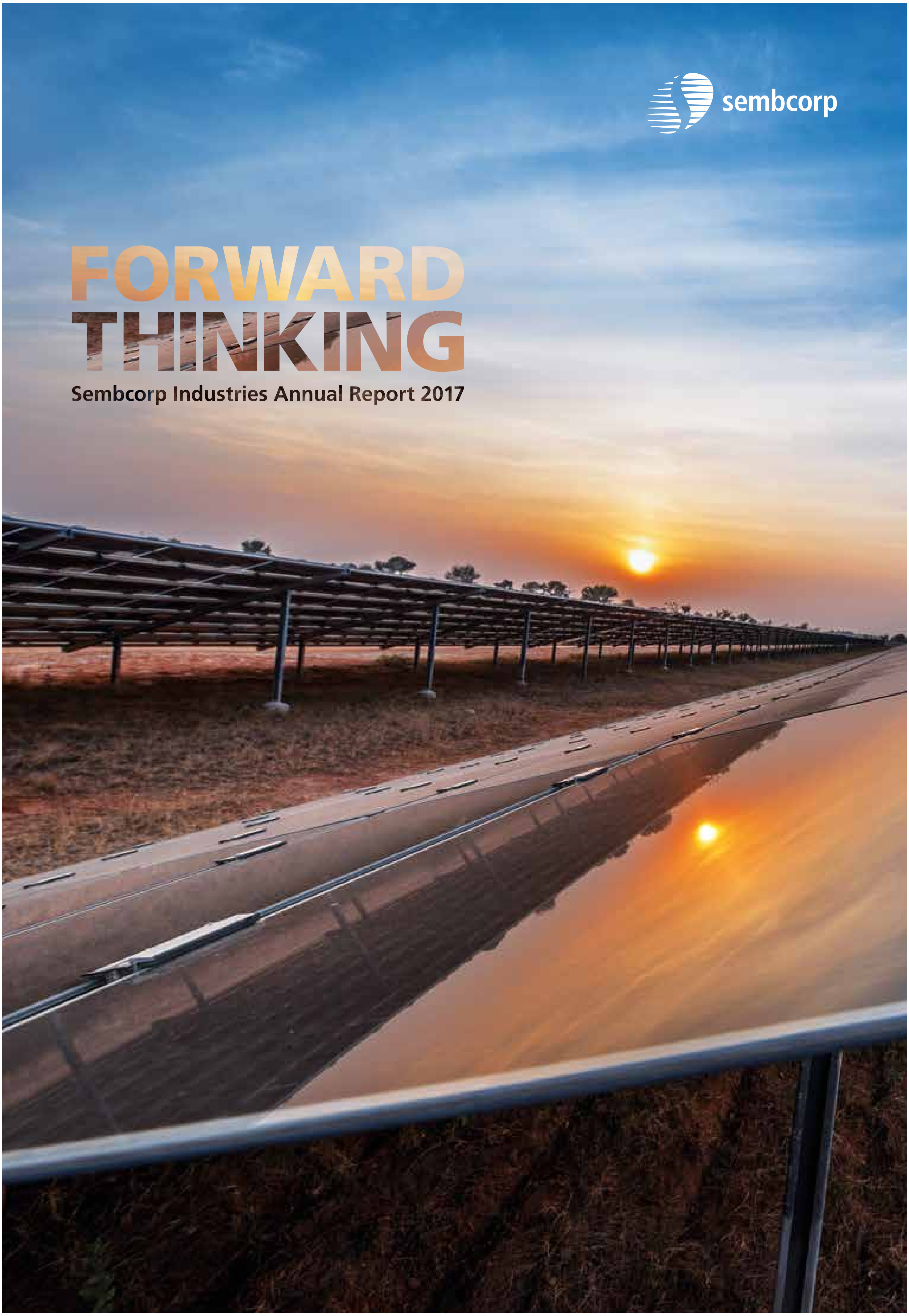
# FORWARD THINKING

Sembcorp Industries Annual Report 2017




UTILITIES
sembcorp


MARINE


URBAN
DEVELOPMENT

# THINKING FORWARD

As we think forward and boldly seize opportunities in a changing marketplace, we are confident that the actions we are taking will make for a stronger, better performing and more sustainable Sembcorp.

**Neil McGregor**
Group President & CEO

*Read more on our strategy on pages 12 to 19*

# Group FY2017 Highlights

## GROUP

**TURNOVER**
S$8.3 billion
US$6.2 billion

**2016**:
S$7.9 billion / US$5.5 billion

**EBITDA**
S$1.3 billion
US$934 million

**2016**:
S$1.3 billion / US$919 million

**PROFIT FROM OPERATIONS (PFO)**
S$795 million
US$588 million

**2016**:
S$909 million / US$635 million

**NET PROFIT**
S$231 million
US$171 million

**2016**:
S$395 million / US$276 million

**TOTAL ASSETS**
S$23.2 billion
US$17.2 billion

**2016**:
S$22.3 billion / US$15.6 billion

**RETURN ON EQUITY**
3.2%

**2016**:
6.2%

**TOTAL DIVIDEND**
5.0 cents
per ordinary share

**2016**:
8.0 cents per ordinary share

**EMPLOYEES**
>7,000

**2016**:
8,000

**GLOBAL PRESENCE**
15 countries

**2016**:
15 countries

*EBITDA: earnings before interest, tax, depreciation and amortisation*

## UTILITIES 100%

**TURNOVER**
S$5.7 billion
US$4.2 billion

**2016**:
S$4.1 billion / US$2.9 billion

**PFO**
S$650 million
US$480 million

**2016**:
S$737 million / US$515 million

**NET PROFIT**
S$140 million
US$104 million

**2016**:
S$348 million / US$243 million

## MARINE* 61%**

**TURNOVER**
S$2.4 billion
US$1.8 billion

**2016**:
S$3.5 billion / US$2.5 billion

**PFO**
S$65 million
US$48 million

**2016**:
S$171 million / US$119 million

**NET PROFIT**
S$14 million
US$10 million

**2016**:
S$79 million / US$55 million

## URBAN DEVELOPMENT 100%

**TURNOVER**
S$7.8 million
US$5.7 million

**2016**:
S$7.0 million / US$4.9 million

**PFO**
S$89 million
US$66 million

**2016**:
S$38 million / US$27 million

**NET PROFIT**
S$83 million
US$62 million

**2016**:
S$33 million / US$23 million

* *Figures taken at Sembcorp Marine level*
** *As at December 31, 2017. Shareholding figures are calculated based on the number of issued ordinary shares excluding treasury shares*


**Ang Kong Hua**
Chairman

# Chairman and CEO's Statement


**Neil McGregor**
Group President & CEO

> In February 2018, we unveiled a new strategy for the future of Sembcorp, with a focus on delivering success in the energy sector.

Dear Shareholders,

2017 was a challenging year for Sembcorp's business sectors.

Group net profit for the year was S$230.8 million compared to S$394.9 million, while turnover was S$8.3 billion compared to S$7.9 billion in 2016. While our Urban Development business delivered record profits in 2017, with net profit growing 150% to S$83.2 million, we saw lower profit contribution from both our Utilities and Marine businesses. Net profit from the Utilities business was S$140.0 million compared to S$348.0 million in 2016. The business recorded exceptional losses totalling S$120.8 million, comprising mainly refinancing costs, impairment charges as well as provisions. The Marine business contributed net profit of S$6.8 million in 2017 compared to S$48.3 million the previous year. The Group's return on equity was 3.2%.

While our weaker financial results were a consequence of the difficult market environment, your board and management fully recognise the challenges we face, and are committed to addressing them head-on to lift our performance and returns. It is our firm belief that these challenges, together with market and industry disruptions, offer the opportunity for us to think forward, adapt, and take decisive steps and reposition Sembcorp for success in a rapidly changing world. With a new Group President & CEO at the helm, we undertook a review of our businesses, and have charted a clear roadmap to enhance the value of our company and build a better, brighter future for Sembcorp.

*For more on the performance of our businesses in 2017, please refer to pages 46 to 69.*

## Forward Thinking: A New Strategy for the Future

In 2017, we embarked on a process of strategic review for the Group. Our goal as we sought to reposition Sembcorp was threefold. We aimed to:

- Review our strategies and business models against the realities of the marketplace and global trends, changing and enhancing them where required
- Refocus our businesses, strengthen our performance and balance sheet
- Reshape our organisation, putting in place the right structure and capabilities for Sembcorp's future

In February 2018, we unveiled a new strategy for the future of Sembcorp, with a focus on delivering success in the energy sector. Along with this, we shared decisive steps we are taking in line with our new direction.

## Focusing on Performance

Our first priority is to lift the Group's performance. We recognise that to do this, and return our businesses to growth, requires an uncompromising focus on capital allocation and necessitates the strengthening of our balance sheet.

To this end, we will sharpen our attention to disciplined capital allocation, looking at both the strategic allocation of resources as well as the quality of investments. By defining our priorities and investment criteria centrally, we believe we can better diversify risk, and also capture opportunities through aligning our businesses with trends in the global marketplace.

In addition, we will step up capital recycling efforts. One example of action on this front is the proposed initial public offering (IPO) of our India energy business. To build a platform for the business' future growth and sustainability, we initiated the process for an IPO of Sembcorp Energy India Limited on BSE Limited and the National Stock Exchange of India, with the filing of a draft red herring prospectus in February 2018. We also entered into a conditional agreement to divest our municipal water operations in South Africa. Over the next two years, we are targeting divestments of our peripheral Utilities assets to deliver estimated cash proceeds of up to S$0.5 billion. This is additional to potential

> We will sharpen our attention to disciplined capital allocation, looking at both the strategic allocation of resources as well as the quality of investments.

# Chairman and CEO's Statement

proceeds from the proposed IPO of Sembcorp Energy India Limited. We believe that this focus on active and systematic capital recycling will enable the Group to strengthen our balance sheet and deliver sustainable growth.

In managing our portfolio for performance, we recognise the need for each of our businesses to have strong and distinctive business models that are customer-centric, technology-enabled and offer long-term growth opportunities.

With its full spectrum of innovative offshore and marine engineering solutions, as well as state-of-the-art yards and capabilities, our Marine business is a globally competitive one. While the macro environment remains challenging, we are beginning to see a number of encouraging developments. Oil prices have risen and global exploration and production spending has improved. Day rates and utilisation levels for offshore drilling rigs have increased, with higher-specification and harsh environment units leading the uptick. With the successful monetisation of its rig inventory announced in 2017, the business' cashflow position will also improve. Going forward,

Repositioning our Utilities business as an integrated energy player that is strategically positioned to benefit from this global energy transition is an important thrust of our strategy.

we believe that Sembcorp Marine's investments in technology and automation will stand it in good stead for the market's recovery.

Our Urban Development business has also established a unique business model in transforming raw land into integrated developments encompassing industrial, commercial and residential space. Its projects have a proven track record in catalysing investment, job creation and growth. From being a developer of industrial parks, the business is now well-positioned as a provider of integrated urban solutions, including sustainable integrated townships as well as high value-added business hubs and smart cities. It has a strong franchise in Asia, and has built up significant value, especially in being a respected brand amongst host governments.

**Repositioning the Utilities Business as an Integrated Energy Player**

Meanwhile, the energy sector is going through major shifts today. Decarbonisation, decentralisation, digitalisation and demand disruptions are transforming the industry as we know it. Against the background of increasing environmental consciousness, the global fuel mix is changing. Renewables are becoming more mainstream and gas is growing in relevance. In addition, the merchant and retail power segment is increasing in importance, while demand for integrated utilities solutions continues to grow.

Repositioning our Utilities business as an integrated energy player that is strategically positioned to benefit from this global energy transition is an important thrust of our strategy. We believe that while changing industry dynamics may be seen as a threat by some, opportunities await those who are able to transform themselves ahead of the curve.

To ensure we have the right asset mix and capabilities, and to drive innovation and growth across the breadth and depth of our Utilities business, we will focus on three business lines:

Sembcorp has a solid track record in the renewable energy sector with over 2,400 MW of wind and solar assets

- The ***Gas & Power*** business will target opportunities in gas importation and retail, regasification infrastructure as well as thermal power
- The ***Renewables & Environment*** business will focus on renewable power, water and wastewater treatment as well as waste-to-resource opportunities in the low-carbon and circular economies
- Finally, the ***Merchant & Retail*** business will enable the business to capture opportunities closer to customers in multiple markets and enhance competitiveness and returns

We will offer a differentiated ***Integrated Energy Platform*** business model that taps opportunities to provide integrated solutions across the energy and utilities value chain. By building multiple offerings around an anchor asset, we can cater to different customer needs and offer customers compelling value propositions across our Utilities business lines. This will provide enhanced returns and growth with lower development risk, and allow our Utilities business to leverage its unique strengths built up over more than 20 years. These include a global track record as a developer, owner and operator of

We will offer a differentiated Integrated Energy Platform business model that taps opportunities to provide integrated solutions across the energy and utilities value chain. This will provide enhanced returns and growth with lower development risk.

thermal and renewable energy assets. A further competitive advantage is the business' deep integration expertise.

Geographically, we will reposition our portfolio across certain developing markets and developed markets. We will look to deepen our presence in Singapore & Southeast Asia; China; India; as well as the UK, growing both organically and through acquisitions.

*For more on our strategy and roadmap to reposition the Utilities business, please refer to pages 14 to 23.*

# Chairman and CEO's Statement

## Stepping Up Our Commitment to Sustainability

Sembcorp has long held a strong commitment to sustainability. We believe that responsible corporates can play a role as agents of transformation for a sustainable future. In addition, we see sustainability at our company as inextricably linked to our ability to deliver long-term value and growth to all our stakeholders.

Together with the international community, our company is committing to help further the United Nations' Sustainable Development Goals (SDGs), which identify areas of critical importance for humanity and the planet between now and 2030. In particular, we have identified Goal 6 (Clean Water and Sanitation) and Goal 7 (Affordable and Clean Energy) as Sembcorp's priority SDGs. These have the strongest link to our core business activities and represent the greatest opportunity for our company to contribute towards the sustainable development agenda.

We are targeting to double our renewables capacity to approximately 4,000 megawatts by 2022, with the aim of becoming one of the region's leading independent renewable energy players. Alongside this, we have set an ambitious target to reduce our carbon emission intensity in line with the 2°C climate scenario. Between now and 2022, we will reduce this by close to 25%, from the current 0.55 tonnes of carbon dioxide equivalent per megawatt hour ($tCO_2e/MWh$), to 0.42 $tCO_2e/MWh$. By 2030, we target to improve even further, reducing emission intensity to less than 0.40 $tCO_2e/MWh$.

*For more on sustainability at Sembcorp, please refer to pages 82 to 113.*

We are targeting to double our renewables capacity to approximately 4,000 megawatts by 2022. Alongside this, we have set an ambitious target to reduce our carbon emission intensity in line with the 2°C climate scenario.

During the year, we continued to strive towards business excellence across the Group, including good health, safety and environment practices (HSE), where our target is to meet the International Association of Oil and Gas Producers' recommended safety performance. In 2017, our Group Health, Safety, Security and Environment (HSSE) department developed and implemented several additional topic-specific safety standards across our global assets, and extended its training programmes to its contractors. While we have made progress, there still remains room for improvement. It is with deep regret that we report three fatalities in 2017. Two of these incidents involved persons employed by our contractors, one at a water operation in China and another at a factory in Malaysia operated by our design and construction business. The third case, which is currently undergoing investigation by the authorities, involved a member of the public and one of our waste collection trucks in Singapore. In addition, as reported in our Environmental, Social and Governance (ESG) Review, we received significant fines for non-compliance amounting to S$3.9 million. This included a S$2.5 million fine our UK business received for an accident in 2013 involving a subcontractor's employee. We take each and every accident and infraction seriously. All incidents are thoroughly investigated, specific remediation measures undertaken, and process enhancements implemented across the business. Going forward, a key area of focus will be on how we can drive a culture where HSE and our wider responsibilities to society and the environment are an integral part of how we do business. As an initial but significant step, in 2018 we revised the performance scorecard for our leadership team to include specific ESG components. With this, our award of senior executives' performance incentives will specifically take into account ESG performance and management of key ESG indicators. This underscores the importance we place on addressing ESG risks and opportunities.

## Building a Dynamic Organisation

Finally, we want to build a dynamic organisation for Sembcorp that will support our strategy and growth. Our new structure, which came into effect on January 1, 2018, provides us a scalable global operating model to leverage resources and achieve growth across both markets and business lines. At the same time, we believe that by providing greater scope for development and progression, the reshaped organisation will offer our people more opportunities and help nurture a stronger pipeline of future leaders to support our long-term growth.

Along with making changes to the way our teams are structured, we are also developing and enhancing our capabilities and driving process excellence. A key area of focus is on technology application and digitalisation. The Group will look to improve performance and capture opportunities through the acceleration of technology adoption as well as the deployment of digital technologies.

At the heart of a dynamic organisation is its people. To support our company into the future, we are enhancing our team with the right skills and expertise, deepening our bench strength and building in greater succession planning. We will also continue efforts to reinforce a dynamic high-performance culture within the company, with an unwavering commitment to integrity at its core.

To support our company into the future, we are enhancing our team with the right skills and expertise, deepening our bench strength and building in greater succession planning.

*Sembcorp Marine's Tuas Boulevard Yard in Singapore offers distinct capabilities that enable cost effective execution and strengthen the business' long-term competitiveness*

# Chairman and CEO's Statement

*Located on Sembcorp Development's Sino-Singapore Nanjing Eco Hi-tech Island in China, Jiangdao Technology Innovation Centre is Nanjing's premier exhibition centre and also offers office space for companies*

## Proposed Dividend for 2017

For 2017, the board proposes a final dividend of 2.0 cents per ordinary share, subject to shareholders' approval. Together with the interim dividend of 3.0 cents per ordinary share paid in August, this brings our total dividend for the year to 5.0 cents per ordinary share.

Sembcorp remains committed to our dividend policy, which aims to balance cash return to shareholders and investment for sustaining growth, while aiming for an efficient capital structure. In line with our 2017 performance, the total quantum of dividend proposed for the year is lower than in the previous year. However, we believe it is appropriate given our performance and environment, and ultimately in the best interest of both the company and its shareholders.

To underscore their support of the company through these challenging times, the directors are taking a voluntary 15% reduction in their directors' fees for FY2017. In addition, the Group President & CEO and senior management will also be voluntarily undertaking a pay reduction of 15% and 10% respectively.

## A Note of Welcome and of Thanks

On behalf of the board, we would like to extend a warm welcome to Jonathan Asherson OBE, who joined our board as an independent director on July 17, 2017. Mr Asherson is the non-executive chairman of Rolls-Royce Singapore. He brings to Sembcorp rich experience in regional strategy and business, as well as in the power and engineering industries in China, Southeast Asia and the Pacific, Germany, the US and the UK.

This is the beginning of the next exciting chapter in the Sembcorp story. While there is much to do, Sembcorp has the track record, capabilities and determination to deliver.

We would like to take the opportunity to express our gratitude to our shareholders for your continued support and trust in us. As Sembcorp repositions its businesses, rest assured that you have a board and management team that understands the company's businesses and markets, anticipates the future, and will continue to take decisive and necessary action to create and deliver value. We also thank our dedicated team of employees, whose passion, professionalism and commitment continues to drive our company forward.

This is the beginning of the next exciting chapter in the Sembcorp story. While there is much to do, Sembcorp has the track record, capabilities and determination to deliver. As we think forward and boldly seize opportunities in a changing marketplace, we are confident that the actions we are taking will make for a stronger, better performing and more sustainable Sembcorp.

**Ang Kong Hua**
Chairman
February 28, 2018

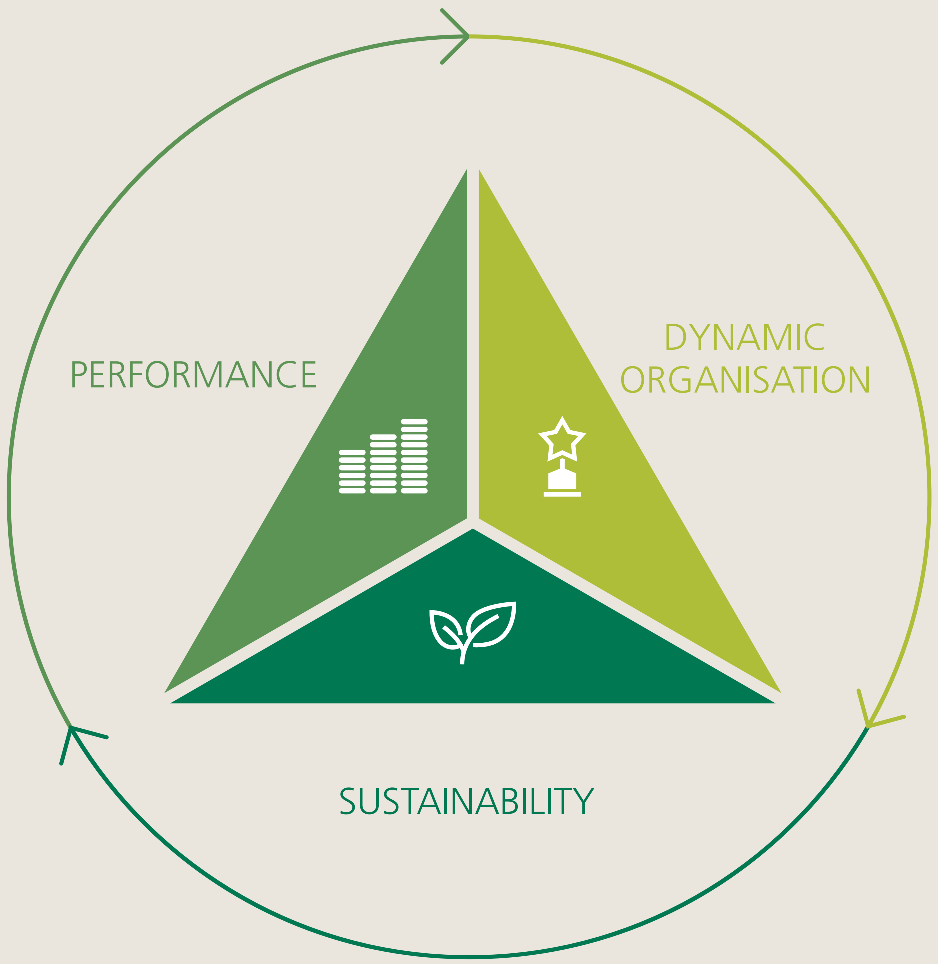
**Neil McGregor**
Group President & CEO
February 28, 2018

# Our Group Strategy

## Sustainable Value Creation

We have identified three strategic pillars which will support our ability to create and deliver sustainable value in the long term.

## STRATEGIC PILLARS




### PERFORMANCE

- **Disciplined capital allocation** to drive long-term value creation, diversify risk and align with economic trends
- **Systematic capital recycling** to strengthen balance sheet and enable sustainable growth
- **Active management and optimisation of assets** to enhance returns
- **Strong Business Models** – customer-centric, technology-enabled, with long-term growth opportunities

### SUSTAINABILITY

- Aligned with and contributing to United Nations' **Sustainable Development Goals**
- Participation in **low-carbon and circular economies**
- **Management of ESG risks and opportunities** embedded in strategy, governance and award of employee incentives

### DYNAMIC ORGANISATION

- **A scalable global operating model** to leverage resources and achieve value-focused growth
- **Capability development and process excellence** to support growth and long-term value creation
- **A vision for technology and digitalisation** that will materially improve performance
- **Dynamic high performance culture with integrity at its core**

## STRONG BUSINESS MODELS

### UTILITIES

*Read more on pages 16 to 19 and 46 to 53*

### MARINE

*Read more on pages 54 to 61*

### URBAN DEVELOPMENT

*Read more on pages 62 to 69*

### 3 Achieve

**Sustainable Value Creation**

A global company, a leader in our industry sectors

### 2 Grow

- Pursue growth strategies
- Deepen reach and expand in existing and growth markets
- Active and systematic capital recycling

### 1 Reposition

- Review / establish strategies and business models
- Refocus businesses, strengthen performance and balance sheet
- Reshape the organisation and enhance capabilities

## OUR TRANSFORMATION JOURNEY

Our Utilities Strategy

# WHY?

## Realities of the Global Energy Transition

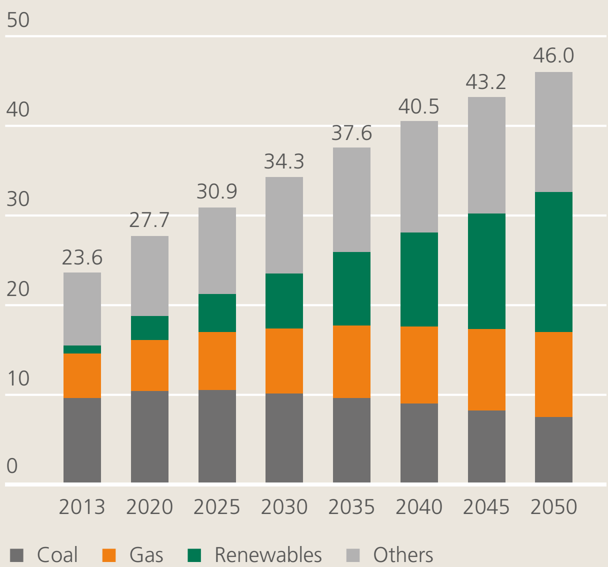
There is a fundamental shift in the global energy landscape. Decarbonisation, decentralisation, digitalisation and demand disruptions are transforming the future of the energy sector.



## 1 Decarbonisation

The world is transitioning to a low-carbon economy. The global energy mix is seeing significant shifts towards cleaner sources of energy.

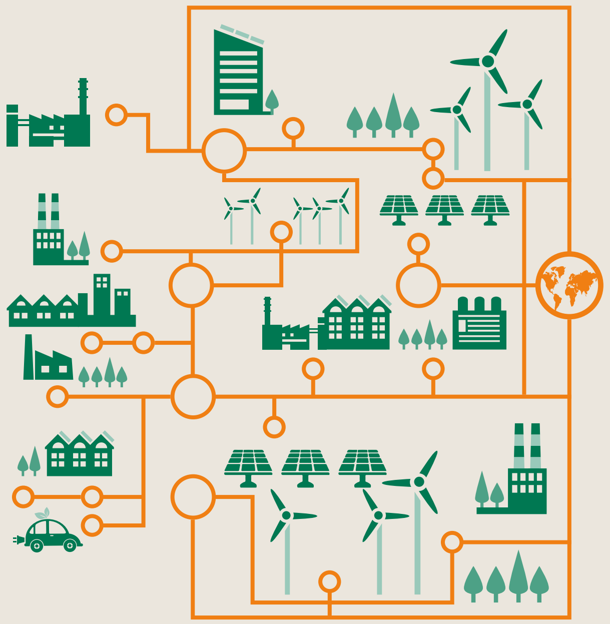
**Power Generation Fuel Mix** *(thousand terawatt hours)*




*Source: McKinsey Energy Insights*

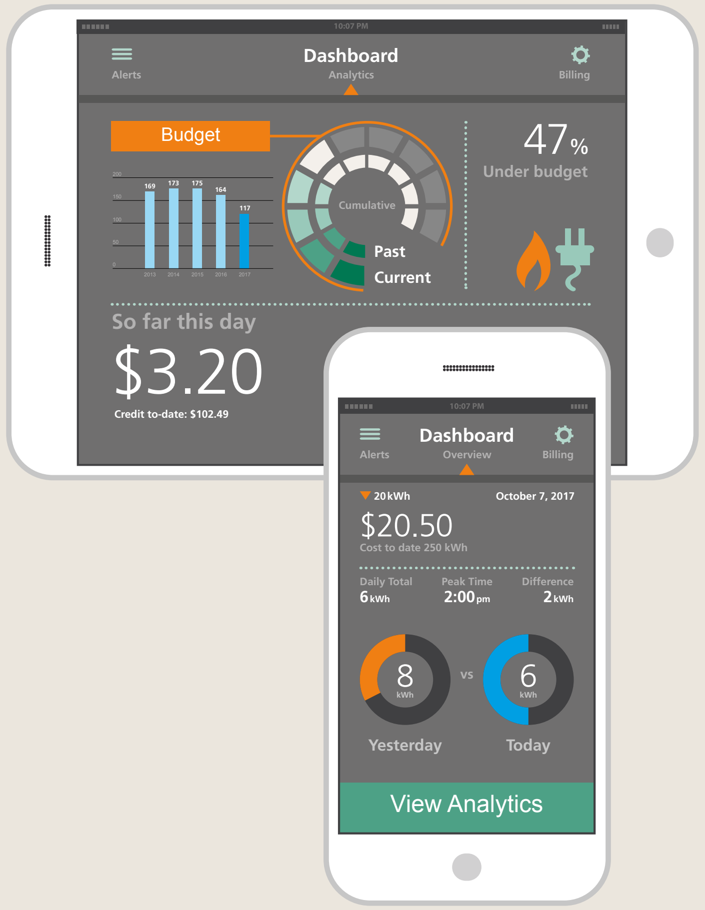
## 2 Decentralisation

The shift to distributed energy systems is opening up opportunities for merchant and retail power, flexible generation and technology-enabled business models.



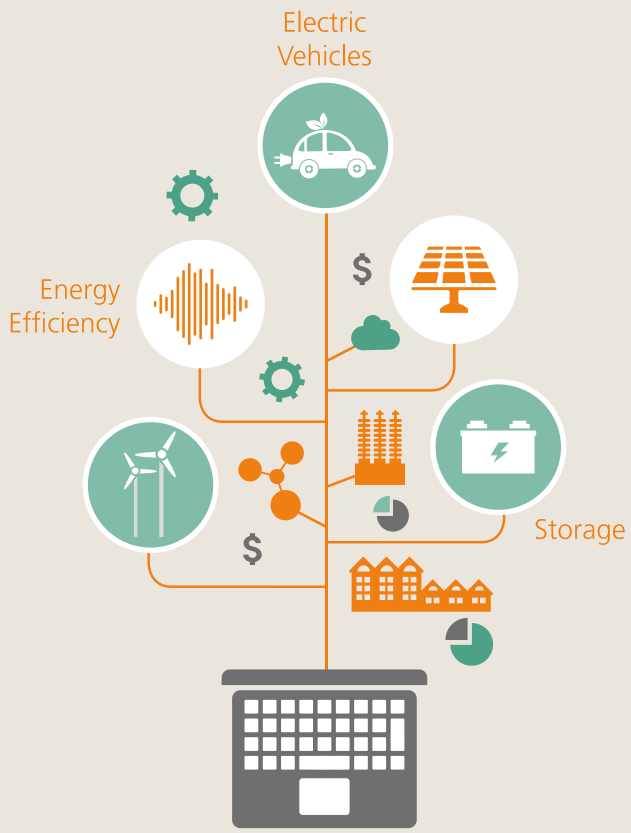
## 3 Digitalisation

The digital revolution is coming to the power industry. From generation to customer relationship management, it is transforming every facet of the industry's value chain.




## 4 Demand Disruptions

From energy efficiency, distributed generation to the electrification of vehicles, the energy sector is seeing demand disruption.



Our Utilities Strategy

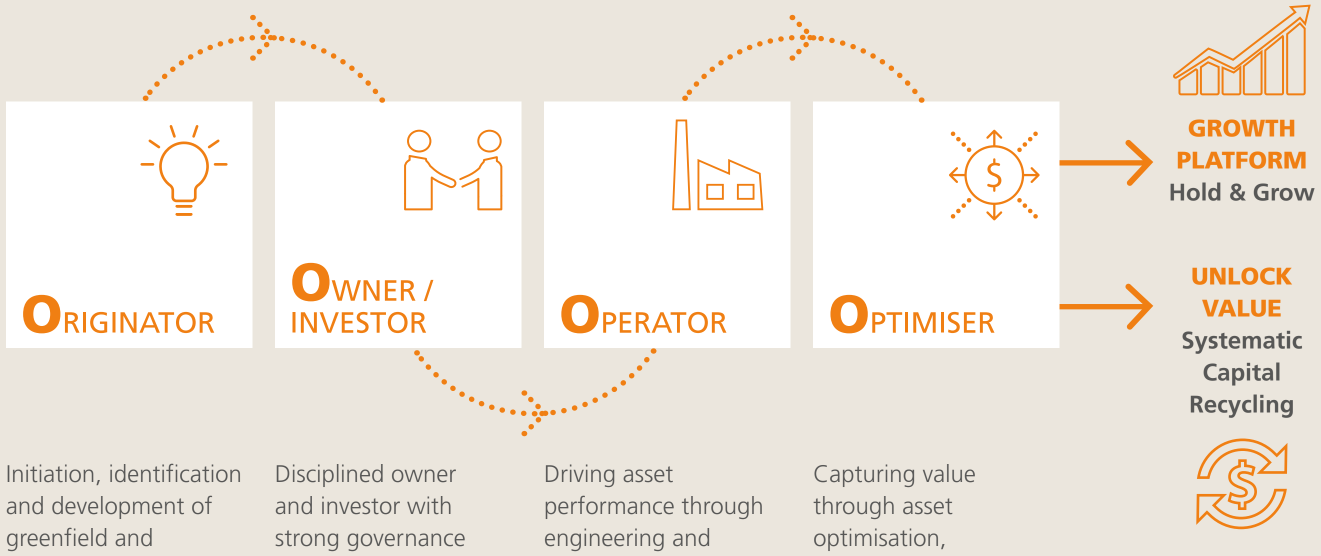
# WHAT?

## A Global Integrated Energy Platform

Sembcorp aims to be an integrated energy player, strategically positioned to benefit from the global energy transition. With our proven track record and capabilities, our distinctive business models deliver value and sustainable growth.

## The Sembcorp O⁴ Model

We are an originator, owner or investor, operator and optimiser of energy and utilities assets. We focus on maximising value and enhancing return through asset optimisation, leveraging integration and innovation opportunities, as well as through systematic capital recycling. Our new model is platform-based and allows for organic and inorganic growth.




**Originator:** Initiation, identification and development of greenfield and brownfield projects as well as product solutions

**Owner / Investor:** Disciplined owner and investor with strong governance

**Operator:** Driving asset performance through engineering and technical capabilities and strong HSSE management

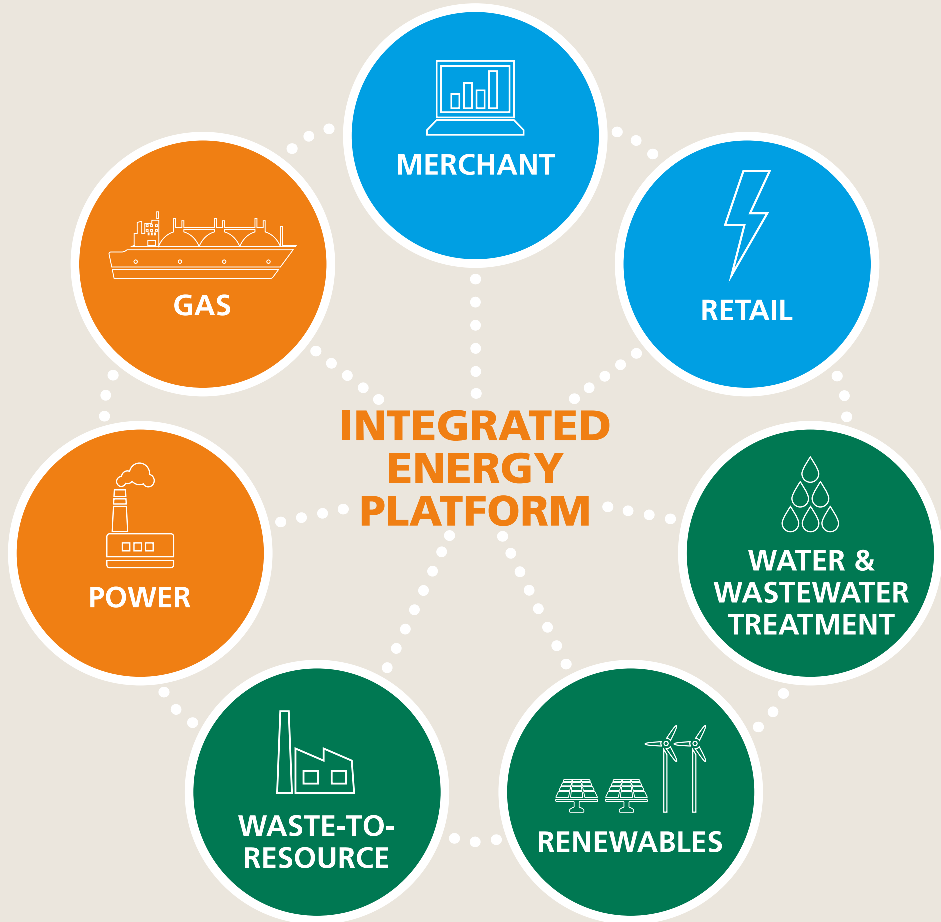
**Optimiser:** Capturing value through asset optimisation, integration and innovation opportunities and systematic capital recycling

### Underpinned by Competitive Advantages

- Strong track record in developing and operating thermal and renewable energy and water assets
- Deep integration expertise
- Strong foothold in high-growth developing markets and experience in developed markets

## Integrated Energy Platforms

Leveraging Sembcorp's global track record and integration expertise, we offer a differentiated *Integrated Energy Platform* business model. By integrating multiple energy offerings around anchor assets, we provide our customers compelling value propositions across the energy and utilities value chain.




### Why Integrated Energy Platforms?

- **Returns Uplift**
  Additional offerings enhance services and products while providing upside to earnings
- **Deepens Relationship with Customers**
  Insights into customer requirements provide scope for additional tailored solutions with minimal investment
- **Provides Growth while Lowering Development Risk**
  Leverages knowledge of stakeholders and markets to gain further access and scale up

Our Utilities Strategy

# HOW?

## Reshaping the Organisation

Having a dynamic organisation to support our strategy is key. Supported by a scalable operating model, we drive innovation and growth through our business lines and markets.

## Three Business Lines

Sembcorp will focus on growth along three business lines to build and scale up integrated energy platforms and develop a pipeline for systematic capital recycling.


### GAS & POWER

Gas Importation & Retail

Regas Infrastructure

Thermal Power

### MERCHANT & RETAIL

- Merchant Power Sales
- Trading & Optimisation
- Distributed Energy Resources

- B2B and B2C Power Sales
- Energy Services

### RENEWABLES & ENVIRONMENT

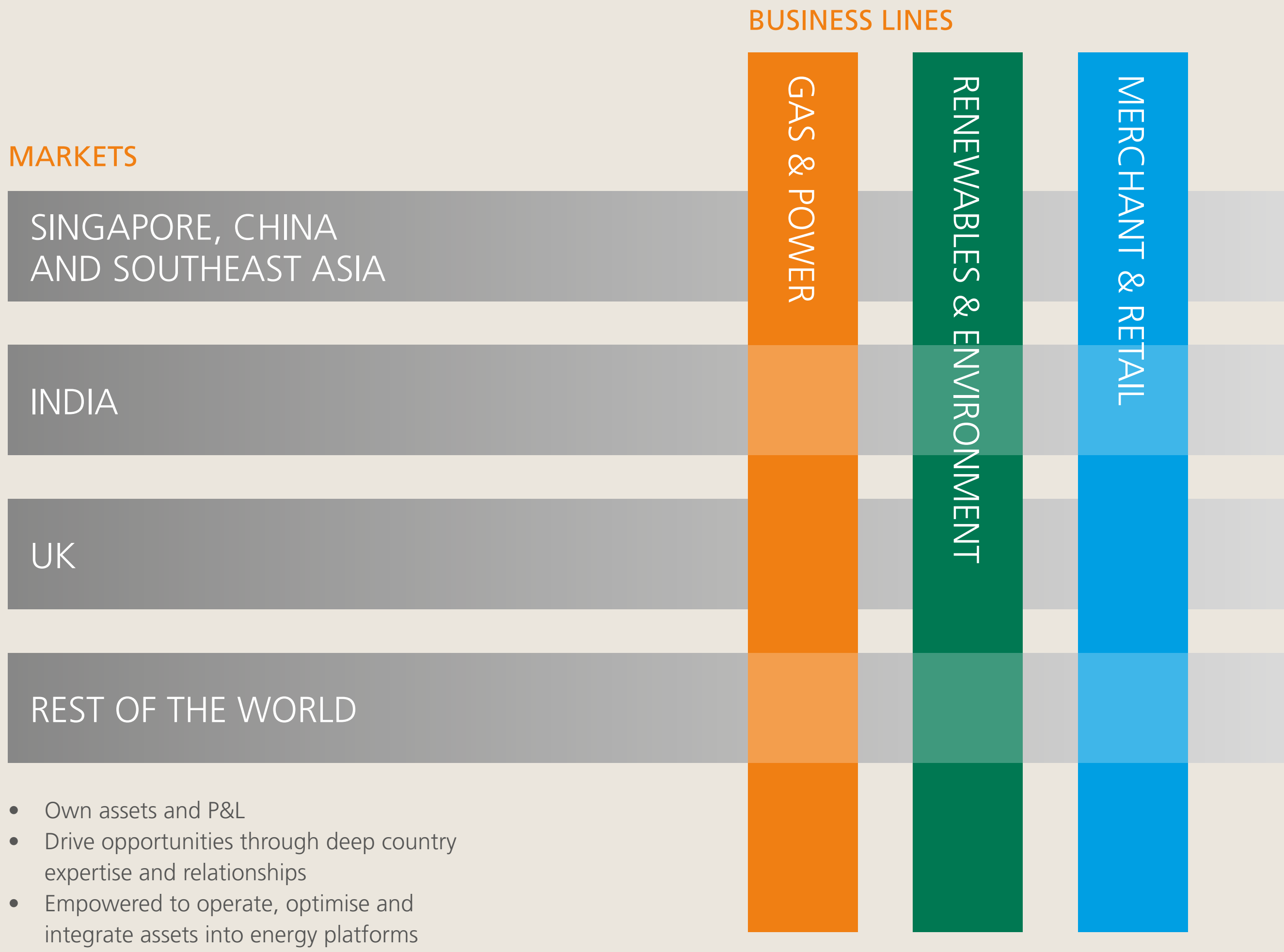
Waste-to-resource

Water and Wastewater Treatment

Renewable Power

## A Scalable Global Operating Model

Our matrix organisation allows us to leverage resources and achieve value-focused growth across markets and business lines globally.




- Own assets and P&L
- Drive opportunities through deep country expertise and relationships
- Empowered to operate, optimise and integrate assets into energy platforms

- Drive global product opportunities and develop projects
- Innovate and differentiate product offerings
- Techno-commerical product experts
- Build product SOPs

# CEO Interview

**Neil McGregor**
Group President & CEO

## As Sembcorp's CEO what are your key priorities for the Group?

Improving our performance is my first priority. Disciplined capital allocation will be key. We need to build a sound, high-performing portfolio that is attuned to economic trends. In particular, we are reshaping our Utilities business for long-term success in a changing market. We will focus on active and systematic capital recycling, to help unlock value to support our growth. We will also reposition our presence across certain developing and developed markets.

Secondly, Sembcorp will step up its commitment to sustainability, to manage risks better and prepare itself for the future. This will also put us in a better position to capture opportunities amid the rise of the low-carbon and circular economies.

Thirdly, we will build a dynamic organisation that better supports our growth underpinned by strong governance. We have restructured our organisation to create a flexible and scalable operating model, and are actively building new capabilities for the future. With the technological disruptions in our marketplace, we are looking to harness digitalisation to transform ourselves ahead of the curve.

> Improving our performance is my first priority. Disciplined capital allocation will be key. We need to build a sound, high-performing portfolio that is attuned to economic trends.

## How has the energy sector changed in the last few years? What do you see as some of the challenges and opportunities these changes have brought about?

Dramatic changes are taking place in the energy sector, particularly in the power industry. Increasing concern about greenhouse gases and rising global temperatures has created increased momentum for policy change, not only in developed markets but also in developing ones. Lower-carbon or non-emitting energy sources, such as gas and renewables, have increased in relevance and account for much of the growth in new capacity worldwide.

In addition, deregulation and decentralisation are reducing barriers to entry and leading to greater competition. The merchant and retail market has come into greater prominence. Efficiency and flexibility have become more critical than ever.

Technological innovation is disrupting every stage of the value chain, from generation and asset management, to retail, transmission and delivery. At the same time, technology and digitalisation has also brought about significant opportunities to improve performance, through lowering costs, enhancing operations, growing in new niches, and enabling cost-competitive and high-quality delivery to market.

## How are you repositioning your Utilities business to succeed in this new environment?

We plan to reshape our Utilities business into a leading global integrated energy player, a progressive business poised to benefit from the global energy transition.

To do this, we will realign our business focus to industry trends, refine our business model while capitalising on strengths, and rebalance our portfolio and geographical spread.

We will look to grow through three business lines: *Gas & Power*; *Renewables & Environment*; and *Merchant & Retail*. These business lines will better position our Utilities business to innovate and meet the challenges of a changing global energy landscape, with increasing decarbonisation, decentralisation, digitalisation and demand disruption.

We will also refine our business model, growing our business lines through *integrated energy platforms*. Starting from an anchor asset, we will provide multiple offerings and integrated solutions across the energy and utilities value chain. This strategy allows Sembcorp to leverage our proven integration expertise and track record as the global pioneer in centralised utilities for industrial sites. It will also allow us to capitalise on market positions we already have – both our strong foothold in high-growth developing markets, as well as our experience in developed markets.

Finally, we will look to reposition our portfolio across certain developing and developed markets. Developing markets offer a steeper growth trajectory, while markets in the Organisation for Economic Co-operation and Development (OECD) offer quality assets and cashflows. Building a balanced portfolio of strong businesses across both will allow us to generate stronger profits, which we can then reinvest for growth.

## Can you tell us more about how you plan to maximise value and ensure that growth is sustainable?

We will maximise value and sustain our growth through what we call the *Sembcorp O⁴ Model*, where we act as asset and solution originators, owners and operators, and also as optimisers of both assets and capital.

Under this model, we originate and develop new projects and product offerings. We provide strength as a disciplined investor backed by strong governance, and through our operating expertise. Finally, we look to enhance returns, not only through asset optimisation – leveraging integration and innovation opportunities – but also through systematic capital recycling.

The proposed initial public offering of our India energy assets which we have recently announced is a perfect illustration of creating sustainable value this way. In addition, we are targeting divestments with estimated cash proceeds of up to S$0.5 billion over the next two years.

### Against the background of your upcoming IPO for your energy business in India, what is your view on the India market? How will it feature in your plans for the future?

India is, and will continue to be a key market for us. Since we entered India's power market in 2010, we have built up a balanced portfolio of both thermal and renewable assets in the country, with a combined capacity of over 4,300 megawatts. This comprises a thermal power complex with 2,640 megawatts of supercritical coal-fired capacity in Andhra Pradesh, as well as a renewable energy business with over 1,700 megawatts of solar and wind power capacity across seven states, as at February 2018.

In February 2018, we brought together all our thermal and renewable energy assets under a single entity, creating an independent energy company representing one of the largest foreign investments in India's power sector today. This company, Sembcorp Energy India Limited, will be well-positioned to help meet the country's growing need for sustainable, reliable power.

With the proposed initial public offering of Sembcorp Energy India Limited, the aim is to create a sustainable growth platform for our India utilities business, and bring on local and retail investors to support its future growth.

In recent years, India has seen a power surplus leading to lower spot prices and short-term tariffs. However, according to a recent market study published by CRISIL in February 2018, power demand in India is expected to increase and the country is projected to move into a 5% power deficit by the Indian fiscal year 2022. Similarly, the country's current peak power surplus is expected to reverse by the Indian fiscal year 2020. Against this background, we believe that our public offering is timely, and that Sembcorp Energy India Limited will be poised to ride favourable industry conditions for growth.

### Tell us about your outlook on Sembcorp Marine given that its industry has been through a downcycle for the last few years.

The offshore and marine industry is cyclical by nature; upswings and downswings are to be expected. However, the current industry downcycle has been a protracted one, and it has undoubtedly been a challenging time for Sembcorp Marine as well as other players in the market.

Nonetheless, there have been some encouraging developments. Oil prices have firmed. Although recovery of rig orders may take some time, we are starting to see more stabilisation in day rates and utilisation levels for rigs, as well as more activity in secondary rig sales.

With over 50 years in the business, Sembcorp Marine is a leader in its field. It has successfully weathered many cycles. The business has faced the last few difficult years with fortitude and has continued to be profitable in 2017. It has gotten back to basics, focusing on tightly managing its cost and balance sheet. For instance, in 2017, it strengthened its cashflow with the sale of nine jack-ups and a semi-submersible to secondary buyers for a total of around US$1.8 billion.

But beyond that, our Marine business has also kept the long game in mind, taking steps to strengthen its business for the future. The business has retooled and enhanced its capabilities for productivity and long-term competitiveness. It has also made a concerted effort to broaden its portfolio of non-drilling products and services, developing additional sustainable and innovative solutions to serve new customer segments.

As parent company, we will continue to support the Marine business through the cycle. We are confident that it has what it takes to ride out the downturn, and emerge stronger and more resilient. With Sembcorp Marine's investments in enhanced capabilities and productivity, we believe it will be in a good position to benefit from the market's recovery.



> By 2040, renewables are expected to make up around 35% of the global energy mix. With the growing emphasis on the low-carbon and circular economies and rising demand for sustainable solutions, we are looking to grow our green business lines through innovation.

### Your Urban Development business has turned in an impressive contribution in 2017. How do you see the business growing in the future?

The Urban Development business has had a stellar year, with record profits from strong land sales. Aside from India, where it just entered the market in 2017, its performance in all markets – Vietnam, China and Indonesia – has risen.

Over the years, Sembcorp Development has built up a strong franchise in Asia and one of the best brand names in its business. With its strong track record of transforming raw land into modern, vibrant developments, and attracting industries and investment, it is well sought after for its ability to help catalyse economic development, create jobs and create conducive spaces to live, work and play.

Globally, urbanisation and the growth of cities is on the rise. According to the World Bank, by 2045, the world's urban population will increase by 1.5 times to six billion. Governments must move quickly to plan for growth and put in place the services, infrastructure, and housing their expanding urban populations need. Our Urban Development business would be a trusted partner in such an endeavour. With its proven track record, we believe this business has a bright future.

### Sustainability features prominently in your new strategy. You've also just set aggressive targets to reduce carbon emission intensity and grow your renewables portfolio. Talk us through why this is a focus area.

Sembcorp has a long-standing commitment to sustainability. Our vision is to be a global company with sustainable businesses that support development, improve the quality of life and deliver long-term value and growth.

Our world is moving towards a low-carbon economy. By 2040, renewables are expected to make up around 35% of the global energy mix. To prepare our businesses for the future, we are targeting to double our current renewable capacity to approximately 4,000 MW by 2022. At the same time, we target to cut our carbon emission intensity by close to 25% by 2022, in line with the 2°C scenario.

With the growing emphasis on the low-carbon and circular economies and rising demand for sustainable solutions, we are also looking to grow our green business lines through innovation. Our new Renewables & Environment business line will look to grow our renewable energy, water and wastewater, as well as waste-to-resource businesses. In addition, we will also invest in research & development to be at the forefront of providing new cutting-edge energy solutions.

As a responsible corporate, we at Sembcorp acknowledge the role we need to play as agents of change for a more sustainable world. It is our hope that the concrete steps we are taking for a greener business will help us to make our contribution to mankind's shared future, in a more strategic, targeted and effective manner.

# Our Value Creation Process

Sembcorp Industries is a leading utilities, marine and urban development group, present across five continents. As an integrated energy player, Sembcorp is poised to benefit from the global energy transition. With a strong track record in developing and developed markets, we provide solutions across the energy and utilities value chain, with a focus on the Gas & Power, Renewables & Environment, and Merchant & Retail sectors. We have a balanced energy portfolio of over 11,000 megawatts, including thermal power plants, renewable wind and solar power assets, as well as biomass and energy-from-waste facilities. In addition, Sembcorp is a world leader in offshore and marine engineering, as well as an established brand name in urban development.

## INPUTS

**Financial Capital**
e.g. cash flow from operations, internal funds and external short-term and long-term financing

**Human Capital**
e.g. people with deep knowledge and strong capabilities, and employees who embody the Sembcorp culture

**Social and Relationship Capital**
e.g. relationships with stakeholders, and Sembcorp's brand and values

**Manufactured Capital**
e.g. utilities facilities and shipyards

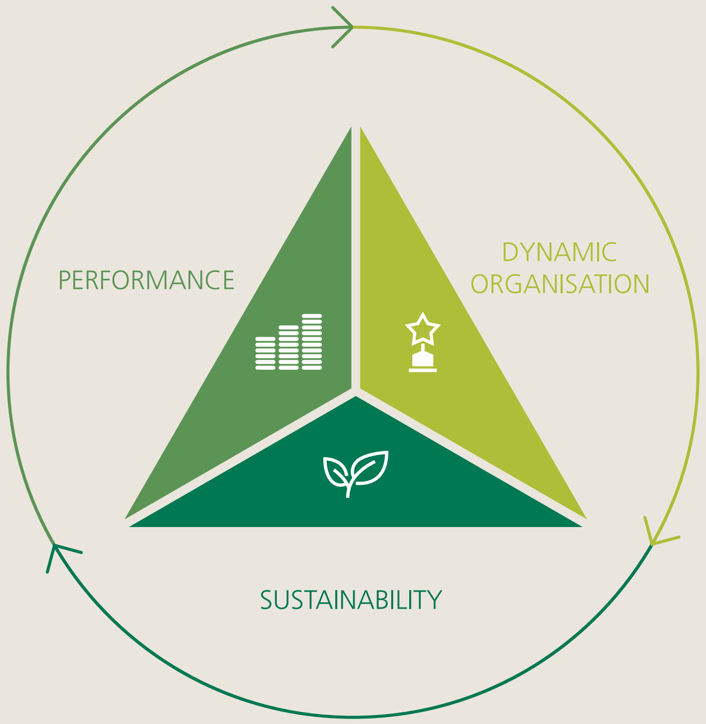
**Intellectual Capital**
e.g. intellectual property, technologies and proprietary solutions, group-wide policies and frameworks, and standardised systems and processes

**Natural Capital**
e.g. thermal energy resources (such as coal and natural gas), renewable resources (such as wind and solar) and land

## VISION & STRATEGY

**Vision**
To be a global company, a leader in our industry sectors by responsibly operating and excelling in sustainable businesses that support development, improve the quality of life and deliver long-term value and growth.

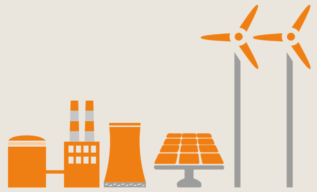
**Strategic Pillars**




Read more on page 12

## OUR BUSINESSES & BUSINESS MODELS

**Utilities**



Read more on pages 16 to 19, and 46 to 53

**Marine**

Read more on pages 54 to 61

**Urban Development**

Read more on pages 62 to 69

## OUTPUTS & OUTCOMES

**Utilities**
- Gas & Power
- Merchant & Retail
- Renewables & Environment

**Marine**
- Rigs & Floaters
- Repairs & Upgrades
- Offshore Platforms
- Specialised Shipbuilding

**Urban Development**
- Industrial Parks
- Integrated Townships
- Business Hubs & Smart Cities

**Economic**
To deliver long-term value and growth

**Environmental**
To responsibly manage and reduce our impact on the environment as well as to effectively manage environmental risks to our operations

**Social**
To be a responsible business that ensures the health and safety of our people, and makes a positive impact on our people and communities

**Governance**
To maintain high standards of behaviour and integrity and be best in class for governance practices

## OUR STAKEHOLDERS

**Customers**

**Employees**

**Financial Institutions**

**Governments and Regulators**

**Shareholders and the Investment Community**

**Communities**

**Contractors, Suppliers, Trade Unions and Industry Partners**

# Our Material Issues

At Sembcorp, we believe in building sustainable businesses that support development, improve the quality of life and deliver long-term value and growth. Through engagement with our stakeholders and our materiality identification and review process, the following issues have been identified to be material to us.

Mitigating the risks and pursuing the opportunities presented by these issues are part and parcel of how we drive success for the Group.

## ECONOMIC

Read more on pages 28 to 69

**To deliver long-term value and growth**

### Capital and Portfolio Management

To apply a holistic, proactive and disciplined approach to the management of our portfolio and capital

### Reliability

To ensure asset and service reliability by adopting best practices for the management and maintenance of assets, creating an efficient and cost-effective supply chain and applying sound business continuity management

### Innovation

To apply new and improved proven technologies and methodologies which increase efficiency, reduce costs and drive revenue growth

### Sustainable Growth

To achieve growth and create value by enhancing existing and developing new income sources

## ENVIRONMENTAL

Read more on pages 90 to 96

**To responsibly manage and reduce our impact on the environment as well as to effectively manage environmental risks to our operations**

### Climate Change

To have a business portfolio that balances the economic expectations of our stakeholders and our businesses' impact on the climate

### Local Environmental Protection

To fulfil our duty to protect the environment and conserve resources, while providing competitive and reliable solutions for our stakeholders

### Energy and Water Efficiency

To improve energy and water efficiency through good and economically viable environmental practices

## SOCIAL

Read more on pages 97 to 105

**To be a responsible business that ensures the health and safety of our people, and makes a positive impact on our people and communities**

### Health and Safety

To make health and safety management an integral part of everyday business and culture

### Our People

To offer a compelling employment experience for our people to develop and excel

### Community

To be a responsible business that makes a positive impact on our communities

## GOVERNANCE

Read more on pages 106 to 113

**To maintain high standards of behaviour and integrity and be best in class for governance practices**

### Corporate Governance

To have an effective governance and decision-making structure

### Risk Management

To ensure effective identification and management of all material risks

### Compliance

To comply with all legal and regulatory requirements

### Ethical Business Practices

To ensure we conduct our businesses legally, fairly, honestly and with integrity


# OPERATING AND FINANCIAL REVIEW

# Group Financial Review

## Group Financial Highlights

| | 2017 | 2016 | Change *(%)* |
|---|---|---|---|
| **For the Year** *(S$ million)* | | | |
| Turnover | **8,346** | 7,907 | 6 |
| Earnings before interest, tax, depreciation and amortisation | **1,264** | 1,315 | (4) |
| Profit from operations | **795** | 909 | (13) |
| – Earnings before interest and tax | **631** | 784 | (20) |
| – Share of results: Associates & JVs, net of tax | **164** | 125 | 31 |
| Profit before tax | **312** | 537 | (42) |
| Net profit | **231** | 395 | (42) |
| Economic value added | **(356)** | (99) | (261) |
| Return on total assets *(%)* | **3.4** | 4.0 | (15) |
| Return on equity *(%)* | **3.2** | 6.2 | (48) |
| **Capital Position** *(S$ million)* | | | |
| Owners' funds | **5,966** | 5,898 | 1 |
| Total assets | **23,213** | 22,290 | 4 |
| Net debt | **7,161** | 7,338 | (2) |
| Operating cash flow | **650** | 872 | (25) |
| Free cash flow | **1,123** | 1,132 | (1) |
| Capital expenditure and equity investment | **714** | 1,236 | (42) |
| Total debt-to-capitalisation ratio | **0.55** | 0.53 | 3 |
| Total debt-to-capitalisation ratio *(less cash and cash equivalents)* | **0.40** | 0.42 | (6) |
| Interest cover *(times)* | **2.4** | 3.3 | (26) |
| **Shareholder Returns** | | | |
| Net assets per share *(S$)* | **3.90** | 3.75 | 4 |
| Earnings per share *(cents)* | **10.51** | 19.92 | (47) |
| Ordinary dividend per share *(cents)* | **5** | 8 | (38) |
| Payout ratio *(%)* | **47.6** | 40.2 | 18 |
| Last traded share price *(S$) as at December 31* | **3.03** | 2.85 | 6 |
| Total shareholder returns *(%)* | **8.8** | (3.3) | NM |

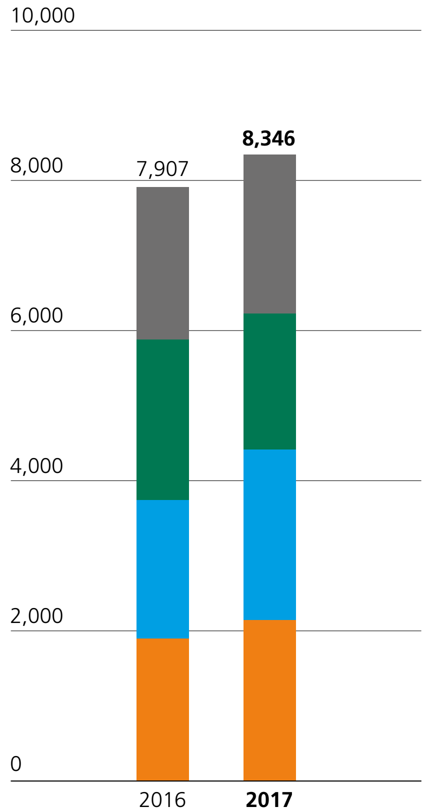
## Group Quarterly Performance *(S$ million)*

| | 2017 | | | | | 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | Total | 1Q | 2Q | 3Q | 4Q | Total |
| Turnover | **2,140** | **2,275** | **1,808** | **2,123** | **8,346** | 1,895 | 1,846 | 2,140 | 2,026 | 7,907 |
| Earnings before interest, tax, depreciation and amortisation[1] | **352** | **334** | **365** | **213** | **1,264** | 313 | 286 | 326 | 390 | 1,315 |
| Profit from operations | **275** | **222** | **188** | **110** | **795** | 237 | 208 | 172 | 292 | 909 |
| – Earnings before interest and tax | **217** | **188** | **161** | **65** | **631** | 202 | 170 | 168 | 244 | 784 |
| – Share of results: Associates & JVs, net of tax | **58** | **34** | **27** | **45** | **164** | 35 | 38 | 4 | 48 | 125 |
| Profit / loss before tax | **150** | **92** | **70** | **–[2]** | **312** | 161 | 123 | 88 | 165 | 537 |
| Net profit | **119** | **55** | **34** | **23** | **231** | 107 | 87 | 54 | 147 | 395 |
| Earnings per share *(cents)* | **6.13** | **2.54** | **1.23** | **0.61** | **10.51** | 5.45 | 4.29 | 2.47 | 7.71 | 19.92 |

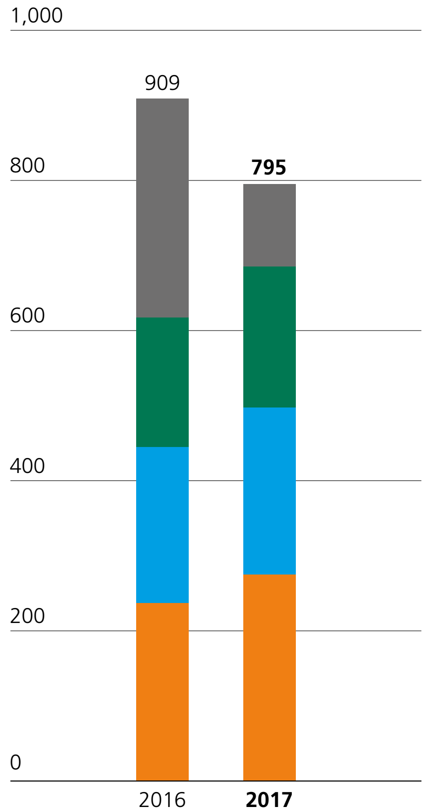
[1] *Earnings before interest, tax, depreciation and amortisation excludes major non-cash items such as the effects of fair value adjustments, re-measurements, impairments and write-offs*

[2] *Less than S$1 million*

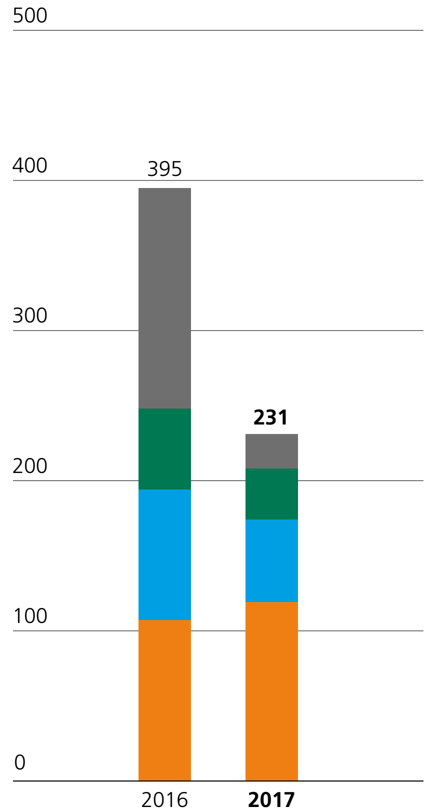
**Turnover** *(S$ million)*




**PFO** *(S$ million)*




**Net Profit** *(S$ million)*




First quarter   Second quarter   Third quarter   Fourth quarter

# Group Financial Review

## Five-year Financial Performance Profile

**2017**
Sembcorp posted a net profit of S$230.8 million and a turnover of S$8.3 billion in 2017, compared to S$394.9 million and S$7.9 billion respectively in 2016.

In 2017, the Utilities business contributed S$140.0 million in net profit to the Group, compared to S$348.0 million in 2016. On an underlying basis, the business delivered a net profit of S$260.8 million. Singapore operations continued to perform well, mitigating the weak performance of Sembcorp Gayatri Power, our second thermal power plant in India, and the absence of contribution from the Yangcheng coal-fired power project in China following the expiry of its cooperative joint venture agreement. Singapore operations was also the largest contributor to the Utilities business' net profit before exceptional items.

Exceptional losses recorded by the business in 2017 amounted to S$120.8 million. These included provision for potential fines and claims at an overseas water business of S$25.4 million, impairment charges of S$56.3 million mainly relating to assets and investments in Singapore, as well as S$39.1 million in refinancing cost incurred for our second thermal power plant in India.

The exceptional gain recorded by the business in 2016 amounted to S$2.5 million, comprising S$33.5 million from the gain on divestment of a municipal water operation in Yancheng, China, less S$31.0 million in refinancing cost for our first thermal power plant in India.

The Marine business' net profit contribution to the Group was S$6.8 million in 2017, compared to S$48.3 million in 2016. The business' lower net profit in 2017 was mainly due to lower overall business volume, especially in rigs & floaters and offshore platforms, which impacted the absorption of overhead costs, and additional cost accruals for floater projects which are pending finalisation with the customers, partially offset by divestment gains and a lower share of losses from associates and joint ventures.

Meanwhile, the Urban Development business reported a net profit of S$83.2 million, up from S$33.3 million in 2016. The business' strong performance was driven by higher contributions from all its operating markets, and in particular, by higher sales in China.

Return on equity for the Group was 3.2% and earnings per share amounted to 10.5 cents.

**2016**
Sembcorp posted a net profit of S$394.9 million and a turnover of S$7.9 billion in 2016, compared to S$548.9 million and S$9.5 billion respectively in 2015.

In 2016, the Utilities business contributed S$348.0 million in net profit to the Group. 63% of this net profit was generated by its overseas operations. Excluding exceptional items, the business delivered a profit growth of 4% over 2015, backed by record profits in China of S$124.8 million. Exceptional items recorded by the business in 2016 amounted to S$2.5 million, comprising S$33.5 million from the divestment gain on the sale of a municipal water operation in Yancheng, China, less S$31.0 million total refinancing cost for our first thermal power plant in India. Exceptional items recorded by the business for 2015 amounted to S$369.9 million, comprising divestment gains of S$425.6 million from the sale of a waste management joint venture in Australia and municipal water operations in Bournemouth, the UK and Zhumadian, China, less S$55.7 million comprising S$31.4 million from the exit of the chemical feedstock business and impairment of assets in Singapore (net of settlement amounts from customers) and S$24.3 million in net allowance for doubtful debts in China.

The Marine business' net profit contribution to the Group was S$48.3 million in 2016, compared to a net loss of S$176.4 million in 2015. The business' net loss in 2015 was mainly due to write-downs of inventory and work-in-progress and provisions for foreseeable losses for rig building projects. Meanwhile, the Urban Development business reported a net profit of S$33.3 million, comparable to S$33.5 million in the previous year.

**2015**
Sembcorp posted a net profit of S$548.9 million and a turnover of S$9.5 billion for 2015 compared to S$801.1 million and S$10.9 billion in 2014 respectively.

In 2015, the Utilities business delivered a 72% growth in net profit to S$701.5 million compared to S$408.0 million in 2014. This increase was underpinned by growth from its overseas operations as well as gains from the sale of its Australian waste management joint venture and municipal water operations in the UK and Zhumadian, China.

Meanwhile, at the Sembcorp Industries level, the Marine business incurred a net loss of S$176.4 million in 2015 compared to a net profit of S$340.0 million in 2014. The Urban Development business posted a net profit of S$33.5 million compared to S$44.3 million in 2014.

**2014**
Sembcorp delivered a healthy performance in 2014 amid challenging market conditions. Net profit for the year was S$801.1 million, while turnover stood at S$10.9 billion.

In 2014, the Utilities business reported a net profit of S$408.0 million, compared to S$449.9 million in 2013. The business achieved a 7% net profit growth in 2014 from 2013 excluding gains from the initial public offering of Sembcorp Salalah Power and Water Company (Sembcorp Salalah) offset by an impairment made for operations in the UK.

The Marine business contributed S$340.0 million to the Group's net profit in 2014, compared to S$336.9 million in 2013. Meanwhile, the Urban Development business reported a net profit of S$44.3 million, compared to S$50.2 million in the previous year.

**2013**
Sembcorp delivered a robust performance for 2013. Net profit grew 9% to S$820.4 million from S$753.3 million in 2012, while turnover increased 6% to S$10.8 billion from S$10.2 billion the previous year.

In 2013, the Utilities business delivered strong profit growth of 20%, with net profit increasing to S$449.9 million from S$374.6 million in 2012, underpinned by solid growth from operations in China and gains from the initial public offering of Sembcorp Salalah, partially offset by an impairment made for operations in the UK.

The Marine business reported a net profit of S$336.9 million in 2013, up 3% from S$326.7 million in 2012. Meanwhile, the Urban Development business reported a 22% increase in net profit to S$50.2 million from S$41.1 million the previous year.

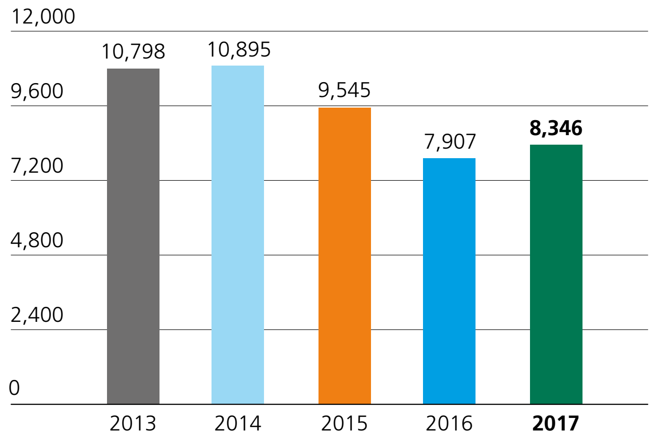
# Group Financial Review

## Five-year Financials

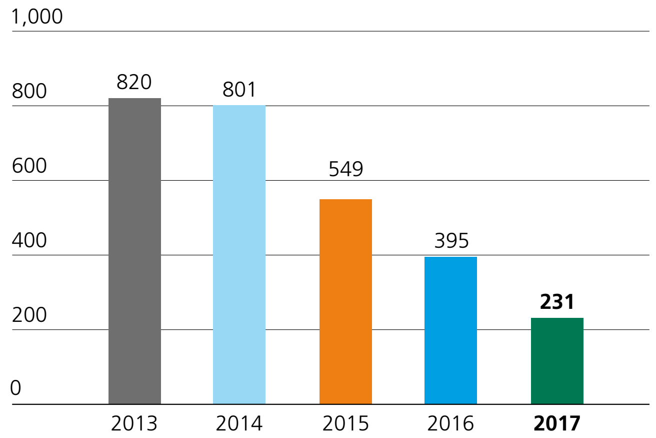
| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **For the Year** *(S$ million)* | | | | | |
| Turnover | **8,346** | 7,907 | 9,545 | 10,895 | 10,798 |
| Earnings before interest, tax, depreciation and amortisation[1] | **1,264** | 1,315 | 1,720 | 1,457 | 1,477 |
| Profit from operations | **795** | 909 | 631 | 1,297 | 1,315 |
| – Earnings before interest and tax | **631** | 784 | 625 | 1,139 | 1,160 |
| – Share of results: Associates & JVs, net of tax | **164** | 125 | 6 | 158 | 155 |
| Profit before tax | **312** | 537 | 426 | 1,246 | 1,214 |
| Net profit | **231** | 395 | 549 | 801 | 820 |
| **At Year End** *(S$ million)* | | | | | |
| Property, plant and equipment and investment properties | **11,249** | 11,287 | 8,706 | 7,749 | 5,148 |
| Other non-current assets | **3,869** | 3,379 | 3,602 | 3,297 | 2,916 |
| Net current assets | **2,259** | 1,609 | 1,661 | 773 | 788 |
| Non-current liabilities | **(9,161)** | (8,112) | (5,926) | (4,587) | (2,322) |
| Net assets | **8,216** | 8,163 | 8,043 | 7,232 | 6,530 |
| Share capital and reserves (including perpetual securities) | **6,969** | 6,702 | 6,433 | 5,616 | 5,230 |
| Non-controlling interests | **1,247** | 1,461 | 1,610 | 1,616 | 1,300 |
| Total equity | **8,216** | 8,163 | 8,043 | 7,232 | 6,530 |
| **Per Share** | | | | | |
| Earnings *(cents)* | **10.51** | 19.92 | 29.17 | 44.31 | 45.70 |
| Net assets *(S$)* | **3.90** | 3.75 | 3.60 | 3.15 | 2.93 |
| Net ordinary dividends (including bonus dividends) *(cents)* | **5** | 8 | 11 | 16 | 17 |
| **Financial Ratios** | | | | | |
| Return on equity *(%)* | **3.2** | 6.2 | 9.4 | 15.2 | 17.1 |
| Return on total assets *(%)* | **3.4** | 4.0 | 3.7 | 7.5 | 9.1 |
| Interest cover *(times)* | **2.4** | 3.3 | 7.2 | 20.8 | 12.5 |
| Total debt-to-capitalisation ratio | **0.55** | 0.53 | 0.46 | 0.40 | 0.23 |
| Total debt-to-capitalisation ratio (less cash and cash equivalents) | **0.40** | 0.42 | 0.35 | 0.26 | Net cash |

[1] *Earnings before interest, tax, depreciation and amortisation excludes major non-cash items such as the effects of fair value adjustments, re-measurements, impairments and write-offs*

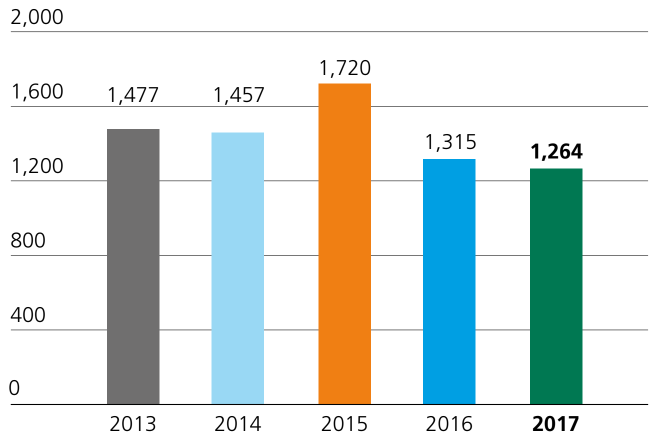
**Turnover** *(S$ million)*



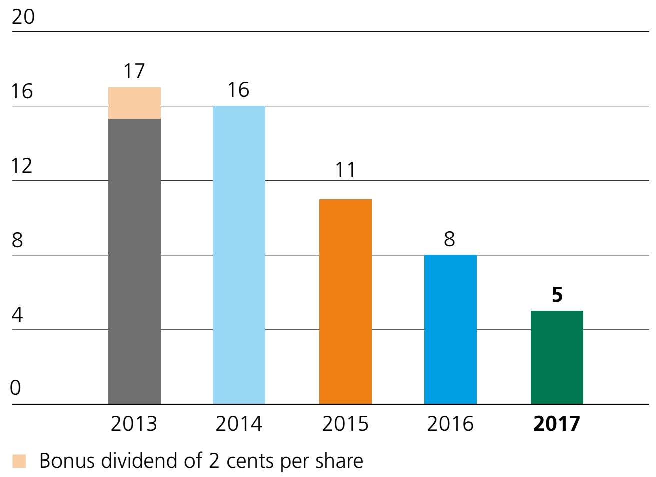

**Net Profit** *(S$ million)*



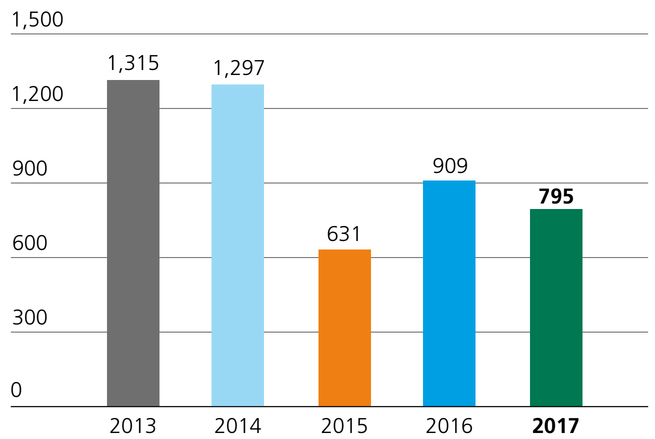

**EBITDA** *(S$ million)*



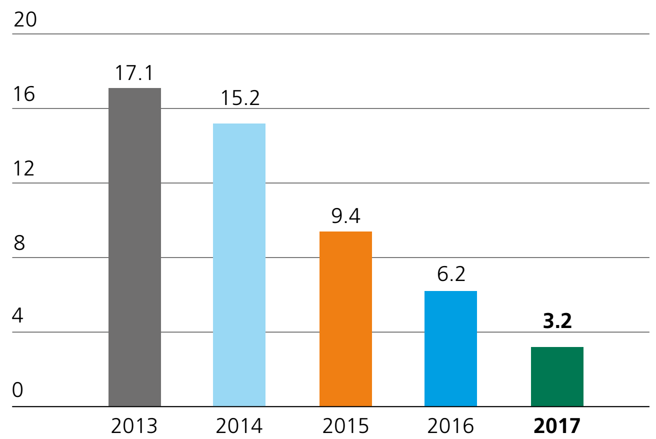

**Net Ordinary Dividend Per Share** *(cents)*




**PFO** *(S$ million)*




**ROE** *(%)*



# Group Financial Review

**Review by Business** *(S$ million)*

| | 2017 | % | 2016 | % | 2015 | % | 2014 | % | 2013 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover** | | | | | | | | | | |
| Utilities | **5,670** | **68** | 4,111 | 52 | 4,227 | 44 | 4,850 | 44 | 5,095 | 47 |
| Marine | **2,388** | **29** | 3,544 | 45 | 4,968 | 52 | 5,831 | 54 | 5,523 | 51 |
| Urban Development | **8** | **–** | 7 | – | 8 | – | 7 | – | 9 | – |
| Others / Corporate | **280** | **3** | 245 | 3 | 342 | 4 | 207 | 2 | 171 | 2 |
| | **8,346** | **100** | 7,907 | 100 | 9,545 | 100 | 10,895 | 100 | 10,798 | 100 |
| **Profit from Operations** | | | | | | | | | | |
| Utilities | **650** | **82** | 737 | 81 | 948 | 150 | 522 | 40 | 613 | 47 |
| Marine | **65** | **8** | 171 | 19 | (342) | (54) | 718 | 55 | 660 | 50 |
| Urban Development | **89** | **11** | 38 | 4 | 38 | 6 | 47 | 4 | 45 | 3 |
| Others / Corporate | **(9)** | **(1)** | (37) | (4) | (13) | (2) | 10 | 1 | (3) | – |
| | **795** | **100** | 909 | 100 | 631 | 100 | 1,297 | 100 | 1,315 | 100 |
| **Net Profit** | | | | | | | | | | |
| Utilities | **140** | **61** | 348 | 88 | 701 | 128 | 408 | 51 | 450 | 55 |
| Marine | **7** | **3** | 48 | 12 | (176) | (32) | 340 | 42 | 337 | 41 |
| Urban Development | **83** | **36** | 33 | 9 | 34 | 6 | 44 | 6 | 50 | 6 |
| Others / Corporate | **1** | **–** | (34) | (9) | (10) | (2) | 9 | 1 | (17) | (2) |
| | **231** | **100** | 395 | 100 | 549 | 100 | 801 | 100 | 820 | 100 |

**Performance Scorecard** *(S$ million)*

| | 2017 | 2016 | Change *(%)* |
|---|---|---|---|
| Turnover | **8,345.6** | 7,907.0 | 6 |
| EBITDA[1] | **1,264.3** | 1,314.9 | (4) |
| PFO | **795.3** | 909.0 | (13) |
| – EBIT | **631.2** | 783.9 | (20) |
| – Share of results: Associates & JVs, net of tax | **164.1** | 125.1 | 31 |
| PBT | **312.1** | 537.4 | (42) |
| Net profit | **230.8** | 394.9 | (42) |
| EPS *(cents)* | **10.5** | 19.9 | (47) |
| ROE *(%)* | **3.2** | 6.2 | (48) |

[1] *EBITDA excludes major non-cash items such as the effects of fair value adjustments, re-measurements, impairments and write-offs*

## Overview

Sembcorp posted a net profit of S$230.8 million and a turnover of S$8.3 billion in 2017, compared to S$394.9 million and S$7.9 billion respectively in 2016.

## Turnover

The Group achieved a turnover of S$8.3 billion, with the Utilities and Marine businesses contributing 97% of total turnover.

The Utilities business' turnover was higher in 2017 compared to 2016. This was mainly due to the impact of stronger high sulphur fuel oil prices on Singapore operations, contribution from our second thermal power plant in India, as well as the recognition of construction revenue for the business' Myanmar and Bangladesh projects.

The Marine business' turnover decreased over the previous year, mainly due to lower revenue recognised for rig & floaters and offshore platform projects. Turnover also saw the effect of the sale of nine rigs and termination of five jack-up rig contracts.

## Net Profit

The Group recorded a net profit of S$230.8 million in 2017 compared to S$394.9 million in 2016, while profit from operations was S$795.3 million, compared to S$909.0 million in 2016.

In 2017, the Utilities business contributed S$140.0 million in net profit to the Group, compared to S$348.0 million in 2016. On an underlying basis, the business delivered a net profit of S$260.8 million. Singapore operations continued to perform well, mitigating the weak performance of our second thermal power plant in India and the absence of contribution from the Yangcheng coal-fired power project in China following the expiry of its cooperative joint venture agreement. Singapore operations were also the largest net profit contributor to the Utilities business' net profit before exceptional items for 2017.

Exceptional losses recorded by the business in 2017 amounted to S$120.8 million. These included provision for potential fines and claims at an overseas water business of S$25.4 million, impairment charges of S$56.3 million mainly relating to assets and investments in Singapore, as well as S$39.1 million in refinancing cost incurred for our second thermal power plant in India.

Exceptional items recorded by the business in 2016 amounted to S$2.5 million, comprising S$33.5 million from the gain on divestment of a municipal water operation in Yancheng, China, less S$31.0 million total refinancing cost for our first thermal power plant in India.

The Marine business' net profit contribution to the Group was S$6.8 million in 2017, compared to S$48.3 million in 2016. Marine's lower contribution was mainly due to lower overall business volume, especially in rigs & floaters and offshore platforms, which impacted the absorption of overhead costs, and additional costs accruals for floater projects that are pending finalisation with customers, partially offset by divestment gains and lower share of losses from associates and joint ventures.

Meanwhile, the Urban Development business reported a net profit of S$83.2 million, a 150% growth over its S$33.3 million net profit in the previous year. The business' strong performance was driven by higher contributions from all its operating markets, namely Vietnam, China and Indonesia.

Operating and Financial Review

# Group Financial Review

**Turnover** *(S$ million)*

| | 2017 | 2016 |
|---|---|---|
| Utilities | **5,670** | 4,111 |
| Marine | **2,388** | 3,544 |
| Urban Development | **8** | 7 |
| Others / Corporate | **280** | 245 |
| | **8,346** | 7,907 |

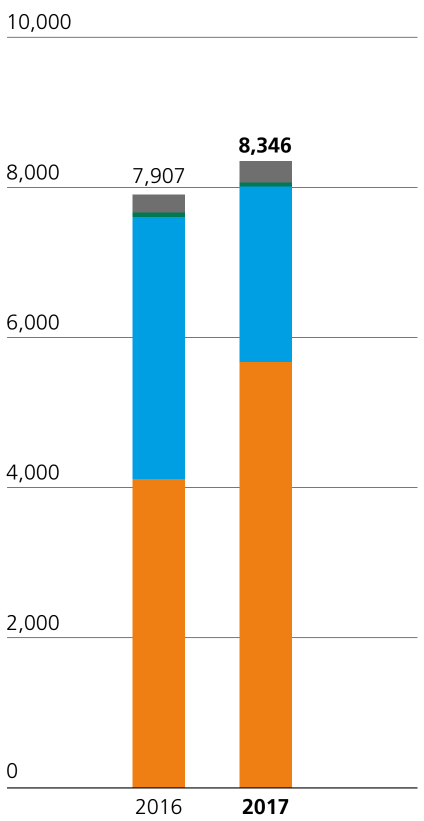
**PFO** *(S$ million)*

| | 2017 | 2016 |
|---|---|---|
| Utilities | **650** | 737 |
| Marine | **65** | 171 |
| Urban Development | **89** | 38 |
| Others / Corporate | **(9)** | (37) |
| | **795** | 909 |

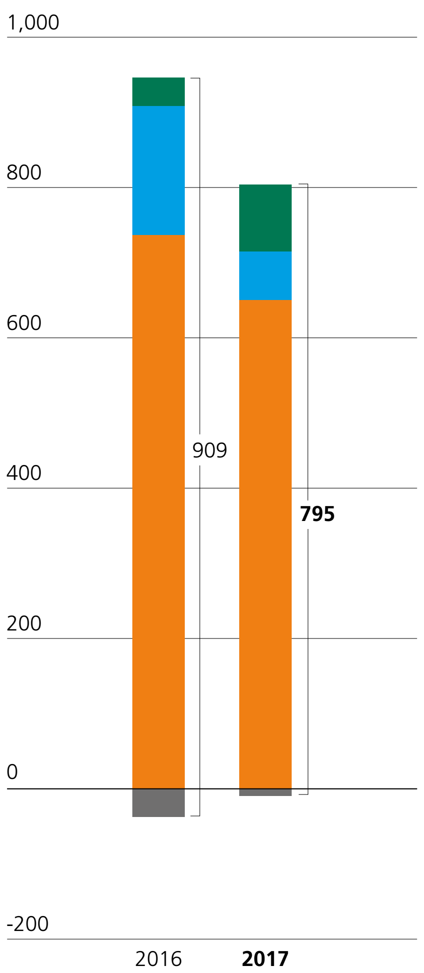
**Net Profit** *(S$ million)*

| | 2017 | 2016 |
|---|---|---|
| Utilities | **140** | 348 |
| Marine | **7** | 48 |
| Urban Development | **83** | 33 |
| Others / Corporate | **1** | (34) |
| | **231** | 395 |

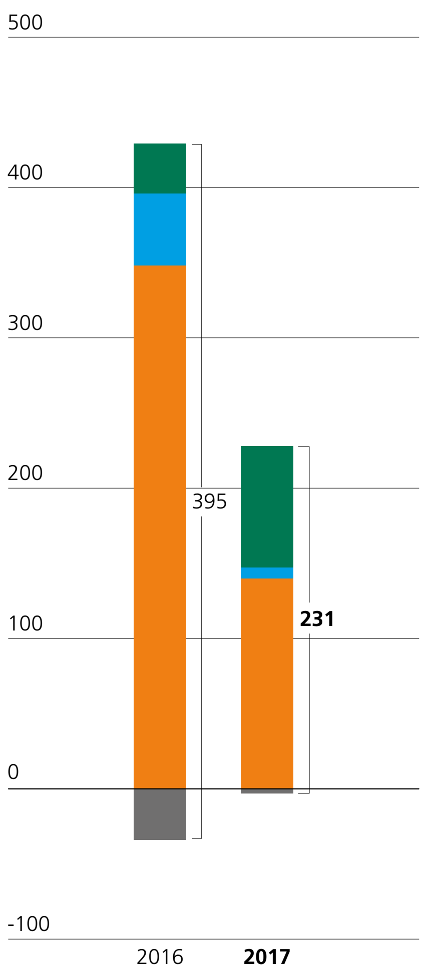
**Turnover** *(S$ million)*




**PFO** *(S$ million)*




**Net Profit** *(S$ million)*




## Cash Flow and Liquidity

As at December 31, 2017, the Group's cash and cash equivalents stood at S$2.7 billion.

Net cash from operating activities before changes in working capital remained strong at S$1.2 billion. Cash outflow from changes in working capital in 2017 was mainly for the Utilities business' increase in service concession receivables from the Myingyan and Sirajganj Unit 4 power projects. The service concession receivables will be collected over the period of the concession contracts from the time the power plants commence commercial operations.

Net cash outflow from investing activities for 2017 was S$92.2 million, mainly for the Utilities and Marine businesses' purchases of property, plant and equipment, reduced by dividends as well as proceeds received from the divestment of investments and other financial assets and loan repayment from related parties.

Net cash inflow from financing activities for 2017 was S$276.2 million. This was primarily due to an increase in net borrowings and issuance of perpetual securities, mainly for the Group's working capital and capital expenditure requirements, partially reduced by dividends and interest paid.

## Financial Position

Group shareholders' funds increased to S$6.0 billion as at December 31, 2017, from S$5.9 billion as at December 31, 2016.

Non-current assets increased in 2017. This was due primarily to an increase in trade and other receivables relating to the Utilities business' service concession receivables for its Myingyan and Sirajganj Unit 4 power projects, as well as the Marine business' billings to a customer upon completion of a rig building project.

Inventories and work-in-progress decreased, mainly due to Marine's successful delivery of rig building and floater projects. Current assets held for sale decreased, mainly due to the Marine business' divestment of its 30% equity interest in Cosco Shipyard Group, which was completed in January 2017.

Interest-bearing borrowings increased in 2017, mainly due to additional borrowings for Utilities working capital and capital expenditure.

## Shareholder Returns

In 2017, return on equity for the Group was 3.2% and earnings per share amounted to 10.5 cents.

Subject to approval by shareholders at the next annual general meeting, a final dividend of 2.0 cents per ordinary share has been proposed for the financial year ending December 31, 2017. Together with an interim dividend of 3.0 cents per ordinary share paid in August 2017, this brings our total dividend for the year to 5.0 cents per ordinary share.

## Economic Value Added

Economic value added (EVA) was negative in 2017, mainly due to a weaker overall performance by the Marine business. In 2017, EVA also included the impact of new investments at an early stage of operation.

## Value Added and Productivity Data

In 2017, the Group's total value added was S$2.4 billion. This was absorbed by employees in wages, salaries and benefits of S$807 million, by governments in income and other taxes of S$104 million and by providers of capital in interest, dividends and distribution of S$694 million, leaving a balance of S$750 million reinvested in business.

## Critical Accounting Policies

Sembcorp's financial statements are prepared in accordance with Singapore Financial Reporting Standards (FRSs).

With effect from January 1, 2017, the Group adopted the following new / amended FRSs, set out in the table below.

The adoption of the FRSs below (including consequential amendments) does not have any significant impact on the Group's financial statements.

**Amendments to FRSs**

| | |
|---|---|
| FRS 7 | Statement of Cash Flows – Disclosure initiative |
| FRS 12 | Income Tax – Recognition of deferred tax assets for unrealised losses |
| FRS 112 | Disclosure of interests in Other Entities |

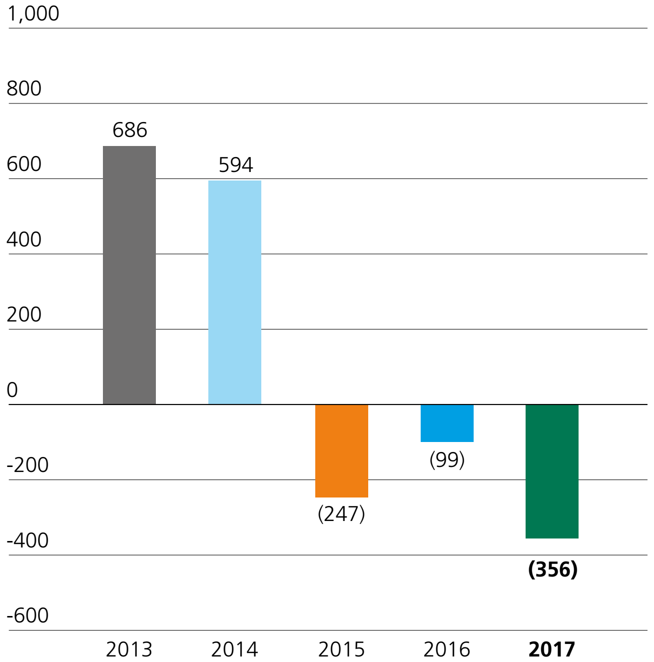
## Financial Risk Management

The Group's activities expose it to a variety of financial risks, including changes in interest rates, foreign exchange rates and commodity prices, as well as credit risk.

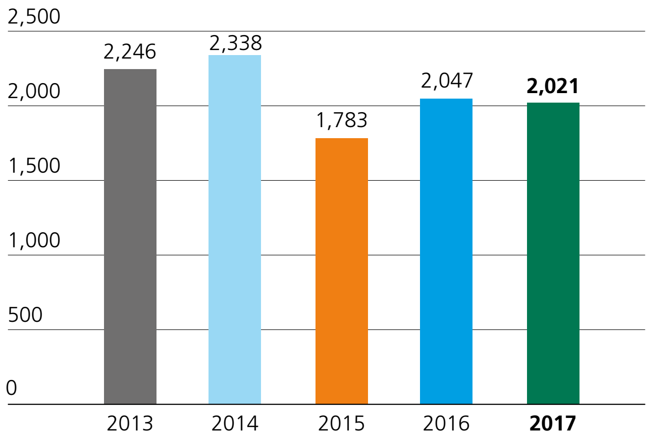
*For details on the management of these risks, please refer to page 106 of this annual report.*

# Group Financial Review

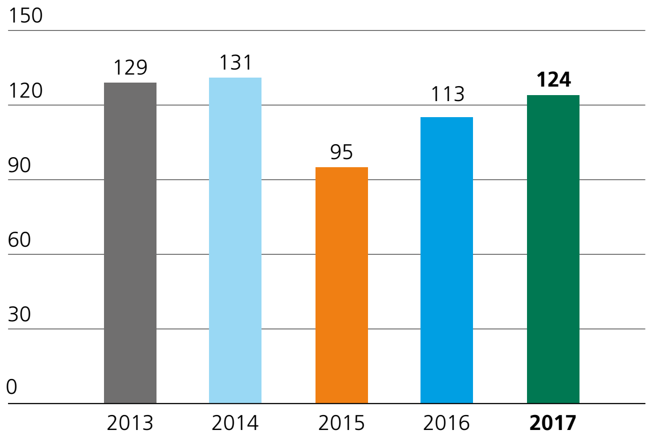
**Economic Value Added** *(S$ million)*



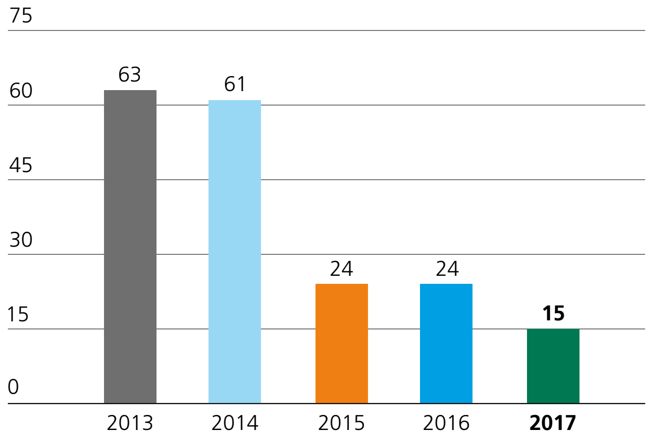

**Gross Value Added** *(S$ million)*




**Value Added Per Employee** *(S$ thousands)*




**Profit After Tax Per Employee** *(S$ thousands)*




**Value Added Statement** *(S$ million)*

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Value Added from** | | | | | |
| Turnover | **8,346** | 7,907 | 9,545 | 10,895 | 10,798 |
| Less: Bought in materials and services | **(6,325)** | (5,860) | (7,762) | (8,557) | (8,552) |
| Gross value added | **2,021** | 2,047 | 1,783 | 2,338 | 2,246 |
| Investment, interest and other income | **410** | 536 | 985 | 253 | 308 |
| Share of results of associates and JVs, net of tax | **164** | 125 | 6 | 159 | 155 |
| Other non-operating expenses | **(240)** | (491) | (631) | (168) | (95) |
| | **2,355** | 2,217 | 2,143 | 2,582 | 2,614 |
| **Distribution** | | | | | |
| To employees in wages, salaries and benefits | **807** | 800 | 832 | 871 | 916 |
| To governments in income and other taxes | **104** | 119 | 137 | 211 | 182 |
| To providers of capital in: | | | | | |
| Interest on borrowings | **526** | 402 | 238 | 70 | 118 |
| Dividends to owners | **125** | 179 | 285 | 393 | 268 |
| Profit attributable to perpetual securities holders | **43** | 39 | 28 | 9 | 4 |
| | **1,605** | 1,539 | 1,520 | 1,554 | 1,488 |
| **Retained in Business** | | | | | |
| Depreciation and amortisation | **571** | 454 | 405 | 315 | 303 |
| Deferred tax expense / (credit) | **14** | 32 | (106) | 26 | (12) |
| Retained profits | **63** | 178 | 236 | 399 | 548 |
| Non-controlling interests | **14** | 42 | (94) | 283 | 277 |
| | **662** | 706 | 441 | 1,023 | 1,116 |
| Other non-operating (expense) / income | **88** | (28) | 182 | 5 | 10 |
| | **750** | 678 | 623 | 1,028 | 1,126 |
| **Total Distribution** | **2,355** | 2,217 | 2,143 | 2,582 | 2,614 |

# Group Financial Review

**Productivity Data**

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Average staff strength | **16,288** | 18,072 | 18,676 | 17,806 | 17,401 |
| Employment costs *(S$ million)* | **807** | 800 | 832 | 871 | 916 |
| Profit after tax per employee *(S$'000)* | **15** | 24 | 24 | 61 | 63 |
| | | | | | |
| Value added *(S$ million)* | **2,021** | 2,047 | 1,783 | 2,338 | 2,246 |
| Value added per employee *(S$'000)* | **124** | 113 | 95 | 131 | 129 |
| Value added per dollar employment costs *(S$)* | **2.50** | 2.56 | 2.14 | 2.68 | 2.45 |
| Value added per dollar investment in property, plant and equipment *(S$)* | **0.13** | 0.14 | 0.15 | 0.22 | 0.30 |
| Value added per dollar sales *(S$)* | **0.24** | 0.26 | 0.19 | 0.21 | 0.21 |

*The figures above reflect data for core businesses only*

## Treasury Management

Sembcorp Financial Services (SFS), the Group's wholly-owned treasury vehicle, manages the Group's financing activities, as well as its treasury activities in Singapore. SFS also oversees financing and treasury activities outside of Singapore together with the respective business units. In addition, SFS facilitates funding and on-lends funds borrowed by it to businesses within the Group, where appropriate.

SFS and our overseas treasury units actively manage cash within the Group by setting up cash pooling structures in various countries where appropriate, to take in surplus funds from businesses and lend it to those with funding requirements. We also actively manage the Group's excess cash, deploying it to a number of financial institutions, and closely track developments in the global banking sector. Such proactive cash management continues to be an efficient and cost-effective way of managing the Group's cash and financing its funding requirements.

## Facilities

As at December 31, 2017, the Group's total credit facilities, including its multi-currency debt issuance programme, amounted to S$21.1 billion (2016: S$20.5 billion). This comprised funded facilities of S$17.2 billion (2016: S$16.1 billion), including S$11.8 billion in committed facilities (2016: S$10.8 billion), and trade-related facilities of S$3.9 billion (2016: S$4.4 billion), including but not limited to bank guarantees, letters of credit, bid bonds and performance bonds.

## Borrowings and Issuance of Perpetual Securities

In 2017, SFS raised a total of S$200 million of seven-year debt to refinance current debt, effectively extending the maturity to 2024. A S$500 million five-year revolving credit facility was also established as a standby facility to fund the Group's future needs.

In June 2017, the Group issued S$200 million of perpetual securities under its S$2.5 billion multi-currency debt issuance programme, which were accounted for as equity.

The Group aims to term out loans such that their maturity profile mirrors the operating life of our core assets, while continuing our focus on maintaining adequate liquidity for our businesses. We continue to build on our banking relationships to ensure that we are able to secure funding on competitive terms, as and when commercially viable and strategically attractive opportunities arise.

As at December 31, 2017, the Group's gross borrowings amounted to S$9.8 billion (2016: S$9.2 billion). As compared to 2016, the increase of S$0.6 billion in gross borrowings was mainly due to new borrowing to finance the construction of power plants in Myanmar, Bangladesh and India. The interest cover dropped from 3.3 times in 2016 to 2.4 times in 2017. This was mainly due to an increase in borrowings, as well as finance costs for our second thermal power plant in India that were expensed in 2017 but capitalised in 2016 while the project was under construction. The Group remains committed to balancing the availability of funding and the cost of funding, while maintaining prudent financial ratios. We also aim to maintain an efficient and optimal mix of committed and uncommitted facilities.

Of the overall debt portfolio in 2017, 45% (2016: 48%) constituted fixed rate debt that was not exposed to interest rate fluctuations. The floating rate debt mainly comprised long-term bank loans in India to support the Group's projects in the country. In 2017, the Group's floating rate borrowings in the country benefited from the Reserve Bank of India's reduction of interest rates. We continue to actively monitor and manage the mix of our debt portfolio.

# Group Financial Review

## Financing and Treasury Highlights *(S$ million)*

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Source of Funding** | | | |
| **Cash and cash equivalents** | **2,687** | 1,883 | 1,606 |
| **Funded facilities (including multi-currency debt issuance programme)** | | | |
| Committed funded facilities | **11,807** | 10,827 | 9,687 |
| Less: Amount drawn down | **(9,821)** | (9,009) | (6,864) |
| **Unutilised committed funded facilities** | **1,986** | 1,818 | 2,823 |
| Uncommitted funded facilities | **5,359** | 5,322 | 4,748 |
| Less: Amount drawn down | **(1,027)** | (1,012) | (768) |
| **Unutilised uncommitted funded facilities** | **4,332** | 4,310 | 3,980 |
| **Total unutilised funded facilities** | **6,318** | 6,128 | 6,803 |
| **Trade-related facilities** | | | |
| Facilities available | **3,929** | 4,379 | 4,347 |
| Less: Amount used | **(2,206)** | (2,411) | (2,337) |
| **Unutilised trade-related facilities** | **1,723** | 1,968 | 2,010 |
| **Funding Profile** | | | |
| **Maturity profile** | | | |
| Due within one year | **1,573** | 2,126 | 1,801 |
| Due between one to five years | **5,203** | 4,043 | 2,957 |
| Due after five years | **3,072** | 3,052 | 2,075 |
| | **9,848** | 9,221 | 6,833 |
| **Debt mix** | | | |
| Fixed rate debt | **4,469** | 4,416 | 4,529 |
| Floating rate debt | **5,379** | 4,805 | 2,304 |
| | **9,848** | 9,221 | 6,833 |

## Financing and Treasury Highlights *(S$ million)*

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Debt Ratios** | | | |
| **Interest cover ratio** | | | |
| Earnings before interest, tax, depreciation and amortisation | **1,264** | 1,315 | 1,720 |
| Interest on borrowings | **526** | 402 | 238 |
| Interest cover *(times)* | **2.4** | 3.3 | 7.2 |

| | 2017 | D/C ratio | 2016 | D/C ratio | 2015 | D/C ratio |
|---|---|---|---|---|---|---|
| **Debt / capitalisation (D/C) ratios** | | | | | | |
| Sembcorp Industries corporate debt | **2,484** | **0.14** | 1,697 | 0.10 | 1,197 | 0.08 |
| Sembcorp Industries project finance debt | **3,264** | **0.18** | 3,369 | 0.19 | 2,256 | 0.15 |
| Sembcorp Marine debt | **4,100** | **0.23** | 4,155 | 0.24 | 3,380 | 0.23 |
| Sembcorp Industries Group gross debt | **9,848** | **0.55** | 9,221 | 0.53 | 6,833 | 0.46 |
| Less: Cash and cash equivalents | **(2,687)** | **–** | (1,883) | – | (1,606) | – |
| Sembcorp Industries Group net debt / (cash) | **7,161** | **0.40** | 7,338 | 0.42 | 5,227 | 0.35 |

Operating and Financial Review

# UTILITIES

## Competitive Edge

- Global track record as an originator, owner or investor, operator and optimiser of thermal and renewable energy as well as water assets with strong operational, management and technical capabilities
- An integrated energy player with operations in 14 countries. Strong foothold in high-growth developing markets and experience in developed markets
- Proven deep integration expertise in the provision of energy, water and on-site logistics to multiple industrial site customers
- A balanced global portfolio of high-efficiency thermal and renewable power assets, with capabilities in gas, coal, wind, solar, biomass as well as energy-from-waste
- Solid track record in providing total water and wastewater treatment solutions for industries and water-stressed regions

Water and Wastewater Treatment Capacity of Close to

9,000,000 $m^3$/day

Power Capacity

>11,000 MW

including >2,000 MW renewable energy

*Clockwise from left:*

*Sembcorp's combined power and desalination plant in Fujairah, UAE*

*Sembcorp's grid-tied rooftop solar energy system at ST Aerospace's facility in Changi, Singapore*

*Sembcorp Green Infra's wind farm in Rajasthan, India*

*Sembcorp's 815-megawatt cogeneration plant in the Sakra area on Jurong Island, Singapore*

# Utilities Review

## Performance Scorecard

**Financial Indicators** *(S$ million)*

| | 2017 | 2016 | Change (%) |
|---|---|---|---|
| Turnover | **5,699.6** | 4,132.9 | 38 |
| Earnings before interest, tax, depreciation and amortisation | **1,000.2** | 916.8 | 9 |
| Profit from operations | **649.9** | 737.2 | (12) |
| – Earnings before interest and tax | **580.6** | 633.0 | (8) |
| – Share of results: Associates & JVs, net of tax | **69.3** | 104.2 | (34) |
| Net profit | **140.0** | 348.0 | (60) |
| – Net profit before exceptional items | **260.8** | 345.5 | (25) |
| – Exceptional items[1] | **(120.8)** | 2.5 | NM |
| Return on equity *(%)* | **3.3** | 9.3 | (64) |

[1] *Exceptional items amounted to*

***2017**: A total of S$120.8 million, comprising S$39.1 million in refinancing cost for the second thermal power plant in India, S$56.3 million of impairment charges mainly relating to Singapore's assets and investments and S$25.4 million of provision for potential fines and claims at an overseas water business*

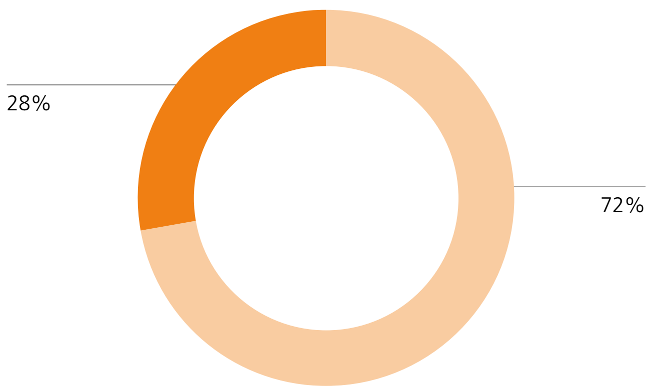
***2016**: A total of S$2.5 million, comprising S$33.5 million from the divestment gain on the sale of the municipal water operation in Yancheng, China, less S$31.0 million total refinancing cost for the first thermal power plant in India*

**Operational Indicators**

| | 2017 | 2016 |
|---|---|---|
| Power capacity *(megawatts)* | **11,689** | 10,916 |
| Steam capacity *(tonnes per hour)* | **3,844** | 4,532 |
| Water & wastewater treatment capacity *(cubic metres per day)* | **8,927,490** | 8,821,252 |

*Note: Capacity refers to total gross installed capacity of facilities in operation and under development*

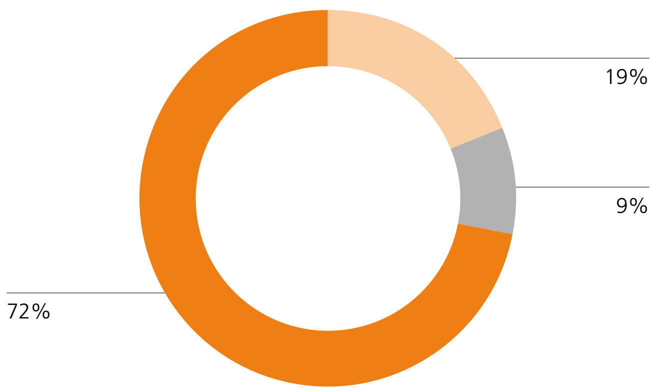
### PFO* by Geography




■ Singapore ■ Overseas

* *Excluding Corporate and exceptional items*

### PFO* by Segment




■ Energy ■ Water ■ On-site logistics & solid waste management

## Key Developments

*Consolidated all thermal and renewable power operations in India under Sembcorp Energy India Limited, and initiated the process for an initial public offering for it with the filing of a draft red herring prospectus in February 2018. This will build a sustainable platform to grow our India energy business in the long term*

*Continued to focus on growth for our renewables business, with 500 megawatts won in two national wind tenders in India, and over 300 megawatts of new wind capacity coming onstream in China. In addition, we secured another 300 megawatts of wind power capacity in India's February 2018 tender*

*Entered into new agreements with ExxonMobil Asia Pacific, following its purchase of Banyan assets from Jurong Aromatics Corporation (former JAC complex) on Jurong Island. These included utilities service agreements for these assets and for the sale of certain utilities facilities serving them, as well as additional agreements for supply of power, natural gas and service corridor services*

*Strengthened our rooftop solar power business in Singapore, underscoring our commitment to green energy as Singapore moves towards an open electricity market. To-date, we have secured six rooftop photovoltaic projects with a combined capacity of close to 13 megawatts*

## Operating and Financial Review

**Strengthening base, positioning for the future**

The Utilities business delivered an improved underlying performance despite challenging markets, and remained the biggest contributor to the Group. In 2017, the business focused on executing initiatives to drive performance and reduce cost, strengthening its base as it transitions to a new strategic direction.

Turnover was S$5.7 billion compared to S$4.1 billion in 2016. Underlying profit from operations (PFO), before exceptional items of S$117.7 million, grew 6% to S$767.6 million on better operating performance from Singapore and India operations. 2017 profit from operations was S$649.9 million and S$737.2 million in 2016. Underlying net profit, before exceptional items of S$120.8 million, was S$260.8 million compared to S$345.5 million last year. 2017 net profit was S$140.0 million and S$348.0 million in 2016. The exceptional items in 2017 relate mainly to refinancing costs incurred for our second thermal power plant in India, non-cash impairment charges taken on the Singapore assets and investments, as well as a provision for potential fines and claims at an overseas water business.

Similar to last year's mix, overseas operations contributed almost three-quarters of the Utilities business' PFO before exceptional items and corporate costs or S$563.1 million. Meanwhile, Singapore operations contributed 28% of the Utilities business' PFO, with S$217.4 million.

# Utilities Review

**PFO** *(S$ million)*

| | 2017 | 2016 | Change (%) |
|---|---|---|---|
| Singapore | **217.4** | 198.3 | 10 |
| China | **91.0** | 140.1 | (35) |
| India | **329.4** | 239.5 | 38 |
| Rest of Asia | **47.8** | 16.7 | 186 |
| Middle East & Africa | **60.9** | 64.0 | (5) |
| UK & the Americas | **34.0** | 52.8 | (36) |
| Corporate | **(12.9)** | 12.3 | NM |
| PFO before exceptional items | **767.6** | 723.7 | 6 |
| Exceptional items[1] | **(117.7)** | 13.5 | NM |
| Total PFO | **649.9** | 737.2 | (12) |
| Less: interest, tax and non-controlling interests | **(509.9)** | (389.2) | (31) |
| Net profit | **140.0** | 348.0 | (60) |

[1] *Exceptional items amounted to*

***2017****: A total of S$117.7 million, comprising S$36.0 million in refinancing cost for the second thermal power plant in India, S$56.3 million of impairment charges mainly relating to Singapore's assets and investments and S$25.4 million of provision for potential fines and claims at an overseas water business*

***2016****: A total of S$13.5 million, comprising S$34.7 million from the divestment gain on the sale of the municipal water operation in Yancheng, China, less S$21.2 million total refinancing cost for our first thermal power plant in India*

**Singapore**

Our Singapore operations performed well despite a tough power market, delivering a 10% growth in PFO to S$217.4 million. This was driven by a solid performance by its centralised utilities and gas businesses, arising from higher customer offtake and higher high sulphur fuel oil prices.

During the year, we entered into new agreements with ExxonMobil Asia Pacific. This included the sale of certain utilities facilities in Banyan that are serving the assets sold by Jurong Aromatics Corporation to ExxonMobil. Total consideration for these facilities, comprising boilers, cooling tower and associated assets, is US$113 million and completion of the transaction is expected to take place between the second half of 2019 and first half of 2020. In the interim, we entered into new utilities service agreements for the continued sale and supply of utilities, while additional agreements were signed for power and natural gas supply as well as for use of our service corridor.

In line with our commitment to sustainability and green energy as Singapore moves towards an open electricity market, we also made good headway in strengthening our track record in rooftop photovoltaic solutions that help customers reduce their carbon footprint. Marking our entry into the business with our first rooftop solar energy project in late-2016, today we have expanded to six projects with a combined capacity of close to 13 megawatts.

**China**

With the absence of contribution from the Yangcheng coal-fired power plant and Yancheng municipal water operations in 2017, PFO from China operations declined to S$91.0 million from S$140.1 million in 2016. In late January, the 1,320-megawatt Chongqing Songzao supercritical coal-fired power plant achieved full commercial operation, but high coal prices, lower demand for thermal generation and teething issues resulted in a weak performance. However, our renewable energy operations in the country delivered an improved performance over last year, primarily due to the additional capacity from the Laoshibeihe wind power project coming into operation. Construction is ongoing for the remaining capacity at Laoshibeihe as well as the 99-megawatt Huanghua Phase 3 and 200-megawatt Huanghua Huangnanpaigan wind power projects in Hebei, China, all of which are expected to complete around mid-2018.

Meanwhile, water operations in the country delivered a better performance in 2017. 2017 earnings included the maiden contribution from the Changzhi Total Water Management Plant, which commenced commercial operations at the end of September.

**India**

PFO from India operations grew 38% from S$239.5 million to S$329.4 million in 2017, however in net profit terms it posted a net loss of S$57.8 million.

Sembcorp Green Infra (SGI), our India renewable energy arm, delivered an improved performance in 2017. The business was affected by lower wind speeds compared to 2016, but benefitted from an additional 155 megawatts of capacity coming into operation. In August, we entered into an agreement to acquire our partner IDFC Private Equity Fund III's remaining stake in SGI and this has been completed. From September, we have accounted for 100% of SGI's earnings in our financials.

Demonstrating its strong capabilities, SGI secured two new projects in 2017, adding another 500 megawatts to its pipeline of new projects via national wind power tenders. In a February 2018 tender, it secured another 300 megawatts. These projects make SGI the largest capacity winner in India's wind tenders to date. The first two projects will be developed in phases, with the first targeted to be fully commissioned in 2018, and the second by the first half of 2019. The entire power output of the projects will be sold under 25-year long-term power purchase agreements (PPAs) to PTC India and the Solar Energy Corporation of India (SECI) respectively.

On the thermal power front, our first 1,320-megawatt supercritical coal-fired power plant delivered its strongest operating and financial performance since commencing full commercial operations. The plant, which has 86% of its net capacity contracted under long-term PPAs, operated at an average plant load factor (PLF) of 84.8%.

Meanwhile, our second supercritical coal-fired power plant commenced full commercial operations in February. For the full year, it operated at an average PLF of 73.8%. However, without a long-term PPA, it was subject to fluctuations in short-term and spot prices. To lower its cost of borrowing and interest expense, the plant undertook a refinancing exercise for its project finance loans during the year.

Cost and reliability optimisation measures being undertaken at both our thermal power plants are delivering good results.

In 2017 and in early 2018, we took key strategic steps towards building a platform for the growth and sustainability of our India energy business. We consolidated our thermal and renewable power operations under Sembcorp Energy India Limited, resulting in a balanced portfolio of over 4,300 megawatts, including over 1,700 megawatts of renewable power capacity. In February 2018, we filed a draft red herring prospectus with the Securities and Exchange Board of India to initiate the process for an initial public offering (IPO). The proposed listing of the shares will be on BSE Limited and the National Stock Exchange of India, with the exact timing of the listing subject to regulatory approvals and market conditions. With this IPO, we aim to bring on board domestic and retail ownership of Sembcorp Energy India Limited shares to support our utilities business in the country, and to fund its further growth.

**Rest of the World**

PFO from the Rest of Asia, where operations comprise gas-fired power plants in Vietnam, Myanmar and Bangladesh as well as municipal water operations in Indonesia and the Philippines, increased 186% to S$47.8 million. The higher PFO for the region is attributable to the service concession revenue recognised in accordance with the INT FRS 112 accounting guideline. At the end of 2017, the 230-megawatt Myingyan power project in Myanmar was 96% complete, with full commercial operations targeted for the second quarter of 2018. Meanwhile the 427-megawatt Sirajganj Unit 4 (S4) power project in Bangladesh was 65% complete, with open-cycle operations targeted in the second half 2018 and full commercial operations by the first half of 2019.

# Utilities Review

*When fully operational, the 225-megawatt gas-fired Sembcorp Myingyan Power Plant will help to ease Myanmar's power deficit*

Middle East & Africa operations posted a PFO of S$60.9 million compared to last year's S$64.0 million. Both our South Africa water operations and Fujairah 1 (F1) independent water and power plant in the UAE reported higher contributions compared to last year, with F1 achieving high power and water availability factors of 95.6% and 96.8% respectively. In December, F1's original power and water purchase agreement (PWPA) and additional water purchase agreement (WPA) were consolidated into a single amended and restated PWPA, with the term extended by another 6.5 years to 2035. In addition, F1 also successfully completed a US$400 million senior secured bond issue with an annual coupon of 4.45%. The proceeds from the issuance were used to partially prepay existing bank loans and shareholder loans. The bond issuance extends the maturity of the F1 debt by another 6.5 years to correspond with the extension of F1's PWPA. The project bond was rated A- by Standard & Poor's Global Ratings and A2 by Moody's Investor Service.

Sembcorp Salalah's performance in 2017 was impacted by Oman's new tax law which increased the corporate tax rate from 12% to 15%. An unplanned outage and repair of one of its gas turbines also affected performance, resulting in its power reliability factor dipping slightly to 94.1%, while its water availability factor remained high at 99.8%.

In February 2018, we signed a conditional sales and purchase agreement for the sale of our South African municipal water operations in Nelspruit (Mbombela) and Ballito for ZAR 790 million (approximately S$89 million). The transaction is subject to conditions precedent and completion is expected in the first half of 2018.

PFO from the UK & the Americas was S$34.0 million compared to S$52.8 million in 2016. PFO from the Americas posted a slight improvement, while the UK operations reported a lower PFO compared to 2016. This was mainly due to a higher PFO base in 2016 which included a reversal of fixed asset impairment as well as construction income for the still under-construction Wilton 11 energy-from-waste facility recognised in accordance with the INT FRS 112 accounting guideline. In addition, the Sembcorp Biomass Power Plant operated at a lower load factor as a result of a longer maintenance shutdown in 2017.

## Outlook

2018 will see the implementation of a fully liberalised open electricity market in Singapore. In China, over 300 megawatts of new wind power capacity is targeted to come onstream during the year, while in India, our 250-megawatt project won in the nation's first wind tender is expected to be fully commissioned.

Our India energy business is expected to be listed on BSE Limited and the National Stock Exchange of India. The exact timing of the listing remains subject to regulatory approvals and market conditions. In addition, our Myingyan power project in Myanmar is expected to achieve full commercial operations in 2018, and our Sirajganj Unit 4 power project in Bangladesh is targeted to commence open-cycle operations.

The Utilities business is expected to deliver a better performance in 2018, underpinned by an expected turnaround to profitability for its India energy operations.

Looking ahead, the global energy transition continues as the industry adjusts to the impact of a changing fuel mix, increasing demand for renewables, the proliferation of distributed energy resources and declining power prices. The share of electricity as a proportion of total energy demand is also set to rise, in part due to the electrification of the heating and transport sectors.

The Utilities business is embarking on a new strategic direction in order to benefit from the global energy transition. It will focus its long-term growth in three business lines: Gas & Power, Renewables & Environment, and Merchant & Retail. It will also reposition itself as an integrated energy player, building multiple offerings or optionalities around anchor investments to create platforms for growth. As an originator, owner or investor, operator and optimiser, it will aim to build and scale up its growth platforms as well as develop a pipeline for active capital recycling.

With renewables expected to grow to around 35% of the global energy mix by 2040, the Utilities business will prepare itself for the future by targeting to double its renewable portfolio to approximately 4,000 megawatts by 2022. In addition, the business is targeting a reduction in its carbon emission intensity in line with the 2°C climate scenario and aims to reduce carbon emission intensity by close to 25% from its current 0.55 tonnes of carbon dioxide equivalent per megawatt hour ($tCO_2e/MWh$) to 0.42 $tCO_2e/MWh$ by 2022, and to less than 0.40 $tCO_2e/MWh$ by 2030.

Over the next two years, the Utilities business is targeting divestments of peripheral utilities assets to deliver cash proceeds of up to S$0.5 billion.

With its new strategic direction that is aligned to trends and the future direction of its industry, as well as a focus on active and systematic capital recycling, we believe our Utilities business will be well-placed to benefit from the global energy transition, and to deliver long-term growth and value.

Operating and Financial Review

# MARINE

## Competitive Edge

- A global leader in integrated offshore and marine solutions with more than 50 years' proven track record
- Able to offer diversified, innovative solutions across the offshore and marine value chain, both within and beyond the oil and gas sector
- Established capabilities in rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding, and enhanced capabilities to serve the gas value chain
- Global network of strategic locations in Singapore, Indonesia, the UK and Brazil

Total Net Orderbook

**S$7.6** billion

*Clockwise from left:*

*FPSO Pioneiro de Libra, Sembcorp Marine's first full engineering, procurement and construction FPSO conversion*

*The Sembcorp Marine Tuas Boulevard Yard in Singapore is equipped with berthing and docking facilities for mega-sized vessels, deep-draft rigs and one of the largest and most advanced steel fabrication facilities in the region*

*Good progress is being made on the construction of topsides for Maersk Oil, which are to be deployed for harsh-environment operations in the UK North Sea upon completion*

Contracts Secured in 2017

**S$2.7** billion

# Marine Review

## Performance Scorecard

**Financial Indicators** *(S$ million)*

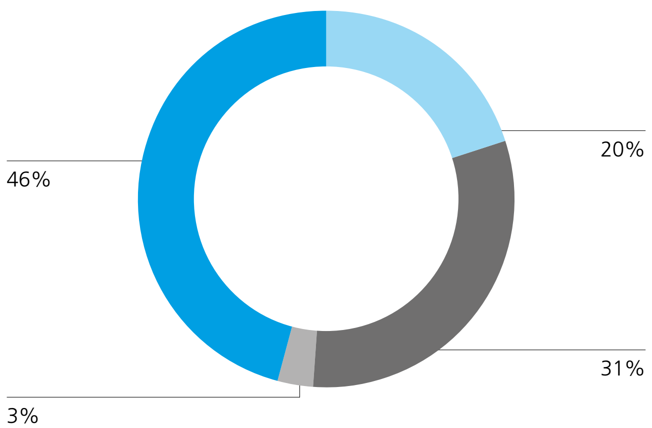
| | 2017 | 2016 | Change (%) |
|---|---|---|---|
| Turnover | **2,387.4** | 3,544.8 | (33) |
| Earnings before interest, tax, depreciation and amortisation | **267.6** | 384.5 | (30) |
| Profit from operations | **64.7** | 170.7 | (62) |
| – Earnings before interest and tax | **68.3** | 205.8 | (67) |
| – Share of results: Associates & JVs, net of tax | **(3.6)** | (35.1) | 90 |
| Net profit | **14.1** | 78.8 | (82) |
| Return on equity *(%)* | **0.6** | 3.1 | (81) |

*Note: Figures taken at Sembcorp Marine level*

**Operational Indicators** *(S$ billion)*

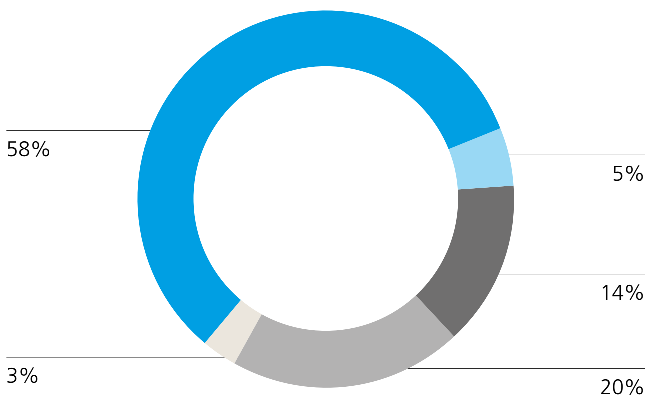
| | 2017 | 2016 |
|---|---|---|
| Total net orderbook | **7.6** | 7.8 |

### Turnover by Segment




### Orderbook Composition

**Total net orderbook:**
S$7.6 billion*




* *As at December 31, 2017. Excluding the Sete Brasil drillship contracts, net orderbook is S$4.4 billion*



## Key Developments

*Secured S$2.7 billion in new contracts in 2017, including a contract from Statoil Petroleum for the engineering, procurement and construction of the hull and living quarters for a newbuild FPSO*

*Signed letters of intent with US-based SeaOne Caribbean for the design and construction of compressed gas liquid carriers and with Shell Offshore for the hull and topside of the Vito FPU*

*Successfully delivered four projects in 2017 including the FSO Randgrid to Teekay which has been chartered out to Statoil. The vessel is deployed at the Gina Krog Field in the Norwegian North Sea*

*In October 2017, Sembcorp Marine signed agreements for the sale of nine jack-up rigs to Borr Drilling for US$1.3 billion. US$500 million of upfront payment has been received and delivery is over a 14-month period*

## Operating and Financial Review

**Remaining profitable amidst a tough operating environment**

The Marine business continued to face a tough operating environment in 2017 but remained profitable for the year.

Turnover was S$2.4 billion, compared to S$3.5 billion in 2016. The decline in turnover was mainly due to lower revenue recognition for rig building and offshore platform projects, as well as reversal of revenue from the termination of five rig contracts. In contrast, the Repairs & Upgrades segment showed resilience and delivered an improved turnover compared to last year. Despite fewer ships repaired this year, our average revenue per vessel increased, due to an improved vessel mix and higher-value work undertaken.

### Turnover *(S$ million)*

| | 2017 | 2016 | Change (%) |
|---|---|---|---|
| Rigs & Floaters | **1,098** | 1,887 | (42) |
| Repairs & Upgrades | **471** | 460 | 3 |
| Offshore Platforms | **732** | 1,116 | (34) |
| Other Activities | **86** | 82 | 5 |
| Total | **2,387** | 3,545 | (33) |

The business' profit from operations was S$64.7 million, compared to S$170.7 million in 2016 due to lower overall business volume and additional cost accruals for floater projects which are pending finalisation with customers. Net profit was S$14.1 million compared to S$78.8 million in 2016.

# Marine Review

### Sale of rigs improves liquidity position

During the year, our Marine business achieved a significant step forward in monetising its rig inventory that had arisen from prolonged customer delivery deferments. These transactions, when completed, will significantly improve the business' liquidity position, putting it on a stronger footing to ride through the cycle.

In October, Sembcorp Marine entered into agreements for the sale of nine Pacific Class 400 jack-up rigs to Borr Drilling and its subsidiaries for approximately US$1.3 billion (S$1.77 billion). The consideration also included a market-based fee, calculated based on an uplift in the value of the rigs sold. Borr Drilling will take delivery of the rigs progressively over a 14-month period, from the fourth quarter of 2017 to the first quarter of 2019.

An upfront down payment of about US$500 million has been paid, while the balance US$800 million will be paid within five years from the respective delivery dates of the rigs. In addition, Borr Drilling will pay interest at market rates from the respective delivery dates of the rigs, until the full payment of the remaining balance.

The business followed this up with the signing of an agreement for the sale of the semi-submersible rig *West Rigel* to a secondary buyer for US$500 million. *West Rigel* was originally constructed for North Atlantic Drilling, a subsidiary of Seadrill. A standstill agreement for the project was signed in December 2015, and extended several times until July 2018. Upon fulfilment of conditions precedent, the new buyer will take delivery of the rig, which will remain in Sembcorp Marine's yard for certain works to be undertaken for its reactivation.

The sale of these rigs is a testament to the quality of these high-specification drilling units and their ability to attract a buyer despite challenging market conditions.

### Making Good Progress for Ongoing Projects

*Measuring 220 metres by 102 metres, the 273,700-metric tonne semi-submersible crane vessel Sleipnir, currently under construction at our yard for Heerema Offshore Services, is the largest in the world*

*The FSO Ailsa is Sembcorp Marine's first full turnkey FSO newbuilding project. Built for MODEC and to be delivered in 2018, the FSO is part of Sembcorp Marine's modern integrated solutions for the Culzean Field*

*One of three topsides under construction for Maersk Oil. On completion, the topsides, comprising a central processing facility plus two connecting bridges, a wellhead platform and utilities and living quarters platform, will be installed in the Culzean field in the UK North Sea*

### New orders and orderbook development

Following a letter of intent signed in November 2017, Sembcorp Marine was awarded a US$490 million contract from Statoil Petroleum for turnkey engineering, procurement and construction (EPC) of the hull and living quarters of a newbuild floating production, storage and offloading vessel (FPSO) in December 2017. The FPSO, which will be deployed at the Johan Castberg field development in Norway's Barents Sea, will be self-contained for harsh-environment operations and will include living quarters for up to 140 personnel. Project completion is expected in the first quarter of 2020.

Also in December 2017, the Marine business signed a letter of intent with Shell Offshore for the construction of the hull and topside of the *Vito* floating production unit (FPU), as well as integration works for the vessel. The *Vito* FPU comprises a single topside module supported by a four-column semi-submersible floating hull, and is designed for a throughput capacity of 100,000 barrels of oil per day and 100 million standard cubic feet of gas per day. The finalisation of the contract is dependent on Shell and its partners sanctioning the project. If sanctioned, the *Vito* FPU will be a new facility in the Mississippi Canyon in the US Gulf of Mexico, and will operate at water depths of 4,050 feet.

A letter of intent was also signed with SeaOne Caribbean for the design and construction of at least two large compressed gas liquid (CGL) carriers. In Brazil, Estaleiro Jurong Aracruz (EJA) secured a contract worth US$145 million from Tupi B.V., a Petrobras majority-owned consortium, to perform hull carry over works for the full integration of the FPSO *P-68*.

In another positive development, Transocean has requested Sembcorp Marine to resume work on its two high-specification ultra-deepwater drillship orders, and has also decided to proceed with enhancing the capabilities of the units. This has resulted in a corresponding increase in the value of the contracts, as well as an extension for the delivery of the units to the second and fourth quarters of 2020 respectively.

For the year, total orders secured amounted to S$2.7 billion, including S$1.77 billion from the sale of the nine jack-up rigs. Total net orderbook was S$7.6 billion, with completions and deliveries stretching till 2020. Excluding the Sete Brasil drillships, our net orderbook stood at S$4.4 billion. The majority of projects in the current net orderbook are based on progress payment terms.

### Disciplined execution of orderbook

During the year, the Marine business successfully delivered two FPSO conversion projects. The FPSO *Pioneiro de Libra*, which sailed away in the first quarter of 2017 for deployment at the Libra field in Brazil's Santos Basin, was Sembcorp Marine's first full EPC FPSO conversion. Its successful completion demonstrates the business' ability to execute complex specialised offshore projects. In the second quarter, we also successfully completed the conversion of a shuttle tanker into the floating storage and offloading vessel (FSO) *Randgrid*. On delivery, the FSO was deployed at the Gina Krog field in the Norwegian North Sea.

# Marine Review

*The FPSO Pioneiro de Libra is Sembcorp Marine's first full engineering, procurement and construction FPSO conversion project. It was deployed to Brazil's Libra field and achieved first oil in November 2017*

We also continued to make good progress on our ongoing construction projects. These included a semi-submersible crane vessel for Heerema, a newbuild FSO vessel for MODEC, harsh-environment topside modules bound for the Culzean field for Maersk Oil and the conversion of the FPSOs *Kaombo Norte* and *Kaombo Sul* for Saipem. Meanwhile, work on a power generation module for Maersk Oil, which is part of our EPC project with Maersk Oil, and the Tupi Project FPSO *P-68* are progressing well at our UK and Brazil yards respectively.

**Prudent cost and balance sheet management and a focus on sustainable, innovative solutions to position the business for the future**

Amidst the tough operating market, the Marine business is working hard to retool and build a more competitive business through the offering of innovative solutions, automation, as well as cost and quality improvement, to position the business for the future.

Following the strategic acquisitions of LMG Marin, Aragon and Gravifloat in 2016, the business' proprietary design and engineering capabilities have been enhanced. This has allowed Sembcorp Marine to successfully diversify its offerings and provide innovative solutions to players in the gas value chain. For example, the SeaOne CGL carriers will incorporate proprietary ship component ideas from LMG Marin. The business is also working towards securing orders for its proprietary Gravifloat near-shore gas infrastructure solutions and is in advanced discussions with prospective customers.

The next-generation Sembcorp Marine Tuas Boulevard Yard is also a cornerstone in the Marine business' sustainable growth strategy. With its second phase completed since early 2017, the yard is equipped for mega-sized vessels and deep-draft rigs and has one of the largest and most advanced steel fabrication facilities in the region. These features will enable Sembcorp Marine to venture into turnkey EPC of mega offshore projects, and pursue new opportunities across the offshore and marine and energy value chain. The business intends to maximise utilisation of its Tuas Boulevard Yard, while reviewing the schedule for the return of its other Singapore yards and progressively returning these other yards on or before their respective lease expiry dates.

Meanwhile, Sembcorp Marine continues to maintain prudent cost and balance sheet management. This includes active management of manpower requirements in line with changing needs; wage cuts and wage freeze; rightsizing; skills training and upgrading and selective recruitment of specialist talent with niche skill sets. Going forward, the business' capital expenditure is expected to trend slightly upwards with further development of the Tuas Boulevard Yard in response to business needs. Capital expenditure will also be incurred for the execution of secured contracts, or to realise cost savings.

### A Focus on New Technologies and Solutions
*Diversifying product capabilities*

**Gravifloat**: *Modularised LNG and LPG terminals*

**SSP Offshore**: *Next-generation circular hull forms*

**LMG Marin**: *Advanced ship design and engineering*

## Outlook

Global exploration and production capex spending continues to show signs of improvement. However, recovery may take some time as the oversupply in most drilling segments has yet to rebalance.

The production segment remains encouraging. Sembcorp Marine continues to make progress in its efforts to develop and commercialise its Gravifloat technology.

Demand for repairs and upgrades, especially for LNG carriers and cruise ships, remains strong.

The immediate outlook remains challenging. It will take some time for capex spending to translate into new orders. Industry activities remain low and competition for orders remains intense. Against this background, Sembcorp Marine will continue to strengthen its balance sheet and pursue new orders.



Total Net Orderbook
**251** hectares



# URBAN DEVELOPMENT

## Competitive Edge

- Over 25 years' track record in undertaking master planning, land preparation and infrastructure development to transform raw land into urban developments
- Significant land bank of integrated urban developments comprising industrial parks as well as business, commercial and residential space in Vietnam, China, Indonesia and India
- A valued partner to governments, with the ability to deliver the economic engine to support industrialisation and urbanisation by attracting local and international investments

Land available for sale
**3,138** hectares

*Clockwise from left:*

*The Habitat Binh Duong in Vietnam sold 99% of its first phase, with more apartment units to be launched in 2018*

*Vietnam's strong manufacturing sector benefited industrial land sales at the VSIP developments*

*The Jiangdao Technology Innovation Centre on Sino-Singapore Nanjing Eco Hi-tech Island, China, won the gold award for Best Innovative Green Building at the MIPIM Asia Awards 2017, which honours the top property projects in the Asia Pacific*

*Sino-Singapore Nanjing Eco Hi-tech Island, China, sold a 42.6-hectare mixed-use land plot, its single largest to date*

# Urban Development Review

## Performance Scorecard

**Financial Indicators** *(S$ million)*

| | 2017 | 2016 | Change *(%)* |
|---|---|---|---|
| Turnover[1] | **11.8** | 11.2 | 5 |
| Profit from operations | **89.4** | 38.4 | 133 |
| – Earnings before interest and tax | **(13.2)** | (11.9) | (11) |
| – Share of results: Associates & JVs, net of tax | **102.6** | 50.3 | 104 |
| Net profit | **83.2** | 33.3 | 150 |
| Return on equity *(%)* | **9.2** | 3.9 | 136 |

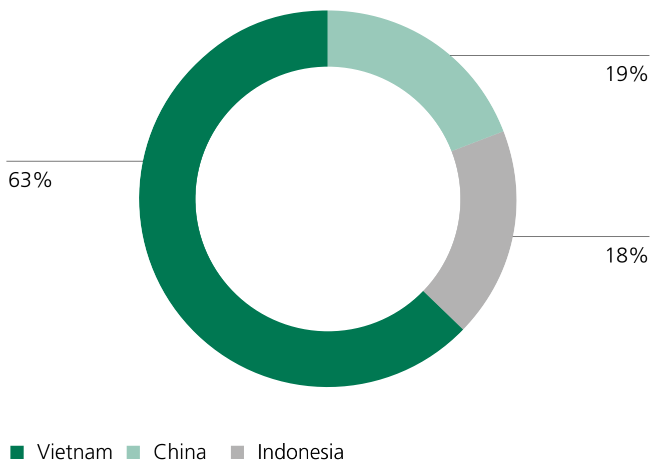
[1] *Most of our Urban Development businesses are associates or joint ventures. Turnover reflected consists of payment for services provided to these associates or joint ventures*

**Operational Indicators** *(hectares)*

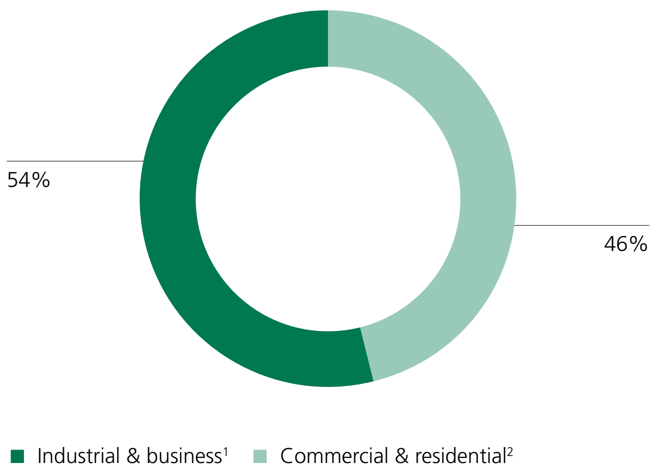
| | 2017 | 2016 |
|---|---|---|
| Saleable land inventory | **5,729** | 5,729 |
| Land sold (cumulative) | **2,340** | 2,061 |
| Total net orderbook | **251** | 240 |
| Land available for sale | **3,138** | 3,428 |

*Note: Figures are based on current planned estimates and exclude projects under Gallant Venture*

### Remaining Saleable Land by Geography




### Remaining Saleable Land by Segment




[1] *Industrial & business land includes space for general and high-tech manufacturing, research and development, as well as business and technology incubators*

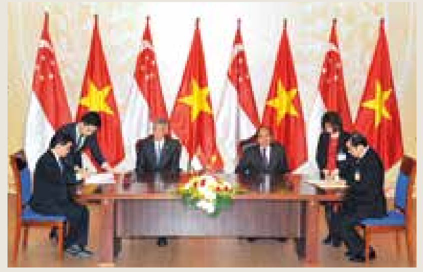
[2] *Commercial & residential land includes space for food and beverage businesses, malls, hotels, serviced apartments and modern services such as accounting and legal firms, consultancies and corporate headquarters*



## Key Developments


*Entered the India market, securing master development rights for Andhra Pradesh's new capital city, Amaravati*

*Achieved record profits backed by strong land sales in Vietnam, China and Indonesia*



*Signed a MOU with the Da Nang City People's Committee to develop an innovation hub in Vietnam*

## Operating and Financial Review

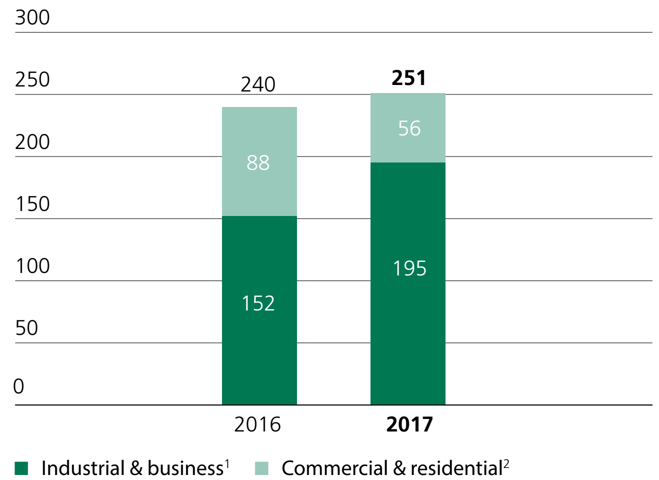
**Record net profit with higher contributions from all operating markets**

The Urban Development business achieved outstanding performance in 2017. Profit from operations grew from S$38.4 million in 2016 to S$89.4 million, while net profit grew from S$33.3 million the previous year to S$83.2 million. All operating markets, namely Vietnam, China and Indonesia, turned in a better performance and registered higher profit contribution.

In 2017, the business sold a total of 280 hectares of land compared to 201 hectares in 2016. Industrial land sales in Vietnam continued to be active throughout the year, driving our total land sales in the country up 13% to 184 hectares. Land sales in China more than doubled to 64 hectares, from 30 hectares sold in 2016. We also sold 31 hectares of land in Indonesia, more than three times the eight hectares sold the previous year.

Land commitments received from customers increased to 290 hectares, providing the business a healthy net orderbook of 251 hectares. In Vietnam, interest remains focused on industrial land, while in China and Indonesia, the orderbook is strong across both industrial and business, as well as commercial and residential segments.

### Total Net Orderbook *(hectares)*




[1] *Industrial & business land includes space for general and high-tech manufacturing, research and development, as well as business and technology incubators*

[2] *Commercial & residential land includes space for food and beverage businesses, malls, hotels, serviced apartments and modern services such as accounting and legal firms, consultancies and corporate headquarters*

# Urban Development Review

**Vietnam**
Our Vietnam business continued to thrive in 2017.

Vietnam attracted a 44% increase in registered foreign direct investment capital inflow during the year, compared to 2016. The country's manufacturing and processing sector remained a top-draw for foreign direct investment. This benefited our Vietnam Singapore Industrial Park (VSIP) projects, with industrial land sales accounting for 99% of total land sold in 2017. Commercial and residential land accounted for the remaining 1% of land sales.

VSIP projects in Binh Duong and Bac Ninh provinces performed exceptionally well, with strong demand for land in both projects' industrial zones. We are in the process of securing additional land bank for further growth. In addition, VSIP Bac Ninh will develop an additional 20 units of ready-built factories in phases, with the first phase of 32,000 square metres' lettable area targeted to be ready for lease in the third quarter of 2018.

During the year, we acquired additional equity shares in the Singapore consortium behind VSIP, increasing our interest from 92.9% to 96.6%. This translates to an effective shareholding of 49.3% in VSIP Joint Venture Co, the Vietnam-registered project company developing the VSIP integrated townships.

In March, we signed a memorandum of understanding (MOU) with the People's Committee of Da Nang City to express our interest in developing an innovation hub for the software development sector in Da Nang, central Vietnam. This is in line with the central government's push for higher value-added development in Vietnam's key cities. The MOU signing was witnessed by the Prime Ministers of Singapore and Vietnam, indicating strong government support for the project.

During the year, several prestigious awards were conferred on us in Vietnam. *The Habitat Binh Duong*, our first co-developed residential project in VSIP Binh Duong, won Best Mid-end Condo Development in its category at the 2017 PropertyGuru Vietnam Property Awards. As at end 2017, 265 units, or 99% of the development, have been sold. We plan to launch an additional 460 units in phases, starting from 2018. In addition, two of our most senior representatives in the VSIP projects, including Kelvin Teo, CEO of Sembcorp Development and Co-chairman of VSIP Group, were awarded Vietnam's *Friendship Medal*. The prestigious award is conferred by Vietnam's National Assembly in recognition of outstanding contributions by foreigners to the country's nation-building efforts over a sustained length of time.

## Development Progress in Vietnam

*VSIP industrial land sales sustained their upward momentum, led by strong performances at our projects in Binh Duong and Bac Ninh provinces*

*Our first real estate development in Vietnam won the PropertyGuru 2017 Vietnam Property Award for Best Mid-end Condo Development, HCMC*

**China**
Our China businesses did very well on the back of robust commercial and residential land sales.

The Singapore-Sichuan Hi-tech Innovation Park (SSCIP) was a strong performer in 2017. The project continued to attract keen interest from high-technology companies and real estate developers, which invested RMB 4.8 billion in investment capital during the year.

Two community hubs will commence construction in 2018, providing creative space for the first batch of technology and media tenants moving into the park in the latter half of the year. In the next few years, six schools will also be completed within the SSCIP, increasing activity within the community and strengthening the attractiveness of the development to prospective residents. In the last two years, improvements to amenities and connectivity to the surrounding regions have increased the value of land within the development, reflected in rising residential land prices. The number of developers participating in auctions for residential land within the development has also driven prices higher.

The performance of our Sino-Singapore Nanjing Eco Hi-tech Island (SNEI) project improved significantly over 2016. The project sold its single biggest land plot to date, a 42.6-hectare mixed-use land plot auctioned for RMB 7.8 billion. Apartments, offices, commercial units and a cultural tourist attraction will be developed on the site. Apart from land sales, we will be launching 48,000 square metres of lettable area within our *New One North* development when the business park is completed in 2018.

Sembcorp's wholly-owned and developed *International Water Hub* is poised to be the first commercial building specially designed for water-related industries on SNEI. The more than 34,000-square metre development marked its topping out in August 2017, with construction targeted for completion in the second half of 2018. The development achieved gold certification under the Leadership in Energy and Environmental Design (LEED) rating system, as well as a China Green Building 2-star rating. With international investment promotion activities undertaken throughout the year, we have now signed 10 MOUs with various institutes of higher learning and water associations that intend to locate in and collaborate with the water hub.

## Development Progress in China

*Singapore-Sichuan Hi-tech Innovation Park has been successful in attracting industry and real estate developers, due to conducive amenities within the park and good connectivity to surrounding regions*

*International Water Hub in China, a technology and business centre, as well as Riverside Grandeur, a residential development next door, celebrated their topping out in 2017. Both projects are on track to be completed in 2018*

Over in Wuxi, our Wuxi-Singapore Industrial Park continued to generate healthy revenues from electricity and rental income. Average occupancy rates for ready-built and built-to-specifications factories remained at healthy levels of above 80%. An additional 30,000 square metres of standard factory space completed development in mid-2017, and has already reached 30% take-up. We also commenced the construction of ready-built factories spanning another 36,500 square metres, as well as the second phase of a built-to-specification factory for our long-term lease tenant, OSRAM. These additional projects are expected to contribute towards our recurring income in 2019.

# Urban Development Review

## Development Progress in Indonesia

*Park by the Bay in Semarang, has attracted 35 tenants to its industrial park, drawn by the development's strong amenities and infrastructure*

*The 42 residential and commercial shophouse units in the Park by the Bay development are sold out*

**Indonesia**

Our Kendal industrial park in Semarang, Indonesia, *Park by the Bay*, also performed better in 2017. During the year, our team there focused on the preparation and handover of land to customers secured over the course of 2016 and 2017.

The project registered strong industrial land sales, as prospective customers' confidence rose following visible progress in development and construction activity on the site. Since its official opening last year, the project has been well-received and has attracted 35 companies to locate on the site. The 42 shophouse units within the project, jointly developed with a real estate developer, have also all been sold out.

During the year, we completed the construction of 14 factory buildings for small and medium enterprises totalling 6,400 square metres. These are already 40% taken up. We plan to construct another 4,156 square metres of industrial space in tandem with growth in demand.

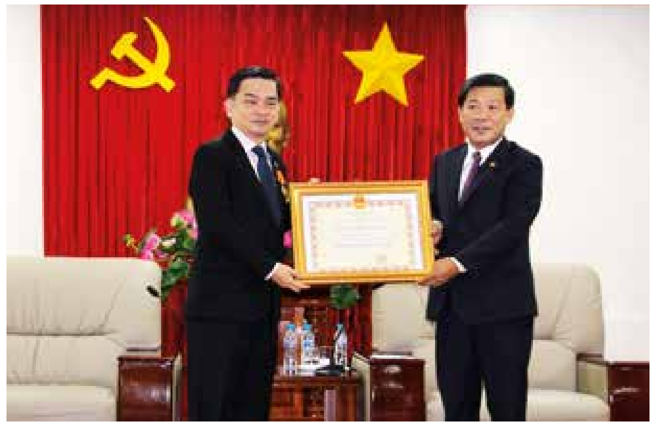
**India**

Amidst a busy year in our existing operating markets, the Urban Development business also expanded onto new shores in 2017. Following the close of a Swiss Challenge process in May, Sembcorp Development and its consortium partner, Ascendas-Singbridge, were jointly awarded the master development rights to the start-up area for Amaravati, the upcoming capital city for the newly-constituted state of Andhra Pradesh.

A greenfield site, Amaravati is envisioned to become a vibrant, diverse and modern smart city and the jewel of Andhra Pradesh, and a compelling destination to attract global investment and talent.

The 684-hectare start-up area will be located within the 20-square kilometre capital city of Amaravati, along the River Krishna waterfront. It is expected to create the first centres of activity, attracting investments and people into Amaravati with a mix of catalytic developments for business, commercial and residential use. A joint venture will be formed between the master developers and the government of Andhra Pradesh, which intend to work closely together on industry positioning and investment promotion to attract economic activity to the city.





*Kelvin Teo (left), CEO of Sembcorp Development and Co-chairman of VSIP Group, is awarded Vietnam's Friendship Medal. The prestigious award was conferred by Vietnam's National Assembly in recognition of the contributions by foreigners to the country's nation-building efforts. Pictured with Mr Teo is Mr Tran Thanh Liem, Chairman of Binh Duong People's Committee*

## Outlook

In 2017, Vietnam's gross domestic product (GDP) grew by 6.8%, driven primarily by strong domestic demand and export-oriented manufacturing. While GDP growth is forecast to be slightly lower at 6.5% for 2018, our Vietnam business has built up a strong orderbook for 2018, almost double its orderbook at the start of 2017.

China's GDP grew 6.9% in 2017. In 2018, growth is expected to ease to 6.4%, as the country continues to rebalance its economy. However, technological development and innovation are expected to continue to feature prominently in China's development. This is reflected in strong take-up of space for high-tech manufacturing, research and development, as well as business and technology incubators at our projects in China. The Chinese government recently announced the establishment of the Sichuan Free Trade Zone, greatly benefiting SSCIP. On land sales, SSCIP has attracted a good orderbook. Profit from the sale of a number of plots of mixed-use land will be recognised in 2018.

Following reforms in 2017 by China's central government to its housing policy, impacting residential land and property prices in top-tier cities including Nanjing, we are taking a cautious outlook on residential land sales at SNEI for 2018. Nonetheless, the outlook for investments in technology and innovation remains buoyant and we look forward to several land auctions in 2018 at SNEI. We will also be completing the construction of our *International Water Hub* in the second half of 2018. The hub will offer Grade A office space, on-site laboratories catered to water companies, as well as conference facilities.

Meanwhile, Indonesia recorded GDP growth of 5.1% for 2017, with growth forecast at 5.3% for 2018. Major infrastructure upgrading works by the Indonesian government are set to improve options for the movement of cargo for tenants of *Park by the Bay*. These include improvements to the trans-Jakarta highway from Batang to Semarang, where our project is located, and the completion of a double-track railway line from Kendal to Jakarta and Surabaya.

The Urban Development business has a healthy net orderbook of 251 hectares of land that is expected to be converted to land sales over the next two years. This comprises 195 hectares of industrial and business land and 56 hectares of commercial and residential land. In addition to land sales, the business expects income contribution from the sale of its property developments upon the launch of these properties. These include *Riverside Grandeur* in Nanjing, China, as well as phase two of *The Habitat Binh Duong* and other residential projects at the VSIP developments.

The Urban Development business is expected to continue to perform well in 2018.

Our Leadership

# Board of Directors

### Ang Kong Hua

Chairman

Non-executive & Independent Director

Appointed February 26, 2010

As Chairman, Mr Ang is responsible for leading the board, setting its agenda and ensuring its effectiveness in all aspects of its role. Mr Ang heads the board's Executive Committee, Executive Resource & Compensation Committee, Nominating Committee and Technology Advisory Panel.

A well-known corporate figure in Singapore, Mr Ang brings to Sembcorp many years of rich experience in the manufacturing and services sectors, including the chemicals, electronics, engineering and construction sectors. Currently, he serves on the board of GIC, which manages Singapore's external reserves, as well as the board of Southern Steel.

Mr Ang holds a BSc (Honours) in Economics from the University of Hull, UK.

### Neil McGregor

Group President & CEO

Appointed April 1, 2017

Mr McGregor is Group President & CEO of Sembcorp Industries. He is a member of the board's Executive Committee and Technology Advisory Panel. He also sits on the board of Sembcorp Marine, a listed subsidiary of Sembcorp Industries, as a non-executive director.

Mr McGregor brings to Sembcorp a unique and varied background spanning business, operations and investment in the energy and infrastructure sectors across Europe, USA, Asia and Oceania. His rich international experience includes over a decade spent in Singapore serving markets in the region. Previously, he also headed companies in India and Singapore as CEO, including Singapore LNG Corporation and PowerSeraya Group. Prior to joining Sembcorp, Mr McGregor was the Head of Temasek International's Energy and Resources Group, Head of Australia and New Zealand and Senior Managing Director of its Enterprise Development Group.

He is a director of Certis CISCO Security, as well as a fellow of the Singapore Institute of Directors.

Mr McGregor holds a BEng (Honours) from the University of Auckland and an MBA in International Finance from the University of Otago in New Zealand. He also completed the Advanced Management Programme at INSEAD, France.

Past directorships in listed companies and major appointments 2015 – 2017:

- Clifford Capital
- Singapore LNG Corporation

### Margaret Lui

Non-executive & Non-independent Director

Appointed June 1, 2010

Mrs Lui is a member of the board's Executive Committee, Executive Resource & Compensation Committee, as well as its Nominating Committee.

She is Chief Executive Officer and a board member of Azalea Investment Management. In addition, Mrs Lui is a member of the Singapore Exchange's (SGX) listings advisory committee. She serves on the board of trustees and finance committee of the Singapore Institute of Technology, and heads its investment committee. She also chairs the marine services supervisory committee of PSA International.

Mrs Lui holds a BAcc from the National University of Singapore (NUS). She attended the Advanced Management Programme at the Wharton School of the University of Pennsylvania, USA.

Past directorships in listed companies and major appointments 2015 – 2017:

- Singbridge Holdings

### Tan Sri Mohd Hassan Marican

Non-executive & Independent Director

Appointed June 16, 2010

Tan Sri Mohd Hassan Marican serves on the board's Executive Resource & Compensation Committee and Nominating Committee. He is Chairman of Sembcorp Marine, a listed subsidiary of Sembcorp Industries.

Formerly President & CEO of Malaysia's Petroliam Nasional (PETRONAS) from 1995 until his retirement in February 2010, Tan Sri Mohd Hassan Marican brings to the board over 30 years' experience in the energy sector, as well as in finance and management. He is Chairman of Singapore Power, Pavilion Energy, Pavilion Gas and Lan Ting Holdings and a director of the Regional Economic Development Authority of Sarawak, Sarawak Energy, Lambert Energy Advisory and MH Marican Advisory. He is also a senior international advisor at Temasek International Advisors.

Tan Sri Mohd Hassan Marican holds an honorary doctorate from the University of Malaya and is a fellow of the Institute of Chartered Accountants in England and Wales.

# Board of Directors

## Tham Kui Seng

Non-executive & Independent Director

Appointed June 1, 2011

Mr Tham is a member of the board's Audit Committee and Risk Committee.

Formerly Chief Corporate Officer at CapitaLand, Mr Tham brings to the board a strong background in management in various industries, including over a decade's experience in the real estate sector.

Mr Tham is a director on the boards of Banyan Tree Holdings, Global Logistic Properties, The Straits Trading Company, Straits Real Estate, Avanda Investment Management, Sembcorp Properties and Sembcorp Design and Construction. He is also a corporate advisor at Temasek International Advisors.

Mr Tham holds a First Class Honours degree in Engineering Science from the University of Oxford, UK.

Past directorships in listed companies and major appointments 2015–2017:

- Housing & Development Board
- Maxwell Chambers
- Singapore Land Authority

## Dr Teh Kok Peng

Non-executive & Independent Director

Appointed October 15, 2012

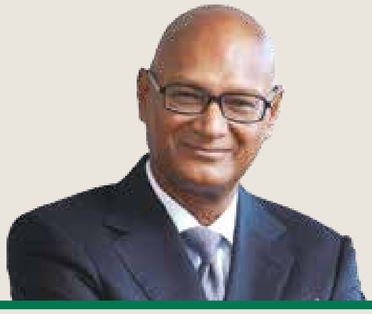
Dr Teh is a member of the board's Audit Committee, Risk Committee and Technology Advisory Panel.

Dr Teh is a senior advisor to China International Capital Corporation and a director of Fullerton Health Corporation. He is also Chairman of Azalea Asset Management, Astrea III and Lu International (Singapore) Financial Asset Exchange, a director of NUS's East Asian Institute, an advisory council member of Temasek Foundation Connects and an advisory director of Campbell Lutyens. Most recently, he joined as a member of Greensphere Capital's investment committee. Previously, Dr Teh served as Advisor to GIC's Group Executive Committee, Chairman of GIC's China Business Group and Chairman of Ascendas. He was also formerly President of GIC Special Investments, Deputy Managing Director of GIC, Deputy Managing Director of the Monetary Authority of Singapore (MAS) and an economist at the World Bank.

Dr Teh holds a First Class Honours degree in Economics from La Trobe University, Australia and a PhD in Economics from the University of Oxford, UK. He also completed the Advanced Management Programme at Harvard Business School.

Past directorships in listed companies and major appointments 2015–2017:

- China International Capital Corporation
- Ascendas
- S Rajaratnam Endowment
- Oversea-Chinese Banking Corporation
- Dwell Capital
- NUS



## Ajaib Haridass

Non-executive & Independent Director

Appointed May 1, 2014

Mr Haridass chairs our board's Risk Committee and is a member of the Audit Committee. In addition, he is an independent director of Sembcorp Marine, the chairman of the Sembcorp Marine nominating committee and a member of a number of its board committees.

With over 40 years of legal experience, Mr Haridass specialises in maritime law and deals with commercial and banking litigation. Currently a consultant with Haridass Ho & Partners, a legal firm he founded in 1985, Mr Haridass is a panel member of the Singapore International Arbitration Centre, the Singapore Chamber of Maritime Arbitration and the Kuala Lumpur Regional Centre for Arbitration. He is also an accredited mediator of the Singapore Mediation Centre as well as a referee of the Small Claims Tribunal of the State Courts of Singapore. He is a Commissioner for Oaths, a Notary Public and a Justice of the Peace. He is also the lead independent director of Nam Cheong.

Mr Haridass holds a Bachelor of Laws (Honours) degree from the University of London and qualified as a barrister-at-Law at the Honourable Society of the Middle Temple, UK.

## Nicky Tan

Non-executive & Independent Director

Appointed November 1, 2015

Mr Tan is a member of the board's Executive Committee, Executive Resource & Compensation Committee and Nominating Committee.

He brings to Sembcorp rich experience in corporate finance, audit and mergers and acquisitions. Currently, Mr Tan runs nTan Corporate Advisory, a boutique corporate finance and corporate restructuring firm. Over the course of his career, he has been Partner and Head of Global Corporate Finance at Arthur Andersen Singapore and ASEAN, Partner and Head of Financial Advisory Services at PricewaterhouseCoopers Singapore, as well as Chairman of Financial Advisory Services at PricewaterhouseCoopers Asia Pacific.

Mr Tan is a director of SingTel Innov8, as well as a director, executive committee member and audit and risk committee chairman of National University Health System. Mr Tan is a member of MOH Holdings' Audit & Risk Committee. He also serves as a trustee and investment committee chairman of the National Cancer Centre's Research Fund and Community Cancer Fund. In addition, Mr Tan is a member of the Nee Soon Town Council and the chairman of its investment and finance committee, as well as a member of Pei Chun Public School's management committee.

Mr Tan qualified as a chartered accountant in the UK. He is a member of the Institute of Chartered Accountants in England and Wales and the Institute of Singapore Chartered Accountants, as well as a fellow of the Singapore Institute of Directors.

# Board of Directors

## Yap Chee Keong

Non-executive & Independent Director

Appointed October 1, 2016

Mr Yap chairs the Audit Committee and is a member of the board's Risk Committee.

Formerly the executive director of The Straits Trading Company and chief financial officer of Singapore Power, Mr Yap brings to the board both financial and audit expertise, as well as experience in industry sectors including energy, infrastructure and real estate. He is a director of companies such as Shangri-La Asia, Olam International, Citibank Singapore, The Straits Trading Company, Mediacorp and Certis CISCO Security.

Previously, Mr Yap served on the board of Singapore's Accounting and Corporate Regulatory Authority (ACRA) as well as on ACRA's Public Accountants Oversight Committee. He was a member of the working group convened by MAS, SGX and ACRA to review the Guidebook for Audit Committees in Singapore, as well as the panel convened by MAS, SGX, ACRA and the Singapore Institute of Directors, which formulated guidelines for board risk committees.

Mr Yap holds a BAcc from NUS and is a fellow of the Institute of Singapore Chartered Accountants and CPA Australia.

Past directorships in listed companies and major appointments 2015 – 2017:

- Tiger Airways Holdings
- InterOil Corporation
- CityNet Infrastructure Management
- ARA Asset Management
- ACRA
- Public Accountants Oversight Committee, ACRA

## Jonathan Asherson OBE

Non-executive & Independent Director

Appointed July 17, 2017

Mr Asherson is an independent director.

The Non-executive Chairman of Rolls-Royce Singapore, Mr Asherson brings to the Sembcorp board rich experience in regional strategy and business, as well as in the power and engineering industries. In the course of his career, he has been regional director for ASEAN and the Pacific at Rolls-Royce and held various positions in Siemens' industrial power business in China, Malaysia, Germany and the USA. He also formerly served as President of the British Chamber of Commerce.

Mr Asherson is Chairman of the Singapore International Chamber of Commerce, a director of Genting Singapore and an advisory board member of the UK Department for International Trade (Southeast Asia). He is also a council member of the Singapore National Employers' Federation, an advisor to the Singapore Institute of International Affairs and an advisory committee member for various educational and research institutes in Singapore and the UK.

Mr Asherson qualified as a chartered engineer and holds a BSc (Hons) degree in Mechanical Engineering from Kingston University.





# Technology Advisory Panel

Sembcorp's Technology Advisory Panel advises the company on digital and technological developments in line with its growth strategies.

The panel oversees the development and application of significant emerging and potentially disruptive technologies to enhance Sembcorp's position as a leading energy and water company, and ensures the appropriate management of specialised research and development projects and systems for intellectual property creation and protection.

In addition, the panel reviews and approves the vision and strategy for digital and technology developments at Sembcorp, including projects or technologies identified for research and development, and advises Sembcorp's leadership on technological trends and opportunities. Members of the panel also introduce new and emerging technologies and companies to the Group and regularly advise on topical issues and technologies in their respective fields of interest and expertise.

# Technology Advisory Panel

## Ang Kong Hua

Chairman

BSc (Honours) in Economics, University of Hull, UK

Mr Ang chairs the Technology Advisory Panel and is also Chairman of our board. A well-known corporate figure in Singapore, he brings with him many years of rich experience in the manufacturing and services sectors, including the chemicals, electronics, engineering and construction sectors. He also serves on the boards of GIC and Southern Steel.

## Neil McGregor

BEng (Honours), University of Auckland, New Zealand

MBA in International Finance, University of Otago, New Zealand

Advanced Management Programme, INSEAD, France

Mr McGregor is Group President & CEO of Sembcorp Industries. He brings to the company a unique and varied background spanning business, operations and investment in the energy and infrastructure sectors across Europe, USA, Asia and Oceania.

Mr McGregor's rich international experience includes over a decade spent in Singapore serving markets in the region. Previously, he also headed companies in India and Singapore as CEO, including Singapore LNG Corporation and PowerSeraya Group. Prior to joining Sembcorp, he was the Head of Temasek International's Energy and Resources Group, Head of Australia and New Zealand and Senior Managing Director of its Enterprise Development Group.

He is a director of Certis CISCO Security, as well as a fellow of the Singapore Institute of Directors.

## Dr Teh Kok Peng

PhD in Economics, University of Oxford, UK

BA (First Class Honours) in Economics, La Trobe University, Australia

Advanced Management Programme, Harvard Business School, USA

Dr Teh sits on our board as a non-executive and independent director. He is a senior advisor to China International Capital Corporation and a director of Fullerton Health Corporation. He is also Chairman of Azalea Asset Management, Astrea III and Lu International (Singapore) Financial Asset Exchange, a director of the East Asian Institute at the National University of Singapore (NUS), an advisory council member of Temasek Foundation Connects and an advisory director of Campbell Lutyens. Most recently, he joined as a member of Greensphere Capital's investment committee. Previously, Dr Teh served as Advisor to GIC's Group Executive Committee, Chairman of GIC's China Business Group and Chairman of Ascendas. He was also formerly President of GIC Special Investments, where he oversaw investments in infrastructure and international venture funds, among other areas.

## Dr Josephine Kwa Lay Keng

PhD in Mechanical Engineering, University of Leeds, UK

BSc (Honours) in Mechanical Engineering, University of Leeds, UK

Dr Kwa is a director of Singapore's Agency for Science, Technology and Research, Southern Steel, Barghest Building Performance, as well as a member of the management board of NUS's Energy Studies Institute. She was formerly Chief Executive Officer of NSL, and served in various functions during her 23 years as Chief Operating Officer and Head of Technology within the NSL Group. As NSL's Head of Technology, Dr Kwa was responsible for the information technology, environment and research and development functions in the company.

# Technology Advisory Panel

## Prof Ng How Yong

PhD in Environmental Engineering, University of California Berkeley, USA

BEng (First Class Honours) in Civil Engineering, National University of Singapore, Singapore

Prof Ng is a professor and Deputy Head (Administration) at NUS's Department of Civil and Environmental Engineering, as well as Director of the Sembcorp-NUS Corporate Laboratory. He has over 20 years of experience in biological wastewater treatment and membrane processes for water reuse and seawater desalination, and has served as a consultant on municipal wastewater treatment and reuse, industrial effluent treatment and seawater desalination in Singapore, China, Japan and the USA. Prof Ng is also a fellow of the International Water Association (IWA) and a member of the Management Committee of the IWA Specialist Group on Membrane Technology.

## Prof Lui Pao Chuen

MSc in Operations Research and Systems Analysis, Naval Postgraduate School, USA

BSc in Physics, University of Singapore, Singapore

Formerly Singapore's Chief Defence Scientist, Prof Lui has several decades' experience in engineering, science and research. He is an advisor to Singapore's National Research Foundation and various government organisations, chairs the Environment & Water Industry Development Council's project evaluation panel and sits on the boards of research institutes, corporations and technical organisations, including the Executive Committee for Environmental and Water Technologies.

Prof Lui is a professor at NUS, a fellow of the Singapore Academy of Engineering and the Singapore National Academy of Sciences and an honorary fellow of the ASEAN Federation of Engineering Organisations. His major science and technology awards include the National Science & Technology Medal, the Institute of Physics Singapore's President's Medal, as well as the International Council on Systems Engineering's Pioneer Award. In addition, Prof Lui is the recipient of the Lifetime Engineering Achievement Award from the Institution of Engineers Singapore, the Defence Technology Medal (Outstanding Service) from the Ministry of Defence, as well as the Aviation Pioneer Award from the Singapore Institute of Aviation Engineers.





# Senior Executives

## Senior Executives

**Neil McGregor**
Group President & CEO

**Koh Chiap Khiong**
Group Chief Financial Officer

**Wong Weng Sun**
President & CEO
*Sembcorp Marine*

**Tan Cheng Guan**
Head
*Renewables & Environment Business*

**Ng Meng Poh**
Head
*Global Operations Group*

**Kelvin Teo**
CEO
*Sembcorp Development*

## Corporate

**Koh Chiap Khiong**
Chief Transformation Officer

**Vipul Tuli**
Head
*Group Strategy*

**Ng Meng Poh**
Head
*Global Operations Group*

**Matthew Friedman**
Chief Digital Officer

**Richard Quek**
Head
*Commercial*

**Looi Lee Hwa**
General Counsel

**Kwong Sook May**
Company Secretary

**Lillian Lee**
Senior Vice President
*Group Human Resources & Organisational Development*

**Ng Lay San**
Senior Vice President
*Group Strategic Communications & Sustainability*

**Lee Swee Chee**
Senior Vice President
*Group Risk*

**David Wong**
Vice President
*Group Internal Audit*

## Key Business Management

### Utilities

#### Business Lines

**Sriram Narayanan**
Head
*Gas & Power Business*

**Tan Cheng Guan**
Head
*Renewables & Environment Business*

#### Markets

**Koh Chiap Khiong**
Head
*Singapore, Southeast Asia & China*

**Vipul Tuli**
Managing Director
*India*

**Nomi Ahmad**
Head
*UK*

**Ng Meng Poh**
Head
*Middle East, South Africa, Americas & Bangladesh*

### Marine

**Wong Weng Sun**
President & CEO
*Sembcorp Marine*

### Urban Development

**Kelvin Teo**
CEO
*Sembcorp Development*

### Other Businesses

**Yam Ah Mee**
Managing Director
*Sembcorp Design & Construction*

**Yip Pak Ling**
Senior Vice President & Mint Director
*Singapore Mint*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

# Managing Sustainability

**Sembcorp has long held a strong commitment to sustainability. We believe that responsible corporates can play a role as agents of transformation for a sustainable future. We see sustainability at our company as inextricably linked to our ability to deliver long-term value and growth to all our stakeholders.**

Our board of directors oversees the business affairs of the Group and is collectively responsible for our long-term success. The main duties of the board include providing leadership on Sembcorp's overall strategy, which takes into consideration sustainability issues. Following our last materiality review in 2016, our management, with guidance from the board, has determined the environmental, social and governance (ESG) issues that are material to the Group's long-term sustainability. These 10 ESG issues are presented on page 84 of this annual report.

### Board Statement

Sembcorp's board of directors is collectively responsible for the long-term success of the company. The board considers sustainability issues as part of its strategy formulation. It has determined Sembcorp's material ESG factors, and exercises oversight in the management and monitoring of its material ESG factors.

We are a signatory to the United Nations Global Compact (UNGC), and our key sustainability principles are set out in our Sustainability Policy. These principles are applied throughout our management systems and processes. We adopt a precautionary approach to avoid or minimise negative impacts. A list of our policies, certified facilities as well as memberships and participation in external initiatives is available in the Sustainability section of our website. We participate in the annual Dow Jones Sustainability Index and respond to the CDP (formerly known as the Carbon Disclosure Project) climate change programme.

In 2017, Sembcorp was once again selected as an index component of the Dow Jones Sustainability Asia Pacific Index, and the SGX Sustainability Leaders Index. We were conferred the Sustainability Award and named runner-up for the Singapore Corporate Governance Award (Industrials) by the Securities Investors Association (Singapore), and were ranked sixth in the Singapore Governance and Transparency Index. At the Singapore Corporate Awards 2017, Sembcorp took home the silver awards for both the Best Annual Report and Best Investor Relations in the category for companies with market capitalisation of S$1 billion and above. We were also named one of Asia's Top Green Companies at the Asia Corporate Excellence & Sustainability Awards, and were ranked 21st out of 100 global renewable power generators in Energy Intelligence's Top 100 Green Utilities.

WE SUPPORT

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

**Sustainability governance**

Sembcorp's Sustainability Steering Committee (SSC) provides strategic direction for managing sustainability-related risks and opportunities. The SSC directs the preparation of Sembcorp's ESG Review, and provides recommendation to the board's Risk Committee for its approval. It also guides the development and improvement of frameworks, policies, guidelines, processes and initiatives to ensure that sustainability issues are effectively managed. The SSC is chaired by our Group Chief Financial Officer, and comprises senior executives who are accountable for the management of Sembcorp's material issues.


A separate climate change strategy working committee was set up in 2017 to review and manage climate-related risks and opportunities, and to develop our climate change strategy and look into its implementation. This committee is led by the head of our Renewables & Environment business.

As an initial but significant step, in 2018, we revised the performance scorecard for our leadership team to include specific ESG components. With this, our award of senior executives' performance incentives will specifically take into account ESG performance and key ESG indicators. This underscores the importance we place on addressing ESG risks and opportunities.

**Sustainability contact**

Sembcorp welcomes feedback on our sustainability issues and reporting at sustainability@sembcorp.com.

## Sustainable Development Goals

The Sustainable Development Goals (SDGs) and their accompanying targets were ratified by 193 states at the historic United Nations (UN) Summit in September 2015. The SDGs set out a plan of action needed to address areas of critical importance for humanity and the planet by 2030. The scale and ambition of the SDGs mean that they cannot be achieved by governments alone. Businesses and other organisations also play an important role in addressing the sustainable development agenda.

The Sustainable Development Goals offer businesses an invaluable opportunity to transform communities, society and economies for the better.

The framework set out by the SDGs aligns with our vision to support development, improve the quality of life and deliver long-term value and growth. We have reviewed the SDGs against our material issues to identify the most significant positive and negative impacts of our operations. We have also considered opportunities where we can make the biggest contribution towards the SDGs while growing our business sustainably.

Having defined our priorities, the next step for Sembcorp is to integrate these into our business strategy and set targets aligned to our priority SDGs. In order to make significant progress on our priority SDGs, we will have to engage in partnerships with stakeholders across our value chain including governments, civil society and other businesses.

# Managing Sustainability

**Priority SDGs**
We have identified SDG 6 (Clean Water and Sanitation) and SDG 7 (Affordable and Clean Energy) as having the strongest links to our core business areas. These goals represent the greatest opportunity for Sembcorp to contribute towards the sustainable development agenda. We will develop specific commitments on these goals, and report on our progress in our next ESG Review.

**Supporting SDGs**
We have identified the following goals as our supporting SDGs that align with our material issues:

- SDG 3 (Good Health and Well-being)
- SDG 8 (Decent Work and Economic Growth)
- SDG 9 (Industry, Innovation and Infrastructure)
- SDG 11 (Sustainable Cities and Communities)
- SDG 12 (Responsible Consumption and Production)
- SDG 13 (Climate Action) and;
- SDG 16 (Peace, Justice and Strong Institutions)

We will continue to actively manage these areas to reduce negative impacts while enhancing positive impacts, and continue to report on our performance and plans related to these goals.

**Underlying SDGs**
The remaining SDGs do not have such a direct link to our current material issues. However, as a company we believe that we have some impact across all 17 SDGs in different ways. The SDGs are a holistic framework; having an impact in one area will often impact other goals as well.

We will ensure that our sustainability strategy considers our broader impact across all 17 SDGs. While we will not report directly against the underlying SDGs, our ESG Review will cover many topics relevant across these SDGs.

## Our Material ESG Issues

Through engagement with our stakeholders, and our materiality identification and review process, the issues presented in the table below have been identified to be material to us. Mitigating the risks and pursuing the opportunities presented by these issues, as well as the related SDGs, is part and parcel of how we drive success for the Group.

**Our Material ESG Issues**

| | Material Issues | Relevant Sustainable Development Goals |
|---|---|---|
| **ENVIRONMENTAL** To responsibly manage and reduce our impact on the environment as well as to effectively manage environmental risks to our operations | Climate Change | |
| | Local Environmental Protection | |
| | Energy and Water Efficiency | |
| **SOCIAL** To be a responsible business that ensures the health and safety of our people, and makes a positive impact on our people and communities | Health and Safety | |
| | Our People | |
| | Community | |
| **GOVERNANCE** To maintain high standards of behaviour and integrity and be best in class for governance practices | Corporate Governance | |
| | Risk Management | |
| | Compliance | |
| | Ethical Business Practices | |

**Key performance indicators**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Environmental** | | | |
| **Climate Change** | | | |
| Direct greenhouse gas (GHG) emissions[1] *(million tonnes of $CO_2$ equivalent)* | **23.0[2]** | 15.4 | 6.9 |
| GHG emissions intensity[1] *(tonnes of $CO_2$ equivalent per megawatt hour)* | **0.53[2]** | 0.45 | 0.28[3] |
| **Local Environmental Protection** | | | |
| Water withdrawal *(million cubic metres)* | **1782.3[e]** | 1874.0[r] | 1823.1 |
| Waste generated[4] *(thousand tonnes)* | **1452.7[e]** | 927.1 | 39.3 |
| Hazardous waste *(thousand tonnes)* | **10.0** | 11.9 | 10.4 |
| Non-hazardous waste *(thousand tonnes)* | **1442.7** | 915.2 | 28.9 |
| **Social** | | | |
| **Health and Safety[5]** | | | |
| Number of fatalities[6] | **3** | 3 | 3 |
| Lost time injury rate per million man-hours[7] | **1.1** | 1.2 | 1.3 |
| Accident severity rate per million man-hours[8] | **15.3** | 17.2 | 12.9 |
| **Our People** | | | |
| Employee turnover[9] *(%)* | **10.1** | 11.4 | 11.0 |
| Average training hours per employee[10] *(hours)* | **23.8** | 28.2[e] | 20.6 |
| **Community** | | | |
| Community contributions[11] *(S$ million)* | **5.5** | 4.2 | 3.3 |

More performance data, including Governance data and qualitative data on each of our material issues, is available in this ESG Review, as well as in the Sustainability section of our website.

*Notes: Please refer to the Reporting Practice section on page 86 for details on our reporting scope*

1. *Emissions data covers entities that produce GHG from the combustion of fossil fuels consumed in our Utilities business' assets. It excludes emissions from anaerobic wastewater treatment plants, and maintenance and servicing equipment. Only $CO_2$, $CH_4$ and $N_2O$ emissions are included in the calculation of direct GHG emissions. Global warming potential factors used are from the IPCC Fourth Assessment Report for 2015 and 2016 data, and the IPCC Fifth Assessment Report for 2017 data. The time horizon applied is a 100-year time horizon. Commentary on our performance can be found on page 94 of this report*
2. *Data presented here is calculated using an operational consolidation approach. Data by equity share can be found on page 94 of this report*
3. *The GHG emissions intensity figure for 2015 has been estimated. A small proportion of data on energy attributed to steam production in 2015 was not available and was estimated based on data from 2016*
4. *Data for waste generated excludes waste that is collected and incinerated for our customers*
5. *Health and safety data reflects group-wide performance within the reporting scope stated for each respective year. Data covers both assets in operation and under construction. A detailed breakdown of health and safety data is available in the Sustainability section of our website*
6. *Data covers employees and contractors as well as members of the public. Details of fatalities are reported on page 103*
7. *The lost time injury rate covers fatalities of employees and contractors only*
8. *The accident severity rate excludes fatalities. The accident severity rate including fatalities is reported as part of detailed performance data, available in the Sustainability section of our website. We record lost time due to one fatality as 6,000 lost work days, in line with guidelines by the US National Institute for Occupational Safety and Health*
9. *Data covers both voluntary and involuntary turnover of permanent employees of Sembcorp and its subsidiaries, excluding Sembcorp Marine*
10. *Data covers permanent and contract employees*
11. *Data from 2017 covers assets under construction*

r *Indicates restated figure. Details can be found in the Performance and Data Commentary Report of the respective year, in the Sustainability section of our website*
e *Indicates data is based on management's best estimates; we look to further refine the accuracy and consistency of the data*

# Managing Sustainability

**Stakeholder engagement**
Stakeholder engagement is the first key step in determining issues that are material to us. It gives us insight into perspectives of our stakeholders, and what they deem important in the context of their partnership with us. We engage and receive feedback from a diverse range of stakeholders with the intention to improve our performance and drive long-term sustainability. Stakeholders are identified in accordance with the AA1000 Stakeholder Engagement Standard and they include customers, employees, financial institutions, governments and regulators, industry and academic groups, the investment community, the local community, and suppliers. Our stakeholders are managed by various departments at the corporate as well as market level.

*For more information on our stakeholder engagement platforms, please visit the Our Approach page in the Sustainability section of our website.*

## Reporting Practice

**Materiality process**
Materiality analysis enables Sembcorp to define sustainability issues that are of greatest significance to our businesses and stakeholders over the long term.

We conducted our first materiality analysis in 2012, where we invited external stakeholder feedback on our material issues. In 2016, we conducted a review of our material issues, which included a stakeholder engagement survey, inviting input from internal and external stakeholders globally. Over 300 stakeholders were invited to provide feedback on our material issues. Following the review, we streamlined our areas of focus to 10 material ESG issues. These material issues were approved by our board and senior management. In 2017, the SSC reviewed the material issues and validated their continued relevance. As part of the review, Security was highlighted as an emerging issue. The Group Health, Safety, Security and Environment (GHSSE) department will oversee the management of the issue. For each material issue, we report its importance in the context of sustainability and its relevance to Sembcorp, as well as our management approach and performance.

Sustainability issues have been identified in line with the Global Reporting Initiative (GRI) Standards for sustainability reporting. The materiality review took into account GRI G4's Electric Utilities Sector Supplement Disclosure, the Dow Jones Sustainability Asia Pacific Index and other relevant frameworks and peer reviews. We prioritised issues using a materiality matrix, taking into account their significance to Sembcorp and our stakeholders.

**Reporting framework**
Our ESG Review has been prepared in accordance with the GRI Standards: Core option. It is guided by the SGX Sustainability Reporting Guide as well as the Ten Principles of the UNGC. Our climate-related disclosures are guided by the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD). Our previous report was published in March 2017.

We report on our key ESG indicators in our ESG Review. A complete set of information, including our GRI content index, is available in the Sustainability section of our website.

**Reporting scope and assurance**
Our report provides information on Sembcorp's subsidiaries and covers the period from January 1 to December 31, 2017. It excludes joint ventures, partnerships and associates for which Sembcorp does not have management and / or operational control, with the exception of GHG emissions data. In line with the methodology used for the development of our carbon emission targets, we now report our GHG emissions and GHG emissions intensity using an equity share approach. Our Marine business is excluded from our report as it is separately listed in Singapore and reports its activities independently. New acquisitions and subsidiaries are given one to two years upon the completion of construction or agreement to integrate their reporting systems with that of the Group. Thereafter, their sustainability data will be reported externally once a full calendar year of data is collected. Data on health and safety, and community investments from our Utilities assets under construction is included. Data pertaining to entities divested during the year are excluded from our report.

Our key ESG data has been independently reviewed by PricewaterhouseCoopers LLP. Please refer to pages 134 and 135 for their assurance statement and scope of assurance.

*For more information on the assurance coverage, please visit the GRI Content Index in Our Performance page in the Sustainability section of our website.*

The table on the right shows our reporting scope by business line and material issue.

**Data measurement and quality**
All data measurements are in line with GRI Standards requirements for our chosen indicators. GHG emission factors are based on the 2006 Intergovernmental Panel for Climate Change (IPCC) guidelines, except for those relating to our operations on Teesside, UK, which uses the stoichometric basis of calculation. Global warming potential factors used are from the IPCC Fourth Assessment Report for 2015 and 2016 data, and the IPCC Fifth Assessment Report for 2017 data. The time horizon applied is a 100-year time horizon. In 2017, we have changed our accounting basis for GHG emissions from an operational consolidation to an equity share approach.

**Reporting Scope by Business Line and Material Issue**

| | ENVIRONMENTAL | | | SOCIAL | | | GOVERNANCE | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| MATERIAL ISSUES | Climate Change | Local Environmental Protection | Energy and Water Efficiency | Health and Safety | Our People | Community | Corporate Governance | Risk Management | Compliance | Ethical Business Practices |
| UTILITIES | | | | | | | | | | |
| Existing assets | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Assets under construction | | | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| MARINE | Our Marine business (Sembcorp Marine) is separately listed and reports its activities separately | | | | | | | | | |
| URBAN DEVELOPMENT | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| OTHER BUSINESSES | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

*Information provided in the ESG Review relates to the subsidiaries of Sembcorp, excluding Sembcorp Marine. With the exception of GHG emissions data, it excludes joint ventures, partnerships and associates for which Sembcorp does not have management and / or operational control*

Occupational health and safety indicators follow standards set out by the US National Institute for Occupational Safety and Health and the International Association of Oil and Gas Producers.

While there are inherent limitations to the accuracy of data, we seek to minimise any errors and irregularities by strengthening our internal controls.

## Our Supply Chain

We recognise the importance of evaluating our suppliers to ensure supply chain risks and negative impacts are minimised.

Sembcorp's main suppliers consist of original equipment manufacturers (OEMs), material suppliers, and engineering, procurement and construction (EPC) contractors.

OEMs supply us with large scale equipment such as gas turbines and desalination units as well as process equipment such as switchgears and control systems. Material suppliers supply fuel and chemicals needed to run our plants. EPC contractors provide detailed engineering, procurement and construction services for our greenfield plants.

Our plants are designed and built to international codes and standards, and it is with this perspective that we procure our equipment. We seek to procure high-quality and technologically-advanced equipment that is durable. We have stringent requirements for quality and expect our suppliers to abide by our Code of Business Conduct. Our Group Procurement Policy provides guidelines and control principles for various stages of the procurement process.

Our key operations carry out an annual evaluation of vendor performance for our top suppliers. Through this process, we rate these suppliers on health, safety and the environment (HSE), as well as quality assurance and service level criteria. We also review their audited financial reports. In addition, for all our EPC contracts, contractors are assessed based on their track records with respect to safety, project type, size and location experience, among other evaluation criteria. We value the opportunity to positively influence our service providers and suppliers towards greater HSE awareness and social responsibility. We believe that securing a pool of suppliers that share our commitment to sustainability will mitigate risks to our operations and reputation.

# Managing Sustainability

**Supplier diversification**

Our efforts to ensure supply chain security include diversifying supply to mitigate concentration risk. Coal supply is managed via a portfolio of suppliers and country sources. In Singapore, Sembcorp's operations maintain at least one primary and one secondary supplier for critical spare parts and consumables, where possible.

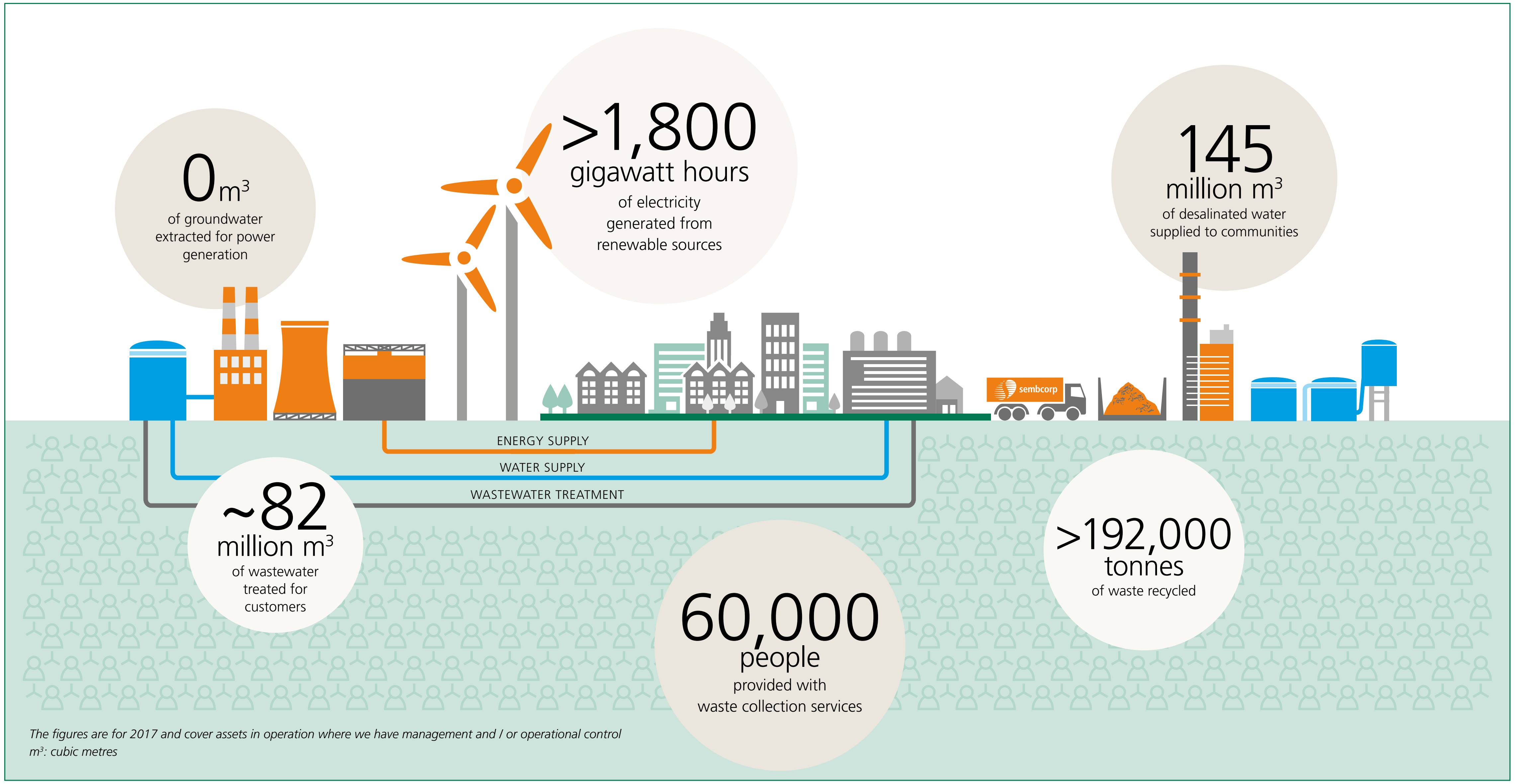
**Fuel management**

Fuel is a significant cost component for Sembcorp's power and steam generation operations. Therefore, managing our various fuel sources, along with their supply chains, is a key focus.

Our fuel management teams look into issues such as fuel contract management, fuel hedging / trading and fuel procurement, as well as fuel logistics such as transportation and shipping, to ensure the security and reliability of our fuel supply. We secure long-term contracts for coal and gas supply with reliable counterparties who have reserves that can sustain the useful life of our assets. To further diversify our fuel mix and tap on sustainable sources, Sembcorp has increased our use of renewables and alternative fuels.

## Sembcorp's Unique Utilities Business

The challenge facing industries and communities today is one of balancing development with resource scarcity and environmental concerns. At Sembcorp, we believe that we have a part to play in contributing to a sustainable future. Our Utilities business uniquely offers both energy and water solutions. We leverage group capabilities and strengths to limit the impact of our activities on the environment and to create innovative solutions for our customers.




*The figures are for 2017 and cover assets in operation where we have management and / or operational control*
*m³: cubic metres*

# Our Material ESG Issues

## Environmental

To responsibly manage and reduce our impact on the environment as well as to effectively manage environmental risks to our operations

**HIGHLIGHT** **Growing our Renewable Energy Business**

Sembcorp currently has a growing renewable energy portfolio in India, China and Singapore. The International Energy Agency expects India and China to increase renewable energy capacity rapidly, with a combined forecast growth of 475 to 600 gigawatts over the next five years. In Singapore, solar energy is considered the main viable renewable energy source. The Singapore government aims to grow installed solar capacity in the country to 350 megawatts peak by 2020.

2017 marked another year of good progress of renewables growth for Sembcorp. Our renewable energy capacity in India grew to over 1,400 megawatts with our winning of combined 500 megawatts in two nationwide wind power tenders. We also continued to expand our solar power capacity in Singapore with the addition of three projects, including new grid-tied rooftop solar energy systems at ST Aerospace's facilities in Changi and Seletar. Within our own operations, we are taking steps to partially power our assets on Jurong Island and our Sembcorp Changi NEWater plant with solar energy by 2018. In total, we grew our global renewable energy capacity from 248 megawatts in 2012 to 2,182 megawatts in 2017. We target to double our renewables portfolio to approximately 4,000 megawatts by 2022 to become one of the region's leading independent renewable energy players.

This demonstrates Sembcorp's commitment to Sustainable Development Goal 7, which aims to ensure access to affordable, reliable, sustainable and modern energy for all.

### Why this is material

**Climate Change**

As an energy producer, our power and steam generation activities release greenhouse gas (GHG) emissions that contribute to climate change. Events and actions by governments in response to climate change pose potential regulatory, technological, physical and reputational risks to our businesses. One such significant development was the 2015 Paris Agreement on climate change, which countries accounting for over 85% of global GHG emissions have ratified. However, we recognise that in spite of these challenges, we are also uniquely positioned to leverage opportunities that have arisen from action in response to climate change.

As part of Sembcorp's new Climate Change Strategy, we have identified the climate-related risks and opportunities material to our Utilities business as follows:

- **Changes in policy and regulation**: Increasingly, governments are adapting their policies and regulations as part of country-level strategies to reduce emissions and support the transition to a low-carbon economy. The global increase of cap-and-trade schemes and carbon taxes will accelerate current trends favouring renewables, which in turn can significantly impact the future profitability of our assets and investments.
- **Changes in technology and customer demand**: Falling costs and improved performance of new and emerging technologies such as photovoltaic, energy storage, smart grids and downstream technologies, including electric vehicles and decentralised generation are bringing about significant changes in the energy landscape. As a result, the needs of our markets and customers will change.
- **Physical disruption**: Physical environmental risks, such as weather extremities linked to climate change, may pose disruption to our assets and operations, and to the economic value chains and communities in which we operate. Exposure to physical risks vary widely across our operating geographies and across our businesses, from our power assets to our desalination plants.
- **Stakeholder management and reputation**: Our stakeholders are increasingly focused on the impact of climate change and how the company responds to climate-related risks and opportunities. As a responsible corporate citizen, we recognise our obligations towards our stakeholders. Maintaining our stakeholder relationships is critical to our licence to operate and essential to protect our business reputation.

*For more information on our key climate-related risks and opportunities, please refer to page 111.*

**Key Highlights of Sembcorp's Climate Change Strategy**

**BALANCED LOW-CARBON PORTFOLIO**

| REDUCE NEGATIVE IMPACT | ENHANCE POSITIVE IMPACT |
|---|---|
| • Restricting investments in coal-fired power plants<br>• Improving our energy efficiency | • Focusing on growing gas and renewables portfolio<br>• Growing green business lines: Renewables, Water and Wastewater Treatment and Waste-to-resource<br>• Exploring new business models, products and services that focus on energy efficiency, digitalisation and new energy solutions |

**ENABLERS**

| ACCOUNTABILITY | COLLABORATION | TECHNOLOGY | RISK MANAGEMENT |
|---|---|---|---|
| Climate risk and performance management embedded into strategy, incentives and decision making | Engaging and collaborating with stakeholders to protect the climate, deliver sustainable solutions | At least 80% of R&D budget to focus on green business lines and new business models, products and services | Implementing a climate risk assessment process; applying shadow carbon pricing in scenario planning and portfolio stress tests |

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

**OUR TARGETS**

| Carbon emission intensity* | |
|---|---|
| 0.42 $tCO_2e$/MWh by 2022 (close to 25% reduction from 2017)<br>$<0.40$ $tCO_2e$/MWh by 2030 ($>27\%$ reduction from 2017) | To double our renewables capacity to ~4,000 MW by 2022 from 2017 |

* *Refers to GHG emissions intensity of our Utilities business' assets that produce GHG from the combustion of fossil fuels*

Our climate change public disclosures are guided by the recommendations of the G20 Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). These recommendations were developed with the aim of providing a framework to report voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks.

*For more information on Sembcorp's full Climate Change Strategy, please visit the Reports & Policies page in the Sustainability section of our website.*

**Local Environmental Protection**

As a result of the products and services we provide, our operations have varying direct and indirect impacts on the environment such as water, land and air pollution. These include the discharge of effluent and the disposal of waste, as well as the release of $NO_x$, $SO_x$ and particulate matter to the atmosphere. Improper or non-compliant emission, discharge or disposal not only results in harm to the environment and public health, but also threatens our long-term viability and goes against our Statement of Commitment to Environmental Protection.

### Our Position on Coal-fired Power Plants

As a global company operating in emerging markets, we face the conflicting challenge of constraining GHG emissions in the face of a pressing demand for electrification. In this context, we believe that efficient thermal energy continues to be relevant, especially in developing economies. For this reason, while we have taken a stand to not invest in subcritical coal-fired power plants, we will align with guidelines set by the Organisation for Economic Co-operation and Development* and are open to opportunities to invest in supercritical and ultra-supercritical coal-fired power plants in countries that are eligible for International Development Association financing. By moving towards a balanced low-carbon portfolio which includes renewable assets, Sembcorp targets to reduce our carbon emission intensity to 0.42 $tCO_2e$/MWh by 2022 and less than 0.40 $tCO_2e$/MWh by 2030.

* *Sector Understanding on Export Credits for Coal-fired Electricity Generation Projects, 11/ 2015*

# Our Material ESG Issues

### Energy and Water Efficiency

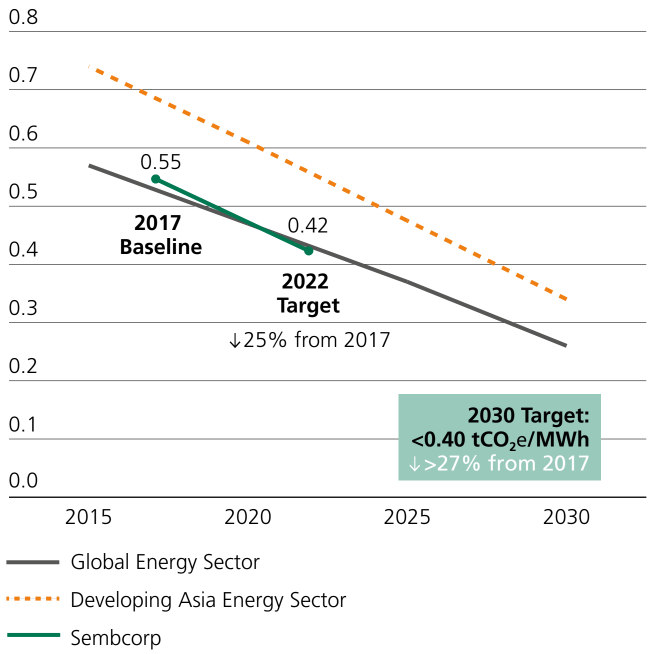
Achieving optimal energy and water efficiency is a business driver for us. Maximising our efficiency and optimising our operations reduces our consumption of natural resources and impact on the environment while enhancing our returns. In the face of rising energy costs and water scarcity, energy and water efficiency are becoming increasingly critical to ensure the long-term sustainability of our business.

**Our approach**

**Climate Change**

The management of climate change issues is led by the head of our Renewables & Environment business and executed across several departments: Group Strategy, Group Risk, Group Performance Management, Group Digital & Technology, Group Health, Safety, Security & Environment (Group HSSE), Group Strategic Communications & Sustainability and Group Human Resources & Organisational Development. We have set emission intensity targets to be in line with the scale of reductions required to keep the increase in global average temperature to below 2°C above pre-industrial levels as per projections in the International Energy Agency's (IEA) World Energy Outlook 2016. Our target is to reduce our carbon emission intensity* from 0.55 tonnes of carbon dioxide equivalent per megawatt hour ($tCO_2e/MWh$) in 2017 to 0.42 $tCO_2e/MWh$ by 2022 and to less than 0.40 $tCO_2e/MWh$ by 2030.

**Carbon Emission Intensity (Current and Targeted) Compared with that of IEA's 2°C Scenario** *($tCO_2e/MWh$)*




* *Refers to GHG emissions intensity of our Utilities business' assets that produce GHG from the combustion of fossil fuels*

We plan to achieve this target through two key thrusts. The first is to reduce negative impact through reducing emissions; the second is to move towards a balanced portfolio of low-carbon energy assets through growing our renewables capacity.

**Local Environmental Protection**

Group HSSE is guided by the principles and practices set out in our Statement of Commitment to Environmental Protection and Environmental Protection Management Guidelines.

*For a copy of our Statement of Commitment to Environmental Protection, please visit the Report & Policies page in the Sustainability section of our website.*

We aim to comply fully with all regulations and requirements and consume resources prudently, focusing on reduction at source. We assess the impact of environmental risks and apply appropriate control measures to manage them. These cover energy efficiency, atmospheric emissions, water management, waste management, management of contaminated sites and environmental noise. We apply stringent controls in the management of waste generated by our operations, strive at all times to adhere to discharge and emission limits set by local authorities and implement containment measures to minimise any direct impact to the environment and the surrounding community. We are committed to continually reducing our waste generated. As a wastewater treatment service provider, we are able to treat multiple streams of industrial wastewater from our customers. We also have a comprehensive water sampling and testing regime that helps us ensure compliance with such standards. Our Group HSE Management System's Incident Investigation and Reporting Requirements allow us to take systematic steps and actions in response to HSE incidents and near misses to prevent recurrence. GHSSE conducts internal audits to check for site compliance to our Group HSE management system. As part of their audit scope, GHSSE will check for each site's non-compliance and environmental incident records and also if our contractors are licensed by the local authority to dispose of hazardous wastes.

We aim to minimise our environmental impact through prevention, reduction, reuse and recycling, and seek innovative ways to adopt a circular economy approach to waste. We actively develop capabilities to recover energy from waste. For example, at our Sembcorp Woodchip Boiler Plant in Singapore, woodchips processed from waste wood collected by our solid waste management operations are used to produce steam. Also, we use treated effluent from our wastewater treatment facilities as feedwater to produce demineralised water at our water reclamation facilities. In addition, our design and construction business utilises fly ash, a by-product of coal combustion in power plants, as a material to produce blended cement, mosaic tiles and hollow blocks.

We conduct environmental assessments in accordance with national and / or international standards and methodologies. These include environmental and social impact assessments, environmental baseline studies and pollution control studies. Recommendations from these assessments form part of our management of HSE risks and these recommendations are incorporated into the planning, designing, construction and operation of new plants.

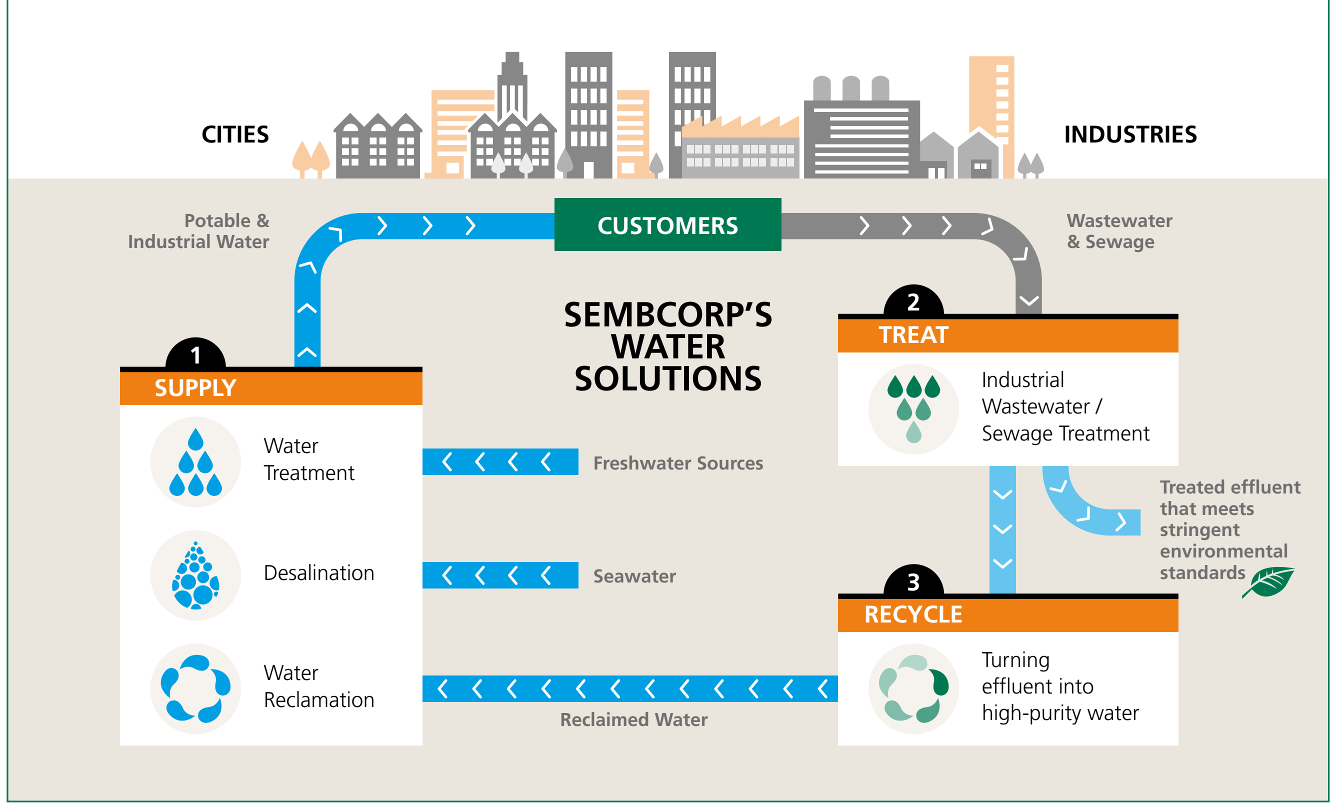
**Energy and Water Efficiency**

Where viable, we invest in the latest technologies and utilise our capabilities as an industry leader to achieve better energy and water efficiency, including the reduction of heat rate and auxiliary power in our power plants, and the reduction of water consumption through water reuse. Energy and water efficiency parameters are embedded in our plant operation management systems and are monitored daily. These parameters are reported to management on a monthly basis where deviation and performance gaps are reviewed and improvement plans are discussed for implementation. Our Group Digital and Technology team spearheads various innovations and initiatives to improve operational efficiency. The team collaborates with institutes of higher learning, research institutes as well as private sector players to explore solutions which enhance our energy and water efficiency. For example, we are looking into identifying suitable waste heat recovery solutions to be applied to our operations. We also utilise the Sembcorp Global Asset Management System, a data and predictive analytics tool, to help us optimise our operations and improve efficiency.

Water availability

We leverage Sembcorp's total water management capabilities for better efficiency and resource conservation for our own operations as well as our customers. By integrating wastewater treatment, water reclamation and water supply into a "closed loop", we aim to minimise liquid discharge, reducing environmental impact while conserving water resources.

**Sembcorp's Total Water Management Capabilities**



# Our Material ESG Issues

Our energy-efficient large scale integrated power and desalination plants use multi-stage flash distillation and reverse osmosis to provide high-quality water to industries and households in water-scarce areas such as Oman and the UAE. We do not draw groundwater for our power generation operations, but rely on seawater to meet our cooling water needs. In some of our power plants, we employ closed-loop cooling water systems to further minimise water drawn from the ocean.

Our energy and water efficiency efforts also apply to our office and administrative buildings and we actively seek to reduce our consumption of energy and water through responsible use and equipment upgrades.

**Our performance**

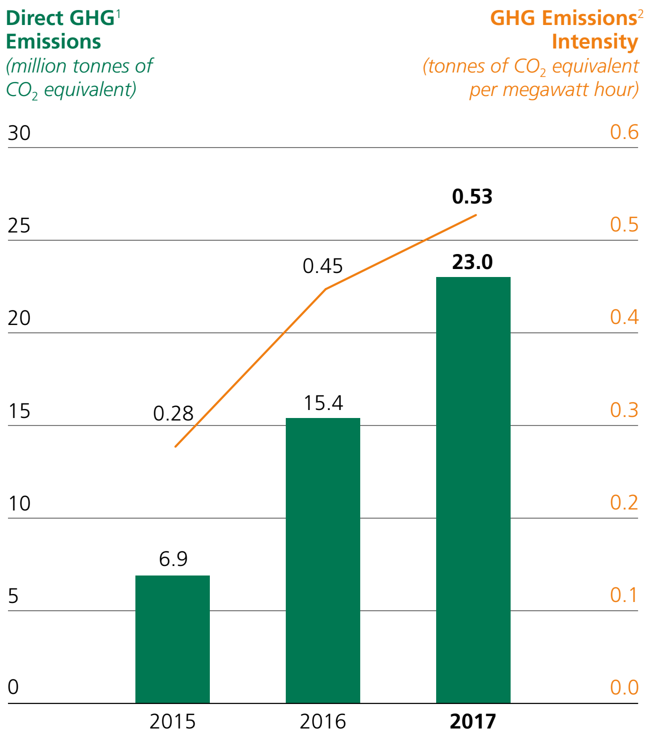
In 2017, Sembcorp was ranked 21st in Energy Intelligence's 'Top 100 Green Utilities' ranking. The Group is the only company from Singapore on the list, which ranks the world's leading electric utilities based on their renewable energy portfolios and GHG emissions. The 100 companies represent about 55% of the world's power generating capacity.

A Climate Change Strategy Working Committee was set up in 2017 to formally identify, review and manage climate change-related risks and opportunities. We developed a Climate Change Strategy, including carbon emission intensity and reduction targets.

We continue to pursue GHG emission mitigation initiatives through our asset optimisation programme. Deployed at all our energy plants globally, these help us to effectively pursue reductions in energy consumption and GHG emissions. In one of our cogeneration plants in Singapore, we were able to reduce the energy consumption of a natural gas compressor resulting in savings of 3,450 megawatt hours of electricity in 2017, or almost 1,500 tonnes of $CO_2$ equivalent of emissions avoided*. Such initiatives allow us to mitigate the impact of current and potential carbon taxes in the countries in which we operate.

In line with the methodology used for the development of our carbon emission targets, we now report our GHG emissions and GHG emissions intensity using an equity share approach. Our GHG emissions and GHG emissions intensity by equity share approach was 22.7 million tonnes of $CO_2$ equivalent and 0.55 tonnes of $CO_2$ equivalent per megawatt hour respectively. For the purpose of comparison, the operational consolidation data is presented on the right.

**Direct GHG Emissions and GHG Emissions Intensity (Scope 1)** *(applying operational consolidation approach)*




[1] *Emissions data covers entities that produce GHG from the combustion of fossil fuels consumed in our Utilities business' assets. It excludes emissions from anaerobic wastewater treatment plants, and maintenance and servicing equipment. Only $CO_2$, $CH_4$ and $N_2O$ emissions are included in the calculation of direct GHG emissions. Global warming potential factors used are from the IPCC Fourth Assessment Report for 2015 and 2016 data, and the IPCC Fifth Assessment Report for the 2017 data. The time horizon applied is a 100-year time horizon*

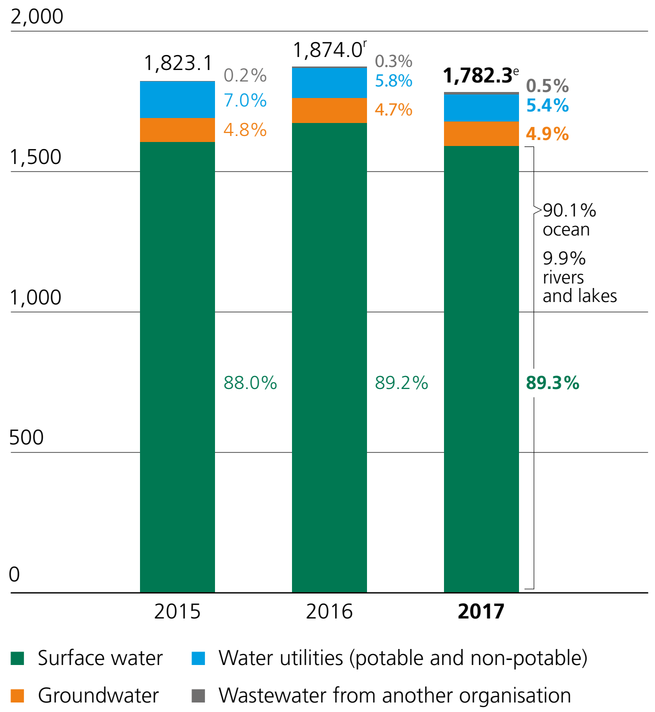
[2] *GHG emissions intensity data for 2015 has been estimated. A small proportion of energy attributed to steam production in 2015 was not available and was estimated based on data from 2016*

The increase in direct GHG emissions and GHG emissions intensity in 2017 was largely due to the inclusion of data from our second supercritical coal-fired power plant in India.

We report emissions from the combustion of biomass separately, in accordance with GRI Standards. These emissions amounted to approximately 442,000 tonnes of $CO_2$ equivalent in 2017 compared to approximately 566,000 tonnes in 2016. This decrease was due to both planned and unplanned downtime of our biomass plant in the UK.

* *Emissions avoided are calculated using 2016 Energy Market Authority of Singapore published grid emission factor*

**Water Withdrawal**[1,2,3] *(million $m^3$)*




[1] *Data is collected from meters*

[2] *Water that is withdrawn during plant commissioning for a closed-loop cooling system is excluded from the reporting scope*

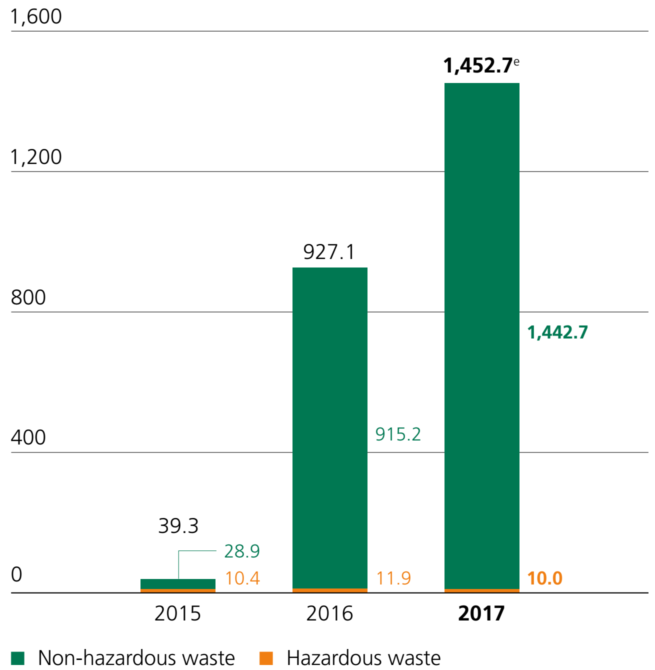
[3] *Percentages may not add up to 100% as they are rounded to the nearest one decimal place*

[r] *Indicates restated figure. Water withdrawal for 2016 has been restated to 1,874.0 million cubic metres after an internal verification exercise, instead of 1,873.9 million cubic metres as previously reported*

[e] *Indicates data is based on management's best estimates; we look to further refine the accuracy and consistency of the data*

In 2017, 89.3% of our total water withdrawn was abstracted from surface sources, of which 90.1% of surface water withdrawn was water abstracted from the ocean. More than half of this water abstracted from the ocean was desalinated into potable water for the community, and the rest was used as cooling water for Sembcorp's power plant operations and for our customers' plant processes. 9.9% of surface water withdrawn was from rivers and lakes, of which, 97.0% was used for the production of potable water for the community, and the remaining 3.0% was for internal use. Groundwater abstraction remained steady. 100% of groundwater abstracted was treated to produce potable water for the community. 73.9% of water we obtained from water utilities was treated non-potable industrial and domestic wastewater, which we reclaimed to produce high-grade industrial and potable water. The remaining 26.1% of water obtained from water utilities was potable water. "Wastewater from another organisation" represents wastewater we treated for our customers. 10.1% of wastewater treated for customers was reclaimed and reused.

**Waste Generated**[1,2] *(thousand tonnes)*




[1] *The data excludes waste that is collected and incinerated for our customers*

[2] *Hazardous and non-hazardous waste are defined by relevant country regulations in each market*

[e] *Indicates data is based on management's best estimates; we look to further refine the accuracy and consistency of the data*

The significant increase in non-hazardous waste in 2017 was largely due to the inclusion of data from our second supercritical coal-fired power plant in India. The non-hazardous waste comprised mainly fly ash, a by-product of coal combustion in power plants. Our India operations have memoranda of understanding to sell up to 90% of their fly ash to be reused as a partial replacement for Portland cement in the production of concrete, although the uptake of the ash is dependent on market demand.

# Our Material ESG Issues

**Going forward**

As part of our Climate Change Strategy, we have identified several initiatives that will help us manage our climate-related risks and opportunities, including the development of a low-carbon growth roadmap. Climate-related risks will also be included in our risk management processes. Performance incentives linked to the achievement of our key targets will be developed to ensure accountability.

We are in the process of creating an Environmental Management Policy and Framework to supplement our existing Group Health, Safety and Environment Policy and Framework. This will provide more clarity and focus on environmental risks across the asset life cycle. We will continue to invest in technology to improve the environmental performance of our facilities. The progressive implementation of the Sembcorp Global Asset Management System is expected to improve our energy efficiency.

**Climate Change**
To have a business portfolio that balances the economic expectations of our stakeholders and our businesses' impact on the climate

**Local Environmental Protection**
To fulfil our duty to protect the environment and conserve resources, while providing competitive and reliable solutions for our stakeholders

**Energy and Water Efficiency**
To improve energy and water efficiency through good and economically viable environmental practices

## Social

To be a responsible business that ensures the health and safety of our people, and makes a positive impact on our people and communities

**HIGHLIGHT** **Striving Towards a Safer Sembcorp**

In response to the higher exposure to safety risks at our project sites, we mandated the set-up of Health, Safety and Environment (HSE) steering committees for individual projects.

Each steering committee is led by the project's manager and comprises representatives from the engineering, procurement and construction company, as well as senior management from the corporate office. They meet quarterly to review and analyse safety performance, and to pre-plan key project activities with a view to pre-empt critical risks related to specific project activities. This initiative has significantly improved our project safety performance.

Our total recordable injury rate fell from 1.67 in 2016 to 1.2 in 2017.

An annual workshop for all HSE officers across our global operations was conducted at our Phu My 3 power plant in Vietnam. On-site demonstration of the plant's behavioural-based safety programme, as well as discussions on HSE practices encouraged engaging and fruitful cross-cultural interaction and learning.

These initiatives have contributed towards the cultivation of an interdependent HSE culture, where employees adopt a collective and anticipatory approach to recognise and act upon hazardous work conditions.

**Why this is material**

**Health and Safety**

Sembcorp develops and operates power and water plants as well as other facilities, where extensive health and safety precautions are required. The expansion of our business into developing economies also means we face challenges in building a local workforce that is attuned to our global health and safety standards. It is our priority to ensure that globally, all our employees and contractors are competent and equipped to work safely. We recognise our duty of care to provide a safe workplace for those who step into our premises, and we work hard to fulfil that duty. The health and safety of our customers is also a key priority, especially in our municipal water operations, where any lapse in health and safety protocols could result in a direct impact on people in the community.

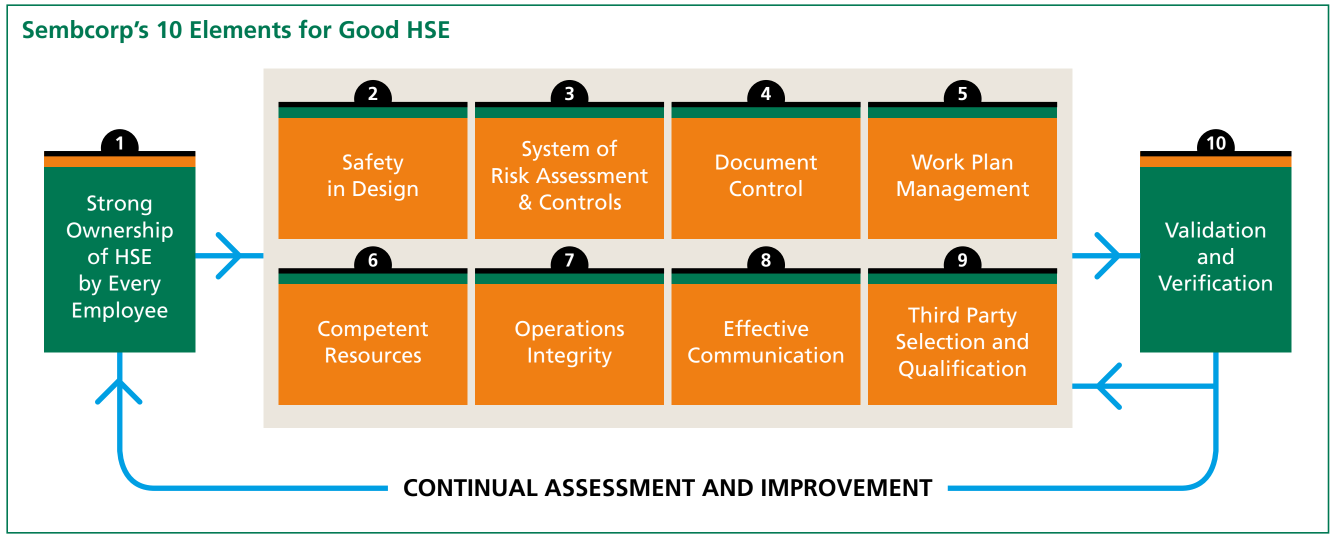
**Our People**

Our employees play a vital role in ensuring we achieve our business strategy and goals. The nature of our business requires specialised technical expertise. However, some of the markets in which we operate lack a qualified labour force with the necessary technical skill sets that our business demands. In other markets, these skill sets are highly sought after across several industries. In addition, the commercial and regulatory environments we operate in are also becoming increasingly complex. There is therefore a critical need to retain and develop a capable and motivated workforce that possesses a deep understanding of the company and its industry sectors. Of the issues relating to our people, our materiality review process has identified employee development, employee compensation and benefits, labour standards, human rights and diversity, as well as employee wellness to be important areas of focus.

**Community**

Sembcorp's long-term success is premised upon being a valued partner to the communities we are in, and we aim to contribute positively to these local communities. While Sembcorp's businesses play an important role in supporting economic development and improving the standard of living in our communities, we recognise that there are social and environmental impacts on the communities around us as a result of the development and operation of our plants. Therefore, we view our integration with, support of and contribution to our host communities as part of our licence to operate.

# Our Material ESG Issues




**Our approach**

**Health and Safety**

Occupational health and safety

Our vision is to be an organisation with a proactive health and safety culture. We are committed to working towards the goal of zero injuries in our workplace, with a workforce that puts safety first. We benchmark the health and safety performance of our operations against relevant global industry safety statistics, such as the International Oil and Gas Producers Global Safety Performance Indicators, and aim for progressive improvement. As our operations grow in developing markets, the concern of security has become an emerging issue for us to manage. In response to this, we have adopted a phased approach in the development of our security management programme, starting with a focus on projects under development.

We have put in place structures and processes to meet our goal, including:

- Board review
- Oversight by the board's Risk Committee
- Leadership by our Group President & CEO
- A Group HSE management system framework comprising:
  - Group HSE Policy
  - Group HSE management system guidelines and standards

The Group HSE management system framework provides guidelines and standards detailing expectations and principles relating to different aspects and activities that take place at a plant or site. It is further supported by Sembcorp's 10 Elements for Good HSE.

Assurance

HSE assurance is supported by an on-site validation and verification process which evaluates the effectiveness of the plants' or sites' HSE controls. On an annual basis, a validation and verification schedule is formulated using an internal risk-based assessment to ensure that the assurance exercise will focus on higher risk areas. Plants or sites with higher risk ratings will be given priority in the assurance exercise. The results of the assurance form the basis for the development of improvement plans.

Training

Providing our employees with relevant HSE and technical capability development ensures that we have competent safety practitioners and safety-conscious line managers that support safe operations. Training is specific to the operations' or sites' risk profile and local conditions, and is conducted on an ongoing basis. Examples of operations-specific training include defensive driving at our solid waste management unit as well as project commissioning and construction orientations for project development teams. An annual global HSE workshop is held as a platform for the learning and sharing of corporate initiatives and best practices from our different operations.

Product responsibility: safety and quality

Sembcorp is committed to designing, building, operating and maintaining facilities in a manner that safeguards our people, property and the environment.

Product safety and compliance is a priority, as non-compliance can result in serious health, safety and operational issues for our customers, many of whom depend on us for basic utilities or require our products for their industrial processes. Compliance testing of our products is done during various stages, from manufacturing to distribution and supply. We have a robust maintenance and monitoring regime in place, which includes stringent inspections and the installation of meters and sensors at both our and our customers' facilities. We also conduct regular laboratory tests to meet regulatory requirements and ensure that the water we produce is safe for our customers and end users.

**Our People**

Our operations span 15 countries across five continents where labour laws, regulations, employment codes and practices differ widely. All our local human resource policies comply with the local laws.

Our human resource practices are guided by the following:

- Oversight by the board's Executive Resource & Compensation Committee
- Oversight by the Senior Management Committee
- Talent Development Committees
- The Sembcorp Leadership Framework
- Our Code of Business Conduct
- Our Employee Code of Conduct
- Our Grievance Handling Policy

Human capital risk is also monitored as part of our key risk indicators and reported bi-annually to the board's Risk Committee.

Through our memberships and participation in events conducted by external organisations, we stay abreast of the latest developments and best practices for human resource management.

Our participation in human resource-related organisations includes membership in the following:

- Singapore Business Federation, Singapore
- Singapore National Employers Federation, Singapore
- Temasek Human Resource Council, Singapore
- The Corporate Executive Board Leadership Council, USA
- Employment Conditions Abroad International, UK

Employee development

Employee development at Sembcorp is managed through the Sembcorp Leadership Framework, which comprises three components with distinct yet interrelated objectives to drive employee development. Workforce Planning supports organisational growth and ambition. The Core Competency component assesses employees' competencies and identifies capability gaps while setting performance expectations. Learning and Development programmes are then put in place to close the gaps identified.

Localisation is an important part of our strategy to grow our overseas businesses. When we begin operating in a new market, employees who are seconded from Singapore and other locations to start up the operations are given a clear responsibility to develop local talent. As the capabilities of local employees grow, the team is gradually localised, and the number of secondees progressively reduced.

Employee compensation and benefits

To attract, motivate and retain employees, Sembcorp's remuneration and reward system is market competitive and performance-based. To determine salary levels and benefits, regular reviews and benchmarking are conducted against local standards and data from global market surveys and consultancy firms. In countries where there is a minimum wage policy, Sembcorp pays above the minimum wage.

Sembcorp adopts an equal pay policy where rewards are based entirely on merit and performance. Salary increases are based on individual performance and relative placement against the external market as well as negotiations with employee unions and guidelines issued by the local government. Annual variable bonuses are based on the Group's performance as well as employees' performance against individual targets set jointly with their supervisors.

We recognise that managing performance and development is a continuous process. Performance appraisals are done through informal feedback sessions and online systems where performance, expectations, training needs and targets are discussed and agreed upon by the employee and supervisor. As part of the performance appraisal, employees are assessed against Sembcorp's Core Competency Framework. Going through the appraisal process helps inculcate core values in employees, and clearly articulates the competencies and functional skills needed for their development.

# Our Material ESG Issues

**HIGHLIGHT** **Equipping Employees to be Leaders**

Following the successful pilot trial of the Sembcorp Leaders' Programme in Singapore in 2016, we officially launched the programme in 2017, starting with a wider group of employees in Singapore. The SLP was developed as a mainstay Sembcorp programme for all employees of executive rank and above. Its aim is to equip participants with a common set of skills and tools for problem solving, communication, innovation and managing change. The programme has been extended across the organisation, from junior employees to senior management, and provides specific leadership training relevant to the employees' seniority and corresponding responsibilities. Topics include design thinking, as well as communication and presentation skills. Within a year of its roll-out in Singapore, the programme has been attended by close to 44% of eligible employees. Participants were also required to provide feedback to evaluate the quality of the training and applicability of skills learnt, and the average feedback rating was 4.5 out of 5. The SLP was the first enterprise-wide programme administered through our online Learning Management System, which improved efficiency and reach during the running of the programme.

Labour standards

We abide by local laws wherever we operate. Sembcorp employees are entitled to practise freedom of association and to be covered by collective bargaining agreements in the workplace, within the regulatory boundaries of each of the jurisdictions. We hold constructive ongoing engagement with employee unions in our various operations. In countries where our operations are covered by collective agreements, we abide by the terms stated in said agreements, including those relating to minimum notice periods. Procedures for grievance handling are also specified in the agreements. Our Grievance Handling Policy seeks to manage employee grievances in a fair and reasonable manner, with an escalation path to the Group President & CEO where necessary. Where collective agreements do not exist, we abide by the terms stated in employment contracts.

Human rights and diversity

We are committed to uphold and respect the spirit of the United Nations Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. Sembcorp is a signatory to the UNGC, and has made a public commitment to respect the Ten Principles of the UNGC, one of which is human rights. We are also guided by the United Nations Guiding Principles on Business and Human Rights. We abide by the Employers' Pledge of Fair Employment Practices under Singapore's Tripartite Alliance for Fair and Progressive Employment Practices. Our Code of Business Conduct sets out our stance on fairness, opportunity, non-discrimination, dignity, respect and harassment. We do not hire forced or child labour in our operations.

Employee wellness

We recognise the impact of wellness on our employees' overall effectiveness, and have set aside a dedicated wellness budget in countries of major operation such as Singapore, China, Oman and the UAE. The budget is available for department heads to use towards activities that encourage employee well-being and team bonding. Sembcorp was a founding member of the iCare Mental Health Alliance, which made efforts to improve the mental health of workers in Singapore. In addition, we specifically include coverage of treatment for mental health issues in our employee insurance cover. Besides mandatory medical screenings for employees potentially exposed to occupational health hazards, voluntary annual health screenings are available free of charge to all employees in Singapore, China, India, Oman and the UAE.

Around the world, employee-led committees within our operations organise a range of recreational activities as well as nutrition and stress management programmes to support employees' physical and mental well-being.

### Community

As we build successful and sustainable businesses, societies and communities benefit. Our operations generate employment, contracts for local suppliers and tax revenues for governments and result in infrastructure development in our host communities.

However, we recognise that our operations also contribute to social and environmental impacts that may affect the community.



As a company with operations across five continents, we understand first-hand how the needs of one community can be very different from another. We believe that our local operations are best placed to not only understand the needs of the community, but also to forge partnerships with local stakeholders. Therefore, while the Group provides the strategic framework, tools and guidelines to ensure consistency and acceptable standards, community assessments and engagements as well as contributions are managed at the local level.

| ENVIRONMENT | COMMUNITY |
| --- | --- |
| We are committed to fostering environmental stewardship in our community through contributions to sustainability and environmental initiatives | We are committed to improving the living standards and quality of life of the community, such as through providing access to water, social welfare and education |

Assessment and engagement

Our assessment and engagement of the community is guided by our Group Stakeholder and Community Engagement Policy as well as our Group Community Grievance Management Policy. Environmental and social impact studies are carried out in accordance with international and / or national standards for major new projects and expansions. These studies typically include social management plans that are implemented by the operations teams through the various stages of the site's development.

Community contribution

Sembcorp's global corporate social responsibility (CSR) framework provides a strategic and consistent approach for our charitable contributions and community investments. We focus on fostering environmental stewardship and improving the quality of life of the communities we are in.

Our CSR framework aligns the tracking and reporting of our community contributions with guidelines set by the London Benchmarking Group. This allows us to account for our total community giving using standard definitions and valuations, and helps us ensure that the contributions recorded are meaningfully spent on community investment activities.

**HIGHLIGHT** **Investing in Education to Uplift Communities**

The Sembcorp Gayatri Power Complex operates in the Nellore district of the state of Andhra Pradesh, India, where it is surrounded by 42 villages comprising over 31,000 residents. These communities face multiple challenges, ranging from illiteracy, unemployment and poverty to gender inequality and poor health. Girls, in particular, contribute to a large proportion of the school dropout rate because public transport is infrequent and deemed unsafe for them. Following extensive engagement with members of the community, education has been identified as a key enabler for the long-term improvement and development of the communities.

Sembcorp implemented a host of initiatives to holistically address the community's educational needs, one of which was the provision of free transportation to schools. This initiative was implemented to counter high dropout rates due to the inaccessibility of the schools. Four years on, this initiative has benefited at least 470 students, including 300 girls. This has significantly improved the percentage of girls completing higher secondary education from 76% to 98%, and helped close the gender gap in school attendance.

To date, we have invested close to S$300,000 in education initiatives for the communities in the vicinity of the power complex, benefitting 19 schools and over 1,600 students.

# Our Material ESG Issues

**Our performance**

**Health and Safety**

In line with our growing international footprint, we continued to focus on aligning our practices with our global standards. We placed an emphasis on implementing initiatives across Group, country and site working levels in 2017. Key initiatives included:

Group initiatives

- Conducting our company's first HSE workshop outside of Singapore, in Vietnam
- The rolling out of safety standards to improve and standardise our safety protocol. A taskforce was set up in 2016 to review our Permit-to-Work (PTW) system and evaluate areas for improvement and standardisation. This year, our Global PTW Standard was approved by the board's Risk Committee and launched for group-wide implementation, and our Singapore utilities assets have been verified for compliance to the standard. The Safe Lifting Operations and Working At Height standards are presently being developed and formalised
- The establishing of regular push communications, alerts and case studies from serious incidents. Besides the dissemination of information, every site is required to review their internal procedures based on lessons learnt from the case studies, and update their procedures where appropriate
- The updating of our Group HSE policy and management system to ensure that our management approach remains relevant and effective. Security management has been included as an element in our management system to ensure that our people, assets and reputation are protected against security risks and site vulnerabilities

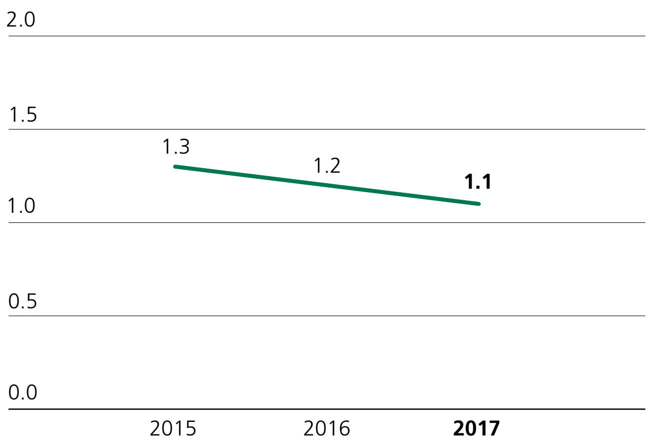
Country initiatives

- Establishing our Plant Performance and Compliance Assurance (PPCA) regime. The PPCA has been spearheaded by the asset management team in China, with HSE being a key component in the review scope. The assurance exercise consists of an operational plant review, technical integrity reviews, safety management as well as ensuring compliance with local regulatory requirements. The PPCA has been rolled out to all our water plants in China

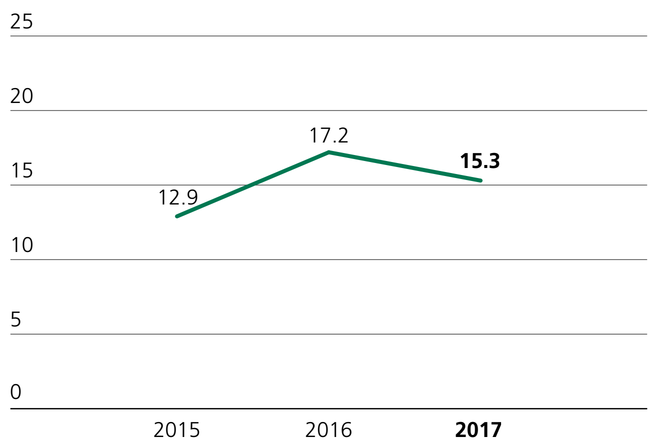
Site initiatives

- Implementing a site HSE self-evaluation process against applicable legal requirements and corporate policies. This self-evaluation is done on a quarterly basis, and the outcome of the assessment is discussed and reviewed during the HSE Committee meeting

**Lost Time Injury Rate per Million Man-hours[1,2,3]**




**Accident Severity Rate per Million Man-hours[1,2,4]**




1 *Group health and safety performance is reported and recorded in accordance to the reporting requirements defined in the Group HSE Health and Safety Performance Reporting Standards. The principles adopted by the Standard are consistent with the general principles of the GRI Standards, the International Oil and Gas Producers Association Reporting Standards, and the US National Institute for Occupational Safety and Health (NIOSH). Occupational health and safety data includes employees and contractors. All injuries incurred involved male employees and contractors*

2 *Figures are based on scope included in the reporting year*

3 *Lost time injury rate is defined as the number of fatalities and lost work day cases per million man-hours worked. It excludes first aid cases*

4 *Accident severity rate is defined as the number of lost work days per million man-hours worked. It has been charted excluding fatalities. Accident severity rate including fatalities is reported in our detailed performance data online. We record lost time due to one fatality as 6,000 lost work days, as per guidelines by the US NIOSH*



- Conducting site assessments at all our solid waste management depots, where we have identified three key areas for improvements: safety engagement with workers, leadership and safety culture, and enhancing safety competency

Despite our best efforts, it is with deep regret that we report two work-related fatalities and one fatality involving a member of the public in 2017. Every life lost is one too many. No effort will be spared in ensuring that all incidents are thoroughly investigated and preventive actions implemented to address root causes. Two of these incidents involved contractors, one at a water operation in China and another at a factory in Malaysia operated by our design and construction business. The third case, which is currently undergoing investigation by the authorities, involved a member of the public and one of our waste collection trucks. We are determined to step up efforts to engage our workforce on the importance of building a proactive health and safety culture.

We are closely monitoring our safety statistics to ascertain the impact of our initiatives, and recognise that a change in health and safety culture will require sustained effort over a longer time frame. In 2017, we were encouraged by some positive results in both our operating assets as well as projects under construction. We believe that our promotion of near miss investigations and reporting have improved our operations' and sites' ability to identify and address unsafe conditions or actions.

**Our People**

We undertook a global employee engagement survey in 2017, and are pleased to report an 81% response rate. The survey provided valuable insights into issues that were of key concern to our employees, and gave us the impetus to work on areas for improvement. Findings of the survey were cascaded to all employees through briefing sessions and workshops facilitated by Group Human Resources & Organisational Development. Cross-functional focus group engagement sessions are currently underway to help prioritise and plan the next steps.

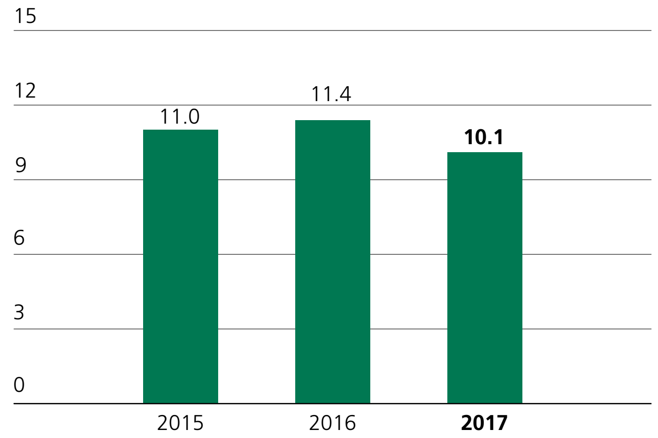
The roll-out of the Sembcorp Leaders' Programme (SLP) in Singapore was well-received, with close to 44% of eligible employees having signed up within the first year of its roll-out.

We expanded our online Learning Management System (LMS) to Oman and the UAE, and have observed improved productivity in training administration and increased accessibility of training materials.

Employee turnover rate was stable, decreasing slightly from 11.4% in 2016 to 10.1% in 2017. The voluntary turnover rate was 8.4% in 2017.

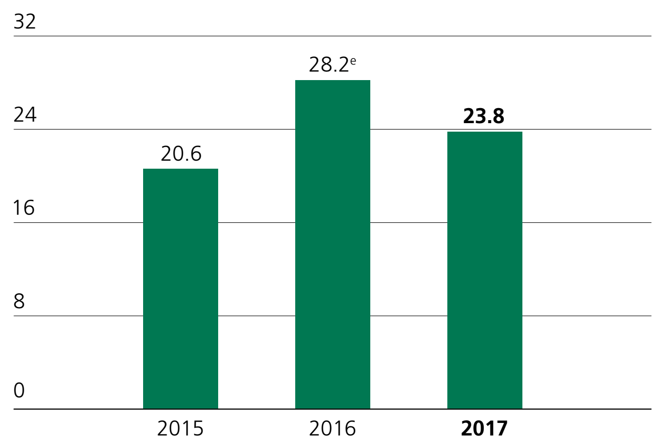
The average number of training hours per employee was 23.8 hours in 2017, which represented a 16% decrease from 28.2 hours 2016. The relatively higher average training hours in 2016 was due to the roll-out of various one-time training programmes.

**Employee Turnover*** *(%)*




* *The data covers both voluntary and involuntary turnover of permanent employees of Sembcorp and its subsidiaries, excluding Sembcorp Marine*

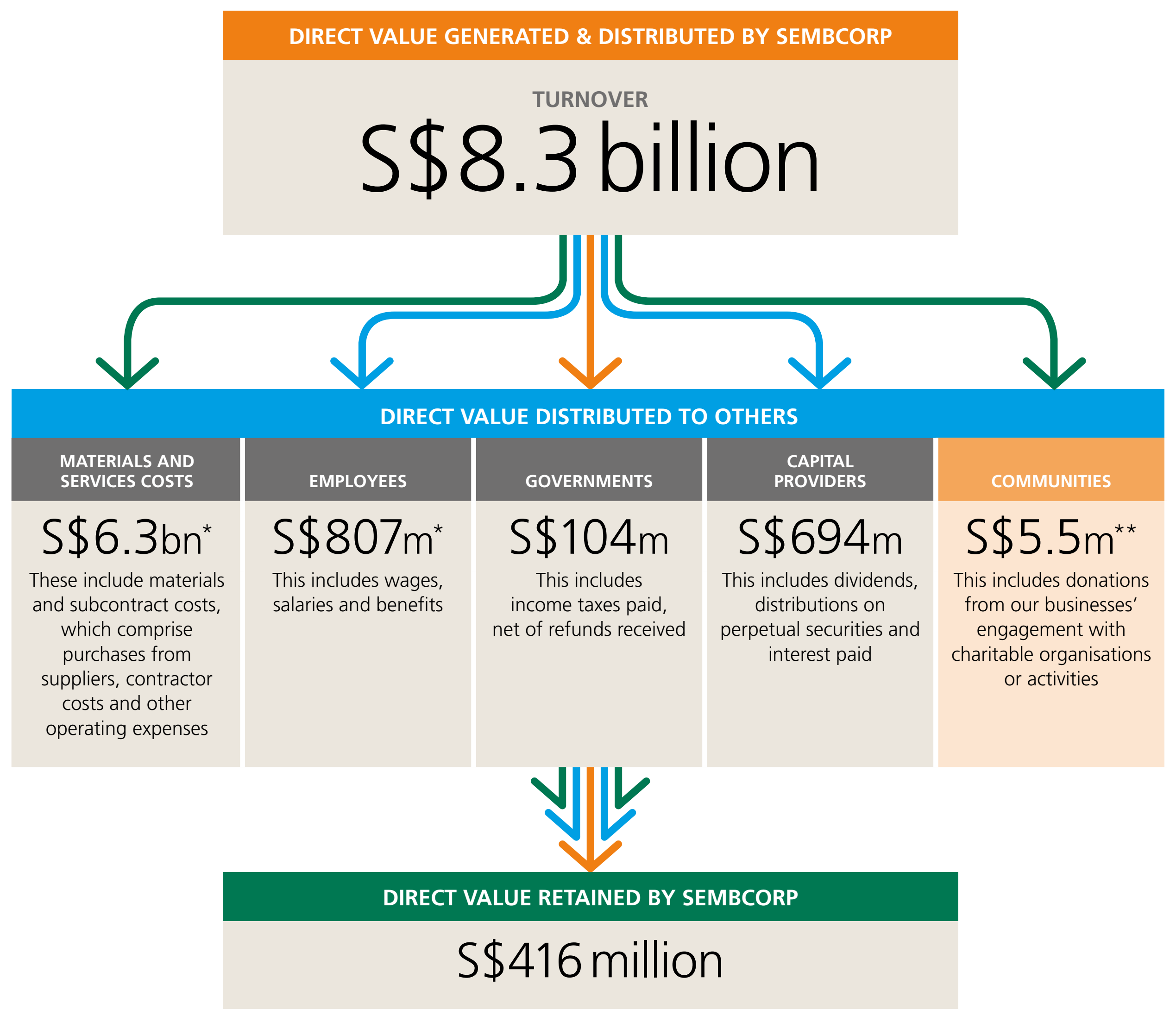
**Average Training Hours per Employee*** *(hours)*




* *Training data covers both permanent and contract employees of Sembcorp and its subsidiaries, excluding Sembcorp Marine. Other indicators in the People section relate to permanent employees of Sembcorp and its subsidiaries, excluding Sembcorp Marine*

e *Indicates data is based on management's best estimates; we look to further refine the accuracy and consistency of the data*

# Our Material ESG Issues




* *On an accruals basis*

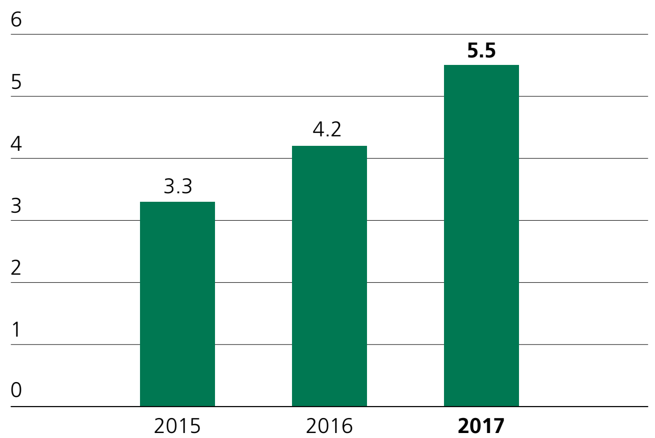
** *Figure presented separately for information. Covers data from Sembcorp Industries and its subsidiaries excluding Sembcorp Marine*

**Community**

In line with our commitment to manage our impact on the community responsibly and to better mitigate the environmental and social impact of our businesses, key community investments and programmes are designed in consultation with local communities as guided by our CSR Framework. In 2017, we conducted community needs assessments for the communities surrounding our assets under construction in Myanmar and Bangladesh, and are in the process of identifying programmes for implementation.

In 2017, Sembcorp contributed close to S$5.5 million in cash and in kind to charities and community initiatives globally. Over S$900,000 comprised mandatory contributions and close to S$3,000 comprised leveraged contributions. These contributions supported programmes relating to providing potable water and infrastructure works, as well as youth development and job training. Total volunteer man-hours amounted to more than 19,000 hours, of which approximately 12% were spent outside of working hours due to event requirements.

**Community Contributions** *(S$ million)*




**Going forward**

**Health and Safety**

The two interlinked themes we will focus on in 2018 are adherence to Sembcorp Global Standards, and behavioural safety. We will continue our pursuit of safety excellence with our 10 Elements for Good HSE as the cornerstone of our safety management system. Our operations reviews for our global sites will place increased emphasis on sites' adherence to our standards and process safety. Lastly, we will also focus on developing our security management programme.

**Our People**

Change management will be an area of focus as Sembcorp embarks on organisational changes to support its strategic direction. We recognise that our employees will have to navigate changes on various fronts, hence managing any resulting impact on them will be our priority in the coming year. Our two-pronged approach will be to first ensure that employees with new roles receive adequate functional competency training for new requirements of the job. Second, we will work with newly formed departments and teams to cultivate mindsets and values that will contribute to the team and organisation's success.

We aim to roll out the SLP programme to our overseas operations. We will also bring the LMS to our UK operations as well as our design and construction operations.

**Community**

Following the community needs assessments we have conducted in 2017 for our assets under construction in Myanmar and Bangladesh, we will set out to identify and implement community initiatives in line with stakeholder feedback. In Myanmar, we will be improving the infrastructure of educational institutions as well as installing water treatment systems to provide potable water to villages in the immediate vicinity of our site.

Our investment towards the enhancement of The Cool House at Singapore's National Orchid Garden is on track, and we look forward to the topping out of the new Sembcorp Cool House in 2018. The full enhancements are targeted to complete in 2019.

**Health and Safety**
To make health and safety management an integral part of everyday business and culture

**Our People**
To offer a compelling employment experience for our people to develop and excel

**Community**
To be a responsible business that makes a positive impact on our communities

# Our Material ESG Issues

## Governance

To maintain high standards of behaviour and integrity and be best in class for governance practices

**HIGHLIGHT** **Developing a Strong Compliance Culture**

As part of our strong commitment to conduct our business honestly, responsibly and ethically, a dedicated Ethics and Compliance department was set up in 2017. The responsibilities of the Group Ethics and Compliance department, previously jointly undertaken by the Group Risk and Group Governance departments, include driving Sembcorp's internal ethics and compliance programme to meet our regulatory obligations and ethical standards.

### Why this is material

**Corporate Governance**

We define corporate governance as the structures and processes in place for the transparent and accountable control and governance of our organisation. Well-defined corporate governance processes are essential in enhancing corporate accountability and long-term sustainability to preserve and maximise shareholder value.

**Risk Management**

Managing risk is an integral part of our business activities. As we continue to grow and expand globally, we are exposed to diverse risks, including strategic, financial, operational, compliance and fraud risks. Besides helping to preserve our bottom line by reducing the likelihood and impact of potential losses, risk management provides a common basis to evaluate new business opportunities. It also assures our board and shareholders that key enterprise and business risks faced by the organisation have been identified, assessed and managed with appropriate risk mitigation and controls.

**Compliance**

Sembcorp provides essential services which are highly regulated. We are committed to comply with all laws and regulations in the countries that we operate in. Non-compliance may subject us to statutory and regulatory fines and sanctions, including losing our licence to operate and material litigation. It may also result in damage to our reputation and credibility, thereby limiting future growth opportunities.

**Ethical Business Practices**

Responsible business conduct and ethical business practices ensure the long-term viability of our businesses and build trust and confidence with our stakeholders. We are committed to high standards of behaviour and integrity in everything we do. We believe in conducting our business legally, fairly, honestly and with integrity, and expect the same of those whom we do business with. Sembcorp has zero tolerance for fraud, bribery and corruption.

### Our approach

**Corporate Governance**

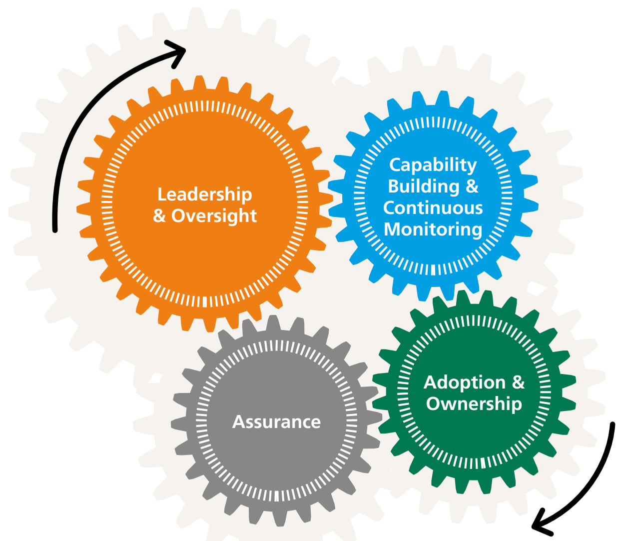
Sembcorp is led by an effective board mainly comprising independent non-executive directors. The board is collectively responsible for providing overall strategic direction and ensuring the long-term success of the Group. Several board committees have been established with clear terms of reference, both to assist the board in fulfilling its responsibilities and to provide an independent oversight of management.

Furthermore, the board and management of Sembcorp recognise that well-defined corporate governance processes are essential in enhancing corporate accountability and long-term sustainability, and are committed to high standards of governance to preserve and maximise shareholder value. We comply with the principles and guidelines set out in the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore, and our corporate governance practices are set out in the Corporate Governance Statement in this annual report.

To facilitate the effective execution of both our internal processes and business needs, we have in place a clearly defined organisational structure which includes detailed roles and responsibilities for key appointment holders. This is further supported by an established matrix for delegation of authority



**Risk & Governance Ecosystem**




**AUDIT & RISK COMMITTEES**

- Oversee risk management and internal controls of the Group, and advise the board on such matters
- Determine the Group's overall risk appetite and tolerance
- Review and approve risk management and governance-related frameworks and policies

**RISK & COMPLIANCE**

- Develop the Group's overall risk management programme
- Design and own group-level risk management and governance frameworks and policies
- Monitor the status of implementation across entities within the Group
- Adopt industry best practice and communicate this to businesses and employees

**INTERNAL AUDIT**

- Audit the adequacy and effectiveness of our risk management and internal controls, using a risk-based methodology
- Provide independent assurance of compliance to relevant Group policies

**MARKETS & BUSINESS UNITS**

- Hold accountability for respective risks and controls
- Provide source information and assessment of risks and controls
- Develop operating procedures and manuals aligned with the Group's governance policies, to ensure legal, regulatory and contractual compliance
- Provide management assurance of compliance and adequacy of internal controls, backed by comprehensive self-review and certification

as well as financial authority limits, which have been approved by the board. A comprehensive set of group-wide governance and functional policies that ensure entity-level controls are also implemented across the Group. The Group's internal controls policy and manual, which adopts principles of the Committee of Sponsoring Organizations of the Treadway Commission, provides a framework for what constitutes an effective and adequate system of internal controls. It also provides guidelines on the appropriate segregation of duties and a checklist of recommended internal controls for operations in our various markets to put in place.

We have also put in place a Governance Assurance Framework to provide a holistic and robust basis of assurance for the adequacy and effectiveness of our risk management and internal control system.

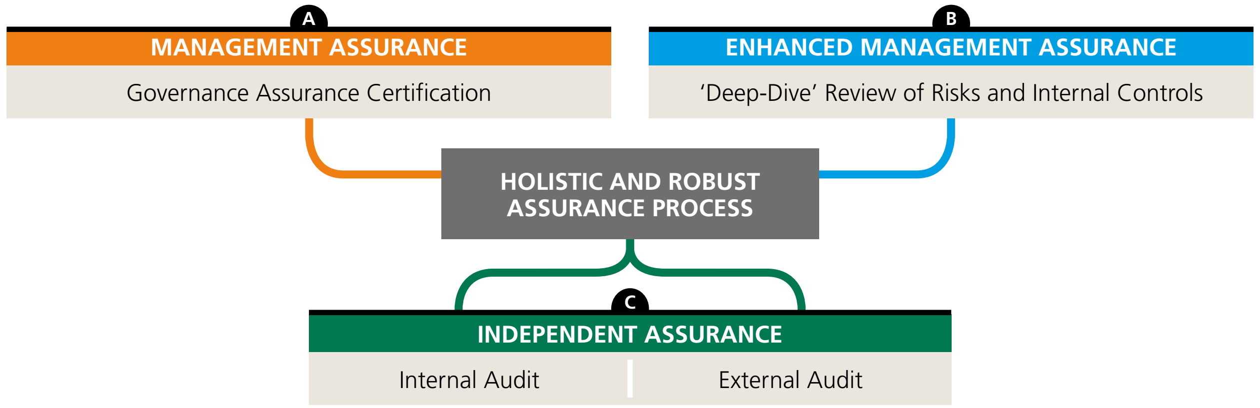
a. Management assurance
The Governance Assurance Certification is a management certification process that is submitted quarterly by each market to certify that its risk management and internal controls system is adequate and effective. This certification is supported by regular internal risk management processes, including Risk Management Committee meetings and review of risk registers.

b. Enhanced management assurance
Key markets are required to perform a 'deep-dive' review of risks and internal controls, together with a risk control self-assessment by management.

c. Independent assurance
Internal audit provides independent assurance with a focus on operational risks and the general control environment. External audit considers internal controls relevant to the preparation of financial statements to ensure they give a true and fair view.

# Our Material ESG Issues

**Sembcorp's Governance Assurance Framework**




**Risk Management**

The Group manages risk under an overall strategy, determined by the board of directors and supported by the board's Risk Committee and Audit Committee. The Risk Committee reviews and enhances the effectiveness of the Group's risk management and HSE plans, systems, processes and procedures. It also regularly reviews group-wide risks including significant risk exposures relating to foreign exchange rates, commodity prices and major investment projects as well as corresponding risk mitigation plans. HSE policies, guidelines and limits are also regularly reviewed. Oversight for risk management within the Group's listed entities lies with their respective boards.

Risk appetite framework

The board has determined a risk appetite framework for Sembcorp that forms a common understanding among both our board and management to execute the Group's strategy and objectives. Under this framework, the board has approved risk appetite statements with respect to the following areas. These are aligned with how the Group categorises its material issues for the management and the reporting of its overall sustainability performance:

a. Economic

Sembcorp actively pursues global strategies to deliver sustainable long-term value and growth. We will continue to invest in and develop our capabilities and expand our assets in both existing and new markets. Investing in such markets inevitably carries with it inherent risks; however, the Group is a disciplined investor with a robust investment approval process that calls for the necessary due diligence and risk management to be done. The Group has a defined set of country limits that categorises high, medium and low risk countries and has set appropriate limits for investment exposure in such countries to manage concentration risk.

The Group commits to maintaining a strong financial position and targets to achieve an investment grade equivalent credit rating to ensure access to funding and protect shareholder value. The Group will not take part in any form of transaction that is deemed speculative in nature, under any circumstances.

b. Environmental

Sembcorp is committed to responsibly managing and reducing our impact on the environment as well as to effectively managing environmental and climate-related risks to our operations.

Besides complying with all prescribed environmental standards and requirements through our established internal policies and processes, we assess the impact of environmental and climate-related risks, and apply appropriate control measures to manage them. Where viable, we also invest in the latest technologies and utilise our capabilities as an industry leader to achieve better energy and water efficiency, including reduction of water consumption through water reuse.

c. Social

Sembcorp is committed to being a responsible business that ensures the health and safety of our people, and makes a positive impact on our people and communities.

In our pursuit of operational excellence and business growth, Sembcorp will not compromise the health and safety of both its internal and external stakeholders. The health and safety of all our employees is of paramount importance to the Group. We take a serious view of any breach in health and safety standards and regulations across all our operations and facilities.

Sembcorp also recognises the need to have in place a strong and competent workforce that is committed to our core values and ethical standards. The Group will also continue to attract, develop and retain employees with the relevant skill sets and competencies to meet our business needs and growth plans and ensure leadership continuity.

In addition, Sembcorp believes that as an integral part of our communities, we should conduct our business in a responsible manner and make a positive contribution to the communities in which we operate. The Group is therefore committed to high standards of business conduct, to engaging our stakeholders and to managing our environmental and social impact on local communities responsibly.

d. Governance

As a listed company on the Singapore stock exchange that has both responsibility and accountability to a wide range of stakeholders, Sembcorp commits to maintaining high standards of behaviour and integrity and aims to be best in class for governance practices. The Group will strive to comply with all applicable laws and regulatory requirements in the countries where it operates, including adopting a zero tolerance stance towards any form of fraud, bribery or corruption, and expects all employees to adhere to the guidelines set forth in the Code of Business Conduct.

Our risk appetite statements are also supported by key risk indicators, which are monitored and reported to the board's Risk Committee on an ongoing basis.

Enterprise risk management

The Group is committed to ensuring that an effective and practical enterprise risk management (ERM) framework is in place. Our framework aims to safeguard our people and assets, protect shareholders' interests, facilitate informed decisions for value creation and ultimately enhance our brand and reputation. In designing our ERM framework, the Group has adapted and made reference to various industry risk management standards, such as ISO 31000 and the Enterprise Risk Management – Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission. This ensures that we are in line with best practice. To sustain a successful ERM programme, we believe in having the right processes and tools as well as instilling the right risk awareness culture. Our ERM framework specifically sets out a systematic and structured approach towards risk management through the following activities:

- Awareness trainings and workshops
- Risk identification and assessment
- Formulation of key risk management strategies
- Design and implementation of risk mitigation controls (preventive, detective and responsive controls)
- Monitoring and timely reporting of risk management performance and risk exposure levels
- Continuous improvement of risk management mitigation measures and capabilities

Our ERM framework is supported by the following key pillars:

a. Fraud Risk Management

The possibility of fraud is an inherent risk in any organisation. To manage this, the Group has established a fraud risk management policy, which has been approved by our board's Risk Committee. The policy provides a framework and comprehensive guidance on anti-fraud measures to proactively manage the risk of fraud, bribery and corruption. This includes a whistle-blowing policy. All subsidiaries are required to have a fraud control plan in place. We actively influence and encourage our joint ventures and associates to adopt our fraud risk management framework. The Group maintains a zero tolerance policy for fraud, which we take to include corruption and bribery. This stance is regularly communicated to employees through awareness trainings and e-learning programmes.

# Our Material ESG Issues

The following key activities and complementary policies and procedures are part of our holistic approach towards fraud risk management, and also address the risk of bribery and corruption:

*Preventive anti-fraud measures*
- Code of Business Conduct
- Employee code of conduct
- Conflict of interest policy
- Corporate gift policy
- Fraud risk assessments
- Employee and third party due diligence

*Detective anti-fraud measures*
- Whistle-blowing policy
- Forensic data analysis
- Compliance and monitoring
- Pre-employment screening

*Responsive anti-fraud measures*
- Fraud reporting procedures
- Fraud investigation procedures
- Grievance handling procedures

*Whistle-blowing policy*
Sembcorp has a whistle-blowing policy and procedure in place. We provide employees with well-defined and accessible channels within the Group through which they may, in confidence, raise concerns regarding possible improprieties in the conduct of business activities, financial reporting or other matters to the Audit Committee. This facilitates independent investigation of such matters for appropriate resolution. The policy is communicated to all employees and is subject to review on a regular basis.

A whistle-blower may submit his / her allegations or concerns either by telephone, email or through other written forms or existing communication channels. The company will protect the confidentiality and anonymity of the whistle-blower. The whistle-blowing case will be received by the head of Group Internal Audit and an investigation will be conducted in compliance with the requirements set out in the company's whistle-blowing policy. If an employee who uses whistle-blowing channels is found to have wilfully done so in bad faith, disciplinary action will be taken against him / her.

*For a copy of our whistle-blowing policy, please refer to the Report & Policies page in the Sustainability section of our website.*

b. Operational Risk Management
The Group's management of operational risk is focused on the following areas:

*Crisis management and business continuity*
A robust and effective crisis management framework is put in place with the Group's crisis management, emergency response and business continuity procedures and plans. These procedures and plans are regularly tested and fine-tuned. The Group also addresses crises and emergencies through the implementation of appropriate prevention, preparedness, and response and recovery programmes.

*Health, safety and the environment*
A group-wide HSE management system which is aligned with international standards and industry best practice sets the standard for operations in the various markets to actively manage HSE risks.

As part of Sembcorp's Climate Change Strategy development, climate-related risks were evaluated. The tools and methodologies we utilised for the evaluation will be embedded into the ERM framework.

*Insurance*
The Group actively reviews its insurable and uninsurable risks, and identifies comprehensive and cost-effective risk management tools to manage such risks. As a risk transfer mechanism, the Group has purchased a comprehensive set of insurance policies to protect its business operations against financial loss arising from property damage, machinery breakdown, business interruption and / or third party liability. The Group has also engaged a panel of top-tier insurance consultants, leveraging their technical expertise and resources to negotiate for competitive pricing and comprehensive coverage with insurance companies. To balance the cost of risk transfer, the Group focuses on insuring catastrophic events while maintaining its emphasis on improving internal controls over operations and maintenance. Sembcorp Captive Insurance, a wholly-owned captive insurance subsidiary, provides first-layer coverage against property damage and business interruption losses for the Group's power and utilities operations in Singapore and the UK. Sembcorp Captive Insurance serves not only as an internal risk transfer mechanism, but also showcases the Group's efforts to promote greater accountability and responsibility in operations and maintenance within its markets. Over the years, Sembcorp Captive Insurance has successfully built up a strong capital surplus, allowing it to extend its insurance reach to other operations and broaden its scope of coverage should the need arise.

**HIGHLIGHT** **Managing our Climate Change Risks and Opportunities**

In formulating Sembcorp's new climate change strategy, the Group identified climate-related risks and opportunities for our Utilities business by evaluating four key risk factors: physical environmental impacts to our assets, brand and reputation risks, requirements for regulatory compliance, and product and market risks. We evaluated these climate-related risks and opportunities using near-term (2017 to 2022) and medium-term (2030) lenses, and also considered long-term (2050) trends such as a science-based target for the utility sector by 2050. When evaluating our markets from a climate-based scenario lens, we use International Energy Agency scenarios such as the New Policies Scenario and the 450 Scenario. These scenarios provided Sembcorp with a holistic view of how the global response to climate change can impact our industry and our specific assets; from changes in power demand, carbon prices and overall capacity projections, to profitability of thermal versus renewable plants and other considerations. We then mapped these risks onto a risk matrix to give the Group a clear view of the short- and long-term risks.

In the short term, we observed uncertainty in the regulatory environment. There exists a patchwork of conflicting regulations, from carbon taxes and cap-and-trade schemes to various supportive policies and regulations for renewables in some markets, with policy support for traditional power in other markets. In Singapore, for example, the government announced a carbon tax of S$5 per tonne of GHG emissions from 2019 to 2023. The tax amount will increase to between S$10 to S$15 per tonne by 2030. Our assets in Singapore are built with best in class technology that generate lower emissions. We actively implement GHG mitigation and energy efficiency initiatives to further reduce our carbon footprint.

Over the long term, however, both the Paris Agreement and the trend in pricing of carbon emissions suggest that the regulatory market for renewable power generation will become increasingly favourable. Our scenarios evaluated the impacts of an increasingly strong shift in consumer demand and affordability of renewable power, combined with technology breakthroughs in battery storage. Our assessments also considered the impacts of decentralisation of power generation and the shifting demands of customers due to these changes. The findings from our climate-related scenario analysis have impacted our overall business strategy by helping us to define a carbon emission intensity* goal that aligns with these trends.

To ensure that these risks and opportunities are addressed and mitigated going forward, they will be incorporated into our Governance Assurance Framework and form part of the risk management process for existing assets. For upcoming and new investments, the Group will embed climate considerations in our investment approval process through our Environmental and Social screening toolkit. Climate-related financial impacts will also be included in stress-testing, as well as short- and long-term strategic planning. Embedding the management of these risks in our processes will ensure that this guides our strategy and business decisions, and help us build a sustainable future for the company.

** Refers to GHG emissions intensity of our Utilities business' assets that produce GHG from the combustion of fossil fuels*

c. Financial, Market and Credit Risk Management
Sembcorp's financial, market and credit risk exposure is managed via established policies, including treasury policies, financial authority limits and Governance Assurance Certification.

*Financial and market risk*
The Group defines and utilises approved financial instruments to manage exposure to foreign exchange, commodity prices and interest rate fluctuations arising from operational, financing and investment activities. Under the Group's overall treasury policy, transactions for speculative purposes are strictly not allowed.

*Default and counterparty credit risks*
A group-wide credit risk policy has been put in place to ensure that we transact with creditworthy counterparties as much as possible. We also screen for material concentrations of credit risk to ensure that no single counterparty or group-related counterparties has excessive credit exposure that may result in material impact on the Group in the event of a default.

d. Investment Risk Management
The Group has in place an investment approval process to ensure a prudent and disciplined approach to all investment decisions, including a country risk framework that sets appropriate country risk limits.

# Our Material ESG Issues

As at December 31, 2017 the countries outside of Singapore in which the Group has the largest investment exposure are India (S$3.9 billion), China (S$1.9 billion) and Brazil (S$1.6 billion). Investment exposure comprises invested capital, including reserves, and committed contingent support for projects and assets.

e. Tax Risk Management

It is our policy to comply with all relevant taxation laws, regulations and regulatory disclosure requirements.

For more details on our ERM framework and a full description of our approach to managing the above risks, please refer to the Sustainability section of our website.

### Compliance

Full compliance to all legal and regulatory requirements is the minimum expectation we prescribe for all our businesses. As part of our Governance Assurance Framework, our Governance Assurance Certification process requires all heads of markets to certify that they have complied with all relevant legal and regulatory requirements in their respective entities and country of operation. Any monetary fines and non-monetary sanctions imposed on the markets are also to be reported.

Regular audits are conducted by Group Internal Audit and Group HSSE departments to ensure compliance and also to identify gaps and lapses in compliance. They will also work closely with management to develop action plans to prevent future recurrences of gaps and lapses.

### Ethical Business Practices

Sembcorp's core values of Insight, Integrity and Integral define our approach to sustainable growth, and form the foundation of Sembcorp's Business Principles and Code of Business Conduct (CBC). Employees are required to comply with the requirements of the CBC, which addresses Sembcorp's stance in the following key areas:

- Fairness and opportunity, harassment, information protection and insider trading, and protection of company assets
- Integrity of information, gifts and entertainment, conflict of interest, corruption and bribery, facilitation payments, anti-competition and anti-trust laws, money laundering prevention, and prohibition of political contributions
- Contribution to our communities, health, safety and the environment

Requirements of the CBC are communicated to employees globally through an e-learning course delivered in multiple languages. Employees are required to complete an annual declaration to acknowledge that they have read and understood the principles and requirements of the CBC and agree to comply with its principles and requirements and to promptly report any violation through available reporting channels. Suppliers and contractors who work with Sembcorp are expected to respect and follow the CBC as well.

The CBC also provides for escalation procedures in the event of a breach of the CBC as well as feedback channels for employee clarification and queries.

**Our performance**

We undertook a successful roll-out of our new online risk management system to our key markets in Singapore and China. These markets utilised the system to perform their risk and internal controls assessment as part of our Governance Assurance Framework requirements. The new system has helped sharpen our risk management and governance process by providing a centralised database of risk information, and enabled us to perform active management and monitoring of key risks and controls. This has enhanced our reporting and analytics capabilities, and promotes greater accountability and ownership. We will progressively roll out this online risk management system to other key markets in 2018.

In recognising the growing importance of environmental and social risks and as part of our overall risk appetite, we have also developed a set of environmental and social 'no go' criteria as well as a list of 'red flags' that will provide a first-line guidance for our business development team to consider and appraise before we embark on any new investments or acquisitions.

Our ongoing efforts to build in-house capabilities, readiness and resilience in crisis and emergency response situations requires us to regularly conduct and participate in crisis simulation exercises and awareness trainings. In 2017, this included simulation exercises in our operations in Singapore, the UK, China and in the UAE. The exercise in the UAE was conducted in partnership with customers, local authorities and external agencies. We have also made significant enhancements to our internal policies relating to data protection. In doing so, we established higher standards that govern the collection, use, disclosure and care of business and personal data.

We also conducted a group-wide bribery and corruption risk assessment to identify areas of improvement for our Group's anti-bribery and corruption programme.

During the year, our operations in China, Chile, Singapore and the UK incurred significant* fines amounting to S$3.9 million. This included a S$2.5 million fine incurred by our operation in the UK for a work-related accident in 2013 involving a subcontractor's employee. Remediation actions have been taken, including the enhancement of the training of personnel undertaking pressure testing activities, as well as the strengthening of the contractor assessment process for competency to undertake hazardous activities. In China and Chile, we incurred significant* fines related to environmental non-compliance amounting to S$885,200. These fines were in relation to environmental non-compliance on wastewater discharge and odour control. In Singapore, the fines were imposed for non-compliance with performance standards on fuel changeover as well as a health and safety accident.

**Going forward**

We plan to perform a detailed review of our risk appetite framework to ensure that it remains relevant and aligned to our overall business model as we embark on our new strategy. This will also include reviewing our existing risk assessment and scoring process for new investments and existing assets. Following the roll-out of our online risk management system in Singapore and China, we will be progressively introducing this online risk management system to our operations in other markets.

Additionally, we will focus on driving compliance improvements by adopting a series of measures which include:

- Ensuring the adequacy and practicality of internal policies
- Improving compliance awareness through training, e-learning and other internal communication tools
- Improving our testing and monitoring programme to identify opportunities for continued improvement

**Corporate Governance**
To have an effective governance and decision-making structure

**Risk Management**
To ensure effective identification and management of all material risks

**Compliance**
To comply with all legal and regulatory requirements

**Ethical Business Practices**
To ensure we conduct our businesses legally, fairly, honestly and with integrity

* *A significant fine refers to a monetary sanction equal or above S$50,000 that has been paid during the financial year*

# Corporate Governance Statement

Sembcorp's corporate governance principles are built on our core value of integrity and reflect our commitment to protect and enhance shareholder value.

The board and management of Sembcorp recognise that well-defined corporate governance processes are essential in enhancing corporate accountability and long-term sustainability, and are committed to high standards of governance to preserve and maximise shareholder value. This report sets out the company's corporate governance processes and activities for the financial year with reference to the principles set out in the Singapore Code of Corporate Governance 2012 (the Code). The board is pleased to report that the company has complied in all material aspects with the principles and guidelines set out in the Code, and any deviations are explained in this report.

The company continually reviews and refines its processes in light of best practice, consistent with the needs and circumstances of the Group. We are encouraged that our efforts towards excellent governance have been recognised. Sembcorp was ranked sixth in the 2017 edition of the Singapore Governance and Transparency Index, a well-respected index assessing the transparency of 606 Singapore listed companies. The index is a collaboration between CPA Australia, the Centre for Governance, Institutions and Organisations at NUS Business School, and the Singapore Institute of Directors.

At the Singapore Corporate Awards 2017, Sembcorp won silver awards for Best Annual Report and Best Investor Relations under the category for companies with S$1 billion and above in market capitalisation. Sembcorp also emerged runner-up for the Singapore Corporate Governance Award (Industrials) at the SIAS 18th Investors' Choice Award 2017. In addition, in the first-ever survey of all investor relations websites of companies listed on the Singapore Exchange, conducted by the Investor Relations Professionals Association (Singapore) and EQS Group, Sembcorp's investor relations webpage was ranked number one in the large-cap category.

## Board Matters

### Board's Conduct of Affairs (Principle 1)

**Effective board to lead and effect controls**

Sembcorp is led by an effective board comprising mainly independent non-executive directors. The board is headed by Ang Kong Hua. He is joined on the board by our Group President & CEO Neil McGregor, as well as Margaret Lui, Tan Sri Mohd Hassan Marican, Tham Kui Seng, Dr Teh Kok Peng, Ajaib Haridass, Nicky Tan Ng Kuang, Yap Chee Keong and Jonathan Asherson OBE, who was appointed to the board on July 17, 2017. Tang Kin Fei and Bobby Chin Yoke Choong were also directors until their retirement from the board. Mr Tang retired as the company's Group President & CEO on March 31, 2017 and as Advisor and non-executive director on May 31, 2017. Mr Chin retired at the last annual general meeting (AGM) of the company on April 19, 2017.

**Role of the board**

The board is collectively responsible for the long-term success of the company. Each director exercises his / her independent judgement to act in good faith and in the best interest of the company for the creation of long-term value for shareholders. The principal duties of the board are to:

- Provide leadership and guidance to management on the Group's overall strategy, taking into consideration sustainability issues and the need to ensure necessary financial and human resources are in place

- Ensure the adequacy of the Group's risk management and internal controls framework and standards, including ethical standards, and that its obligations to shareholders and other key stakeholders are met

- Review management performance and oversee the Group's overall performance objectives, key operational initiatives, financial plans and annual budget, major investments, divestments and funding proposals, quarterly and full-year financial performance reviews, risk management and corporate governance practices

- Provide guidance on sustainability issues such as environmental, social and governance factors, as part of the Group's overall business strategy

To assist the board in the efficient discharge of its responsibilities and provide independent oversight of management, the board has established the following board committees with written terms of reference:

- Executive Committee
- Audit Committee
- Risk Committee
- Executive Resource & Compensation Committee
- Nominating Committee
- Technology Advisory Panel

Special purpose committees are also established as dictated by business imperatives.

Composition of the board committees is structured to ensure an equitable distribution of responsibilities among board members, maximise the effectiveness of the board and foster active participation and contribution. Diversity of experience and appropriate skills are considered along with the need to maintain appropriate checks and balances between the different committees. Hence, membership of the Executive Committee, with its greater involvement in key businesses and executive decisions, and membership of the Audit and Risk Committees, with their respective oversight roles, are mutually exclusive.

The directors and executive officers of the company have each given an undertaking that in the exercise of their powers and duties as a director or executive officer of the company, they shall apply their best endeavours to comply with the requirements of Singapore Exchange Securities Trading (SGX-ST), pursuant to or in connection with the SGX-ST Listing Manual from time to time in force, and to use their best endeavours to procure that the company shall so comply.

The Group has adopted internal controls and guidelines that set out financial authorisation and approval limits for borrowings, including off-balance sheet commitments, investments, acquisitions, disposals, capital and operating expenditures, requisitions and expenses. Significant investments and transactions exceeding threshold limits are approved by the board while transactions below the threshold limits are approved by the Executive Committee and management to facilitate operational efficiency, in accordance with applicable financial authority limits.

**Executive Committee**

The Executive Committee (ExCo) is chaired by Mr Ang and its members include Mr McGregor, who was appointed on April 1, 2017, Mrs Lui as well as Mr Tan. Mr Tang relinquished his membership on March 31, 2017.

Within the limits of authority delegated by the board, the ExCo reviews and approves business opportunities, strategic investments, divestments, and major capital and operating expenditure. The ExCo also evaluates and recommends larger investments, capital and operating expenditure and divestments to the board for approval.

**Technology Advisory Panel**

The Technology Advisory Panel (TAP) comprises board members Mr Ang, Mr McGregor, who was appointed on April 1, 2017, and Dr Teh, as well as co-opted members Dr Josephine Kwa Lay Keng, Prof Ng How Yong and Prof Lui Pao Chuen. Their profiles may be found under the TAP chapter of this annual report.

The TAP provides guidance to the Group on its vision and strategy in leveraging technology to enhance Sembcorp's leadership in its business sectors. The panel advises on technologies for research and development as well as investment, and oversees the development and application of significant emerging and potentially disruptive technologies relevant to Sembcorp. It also ensures the appropriate management of specialised research and development projects, tapping into various government grant support and the external technological ecosystem, and provides guidance to develop systems for intellectual property creation and protection. In addition, the panel advises Sembcorp's board and management on technological trends and opportunities in line with the company's growth strategies.

The other committees' respective composition, roles and responsibilities are further explained in this Corporate Governance Statement. Minutes of board committee meetings are circulated to the board to keep directors updated on each committee's activities.

# Corporate Governance Statement

**Meetings and attendance**

The board meets on a quarterly basis to review and approve the release of the company's quarterly results, as well as to deliberate on key activities and business strategies, including significant acquisitions and disposals. At these board meetings, the Group President & CEO updates the board on the development and prospects of the Group's businesses and each board committee provides a report on its activities. An additional board meeting is held at the end of each financial year to review the Group's strategy and to consider and approve the Group's budget for the following year. Ad-hoc board meetings may also be convened as necessary to consider other specific matters. At quarterly board meetings, time is set aside for the board to discuss management's performance. Members of management are not present at or privy to such discussions. Annually, a strategic review meeting is organised for the board to have in-depth discussions with management on the Group's strategy and other key issues relevant to the Group. In 2017, this off-site meeting was held in July.

Board and board committee meetings, as well as AGMs of the company are scheduled in consultation with the directors before the start of each year. Telephonic attendance and conference via audiovisual communication channels are allowed under the company's constitution to enable the participation of directors who are unable to be present. Decisions made by the board and board committees may be obtained at meetings or via circular resolution. Should a director be unable to attend any board or board committee meeting, he / she will still be sent the papers tabled for discussion and have the opportunity to separately convey any views to the chairman for consideration or further discussion with other directors. If necessary, a separate session may be organised for management to brief that director and obtain his / her comments and / or approval.

*The directors' attendance at board and committee meetings held during the financial year 2017 is set out on page 119.*

**Board orientation and training**

All new directors receive formal letters of appointment explaining the Group's governance policies and practices, as well as their duties and obligations as directors. New directors also receive an information pack that contains the Group's organisation structure, the contact details of members of senior management, the company's constitution, respective committees' terms of reference, the Group's policy relating to disclosure of interests in securities and prohibition on dealings in Sembcorp securities, as well as guidelines on directors' fees.

The company conducts comprehensive orientation programmes for new directors. These include briefings on board policies and processes, presentations by senior management about Sembcorp, its overall strategic plans and direction, financial performance and business activities in various markets, as well as facility visits.

As part of training and professional development for the board, the company ensures that directors are briefed from time to time on changes to regulations, guidelines and accounting standards, as well as other relevant trends or issues. These are done either during board meetings, at board dinners or at specially convened sessions, including training sessions and seminars conducted by external professionals which are funded by the company.

In 2017, the directors participated in the following briefings and updates provided by the company:

- Briefings on developments in accounting and governance standards presented by our external auditors at Audit Committee meetings
- Quarterly updates on the Group's business and strategic developments presented by the Group President & CEO to the board
- Quarterly overviews presented by the Group Risk and Governance departments to the Risk Committee on the Group's risk and controls environment and updates relating to risk management, governance initiatives and key emerging threats such as the implications of climate change and heightened risk of terrorist attacks
- Public conferences, forum discussions and briefings on topics such as best practices for boards, board management skills on driving performance, business sustainability and business model innovation and understanding how to shape strategic relationships between countries

Besides such briefings, articles and reports relevant to the Group's businesses are also circulated to the directors for information. Furthermore, to enhance directors' understanding of the Group's businesses and promote their active engagement and stronger relationships with the Group's stakeholders, our directors regularly visit the Group's operations in different locations. In 2017, the directors attended the launch of the Sembcorp Global Asset Management System (GAMS) at the Sembcorp Technology & Innovation Centre on Jurong Island and visited Sembcorp Marine's Tanjong Kling Yard. The directors also went to the UK, China and Vietnam, visiting our facilities and meeting with government officials as well as key customers and partners.

## Board Composition and Guidance (Principle 2)

**Strong and independent board exercising objective judgement**

**Board composition**

The current board comprises 10 directors, eight of whom are independent directors. All the directors are non-executive, except the Group President & CEO. The board members include business leaders and professionals with strong experience relevant to the Group's businesses, from engineering, petrochemicals, oil and gas and real estate industries to accountancy, finance and legal sectors. Best efforts have been made to ensure that in addition to contributing their valuable expertise and insight to board deliberations, directors also bring to the board independent and objective perspectives to allow balanced and well-considered decisions to be made. The board is of the view that there is a strong element of independence in our board. Given that the majority of directors are non-executive and independent of management in terms of character and judgement, objectivity on issues deliberated is assured.

*Profiles of the directors may be found on pages 70 to 74.*

**Review of directors' independence**

The independence of each non-executive director is assessed annually. Each director is required to complete a Director's Independence Checklist drawn up based on the guidelines provided in the Code. The checklist also requires each director to assess whether he / she considers himself / herself independent despite involvement in any of the relationships identified in the Code. Thereafter, the Nominating Committee reviews the completed checklists, assesses the independence of the directors and presents its recommendations to the board.

In 2017, all directors except Mrs Lui and Mr McGregor have declared themselves to be independent. The Nominating Committee has reviewed and recommended to the board, and the board has agreed and determined that with the exception of Mr Tang, Mrs Lui and Mr McGregor, all members of Sembcorp's board for 2017 are independent. Mr Tang was Group President & CEO and an executive director until his retirement on March 31, 2017. Mrs Lui is Chief Executive Officer of Azalea Investment Management, a related company of Temasek Holdings (Temasek) which holds more than 10% interest in the Group. Mr McGregor was Head of Temasek International's Energy and Resources Group, as well as its Head of Australia and New Zealand and Senior Managing Director of its Enterprise Development Group. Prior to joining the company as Group President & CEO on April 1, 2017, he was a non-executive board member of Sembcorp.

Tan Sri Mohd Hassan Marican and Mr Haridass both sit on the board of Sembcorp Marine, a listed subsidiary from which the company has received payment in excess of S$200,000 in aggregate for consultancy services and provision of utilities services. Mr Tham sits on the board of Sembcorp Design and Construction, a wholly-owned subsidiary of the company from which the company has received payment in excess of S$200,000 for consultancy services. Tan Sri Mohd Hassan Marican and Mr Tham, respectively hold the positions of Senior International Advisor and Corporate Advisor at Temasek International Advisors, a subsidiary of Temasek.

# Corporate Governance Statement

The board has assessed these matters and is of the view that the payments received from these subsidiaries are not significant in the context of the Group's earnings. The board believes that Tan Sri Mohd Hassan Marican, Mr Haridass and Mr Tham's directorships in these subsidiaries have not and will not interfere, or be reasonably perceived to interfere, with their ability to exercise independent judgement and act in the best interest of Sembcorp Industries.

Tan Sri Mohd Hassan and Mr Tham's roles as advisors at Temasek International Advisors are non-executive in nature and they are not involved in its day-to-day conduct of business. They are also not accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of Temasek. The board believes that they have acted and will continue to act in the best interest of Sembcorp.

Hence, the board has determined that Tan Sri Mohd Hassan Marican, Mr Haridass and Mr Tham are independent notwithstanding their relationship with Temasek and the Group's subsidiaries.

A term limit of nine years is set for independent directors of the company. Should the board decide to retain any director beyond this nine-year term, it will rigorously review the independence of that director and determine if he / she should continue to be regarded as an independent director. None of Sembcorp's current directors have served longer than nine years from the date of their appointment.

## Chairman and Chief Executive Officer (Principle 3)

**Clear division of responsibilities between the board and management**

The Chairman and the Group President & CEO are not related to each other. Their roles are kept separate to ensure a clear division of responsibilities, increased accountability and a greater capacity of the board for independent decision-making.

The Chairman, who is non-executive, chairs the board, ExCo, Executive Resource & Compensation Committee, Nominating Committee and the TAP.

There is also a strong and independent element on the board, where eight out of 10 directors are independent. As such, the board has ascertained that there is no necessity to appoint a lead independent director.

The Chairman leads and ensures an effective and comprehensive discussion on matters brought to the board, including strategic issues and business planning. He promotes an open environment for deliberation and ensures that board and board committee meetings are conducted in a manner that allows non-executive directors to participate in

### Board Members for 2017

| Board member | Position held on the board | Date of first appointment to the board | Date of last re-election / re-appointment as director | Nature of appointment |
|---|---|---|---|---|
| Ang Kong Hua | Chairman | Feb 26, 2010 | Apr 19, 2016* | Non-executive / Independent |
| Neil McGregor | Director | May 1, 2014 | Apr 19, 2017 | Executive / Non-independent |
| Margaret Lui | Director | Jun 1, 2010 | Apr 19, 2016* | Non-executive / Non-independent |
| Tan Sri Mohd Hassan Marican | Director | Jun 16, 2010 | Apr 19, 2016 | Non-executive / Independent |
| Tham Kui Seng | Director | Jun 1, 2011 | Apr 19, 2017 | Non-executive / Independent |
| Dr Teh Kok Peng | Director | Oct 15, 2012 | Apr 21, 2015* | Non-executive / Independent |
| Ajaib Haridass | Director | May 1, 2014 | Apr 19, 2017 | Non-executive / Independent |
| Nicky Tan Ng Kuang | Director | Nov 1, 2015 | Apr 19, 2016 | Non-executive / Independent |
| Yap Chee Keong | Director | Oct 1, 2016 | Apr 19, 2017 | Non-executive / Independent |
| Jonathan Asherson OBE | Director | Jul 17, 2017 | N.A.* | Non-executive / Independent |
| Tang Kin Fei *(Retired on May 31, 2017)* | Director | May 1, 2005 | Apr 19, 2016 | Executive / Non-independent |
| Bobby Chin Yoke Choong *(Retired on Apr 19, 2017)* | Director | Dec 1, 2008 | Apr 21, 2015 | Non-executive / Independent |

* *Up for retirement at the company's upcoming AGM*

### Composition of Board Committees for 2017

| Board member | Executive Committee | Audit Committee | Risk Committee | Executive Resource & Compensation Committee | Nominating Committee | Technology Advisory Panel |
|---|---|---|---|---|---|---|
| Ang Kong Hua | Chairman | | | Chairman | Chairman | Chairman |
| Neil McGregor[1] | Member | | | | | Member |
| Margaret Lui | Member | | | Member | Member | |
| Tan Sri Mohd Hassan Marican | | | | Member | Member | |
| Tham Kui Seng | | Member | Member | | | |
| Dr Teh Kok Peng[2] | | Member | Member | | | Member |
| Ajaib Haridass | | Member | Chairman | | | |
| Nicky Tan Ng Kuang[3] | Member | | | Member | Member | |
| Yap Chee Keong[4] | | Chairman | Member | | | |
| Jonathan Asherson OBE[5] | | | | | | |
| Tang Kin Fei[6] | Member | | | | | Member |
| Bobby Chin Yoke Choong[7] | | Chairman | Member | | Member | |

### Directors' Attendance at Board and Board Committee Meetings in 2017

| Board member | Board meeting | Executive Committee meeting | Audit Committee meeting | Risk Committee meeting | Executive Resource & Compensation Committee meeting | Nominating Committee meeting | Technology Advisory Panel meeting | Annual general meeting |
|---|---|---|---|---|---|---|---|---|
| **Total Number of Meetings Held in 2017** | **6** | **6** | **5** | **4** | **4** | **2** | **4** | **1** |
| Ang Kong Hua | 6/6 | 6/6 | – | – | 4/4 | 2/2 | 3/4* | 1 |
| Neil McGregor[1] | 6/6 | 4/4 | 3/3 | 4/4 | 3/3 | 1/1 | 2/3* | 1 |
| Margaret Lui | 6/6 | 6/6 | – | – | 4/4 | 2/2 | – | 1 |
| Tan Sri Mohd Hassan Marican | 6/6 | – | – | – | 4/4 | 2/2 | – | 1 |
| Tham Kui Seng | 6/6 | – | 5/5 | 4/4 | – | – | – | 1 |
| Dr Teh Kok Peng[2] | 6/6 | – | 5/5 | 3/3 | 1/1 | – | 4/4 | 1 |
| Ajaib Haridass | 6/6 | – | 5/5 | 4/4 | – | – | – | 1 |
| Nicky Tan Ng Kuang[3] | 5/6* | 5/6* | – | – | 3/3 | 1/1 | – | 1 |
| Yap Chee Keong[4] | 6/6 | – | 5/5 | 4/4 | – | – | – | 1 |
| Jonathan Asherson OBE[5] | 3/3 | – | – | – | – | – | – | – |
| Tang Kin Fei[6] | 3/3 | 2/2 | 1/1 | 1/1 | 1/1 | 1/1 | 0/1* | 1 |
| Bobby Chin Yoke Choong[7] | 2/2 | – | 1/1 | 1/1 | – | 1/1 | – | 1 |

[1] *Mr McGregor was appointed Group President & CEO, as well as a member of the Executive Committee and Technology Advisory Panel with effect from April 1, 2017. He relinquished his membership of the Risk Committee on March 31, 2017*

[2] *Dr Teh relinquished his membership of the Executive Resource & Compensation Committee and was appointed a member of the Risk Committee with effect from April 19, 2017*

[3] *Mr Tan was appointed a member of the Executive Resource & Compensation Committee and Nominating Committee with effect from April 19, 2017*

[4] *Mr Yap was appointed Chairman of the Audit Committee with effect from April 19, 2017*

[5] *Mr Asherson was appointed a director with effect from July 17, 2017*

[6] *Mr Tang retired as Group President & CEO, member of the Executive Committee and member of the Technology Advisory Panel with effect from March 31, 2017. He also retired as a director with effect from May 31, 2017*

[7] *Mr Chin retired as an independent non-executive director, chairman of the Audit Committee and a member of the Risk Committee with effect from April 19, 2017*

* *Directors conveyed their views / comments for consideration prior to the meetings*

# Corporate Governance Statement

meaningful and active discussions. He also provides advice to management and monitors all follow-up actions following the board's decisions, ensuring that such decisions are translated into executive action. In addition, the Chairman provides leadership and guidance to management, particularly with regard to global growth strategy and project investments. He also helps to oversee the Group's talent management, and works with the Group President & CEO to ensure that robust succession plans are in place for key management positions.

The Group President & CEO makes strategic proposals to the board, develops and manages the Group's businesses in accordance with strategies, policies, budgets and business plans as approved by the board and provides close oversight, guidance and leadership to senior management.

## Board Membership (Principle 4)

**Formal and transparent process for the appointment and re-appointment of directors**

**Nominating Committee**

The Nominating Committee (NC) comprises non-executive directors, namely Mr Ang, Mrs Lui, Tan Sri Mohd Hassan Marican and Mr Tan. Mr Tan was appointed to the NC on April 19, 2017. Mr Chin was a member of the NC until his retirement from the board on April 19, 2017. Three out of four NC members, including its chairman, are independent. They are Mr Ang, Tan Sri Mohd Hassan Marican and Mr Tan.

The NC is responsible for reviewing Sembcorp's board to ensure strong, independent and sound leadership to drive the continued success of the company and its businesses.

The key responsibilities of the NC are to:

- Ensure that the board has the right balance of skills, attributes, knowledge and experience in business, finance and related industries, as well as management expertise critical to the company's businesses
- Review the composition and size of the board and its committees and recommend new appointments, re-appointments and re-elections to the board and board committees as appropriate
- Review the directors' independence and succession plans for the board
- Develop a process to evaluate board and board committee performance
- Review training and professional development programmes for the board

**Succession planning, appointment and re-appointment of directors**

The NC seeks to refresh board membership progressively and in an orderly manner. All appointments to the board are made based on merit and measured against objective criteria. Candidates must be able to discharge their responsibilities as directors while upholding the highest standards of governance practised by the Group. The board also recognises the contributions of directors who have, over time, developed deep insight into the Group's businesses. It exercises its discretion to retain the services of such directors where appropriate, to avoid an abrupt loss of experienced directors with a valuable understanding of the Group.

With reference to the Group's strategies and business plans, the NC reviews the skills mix of board members to ensure that the board has the required diversity, including gender diversity, as well as the competencies to support our growth. When the need for a new director arises, the NC consults with management and identifies a list of potential candidates. These candidates are sourced through an extensive network of contacts and external databases where appropriate, based on the skill sets, experience, knowledge and attributes required to lead the growth of the company. Thereafter, the NC will interview the candidates and make its recommendation to the board for approval. In accordance with the company's constitution, the new director will hold office until the next AGM and, if eligible, can stand for re-appointment.

The company subscribes to the principle that all directors, including the Group President & CEO, should retire and submit themselves for re-election at regular intervals, subject to their continued satisfactory performance. The company's constitution requires a third of its directors to retire and subject themselves for re-election by shareholders at every AGM (one-third rotation rule).

In addition, all newly-appointed directors submit themselves for retirement and re-election at the AGM immediately following their appointment. Thereafter, these directors are subject to the one-third rotation rule.



Pursuant to the one-third rotation rule, Mr Ang, Mrs Lui and Dr Teh will retire and have offered themselves for re-election at the forthcoming AGM.

Mr Asherson, who was newly appointed to the board on July 17, 2017, will also retire and has offered himself for re-election by shareholders at the forthcoming AGM.

The board does not encourage the appointment of alternate directors. No alternate director has been or is currently being appointed to the board.

**Review of directors' time commitments**

While reviewing the re-appointment and re-election of directors, the NC also considers the directors' other board directorship representations and principal commitments to ensure they have sufficient time to discharge their responsibilities adequately. The board has adopted an internal guiding principle that seeks to address the competing time commitments that may be faced when a director holds multiple board directorship representations. As a general rule, the board has determined that the maximum number of listed company board representations held by any Sembcorp director should not exceed five. However, the board recognises that the individual circumstances and capacity of each director are different and there may be circumstances in which the limit on board appointments may differ as appropriate.

For 2017, the NC has reviewed and recommended to the board and the board is satisfied that all directors have given sufficient time and attention to the affairs of the company and have discharged their duties adequately.

## Board Performance (Principle 5)

**Active participation and valuable contributions are key to overall effectiveness of the board**

**Board evaluation process and performance criteria**

The board believes that board performance is ultimately reflected in the long-term performance of the Group. Each year, in consultation with the NC, the board assesses its performance to identify key areas for improvement and requisite follow-up actions. The assessment helps the directors to maintain focus on their key responsibilities, while improving board performance.

To provide feedback to aid in this assessment, each director is required to complete a questionnaire on the effectiveness of the board, board committees and directors' contribution and performance. The evaluation considers factors such as the size and composition of the board and board committees, board processes and accountability, board and board committees' development and effectiveness, information management, decision-making processes, risk and crisis management, succession planning, communication with senior management and stakeholder management. The evaluation and feedback are then consolidated and presented to the board for discussion on areas of strengths and weaknesses. The NC periodically reviews and improves the directors' questionnaire to further enhance assessment of board and board committee effectiveness.

For FY2017, the evaluation indicated that the board continues to perform effectively.

## Access to Information (Principle 6)

**Directors have complete, adequate and timely information and resources**

**Complete, adequate and timely information**

The company recognises that directors should be provided with complete, adequate and timely information on an ongoing basis that enables them to make informed decisions, discharge their duties and keep abreast of the Group's operational and financial performance, key issues, challenges and opportunities. Financial highlights of the Group's performance and key developments are presented on a quarterly basis at board meetings and the Group President & CEO, Group Chief Financial Officer and members of senior management attend board and board committee meetings to provide insight into matters under discussion and address any queries that the directors may have.

In line with Sembcorp's strong commitment towards environmental responsibility, directors are provided with electronic tablets that give them access to board and board committee papers prior to and during meetings. As a general rule, the board and board committee papers are made available to directors a week prior to meetings. This is to give the directors sufficient time to review and consider matters at hand. It also ensures that discussions at the meetings can be focused on any questions arising from these matters. The board has ready and independent access to the Group President & CEO, senior management, the company secretary and internal and external auditors at all times, should it require additional information.

# Corporate Governance Statement

**Company Secretary**
The appointment and the removal of the company secretary are subject to the board's approval. The company secretary assists the Chairman to ensure good information flow within the board and its committees and between the board and senior management. In addition, the company secretary attends to corporate secretarial matters, such as arranging orientations for new directors and assisting with their professional development as required. In consultation with Chairman and Group President & CEO, the company secretary assists the board with scheduling of board and board committee meetings, prepares meeting agendas and administers, attends and minutes board proceedings.

The company secretary assists the board in the Group's compliance with the company's constitution and applicable regulations, including requirements of the Companies Act, Securities & Futures Act and SGX-ST Listing Manual. Moreover, the company secretary liaises on behalf of the company with SGX-ST, the Accounting and Corporate Regulatory Authority and when necessary, shareholders.

**Independent professional advice**
In the furtherance of its duties, the board exercises its discretion to seek independent professional advice at the company's expense, if deemed necessary.

## Remuneration Matters

### Procedures for Developing Remuneration Policies (Principle 7)

**Remuneration of directors adequate and not excessive**

With the assistance of the Executive Resource & Compensation Committee, the board ensures that a formal policy and transparent procedure for determining remuneration of executives and directors are in place.

**Executive Resource & Compensation Committee**
The Executive Resource & Compensation Committee (ERCC) is chaired by Mr Ang, an independent non-executive director. He is joined on the committee by Mrs Lui, Tan Sri Mohd Hassan Marican as well as Mr Tan. Mr Tan was appointed to the ERCC on April 19, 2017. Dr Teh who served on the ERCC since April 2015, relinquished his membership on April 19, 2017 and joined the Risk Committee.

The ERCC is responsible for developing, reviewing and recommending to the board the framework of remuneration for the board and key management personnel as defined in the Code.

To this end, it:

- Assists the board to ensure that competitive remuneration policies and practices are in place and aligned with the prevailing economic environment
- Reviews the Directors' Fee Framework periodically and remuneration package of each member of key management, and endorses or makes further recommendations on such matters to the board for its consideration
- Establishes guidelines on share-based incentives and other long-term incentive plans and approves the grant of such incentives to key management personnel. These incentives serve to motivate executives to maximise operating and financial performance and shareholder value. They are aimed at aligning the interests of key management personnel with those of shareholders
- Reviews succession planning for key management personnel and the leadership pipeline for the organisation

In its deliberations, the ERCC takes into consideration industry practices and compensation norms. The Group President & CEO does not attend discussions relating to his own compensation, terms and conditions of service, or the review of his performance. In addition, no ERCC member or any director is involved in deliberations in respect of any remuneration, compensation, share-based incentives or any form of benefits to be granted to himself / herself.

The ERCC has access to expert professional advice on human resource matters whenever there is a need for such external consultation. In 2017, Mercer (Singapore) and Aon Hewitt (Singapore) were engaged as external consultants to provide such advice. In engaging external consultants, the Group ensures that the relationship, if any, between itself and these external consultants will not affect the independence and objectivity of the external consultants. In 2017, the ERCC undertook a review of the independence and objectivity of both Mercer (Singapore) and Aon Hewitt (Singapore) and has confirmed that the Group had no relationship with both companies that would affect their independence.

In reviewing succession planning and the Group's leadership pipeline, the ERCC reviews the development of senior staff and assesses their strengths and development needs based on the Group's leadership competencies framework, with the aim of building talent and maintaining strong and sound leadership for the Group. On an annual basis, the ERCC reviews succession planning for the position of Group President & CEO and that of officers reporting directly to him, as well as for other selected key positions in the company. Potential internal and external candidates for succession are reviewed for different time horizons according to immediate, medium- and long-term needs. In addition, the ERCC also reviews the company's obligation arising in the event of termination of the Group President & CEO and key management personnel's contracts of service, to ensure that such contracts contain fair and reasonable termination clauses.

### Level and Mix of Remuneration (Principle 8)

**Competitive reward system to ensure highest performance and retention of directors and key management personnel**

Sembcorp believes that its remuneration and reward system is aligned with the long-term interest and risk policies of the company. It also recognises that a competitive remuneration and reward system based on individual performance is important to attract, retain and incentivise the best talent.

The Group President & CEO, as an executive director, does not receive director's fees from Sembcorp. As a lead member of management, his compensation consists of his salary, allowances, bonuses and share-based incentives conditional upon meeting certain performance targets.

*Details of the share-based incentives and performance targets are available in the Directors' Statement and Note 32 in the Notes to the Financial Statements in this annual report.*

**Non-executive directors' fees**
To underscore their support of the company through these challenging times, the non-executive directors had taken a voluntary reduction in their directors' fee of 15% for the financial year 2017.

The framework on the right adopted by the company is based on a scale of fees divided into basic retainer fees, attendance fees and allowances for travel and service on board committees.

**Directors' Fee Framework for 2017***

| | S$ |
|---|---|
| **Chairman's fee (all-in)**[1] | 750,000 |
| **Director's basic retainer fee** | 75,000 |
| **Executive Committee** | |
| Chairman's allowance | 50,000 |
| Member's allowance | 30,000 |
| **Audit Committee** | |
| Chairman's allowance | 50,000 |
| Member's allowance | 30,000 |
| **Executive Resource & Compensation Committee** | |
| Chairman's allowance | 35,000 |
| Member's allowance | 20,000 |
| **Risk Committee** | |
| Chairman's allowance | 35,000 |
| Member's allowance | 20,000 |
| **Nominating Committee** | |
| Chairman's allowance | 25,000 |
| Member's allowance | 15,000 |
| **Technology Advisory Panel / Others** | |
| Chairman's allowance | 25,000 |
| Member's allowance | 15,000 |
| **Attendance fees** | |
| Board meeting | 5,000 |
| Committee meeting[2] | 2,500 |
| Teleconference (board meeting) | 2,000 |
| Teleconference (committee meeting) | 1,000 |
| **Travel allowance for overseas directors** | |
| ≤ 4 hours (to and fro air travel time) | 2,500 |
| > 4 to 15 hours (to and fro air travel time) | 5,000 |
| > 15 hours (to and fro air travel time) | 10,000 |

*Notes:*
* *The directors' fee framework applies to all directors except the Group President & CEO, who is an executive director and does not receive any directors' fees*
1 *With effect from January 1, 2014, the Chairman of our board only receives one all-in chairman's fee. He does not receive the directors' basic fee, nor any further fees or allowances for serving as a chairman or member of any of our board committees*
2 *The attendance fee for committee meetings also applies to attendance at general meetings*

# Corporate Governance Statement

The directors' fees payable to non-executive directors are paid in cash and in share awards under the Sembcorp Industries Restricted Share Plan 2010. The ERCC has determined that up to 30% of the aggregate directors' fees approved by shareholders for a particular financial year may be paid out in the form of restricted share awards. Mr McGregor does not receive directors' fees as Group President & CEO of the company. The payment of directors' fees (both the cash and share components) is contingent upon shareholders' approval. Directors and their associates also abstain from voting on any resolution(s) relating to their remuneration.

Share awards granted under the Sembcorp Industries Restricted Share Plan 2010 to non-executive directors as part of directors' fees will consist of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. Non-executive directors are required to hold shares in the company (including shares obtained by other means) worth the value of their annual basic retainer fee (currently S$75,000); any excess may be disposed of as desired, subject to securities trading rules. A non-executive director may only dispose of all of his shares one year after leaving the board. Subject to shareholders' approval at the forthcoming AGM, the cash component of the directors' fees for the financial year 2018 is intended to be paid half-yearly in arrears.

The actual number of shares to be awarded to each non-executive director will be determined by reference to the volume-weighted average price of a share on the SGX-ST over the 14 trading days from (and including) the day the shares are first quoted ex-dividend after the AGM (or, if the resolution to approve the final dividend is not approved, over the 14 trading days immediately following the date of the AGM). The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash. The share component of the directors' fees for the financial year 2018 is intended to be paid in 2019 after the AGM has been held.

The company does not have a retirement remuneration plan for non-executive directors.

**Remuneration for key management personnel**
Sembcorp's remuneration and reward system for key management personnel is designed to ensure a competitive level of compensation to attract, retain and motivate employees to deliver high-level performance in accordance with the company's established risk policies. The remuneration of our key management personnel comprises three primary components:

- **Fixed remuneration**
  Fixed remuneration includes an annual basic salary, and where applicable, fixed allowances, an annual wage supplement and other emoluments. Base salaries of key management personnel are determined based on the scope, criticality and complexity of each role, equity against peers with similar responsibilities, experience and competencies, individual performance and market competitiveness.

- **Annual variable bonuses**
  The annual variable bonus is intended to recognise the performance and contributions of the individual, while driving the achievement of key business results for the company. The annual variable bonus includes two components.

  The first is the performance target bonus, linked to the achievement of pre-agreed financial and non-financial performance targets, comprising strategy, business processes and organisation and people development. It is designed to support the Group's business strategy and the ongoing enhancement of shareholder value through the delivery of annual financial strategy and operational objectives. On an individual level, the performance target bonus will vary according to the actual achievement of the Group, business unit and the individual performance.

  The second is linked to the creation of economic value added (EVA) and is designed to ensure alignment with sustainable value creation for the shareholders over the longer term. An EVA linked "bonus bank" is created for each executive. Typically, one-third of the bonus bank balance is paid out in cash each year, while the remaining two-thirds is carried forward to the following year. Such carried-forward balances of the bonus bank may either be reduced or increased in future, based on the yearly EVA performance of the Group and its subsidiaries. There are provisions in the EVA incentive plan to allow for forfeiture of the outstanding balances in the bonus bank in exceptional circumstances of misstatement of financial results or misconduct resulting in financial loss to the company.

- **Share-based incentives**
  The company's performance share plan and restricted share plan were approved and adopted by shareholders at an extraordinary general meeting held by the company on April 22, 2010. Through our share-based incentives, we motivate key management personnel to continue to strive for the Group's long-term shareholder value. In addition, our share-based incentive plans aim to align the interests of participants with the interests of shareholders, so as to improve performance and achieve sustainable growth for the company.

  The performance share award is only granted to the Group President & CEO and top management while the restricted share award is granted to a broader group of executives. The number of performance and restricted shares awarded is determined using a valuation of the shares based on a Monte Carlo simulation. The share awards are conditional upon the achievement of pre-determined performance targets over the performance period. The performance conditions and targets are approved by the ERCC at the beginning of the performance period and the final number of shares vested to the recipient will depend on the level of achievement of these targets over the performance period, subject to the approval of the ERCC.

  The restricted share awards granted in 2017 have a two-year performance period from January 1, 2017 to December 31, 2018. Vesting of those shares is dependent on the following performance conditions:

  - 50% based on Sembcorp Industries' return on total assets, excluding Sembcorp Marine
  - 50% based on Sembcorp Industries' profit from operations, excluding Sembcorp Marine

  The performance share awards granted in 2017 have a three-year performance period from January 1, 2017 to December 31, 2019. Vesting of those shares is dependent on the following performance conditions:

  - 30% based on Sembcorp Industries' relative total shareholder return percentile ranking against the component stocks of the MSCI Asia Pacific ex-Japan Industrials Index
  - 30% based on Sembcorp Industries' absolute total shareholder return against pre-determined target
  - 40% based on Sembcorp Industries' earnings per share, excluding contribution from Sembcorp Marine

**Pay for performance**
As in prior years, a pay-for-performance study was conducted in 2017 by our external consultants, Mercer (Singapore), to review the alignment between the Group's executive pay programme, shareholder returns and business results. The Group benchmarked itself against established global energy and utilities firms and comparably-sized local listed companies with which the Group competes for talent and capital.

The study benchmarked different elements of senior executive pay, namely fixed remuneration, total cash remuneration and total compensation including long-term incentives, against that of peer companies. It found fixed pay for senior executives at the Group to be positioned competitively vis-à-vis the Group's relative size and complexity. The total cash component for the year had a robust correlation to the Group's profit from operations and EVA. The performance conditions for short-term and share-based-term incentive plans were generally met, except for total shareholder return conditions, which were impacted by adverse share price movement. As a result, the realised value of the share-based incentive award was much lower than the granted value. Overall, the study showed a strong correlation between the Group's executive pay and its business results and shareholder returns, indicating strong pay-for-performance alignment.

# Corporate Governance Statement

## Disclosure on Remuneration (Principle 9)

Based on the above Directors' Fee Framework, the computation of non-executive directors' fees totalled S$2,258,625 in 2017 (2016: S$2,365,750). After applying the 15% voluntary reduction in fees payable to existing non-executive directors, the resulting non-directors' fees for the financial year 2017 totalled S$1,938,769. More information on directors and key management personnel's remuneration may be found under the related item in the Supplementary Information section of the financial statements in this annual report.

In 2017, the company had no employees who were immediate family members of a director or the Group President & CEO.

## Accountability and Audit

### Accountability (Principle 10)

**The board is accountable to shareholders**

Sembcorp is committed to open and honest communication with shareholders at all times. The company presents a balanced and clear assessment of the Group's performance, position and prospects to shareholders through the timely release of its quarterly and annual financial reports. The company believes that prompt compliance with statutory reporting requirements is imperative to maintaining shareholders' confidence and trust in the company. In line with stock exchange requirements, negative assurance statements were issued by the board to accompany the company's quarterly financial results announcements, confirming that to the best of its knowledge, nothing had come to its attention which would render the company's quarterly results false or misleading.

The company also recognises the importance of providing the board with accurate and relevant information on a timely basis. Sembcorp's management furnishes management and operation reports as well as financial statements to the board on a regular basis.

### Risk Management and Internal Controls (Principle 11)

The board has overall responsibility for the governance of the Group's risk management and internal controls. The company's board and management are fully committed to maintaining sound risk management and internal control systems to safeguard shareholders' interests and the Group's assets.

The board determines the company's levels of risk tolerance and risk policies, and oversees management in the design, implementation and monitoring of risk management and internal control systems.

**Risk Committee**

The Risk Committee (RC) assists the board in overseeing risk management for the Group. The RC is headed by Mr Haridass, who is joined on the committee by Mr Tham, Mr Yap and Dr Teh. Dr Teh was appointed to the RC on April 19, 2017. Mr Chin was a member of the RC until his retirement from the board on April 19, 2017. The RC's principal functions are to:

- Review and endorse the risk management plans of the Group
- Review and approve group-wide risk policies, guidelines and limits
- Review the adequacy and effectiveness of the risk management systems, processes and procedures of the Group
- Review risk-related reports submitted to it by management. These include updates on the Group's risk portfolio, reports on major risk exposure and any other risk-related issues as well as actions taken to monitor and manage such exposure / issues
- Review infrastructure and resources in place to support the management of risk, including for instance, human resources, information technology systems, reporting structure and procedures

**Adequate and effective system of internal controls**

The Group has implemented a comprehensive enterprise risk management (ERM) framework where key risks identified are deliberated by management with the support of the risk management function, and reported regularly to the RC. Supporting the ERM framework is a system of internal controls, comprising a code of business conduct, group-wide governance and internal control policies, procedures and guidelines dictating the segregation of duties, approval authorities and limits, and checks and balances embedded in business processes. The Group has also considered the various financial risks, details of which can be found on our website.

Our ERM framework is complemented by a governance assurance framework and a risk-based control self-assessment programme. During the year, the Group's risk profile was reviewed and updated. The effectiveness of our internal controls was also assessed and enhanced through a combination of management control self-assessments, certifications and internal audits, as well as actions taken as a follow up to these exercises.

*For more information on the company's ERM framework, please refer to our website.*

For the financial year under review, the board has been assured by the Group President & CEO and Group Chief Financial Officer that financial records have been properly maintained, that the financial statements give a true and fair view of the company's operations and finances and that the risk management and internal control systems of the Group are adequate and effective.

The board, with the concurrence of the Audit Committee, is of the opinion that the company's risk management systems and internal controls are adequate and effective as at December 31, 2017 to address the financial, operational, compliance and information technology risks of the Group. This assessment is based on the internal controls established and maintained by the Group, work performed by external and internal auditors and reviews performed by senior management. Internal controls, because of their inherent limitations, can provide reasonable but not absolute assurance regarding the achievement of their intended control objectives. In this regard, the board will ensure that should any significant internal control failings or weaknesses arise, necessary remedial actions will be swiftly taken.

### Audit Committee (Principle 12)

The Audit Committee (AC) comprises independent, non-executive directors. The AC is chaired by Mr Yap, who assumed the position on April 19, 2017. He is joined by Mr Tham, Dr Teh as well as Mr Haridass. Prior to this, the AC was chaired by Mr Chin, until his retirement from the board on April 19, 2017. The AC does not have any member who was a former partner or director of the company's external auditors, KPMG, within the last 12 months, or who holds any financial interest in KPMG.

**Authority and duties of the AC**

The AC assists the board in fulfilling its fiduciary responsibilities relating to the internal controls, financial accounting and reporting practices of the Group. Its main responsibilities are to:

- Review the company's policies, control procedures and accounting practices with external auditors, internal auditors and management
- Review and act in the interest of the shareholders in respect of interested person transactions, as well as any matters or issues that affect the financial performance of the Group
- Review the quarterly, half-year and full-year results announcements, accompanying press releases and presentation slides, as well as the financial statements of the Group and the adequacy and accuracy of information disclosed prior to submission to the board for approval

The AC has explicit authority to investigate any matter within its terms of reference. It has full access to and co-operation from management and full discretion to invite any director or executive officer to attend its meetings. It also has reasonable resources to enable it to discharge its function properly.

Where relevant, the AC is guided by the recommended best practice for audit committees, set out in the revised Guidebook for Audit Committees issued by Singapore's Audit Committee Guidance Committee.

# Corporate Governance Statement

**Key audit matters**
The AC has discussed the key audit matters with management and the external auditors. The AC concurs with the basis and conclusions included in the auditor's report with respect to the key audit matters.

*For more information on the key audit matters, please refer to pages 150 to 157 of this annual report.*

**External auditors**
Each year, the AC reviews the independence of the company's external auditors and makes recommendations to the board on the re-appointment of the company's external auditors. During the year, the AC has reviewed the performance of the external auditors using audit quality indicators recommended by the Accounting and Corporate Regulatory Authority as reference.

The AC reviews and approves the external audit plan to ensure the adequacy of the audit scope. It also reviews the external auditors' management letter and monitors the timely implementation of required corrective or improvement measures. The AC meets external and internal auditors at least once a year without the presence of management. It has reviewed the nature and extent of non-audit services provided by the external auditors to the Group for the year, excluding services provided to Sembcorp Marine, a listed subsidiary that has its own audit committee. The AC is satisfied that the independence of the external auditors has not been impaired by their provision of non-audit services. Accordingly, the AC has recommended the re-appointment of the external auditors at the forthcoming AGM.

*Details of non-audit fees payable to the external auditors are found in Note 28(a) in the Notes to the Financial Statements in this annual report.*

**Whistle-blowing policy**
The AC oversees the Group's whistle-blowing policy which has been implemented to strengthen corporate governance and ethical business practices across all business units. Employees are provided with accessible channels to report suspected fraud, corruption, dishonest practices or other misdemeanours to the Group's internal auditors and are protected from reprisal to the extent possible. This aims to encourage the reporting of such matters in good faith.

*For more information on our whistle-blowing policy, please refer to our website.*

### Internal Audit (Principle 13)

**Independent internal audit function**

The Internal Audit function (GIA) is an important line of defence for the Company and a key component of the overall governance assurance framework.

Our Group Internal Audit department (GIA) provides assurance to the AC that risk management and internal control systems are in place to manage and govern key aspects of the Group's businesses, including its financial, operational, compliance and information technology systems.

In 2017, GIA enhanced its audit approach by linking its internal audit plan with the ERM framework and integrating operational and financial audits. Subject matter specialists were seconded from relevant departments to GIA for the purposes of these integrated audits. GIA is also deepening its capabilities in the areas of operations, information technology, and workplace health, safety and environment audits.

The Head of GIA reports directly to the AC and administratively to the Group CEO. The AC participates in the appointment, replacement or dismissal, as well as evaluation and compensation of the Head of GIA.

The AC reviews the proposed scope and performance of the internal audit function, internal audit findings and management response, and the Group's Internal Audit Plan. It ensures that no limitation on audit has been imposed. Internal audit summary of findings, recommendations and actions taken are reviewed and discussed at AC meetings.

**Professional standards and competency**
GIA comprises members with relevant qualifications and experience and the internal audit is carried out based on the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.



## Shareholder Rights and Responsibilities

### Shareholder Rights (Principle 14)

Sembcorp treats all shareholders fairly and equitably. The company recognises, protects and facilitates the exercise of shareholders' rights and continually reviews and updates such governance arrangements.

The company is committed to ensuring that all shareholders have easy access to clear, reliable and meaningful information in order to make informed investment decisions. The company regularly communicates major developments in its business operations via SGXNET, press releases, circulars to shareholders and other appropriate channels. The company also encourages shareholder participation and voting at general meetings of shareholders.

### Communication with Shareholders (Principle 15)

**Regular, effective and fair communication with shareholders**

Sembcorp advocates high standards of corporate transparency and disclosure. This commitment is embodied in the company's investor relations policy which adheres to fair disclosure principles and emphasises active dialogue and engagement with shareholders, investors and analysts.

**Disclosure of information on a timely basis**
Sembcorp makes every effort to ensure that shareholders and capital market players have easy access to clear, meaningful and timely information on the company in order to make informed investment decisions. To do this, various channels including announcements, press releases, shareholder circulars and annual reports are utilised. All price-sensitive and material information is disseminated via SGXNET on a non-selective basis and in a timely and consistent manner. The company's announcements are also uploaded on the company website, www.sembcorp.com, after dissemination on SGXNET.

The quarterly results release date is disclosed at least two weeks prior to the announcement date via SGXNET. On the date of announcement, the financial statements as well as the accompanying press release and presentation slides are released via SGXNET and on the company website. Thereafter, a briefing or teleconference by management is jointly held for the media and analysts. For first-half and full-year results announcements, results briefings are concurrently broadcasted live via webcast. Investor relations officers are available by email or telephone to answer questions from shareholders and analysts as long as the information requested does not conflict with SGX-ST's rules of fair disclosure.

The company also maintains a dedicated investor relations section on its company website to cater to the specific information needs of shareholders, investors, analysts and the financial community. Designed to provide a convenient repository for investors' information needs, the site includes filings on the company's results announcements since the company's listing in 1998, an archive of the company's results briefing webcasts, downloadable five-year financial data, a calendar of upcoming events, as well as pertinent stock information such as dividend history, share price charts and analyst coverage. Investor relations contact information is also displayed on the website for direct shareholder enquiries.

**Establishing and maintaining regular dialogue with shareholders**
Sembcorp employs multiple communication platforms to engage with its shareholders. In addition to its results briefings, the company also maintains regular dialogue with its shareholders through investor-targeted events such as AGMs, roadshows, conferences, site visits, group briefings and one-on-one meetings. These platforms offer opportunities for senior management and directors to interact first-hand with shareholders, understand their views, gather feedback and address concerns.

To keep senior management and the board abreast of market perception and concerns, the investor relations team provides regular updates on analyst consensus estimates and views. On an annual basis, a more comprehensive update is presented, which includes updates and analysis of the shareholder register, highlights of key shareholder engagements for the year as well as market feedback.

*For further details on Sembcorp's communications with its shareholders, please see the Investor Relations chapter on pages 132 and 133 of this annual report.*

# Corporate Governance Statement

**Dividend policy**
Sembcorp is committed to achieving sustainable income and growth to enhance total shareholder return. The Group's policy aims to balance cash return to shareholders and investment for sustaining growth, while aiming for an efficient capital structure. The company strives to provide consistent and sustainable ordinary dividend payments to its shareholders on an annual basis.

## Conduct of Shareholder Meetings (Principle 16)

**Greater shareholder participation at general meetings**

All shareholders are invited to participate in the company's general meetings.

The company disseminates information on general meetings through notices in its annual reports or circulars. These notices are also released via SGXNET, published in local newspapers and posted on the company website ahead of the meetings to give ample time for shareholders to review the documents. In line with the company's commitment towards environmental responsibility, the company's annual reports and circulars were previously sent to shareholders in the form of a CD-ROM. This year, the company will further reinforce this commitment by making its annual report for shareholders available on its website and will not be distributing the report via CD-ROM. Shareholders are encouraged to read the annual report on the company website. A booklet containing the Request Form, Notice of AGM and Proxy Form will be sent to shareholders, informing them that the annual report is available online and directing them to where they may view it. However, we are mindful that some shareholders may prefer to receive a printed copy and this will be provided upon request.

The company's constitution allows all shareholders the right to appoint up to two proxies to attend, speak and vote at general meetings on their behalf. Under the new multiple proxy regime, "relevant intermediaries", such as banks, capital markets services licence holders that provide custodial services for securities and the Central Provident Fund Board (CPF), are allowed to appoint more than two proxies to attend, speak and vote at general meetings. This will enable indirect investors, including CPF investors, to be appointed as proxies to participate at general meetings. Voting in absentia by mail, facsimile or email is currently not permitted. Such voting methods would need to be cautiously evaluated for feasibility to ensure that there is no compromise to the integrity of the information and the authenticity of the shareholders' identity.

The Group President & CEO delivers a short presentation to shareholders at each AGM to update them on the performance of Sembcorp's businesses. Every matter requiring approval at a general meeting is proposed as a separate resolution. Shareholders present are given an opportunity to clarify or direct questions on issues pertaining to the proposed resolutions before the resolutions are voted on. The board and management are in attendance to address these queries or concerns and obtain feedback from shareholders. External auditors and legal advisors are also present to assist the board as necessary.

The company conducts electronic poll voting at shareholder meetings for greater transparency in the voting process. Shareholders are informed of the voting procedures governing such meetings. An independent scrutineer is engaged to review the electronic poll voting system and proxy verification process during the meetings to ensure that the information is compiled adequately and procedures are carried out effectively. The total number of votes cast for or against each resolution is tallied and displayed live on-screen to shareholders immediately after the vote has been cast. Voting results will also be announced after the meetings via SGXNET.

The company secretary records minutes from these shareholder meetings, including relevant comments or queries from shareholders and responses from the board and management. The minutes are available upon request by shareholders.

**Dealings in securities**
The company has adopted a Code of Compliance on Dealing in Securities, which prohibits dealings in the company's securities by its directors and senior management within two weeks prior to the announcement of the company's financial statements for each of the first three quarters of its financial year and within one month prior to the announcement of the company's full-year financial statements. Directors and employees are advised to be mindful to observe insider trading laws at all times, even when dealing in the company's securities outside the prohibited trading period. They are also reminded not to deal in the company's securities on short-term considerations.

**Interested person transactions**
Shareholders have adopted an interested person transaction mandate (IPT mandate) in respect of interested person transactions of the company. The IPT mandate defines the levels and procedures to obtain approval for such transactions. Information regarding the IPT mandate is available on the staff intranet. The company also has an internal policy and procedure to manage and capture any interested party transactions. All business units are required to be familiar with the IPT mandate as well as the internal policy and procedure, and report interested person transactions to the company for review and approval by the AC. The Group maintains a register of the company's interested person transactions in accordance with the reporting requirements stipulated by Chapter 9 of the SGX-ST Listing Manual.

*Information on interested person transactions for 2017 may be found in the related item under the Supplementary Information section of the financial statements on pages 323 and 324.*

*Details on our Interested Person Transactions (IPT) Mandate can be found on our website.*

**Governance Disclosure Guide**
In line with Sembcorp's commitment towards high standards of corporate governance and disclosure, the company has completed a questionnaire with reference to the disclosure guide developed by the Singapore Exchange in 2015.

*The company's responses to the disclosure guide may be found on pages 328 to 338 of this annual report.*

Environmental, Social and Governance Review

# Investor Relations

**At Sembcorp, we are committed to ensuring that all capital market players have easy access to clear, reliable and meaningful information on our company in order to make informed investment decisions.**

In the context of constantly-evolving disclosure, transparency and corporate governance requirements, we aim to provide investors with an accurate, coherent and balanced account of the Group's performance and prospects. Sembcorp has a dedicated investor relations team and communicates with the investing public through multiple platforms and channels. These include group briefings to analysts, investors and the media; one-on-one meetings with shareholders and potential investors; investor roadshows; facility tours as well as the investor relations section of our company website.

## Proactive Communication with the Financial Community

During the year, senior management and the investor relations team continued to engage the financial community. We held one-on-one and group meetings with shareholders, analysts and potential investors and participated in international investor conferences and roadshows. These included meetings during non-deal roadshows in Singapore, London and Toronto, led by our new Group President & CEO, Mr Neil McGregor. We also attended the Credit Suisse's annual Asian Investment Conference in Hong Kong.

Sembcorp constantly strives to strengthen its investor relations efforts and we are pleased that our efforts in this regard have been recognised. In 2017, we won the silver award for Best Investor Relations at the Singapore Corporate Awards, under the category for companies with S$1 billion and above in market capitalisation. Sembcorp's investor relations website was also found to be the best amongst large-cap companies, in the first-ever survey assessing 707 investor relations websites of Singapore-listed companies. The survey was conducted by the Investor Relations Professionals Association (Singapore) and EQS Group.

## Commitment to Good Corporate Governance

Sembcorp won several other awards in 2017, a strong endorsement of the company's excellence in corporate governance and transparency. In addition to the silver award for Best Investor Relations, Sembcorp clinched the silver award for Best Annual Report at the Singapore Corporate Awards in 2017 under the category of large-cap companies with S$1 billion and above in market capitalisation. At the SIAS 18th Investors' Choice Award 2017, Sembcorp also emerged runner-up for the Singapore Corporate Governance Award (Industrials).

We continue to rank among the top companies in Singapore for good corporate governance and transparency. We were the sixth-highest ranked company in the 2017 edition of the Singapore Governance and Transparency Index, Singapore's leading index assessing corporate governance practices of listed companies. The Singapore Governance and Transparency Index is a collaboration between CPA Australia, the Centre for Governance, Institutions and Organisations at National University of Singapore Business School, and the Singapore Institute of Directors. It compares the transparency of 606 Singapore-listed companies based on their annual financial announcements.

## Total Shareholder Return

Sembcorp Industries' last traded share price in 2017 was S$3.03 and the company ended the year with a market capitalisation of S$5.4 billion. The company's share price averaged S$3.12 during the year, registering a low of S$2.86 in January and a high of S$3.40 in November. Daily turnover averaged 3.6 million shares.

In 2017, Sembcorp Industries' total shareholder return for the year was a positive 9% compared to a negative 3% in 2016. However, this was lower than the Straits Times Index's 22%, which saw the good performance of the banking and property sectors, and the MSCI Asia Pacific ex-Japan Industrials Index's 13%, which reflected stronger economic growth in the region.

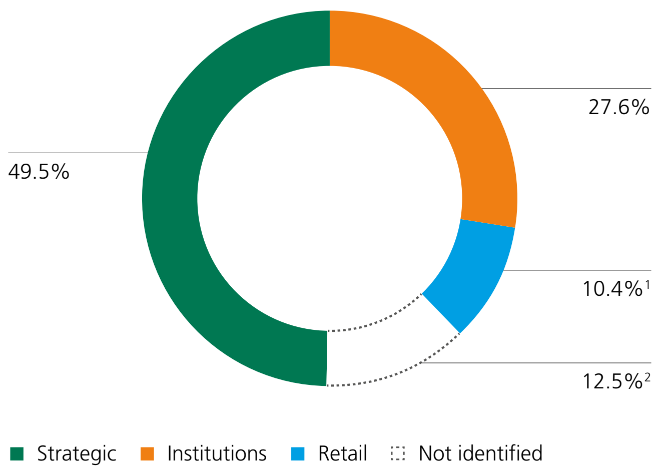


Sembcorp remains committed to delivering shareholder value amidst difficult operating conditions. For the financial year 2017, an interim dividend of 3 cents per ordinary share was declared and paid to shareholders in August 2017. In addition, a final dividend of 2 cents per ordinary share has been proposed, subject to approval by shareholders at the coming annual general meeting to be held in April 2018. Together with the interim dividend, this would bring our total dividend for 2017 to 5 cents per ordinary share.

## Shareholder Information

In 2017, institutional shareholders as a group continued to dominate Sembcorp's shareholder base. Other than our major shareholder Temasek Holdings, which held 49.5% of our shares at the end of 2017, institutional shareholders accounted for 27.6% of our issued share capital or around 55% of free float, while retail shareholders[1] and shareholders not identified[2] held 22.9% of issued share capital or around 45% of free float. In terms of geographical spread, excluding the stake held by Temasek Holdings and shareholders not identified, our largest geographical shareholding base was North America with 38%, followed by shareholders from Europe and Asia, which accounted for 30% and 27% of the shares respectively.

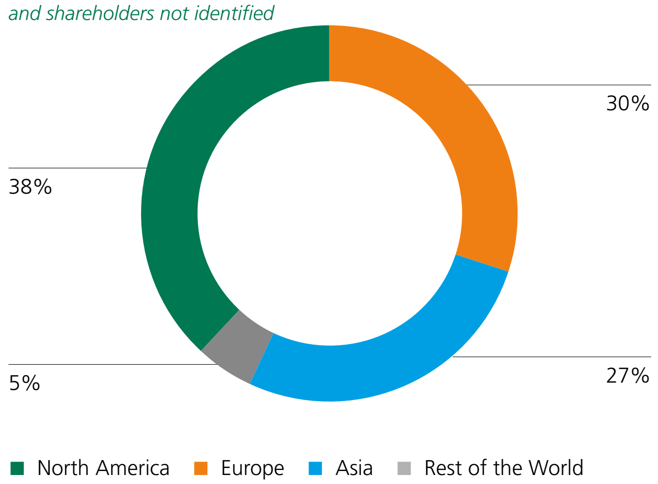
### Share Ownership by Investor Category




*As at December 31, 2017*

### Share Ownership by Geographical Distribution

*Excluding shares held by the strategic shareholder and shareholders not identified*




*As at December 31, 2017*

1 *Retail shareholders include private investors, brokers, custodians and corporates*

2 *Shareholders not identified include mainly shareholders that fall below the threshold of 250,000 shares*

# Independent Limited Assurance Report

## Independent Practitioner's Limited Assurance Report on Sustainability Information of Sembcorp Industries Limited

**Attention to the Board of Directors of Sembcorp Industries Limited**

We have been engaged by Sembcorp Industries Limited (the "Company") to undertake a limited assurance engagement in respect of the selected sustainability information from the 2017 Environmental, Social and Governance Review Report of the Company described below for the year ended December 31, 2017 (the "Identified Sustainability Information").

**Identified Sustainability Information**

The respective Identified Sustainability Information for the year ended December 31, 2017 is set out below:

1. GRI 102-9: Our Supply Chain
2. GRI 201-1: Direct Value Generated & Distributed by Sembcorp
3. GRI 303-1: Water Withdrawal
4. GRI 305-1: Direct GHG Emissions (Scope 1)
5. GRI 307-1: Non-compliance with Environmental Laws and Regulations
6. GRI 401-1: Employee Turnover
7. GRI 403-2: Health and Safety
8. GRI 404-1: Average Training Hours per Employee
9. GRI 413-1: Community Contribution

Our assurance engagement was with respect to the year ended December 31, 2017. We have not performed any procedures with respect to (i) earlier periods and (ii) any other elements included in the Company's Sustainability Report, and in the annual report, website and other publications, and therefore do not express any conclusion thereon.

**Reporting Criteria**

The Identified Sustainability Information has been assessed against relevant criteria in the Global Reporting Initiative ("GRI") Sustainability Reporting Standards 2016 (the "Reporting Criteria").

**Management's Responsibility for the Identified Sustainability Information**

Management of the Company is responsible for the preparation of the Identified Sustainability Information in accordance with the Reporting Criteria. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of Identified Sustainability Information that is free from material misstatement, whether due to fraud or error.

**Practitioner's Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Singapore Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Practitioner's Responsibility**

Our responsibility is to express a limited assurance conclusion on the Identified Sustainability Information based on the procedures we have performed and the evidence we have obtained. We performed our limited assurance engagement in accordance with Singapore Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements other than Audits and Reviews of Historical Financial Information (the "Standard"). This Standard requires that we plan and perform our work to form the conclusion about whether the Identified Sustainability Information is free from material misstatement. The extent of our procedures depends on our professional judgement and our assessment of the engagement risk.

A limited assurance engagement involves assessing the suitability in the circumstances of the Company's use of the Reporting Criteria as the basis for the preparation of the Identified Sustainability Information, assessing the risks of material misstatement of the Identified Sustainability Information whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Identified Sustainability Information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures selected included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. Given the circumstances of the engagement, we also performed the following:

- Interviewed management and personnel in, Group Human Resources and Organisational development, Group Health, Safety, Security and Environment, Group Legal, Group Value Chain Management, Group Risk, Group Finance, Group Strategic Communications and Sustainability departments in relation to the Identified Sustainability Information;

- Obtained an understanding of how the Identified Sustainability Information is gathered, collated and aggregated internally;

- Performed limited substantive testing, on a selective basis, of the Identified Sustainability Information (i) to verify the assumptions, estimations and computations made in relation to the Selected Sustainability Information; and (ii) to check that data had been appropriately measured, recorded, collated and reported, to the extent we considered necessary and appropriate to provide sufficient evidence for our conclusion; and

- Assessed the disclosure and presentation of the Identified Sustainability Information.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion about whether the Company's Identified Sustainability Information has been prepared, in all material respects, in accordance with the Reporting Criteria.

**Inherent Limitations**

In designing these procedures, we considered the system of internal controls in relation to the Identified Sustainability Information and reliance has been placed on internal controls where appropriate. Because of the inherent limitations in any accounting and internal control system, errors and irregularities may nevertheless occur and not be detected.

**Conclusion**

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Identified Sustainability Information for the financial year ended December 31, 2017 is not prepared, in all material respects, in accordance with the Reporting Criteria.

**Purpose and Restriction on Distribution and Use**

This report, including our conclusion, has been prepared solely for the Company in accordance with the agreement between us. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work or this report.

Yours faithfully

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Public Accountants and Chartered Accountants

Singapore

March 7, 2018

*Sembcorp's utilities facilities on Jurong Island in Singapore*

# FINANCIAL STATEMENTS

# Directors' Statement

Year ended December 31, 2017

## Directors' Statement

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended December 31, 2017.

In our opinion:

a. the financial statements set out on pages 158 to 320 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at December 31, 2017 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

b. at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

## Directors

The directors in office at the date of this statement are as follows:

Ang Kong Hua
Neil McGregor
Margaret Lui
Tan Sri Mohd Hassan Marican
Tham Kui Seng
Dr Teh Kok Peng
Ajaib Haridass
Nicky Tan Ng Kuang
Yap Chee Keong
Jonathan Asherson OBE *(Appointed on July 17, 2017)*

## Directors' Interests

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and children) in shares, debentures, warrants and share options in the Company and in related corporations are as follows:

| | | Shareholdings registered in the name of director, spouse, children or nominee | | | Other shareholdings in which the director is deemed to have an interest | | |
|---|---|---|---|---|---|---|---|
| **Name of director and corporation in which interests held** | **Description of interests** | **At beginning of the year** | **At end of the year** | **At 21/01/2018** | **At beginning of the year** | **At end of the year** | **At 21/01/2018** |
| **Ang Kong Hua** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares (Note 1) | 201,800 | 274,000 | 274,000 | – | – | – |
| **Neil McGregor** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares | 20,000 | 33,900 | 33,900 | – | – | – |
| | Conditional award of: | | | | | | |
| | – 429,553 performance shares to be delivered after 2019 (Note 2) | – | Up to 644,330 | Up to 644,330 | – | – | – |

## Directors' Interests *(cont'd)*

| | | Shareholdings registered in the name of director, spouse, children or nominee | | | Other shareholdings in which the director is deemed to have an interest | | |
|---|---|---|---|---|---|---|---|
| **Name of director and corporation in which interests held** | **Description of interests** | **At beginning of the year** | **At end of the year** | **At 21/01/2018** | **At beginning of the year** | **At end of the year** | **At 21/01/2018** |
| **Neil McGregor** *(cont'd)* | | | | | | | |
| Sembcorp Industries Ltd | Conditional award of: | | | | | | |
| | – 416,667 restricted shares to be delivered after 2018 (Note 3) | – | Up to 625,001 | Up to 625,001 | – | – | – |
| **Margaret Lui** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares | 61,200 | 82,100 | 82,100 | – | – | – |
| **Tan Sri Mohd Hassan Marican** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares (Note 4) | 60,200 | 79,400 | 79,400 | – | – | – |
| Sembcorp Marine Ltd | Ordinary shares (Note 4) | 192,100 | 296,300 | 296,300 | – | – | – |
| **Tham Kui Seng** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares | 43,600 | 62,000 | 62,000 | – | – | – |
| **Dr Teh Kok Peng** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares | 40,100 | 61,200 | 61,200 | – | – | – |
| Sembcorp Marine Ltd | Ordinary shares | 40,000 | 40,000 | 40,000 | – | – | – |
| **Ajaib Haridass** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares (Note 5) | 24,600 | 44,400 | 44,400 | – | – | – |
| Sembcorp Marine Ltd | Ordinary shares | 805,510 | 854,510 | 854,510 | – | – | – |
| **Nicky Tan Ng Kuang** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares | 1,800 | 16,500 | 16,500 | – | – | – |
| **Yap Chee Keong** | | | | | | | |
| Sembcorp Industries Ltd | Ordinary shares | – | 4,400 | 4,400 | – | – | – |

*Note 1: Of the 274,000 Sembcorp Industries Ltd (SCI) shares, 270,500 shares are held in the name of DBS Nominees Pte Ltd.*

*Note 2: The actual number to be delivered will depend on the achievement of set targets over a 3-year period from 2017 to 2019. Achievement of targets below threshold level will mean no performance shares will be delivered, while achievement up to 150% will mean up to 1.5 times the number of conditional performance shares awarded could be delivered.*

*Note 3: The actual number to be delivered will depend on the achievement of set targets at the end of the 2-year performance period from 2017 to 2018. Achievement of targets below threshold level will mean no restricted shares will be delivered, while achievement up to 150% will mean up to 1.5 times the number of conditional restricted shares awarded could be delivered.*

*Note 4: The 79,400 SCI shares and 296,300 Sembcorp Marine Ltd shares are held in the name of Citibank Nominees Singapore Pte Ltd.*

*Note 5: Of the 44,400 SCI shares, 5,000 shares are held in the name of Bank of Singapore.*

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

## Directors' Interests *(cont'd)*

There were no changes in any of the above mentioned interests in the Company between the end of the financial year and January 21, 2018.

Except as disclosed under the "Share-based Incentive Plans" section of this statement, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Except as disclosed in Notes 28(a) and 35(b) to the financial statements, since the end of the last financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

## Share-based Incentive Plans

The Company's Performance Share Plan (SCI PSP 2010) and Restricted Share Plan (SCI RSP 2010) (collectively, the "2010 Share Plans") were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on April 22, 2010. The 2010 Share Plans replaced the Share Plans which were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on June 5, 2000 and expired in 2010.

The Executive Resource & Compensation Committee (the "Committee") of the Company has been designated as the Committee responsible for the administration of the Share Plans. The Committee comprises the following members, all of whom are directors:

Ang Kong Hua (Chairman)
Margaret Lui
Tan Sri Mohd Hassan Marican
Nicky Tan Ng Kuang *(appointed on April 19, 2017)*

The SCI RSP 2010 is the incentive scheme for directors and employees of the Group whereas the SCI PSP 2010 is aimed primarily at key executives of the Group.

The 2010 Share Plans are intended to increase the Company's flexibility and effectiveness in its continuing efforts to attract, retain and incentivise participants to higher standards of performance and encourage greater dedication and loyalty by enabling the Company to give recognition to past contributions and services; as well as motivating participants to contribute to the long-term prosperity of the Group. The 2010 Share Plans will strengthen the Company's competitiveness in attracting and retaining talented key senior management and senior executives.

The SCI RSP 2010 is intended to apply to a broad base of senior executives as well as to the non-executive directors, while the SCI PSP 2010 is intended to apply to a select group of key senior management. Generally, it is envisaged that the range of performance targets to be set under the SCI RSP 2010 and the SCI PSP 2010 will be different, with the latter emphasising stretched or strategic targets aimed at sustaining longer term growth.

The 2010 Share Plans will provide incentives to high performing key senior management and senior executives to excel in their performance and encourage greater dedication and loyalty to the Company. Through the 2010 Share Plans, the Company will be able to motivate key senior management and senior executives to continue to strive for the Group's long-term shareholder value. In addition, the 2010 Share Plans aim to foster a greater ownership culture within the Group which align the interests of participants with the interests of shareholders, and to improve performance and achieve sustainable growth for the Company in the changing business environment.



## Share-based Incentive Plans *(cont'd)*

The 2010 Share Plans use methods fairly common among major local and multinational companies to incentivise and motivate key senior management and senior executives to achieve pre-determined targets which create and enhance economic value for shareholders. The Company believes that the 2010 Share Plans will be effective tools in motivating key senior management and senior executives to strive to deliver long-term shareholder value.

While the 2010 Share Plans cater principally to Group executives, it is recognised that there are other persons who can make significant contributions to the Group through their close working relationship with the Group. Such persons include employees of associated companies over which the Company has operational control.

A participant's awards under the 2010 Share Plans will be determined at the sole discretion of the Committee. In considering an award to be granted to a participant, the Committee may take into account, *inter alia*, the participant's performance during the relevant period, and his capability, entrepreneurship, scope of responsibility and skill set.

Other information regarding the 2010 Share Plans and Share Option Plan is as follows:

**a. Share Option Plan**

Under the rules of the Share Option Plan, participants who ceased to be employed by the Group or the associated company by reason of ill health, injury or disability, redundancy, retirement at or after the legal retirement age, retirement before the legal retirement age, death, etc., or any other event approved by the Committee, may be allowed by the Committee to retain their unexercised options. The Committee may determine the number of shares comprised in that option which may be exercised and the period during which such option shall be exercisable, being a period not later than the expiry of the exercise period in respect of that option. Such option may be exercised at any time notwithstanding that the date of exercise of such option falls on a date prior to the first day of the exercise period in respect of such option.

Other information regarding the Share Option Plan is as follows:

i. The exercise price of the options can be set at market price or a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant. Market price is the volume-weighted average price for the shares on the Singapore Exchange Securities Trading Limited (SGX-ST) over the three consecutive trading days prior to grant date of that option. For all options granted to date, the exercise prices are set at market price.

ii. After the first 12 months of lock-out period, the Group imposed a further vesting of 4 years for managers and above for retention purposes.

iii. In 2016, all options were settled by the issuance of treasury shares.

iv. The options granted expire after 5 years for non-executive directors and associated company's employees, and 10 years for the employees of the Group. There are no outstanding share options for non-executive directors.

v. All options have expired on June 9, 2016.

## Share-based Incentive Plans *(cont'd)*

**a. Share Option Plan** *(cont'd)*

vi. Sembcorp Industries Ltd Share Option Plan

All options expired on June 9, 2016.

**Sembcorp Industries Ltd**
**Ordinary shares**
**2016**

| Date of grant of options | Exercise price per share | Options outstanding at Jan 1, 2016 | Options exercised | Options cancelled / lapsed / not accepted | Options outstanding at Dec 31, 2016 | Options exercisable at Jan 1, 2016 | Options exercisable at Dec 31, 2016 |
|---|---|---|---|---|---|---|---|
| 09/06/2006 | S$2.52 | 319,549 | (169,250) | (150,299) | – | 319,549 | – |
| | | **319,549** | **(169,250)** | **(150,299)** | **–** | **319,549** | **–** |

vii. Share options of a listed subsidiary

All options granted under the Share Option Plan on ordinary shares of Sembcorp Marine Ltd expired on October 2, 2016.

**Sembcorp Marine Ltd**
**Ordinary shares**
**2016**

| Date of grant of options | Exercise price per share | Options outstanding at Jan 1, 2016 | Options exercised | Options cancelled / lapsed / not accepted | Options outstanding at Dec 31, 2016 | Options exercisable at Jan 1, 2016 | Options exercisable at Dec 31, 2016 |
|---|---|---|---|---|---|---|---|
| 02/10/2006 | S$2.38 | 973,312 | – | (973,312) | – | 973,312 | – |
| | | **973,312** | **–** | **(973,312)** | **–** | **973,312** | **–** |

**b. Performance Share Plan**

Under the Performance Share Plan (SCI PSP 2010), the awards granted conditional on performance targets are set based on medium-term corporate objectives at the start of each rolling three-year performance qualifying period. A specific number of performance shares shall be awarded at the end of the three-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset.

The performance levels were calibrated based on Wealth Added and Total Shareholder Return. For awards granted from 2014 onwards, the performance levels were calibrated based on Wealth Added, Total Shareholder Return and Earnings per share. A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Performance shares to be delivered will range between 0% to 150% of the conditional performance shares awarded.

To create alignment between senior management and other employees at the time of vesting, SCI PSP 2010 has in place a plan trigger. Under this trigger mechanism, the performance shares for the performance period 2017 to 2019 will be vested to the senior management participants only if the restricted shares for the performance period 2018 to 2019 are vested, subject to the achievement of the performance conditions for the respective performance periods.



## Share-based Incentive Plans *(cont'd)*

**b. Performance Share Plan** *(cont'd)*

Senior management participants are required to hold a minimum percentage of the shares released to them under the Performance Share Plan to maintain a beneficial ownership stake in the Group, for the duration of their employment or tenure with the Group. A maximum cap is set based on a multiple of the individual participant's annual base salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.

i. Sembcorp Industries Ltd Performance Shares

The details of the movement of the performance shares of Sembcorp Industries Ltd awarded during the financial year since commencement of the Performance Share Plan (aggregate) are as follows:

| | | Movements during the year | | | | |
|---|---|---|---|---|---|---|
| **Performance shares participants** | **At Jan 1** | **Conditional performance shares awarded** | **Conditional performance shares lapsed** | **Performance shares lapsed arising from targets not met** | **Conditional performance shares released** | **At Dec 31** |
| **2017** | | | | | | |
| **Director of the Company:** | | | | | | |
| Tang Kin Fei[1] | 1,022,000 | – | (304,500) | (300,000) | – | 417,500 |
| Neil McGregor[2] | – | 429,553 | – | – | – | 429,553 |
| **Key executives of the Group** | 1,396,250 | 460,000 | – | (300,000) | – | 1,556,250 |
| | **2,418,250** | **889,553** | **(304,500)** | **(600,000)** | **–** | **2,403,303** |
| **2016** | | | | | | |
| **Director of the Company:** | | | | | | |
| Tang Kin Fei[1] | 950,000 | 372,000 | – | (300,000) | – | 1,022,000 |
| **Key executives of the Group** | 1,131,250 | 615,000 | (25,000) | (325,000) | – | 1,396,250 |
| | **2,081,250** | **987,000** | **(25,000)** | **(625,000)** | **–** | **2,418,250** |

1 *Tang Kin Fei retired as Group President & CEO of SCI on March 31, 2017 and retired as Director of SCI on May 31, 2017.*
2 *Neil McGregor was appointed as Group President & CEO of SCI on April 1, 2017.*

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2014 to 2016 (2016: performance period 2013 to 2015), no performance shares were released via the issuance of treasury shares (2016: nil).

In 2017, 600,000 (2016: 625,000) performance shares were lapsed for under-achievement of the performance targets for the performance period 2014 to 2016 (2016: 2013 to 2015).

The total number of performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at end 2017, was 2,403,303 (2016: 2,418,250). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 3,604,954 (2016: 3,627,375) performance shares.

## Share-based Incentive Plans *(cont'd)*

**b. Performance Share Plan** *(cont'd)*

ii. Performance shares of a listed subsidiary

The details of the movement of the performance shares of Sembcorp Marine Ltd awarded during the year are as follows:

| | 2017 | 2016 |
|---|---|---|
| At January 1 | **4,513,000** | 3,200,000 |
| Conditional performance shares awarded | **1,600,000** | 1,918,000 |
| Performance shares lapsed arising from targets not met | **(1,380,000)** | (605,000) |
| At December 31 | **4,733,000** | 4,513,000 |

No performance shares of Sembcorp Marine Ltd were awarded to the directors of the Company.

With the Sembcorp Marine Ltd's committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2014 to 2016 (2016: 2013 to 2015), no performance shares were released via the issuance of treasury shares (2016: nil).

In 2017, 1,380,000 (2016: 605,000) performance shares were lapsed for under-achievement of the performance targets for the performance period 2014 to 2016 (2016: 2013 to 2015).

The total number of performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at December 31, 2017, was 4,733,000 (2016: 4,513,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 7,099,500 (2016: 6,769,500) performance shares.

**c. Restricted Share Plan**

Under the Restricted Share Plan (SCI RSP 2010), the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria for the restricted shares are calibrated based on Return on Total Assets (excluding Sembcorp Marine Ltd) and Group Profit from Operations (excluding Sembcorp Marine Ltd) for awards granted in 2017.

A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Based on the criteria, restricted shares to be delivered will range from 0% to 150% of the conditional restricted shares awarded.

The managerial participants of the Group will be awarded restricted shares under SCI RSP 2010, while the non-managerial participants of the Group will receive their awards in an equivalent cash value. This cash-settled notional restricted shares award for non-managerial participants is known as the Sembcorp Challenge Bonus.

A specific number of restricted shares shall be awarded at the end of the two-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset. There is a further vesting period of three years after the performance period, during which one-third of the awarded shares are released each year to managerial participants. Non-managerial participants will receive the equivalent in cash at the end of the two-year performance cycle, with no further vesting conditions.

Senior management participants are required to hold a minimum percentage of the shares released to them under the Restricted Share Plan to maintain a beneficial ownership stake in the Group, for the duration of their employment or tenure with the Group. A maximum cap is set based on a multiple of the individual participant's annual base salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.



## Share-based Incentive Plans *(cont'd)*

**c. Restricted Share Plan** *(cont'd)*

To align the interests of the non-executive directors with the interests of shareholders, up to 30% of the aggregate directors' fees approved by shareholders for a particular financial year may be paid out in the form of restricted share awards under the SCI RSP 2010.

From 2011, non-executive directors were not awarded any shares except as part of their directors' fees (except for Tang Kin Fei, who was the Group President & CEO, and who did not receive any directors' fees). In 2017 and 2016, the awards granted consisted of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. Non-executive directors are required to hold shares (including shares obtained by other means) worth at least one-time the annual base retainer; any excess may be sold as desired. A non-executive director can dispose of all of his shares one year after leaving the Board.

The actual number of shares awarded to each non-executive director will be determined by reference to the volume-weighted average price of a share on the SGX-ST over the 14 trading days from (and including) the day on which the shares are first quoted ex-dividend after the Annual General Meeting ("AGM") (or, if the resolution to approve the final dividend is not approved, over the 14 trading days immediately following the date of the AGM). The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash. A non-executive director who steps down before the payment of the share component will receive all of his director's fees for the year (calculated on a pro-rated basis, where applicable) in cash.

i. Sembcorp Industries Ltd Restricted Shares

The details of the movement of the restricted shares of Sembcorp Industries Ltd awarded during the year are as follows:

| | | Movements during the year | | | | |
|---|---|---|---|---|---|---|
| **Restricted shares participants** | **At Jan 1** | **Conditional restricted shares awarded** | **Additional restricted shares awarded arising from targets met** | **Conditional restricted shares released** | **Conditional restricted shares lapsed** | **At Dec 31** |
| **2017** | | | | | | |
| **Directors of the Company:** | | | | | | |
| Ang Kong Hua | – | 72,200 | – | (72,200) | – | – |
| Neil McGregor[1] | – | 430,567 | – | (13,900) | – | 416,667 |
| Tang Kin Fei[2] | 659,400 | – | 46,000 | (494,400) | – | 211,000 |
| Bobby Chin Yoke Choong *(retired on April 19, 2017)* | – | – | – | – | – | – |
| Margaret Lui | – | 20,900 | – | (20,900) | – | – |
| Tan Sri Mohd Hassan Marican | – | 19,200 | – | (19,200) | – | – |
| Tham Kui Seng | – | 18,400 | – | (18,400) | – | – |
| Dr Teh Kok Peng | – | 21,100 | – | (21,100) | – | – |
| Ajaib Haridass | – | 19,800 | – | (19,800) | – | – |
| Nicky Tan Ng Kuang | – | 14,700 | – | (14,700) | – | – |
| Yap Chee Keong | – | 4,400 | – | (4,400) | – | – |
| Jonathan Asherson OBE *(appointed on July 17, 2017)* | – | – | – | – | – | – |
| **Other executives of the Group** | 8,436,328 | 2,932,967 | 543,655 | (2,564,724) | (247,977) | 9,100,249 |
| | **9,095,728** | **3,554,234** | **589,655** | **(3,263,724)** | **(247,977)** | **9,727,916** |

*[1] Neil McGregor was appointed as Group President & CEO of SCI on April 1, 2017.*

*[2] Tang Kin Fei retired as Group President & CEO of SCI on March 31, 2017 and retired as Director of SCI on May 31, 2017.*

## Share-based Incentive Plans *(cont'd)*

**c. Restricted Share Plan** *(cont'd)*

i. Sembcorp Industries Ltd Restricted Shares *(cont'd)*

| Restricted shares participants | At Jan 1 | Movements during the year: Conditional restricted shares awarded | Additional restricted shares awarded arising from targets met | Conditional restricted shares released | Conditional restricted shares lapsed | At Dec 31 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| **Directors of the Company:** | | | | | | |
| Ang Kong Hua | – | 80,200 | – | (80,200) | – | – |
| Tang Kin Fei[1] | 609,800 | 211,000 | 45,000 | (206,400) | – | 659,400 |
| Bobby Chin Yoke Choong *(retired on April 19, 2017)* | – | 23,300 | – | (23,300) | – | – |
| Margaret Lui | – | 20,700 | – | (20,700) | – | – |
| Tan Sri Mohd Hassan Marican | – | 19,200 | – | (19,200) | – | – |
| Tham Kui Seng | – | 18,700 | – | (18,700) | – | – |
| Dr Teh Kok Peng | – | 20,700 | – | (20,700) | – | – |
| Ajaib Haridass | – | 18,800 | – | (18,800) | – | – |
| Neil McGregor[2] | – | 14,700 | – | (14,700) | – | – |
| Nicky Tan Ng Kuang | – | 1,800 | – | (1,800) | – | – |
| Yap Chee Keong | – | – | – | – | – | – |
| **Other executives of the Group** | 7,219,329 | 3,551,732 | 491,350 | (2,410,037) | (416,046) | 8,436,328 |
| | **7,829,129** | **3,980,832** | **536,350** | **(2,834,537)** | **(416,046)** | **9,095,728** |

[1] *Tang Kin Fei retired as Group President & CEO of SCI on March 31, 2017 and retired as Director of SCI on May 31, 2017.*
[2] *Neil McGregor was appointed as Group President & CEO of SCI on April 1, 2017.*

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016, a total of 1,422,285 restricted shares were released in 2017. For awards in relation to the performance period 2014 to 2015, a total of 940,410 (2016: 910,442) were released in 2017. For awards in relation to the performance period 2013 to 2014, a total of 696,429 (2016: 734,804) restricted shares were released in 2017. For awards in relation to the performance period 2012 to 2013, no restricted shares were released in 2017 (2016: 966,691). In 2017, there were 204,600 (2016: 218,100) shares released to non-executive directors. In 2016, there were additional 4,500 shares released to employees due to sale of a subsidiary. Of the restricted shares released, 36,513 (2016: 32,572) restricted shares were cash-settled. The remaining restricted shares were released via the issuance of treasury shares.

In 2017, additional 589,655 (2016: 536,350) restricted shares were awarded for the over-achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015).

The total number of restricted shares outstanding, including award(s) achieved but not released, as at end 2017, was 9,727,916 (2016: 9,095,728). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 6,947,566 (2016: 6,686,507). Based on the multiplying factor, the actual release of the conditional awards could range from zero to a maximum of 10,421,349 (2016: 10,029,760) restricted shares.



## Share-based Incentive Plans *(cont'd)*

**c. Restricted Share Plan** *(cont'd)*

i. Sembcorp Industries Ltd Restricted Shares *(cont'd)*

Sembcorp Challenge Bonus

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015), a total of S$1,609,946, equivalent to 438,253 (2016: S$1,239,046, equivalent to 401,914) notional restricted shares, were paid. A total of 660,000 (2016: 566,000) notional restricted shares of Sembcorp Industries Ltd's shares were awarded in 2017 for the Sembcorp Challenge Bonus.

The total number of notional restricted shares in awards for the Sembcorp Challenge Bonus granted conditionally and representing 100% of targets to be achieved, but not released as at end 2017, was 1,226,000 (2016: 1,002,012). Based on the multiplying factor, the number of notional restricted shares to be converted into the funding pool could range from zero to a maximum of 1,839,000 (2016: 1,503,018).

ii. Restricted shares of a listed subsidiary

The details of the movement of the restricted shares of Sembcorp Marine Ltd awarded during the year are as follows:

| Restricted shares participants | At Jan 1 | Movements during the year: Conditional restricted shares awarded | Restricted shares lapsed arising from targets not met | Conditional restricted shares released | Conditional restricted shares lapsed | At Dec 31 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Directors of the Company:** | | | | | | |
| Tang Kin Fei[1] | – | 44,300 | – | (44,300) | – | – |
| Tan Sri Mohd Hassan Marican | – | 104,200 | – | (104,200) | – | – |
| Ajaib Haridass | – | 49,000 | – | (49,000) | – | – |
| **Other participants** | 13,716,142 | 7,978,950 | (3,923,317) | (1,589,442) | (798,920) | 15,383,413 |
| | **13,716,142** | **8,176,450** | **(3,923,317)** | **(1,786,942)** | **(798,920)** | **15,383,413** |
| **2016** | | | | | | |
| **Directors of the Company:** | | | | | | |
| Tang Kin Fei[1] | – | 54,600 | – | (54,600) | – | – |
| Tan Sri Mohd Hassan Marican | – | 111,800 | – | (111,800) | – | – |
| Ajaib Haridass | – | 65,700 | – | (65,700) | – | – |
| **Other participants** | 10,101,585 | 8,000,600 | (1,471,967) | (2,439,698) | (474,378) | 13,716,142 |
| | **10,101,585** | **8,232,700** | **(1,471,967)** | **(2,671,798)** | **(474,378)** | **13,716,142** |

[1] *Tang Kin Fei retired as Director of SCI on May 31, 2017 and retired as Director of Sembcorp Marine Ltd on April 18, 2017.*

With the Sembcorp Marine Ltd's committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016, a total of 266,891 restricted shares were released in 2017. For awards in relation to the performance period 2014 to 2015, a total of 386,942 (2016: 461,541) restricted shares were released in 2017. For awards in relation to the performance period 2013 to 2014, a total of 733,009 (2016: 848,667) restricted shares were released in 2017. For awards in relation to the performance period 2012 to 2013, no restricted shares were released in 2017 (2016: 848,667). In 2017, there were 400,100 (2016: 516,300) restricted shares released to non-executive directors. The restricted shares were released via the issuance of treasury shares.

## Share-based Incentive Plans *(cont'd)*

**c. Restricted Share Plan** *(cont'd)*

ii. Restricted shares of a listed subsidiary *(cont'd)*

In 2017, 3,923,317 (2016: 1,471,967) Sembcorp Marine Ltd's restricted shares were lapsed for under-achievement of the performance targets for the performance period 2015 to 2016 (2016: 2014 to 2015).

The total number of Sembcorp Marine Ltd's restricted shares outstanding, including awards achieved but not released, as at December 31, 2017, was 15,383,413 (2016: 13,716,142). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 14,674,000 (2016: 12,239,840). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 22,011,000 (2016: 18,359,760) restricted shares.

With the Sembcorp Marine Ltd's committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015), a total of S$454,284 (2016: S$766,416), equivalent to 248,950 (2016: 456,064) notional restricted shares, were paid.

A total of 3,074,000 (2016: 3,387,850) notional restricted shares were awarded on May 26,2017 (2016: May 27, 2016) for the Sembcorp Marine Challenge Bonus.

The total number of notional restricted shares in awards for the Sembcorp Marine Challenge Bonus granted conditionally and representing 100% of targets to be achieved, but not released as at December 31, 2017, was 5,230,850 (2016: 4,827,393). Based on the multiplying factor, the number of notional restricted shares to be converted into the funding pool could range from zero to a maximum of 7,846,275 (2016: 7,241,090).

**d. Maximum Number of Shares Issuable**

The maximum number of performance shares and restricted shares which could be delivered, when aggregated with the number of new shares issued and issuable in respect of all options granted, is within the 15% limit of the share capital of the Company on the day preceding the relevant date of the grant.

## Audit Committee

The members of the Audit Committee during the year and at the date of this report are:

Yap Chee Keong (Chairman) *(Appointed on April 19, 2017)*
Bobby Chin Yoke Choong (Chairman) *(Retired on April 19, 2017)*
Tham Kui Seng
Dr Teh Kok Peng
Ajaib Haridass

The Audit Committee held five meetings during the financial year. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee performed the functions specified in Section 201B of the Singapore Companies Act, Chapter 50, the Listing Manual of the Singapore Exchange, and the Code of Corporate Governance.

## Audit Committee *(cont'd)*

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the external and internal auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The Audit Committee has full access to the management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company, subsidiaries and significant associated companies, we have complied with Rules 712 and 715 of the SGX Listing Manual.

## Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

**Ang Kong Hua**
Chairman

**Neil McGregor**
Director

**Singapore**
February 28, 2018

# Independent Auditors' Report

Year ended December 31, 2017

**Members of the Company**
**Sembcorp Industries Ltd**

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Sembcorp Industries Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets of the Group and the balance sheets of the Company as at December 31, 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 158 to 320.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheets of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") 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 December 31, 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

### 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 *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 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 of the current period. 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.

## Report on the audit of the financial statements *(cont'd)*

***Impairment assessment of property, plant and equipment***

*(Refer to Notes 3 and 40 to the financial statements: S$11,157,683,000)*

*Risk:*

The Group's shipyard assets were subject to impairment test assessments, owing to the continuing difficult market conditions impacting the Group's offshore and marine sector.

The Group's largest yard assets and facilities are (i) the integrated yards, which include the individual yard locations in Singapore, the sub-contracting yards in Indonesia and the United Kingdom (the Singapore cash generating unit ("CGU")) and (ii) the yard in Brazil (Brazil CGU). Such shipyard assets are measured at cost less accumulated depreciation and impairment loss. An impairment loss exists when the net carrying amount of the shipyard assets is in excess of the fair value or recoverable amount. As the fair values of these shipyard assets are not readily determinable, the Group measures the recoverable amount using the discounted cash flow technique.

The determination of the recoverable amounts of these CGUs involves a high degree of judgement and is subject to significant estimation uncertainties, principally, the forecast order book. The forecast order book includes a diversified portfolio of long-term contracts whose initial contract pricing takes into account prevailing market conditions and the outlook of the oil and gas industry, which are inherently subject to estimation uncertainties.

As the Brazil CGU is not yet fully operational, and there is a limited track record of historical contract awards and performance, the Group has factored in the long term fundamentals of the oil and gas sector in Brazil to project the future order book. Accordingly, the future order book considers the projected capital expenditure of state-owned and international oil majors covering exploration and production projects that would lead to new build orders, regulations governing local content requirements, as well as forecast movements in oil prices in the foreseeable future projected by industry analysts. The long-term returns of the Brazil CGU, however, can also be significantly impacted by political risk.

The outcome of the shipyard assets impairment tests for the Singapore CGU and Brazil CGU reveals that the recoverable amounts are in excess of the net carrying amounts attributable to these CGUs.

*Our response:*

We assessed the Group's process for identifying and reviewing the CGUs subject to impairment testing.

We reviewed the key assumptions supporting the value-in-use calculations to arrive at the recoverable amounts of these CGUs. We compared the forecast order book to firm commitments secured from customers, management approved budgets built from the Group's past and actual experiences, prevailing industry trends, and industry analysts' reports. We compared the discount rates to market observable data including market and country risk premiums and any asset-specific risk premium.

We also reviewed available qualitative information from industry analysts, projected capital expenditure by oil majors supporting the projection of orders, and regulations on local content requirements. We assessed the related disclosures on key assumptions applied in determining the recoverable amounts of the CGUs.

*Our findings:*

The Group has a process for identifying and reviewing the CGUs for impairment testing. The impairment test assessments incorporated the relevant considerations. The disclosures describing the inherent degree of estimation uncertainty and the sensitivity of the assumptions applied are appropriate.

## Report on the audit of the financial statements *(cont'd)*

***Recognition of revenue and recoverability of contract work-in-progress***

*(Refer to Notes 13, 25 and 40 to the financial statements: Contract work-in-progress of S$1,841,647,000 and revenue of S$8,345,605,000)*

*Risk:*

One of the Group's significant revenue streams is derived from long-term construction contracts, in relation to ship building and conversion as well as infrastructure construction activities. The accounting for long-term construction contracts and the determination of percentage of completion is complex. Revenue is recognised based upon management's estimation of the value of the project activities completed. There are also estimation uncertainties associated with the costs to complete the projects. During the year, several contracts previously concluded with the original customers under modified terms (the "original contracts") were terminated, and re-sold to another customer (the "new contracts"), with relevant adjustments recorded. Such adjustments took into account the terms and conditions, including the contract prices and payment terms and delivery dates, stipulated in these new contracts.

As at the reporting date, there were also certain contracts subject to deferral in delivery or scope variations (the "contract modifications"). The contract provisions required involve management judgement.

In relation to certain contracts with customers that have filed for bankruptcy protection and are undergoing financial restructuring, revenues from these contracts continue to be suspended, with no additional adjustments recorded for the current year, following those contract provisions recorded in the previous years. As at the date of this report, the outcome arising from the bankruptcy protection filing and consequential restructuring remains a highly judgemental matter. Accordingly, there is a risk of a material adjustment to the carrying amounts of these contracts depending on events and circumstances that may occur in future periods.

The recoverability of amounts receivable from customers, contract work-in-progress on construction contracts, together with the corresponding contract revenues and costs recognised are therefore based on management's evaluation and best estimate of the ultimate realisation of these balances.

*Our response:*

- We reviewed the Group's estimation process (including the approval of project budget, monitoring of project costs and activities, and management's review and customer's approval of project's stage of completion and milestones achieved) used in determining the amounts of revenue and costs recognised in the Group's financial statements.
- We reviewed the original contracts and the reversal adjustments on revenue and cost of sales recorded on contract terminations.
- We reviewed the terms and conditions of new contracts, and the contract modifications to identify the relevant adjustments on revenue recognition and contract provisions.
- We reviewed the contractual terms and work status of the customer contracts, along with discussions with management and checked that contract revenue was recognised according to the percentage of completion of each project measured by the stage of completion of physical activities or by reference to the ratio of costs incurred to date to the estimated costs for each contract.
- We reviewed the re-forecast of each contract subject to any modifications and analysed current on-going negotiations and settlements that may impair the profitability of such contracts as well as the collectability of significant contracts by reference to the recent credit review assessment of each customer prepared by management.
- We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition and contract work-in-progress.

## Report on the audit of the financial statements *(cont'd)*

***Recognition of revenue and recoverability of contract work-in-progress*** *(cont'd)*

*Our findings:*

The Group has a process to determine the amounts of revenue and costs recognised in the financial statements.

We found that the measurement of percentage of completion used by the Group for revenue recognition appropriately reflects the status of and progress of the projects; and revenue was recognised only when collectability of the amounts was assessed by management to be probable.

The reversal adjustments on revenue and cost of sales on those terminated contracts were according to the terms of the original contracts.

The relevant adjustments on revenue and contract provisions for the new contracts and contracts with modifications were appropriately considered.

The judgements applied on those contracts belonging to customers undergoing financial restructuring were within an acceptable range of considerations, taking into account the facts and circumstances currently made available to the Group.

We found the disclosures in describing the areas of judgement and inherent degree of estimation uncertainties involved, to be appropriate.

***Valuation of goodwill***

*(Refer to Note 11 and 40 to the financial statements: S$197,194,000)*

*Risk:*

At 31 December 2017, the Group's balance sheet includes goodwill amounting to S$197 million, predominantly allocated to six cash generating units (CGUs). The determination of the recoverable value of goodwill involves significant estimation uncertainties in relation to the cash flows from the respective CGUs and the underlying assumptions to be applied. The cash flows are sensitive to key assumptions relating to discount rates, long-term growth rates as well as profitability of the CGUs based on existing market conditions.

*Our response:*

We reviewed the key assumptions relating to the estimated future cash flows of each CGU by considering historical performance against budgets, discussions with management and our understanding of future conditions. We also compared the long-term growth rates and discount rates for each CGU to available industry data. We also considered the disclosures in describing the inherent degree of estimation uncertainty and key assumptions applied.

*Our findings:*

We found the key assumptions to be supported by market data and management's expectations of future conditions and the disclosures to be appropriate in describing the inherent degree of estimation uncertainty and key assumptions applied.

## Report on the audit of the financial statements *(cont'd)*

***Litigation, claims and other contingencies***

*(Refer to Note 37 to the financial statements)*

*Risk:*

The Group is subject to operational, business and political risks in some of the countries in which it operates. These risks could give rise to litigation, claims and other contingencies (collectively, the "contingencies") which could have a significant financial impact if the potential exposures were to materialise. Ad-hoc Committees / Taskforces, if formed for any specific purpose, may conduct independent investigations on allegations that have potential impact on the business and the Group's financial statements, and recommend decisions as considered appropriate in connection with the independent investigations.

The determination by management of whether, and how much, to provide and / or disclose for such contingencies is highly judgemental.

*Our response:*

We assessed the Group's process for identifying and monitoring significant adverse developments arising from contingencies and where appropriate, legal, regulatory and political developments. We have reviewed the terms of reference of Ad-hoc Committees formed.

We evaluated management's assessment of the likely outcome and potential exposures arising from all significant contingencies and allegations subject to on-going investigations; and considered the requirements for any provision and related disclosures. Our work included:

- Assessment of the progress of all significant contingencies, including reviewing the Group's public announcements and the underlying basis for the announcements made;
- Consideration of any evidence of legal disputes which we were made aware;
- Holding discussions with management, the Group's in-house legal counsel and members of the Ad-hoc Committees / Taskforce, and reviewing pertinent correspondence between the parties involved and relevant reports issued by third parties;
- Obtaining independent legal confirmation letters from and discussing with the Group's external lawyers handling these issues to confirm the fact patterns which we have been advised; and
- Involvement of specialists to look into any on-going investigation work commissioned by the Ad-hoc Committees to support management's conclusions.

*Our findings:*

We found that the Group has a process for identifying and monitoring potential exposures arising from legal, regulatory and political developments as well as determination of the appropriate measurement and / or disclosures of such contingencies in the Group's financial statements. From our audit procedures performed, we found the liabilities recognised and disclosures on contingencies to be appropriate.



## Report on the audit of the financial statements *(cont'd)*

*Other Information*

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained the following items prior to the date of this auditors' report:

- Group FY2017 Highlights
- Chairman and CEO's Statement
- Our Group Strategy
- Our Utilities Strategy
- CEO Interview
- Group Financial Review
- Utilities Review
- Marine Review
- Urban Development Review
- Directors' Statement

The following items (the "Reports") are expected to be made available to us after that date:

- Sembcorp at a Glance
- Our Leadership
- Environmental, Social and Governance Review
- Supplementary Information
- EVA Statement
- Shareholders' Information
- Governance Disclosure Guide
- Corporate Information
- Financial Calendar

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 auditors' 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 Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

## Report on the audit of the financial statements *(cont'd)*

**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 and FRSs, 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.

**Auditors' 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 auditors' 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 auditors' 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 auditors' 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.



## Report on the audit of the financial statements *(cont'd)*

**Auditors' responsibilities for the audit of the financial statements** *(cont'd)*

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 auditors' 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 auditors' report is Ling Su Min.

KPMG LLP

**KPMG LLP**
Public Accountants
and Chartered Accountants

**Singapore**
February 28, 2018

# Balance Sheets

As at December 31, 2017

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 3 | **11,157,683** | 11,225,917 | **347,095** | 498,385 |
| Investment properties | 4 | **90,918** | 61,264 | **–** | – |
| Investments in subsidiaries | 5 | **–** | – | **2,648,929** | 2,444,010 |
| Interests in associates and joint ventures | 6 | **1,765,420** | 1,745,749 | **–** | – |
| Other financial assets | 7 | **175,380** | 200,905 | **–** | – |
| Trade and other receivables | 8 | **1,184,276** | 734,123 | **226,386** | 205,843 |
| Tax recoverable | | **7,148** | 9,529 | **–** | – |
| Assets held for sale | 10 | **99,730** | – | **99,730** | – |
| Intangible assets | 11 | **580,787** | 636,997 | **24,566** | 23,103 |
| Deferred tax assets | 12 | **55,972** | 51,520 | **–** | – |
| | | **15,117,314** | 14,666,004 | **3,346,706** | 3,171,341 |
| **Current assets** | | | | | |
| Inventories and work-in-progress | 13 | **3,214,296** | 3,466,280 | **8,616** | 10,615 |
| Trade and other receivables | 8 | **2,031,555** | 1,958,030 | **141,432** | 171,028 |
| Tax recoverable | | **21,305** | 15,703 | **–** | – |
| Assets held for sale | 10 | **–** | 182,215 | **–** | – |
| Other financial assets | 7 | **142,050** | 119,456 | **141** | – |
| Cash and cash equivalents | 14 | **2,686,658** | 1,882,547 | **720,138** | 389,905 |
| | | **8,095,864** | 7,624,231 | **870,327** | 571,548 |
| **Total assets** | | **23,213,178** | 22,290,235 | **4,217,033** | 3,742,889 |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | **3,818,766** | 3,398,015 | **136,886** | 138,057 |
| Excess of progress billings over work-in-progress | 13 | **180,894** | 223,073 | **–** | – |
| Provisions | 17 | **92,217** | 42,419 | **16,695** | 14,874 |
| Other financial liabilities | 18 | **13,105** | 36,976 | **–** | 326 |
| Current tax payable | | **159,046** | 189,471 | **49,746** | 47,938 |
| Interest-bearing borrowings | 20 | **1,572,451** | 2,125,587 | **–** | – |
| | | **5,836,479** | 6,015,541 | **203,327** | 201,195 |
| **Net current assets** | | **2,259,385** | 1,608,690 | **667,000** | 370,353 |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 12 | **428,340** | 402,431 | **52,686** | 60,501 |
| Provisions | 17 | **105,071** | 92,547 | **16,018** | 10,661 |
| Other financial liabilities | 18 | **54,060** | 256,654 | **–** | – |
| Retirement benefit obligations | 19 | **3,810** | 6,565 | **–** | – |
| Interest-bearing borrowings | 20 | **8,275,153** | 7,095,717 | **–** | – |
| Other long-term payables | 15 | **294,511** | 258,066 | **286,199** | 281,910 |
| | | **9,160,945** | 8,111,980 | **354,903** | 353,072 |
| **Total liabilities** | | **14,997,424** | 14,127,521 | **558,230** | 554,267 |
| **Net assets** | | **8,215,754** | 8,162,714 | **3,658,803** | 3,188,622 |
| **Equity attributable to owners of the Company:** | | | | | |
| Share capital | 21 | **565,572** | 565,572 | **565,572** | 565,572 |
| Other reserves | 22 | **(82,676)** | (52,147) | **2,117** | (6,721) |
| Revenue reserve | | **5,483,190** | 5,384,897 | **2,087,875** | 1,826,675 |
| | | **5,966,086** | 5,898,322 | **2,655,564** | 2,385,526 |
| Perpetual securities | 23 | **1,003,239** | 803,096 | **1,003,239** | 803,096 |
| | | **6,969,325** | 6,701,418 | **3,658,803** | 3,188,622 |
| **Non-controlling interests** | 29 | **1,246,429** | 1,461,296 | **–** | – |
| **Total equity** | | **8,215,754** | 8,162,714 | **3,658,803** | 3,188,622 |

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Income Statement

Year ended December 31, 2017

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| **Turnover** | 25 | **8,345,605** | 7,907,048 |
| Cost of sales | | **(7,399,538)** | (6,801,916) |
| **Gross profit** | | **946,067** | 1,105,132 |
| General and administrative expenses | | **(420,089)** | (359,841) |
| Other operating income | | **75,550** | 66,300 |
| Non-operating income | | **73,640** | 44,507 |
| Non-operating expenses | | **(43,937)** | (72,190) |
| Finance income | 26 | **42,596** | 30,418 |
| Finance costs | 26 | **(525,782)** | (402,009) |
| Share of results of associates and joint ventures, net of tax | | **164,058** | 125,121 |
| **Profit before tax** | | **312,103** | 537,438 |
| Tax expense | 27 | **(67,391)** | (100,284) |
| **Profit for the year** | 28 | **244,712** | 437,154 |
| | | | |
| **Profit attributable to:** | | | |
| Owners of the Company | | **230,772** | 394,889 |
| Non-controlling interests | | **13,940** | 42,265 |
| Profit for the year | | **244,712** | 437,154 |
| | | | |
| Earnings per share (cents): | 30 | | |
| Basic | | **10.51** | 19.92 |
| Diluted | | **10.42** | 19.75 |

*The accompanying notes form an integral part of these financial statements.*



# Consolidated Statement of Comprehensive Income

Year ended December 31, 2017

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| **Profit for the year** | | **244,712** | 437,154 |
| | | | |
| **Other comprehensive income** | | | |
| ***Items that may be reclassified subsequently to profit or loss:*** | | | |
| Foreign currency translation differences for foreign operations | | **(151,000)** | (41,597) |
| Exchange differences on monetary items forming part of net investment in foreign operation | | **(6,336)** | 9,893 |
| Net change in fair value of cash flow hedges | | **44,712** | 85,901 |
| Net change in fair value of cash flow hedges reclassified to profit or loss | | **(17,598)** | 42,091 |
| Net change in fair value of available-for-sale financial assets | | **37,484** | (19,328) |
| Net change in fair value of available-for-sale financial assets reclassified to profit or loss | | **(32,658)** | 8,337 |
| Realisation of reserve upon liquidation / disposal of subsidiaries | | **(15,646)** | (6,259) |
| Realisation of reserve upon disposal of assets held for sale | | **(20,484)** | – |
| Realisation of reserve upon disposal of a joint venture | | **–** | (3,530) |
| Realisation of reserve when a joint venture became a subsidiary | | **–** | 2,390 |
| Share of other comprehensive income of associates and joint ventures | | **55,444** | 18,376 |
| | | **(106,082)** | 96,274 |
| ***Items that may not be reclassified subsequently to profit or loss:*** | | | |
| Defined benefit plan actuarial gains and losses | | **2,742** | (199) |
| | | | |
| Other comprehensive income for the year, net of tax | 24 | **(103,340)** | 96,075 |
| **Total comprehensive income for the year** | | **141,372** | 533,229 |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **160,025** | 482,959 |
| Non-controlling interests | | **(18,653)** | 50,270 |
| Total comprehensive income for the year | | **141,372** | 533,229 |

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statement of Changes in Equity

Year ended December 31, 2017

| Group | Share capital S$'000 | Reserve for own shares S$'000 | Currency translation reserve S$'000 | Capital reserve S$'000 | Merger reserve S$'000 | Share-based payments reserve S$'000 | Fair value reserve S$'000 | Hedging reserve S$'000 | Revenue reserve S$'000 | Total S$'000 | Perpetual securities S$'000 | Total S$'000 | Non-controlling interests S$'000 | Total equity S$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of the Company | | | | | | | | | | | | | |
| **At January 1, 2017** | 565,572 | (5,490) | (113,534) | 109,103 | 29,201 | (13,712) | 20,773 | (78,488) | 5,384,897 | 5,898,322 | 803,096 | 6,701,418 | 1,461,296 | 8,162,714 |
| **Total comprehensive income for the year** | | | | | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | 230,772 | 230,772 | – | 230,772 | 13,940 | 244,712 |
| **Other comprehensive income** | | | | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | (125,808) | – | – | – | – | – | – | (125,808) | – | (125,808) | (25,192) | (151,000) |
| Exchange differences on monetary items forming part of net investment in foreign operation | – | – | (6,336) | – | – | – | – | – | – | (6,336) | – | (6,336) | – | (6,336) |
| Net change in fair value of cash flow hedges | – | – | – | – | – | – | – | 32,291 | – | 32,291 | – | 32,291 | 12,421 | 44,712 |
| Net change in fair value of cash flow hedges reclassified to profit or loss | – | – | – | – | – | – | – | (18,507) | – | (18,507) | – | (18,507) | 909 | (17,598) |
| Net change in fair value of available-for-sale financial assets | – | – | – | – | – | – | 25,485 | – | – | 25,485 | – | 25,485 | 11,999 | 37,484 |
| Net change in fair value of available-for-sale financial assets reclassified to profit or loss | – | – | – | – | – | – | (20,071) | – | – | (20,071) | – | (20,071) | (12,587) | (32,658) |
| Realisation of reserve upon disposal / liquidation of subsidiaries | – | – | (3,898) | – | – | – | – | – | 1 | (3,897) | – | (3,897) | (11,749) | (15,646) |
| Realisation of reserve upon disposal of assets held for sale | – | – | (12,502) | – | – | – | (10) | – | 10 | (12,502) | – | (12,502) | (7,982) | (20,484) |
| Defined benefit plan actuarial gains and losses | – | – | – | – | – | – | – | – | 2,790 | 2,790 | – | 2,790 | (48) | 2,742 |
| Share of other comprehensive income of associates and joint ventures | – | – | – | – | – | – | – | 38,049 | 17,759 | 55,808 | – | 55,808 | (364) | 55,444 |
| Total other comprehensive income for the year | – | – | (148,544) | – | – | – | 5,404 | 51,833 | 20,560 | (70,747) | – | (70,747) | (32,593) | (103,340) |
| Total comprehensive income for the year | – | – | (148,544) | – | – | – | 5,404 | 51,833 | 251,332 | 160,025 | – | 160,025 | (18,653) | 141,372 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | | | | | | | | |
| Contribution by non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | 271 | 271 |
| Issue of perpetual bonds | – | – | – | – | – | – | – | – | – | – | 199,467 | 199,467 | – | 199,467 |
| Share-based payments | – | – | – | – | – | 15,985 | – | – | – | 15,985 | – | 15,985 | 1,800 | 17,785 |
| Purchase of treasury shares | – | (4,057) | – | – | – | – | – | – | – | (4,057) | – | (4,057) | – | (4,057) |
| Treasury shares transferred to employees | – | 9,422 | – | – | – | (9,422) | – | – | – | – | – | – | – | – |
| Treasury shares of a subsidiary | – | – | – | (1,760) | – | (1,446) | – | – | – | (3,206) | – | (3,206) | (2,049) | (5,255) |
| Acquisition of non-controlling interests | – | – | – | (148,871) | – | – | – | – | – | (148,871) | – | (148,871) | (159,126) | (307,997) |
| Extinguishment of put liability to acquire non-controlling interests (Note 18) | – | – | – | 215,885 | – | – | – | – | – | 215,885 | – | 215,885 | – | 215,885 |
| Transfer of reserve | – | – | – | (14,958) | – | – | – | – | 14,958 | – | – | – | – | – |
| Perpetual securities distribution paid | – | – | – | – | – | – | – | – | – | – | (42,210) | (42,210) | – | (42,210) |
| Accrued perpetual securities distribution (Note 23) | – | – | – | – | – | – | – | – | (42,886) | (42,886) | 42,886 | – | – | – |
| Dividend paid to owners (Note 31) | – | – | – | – | – | – | – | – | (125,117) | (125,117) | – | (125,117) | – | (125,117) |
| Dividend paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | (37,110) | (37,110) |
| Unclaimed dividends | – | – | – | – | – | – | – | – | 6 | 6 | – | 6 | – | 6 |
| Total transactions with owners | – | 5,365 | – | 50,296 | – | 5,117 | – | – | (153,039) | (92,261) | 200,143 | 107,882 | (196,214) | (88,332) |
| **At December 31, 2017** | 565,572 | (125) | (262,078) | 159,399 | 29,201 | (8,595) | 26,177 | (26,655) | 5,483,190 | 5,966,086 | 1,003,239 | 6,969,325 | 1,246,429 | 8,215,754 |

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statement of Changes in Equity

Year ended December 31, 2017

| Group | Share capital S$'000 | Reserve for own shares S$'000 | Currency translation reserve S$'000 | Capital reserve S$'000 | Merger reserve S$'000 | Share-based payments reserve S$'000 | Fair value reserve S$'000 | Hedging reserve S$'000 | Revenue reserve S$'000 | Total S$'000 | Perpetual securities S$'000 | Total S$'000 | Non-controlling interests S$'000 | Total equity S$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of the Company | | | | | | | | | | | | | |
| **At January 1, 2016** | 565,572 | (8,645) | (84,321) | 114,766 | 29,201 | (18,050) | 27,398 | (203,287) | 5,207,742 | 5,630,376 | 802,688 | 6,433,064 | 1,610,430 | 8,043,494 |
| **Total comprehensive income for the year** | | | | | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | 394,889 | 394,889 | – | 394,889 | 42,265 | 437,154 |
| **Other comprehensive income** | | | | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | (38,732) | – | – | – | – | – | – | (38,732) | – | (38,732) | (2,865) | (41,597) |
| Exchange differences on monetary items forming part of net investment in foreign operation | – | – | 9,893 | – | – | – | – | – | – | 9,893 | – | 9,893 | – | 9,893 |
| Net change in fair value of cash flow hedges | – | – | – | – | – | – | – | 66,513 | – | 66,513 | – | 66,513 | 19,388 | 85,901 |
| Net change in fair value of cash flow hedges reclassified to profit or loss | – | – | – | – | – | – | – | 39,911 | – | 39,911 | – | 39,911 | 2,180 | 42,091 |
| Net change in fair value of available-for-sale financial assets | – | – | – | – | – | – | (11,660) | – | – | (11,660) | – | (11,660) | (7,668) | (19,328) |
| Net change in fair value of available-for-sale financial assets reclassified to profit or loss | – | – | – | – | – | – | 5,035 | – | – | 5,035 | – | 5,035 | 3,302 | 8,337 |
| Realisation of reserve upon disposal / liquidation of subsidiaries | – | – | – | 12 | – | (25) | – | – | – | (13) | – | (13) | (6,246) | (6,259) |
| Realisation of reserve when a joint venture became a subsidiary (Note 34) | – | – | 2,390 | – | – | – | – | – | – | 2,390 | – | 2,390 | – | 2,390 |
| Realisation of reserve upon disposal of a joint venture | – | – | (3,229) | (301) | – | – | – | – | – | (3,530) | – | (3,530) | – | (3,530) |
| Defined benefit plan actuarial gains and losses | – | – | – | – | – | – | – | – | (113) | (113) | – | (113) | (86) | (199) |
| Share of other comprehensive income of associates and joint ventures | – | – | – | 1 | – | – | – | 18,375 | – | 18,376 | – | 18,376 | – | 18,376 |
| Total other comprehensive income for the year | – | – | (29,678) | (288) | – | (25) | (6,625) | 124,799 | (113) | 88,070 | – | 88,070 | 8,005 | 96,075 |
| Total comprehensive income for the year | – | – | (29,678) | (288) | – | (25) | (6,625) | 124,799 | 394,776 | 482,959 | – | 482,959 | 50,270 | 533,229 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | | | | | | | | |
| Redemption of preference shares for non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | (7,380) | (7,380) |
| Contribution by non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | 4,397 | 4,397 |
| Share-based payments | – | – | – | – | – | 17,049 | – | – | – | 17,049 | – | 17,049 | 1,758 | 18,807 |
| Purchase of treasury shares | – | (7,065) | – | – | – | – | – | – | – | (7,065) | – | (7,065) | – | (7,065) |
| Treasury shares transferred to employees | – | 10,220 | – | – | – | (9,794) | – | – | – | 426 | – | 426 | – | 426 |
| Treasury shares of a subsidiary | – | – | – | 1,576 | – | (2,892) | – | – | – | (1,316) | – | (1,316) | (841) | (2,157) |
| Non-controlling interests of subsidiary acquired (Note 34(b)) | – | – | – | – | – | – | – | – | – | – | – | – | 147,637 | 147,637 |
| Acquisition of non-controlling interests | – | – | 465 | 7,169 | – | – | – | – | – | 7,634 | – | 7,634 | (298,866) | (291,232) |
| Put liability to acquire non-controlling interests | – | – | – | (22,772) | – | – | – | – | – | (22,772) | – | (22,772) | – | (22,772) |
| Call option issued to non-controlling interests of subsidiaries | – | – | – | 8,652 | – | – | – | – | – | 8,652 | – | 8,652 | – | 8,652 |
| Perpetual securities distribution paid | – | – | – | – | – | – | – | – | – | – | (38,605) | (38,605) | – | (38,605) |
| Accrued perpetual securities distribution (Note 23) | – | – | – | – | – | – | – | – | (39,013) | (39,013) | 39,013 | – | – | – |
| Dividend paid to owners (Note 31) | – | – | – | – | – | – | – | – | (178,724) | (178,724) | – | (178,724) | – | (178,724) |
| Dividend paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | (46,109) | (46,109) |
| Unclaimed dividends | – | – | – | – | – | – | – | – | 116 | 116 | – | 116 | – | 116 |
| Total transactions with owners | – | 3,155 | 465 | (5,375) | – | 4,363 | – | – | (217,621) | (215,013) | 408 | (214,605) | (199,404) | (414,009) |
| **At December 31, 2016** | 565,572 | (5,490) | (113,534) | 109,103 | 29,201 | (13,712) | 20,773 | (78,488) | 5,384,897 | 5,898,322 | 803,096 | 6,701,418 | 1,461,296 | 8,162,714 |

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statement of Cash Flows

Year ended December 31, 2017

| | Group 2017 S$'000 | Group 2016 S$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | **244,712** | 437,154 |
| Adjustments for: | | |
| Dividend | **(417)** | (275) |
| Finance income | **(42,596)** | (30,418) |
| Finance costs | **525,782** | 402,009 |
| Depreciation and amortisation | **571,328** | 453,713 |
| Share of results of associates and joint ventures, net of tax | **(164,058)** | (125,121) |
| Gain on disposal of property, plant and equipment and other financial assets | **(19,917)** | (2,869) |
| Loss / (gain) on disposal of intangible assets | **22** | (1) |
| Gain on disposal of investment in joint venture and associate | **–** | (34,758) |
| Gain on disposal of assets / investments held for sale | **(46,816)** | (3,820) |
| Gain on disposal / liquidation of investments in subsidiaries | **(4,613)** | – |
| Fair value gain on re-measurement of pre-existing equity investments in joint venture and available-for-sale financial asset, which became subsidiaries | **–** | (7,734) |
| Changes in fair value of financial instruments | **5,407** | 31,070 |
| Equity settled share-based compensation expenses | **17,785** | 18,807 |
| Allowance made for impairment loss in value of assets and assets written off (net) | **31,250** | 82,921 |
| Negative goodwill | **(169)** | (2,858) |
| (Write-back) / allowance of doubtful debts and bad debts (net) | **(15,579)** | 4,671 |
| Provision for fines | **25,390** | – |
| Assumption of liabilities on behalf of a joint venture | **11,000** | – |
| Impairment of goodwill | **26,378** | – |
| Impairment of investment in associates | **4,163** | 2,120 |
| Reversal of contracts costs (net) on termination, net of write-down of inventories and foreseeable loss on contract work-in-progress | **(9,677)** | 3,080 |
| Tax expense (Note 27) | **67,391** | 100,284 |
| Operating profit before working capital changes | **1,226,766** | 1,327,975 |
| | | |
| Changes in working capital: | | |
| Inventories and work-in-progress | **235,009** | 659,104 |
| Receivables (Note (c)) | **(821,443)** | (618,624) |
| Payables | **79,937** | (410,568) |
| | **720,269** | 957,887 |
| Tax paid | **(69,933)** | (85,813) |
| **Net cash from operating activities** | **650,336** | 872,074 |

| | Group 2017 S$'000 | Group 2016 S$'000 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Dividend received | **265,615** | 94,239 |
| Interest received | **41,235** | 27,912 |
| Proceeds from disposal of interests in subsidiaries, net of cash disposed of | **50** | – |
| Proceeds from sale of assets held for sale, net of cash disposed of | **205,690** | 22,894 |
| Proceeds from disposal of interests in joint ventures and associate | **–** | 584 |
| Proceeds from sale of property, plant and equipment | **17,885** | 11,567 |
| Proceeds from sale of intangible assets | **337** | 54 |
| Proceeds from disposal of other financial assets | **194,683** | 223,117 |
| Proceeds from call option premium | **–** | 4,330 |
| Proceeds from prior year's disposal of joint ventures | **53,081** | – |
| Loan repayment from related parties | **75,744** | 15,784 |
| Loan to related parties | **(213)** | (4,464) |
| Non-trade balances with related corporations, net of repayment | **(15,223)** | (1,622) |
| Acquisition of subsidiaries, net of cash acquired (Note 34) | **(3,287)** | (71,520) |
| Acquisition of additional investments in joint ventures and associates | **(15,280)** | (60,886) |
| Acquisition of other financial assets | **(165,951)** | (226,644) |
| Purchase of property, plant and equipment and investment properties (Note (a)) | **(736,048)** | (821,880) |
| Purchase of intangible assets (Note (b)) | **(10,564)** | (14,095) |
| **Net cash used in investing activities** | **(92,246)** | (800,630) |

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statement of Cash Flows

Year ended December 31, 2017

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| **Cash flows from financing activities** | | |
| Proceeds from share issued to non-controlling interests of subsidiaries | **271** | 4,397 |
| Proceeds from share options exercised with issue of treasury shares | **–** | 426 |
| Proceeds from share options exercised with issue of treasury shares of a subsidiary | **687** | – |
| Purchase of treasury shares | **(4,057)** | (7,065) |
| Purchase of treasury shares by a subsidiary | **(5,942)** | (2,990) |
| Proceeds from issue of perpetual securities, net of transaction costs | **199,467** | – |
| Proceeds from borrowings | **3,206,073** | 3,689,220 |
| Repayment of borrowings | **(2,426,971)** | (2,581,974) |
| Payment on finance leases | **(1,034)** | (449) |
| Acquisition of non-controlling interests | **(9,659)** | (218,460) |
| Dividends paid to owners of the Company | **(125,117)** | (178,724) |
| Dividends paid to non-controlling interests of subsidiaries | **(37,110)** | (46,109) |
| Receipt in restricted cash held as collateral | **6,059** | – |
| Perpetual securities distribution paid | **(42,210)** | (38,605) |
| Unclaimed dividends | **6** | 116 |
| Interest paid | **(484,220)** | (406,013) |
| **Net cash from financing activities** | **276,243** | 213,770 |
| | | |
| **Net increase in cash and cash equivalents** | **834,333** | 285,214 |
| **Cash and cash equivalents at beginning of the year** | **1,854,713** | 1,604,465 |
| Effect of exchange rate changes on balances held in foreign currency | **(7,575)** | (34,966) |
| **Cash and cash equivalents at end of the year (Note 14)** | **2,681,471** | 1,854,713 |

a. During the year, the Group acquired property, plant and equipment with an aggregate cost of S$676,194,000 (2016: S$1,008,230,000) of which S$83,000 (2016: S$856,000) was acquired by means of finance lease, S$594,000 (2016: S$1,016,000) relates to non-cash expenditures which have been capitalised during the year and S$21,423,000 (2016: S$13,568,000) relates to provision for restoration costs as disclosed in Note 17. Included in the Group's trade and other payables is an amount of S$248,488,000 (2016: S$302,461,000) relating to accrued capital expenditure.

b. During the year, the Group acquired intangible assets with an aggregate cost of S$12,892,000 (2016: S$15,519,000) of which S$2,328,000 (2016: S$1,424,000) was acquired by means of finance lease.

c. The increase in receivables included an amount of S$430.8 million (2016: S$239.4 million) of service concession receivables from the Myingyan and Sirajganj Unit 4 power projects which was recognised in accordance with INT FRS 112 accounting guidelines. The receivables will be collected over the period of the concession contracts from the time the power plants commence commercial operations.

*The accompanying notes form an integral part of these financial statements.*



# Notes to the Financial Statements

Year ended December 31, 2017

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on February 28, 2018.

## 1. Domicile and Activities

Sembcorp Industries Ltd (the "Company") is a company incorporated in the Republic of Singapore and has its registered office at 30 Hill Street #05-04, Singapore 179360.

The Company's immediate and ultimate holding company is Temasek Holdings (Private) Limited, a company incorporated in the Republic of Singapore.

The financial statements comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in associates, joint ventures and joint operations.

The principal activities of the Company include:

a. investment holding, as well as the corporate headquarter which gives strategic direction and provides management services to its subsidiaries; and

b. production and supply of utilities services, terminalling and storage of petroleum products and chemicals.

The principal activities of key subsidiaries are as follows:

**i. Utilities**

The Utilities segment's principal activities are in the provision of energy and water to industrial, commercial and municipal customers. Key activities in the energy sector include power generation, process steam production, as well as natural gas importation. In the water sector, the business offers wastewater treatment as well as the production of reclaimed, desalinated and potable water and water for industrial use. In addition, the business also provides on-site logistics, solid waste management and specialised project management, engineering, and procurement services;

**ii. Marine**

The Marine segment focuses principally on providing integrated solutions for the offshore and marine industry. Key capabilities include rigs & floaters; repairs & upgrades; offshore platforms and specialised shipbuilding;

**iii. Urban Development**

The Urban Development segment owns, develops, markets and manages integrated urban developments comprising industrial parks as well as business, commercial and residential space in Asia; and

**iv. Others / Corporate**

The Others / Corporate segment comprises businesses mainly relating to minting, design and construction activities, offshore engineering and others.

## 2. Summary of Significant Accounting Policies

### a. Basis of Preparation

The financial statements are prepared in accordance with the Singapore Financial Reporting Standards (FRS).

The financial statements are presented in Singapore dollar which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand ($'000), unless otherwise stated. The financial statements have been prepared on the historical cost basis except as otherwise described in the accounting policies below.

One of the Group's key subsidiary has changed its functional currency from Brazilian Real to United States Dollar during current financial year, in order to reflect the primary economic environment that the subsidiary currently operates in.

The preparation of the financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is discussed in Note 40.

The Group has applied the following amendments for the first time for the annual period beginning on January 1, 2017:

- *Disclosure Initiative* (Amendments to FRS 7);
- *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to FRS 12); and
- *Clarification of the scope of FRS 112* (Improvements to FRSs 2016).

From January 1, 2017, as a result of the amendments to FRS 7, the Group has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the year ended December 31, 2017. Comparative information has not been presented (see Note 20).

Other than the amendments to FRS 7, the adoption of these amendments did not have any significant impact on the current or prior period and is not likely to affect future periods.

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these financial statements.

### b. Consolidation

#### i. Business Combinations

***Acquisitions on or after January 1, 2010***

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Deferred consideration comprises obligations to pay specific amounts at future dates. Deferred consideration is recognised and measured at fair value at the acquisition date and included in the consideration transferred. The unwinding of any interest element of deferred consideration is recognised in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### b. Consolidation *(cont'd)*

#### i. Business Combinations *(cont'd)*

***Acquisitions on or after January 1, 2010*** *(cont'd)*

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date and included in the consideration transferred. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

***Acquisitions between January 1, 2004 and December 31, 2009***

For acquisitions between January 1, 2004 and December 31, 2009, business combinations are accounted for using the purchase method, upon the adoption of FRS 103. Under the purchase method, the cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to profit or loss in the period of the acquisition.

***Acquisitions prior to January 1, 2004***

Prior to January 1, 2004, business combinations were accounted for either by the purchase method, or if they were between entities under common control, by the historical cost method similar to the pooling-of-interest method.

#### ii. Put Option with Non-controlling Interests

When an entity within the Group writes a put option with the non-controlling shareholders as part of the acquisition of a subsidiary for settlement in cash or in another financial asset, a put liability is recognised for the present value of the exercise price of the option. This creates an obligation or potential obligation for the entity to purchase its subsidiary's equity instruments (constitutes the Group's own equity in the consolidated financial statements) for cash or another financial asset.

When the non-controlling shareholders still have present access to the returns associated with the underlying ownership interests, the Group has chosen an accounting policy that the non-controlling shareholders continue to be recognised. Therefore, the present value of the option is recognised in equity. Subsequent to initial recognition of the financial liability, changes in the carrying amount of the financial liability is recognised within equity.

If the put option expires unexercised, then the charge to equity will be reversed and the financial liability will be derecognised. If the put option is exercised, then the charge to equity will be reversed and the financial liability will be derecognised and the acquisition accounting will be applied.

At the entity's level, the put option shall be accounted as embedded derivatives.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### b. Consolidation *(cont'd)*

#### iii. Non-controlling Interests

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on a transaction-by-transaction basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value, unless another measurement basis is required by FRSs.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their own capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of net assets of the subsidiary.

Prior to January 1, 2010, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

#### iv. Subsidiaries

Subsidiaries are those entities that are controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary even if this results in the non-controlling interests having a deficit balance.

#### v. Acquisitions from Entities under Common Control

Business combinations that involve entities under common control are excluded from the scope of FRS 103. Such combinations are accounted at historical cost in a manner similar to the pooling-of-interest method, in the preparation of the consolidated financial statements. Under this method of accounting, the difference between the value of the share capital issued and the value of shares received is taken to the merger reserve.

#### vi. Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### b. Consolidation *(cont'd)*

#### vii. Associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies of these entities.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group has significant influence over another entity. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Associates are accounted for using the equity method of accounting from the date that significant influence commences until the date that significant influence ceases and are recognised initially at cost. The cost of investments includes transaction costs. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment (including any other unsecured receivables, that in substance, form part of the Group's net investment in the associate) is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or made payments on its behalf to satisfy obligations of the associate that the Group has guaranteed or otherwise committed on behalf of.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to profit or loss in the period of the acquisition. Where the audited financial statements are not yet available for the purpose of statutory filing, the share of results is arrived at from management financial statements made up mainly to the end of the accounting year to December 31.

#### viii. Joint Arrangements

***Joint Ventures***

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group has joint control over the entity.

Joint ventures are accounted for using the equity method of accounting from the date that joint control commences until the date that joint control ceases.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to profit or loss in the period of the acquisition. Where the audited financial statements are not yet available for the purpose of statutory filing, the share of results is arrived at from management financial statements made up mainly to the end of the accounting year to December 31.

***Joint Operations***

A joint operation is an arrangement in which the Group has joint control whereby the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement. The Group accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### b. Consolidation *(cont'd)*

#### ix. Transactions Eliminated on Consolidation

All intra-group balances, transactions, and unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### x. Accounting for Subsidiaries, Associates and Joint Ventures

Investments in subsidiaries, associates and joint ventures are measured in the Company's balance sheet at cost less accumulated impairment losses.

### c. Foreign Currencies

#### i. Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at foreign exchange rates at the dates of the transactions. At each reporting date:

- Foreign currency monetary assets and liabilities are retranslated to the functional currency using foreign exchange rates at that date.
- Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using exchange rate at the date of the transaction.
- Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at exchange rates at the date the fair value was determined.

Foreign currency differences arising from the settlement or from translation of monetary items are recognised in profit or loss.

Foreign currency differences arising on retranslation are recognised directly in profit or loss, except for the following differences which are recognised in other comprehensive income arising on the retranslation of:

- Available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);
- A financial liability designated as a hedge of a net investment in a foreign operation to the extent that the hedge is effective; or
- Qualifying cash flow hedges to the extent the hedge is effective.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### c. Foreign Currencies *(cont'd)*

#### ii. Foreign Operations

The results and financial positions of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at foreign exchange rates ruling at the date of the balance sheet.
- Revenues and expenses are translated at average foreign exchange rates.
- All resulting foreign exchange differences are taken to the foreign currency translation reserve in other comprehensive income.

Goodwill (except those relating to acquisitions of foreign operations prior to January 1, 2004) and fair value adjustments arising from the acquisition of foreign operations are translated to the presentation currency for consolidation at the rates of exchange ruling at the balance sheet date. Goodwill arising from the acquisition of foreign operations prior to January 1, 2004 is translated at foreign exchange rates ruling at the dates of the transactions.

On disposal, accumulated foreign currency translation differences are recognised in the consolidated income statement as part of the gain or loss on disposal.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (currency translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented in the translation reserve in equity.

#### iii. Net Investment in a Foreign Operation

Exchange differences arising from monetary items that in substance form part of the Company's net investment in a foreign operation are recognised in the Company's profit or loss. Such exchange differences are reclassified to the foreign currency translation reserve in the consolidated statement of comprehensive income and are released to the consolidated income statement upon disposal of the investment as part of the gain or loss on disposal.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### d. Property, Plant and Equipment

#### i. Owned Assets

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

Cost may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

#### ii. Subsequent Expenditure

Subsequent expenditure relating to property, plant and equipment is recognised in the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group and its costs can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised as an expense when incurred.

Certain items of property, plant and equipment are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the costs of the next overhaul and are separately depreciated in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to profit or loss.

#### iii. Disposals

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

#### iv. Leasehold Lands

Operating leasehold lands have been capitalised as part of property, plant and equipment and is depreciated over the lease period or over a period in which the future economic benefits embodied in the assets are expected to be consumed.

#### v. Finance Lease Assets

Finance leases are those leasing agreements with terms of which the Group assumes substantially all the risks and rewards of ownership. Property, plant and equipment acquired by way of such leases is capitalised at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly to profit or loss.

Capitalised leased assets are depreciated over the shorter of the economic useful life of the asset or the lease term.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### d. Property, Plant and Equipment *(cont'd)*

#### vi. Provision for Restoration Costs

A provision is recognised for the costs expected to be incurred to dismantle, remove and restore the asset upon expiry of the lease agreement. The estimated costs form part of the cost of the property, plant and equipment and are depreciated over the useful life of the asset.

#### vii. Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognised as an expense in profit or loss on a straight-line basis over their estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset. Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal.

The estimated useful lives for the current and comparative years are as follows:

| | |
|---|---|
| Leasehold land and wet berthage | Lease period of 3 to 60 years |
| Buildings | 3 to 50 years |
| Improvements to premises | 3 to 30 years |
| Quays and dry docks | 6 to 60 years |
| Infrastructure | 8 to 60 years |
| Plant and machinery | 3 to 30 years |
| Marine vessels | 7 to 25 years |
| Tools and workshop equipment | 3 to 10 years |
| Furniture, fittings and office equipment | 1 to 10 years |
| Motor vehicles | 2 to 10 years |

The assets' depreciation methods, useful lives and residual values, if not insignificant, are reviewed annually and adjusted if appropriate.

No depreciation is provided on freehold land and capital work-in-progress.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### e. Investment Properties

Investment properties are properties held for long-term rental yields or for capital appreciation, or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives ranging from 20 to 60 years or the lease period of 15 to 16 years. The assets' depreciation methods, useful lives and residual values are reviewed, if not insignificant, annually, and adjusted if appropriate. No depreciation is provided on the freehold land.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised as additions when it increases the future economic benefits, embodied in the specific asset to which it relates, and its costs can be measured reliably. The carrying amounts of the replaced components are written off to profit or loss. The cost of maintenance, repairs and minor improvements is recognised as an expense when incurred.

On disposal of investment properties, the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss.

### f. Intangible Assets

#### i. Goodwill

Goodwill represents the excess of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree, less the net amount recognised (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a negative goodwill is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses.

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Goodwill on acquisition of associates and joint ventures is included in investments in associates and joint ventures, respectively. An impairment loss on such investments is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investments.

Goodwill is tested for impairment on an annual basis in accordance with Note 2(l).

#### ii. Goodwill / Negative Goodwill Previously Written Off Against Reserves

Goodwill that has previously been taken to reserves is not taken to profit or loss when (i) the business is disposed of or discontinued or (ii) the goodwill is impaired. Similarly, negative goodwill that has previously been taken to reserves is not taken to profit or loss when the business is disposed of or discontinued.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### f. Intangible Assets *(cont'd)*

#### iii. Intellectual Property Rights

Intellectual property rights are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of 10 years.

#### iv. Service Concession Arrangements

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition by reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and accumulated impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period when the Group has a right to charge the public for the usage of the infrastructure to the end of the concession period.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 25 to 30 years.

#### v. Long-term Revenue Contract

Long-term revenue contract is fair valued using cash flow projections over the contractual period of 10 to 30 years. Amortisation is recognised in profit or loss on a straight-line basis over the contractual period.

#### vi. Water Rights

Water rights are perpetual in nature. Water rights are measured at cost less accumulated impairment losses. Water rights are tested for impairment annually in accordance with Note 2(l).

#### vii. Other Intangible Assets

Other intangible assets with a finite life are measured at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill is recognised in profit or loss as an expense as incurred. Other intangible assets are amortised on a straight-line basis from the date the asset is available for use and over its estimated useful lives ranging from 3 to 30 years.

#### viii. Subsequent Expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates and its costs can be measured reliably. All other expenditures are expensed as incurred.

#### ix. Amortisation

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### g. Financial Assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss; held to maturity investments; loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets are acquired or held. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The designation of financial assets at fair value through profit or loss is irrevocable.

#### i. Financial Assets at Fair Value Through Profit or Loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein which takes into account any dividend income are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise unquoted securities that otherwise would have been classified as available-for-sale.

#### ii. Held to Maturity Investments

Where the Group has the positive intent and ability to hold investments to maturity, then such investments are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less impairment losses. During the year, the Group did not hold any investment in this category.

#### iii. Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date for which they are classified as non-current assets. Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment losses. Receivables with a short duration are not discounted. Loans and receivables are included in trade and other receivables in the balance sheet.

Loans and receivables comprise cash and cash equivalents, work-in-progress due from customers on construction contracts, trade and other receivables, including service concession receivables and excluding prepayments and advances to suppliers.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### g. Financial Assets *(cont'd)*

#### iii. Loans and Receivables *(cont'd)*

***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts which are repayable on demand. Bank overdrafts are shown within interest-bearing borrowings in current liabilities on the balance sheet.

***Service concession arrangements***

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are measured at amortised cost.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration (see also Note 2(f)(iv)).

#### iv. Available-for-Sale Financial Assets

Other financial assets held by the Group that are either designated in this category or not classified in any other category, are classified as being available-for-sale. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. They are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences are recognised directly in other comprehensive income. When these investments are derecognised, the cumulative gain or loss previously recognised directly in other comprehensive income, or part thereof, is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Available-for-sale financial assets comprise equity shares, unit trusts and funds (including quoted mutual funds).

#### v. Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### g. Financial Assets *(cont'd)*

#### v. Impairment *(cont'd)*

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the value of the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the excess of acquisition cost less any impairment loss on that financial asset previously recognised in profit or loss, over its current fair value.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

***Reversals of Impairment***

An impairment loss in respect of a held-to-maturity investment security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The decrease in impairment loss is reversed through profit or loss.

An impairment loss once recognised in profit or loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. Any subsequent increase in fair value of such assets is recognised directly in other comprehensive income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### h. Derivatives

Derivatives are used to manage exposures to foreign exchange, interest rate and commodity price risks arising from operational, financing and investment activities. Derivatives are not used for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are re-measured at fair value and any changes in its fair value are recognised immediately in profit or loss. A derivative is classified as an equity instrument if it can be settled only by the Group or Group entities receiving or delivering a fixed number of its own equity instruments for a fixed amount of cash or another financial asset, with no subsequent re-measurement. However, where derivatives qualify for hedge accounting, recognition of any resultant changes in the fair value depends on the nature of the item being hedged as described in Note 2(i).

### i. Hedging Activities

At inception or upon reassessment of the arrangement, the Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, together with the methods that will be used to assess the effectiveness of the hedge relationship as well as its risk management objective and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

#### i. Fair Value Hedges

Where a derivative hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), any gain or loss on the hedging instrument is recognised in profit or loss. The hedged item is also measured at fair value in respect of the risk being hedged, with changes recognised in profit or loss.

#### ii. Cash Flow Hedges

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised directly in other comprehensive income and presented in the hedging reserve in equity. The ineffective portion of changes in the fair values of the derivative is recognised immediately in profit or loss.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is reclassified from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated changes in fair value that were recognised directly in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### i. Hedging Activities *(cont'd)*

#### ii. Cash Flow Hedges *(cont'd)*

When the hedged item is a non-financial asset, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss. In other cases as well, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

#### iii. Hedge of Monetary Assets and Liabilities

Where a derivative is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any changes in fair value on the hedging instrument is recognised in profit or loss.

#### iv. Hedge of a Net Investment in Foreign Operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the gain or loss on disposal.

### j. Inventories and Work-in-Progress

#### i. Finished Goods and Components

Inventories are measured at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity. Costs of inventories also include the transfer from other comprehensive income, if any, of gains or losses on qualifying cash flow hedges relating to purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any allowance for write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any allowance for write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### j. Inventories and Work-in-Progress *(cont'd)*

#### ii. Long-term Contracts

The accounting policy for recognition of contract revenue is set out in Note 2(u)(ii). Long-term contracts-in-progress at the balance sheet date represent the gross unbilled amount expected to be collected from customers for contract work performed to date and are recorded in the balance sheet at cost plus attributable profit less recognised losses, net of progress billings and allowance for foreseeable losses, and are presented in the balance sheet as "Work-in-progress" (as an asset) or "Excess of progress billings over work-in-progress" (as a liability), as applicable. Work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work completed to date. This comprises mainly uncompleted ship and rig repair, building and conversion jobs and infrastructure construction contracts. It is measured at cost plus profit recognised to date less progress billings and recognised losses. The amount due from customers on construction contracts are classified as financial assets.

Long-term contract costs includes the cost of direct materials, direct labour, sub-contractors' costs and an appropriate allocation of fixed and variable production overheads. Allowance is made for anticipated losses, if any, on work-in-progress when the possibility of loss is ascertained. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Progress billings not yet paid by the customer are included in the balance sheet under "Trade and other receivables". Amounts received before progress billings are included in the balance sheet, as "Trade and other payables".

#### iii. Development Properties

Development properties are those properties which are held with the intention of development and sale in the ordinary course of business. They are stated at the lower of cost and net realisable value.

The cost of properties under development comprise specifically identified costs, including acquisition costs, development expenditure, borrowing costs and other related expenditure. Borrowing costs payable on loans funding a development property are also capitalised, on a specific identification basis, as part of the cost of the development property until the completion of development.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

The aggregated costs incurred are presented as development properties while progress billings are presented separately as deferred income within "Trade and other payables".

### k. Government Grants

Asset related grants are credited to a deferred asset grant account at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. These grants are then recognised in profit or loss as "Other Income" on the straight-line basis over the estimated useful lives of the relevant assets.

Non-monetary government grants and assets received are valued at fair value or nominal amounts.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as "Other Income" on a systematic basis in the same periods in which the expenses are recognised.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### l. Impairment – Non-financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then, to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and as and when indicators of impairment occur.

#### i. Calculation of Recoverable Amount

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

#### ii. Reversals of Impairment

An impairment loss in respect of goodwill is not reversed, even if it relates to an impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or balance sheet date. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate or joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate or joint venture may be impaired.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### m. Non-derivative Financial Liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the balance sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, trade and other payables and other long-term liabilities (excludes deferred income, deferred grants, advance payments and long-term employee benefits) and put liability to acquire non-controlling interests.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### n. Deferred Income

When the Group receives advance payments from customers in respect of connection and capacity charges for the supply and delivery of gas and utilities, the Group recognises the deferred income to profit or loss on a straight-line basis over the period stipulated in the respective customer contract commencing from the date of supply and delivery of gas and utilities.

When the Group receives a deferred income and a financial asset as consideration for providing construction services in a service concession arrangement, the Group recognises the deferred income as the difference between the fair value of the construction services provided and the fair value of the financial asset received. The fair value of the construction services provided is estimated as the value of construction services at an arm's length transaction between willing parties. The fair value of the financial asset received is estimated as the present value of the minimum guaranteed sum receivable from the grantor of the service concession which is discounted at the imputed rate of interest i.e. the prevailing rate of interest for a similar instrument of the grantor. On completion of the construction services, the deferred income in a service concession arrangement is amortised over the estimated useful life. Subsequent to initial recognition, the deferred income is measured at cost less accumulated amortisation.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### o. Employee Benefits

#### i. Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss as incurred. If the contribution payable to the scheme for service received before the balance sheet date exceeds the contribution already paid, the deficit payable to the scheme is recognised as a liability after deducting the contribution already paid. If the contribution already paid exceeds the contribution due for services received before the balance sheet date, then excess is recognised as an asset to the extent that the prepayment will lead to, for example, a reduction in future payment or a cash refund.

#### ii. Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the yield at the reporting date on high quality bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefits expense in profit or loss.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### o. Employee Benefits *(cont'd)*

#### iii. Long-term Employee Benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Long-term employee benefits are reported in other long-term payables.

#### iv. Short-term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related employment service is provided.

The amount expected to be paid is accrued when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### v. Staff Retirement Benefits

Retirement benefits payable to certain categories of employees upon their retirement are provided for in the financial statements based on their entitlement under the staff retirement benefit plan or, in respect of unionised employees of a subsidiary who joined on or before December 31, 1988, based on an agreement with the union.

The Group's net obligation in respect of retirement benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected future salary increase and is discounted to its present value and the fair value of any related assets is deducted.

#### vi. Equity and Equity-related Compensation Benefits

***Share Option Plan***

The share option programme allows the Group's employees to acquire shares of the Group companies. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in employee expense and in a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when new shares are issued. The amount in the share-based payments reserve is retained when the option is exercised or expires.

Where treasury shares are issued, the difference between the cost of treasury shares and the proceeds received net of any directly attributable costs are transferred to share-based payments reserve.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### o. Employee Benefits *(cont'd)*

#### vi. Equity and Equity-related Compensation Benefits *(cont'd)*

***Performance Share Plan***

The fair value of equity-related compensation is measured using the Monte Carlo simulation method as at the date of the grant. The method involves projecting future outcomes using statistical distributions of key random variables including the share prices and volatility of returns. This model takes into account the probability of achieving the performance conditions in the future.

The fair value of the compensation cost is measured at grant date and amortised over the service period to which the performance criteria relates and the period during which the employees become unconditionally entitled to the shares. In estimating the fair value of the compensation cost, market-based performance conditions are taken into account. From 2014 onwards, awards granted have both market-based and non-market-based performance conditions. The compensation cost is charged to profit or loss with a corresponding increase in equity on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the service period to which the performance period relates, irrespective of whether this performance condition is satisfied.

The share-based payments reserve relating to the performance shares released is transferred to share capital when new shares are issued. When treasury shares are issued, the cost of treasury shares is transferred to share-based payments reserve.

***Restricted Share Plan***

Similar to the Performance Share Plan, the fair value of equity-related compensation is measured using the Monte Carlo simulation method as at the date of the grant. The method involves projecting future outcomes using statistical distributions of key random variables including the share prices and volatility of returns. This model takes into account the probability of achieving the performance conditions in the future.

The fair value of the compensation cost is measured at grant date and amortised over the service period to which the performance criteria relates and the period during which the employees become unconditionally entitled to the shares. Awards granted have non-market based performance conditions. The compensation cost is charged to profit or loss with a corresponding increase in equity on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the service period to which the performance period relates.

At the balance sheet date, the Company revises its estimates of the number of performance-based restricted shares that the employees are expected to receive based on the achievement of non-market performance conditions and the number of shares ultimately given. It recognises the impact of the revision of the original estimates in employee expense and in a corresponding adjustment to equity over the remaining vesting period.

The share-based payments reserve relating to the restricted shares released is transferred to share capital when new shares are issued. When treasury shares are issued, the cost of treasury shares is transferred to share-based payments reserve.

In the Company's separate financial statements, the fair value of options, performance shares and restricted shares granted to employees of its subsidiaries is recognised as an increase in the cost of the Company's investment in subsidiaries, with a corresponding increase in equity over the vesting period.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### o. Employee Benefits *(cont'd)*

#### vii. Cash-related Compensation Benefits

***Sembcorp Challenge Bonus***

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the share price of the Company. The Group recognises a provision when contractually obliged to pay or where there is a past practice that has created a constructive obligation to pay.

The compensation cost is measured at the fair value of the liability at each balance sheet date and spread over the service period to which the performance criteria relates and the period during which the employees become unconditionally entitled to the bonus. The liability takes into account the probability of achieving the performance conditions in the future.

Until the liability is settled, the Group will re-measure the fair value of the liability at each balance sheet date and at the date of settlement with any changes in fair value recognised in profit or loss for the period.

### p. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

### q. Tax Expense

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to business combinations, or to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, joint ventures and associates to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred tax reflects the consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 2. Summary of Significant Accounting Policies *(cont'd)*

### r. Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new ordinary shares and share options are deducted against the share capital account, net of any tax effects.

Where the Company's ordinary shares are repurchased (treasury shares), the consideration paid, excluding any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders and presented as reserve for own shares within equity, until they are cancelled, sold or reissued.

When treasury shares are cancelled, the cost of treasury shares is deducted against the share capital account, if the shares are purchased out of capital of the Company, or against the accumulated profits of the Company, if the shares are purchased out of profits of the Company.

When treasury shares are subsequently sold or reissued pursuant to the Share-based Incentive Plans, the cost of the treasury shares is reversed from the reserve for own shares account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related tax, is recognised as a change in equity of the Company. No gain or loss is recognised in profit or loss.

Preference shares are classified as equity if it is non-redeemable or redeemable only at the Company's option, and any dividends are discretionary. Discretionary dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

### s. Perpetual Securities

The perpetual securities do not have a maturity date and the Company is able to elect to defer making a distribution, subject to the terms and conditions of the securities issue. Accordingly, the Company is not considered to have a contractual obligation to make principal repayments or distributions in respect of its perpetual securities issue and the perpetual securities are classified and presented as equity. Distributions are treated as dividends which will be directly debited from equity. Incremental costs directly attributable to the issuance of perpetual securities are deducted against the proceeds from the issue.

### t. Dividends

Dividends on ordinary shares are recognised when they are approved for payments. Dividends on ordinary shares and redeemable preference share capital classified as equity are accounted for as movements in revenue reserve.



## 2. Summary of Significant Accounting Policies *(cont'd)*

### u. Revenue Recognition

#### i. Income on Goods Sold and Services Rendered

Revenue from goods sold is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the provision of consultancy services is recognised using the percentage of completion method. The stage of completion is measured by reference to the percentage of cost incurred to-date to the estimated total costs for each project. Revenue on other service work is recognised when the work is completed. Revenue excludes goods and services or other sales taxes and is after deduction of any trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### ii. Contract Revenue

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

Revenue from repair work, engineering, overhaul, service work, infrastructure construction and marine and civil construction contracts is recognised based on percentage of completion method. The percentage of completion is assessed by reference to surveys of work performed, or by reference to the ratio of costs incurred to-date to the estimated total costs for each contract, with due consideration given to the inclusion of only those costs that reflect work performed.

When the outcome of a long-term contract can be estimated reliably, contract revenue and costs are recognised as income and expense respectively using the percentage of completion method. When the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that can probably be recovered and contract costs are recognised as an expense in the period in which they are incurred. An expected loss on a contract is recognised immediately in profit or loss when it is foreseeable.

#### iii. Sale of Electricity, Utilities and Gases

Revenue from the sale of electricity, utilities and gases is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when electricity, utilities and gases are delivered based on contractual terms stipulated in respective agreements with customers.

#### iv. Service Concession Revenue

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see (ii) above). Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

#### v. Charter Hire and Rental Income

Charter hire and rental income receivable under operating lease is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of total rental income, over the term of the lease.

Contingent rentals are recognised as income in the accounting period in which they are earned.

## 2. Summary of Significant Accounting Policies *(cont'd)*

**v. Dividend and Finance Income**

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance income is recognised in profit or loss as it accrues, using the effective interest rate method.

**w. Leases**

The Group determines whether an arrangement is or contains a lease at inception.

At the inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

**i. Operating Lease**

***When entities within the Group are lessees of an operating lease***

Where the Group has the use of assets under operating leases, payments made under the leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments made.

***When entities within the Group are lessors of an operating lease***

Assets subject to operating leases are included in investment properties and are measured at cost less accumulated depreciation and impairment losses. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

**ii. Finance Lease**

***When entities within the Group are lessors of a finance lease***

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

**x. Finance Costs**

Finance costs comprise interest expense on borrowings, unwinding of the discounts on provision, amortisation of capitalised transaction costs, transaction costs written off and termination of interest rate swaps. Interest expense and similar charges are expensed in profit or loss in the period using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of a qualifying asset. The interest component of finance lease payments is recognised in profit or loss using the effective interest method. Termination of interest rate swaps are recognised in profit or loss.

**y. Earnings per Share**

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company (excluding perpetual security holders) by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders (excluding perpetual security holders) and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise awards of share options, restricted shares and performance shares granted to employees.

## 2. Summary of Significant Accounting Policies *(cont'd)*

**z. Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's President & CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

**aa. Assets (or Disposal Groups) Held For Sale**

Non-current assets (or disposal groups) are classified as assets held for sale and measured at the lower of carrying amount and fair value less costs to sell if they are expected to be recovered principally through a sale transaction rather than through continuing use.

Any impairment losses on initial classification and subsequent gains or losses on re-measurement are recognised in profit or loss. Subsequent increases in fair value less costs to sell are recognised in profit or loss (not exceeding the accumulated impairment loss that has been previously recognised).

**ab. Financial Guarantee Contracts**

Financial guarantee contracts are accounted for as insurance contracts and treated as contingent liabilities until such time as they become probable that the Group and Company will be required to make a payment under the guarantee. A provision is recognised based on the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the guarantee contract.

**ac. Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## 3. Property, Plant and Equipment

| Group | Note | Leasehold and freehold land, wet berthage and buildings S$'000 | Improvements to premises S$'000 | Quays and dry docks S$'000 | Infrastructure S$'000 | Plant and machinery S$'000 | Marine vessels S$'000 | Tools and workshop equipment S$'000 | Furniture, fittings and office equipment S$'000 | Motor vehicles S$'000 | Capital work-in-progress S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost / Valuation** | | | | | | | | | | | | |
| Balance at January 1, 2017 | | 1,599,679 | 58,215 | 1,228,788 | 166,874 | 8,359,928 | 293,293 | 60,421 | 195,944 | 88,658 | 2,520,338 | 14,572,138 |
| Translation adjustments | | (11,889) | (182) | 3,011 | (6,242) | (62,775) | (14,364) | (46) | (1,229) | (302) | (2,247) | (96,265) |
| Additions | | 21,253 | 2,058 | – | 19,249 | 25,601 | 29 | 2,609 | 8,468 | 6,142 | 590,785 | 676,194 |
| Reclassification | | 171,534 | 7,408 | 283,777 | 3,697 | 1,384,038 | 8 | 626 | 5,138 | (72) | (1,856,154) | – |
| Transfer to intangible assets | 11 | – | – | – | – | – | – | – | – | – | (808) | (808) |
| Transfer to investment properties | 4 | (3,941) | – | – | – | – | – | – | – | – | – | (3,941) |
| Disposals / Write-offs | | (2,198) | (109) | (2,302) | (29) | (12,262) | – | (31) | (6,259) | (1,600) | (232) | (25,022) |
| Transfer to assets held for sale | 10 | – | – | – | – | (121,234) | – | – | – | – | – | (121,234) |
| Acquisition of a subsidiary | (v) | – | – | – | – | 3,550 | – | – | – | – | – | 3,550 |
| Disposal of subsidiaries | | (3,023) | – | – | – | (2,264) | – | – | (233) | – | – | (5,520) |
| Balance at December 31, 2017 | | 1,771,415 | 67,390 | 1,513,274 | 183,549 | 9,574,582 | 278,966 | 63,579 | 201,829 | 92,826 | 1,251,682 | 14,999,092 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | | | | | |
| Balance at January 1, 2017 | | 463,971 | 45,579 | 254,693 | 27,331 | 2,275,005 | 50,892 | 52,072 | 132,438 | 44,240 | – | 3,346,221 |
| Translation adjustments | | (4,122) | (54) | (71) | (1,231) | (7,801) | (1,996) | (42) | (954) | (282) | – | (16,553) |
| Depreciation for the year | (iv), 28(a) | 55,968 | 5,436 | 38,797 | 12,503 | 373,095 | 11,388 | 4,500 | 20,125 | 8,194 | – | 530,006 |
| Reclassification | | (170) | – | – | (35) | 458 | (205) | – | 146 | (194) | – | – |
| Transfer to investment properties | 4 | (228) | – | – | – | – | – | – | – | – | – | (228) |
| Disposals / Write-offs | | (1,072) | (109) | (476) | (6) | (9,214) | – | (12) | (6,159) | (1,279) | – | (18,327) |
| Transfer to assets held for sale | 10 | – | – | – | – | (21,504) | – | – | – | – | – | (21,504) |
| Impairment losses | (vii), 28(a) | 27 | – | – | 2,400 | 23,351 | – | – | – | – | – | 25,778 |
| Disposal of subsidiaries | | (1,848) | – | – | – | (1,948) | – | – | (188) | – | – | (3,984) |
| Balance at December 31, 2017 | | 512,526 | 50,852 | 292,943 | 40,962 | 2,631,442 | 60,079 | 56,518 | 145,408 | 50,679 | – | 3,841,409 |
| **Carrying Amounts** | | | | | | | | | | | | |
| At January 1, 2017 | | 1,135,708 | 12,636 | 974,095 | 139,543 | 6,084,923 | 242,401 | 8,349 | 63,506 | 44,418 | 2,520,338 | 11,225,917 |
| At December 31, 2017 | | 1,258,889 | 16,538 | 1,220,331 | 142,587 | 6,943,140 | 218,887 | 7,061 | 56,421 | 42,147 | 1,251,682 | 11,157,683 |

## 3. Property, Plant and Equipment *(cont'd)*

| Group | Note | Leasehold and freehold land, wet berthage and buildings S$'000 | Improvements to premises S$'000 | Quays and dry docks S$'000 | Infrastructure S$'000 | Plant and machinery S$'000 | Marine vessels S$'000 | Tools and workshop equipment S$'000 | Furniture, fittings and office equipment S$'000 | Motor vehicles S$'000 | Capital work-in-progress S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost / Valuation** | | | | | | | | | | | | |
| Balance at January 1, 2016 | | 1,717,117 | 55,480 | 886,212 | 93,036 | 7,005,171 | 287,169 | 59,557 | 157,060 | 77,501 | 1,365,999 | 11,704,302 |
| Translation adjustments | | 30,868 | 162 | 22,063 | 9,196 | (25,273) | 4,924 | 24 | 742 | 492 | 103,281 | 146,479 |
| Additions | | 40,173 | 770 | 4,317 | 30,608 | 42,597 | 336 | 1,257 | 9,105 | 7,174 | 871,893 | 1,008,230 |
| Reclassification | | (219,952) | 1,890 | 316,217 | 34,588 | 1,325,517 | 1,035 | 1,710 | 29,632 | 6,607 | (1,497,244) | – |
| Transfer (to) / from intangible assets | 11 | – | – | – | – | (3,007) | – | – | – | – | 3,740 | 733 |
| Disposals | | (285) | (102) | (21) | (554) | (16,196) | (171) | (2,127) | (1,654) | (3,314) | (115) | (24,539) |
| Acquisition of subsidiaries | (v), 34 | 31,758 | 15 | – | – | 31,119 | – | – | 1,059 | 198 | 1,672,784 | 1,736,933 |
| Balance at December 31, 2016 | | 1,599,679 | 58,215 | 1,228,788 | 166,874 | 8,359,928 | 293,293 | 60,421 | 195,944 | 88,658 | 2,520,338 | 14,572,138 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | | | | | |
| Balance at January 1, 2016 | | 423,743 | 40,766 | 221,045 | 15,972 | 2,074,626 | 38,682 | 49,871 | 118,613 | 35,802 | – | 3,019,120 |
| Translation adjustments | | 621 | (52) | 692 | 1,589 | (65,126) | 744 | 12 | 307 | 238 | – | (60,975) |
| Depreciation for the year | (iv), 28(a) | 51,211 | 4,556 | 23,385 | 8,182 | 288,858 | 11,628 | 4,699 | 15,455 | 7,223 | – | 415,197 |
| Reclassification | | (11,486) | 383 | 9,573 | 1,609 | (2,879) | – | (387) | (927) | 4,114 | – | – |
| Disposals | | (118) | (74) | (2) | (21) | (13,767) | (162) | (2,123) | (1,010) | (3,137) | – | (20,414) |
| Reversal of impairment | (viii), 28(a) | – | – | – | – | (6,707) | – | – | – | – | – | (6,707) |
| Balance at December 31, 2016 | | 463,971 | 45,579 | 254,693 | 27,331 | 2,275,005 | 50,892 | 52,072 | 132,438 | 44,240 | – | 3,346,221 |
| **Carrying Amounts** | | | | | | | | | | | | |
| At January 1, 2016 | | 1,293,374 | 14,714 | 665,167 | 77,064 | 4,930,545 | 248,487 | 9,686 | 38,447 | 41,699 | 1,365,999 | 8,685,182 |
| At December 31, 2016 | | 1,135,708 | 12,636 | 974,095 | 139,543 | 6,084,923 | 242,401 | 8,349 | 63,506 | 44,418 | 2,520,338 | 11,225,917 |

## 3. Property, Plant and Equipment *(cont'd)*

| Company | Note | Leasehold and freehold land, wet berthage and buildings S$'000 | Improvements to premises S$'000 | Quays and dry docks S$'000 | Plant and machinery S$'000 | Furniture, fittings and office equipment S$'000 | Motor vehicles S$'000 | Capital work-in-progress S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance at January 1, 2017 | | 19,620 | 8,521 | 8,226 | 819,035 | 18,599 | 1,950 | 2,533 | 878,484 |
| Additions | | – | 64 | – | 10,663 | 798 | – | 4,223 | 15,748 |
| Reclassification | | – | – | – | 1,853 | 192 | – | (2,045) | – |
| Transfer to intangible assets | 11 | – | – | – | – | – | – | (305) | (305) |
| Disposals | | (20) | (10) | – | (2,430) | (3,523) | – | – | (5,983) |
| Transfer to assets held for sale | 10 | – | – | – | (121,234) | – | – | – | (121,234) |
| Balance at December 31, 2017 | | 19,600 | 8,575 | 8,226 | 707,887 | 16,066 | 1,950 | 4,406 | 766,710 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | | |
| Balance at January 1, 2017 | | 8,763 | 7,008 | 3,642 | 343,372 | 15,995 | 1,319 | – | 380,099 |
| Depreciation for the year | | 918 | 905 | 405 | 38,511 | 1,788 | 101 | – | 42,628 |
| Transfer to assets held for sale | 10 | – | – | – | (21,504) | – | – | – | (21,504) |
| Disposals | | (6) | (10) | – | (1,454) | (3,516) | – | – | (4,986) |
| Impairment losses | (i) | 27 | – | – | 23,351 | – | – | – | 23,378 |
| Balance at December 31, 2017 | | 9,702 | 7,903 | 4,047 | 382,276 | 14,267 | 1,420 | – | 419,615 |
| **Carrying Amounts** | | | | | | | | | |
| At January 1, 2017 | | 10,857 | 1,513 | 4,584 | 475,663 | 2,604 | 631 | 2,533 | 498,385 |
| At December 31, 2017 | | 9,898 | 672 | 4,179 | 325,611 | 1,799 | 530 | 4,406 | 347,095 |

## 3. Property, Plant and Equipment *(cont'd)*

| Company | Note | Leasehold and freehold land, wet berthage and buildings S$'000 | Improvements to premises S$'000 | Quays and dry docks S$'000 | Plant and machinery S$'000 | Furniture, fittings and office equipment S$'000 | Motor vehicles S$'000 | Capital work-in-progress S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance at January 1, 2016 | | 19,557 | 8,477 | 8,226 | 802,310 | 17,661 | 1,923 | 4,046 | 862,200 |
| Additions | | 89 | 106 | – | 15,145 | 463 | 351 | 2,460 | 18,614 |
| Reclassification | | – | – | – | 3,069 | 614 | – | (3,683) | – |
| Transfer from / (to) intangible assets | 11 | – | – | – | – | 122 | – | (290) | (168) |
| Disposals | | (26) | (62) | – | (1,489) | (261) | (324) | – | (2,162) |
| Balance at December 31, 2016 | | 19,620 | 8,521 | 8,226 | 819,035 | 18,599 | 1,950 | 2,533 | 878,484 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | | | |
| Balance at January 1, 2016 | | 7,726 | 6,035 | 3,238 | 299,940 | 14,129 | 1,441 | – | 332,509 |
| Depreciation for the year | | 1,053 | 1,035 | 404 | 44,538 | 2,111 | 202 | – | 49,343 |
| Disposals | | (16) | (62) | – | (1,106) | (245) | (324) | – | (1,753) |
| Balance at December 31, 2016 | | 8,763 | 7,008 | 3,642 | 343,372 | 15,995 | 1,319 | – | 380,099 |
| **Carrying Amounts** | | | | | | | | | |
| At January 1, 2016 | | 11,831 | 2,442 | 4,988 | 502,370 | 3,532 | 482 | 4,046 | 529,691 |
| At December 31, 2016 | | 10,857 | 1,513 | 4,584 | 475,663 | 2,604 | 631 | 2,533 | 498,385 |

## 3. Property, Plant and Equipment *(cont'd)*

**Group**

i. Property, plant and equipment with the following net book values have been pledged to secure loan facilities granted to subsidiaries:

| | Note | 2017 S$'000 | 2016 S$'000 |
|---|---|---|---|
| Freehold land and buildings | | **109,549** | 88,457 |
| Leasehold land and buildings | | **40,043** | 41,416 |
| Plant and machinery | | **4,674,054** | 3,908,631 |
| Capital work-in-progress | | **104,551** | 879,950 |
| Other assets | | **54,147** | 54,030 |
| | 20(b) | **4,982,344** | 4,972,484 |

ii. Assets with net book value of S$672,000 (2016: S$828,000) were acquired under finance lease.

iii. During the year, interest and direct staff costs amounting to S$66,238,000 (2016: S$248,327,000) and S$12,967,000 (2016: S$26,459,000), respectively were capitalised as capital work-in-progress. Included in these amount are capitalised interest costs calculated using a capitalisation rate from 1.20% to 6.50% (2016: 1.20% to 13.80%).

iv. During the year, depreciation amounting to S$109,000 and nil amortisation (2016: S$285,000 and S$102,000 amortisation) of intangible assets were capitalised as capital work-in-progress.

v. Property, plant and equipment arising from the acquisition of subsidiary was at fair value at the acquisition date.

vi. The existing 5-year time charter contract of the Group's marine accommodation vessel expires within the next 12 months. As the Group expects to recover the value of the accommodation vessel through continuing use on a charter basis, the Group used the discounted cash flow projections to determine the recoverable amount. The cash flows projection took into account: (i) the existing charter rates over the remaining contractual period through 2018; and (ii) the expected renewal rates based on on-going discussions with existing charterer and prevailing market conditions. The renewal rates have been adjusted assuming a certain level of discount from the current contractual rates but factored another 2% inflationary adjustment till the end of the economic useful life of the vessel. The assumed operating cost is based on approved budget and adjusted for inflation at 2% per annum throughout the cash flow periods. The utilisation rate is assumed to be at 95% throughout the cash flow periods; and the terminal value is based on expected scrap value at the end of the economic useful life of the vessel. These cash flows are then discounted using the weighted average cost of capital determined to be at 9.55% (2016: 9.55%). Based on the Group's assessment of the recoverable amount of the marine accommodation vessel, no impairment loss (2016: nil) was recognised in the current year's profit or loss.



## 3. Property, Plant and Equipment *(cont'd)*

**Group** *(cont'd)*

vii. In 2017, due to the Group's optimisation of its steam production plant in the Utilities business segment in Singapore, management has decided to retire certain aged steam package boilers, and therefore the value-in-use of the equipment is estimated to be nil as at December 31, 2017. Accordingly, an impairment loss in relation to these boilers amounting to S$23,351,000 was recognised in the current year's cost of sales.

In 2017, due to weakened margin from a plant in the Utilities business segment in America, the Group tested the related asset for impairment and recognised an impairment loss of S$2,400,000 with respect to plant and equipment. The recoverable amount of the plant of S$26,408,000 was estimated based on its value-in-use calculation using a pre-tax discount rate of 8.8% and 5 years cash flow projections with 4.5% growth rate. The impairment loss was recognised in the current year's cost of sales.

viii. In 2016, a reversal of impairment was made to certain plant and machinery of a subsidiary in the UK due to the extension of certain customers' significant contracts. The estimated recoverable amount of S$38,000,000 was determined based on value-in-use (VIU) calculations. A pre-tax discount rate of 5.4% was used. A reversal of impairment of S$6,707,000 has been recognised in the cost of sales.

ix. During the year, property, plant and equipment included additional provision for restoration costs amounting to S$21,423,000 (2016: S$13,568,000) (Note 17).

x. A subsidiary in India has entered into an agreement to convert an existing leasehold land upon which its property, plant and equipment reside, to freehold land. The subsidiary has fully paid for the conversion of the leasehold land based on the freehold rate. As at December 31, 2017, the land has not been transferred to the subsidiary. Pursuant to the current lease agreement, it is provided that in the event that the land is not transferred, the lessor is obliged to renew the lease for a further period on mutually agreed terms and conditions. No impairment, revision of useful life or provision for restoration cost has been recorded as at December 31, 2017, as the alienation of this leasehold land is in progress (approved by the Chief Minister and awaiting final approval of the Group of Ministers).

xi. In August 2014, Sembcorp Lianyungang (SLYG) purchased assets from Lianyungang Shenghai (a state owned enterprise) to develop the wastewater treatment project in Lianyungang, Jiangsu. As at December 31, 2016 and December 31, 2017, the requisite land title has not been transferred to SLYG. No impairment, revision of useful life or provision for restoration cost has been recorded.

**Company**

i. In 2017, due to the Group's optimisation of its steam production plant in Singapore, management has decided to retire certain aged steam package boilers, and therefore the value-in-use of the equipment is estimated to be nil as at December 31, 2017. Accordingly, an impairment loss in relation to these boilers amounting to S$23,351,000 was recognised in the current year's cost of sales.

ii. During the year, property, plant and equipment included additional provision for restoration costs amounting to S$2,007,000 (2016: S$5,396,000) (Note 17).

## 4. Investment Properties

| | Note | Group Investment properties S$'000 | Group Investment properties work-in-progress S$'000 | Group Total S$'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at January 1, 2017 | | 37,028 | 40,684 | 77,712 |
| Translation adjustments | | (406) | (561) | (967) |
| Additions | | 1,703 | 26,278 | 27,981 |
| Transfer from property, plant and equipment | 3 | 3,941 | – | 3,941 |
| Reclassification | | 2,980 | (2,980) | – |
| Balance at December 31, 2017 | | 45,246 | 63,421 | 108,667 |
| **Accumulated Depreciation and Impairment Losses** | | | | |
| Balance at January 1, 2017 | | 16,448 | – | 16,448 |
| Translation adjustments | | (28) | – | (28) |
| Depreciation for the year | 28(a) | 1,101 | – | 1,101 |
| Transfer from property, plant and equipment | 3 | 228 | – | 228 |
| Balance at December 31, 2017 | | 17,749 | – | 17,749 |
| **Carrying Amounts** | | | | |
| At January 1, 2017 | | 20,580 | 40,684 | 61,264 |
| At December 31, 2017 | | 27,497 | 63,421 | 90,918 |
| **Cost** | | | | |
| Balance at January 1, 2016 | | 36,393 | – | 36,393 |
| Translation adjustments | | (1,187) | (139) | (1,326) |
| Additions | | 1,822 | 40,823 | 42,645 |
| Balance at December 31, 2016 | | 37,028 | 40,684 | 77,712 |
| **Accumulated Depreciation and Impairment Losses** | | | | |
| Balance at January 1, 2016 | | 15,312 | – | 15,312 |
| Translation adjustments | | 9 | – | 9 |
| Depreciation for the year | 28(a) | 1,127 | – | 1,127 |
| Balance at December 31, 2016 | | 16,448 | – | 16,448 |
| **Carrying Amounts** | | | | |
| At January 1, 2016 | | 21,081 | – | 21,081 |
| At December 31, 2016 | | 20,580 | 40,684 | 61,264 |



## 4. Investment Properties *(cont'd)*

The following amounts are recognised in profit or loss:

| | Group 2017 S$'000 | Group 2016 S$'000 |
|---|---|---|
| Rental income | **7,084** | 6,081 |
| Operating expenses arising from rental of investment properties | **5,048** | 4,647 |

The fair value of the investment properties as at the balance sheet date is S$152,696,000 (2016: S$90,793,000). The fair values are mostly determined by independent professional valuers using a combination of investment income method and direct or market comparison techniques, including adjustments to reflect the specific use of the investment properties. Such valuation is derived from observable market data from an active and transparent market. In the absence of current prices in an active market, the fair values are determined by considering the aggregate of the estimated cash flow expected to be received from renting out the properties or Directors' valuation. A yield that reflects the specific risks inherent in the cash flows is then applied to the net annual cash flows to obtain the fair values.

Investment properties of S$39,332,000 (2016: S$39,871,000) have been pledged to secure loan facilities.

## 5. Investment in Subsidiaries

| | Company 2017 S$'000 | Company 2016 S$'000 |
|---|---|---|
| **At cost and carrying value:** | | |
| Quoted equity shares | **739,225** | 739,225 |
| Unquoted equity shares | **1,616,682** | 1,413,780 |
| Preference shares | **287,500** | 287,500 |
| Share-based payments reserve | **5,522** | 3,505 |
| | **2,648,929** | 2,444,010 |

The fair value of the equity interest of the listed subsidiary with carrying amount of S$739,225,000 (2016: S$739,225,000), amounts to S$2,344,658,000 (2016: S$1,758,494,000) based on the last transacted market price on the last transaction day of the year.

Details of key subsidiaries are set out in Note 41.

## 6. Interests in Associates and Joint Ventures

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| Interests in associates and joint ventures | | **1,711,110** | 1,697,530 |
| Quasi-equity loan to an associate | (a) | **54,310** | 48,219 |
| | | **1,765,420** | 1,745,749 |

In 2017, the Group received dividends of S$155,114,000 (2016: S$93,964,000) from its investments in associates and joint ventures.

The carrying value as at year end includes goodwill on acquisition as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Balance at January 1 | **1,881** | 9,292 |
| Translation during the year | **–** | (199) |
| Goodwill derecognised on deemed disposal of a joint venture | **–** | (8,735) |
| Goodwill on acquisition | **–** | 1,523 |
| Balance at December 31 | **1,881** | 1,881 |

a. The quasi-equity loan to an associate is unsecured, bears interest at 11.5% (2016: 11.5%) per annum and the settlement of the amount is neither planned nor likely to occur in the foreseeable future.

**Associates**

Subsequent to the disposal of Cosco Shipyard Group Co., Ltd (which was completed in January 2017), no individual associates are considered to be material to the Group as at December 31, 2017. All are equity accounted. Summarised financial information of the associates are presented in aggregate, representing the Group's share, is as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Carrying amount | **503,449** | 471,166 |
| Profit / (Loss) for the year | **35,289** | (7,106) |
| Other comprehensive income | **31,075** | (3,549) |
| Total comprehensive income | **66,364** | (10,655) |

The fair value of the equity interest of a listed associate amounts to S$308,466,000 (2016: S$327,633,000) based on the last transacted market price on the last transaction day of the year.

In 2017, the Group has recognised an impairment loss of S$4,163,000 representing the entire carrying amount of one of the Group's associates as management has assessed that the commercial viability of the business is highly unlikely in the foreseeable future and the value-in-use of its assets is estimated to be nil as at December 31, 2017.

## 6. Interests in Associates and Joint Ventures *(cont'd)*

**Associates** *(cont'd)*

In 2016, the Group recorded an allowance of impairment loss of S$1,778,000 on another associate. The recoverable amount was estimated based on its value-in-use calculation. The Group applied the relief from royalty method to value the existing intellectual properties owned by the associate, and discounted the related cash flows at pre-tax discount rates of 20% to 22%, depending on the life cycle of each intellectual property. These cash flows cover the projection periods ranging from 12 to 16 years, based on the remaining estimated useful life of the intellectual properties.

The impairment losses on associates were recorded in non-operating expenses.

**Joint Ventures**

No individual joint ventures are considered to be material to the Group. All are equity accounted. Summarised financial information of the joint ventures are presented in aggregate, representing the Group's share, is as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Carrying amount | **1,261,971** | 1,274,583 |
| Profit for the year | **128,769** | 132,227 |
| Other comprehensive income | **24,369** | 21,925 |
| Total comprehensive income | **153,138** | 154,152 |

The Group's share of the capital commitments of the joint ventures at the balance sheet date amounted to S$492,652,000 (2016: S$271,098,000).

The Group's interest in joint ventures with total carrying amount of S$86,265,000 (2016: S$55,386,000) as at balance sheet date has been pledged to banks to secure credit facilities granted to the joint venture entities.

**2016**

On June 28, 2016, Sembcorp Marine's wholly-owned subsidiary, Sembcorp Marine Integrated Yard (SMIY) acquired 50% of the issued and fully paid-up share capital of Aragon AS (formerly known as KANFA Aragon AS) for a cash consideration of NOK20,000,000 (equivalent to S$3,258,000). Following the acquisition, Aragon AS became a joint venture of the Group. At the acquisition date, based on the fair values of the identifiable assets acquired and liabilities assumed of Aragon AS, a goodwill of NOK9,347,000 (equivalent to S$1,523,000) was recognised.

In March 2016, the Group increased its stake in Sembcorp Gayatri Power Limited (SGPL) (formerly known as NCC Power Projects Limited) from 49% to 65% and it became a subsidiary of the Group (Note 34). Subsequently, the Group increased its stake in SGPL further to 88%.

## 7. Other Financial Assets

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| **Non-current Assets** | | | |
| Available-for-sale financial assets: | | | |
| – Equity shares | (a) | **122,047** | 151,151 |
| – Unit trusts and funds | (b) | **11,005** | 10,319 |
| | | **133,052** | 161,470 |
| Financial assets at fair value through profit or loss, on initial recognition: | | | |
| – Cross currency swaps | | **5,811** | 10,533 |
| – Interest rate swaps | | **73** | 52 |
| – Foreign exchange option contracts | | **77** | – |
| | | **5,961** | 10,585 |
| Hedge of net investment in foreign operations: | | | |
| – Cross currency swaps | | **–** | 13,284 |
| Cash flow hedges: | | | |
| – Forward foreign exchange contracts | | **24,614** | 12,994 |
| – Fuel oil swaps | | **7,618** | 1,693 |
| – Interest rate swaps | | **69** | 879 |
| – Cross currency swaps | | **4,066** | – |
| | | **36,367** | 15,566 |
| | | **175,380** | 200,905 |

## 7. Other Financial Assets *(cont'd)*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| **Current Assets** | | | | | |
| Available-for-sale financial assets: | | | | | |
| – Unit trusts and funds | (b) | **56,236** | 32,338 | **–** | – |
| Financial assets at fair value through profit or loss, on initial recognition: | | | | | |
| – Forward foreign exchange contracts | | **218** | 18,829 | **141** | – |
| – Foreign exchange swap contracts | | **1,291** | 228 | **–** | – |
| – Electricity futures market contract | | **–** | 40 | **–** | – |
| – Commodity swap | | **2,078** | – | **–** | – |
| | | **3,587** | 19,097 | **141** | – |
| Hedge of net investment in foreign operations: | | | | | |
| – Cross currency swaps | | **13,469** | – | **–** | – |
| Cash flow hedges: | | | | | |
| – Forward foreign exchange contracts | | **33,001** | 34,037 | **–** | – |
| – Fuel oil swaps | | **34,609** | 28,236 | **–** | – |
| – Interest rate swaps | | **456** | 1,602 | **–** | – |
| | | **68,066** | 63,875 | **–** | – |
| Fair value hedges: | | | | | |
| – Forward foreign exchange contracts | | **692** | 4,146 | **–** | – |
| | | **142,050** | 119,456 | **141** | – |

a. During the year, impairment losses on available-for-sale financial assets amounting to S$2,275,000 (2016: S$78,938,000) were recognised in profit or loss through reclassifying the losses accumulated in the fair value reserve in equity and costs in available-for-sale financial assets.

b. Included in unit trusts and funds are amounts of S$53,769,000 (2016: S$32,348,000) pledged to secure loan facilities.

## 8. Trade and Other Receivables

| | | Group | | | | | | Company | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | | | 2016 | | | 2017 | | | 2016 | | |
| | | Non-current | Current | Total | Non-current | Current | Total | Non-current | Current | Total | Non-current | Current | Total |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| Trade receivables | | **112,724** | **1,275,649** | **1,388,373** | 2,922 | 1,153,122 | 1,156,044 | **–** | **42,292** | **42,292** | – | 98,430 | 98,430 |
| Service concession receivables | (a) | **880,863** | **11,934** | **892,797** | 460,646 | 12,268 | 472,914 | **–** | **–** | **–** | – | – | – |
| Amounts due from related parties | 9 | **61,914** | **53,285** | **115,199** | 141,956 | 46,105 | 188,061 | **221,000** | **8,528** | **229,528** | 200,000 | 5,355 | 205,355 |
| Staff loans | | **–** | **459** | **459** | – | 338 | 338 | **–** | **1** | **1** | – | 1 | 1 |
| Deposits | | **39,281** | **49,363** | **88,644** | 59,381 | 16,492 | 75,873 | **–** | **1,758** | **1,758** | – | 1,609 | 1,609 |
| Sundry receivables | (b) | **–** | **103,336** | **103,336** | 8,110 | 142,381 | 150,491 | **–** | **453** | **453** | – | 262 | 262 |
| Unbilled receivables | (c) | **–** | **426,106** | **426,106** | – | 381,384 | 381,384 | **–** | **80,308** | **80,308** | – | 80,525 | 80,525 |
| Loan receivables | | **–** | **3,763** | **3,763** | – | 3,781 | 3,781 | **–** | **–** | **–** | – | – | – |
| Recoverables | | **–** | **26,438** | **26,438** | 1,039 | 29,524 | 30,563 | **–** | **5,138** | **5,138** | – | 1,353 | 1,353 |
| Interest receivables | | **–** | **5,486** | **5,486** | – | 8,134 | 8,134 | **–** | **1** | **1** | – | 122 | 122 |
| Dividend receivables | (d) | **–** | **38** | **38** | – | 110,084 | 110,084 | **–** | **–** | **–** | – | – | – |
| | | **1,094,782** | **1,955,857** | **3,050,639** | 674,054 | 1,903,613 | 2,577,667 | **221,000** | **138,479** | **359,479** | 200,000 | 187,657 | 387,657 |
| Allowance for doubtful trade and other receivables | | **(1,183)** | **(204,786)** | **(205,969)** | (9,358) | (226,057) | (235,415) | **–** | **(1,510)** | **(1,510)** | – | (20,686) | (20,686) |
| Loan and receivables | 36(b) | **1,093,599** | **1,751,071** | **2,844,670** | 664,696 | 1,677,556 | 2,342,252 | **221,000** | **136,969** | **357,969** | 200,000 | 166,971 | 366,971 |
| Prepayments | (f) | **87,775** | **73,098** | **160,873** | 69,427 | 76,687 | 146,114 | **5,386** | **2,232** | **7,618** | 5,843 | 3,813 | 9,656 |
| Employee defined benefit asset | 19 | **2,902** | **–** | **2,902** | – | – | – | **–** | **–** | **–** | – | – | – |
| Advance to suppliers | | **–** | **207,386** | **207,386** | – | 203,787 | 203,787 | **–** | **2,231** | **2,231** | – | 244 | 244 |
| | | **1,184,276** | **2,031,555** | **3,215,831** | 734,123 | 1,958,030 | 2,692,153 | **226,386** | **141,432** | **367,818** | 205,843 | 171,028 | 376,871 |

## 8. Trade and Other Receivables *(cont'd)*

**a. Service concession receivables**

Subsidiaries in Singapore, Chile and Panama each have entered into service concession arrangements with the local governments. Under these arrangements, the subsidiaries are to supply treated water to the local governments for periods ranging from 25 years to 30 years. The subsidiary in Myanmar and Bangladesh have entered into service concession arrangements with the local governments to construct the power plants (currently ongoing) as well as supply electricity to the local governments for a period of 22 years. During the year, the Group recorded construction revenue and profit of S$452,963,000 and S$53,668,000 (2016: S$231,302,000 and S$22,793,000) accordingly for the service concession arrangement in Myanmar and Bangladesh (2016: Myanmar). All of these arrangements fall within the scope of INT FRS 112.

The significant aspects of the service concession arrangements are as follows:

i. The subsidiaries will receive a minimum guaranteed sum from the grantors in exchange for services performed. The subsidiaries recognised these as financial receivables as they have contractual rights under the concession arrangements. The financial receivables are measured on initial recognition at their fair values, representing the present value of the guaranteed annual payments to be received from the grantor, discounted at interest rates ranging from 3.62% to 17.0%;

ii. Under the arrangements, the operator is required to design, construct, operate, manage and maintain the assets; and

iii. Upon expiry of the concession arrangements, the assets are to be transferred to the local governments between 2024 to 2041. Any extension will be based on mutual agreement.

As at December 31, 2017, the land title is in the process of being transferred to the subsidiary in Myanmar and the transfer is expected to be completed by end of 2018. Until the transfer is completed, this may potentially affect the impairment assessment of the service concession receivables. Management is of the view that the subsidiary is able to continue operating the gas-fired power plant despite the non-transfer of the land.

**b. Sundry receivables**

Sundry receivables represent mainly other receivables, GST receivables and sales consideration receivable from the divestment of a joint venture (Note 33(i)). The sales consideration receivables from the divestment of a joint venture were received in 2017.

**c. Unbilled receivables**

Unbilled receivables represent revenue accrued for sale of utilities services, electricity, gas and other related products. Included in the Company's unbilled receivables are amounts of S$44,700,000 (2016: S$44,600,000) due from related companies.

**d. Dividend receivables**

In 2016, dividend receivables amounting to S$110,084,000 represent the dividends declared to the Group from an investment in equity shares of a company in the People's Republic of China. The dividends were received in 2017.

**e. Trade and other receivables**

Trade and other receivables of S$1,080,254,000 (2016: S$721,388,000) have been pledged to secure loan facilities. Included in the pledged amount is S$215,705,000 (2016: nil) that relates to the underlying assets of the service concession arrangements.



## 8. Trade and Other Receivables *(cont'd)*

**f. Prepayments**

Prepayments are charged to profit or loss on a straight-line basis over the period of prepayments. They relate primarily to:

**Group**

i. Connection fees prepaid under the Generation Connection and Use of System Agreement for the use of the transmission lines to a related corporation amounted to S$28,249,000 (2016: S$30,229,000);

ii. Service fees prepaid under the Gasoil Supply and Storage Agreement for the usage of the tank; and

iii. Capacity charges prepaid for the use of gas delivery pipelines, prepaid insurance premium, transport tariff recoverable and maintenance of plant.

**Company**

i. Connection and capacity charges prepaid for the use of pipelines and piperacks.

The impairment losses on loans and receivables are as follow:

| | Note | Gross 2017 S$'000 | Impairment 2017 S$'000 | Net 2017 S$'000 | Gross 2016 S$'000 | Impairment 2016 S$'000 | Net 2016 S$'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Trade receivables | | **1,388,373** | (189,141) | **1,199,232** | 1,156,044 | **(204,844)** | 951,200 |
| Amounts due from related parties | 9 | **115,199** | (6,359) | **108,840** | 188,061 | **(6,280)** | 181,781 |
| Other receivables | | **1,547,067** | (10,469) | **1,536,598** | 1,233,562 | **(24,291)** | 1,209,271 |
| | 36(b) | **3,050,639** | (205,969) | **2,844,670** | 2,577,667 | **(235,415)** | 2,342,252 |
| **Company** | | | | | | | |
| Trade receivables | | **42,292** | (1,510) | **40,782** | 98,430 | **(20,686)** | 77,744 |
| Amounts due from related parties | 9 | **229,528** | – | **229,528** | 205,355 | **–** | 205,355 |
| Other receivables | | **87,659** | – | **87,659** | 83,872 | **–** | 83,872 |
| | 36(b) | **359,479** | (1,510) | **357,969** | 387,657 | **(20,686)** | 366,971 |

## 9. Amounts Due from Related Parties

| | | Associates | | Joint ventures | | Related companies | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | | | | |
| Amounts due from: | | | | | | | | | |
| Trade | | **6,806** | 3,416 | **12,559** | 10,610 | **9,086** | 6,569 | **28,451** | 20,595 |
| Non-trade | | **2,521** | 3,145 | **18,786** | 7,106 | **–** | – | **21,307** | 10,251 |
| Loans | | **–** | – | **65,441** | 145,440 | **–** | 11,775 | **65,441** | 157,215 |
| | 8 | **9,327** | 6,561 | **96,786** | 163,156 | **9,086** | 18,344 | **115,199** | 188,061 |
| Allowance for doubtful receivables | | **(1,534)** | (578) | **(4,825)** | (5,702) | **–** | – | **(6,359)** | (6,280) |
| | | **7,793** | 5,983 | **91,961** | 157,454 | **9,086** | 18,344 | **108,840** | 181,781 |
| Amount due within 1 year | | **(7,793)** | (5,983) | **(31,230)** | (16,746) | **(9,086)** | (18,344) | **(48,109)** | (41,073) |
| | | **–** | – | **60,731** | 140,708 | **–** | – | **60,731** | 140,708 |

The non-trade amounts due from related parties are unsecured, repayable on demand and interest-free.

The loans to joint ventures of S$60,731,000 (2016: S$140,708,000) are unsecured, not expected to be repaid in the next 12 months and bear interest rates ranging from 0.75% to 3.36% (2016: 0.67% to 2.99%) per annum. The remaining balance is repayable in the next 12 months.

| | | Subsidiaries | | Associates | | Joint ventures | | Related companies | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Company** | | | | | | | | | | | |
| Amounts due from related parties | 8 | **228,766** | 205,238 | **66** | 50 | **–** | – | **696** | 67 | **229,528** | 205,355 |
| Amount due within 1 year | 8 | **(7,766)** | (5,238) | **(66)** | (50) | **–** | – | **(696)** | (67) | **(8,528)** | (5,355) |
| | 8 | **221,000** | 200,000 | **–** | – | **–** | – | **–** | – | **221,000** | 200,000 |

The amounts due from related parties are unsecured, repayable on demand and interest-free.

The loans to related parties of S$221,000,000 (2016: S$200,000,000) are unsecured, not expected to be repaid in the next 12 months and bear interest rates ranging from 3.70% to 4.75% (2016: 4.75%) per annum.

## 10. Assets Held for Sale

| | Note | Group 2017 S$'000 | Group 2016 S$'000 |
|---|---|---|---|
| **Group** | | | |
| Property, plant and equipment | 3 | **99,730** | – |
| Interest in associate | 6 | **–** | 182,215 |
| | | **99,730** | 182,215 |
| **Company** | | | |
| Property, plant and equipment | 3 | **99,730** | – |

**2017**
On August 25, 2017, the Company entered into a sale and purchase agreement to sell certain utilities assets to a customer for a consideration of US$113 million (approximately S$152 million). The assets were classified as asset held for sale as the assets are available for immediate sale in their present condition and measured at its carrying amount as at December 31, 2017. The sale is contractually agreed to be completed between the second half of 2019 and the first half of 2020.

**2016**
On November 15, 2016, the Group's subsidiary, Sembcorp Marine Ltd, entered into a sale and purchase agreement with China Ocean Shipping (Group) Company to dispose of its 30% equity interest (effective equity held by the Group 18.3%) in Cosco Shipyard Group Co., Ltd (CSG), which was previously accounted for as an investment in associate. The interest in CSG was classified as asset held for sale and measured at its carrying amount as at December 31, 2016. The sale was completed in January 2017.

The Group's share of the cumulative translation reserve of approximately S$12.3 million relating to CSG was recognised in other comprehensive income.

## 11. Intangible Assets

| | Note | Goodwill S$'000 | Service concession arrangements S$'000 | Long-term revenue contract S$'000 | Intellectual property rights S$'000 | Water rights S$'000 | Others S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Cost** | | | | | | | | |
| Balance at January 1, 2017 | | 224,732 | 152,258 | 95,088 | 228,725 | 10,788 | 30,999 | 742,590 |
| Translation adjustments | | (1,160) | 293 | (1,031) | (1) | (636) | (76) | (2,611) |
| Additions | | – | 2,692 | – | – | 29 | 10,171 | 12,892 |
| Transfer from property, plant and equipment | 3 | – | – | – | – | – | 808 | 808 |
| Disposals | | – | (80) | – | – | – | (614) | (694) |
| Write off | 28(a) | – | (567) | – | – | – | – | (567) |
| Balance at December 31, 2017 | | 223,572 | 154,596 | 94,057 | 228,724 | 10,181 | 41,288 | 752,418 |
| **Accumulated Amortisation and Impairment Losses** | | | | | | | | |
| Balance at January 1, 2017 | | – | 45,663 | 7,198 | 36,862 | 9 | 15,861 | 105,593 |
| Translation adjustments | | – | 300 | (124) | – | (2) | (89) | 85 |
| Amortisation charge for the year | 28(a) | – | 8,276 | 4,096 | 19,460 | 31 | 8,467 | 40,330 |
| Disposals | | – | (71) | – | – | – | (264) | (335) |
| Impairment losses | 28(c) | 26,378 | – | – | – | – | – | 26,378 |
| Write off | 28(a) | – | (420) | – | – | – | – | (420) |
| Balance at December 31, 2017 | | 26,378 | 53,748 | 11,170 | 56,322 | 38 | 23,975 | 171,631 |
| **Carrying Amounts** | | | | | | | | |
| At January 1, 2017 | | 224,732 | 106,595 | 87,890 | 191,863 | 10,779 | 15,138 | 636,997 |
| At December 31, 2017 | | 197,194 | 100,848 | 82,887 | 172,402 | 10,143 | 17,313 | 580,787 |

## 11. Intangible Assets *(cont'd)*

| | Note | Goodwill S$'000 | Service concession arrangements S$'000 | Long-term revenue contract S$'000 | Intellectual property rights S$'000 | Water rights S$'000 | Others S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Cost** | | | | | | | | |
| Balance at January 1, 2016 | | 173,207 | 134,554 | 93,605 | 60,072 | 9,677 | 37,812 | 508,927 |
| Translation adjustments | | 2,233 | 5,282 | 836 | 1 | 968 | (556) | 8,764 |
| Additions | | – | 7,262 | – | – | 143 | 8,114 | 15,519 |
| Acquisition of subsidiaries | 34 | 49,292 | – | 647 | 168,652 | – | 106 | 218,697 |
| Transfer from / (to) property, plant and equipment | 3 | – | 5,361 | – | – | – | (6,094) | (733) |
| Disposals | | – | (11) | – | – | – | (80) | (91) |
| Write-offs | 28(a) | – | (190) | – | – | – | (8,303) | (8,493) |
| Balance at December 31, 2016 | | 224,732 | 152,258 | 95,088 | 228,725 | 10,788 | 30,999 | 742,590 |
| **Accumulated Amortisation and Impairment Losses** | | | | | | | | |
| Balance at January 1, 2016 | | – | 32,291 | 3,198 | 19,644 | – | 10,838 | 65,971 |
| Translation adjustments | | – | 1,896 | 150 | – | – | (4) | 2,042 |
| Amortisation charge for the year | 28(a) | – | 11,647 | 3,850 | 17,218 | 9 | 5,052 | 37,776 |
| Disposals | | – | (10) | – | – | – | (28) | (38) |
| Write-offs | 28(a) | – | (161) | – | – | – | 3 | (158) |
| Balance at December 31, 2016 | | – | 45,663 | 7,198 | 36,862 | 9 | 15,861 | 105,593 |
| **Carrying Amounts** | | | | | | | | |
| At January 1, 2016 | | 173,207 | 102,263 | 90,407 | 40,428 | 9,677 | 26,974 | 442,956 |
| At December 31, 2016 | | 224,732 | 106,595 | 87,890 | 191,863 | 10,779 | 15,138 | 636,997 |

Intangible assets of S$872,000 (2016: S$1,468,000) have been pledged to secure loan facilities.

## 11. Intangible Assets *(cont'd)*

| | Note | Goodwill S$'000 | Others S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Cost** | | | | |
| Balance at January 1, 2017 | | 18,946 | 11,541 | 30,487 |
| Additions | | – | 3,772 | 3,772 |
| Disposals | | – | (211) | (211) |
| Transfer from property, plant and equipment | 3 | – | 305 | 305 |
| Balance at December 31, 2017 | | 18,946 | 15,407 | 34,353 |
| **Accumulated Amortisation and Impairment Losses** | | | | |
| Balance at January 1, 2017 | | – | 7,384 | 7,384 |
| Amortisation charge for the year | | – | 2,445 | 2,445 |
| Disposals | | – | (42) | (42) |
| Balance at December 31, 2017 | | – | 9,787 | 9,787 |
| **Carrying Amounts** | | | | |
| At January 1, 2017 | | 18,946 | 4,157 | 23,103 |
| At December 31, 2017 | | 18,946 | 5,620 | 24,566 |
| **Cost** | | | | |
| Balance at January 1, 2016 | | 18,946 | 8,373 | 27,319 |
| Additions | | – | 3,046 | 3,046 |
| Disposals | | – | (46) | (46) |
| Transfer from property, plant and equipment | 3 | – | 168 | 168 |
| Balance at December 31, 2016 | | 18,946 | 11,541 | 30,487 |
| **Accumulated Amortisation and Impairment Losses** | | | | |
| Balance at January 1, 2016 | | – | 5,095 | 5,095 |
| Amortisation charge for the year | | – | 2,299 | 2,299 |
| Disposals | | – | (10) | (10) |
| Balance at December 31, 2016 | | – | 7,384 | 7,384 |
| **Carrying Amounts** | | | | |
| At January 1, 2016 | | 18,946 | 3,278 | 22,224 |
| At December 31, 2016 | | 18,946 | 4,157 | 23,103 |

## 11. Intangible Assets *(cont'd)*

*Amortisation*

The amortisation of intangible assets is analysed as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Cost of sales | **36,084** | 34,416 |
| Administrative expenses | **4,246** | 3,258 |
| Capitalised as capital work-in-progress | **–** | 102 |
| Total | **40,330** | 37,776 |

*Service concession arrangements*

The subsidiaries in Chile, Panama, South Africa and China have service concession agreements with the local municipalities in Chile; Panama; Mbombela and Ilembe in South Africa; and Fuzhou, Xinmin and Yanjiao in People's Republic of China. Under these agreements, the subsidiaries are to supply drinking water to the local communities for periods of 25 to 30 years. All of these arrangements fall within the scope of INT FRS 112.

The significant aspects of the above service concession arrangements are as follows:

- The arrangements are 25 to 30 years concession arrangements for water treatment with the respective municipal governments. The Group has a total of 4 Build-Own-Operate-Transfer (BOOT) arrangements and 3 concession contracts as at the end of the reporting period.

- Under the BOOT arrangement, the operator is required to design, construct, own as well as operate, manage and maintain the assets and water services works for the supply of water.

- Under the concession contract, the operator has a right of use of all assets of the local authority concerning water and sanitation. Concessional rights include rights to possess, use, operate, manage, maintain, rehabilitate, redesign, improve and expand existing assets and water services, as well as rights to own, design, construct any new assets and water services works within the geographical scope of concession.

- Upon expiry of the concession arrangements, the assets are to be transferred to the local municipality at no cost. Any extension will be based on mutual agreement.

- The tariffs in the South African subsidiaries are subject to review every 5 years. The tariffs are adjusted annually with an escalation formula based on costs specified in the contract. Tariff adjustments have to be approved by the Local Municipality in the city where the project is located. The tariffs in China are regulated by the Administrative Measures on Pricing of Municipal Water Supply issued by the State Development and Reform Commission (SDRC). Tariffs adjustments have to be approved by the Water Supply Company and Price Bureau, with the local institution controlling prices under the SDRC, in the city where the project is located. The tariff adjustment is based on the previous year consumer price index as stipulated in the concession agreements.



## 11. Intangible Assets *(cont'd)*

*Long-term revenue contract*

The subsidiaries in India, have long-term power purchase agreements (PPAs) with the local Electricity Board and commercial customers.

The significant terms of the above PPAs are as follows:

- A subsidiary in India has a long-term contract to provide 500 megawatts of power to the Andhra Pradesh Power distribution companies for a period of 25 years.

- The subsidiaries in the renewables sector in India have long-term contracts with India's State Electricity Boards in Gujarat, Karnataka, Maharashtra, Rajasthan and Tamil Nadu, with tenures ranging from 10 to 30 years. These subsidiaries also sell electricity to commercial customers with tenures ranging from 10 to 25 years.

*Intellectual property rights*

Intellectual property rights relate to acquired patents for the Jurong Espadon Drillship, Satellite Services Platform offshore designs and re-deployable modularised LNG and LPG solutions.

*Water rights*

The water rights mainly have infinite useful lives and are perpetual in nature. The water rights as established in the acquisition contracts were obtained from the General Water Directorate (DGA), a regulatory body under the Ministry of Public Works in Chile. The rights allow the Group to extract water from the specific water sources and supply water to end customers.

In 2016, water rights were acquired by a subsidiary in China to extract and supply water to end customers for a period of 5 years.

*Other intangible assets*

Other intangible assets comprise carbon allowances, software, development rights and golf club membership.

*Goodwill*

**Group**

***Impairment Testing for Goodwill***

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| **Cash-generating Unit (CGU)** | | | |
| SUT Division | (a) | **18,946** | 18,946 |
| Sembcorp Cogen Pte Ltd | (b) | **–** | 26,378 |
| Sembcorp Gas Pte Ltd | (c) | **41,986** | 41,986 |
| Sembcorp Energy India Ltd (formerly known as Thermal Powertech Corporation India Limited) | (d) | **26,523** | 26,813 |
| Sembcorp Green Infra Limited and its subsidiaries | (e) | **41,342** | 41,795 |
| Sembcorp Gayatri Power Limited | (f) | **44,895** | 45,387 |
| Multiple units with insignificant goodwill | | **23,502** | 23,427 |
| | | **197,194** | 224,732 |

## 11. Intangible Assets *(cont'd)*

*Goodwill (cont'd)*

**Group** *(cont'd)*

***Impairment Testing for Goodwill*** *(cont'd)*

The recoverable amounts for SUT Division, Sembcorp Cogen Pte Ltd, Sembcorp Gas Pte Ltd, Sembcorp Energy India Ltd (formerly known as Thermal Powertech Corporation India Limited), Sembcorp Green Infra Limited and its subsidiaries, and Sembcorp Gayatri Power Limited were determined using value-in-use calculations. Cash flow projections used in the value-in-use calculations were prepared based on management's past experience in operating the business and forward market outlook over the long-term nature of the utilities and power business. Pre-tax discount rates between 5.3% to 11.1% (2016: 4.7% to 12.0%) had been used.

At the balance sheet date, based on the following key assumptions, with the exception of Sembcorp Cogen Pte Ltd, the recoverable amounts of the CGU exceeded their carrying amounts.

**a. SUT Division**

i. Use cash flow projections over the remaining useful life of the plants of up to 21 years (2016: 22 years). No terminal value is considered;

ii. Revenue and margins are projected based on contracts secured with customers along with likely contract renewals and forecasted demand for industrial utilities and services as well as forecasted margins;

iii. Expected capital expenditure for replenishment of parts and scheduled maintenance related costs have been included in the projections in accordance with plant maintenance programme; and

iv. Inflation rate of 1.4% to 1.9% (2016: 0.2% to 1.9%) has been used to project overheads and other general expenses.

**b. Sembcorp Cogen Pte Ltd**

i. Use cash flow projections over the remaining useful life of the plants of up to 26 years (2016: 24 years). No terminal value is considered;

ii. Revenue and margins are projected based on the estimated electricity and steam demand at forecasted margins which are based on market supply and demand forecast;

iii. Expected capital expenditure for replenishment of parts and scheduled maintenance related costs have been included in the projections in accordance with plant maintenance programme; and

iv. Inflation rate assumption ranging from 1.4% to 1.9% (2016: 0.2% to 1.9%) has been used to project overheads and other general expenses.

In 2017, the Group recognised impairment on the entire amount of goodwill allocated to Sembcorp Cogen Pte Ltd amounting to S$26,378,000 in light of the challenging operating environment for its power business and the earnings of Sembcorp Cogen Pte Ltd is subject to high volatility in a merchant market environment.

The impairment of goodwill was recorded in non-operating expenses in the current year profit or loss and the CGU is allocated to utilities segment.



## 11. Intangible Assets *(cont'd)*

*Goodwill (cont'd)*

**Group** *(cont'd)*

***Impairment Testing for Goodwill*** *(cont'd)*

**c. Sembcorp Gas Pte Ltd**

i. Use cash flow projections based on estimation of sales and purchases of gas quantities derived from the contractual period of existing contracts. No terminal value is considered;

ii. Revenue is projected based on estimated sales and purchases of gas quantities derived from the contractual period of existing contracts;

iii. Forward USD / SGD exchange rate and High Sulphur Fuel Oil (HSFO) prices with reference to forward quotes were assumed in the forecast performance;

iv. Expected capital expenditure to service the pipelines has been included in the projections in accordance with plant maintenance programme; and

v. Inflation rate assumption ranging from 1.4% to 1.9% (2016: 0.2% to 1.9%) has been used to project overheads and other general expenses.

**d. Sembcorp Energy India Ltd (formerly known as Thermal Powertech Corporation India Limited)**

i. Use of cash flow projections over the remaining useful life of the plant of 22 years (2016: 23 years). No terminal value is considered (2016: with residual value of 5% of asset value);

ii. Revenue is projected primarily based on combination of long-term and short-term contracts secured with customers at contracted tariffs as well as electricity spot prices. Contract renewals are assumed based on estimated demand and supply as well as margin;

iii. Expected capital expenditure for replenishment of parts and scheduled maintenance related costs have been included in the projections in accordance with plant maintenance programme;

iv. Inflation rate of 4% (2016: 5%) has been used to project overheads and other general expenses; and

v. Cash flows are estimated based on the premise that the conversion of the leasehold land, which the subsidiary has already paid in full, will be converted to freehold (Note 3(x)).

**e. Sembcorp Green Infra Limited and its subsidiaries**

i. Use of cash flow projections over the remaining useful lives of individual plants of up to 29 years (2016: 30 years). No terminal value is considered;

ii. Revenue is projected based on long-term contracts secured with customers at contracted tariffs. New contracts and contract renewals are assumed based on estimated demand and supply as well as margin;

iii. Expected capital expenditure for replenishment of parts and scheduled maintenance related costs have been included in the projections in accordance with plant maintenance programme; and

iv. Inflation rate of 5% (2016: 5%) has been used to project overheads and other general expenses.

## 11. Intangible Assets *(cont'd)*

*Goodwill (cont'd)*

**Group** *(cont'd)*

***Impairment Testing for Goodwill*** *(cont'd)*

**f. Sembcorp Gayatri Power Limited**

i. Use of cash flow projections over the remaining useful life of the plant of 24 years (2016: 25 years), with no terminal value considered;

ii. Revenue is projected primarily based on the forecasted combination of long-term and short-term contracts and electricity spot prices with reference to estimated demand and supply of electricity as well as estimated margin;

iii. Expected capital expenditure for replenishment of parts and scheduled maintenance related costs have been included in the projections in accordance with plant maintenance programme; and

iv. Inflation rate of 4% (2016: 5%) has been used to project overheads and other general expenses.

**Company**

The Company's goodwill relates to goodwill of SUT on the acquisition of the SUT Division in 2008.

## 12. Deferred Tax Assets and Liabilities

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the year are as follows:

| | At Jan 1 | Recognised in profit or loss (Note 27) | Recognised in equity (Note 24) | Acquisition of subsidiary (Note 34) | Translation adjustments | At Dec 31 |
|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | |
| **2017** | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| Property, plant and equipment | 472,096 | 21,591 | – | – | (1,887) | 491,800 |
| Interests in associates | 174 | (174) | – | – | – | – |
| Other financial assets | 35,139 | 1,604 | 2,038 | – | 30 | 38,811 |
| Trade and other receivables | 13,709 | 11,044 | – | – | – | 24,753 |
| Intangible assets | 69,987 | (5,570) | – | – | (524) | 63,893 |
| Other items | 8,875 | 7,146 | – | – | 18 | 16,039 |
| Total | 599,980 | 35,641 | 2,038 | – | (2,363) | 635,296 |
| **Deferred tax assets** | | | | | | |
| Property, plant and equipment | (98,574) | (72,870) | – | – | 160 | (171,284) |
| Inventories | (730) | (3,040) | – | – | – | (3,770) |
| Trade receivables | (431) | (2,477) | – | – | 8 | (2,900) |
| Trade and other payables | (17,761) | (2,213) | – | – | 105 | (19,869) |
| Tax losses | (79,220) | 65,068 | – | – | 1,154 | (12,998) |
| Provisions | (24,505) | (4,569) | – | – | 68 | (29,006) |
| Other financial liabilities | (25,658) | (1,339) | 5,335 | – | 27 | (21,635) |
| Retirement benefit obligations | (730) | 277 | 658 | – | (1) | 204 |
| Other items | (1,460) | (321) | – | – | 111 | (1,670) |
| Total | (249,069) | (21,484) | 5,993 | – | 1,632 | (262,928) |

## 12. Deferred Tax Assets and Liabilities *(cont'd)*

| | At Jan 1 | Recognised in profit or loss (Note 27) | Recognised in equity (Note 24) | Acquisition of subsidiary (Note 34) | Translation adjustments | At Dec 31 |
|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | |
| **2016** | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| Property, plant and equipment | 448,303 | 24,708 | – | 136 | (1,051) | 472,096 |
| Interests in associates | 1,708 | (1,534) | – | – | – | 174 |
| Other financial assets | 26,213 | (1,684) | 10,646 | – | (36) | 35,139 |
| Trade and other receivables | 9,874 | 3,814 | – | – | 21 | 13,709 |
| Intangible assets | 29,902 | (2,233) | – | 42,152 | 166 | 69,987 |
| Other items | 9,394 | 731 | – | – | (1,250) | 8,875 |
| Total | 525,394 | 23,802 | 10,646 | 42,288 | (2,150) | 599,980 |
| **Deferred tax assets** | | | | | | |
| Property, plant and equipment | (79,838) | (18,434) | – | (69) | (233) | (98,574) |
| Inventories | (875) | 145 | – | – | – | (730) |
| Trade receivables | (127) | (304) | – | – | – | (431) |
| Trade and other payables | (14,223) | (3,382) | – | – | (156) | (17,761) |
| Tax losses | (111,567) | 33,850 | – | – | (1,503) | (79,220) |
| Provisions | (18,884) | (5,450) | – | – | (171) | (24,505) |
| Other financial liabilities | (42,920) | 108 | 17,163 | – | (9) | (25,658) |
| Retirement benefit obligations | (3,163) | 876 | 97 | – | 1,460 | (730) |
| Other items | (2,475) | 851 | – | – | 164 | (1,460) |
| Total | (274,072) | 8,260 | 17,260 | (69) | (448) | (249,069) |

| | At Jan 1, 2016 | Recognised in profit or loss | Recognised in equity | At Dec 31, 2016 | Recognised in profit or loss | Recognised in equity | At Dec 31, 2017 |
|---|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Company** | | | | | | | |
| **Deferred tax liabilities** | | | | | | | |
| Property, plant and equipment | 53,987 | 11,814 | – | 65,801 | (7,162) | – | 58,639 |
| Total | 53,987 | 11,814 | – | 65,801 | (7,162) | – | 58,639 |
| **Deferred tax assets** | | | | | | | |
| Provisions | – | (5,245) | – | (5,245) | (708) | – | (5,953) |
| Derivative liabilities | – | – | (55) | (55) | 55 | – | – |
| Total | – | (5,245) | (55) | (5,300) | (653) | – | (5,953) |

## 12. Deferred Tax Assets and Liabilities *(cont'd)*

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting included in the balance sheet are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Deferred tax liabilities | **428,340** | 402,431 | **52,686** | 60,501 |
| Deferred tax assets | **(55,972)** | (51,520) | **–** | – |
| | **372,368** | 350,911 | **52,686** | 60,501 |

As at December 31, a deferred tax liability of S$23,045,000 (2016: S$23,652,000) for potential taxable temporary differences arising from undistributed retained earnings related to investment in subsidiaries and joint ventures were not recognised.

Deferred tax assets have not been recognised in respect of the following items, which are available to set off against future taxable income subject to the tax provisions and agreement by the relevant tax authorities of the various jurisdictions:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Deductible temporary differences | **18,000** | 19,973 |
| Tax losses | **525,890** | 459,434 |
| Capital allowances | **452,089** | 309,735 |
| | **995,979** | 789,142 |

Tax losses of the Group amounting to S$121,313,000 (2016: S$119,843,000) will expire between 2018 and 2026 (2016: 2017 and 2024). The remaining tax losses, capital allowances and deductible temporary differences do not expire under current tax legislation.

Deferred tax assets have not been recognised under the following circumstances:

a. Where they qualified for offset against the tax liabilities of member companies within the Group under the Loss Transfer System of Group Relief but the terms of the transfer have not been ascertained as at year end; or

b. Where it is uncertain that future taxable profit will be available against which certain subsidiaries of the Group can utilise the benefits.

## 13. Inventories and Work-In-Progress

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| Raw materials and consumables | | **339,528** | 307,573 | **2,616** | 3,062 |
| Finished goods | | **1,036,869** | 13,899 | **9,026** | 8,903 |
| | | **1,376,397** | 321,472 | **11,642** | 11,965 |
| Allowance for inventory obsolescence | | **(102,500)** | (26,065) | **(3,094)** | (2,789) |
| | | **1,273,897** | 295,407 | **8,548** | 9,176 |
| Work-in-progress | (a) | **1,841,647** | 3,080,548 | **68** | 1,439 |
| Properties under development | | **98,752** | 90,325 | **–** | – |
| | | **3,214,296** | 3,466,280 | **8,616** | 10,615 |

In 2017, raw materials and changes in finished goods included as cost of sales amounted to S$616,281,000 (2016: S$467,702,000).

During the year, the Group conducted a review of all inventories and work-in-progress, and considered a need to adjust the carrying value to reflect lower expected net realisable value. This resulted in a net write-down of S$20,606,000 (2016: S$3,080,000). Utilisation during the year on sale of goods was S$11,251,000 (2016: nil).

Inventories of S$127,866,000 (2016: S$88,543,000) and properties under development of S$65,931,000 (2016: S$66,834,000) have been pledged to secure loan facilities.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| a. Work-in-progress: | | | | | |
| Costs and attributable profits less allowance for foreseeable losses | | **10,419,414** | 9,665,706 | **68** | 1,439 |
| Progress billings | | **(8,758,661)** | (6,808,231) | **–** | – |
| | | **1,660,753** | 2,857,475 | **68** | 1,439 |
| Comprising: | | | | | |
| Due from customers on construction contracts | 36 | **1,654,771** | 2,242,882 | **–** | – |
| Work-in-progress | | **186,876** | 837,666 | **68** | 1,439 |
| | | **1,841,647** | 3,080,548 | **68** | 1,439 |
| Excess of progress billings over work-in-progress | | **(180,894)** | (223,073) | **–** | – |
| | | **1,660,753** | 2,857,475 | **68** | 1,439 |

## 13. Inventories and Work-In-Progress *(cont'd)*

During the year, certain construction contracts were terminated, and the relevant contract revenue and related costs of sales, including contract price adjustments from contract modifications, previously recognised according to the stage of completion, were reversed through profit or loss. The amount of payment received to date on these contracts, which the Group is contractually entitled to, however continues to be recognised in revenue and is not reversed. The effect of these contracts reversals of S$63,524,000 is recognised through current year's profit or loss. Work-in-progress related to these contracts has been transferred to finished goods on termination of the construction contracts.

The Group conducted a review of all its long-term construction contracts. The Group concluded that certain contracts with a few customers were loss-making, resulting in an allowance as at reporting date of S$200,697,000 (2016: S$189,806,000). Such losses took into account of the expected contract price adjustments from modifications to the original contract terms and deterioration in credit risk assessments on these customers, as well as the total costs to complete these construction contracts where the costs are expected to exceed the revised contract revenue.

## 14. Cash and Cash Equivalents

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| Fixed deposits with banks | | **672,172** | 487,377 | **–** | – |
| Cash and bank balances | | **2,014,486** | 1,395,170 | **720,138** | 389,905 |
| Cash and cash equivalents in the balance sheets | | **2,686,658** | 1,882,547 | **720,138** | 389,905 |
| Restricted bank balances | | **(4,990)** | (11,049) | **–** | – |
| Bank overdrafts | 20 | **(197)** | (16,785) | **–** | – |
| Cash and cash equivalents in the consolidated statement of cash flows | | **2,681,471** | 1,854,713 | **720,138** | 389,905 |

Fixed deposits with banks of the Group earn interest at rates ranging from 0.01% to 13.36% (2016: 0.01% to 14.14%) per annum.

Included in the cash and bank balances are amounts of S$548,639,000 (2016: S$601,444,000) placed with a related corporation.

Included in the Group's cash and cash equivalents in the balance sheet is an amount of S$282,103,000 (2016: S$216,942,000) which banks have a first charge in the event that the subsidiaries do not meet the debt servicing requirement. Included in this balance is restricted cash of S$4,990,000 (2016: S$11,049,000).

Included in the Company's cash and cash equivalents at the balance sheet date are amounts of S$713.8 million (2016: S$385.0 million) placed with a subsidiary and amounts of S$6.3 million (2016: S$4.9 million) placed with a related corporation.

## 15. Trade and Other Payables

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| **Current liabilities** | | | | | |
| Trade payables | | **2,036,217** | 2,305,645 | **7,383** | 8,790 |
| Advance payments from customers | | **443,544** | 42,056 | **1,583** | 1,605 |
| Amounts due to related parties | 16 | **8,516** | 12,436 | **11,715** | 4,319 |
| Amounts due to non-controlling interests | | **284** | 279 | **–** | – |
| Accrued capital and operating expenditure | (a) | **753,122** | 855,800 | **109,367** | 116,845 |
| Deposits | | **32,008** | 29,637 | **342** | 446 |
| Accrued interest payable | | **43,207** | 44,834 | **–** | – |
| Retirement benefit obligations | 19 | **187** | 330 | **–** | – |
| Other creditors | (b) | **501,681** | 106,998 | **6,496** | 6,052 |
| | | **3,818,766** | 3,398,015 | **136,886** | 138,057 |
| **Non-current liabilities** | | | | | |
| Deferred income | (c) | **110,296** | 106,749 | **12,545** | 14,133 |
| Deferred grants | (d) | **3,161** | 1,987 | **277** | – |
| Amounts due to related parties | 16 | **–** | – | **245,000** | 245,000 |
| Other long-term payables | (e) | **181,054** | 149,330 | **28,377** | 22,777 |
| | | **294,511** | 258,066 | **286,199** | 281,910 |

a. Included in the Company's accrued operating expenses are amounts of S$34.5 million (2016: S$40.8 million) due to related companies.

b. In 2017, the Group's other creditors is predominantly attributable to a consideration payable for the acquisition of the non-controlling interests in Sembcorp Green Infra. In 2016, included in the Group's other creditors are payables arising from the acquisitions of subsidiaries amounting to S$7,977,000 (Note 34(i)).

c. Deferred income relates mainly to:

   i. advance payments received from customers in respect of connection and capacity charges for the supply and delivery of gas and utilities; and

   ii. the difference between the fair values of the construction services provided pursuant to service concession arrangements and the fair value of the financial asset receivable.

d. Deferred grants relate to government grants for capital assets.

e. Other long-term payables include retention monies of subsidiaries, long-term employee benefits and accrued operating and maintenance services which will be billed only after the initial payment-free period, which is more than one year.

## 16. Amounts Due to Related Parties

| | | Associates | | Joint ventures | | Related companies | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | | | | |
| Amounts due to: | | | | | | | | | |
| Trade | | **2,144** | 1,623 | **3,266** | 3,872 | **268** | 3,923 | **5,678** | 9,418 |
| Non-trade | | **363** | 357 | **4** | 44 | **–** | 1 | **367** | 402 |
| Advance payment – trade | | **–** | – | **2,471** | 2,616 | **–** | – | **2,471** | 2,616 |
| | 15 | **2,507** | 1,980 | **5,741** | 6,532 | **268** | 3,924 | **8,516** | 12,436 |

The non-trade amounts due to related parties are unsecured, interest-free and repayable on demand.

| | | Subsidiaries | | Joint ventures | | Related companies | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Company** | | | | | | | | | |
| Amounts due to: | | | | | | | | | |
| Trade | (i) | **10,040** | 2,730 | **5** | 2 | **67** | 6 | **10,112** | 2,738 |
| Non-trade | | **1,603** | 1,581 | **–** | – | **–** | – | **1,603** | 1,581 |
| Loans from a related party | (ii) | **245,000** | 245,000 | **–** | – | **–** | – | **245,000** | 245,000 |
| | | **256,643** | 249,311 | **5** | 2 | **67** | 6 | **256,715** | 249,319 |
| Amounts due after 1 year | | **(245,000)** | (245,000) | **–** | – | **–** | – | **(245,000)** | (245,000) |
| | 15 | **11,643** | 4,311 | **5** | 2 | **67** | 6 | **11,715** | 4,319 |

i. The amounts due to related parties are unsecured, interest-free and repayable on demand.

ii. The loans from a related party of S$245,000,000 (2016: S$245,000,000) bear interest rates ranging from 3.72% to 3.82% (2016: 3.72% to 3.82%) per annum and are unsecured.

## 17. Provisions

| | Note | Claims S$'000 | Restoration costs S$'000 | Warranty S$'000 | Fines S$'000 | Others S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **2017** | | | | | | | |
| Balance at January 1 | | 23,167 | 86,501 | 18,384 | – | 6,914 | 134,966 |
| Translation adjustments | | (244) | (3,289) | (24) | – | (204) | (3,761) |
| Provisions made during the year | | 12,195 | 21,423 | 10,795 | 25,390 | 12,312 | 82,115 |
| Provisions reversed during the year | | (4,344) | – | (8,302) | – | – | (12,646) |
| Provisions utilised during the year | | (6,209) | (668) | – | – | (976) | (7,853) |
| Disposal of subsidiaries | | – | (280) | – | – | – | (280) |
| Unwind of discount on restoration costs | 26 | – | 4,747 | – | – | – | 4,747 |
| Balance at December 31 | | 24,565 | 108,434 | 20,853 | 25,390 | 18,046 | 197,288 |
| Provisions due: | | | | | | | |
| – within 1 year | | 24,425 | 7,140 | 20,853 | 25,390 | 14,409 | 92,217 |
| – after 1 year but within 5 years | | – | 26,096 | – | – | 1,502 | 27,598 |
| – after 5 years | | 140 | 75,198 | – | – | 2,135 | 77,473 |
| | | 24,565 | 108,434 | 20,853 | 25,390 | 18,046 | 197,288 |
| **2016** | | | | | | | |
| Balance at January 1 | | 28,966 | 65,289 | 17,257 | – | 5,894 | 117,406 |
| Translation adjustments | | (447) | 122 | (106) | – | 77 | (354) |
| Provisions made during the year | | 4,045 | 14,118 | 27,354 | – | 1,810 | 47,327 |
| Provisions reversed during the year | | (8,881) | – | (16,505) | – | – | (25,386) |
| Provisions utilised during the year | | (516) | (5) | (9,700) | – | (867) | (11,088) |
| Acquisition of subsidiaries | | – | – | 84 | – | – | 84 |
| Unwind of discount on restoration costs | 26 | – | 6,977 | – | – | – | 6,977 |
| Balance at December 31 | | 23,167 | 86,501 | 18,384 | – | 6,914 | 134,966 |
| Provisions due: | | | | | | | |
| – within 1 year | | 23,027 | 7,837 | 8,384 | – | 3,171 | 42,419 |
| – after 1 year but within 5 years | | 140 | 10,730 | – | – | 1,588 | 12,458 |
| – after 5 years | | – | 67,934 | 10,000 | – | 2,155 | 80,089 |
| | | 23,167 | 86,501 | 18,384 | – | 6,914 | 134,966 |



## 17. Provisions *(cont'd)*

| | Claims S$'000 | Restoration costs S$'000 | Total S$'000 |
|---|---|---|---|
| **Company** | | | |
| **2017** | | | |
| Balance at January 1 | 14,874 | 10,661 | 25,535 |
| Provisions made during the year, net | 4,396 | 2,007 | 6,403 |
| Provisions utilised during the year | (2,575) | – | (2,575) |
| Unwind of discount on restoration costs | – | 3,350 | 3,350 |
| Balance at December 31 | 16,695 | 16,018 | 32,713 |
| Provisions due: | | | |
| – within 1 year | 16,695 | – | 16,695 |
| – after 5 years | – | 16,018 | 16,018 |
| | 16,695 | 16,018 | 32,713 |
| **2016** | | | |
| Balance at January 1 | 22,486 | 593 | 23,079 |
| (Written back) / provisions made during the year, net | (7,092) | 5,396 | (1,696) |
| Provisions utilised during the year | (520) | – | (520) |
| Unwind of discount on restoration costs | – | 4,672 | 4,672 |
| Balance at December 31 | 14,874 | 10,661 | 25,535 |
| Provisions due: | | | |
| – within 1 year | 14,874 | – | 14,874 |
| – after 5 years | – | 10,661 | 10,661 |
| | 14,874 | 10,661 | 25,535 |

**Claims**
This provision relates to the obligations arising from contractual and commercial arrangements in the Group's and the Company's operations, based on the best estimate of the possible outflow considering both contractual and commercial factors.

**Restoration Costs**
Restoration costs relate to cost of dismantling and removing assets and restoring the premises to its original condition as stipulated in the agreements. The liability is expected to be incurred upon fulfilment of restoration obligation or termination of the lease.

**Warranty**
Provision for warranties relate to contracts with contractual warranty terms. The provision for warranty is based on estimates from weighing all possible outcomes by their associated probabilities and estimates made from historical warranty data associated with similar projects.

The non-current portion of the provision for warranty is for contracts with contractual warranty periods that will lapse within 2 to 3 years from the reporting date.

## 17. Provisions *(cont'd)*

**Fines**

The provisions made during the year were for potential fines and claims at an overseas water business arising from an alleged environmental offence for the discharge of off-specification wastewater. The provision amount was estimated based on available information and advice from external lawyers. Legal proceedings are ongoing. The amount of the fines and claims is subject to the outcome of these proceedings.

**Others**

Others include provision for maintenance obligation recognised for the contractual obligations to maintain the infrastructure and equipment to specified levels of serviceability under the service concession agreements. The amount also includes provision for legal and professional fee, amongst others. These provisions are measured at the best estimate of the expenditure required and timing of outflows, to settle the present obligation at the end of each reporting period.

## 18. Other Financial Liabilities

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| **Current Liabilities** | | | | | |
| Financial liabilities at fair value through profit or loss, on initial recognition: | | | | | |
| – Forward foreign exchange contracts | | **3,377** | 17,475 | **–** | – |
| – Foreign exchange swap contracts | | **252** | 5,161 | **–** | – |
| – Electricity futures market contract | | **18** | 83 | **–** | – |
| – Commodity swap contracts | | **201** | – | **–** | – |
| Cash flow hedges: | | | | | |
| – Interest rate swaps | | **1,449** | 350 | **–** | – |
| – Forward foreign exchange contracts | | **4,903** | 8,716 | **–** | 326 |
| – Fuel oil swaps | | **2,905** | 5,148 | **–** | – |
| – Electricity futures market contract | | **–** | 43 | **–** | – |
| | | **13,105** | 36,976 | **–** | 326 |
| **Non-current Liabilities** | | | | | |
| Financial liabilities at fair value through profit or loss, on initial recognition: | | | | | |
| – Interest rate swaps | | **213** | 63 | **–** | – |
| – Electricity futures market contract | | **15** | 154 | **–** | – |
| – Foreign exchange option contracts | | **64** | 314 | **–** | – |
| – Cross currency swaps | | **7,097** | 1,044 | **–** | – |
| Cash flow hedges: | | | | | |
| – Interest rate swaps | | **13,882** | 4,068 | **–** | – |
| – Forward foreign exchange contracts | | **1,624** | 23,310 | **–** | – |
| – Fuel oil swaps | | **496** | 3,599 | **–** | – |
| – Cross currency swaps | | **30,669** | 8,217 | **–** | – |
| – Put liability to acquire non-controlling interests | (a) | **–** | 215,885 | **–** | – |
| | | **54,060** | 256,654 | **–** | – |



## 18. Other Financial Liabilities *(cont'd)*

a. The 2016 amount represents the fair value of the put liability to acquire the non-controlling interests as part of the share purchase agreement of a subsidiary. Under the agreement, the Group entered into put and call options with the shareholders of SGI (i.e. non-controlling shareholders upon the Group's acquisition of 60% in SGI in 2015).

During the year, the Group acquired the remaining interest in SGI (refer Note 34). Consequently, as at December 31, 2017, the Group no longer has a put liability.

## 19. Retirement Benefit Obligations

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| Provision for retirement gratuities | (a) | **3,696** | 3,791 |
| Defined benefit (assets) / obligations | (b) | **(2,601)** | 3,104 |
| | | **1,095** | 6,895 |
| **Defined benefit obligations** | | | |
| – Current | 15 | **187** | 330 |
| – Non-current | | **3,810** | 6,565 |
| **Defined benefit assets** | | | |
| – Non-current | 8 | **(2,902)** | – |

### a. Provision for Retirement Gratuities

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Balance at January 1 | **3,791** | 3,284 |
| Translation adjustments | **(172)** | 65 |
| Provision made during the year | **705** | 627 |
| Less: Amount paid | **(628)** | (185) |
| Balance at December 31 | **3,696** | 3,791 |

Certain subsidiaries provide end of service benefits to its expatriate employees. The entitlement to these benefits is usually based upon the employee's length of service and the completion of a minimum service period.

## 19. Retirement Benefit Obligations *(cont'd)*

### b. Defined Benefit Obligations

Certain subsidiaries provide pension arrangements to its full time employees through defined benefit plans and the related costs are assessed in accordance with the advice of professionally qualified actuaries.

One of the pension schemes has been closed to further accruals from June 1, 2013. The pensions for all active members at the closure date, which are based on service prior to closure, remain linked to final pensionable salary.

The numbers shown below have been based on calculations carried out by qualified independent actuaries to take into account the requirements of FRS 19 in order to assess the liabilities of the schemes at December 31, 2017 and December 31, 2016.

The present values of the funded defined benefit obligations, the related current service cost and, where applicable, past service cost was measured using the projected unit credit method. Details of the schemes are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Present value of funded defined benefit obligations | **241,908** | 238,826 |
| Fair value of plan assets | **(244,509)** | (235,722) |
| (Surplus) / Deficit in scheme | **(2,601)** | 3,104 |

The amounts included in the balance sheet are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Defined benefit obligations | **–** | 3,104 |
| Defined benefit assets | **(2,601)** | – |
| | **(2,601)** | 3,104 |

The proportion of fair value of plan assets at the balance sheet is analysed as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Equity instruments | **83,299** | 79,551 |
| Debt instruments | **135,771** | 133,941 |
| Other assets | **25,439** | 22,230 |
| | **244,509** | 235,722 |

The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by the Group.

## 19. Retirement Benefit Obligations *(cont'd)*

### b. Defined Benefit Obligations *(cont'd)*

**Movement in net defined benefit (asset) / liability**

The following table shows reconciliation from the opening balances to the closing balances for net defined benefit (asset) / liability and its components.

| | Defined benefit obligation | | Fair value of plan assets | | Net defined benefit liability / (asset) | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | |
| Balance at January 1 | **238,826** | 236,339 | **(235,722)** | (230,473) | **3,104** | 5,866 |
| **Included in income statement** | | | | | | |
| Service cost | **528** | 172 | **–** | – | **528** | 172 |
| Interest cost / (income) | **6,369** | 7,658 | **(6,223)** | (7,480) | **146** | 178 |
| | **6,897** | 7,830 | **(6,223)** | (7,480) | **674** | 350 |
| **Included in other comprehensive income** | | | | | | |
| Re-measurements loss / (gain): | | | | | | |
| – Actuarial loss / (gain) arising from: | | | | | | |
| – demographic assumptions | **(3,847)** | – | **–** | – | **(3,847)** | – |
| – financial assumptions | **8,297** | 43,120 | **–** | – | **8,297** | 43,120 |
| – experience adjustment | **863** | (2,142) | **–** | – | **863** | (2,142) |
| – Return on plan assets excluding interest income | **–** | – | **(8,759)** | (40,999) | **(8,759)** | (40,999) |
| Effect of movements in exchange rates | **1,910** | (38,680) | **(2,114)** | 37,495 | **(204)** | (1,185) |
| | **7,223** | 2,298 | **(10,873)** | (3,504) | **(3,650)** | (1,206) |
| **Other** | | | | | | |
| Contributions paid by employer | **–** | – | **(2,630)** | (2,052) | **(2,630)** | (2,052) |
| Benefits paid | **(11,038)** | (7,828) | **10,939** | 7,787 | **(99)** | (41) |
| Acquisition of subsidiaries | **–** | 187 | **–** | – | **–** | 187 |
| | **(11,038)** | (7,641) | **8,309** | 5,735 | **(2,729)** | (1,906) |
| **Balance at December 31** | **241,908** | 238,826 | **(244,509)** | (235,722) | **(2,601)** | 3,104 |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18 (2016: 19) years.

## 19. Retirement Benefit Obligations *(cont'd)*

**b. Defined Benefit Obligations** *(cont'd)*

**Principal actuarial assumptions**

The main financial assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 19 are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | % | % |
| Discount rate at December 31 | **2.5** | 2.7 |
| Future rate of pension increases | **1.9 – 3.1** | 1.9 – 3.0 |

Assumptions regarding future mortality are based on published statistics and mortality tables. The expected remaining life expectancy of an individual retiring at age 65 is 21 (2016: 21) for male and 24 (2016: 25) for female.

A 1% increase / decrease in discount rate would have decreased / increased the defined benefit obligations by 15.3% / 19.6% (2016: 16.5% / 21.4%). A 1% increase / decrease in future rate of pension increases would have increased / decreased the defined benefit obligations by 12.4% / 11.9% (2016: 15.2% / 13.6%).

## 20. Interest-bearing Borrowings

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| **Current Liabilities** | | | |
| Secured term loans | (b) | **695,409** | 548,509 |
| Unsecured term loans | (c) | **875,850** | 1,559,793 |
| Bank overdrafts | 14 | **197** | 16,785 |
| Finance lease liabilities | (d) | **995** | 500 |
| | | **1,572,451** | 2,125,587 |
| **Non-current Liabilities** | | | |
| Non-convertible debentures | (a) | **10,498** | 10,613 |
| Secured term loans | (b) | **3,010,419** | 3,209,950 |
| Unsecured term loans | (c) | **5,250,861** | 3,872,806 |
| Finance lease liabilities | (d) | **3,375** | 2,348 |
| | | **8,275,153** | 7,095,717 |
| | | **9,847,604** | 9,221,304 |

Included in interest-bearing borrowings are S$988,085,000 (2016: S$1,000,178,000) of loans taken with a related corporation.

## 20. Interest-bearing Borrowings *(cont'd)*

***Effective interest rates and maturity of liabilities (excluding finance lease liabilities)***

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | % | % |
| Floating rate loans | **1.34 – 12.40** | 1.59 – 16.05 |
| Fixed rate loans | **0.77 – 12.80** | 1.55 – 16.09 |
| Bonds & notes | **2.94 – 4.25** | 2.94 – 4.25 |
| Debentures | **12.00** | 12.00 |

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Within 1 year | **1,571,456** | 2,125,087 |
| After 1 year but within 5 years | **5,201,071** | 4,041,847 |
| After 5 years | **3,070,707** | 3,051,522 |
| Total borrowings | **9,843,234** | 9,218,456 |

**a. Non-convertible Debentures**

In 2015, a subsidiary had issued non-convertible debentures of INR 500 million at interest rate of 12.0% per annum and repayable from 2020 to 2023.

**b. Secured Term Loans**

The secured term loans are collaterised by the following assets:

| | | Group | |
|---|---|---|---|
| | | Net Book Value | |
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| Property, plant and equipment | 3(i) | **4,982,344** | 4,972,484 |
| Investment properties | 4 | **39,332** | 39,871 |
| Unit trusts and funds | 7 | **53,769** | 32,348 |
| Trade and other receivables | 8 | **1,080,254** | 721,388 |
| Intangible assets | 11 | **872** | 1,468 |
| Inventories | 13 | **127,866** | 88,543 |
| Properties under development | 13 | **65,931** | 66,834 |
| Cash and cash equivalents | 14 | **282,103** | 216,942 |
| Equity shares of a subsidiary | | **568,391** | 723,548 |

## 20. Interest-bearing Borrowings *(cont'd)*

### c. Unsecured Term Loans

Included in the unsecured term loans are the following medium term notes of the Group:

The Company jointly with Sembcorp Financial Services Pte Ltd (SFS), a wholly-owned subsidiary of the Company, have established a S$2.5 billion Multicurrency Multi-Issuer Debt Issuance Programme (the "Programme"). Under the Programme, the Company, together with SFS and certain other subsidiaries of the Company (the "Issuing Subsidiaries"), may from time to time issue Notes and Securities under the Programme subject to availability of funds from the market. The obligations of the Issuing Subsidiaries under the Programme are fully guaranteed by the Company.

As at December 31, 2017 and 2016, SFS has the following outstanding medium term notes issued under the Programme:

| | Nominal interest rate | Year of issue | Year of maturity | Principal amount 2017 S$'000 | Principal amount 2016 S$'000 |
|---|---|---|---|---|---|
| S$ medium term notes | 6 month SOR + 0.55% | 2010 | 2017 | – | 100,000 |
| S$ medium term notes | 3.7325% | 2010 | 2020 | 300,000 | 300,000 |
| S$ medium term notes | 4.25% | 2010 | 2025 | 100,000 | 100,000 |
| S$ medium term notes | 3.64% | 2013 | 2024 | 200,000 | 200,000 |
| S$ medium term notes | 2.94% | 2014 | 2021 | 100,000 | 100,000 |
| S$ medium term notes | 3.593% | 2014 | 2026 | 150,000 | 150,000 |
| | | | | 850,000 | 950,000 |

Apart from the medium term notes issued by SFS, the Company has S$800 million outstanding perpetual securities of which S$200 million was issued in 2013 and another S$600 million in 2015 under the Programme. The perpetual securities are accounted as equity of the Group.

As at December 31, an amount of S$189,000,000 (2016: S$165,000,000) medium term notes was held by a related corporation.

Sembcorp Marine Ltd (SCM), a subsidiary of the Company has a S$2 billion Multicurrency Multi-Issuer Debt Issuance Programme (the "Programme") pursuant to which SCM, together with its subsidiaries, Jurong Shipyard Pte Ltd, Sembcorp Marine Repairs & Upgrades Pte Ltd and Sembcorp Marine Offshore Platforms Pte Ltd (formerly known as SMOE Pte Ltd) (the "Issuing SCM Subsidiaries"), may from time to time issue notes (the "Notes") and / or perpetual securities (the "Perpetual Securities", and together with the Notes, the "Securities") denominated in Singapore dollars and / or any other currency as the relevant Issuer and the relevant dealer may agree. The obligations in respect of Securities issued by the Issuing Subsidiaries will be unconditionally and irrevocably guaranteed by SCM.

Under the Programme, SCM or any of the Issuing SCM Subsidiaries may from time to time issue notes in series or tranches in Singapore Dollars or any other currency. Such notes are listed on the Singapore Exchange Securities Trading Limited and are cleared through the Central Depository (Pte) Ltd. The notes are redeemable at par.

As at December 31, 2017 and 2016, Jurong Shipyard Pte Ltd, a subsidiary of SCM, has the following outstanding medium term notes under the Programme:

| | Nominal interest rate | Year of issue | Year of maturity | Principal amount S$'000 |
|---|---|---|---|---|
| S$ medium term notes | 2.95% | 2014 | 2021 | 275,000 |
| S$ medium term notes | 3.85% | 2014 | 2029 | 325,000 |
| | | | | 600,000 |

As at December 31, 2017, an amount of S$167,500,000 (2016: S$167,500,000) medium term notes was held by a related corporation.



## 20. Interest-bearing Borrowings *(cont'd)*

### d. Finance Lease Liabilities

The Group has obligations under finance leases that are payable as follows:

| | 2017 Payments S$'000 | 2017 Interest S$'000 | 2017 Principal S$'000 | 2016 Payments S$'000 | 2016 Interest S$'000 | 2016 Principal S$'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Within 1 year | **1,276** | **281** | **995** | 772 | 272 | 500 |
| After 1 year but within 5 years | **3,068** | **830** | **2,238** | 1,913 | 755 | 1,158 |
| After 5 years | **1,678** | **541** | **1,137** | 1,849 | 659 | 1,190 |
| Total | **6,022** | **1,652** | **4,370** | 4,534 | 1,686 | 2,848 |

Under the terms of the lease agreements, no contingent rents are payable. The interest rates range from 1.60% to 18.27% (2016: 1.75% to 14.70%) per annum.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

| | Accrued interest payable (Note 15) S$'000 | Interest-bearing borrowings* (Note 20) S$'000 | Finance lease liabilities (Note 20) S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Balance at January 1, 2017** | 44,834 | 9,201,671 | 2,848 | 9,249,353 |
| **Cash flows** | | | | |
| Cash payments | – | (2,426,971) | (1,034) | (2,428,005) |
| Cash proceeds | – | 3,206,073 | – | 3,206,073 |
| Interest paid | (484,220) | – | – | (484,220) |
| **Non-cash items** | | | | |
| Capitalised borrowing cost | – | 504 | – | 504 |
| Interest expenses, including amortisation of capitalised transaction costs | 482,286 | 13,535 | – | 495,821 |
| New finance lease | – | – | 2,411 | 2,411 |
| Foreign exchange movement | 307 | (151,775) | 145 | (151,323) |
| | 482,593 | (137,736) | 2,556 | 347,413 |
| **Balance at December 31, 2017** | 43,207 | 9,843,037 | 4,370 | 9,890,614 |

* Excluding finance lease liabilities and bank overdrafts.

## 21. Share Capital

| | Group and Company No. of ordinary shares 2017 | 2016 |
|---|---|---|
| Issued and fully paid, with no par value: | | |
| At the beginning and end of the year | **1,787,547,732** | 1,787,547,732 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

## 22. Other Reserves

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| **Distributable** | | | | | |
| Reserve for own shares | (a) | **(125)** | (5,490) | **(125)** | (5,490) |
| **Non-distributable** | | | | | |
| Currency translation reserve | (b) | **(262,078)** | (113,534) | **–** | – |
| Capital reserve | (c) | **159,399** | 109,103 | **(140,925)** | (131,503) |
| Merger reserve | (d) | **29,201** | 29,201 | **–** | – |
| Share-based payments reserve | (e) | **(8,595)** | (13,712) | **143,167** | 130,479 |
| Fair value reserve | (f) | **26,177** | 20,773 | **–** | – |
| Hedging reserve | (g) | **(26,655)** | (78,488) | **–** | (207) |
| | | **(82,676)** | (52,147) | **2,117** | (6,721) |

a. Reserve for Own Shares
At December 31, 2017, the Company held 42,827 (2016: 1,990,038) of its own uncancelled shares as treasury shares.

b. Currency Translation Reserve
The currency translation reserve comprises:

i. Foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the presentation currency of the Group;

ii. Exchange differences on monetary items which form part of the Group's net investment in foreign operations; and

iii. Gains or losses on instruments used to hedge the Group's net investment in foreign operations that are determined to be effective hedges.

c. Capital reserve comprises acquisitions and disposals with non-controlling interests that do not result in a change of control, capitalisation of accumulated profits for the issue of bonus shares, capital reserve (net of goodwill) on consolidation and equity accounting, asset revaluation reserve, capital redemption reserve, convertible loan stock reserve and transfer from revenue reserve in accordance with the regulations of the foreign jurisdiction in which the Group's subsidiaries, associates and joint ventures operate, and treasury shares of a subsidiary.

Capital reserve also comprises the recognition of call options issued to non-controlling interests of subsidiaries, as these options are regarded as equity instruments, when they are settled by the delivery of a fixed number of equity shares for a fixed amount of cash.

d. Merger reserve represents the difference between the value of shares issued by the Company in exchange for the value of shares acquired in respect of the acquisition of subsidiaries accounted for under the pooling-of-interest method.

e. Share-based payments reserve comprises the cumulative value of services received from employees recorded on grant of equity-settled share options, performance shares and performance based restricted shares. The expense for service received is recognised over the performance period and / or vesting period. The amount in the share-based payments reserve is retained when the options are exercised or expire.

f. Fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investments are derecognised.

g. Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

## 23. Perpetual Securities

On June 22, 2017, the Company issued subordinated perpetual securities (the "perpetual securities") with an aggregate principal amount of S$200,000,000. Incremental costs incurred amounting to S$533,000 was recognised in equity as a deduction from proceeds.

On May 20, 2015, the Company issued subordinated perpetual securities (the "perpetual securities") with an aggregate principal amount of S$600,000,000. Incremental costs incurred amounting to S$3,449,000 was recognised in equity as a deduction from proceeds.

On August 21, 2013, the Company issued subordinated perpetual securities (the "perpetual securities") with an aggregate principal amount of S$200,000,000. Incremental costs incurred amounting to S$1,249,000 was recognised in equity as a deduction from proceeds.

Such perpetual securities bear distributions at a rate of 3.7% to 5.0% per annum, payable semi-annually. Subject to the relevant terms and conditions in the offering memorandum, the Company may elect to defer making distributions on the perpetual securities, and is not subject to any limits as to the number of times a distribution can be deferred.

As a result, the perpetual securities do not meet the definition for classification as a financial liability under FRS 32 *Financial Instruments: Disclosure and Presentation*. The whole instrument is presented within equity, and distributions are treated as dividends.

During the financial year, distributions amounting to S$42,886,000 (2016: S$39,013,000) were accrued to perpetual security holders.

As at December 31, 2017, an amount of S$24,000,000 (2016: S$17,000,000) perpetual securities was held by a related corporation.

## 24. Other Comprehensive Income

Tax effects relating to each component of other comprehensive income:

| | Group | | | Group | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Before tax | Tax expense | Net of tax | Before tax | Tax expense | Net of tax |
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| Foreign currency translation differences for foreign operations | **(151,000)** | **–** | **(151,000)** | (41,597) | – | (41,597) |
| Exchange differences on monetary items forming part of net investment in a foreign operation | **(6,336)** | **–** | **(6,336)** | 9,893 | – | 9,893 |
| Share of other comprehensive income of associates and joint ventures | **55,444** | **–** | **55,444** | 18,376 | – | 18,376 |
| Cash flow hedges: net movement in hedging reserves (Note (a)) | **34,602** | **(7,488)** | **27,114** | 155,893 | (27,901) | 127,992 |
| Available-for-sale financial assets: net movement in fair value reserve (Note (b)) | **4,711** | **115** | **4,826** | (11,083) | 92 | (10,991) |
| Realisation of reserve upon disposal / liquidation of subsidiaries | **(15,646)** | **–** | **(15,646)** | (6,259) | – | (6,259) |
| Realisation of reserve upon disposal of assets held for sale | **(20,484)** | **–** | **(20,484)** | – | – | – |
| Realisation of reserve upon disposal of a joint venture | **–** | **–** | **–** | (3,530) | – | (3,530) |
| Realisation of reserve when a joint venture became a subsidiary | **–** | **–** | **–** | 2,390 | – | 2,390 |
| Defined benefit plan actuarial gains and losses | **3,400** | **(658)** | **2,742** | (102) | (97) | (199) |
| **Other comprehensive income** | **(95,309)** | **(8,031)** | **(103,340)** | 123,981 | (27,906) | 96,075 |

## 24. Other Comprehensive Income *(cont'd)*

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **S$'000** | **S$'000** |
| **a. Cash flow hedges:** | | |
| Net change in fair value of hedging instruments | **54,980** | 105,282 |
| Amount reclassified to profit or loss | **(20,378)** | 50,611 |
| Tax expense | **(7,488)** | (27,901) |
| Net movement in the hedging reserve during the year recognised in other comprehensive income | **27,114** | 127,992 |
| **b. Available-for-sale financial assets:** | | |
| Changes in fair value | **37,369** | (19,420) |
| Amount reclassified to profit or loss | **(32,658)** | 8,337 |
| Tax expense | **115** | 92 |
| Net changes in fair value during the year recognised in other comprehensive income | **4,826** | (10,991) |

## 25. Turnover

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **S$'000** | **S$'000** |
| Sale of gas, water, electricity and related services | **5,067,321** | 3,763,025 |
| Ship and rig repair, building, conversion, charter hire and related services | **2,358,427** | 3,521,650 |
| Construction and engineering related activities | **257,531** | 210,090 |
| Service concession revenue | **532,869** | 278,092 |
| Others | **129,457** | 134,191 |
| | **8,345,605** | 7,907,048 |

Included in the service concession revenue is deemed finance income of S$43.1 million (2016: S$13.3 million).

## 26. Finance Income and Finance Costs

| | | Group | |
|---|---|---|---|
| | | **2017** | **2016** |
| | **Note** | **S$'000** | **S$'000** |
| **Finance income** | | | |
| – associates and joint ventures | | **9,068** | 5,726 |
| – bank and others | | **33,528** | 24,692 |
| | | **42,596** | 30,418 |

The finance income arose from loan and receivables.

| | | | |
|---|---|---|---|
| **Finance costs** | | | |
| Interest paid and payable to, measured at amortised cost: | | | |
| – banks and others | | **480,001** | 385,973 |
| Amortisation of capitalised transaction costs | | **15,820** | 9,605 |
| Unwind of discount on restoration costs | **17** | **4,747** | 6,977 |
| Interest rate swap: | | | |
| – termination of interest rate swaps | | **–** | (403) |
| – changes in fair value through profit or loss | | **25,214** | (143) |
| | | **525,782** | 402,009 |

## 27. Tax Expense

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **S$'000** | **S$'000** |
| **Current tax expense** | | |
| Current year | **114,287** | 98,564 |
| Over provided in prior years | **(65,959)** | (35,470) |
| Foreign withholding tax | **4,906** | 5,128 |
| | **53,234** | 68,222 |
| **Deferred tax expense** | | |
| Movements in temporary differences | **(29,668)** | 21,045 |
| Under provided in prior years | **44,196** | 13,530 |
| Effect of changes in tax rates | **(371)** | (2,513) |
| | **14,157** | 32,062 |
| Tax expense | **67,391** | 100,284 |

## 27. Tax Expense *(cont'd)*

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| ***Reconciliation of effective tax rate*** | | |
| Profit for the year | **244,712** | 437,154 |
| Total tax expense | **67,391** | 100,284 |
| Share of results of associates and joint ventures, net of tax | **(164,058)** | (125,121) |
| Profit before share of results of associates and joint ventures, and tax expense | **148,045** | 412,317 |
| | | |
| Tax using Singapore tax rate of 17% | **25,168** | 70,094 |
| Effect of changes in tax rates | **(371)** | (2,513) |
| Effect of different tax rates in foreign jurisdictions | **5,894** | (16,361) |
| Tax incentives and income not subject to tax | **(62,504)** | (40,740) |
| Expenses not deductible for tax purposes | **42,117** | 36,557 |
| Utilisation of deferred tax benefits not previously recognised | **(4,441)** | (607) |
| Over provided in prior years | **(21,763)** | (21,940) |
| Deferred tax benefits not recognised | **75,722** | 69,563 |
| Foreign withholding tax | **4,906** | 5,128 |
| Tax adjustment on changes in undistributed profits from foreign entities | **(56)** | (1,534) |
| Others | **2,719** | 2,637 |
| Tax expense | **67,391** | 100,284 |

## 28. Profit for the year

The following items have been included in arriving at profit for the year:

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| **a. Expenses** | | | |
| Allowance for / (write-back of) impairment losses (net) | | | |
| – property, plant and equipment | 3 | **25,778** | (6,707) |
| – receivables | 36(b) | **(15,567)** | 1,735 |
| Reversal of contracts costs (net) on termination, net of write-down of inventories and foreseeable loss on contract work-in-progress | | **(9,677)** | 3,080 |
| Amortisation of intangible assets | 11 | **40,330** | 37,674 |
| Audit fees paid / payable | | | |
| – auditors of the Company | | **1,810** | 1,996 |
| – other member firms of KPMG International | | **1,320** | 1,242 |
| – other auditors | | **679** | 470 |
| Non-audit fees paid / payable | | | |
| – auditors of the Company | | **886** | 823 |
| – other member firms of KPMG International | | **652** | 204 |
| – other auditors | | **1,248** | 828 |
| Depreciation | | | |
| – property, plant and equipment | 3 | **529,897** | 414,912 |
| – investment properties | 4 | **1,101** | 1,127 |
| Professional fee paid to directors or a firm in which a director is a member | | **1** | 2 |
| Operating lease expenses | | **26,688** | 26,337 |
| Property, plant and equipment written off | | **3,050** | 3,489 |
| Intangible assets written off | 11 | **147** | 8,335 |
| Bad debts (written back) / written off | | **(12)** | 2,936 |
| Provision for fines | | **25,390** | – |
| Net change in fair value of cash flow hedges | | **(24,363)** | 48,563 |
| | | | |
| **Staff costs** | | | |
| Staff costs | | **838,725** | 834,549 |
| | | | |
| Included in staff costs are: | | | |
| Equity-settled share-based payments | | **17,785** | 18,807 |
| Cash-settled share-based payments | | **2,764** | (131) |
| Contributions to: | | | |
| – defined benefit plan | | **528** | 172 |
| – defined contribution plan | | **51,241** | 47,247 |

## 28. Profit for the year *(cont'd)*

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | S$'000 | S$'000 |
| **b. Other operating income** | | | |
| Grants received | | | |
| – income related | | **7,675** | 8,488 |
| (Loss) / gain on disposal of property, plant and equipment | | **(1,752)** | 73 |
| Net exchange gain | | **8,434** | 9,228 |
| Net change in fair value of cash flow hedges | | **1,524** | 2,567 |
| Net change in fair value of fair value hedges | | **(3,454)** | 4,146 |
| Net change in fair value of financial assets measured at fair value through profit or loss | | **(3,477)** | (37,783) |
| **c. Non-operating income and (expenses)** | | | |
| Gross dividend income from available-for-sale financial assets | | **417** | 275 |
| Gain on disposal / liquidation of: | | | |
| – subsidiaries | | **4,613** | – |
| – joint venture / associate | | **–** | 34,758 |
| – other financial assets | | **21,669** | 2,796 |
| – assets / investments held for sale | | **46,816** | 3,820 |
| Allowance for / (write-back of) impairment losses (net) | | | |
| – goodwill | 11 | **26,378** | – |
| – associates | | **4,163** | 2,120 |
| – joint ventures | | **–** | (1,134) |
| Fair value gain on re-measurement of pre-existing equity interest in joint venture and available-for-sale financial assets, which became subsidiaries | | **–** | 7,734 |
| Negative goodwill | 34 | **169** | 2,858 |
| Assumption of liabilities on behalf of a joint venture | | **(11,000)** | – |
| Impairment losses on available-for-sale financial assets | 7 | **(2,275)** | (78,938) |

## 29. Non-controlling Interests

The following subsidiaries have material non-controlling interests:

| | | | Ownership interests held by non-controlling interests | |
|---|---|---|---|---|
| **Name of company** | **Country of incorporation** | **Operating Segment** | **2017 %** | **2016 %** |
| Sembcorp Marine Group | Singapore | Marine | 39.0 | 39.0 |
| Sembcorp Gayatri Power Limited (India Thermal Energy) | India | Utilities | 12.0 | 12.0 |
| Sembcorp Energy India Ltd (formerly known as Thermal Powertech Corporation India Limited) (India Thermal Energy) | India | Utilities | 13.1 | 13.1 |

## 29. Non-controlling Interests *(cont'd)*

The following summarises the financial information of the Group's subsidiaries with material non-controlling interests, based on its (consolidated) financial statements prepared in accordance with FRS:

| | Sembcorp Marine Group | India Thermal Energy |
|---|---|---|
| | S$'000 | S$'000 |
| **2017** | | |
| Revenue | **2,387,354** | 1,482,957 |
| Profit / (loss) for the year | **9,948** | (148,945) |
| Other comprehensive income | **(55,509)** | (9,804) |
| **Total comprehensive income** | **(45,561)** | (158,749) |
| Attributable to non-controlling interests: | | |
| Profit / (loss) for the year | **1,362** | (17,435) |
| Other comprehensive income | **(21,647)** | (1,265) |
| **Total comprehensive income** | **(20,285)** | (18,700) |
| Non-current assets | **4,462,964** | 3,788,575 |
| Current assets | **4,688,484** | 850,960 |
| Non-current liabilities | **(3,489,465)** | (2,819,504) |
| Current liabilities | **(3,142,611)** | (852,393) |
| **Net assets** | **2,519,372** | 967,638 |
| **Net assets attributable to non-controlling interests** | **1,002,067** | 123,137 |
| Cash flows from operating activities | **49,647** | 282,553 |
| Cash flows from / (used in) investing activities | **65,405** | (35,922) |
| Cash flows used in financing activities | **(23,751)** | (277,489) |
| **Net increase / (decrease) in cash and cash equivalents** | **91,301** | (30,858) |
| **Dividends paid to non-controlling interests** | **(16,566)** | – |
| **2016** | | |
| Revenue | **3,544,816** | 700,428 |
| Profit / (loss) for the year | **75,160** | (66,410) |
| Other comprehensive income | **51,668** | 10,249 |
| **Total comprehensive income** | **126,828** | (56,161) |
| Attributable to non-controlling interests: | | |
| Profit / (loss) for the year | **27,116** | (9,467) |
| Other comprehensive income | **17,467** | (3,696) |
| **Total comprehensive income** | **44,583** | (13,163) |
| Non-current assets | **4,396,528** | 3,955,893 |
| Current assets | **5,018,305** | 729,218 |
| Non-current liabilities | **(3,058,930)** | (2,756,989) |
| Current liabilities | **(3,748,282)** | (801,568) |
| **Net assets** | **2,607,621** | 1,126,554 |
| **Net assets attributable to non-controlling interests** | **1,040,215** | 141,835 |
| Cash flows from operating activities | **568,513** | 64,801 |
| Cash flows used in investing activities | **(490,485)** | (88,837) |
| Cash flows from financing activities | **534,374** | 62,903 |
| **Net increase in cash and cash equivalents** | **612,402** | 38,867 |
| **Dividends paid to non-controlling interests** | **(29,089)** | – |

## 30. Earnings Per Share

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| **a. Basic earnings per share** | | |
| Basic earnings per share is based on: | | |
| i. Profit attributable to owners of the Company: | | |
| Profit attributable to equity holders of the Company | **230,772** | 394,889 |
| Less: Profit attributable to perpetual security holders of the Company | **(42,886)** | (39,013) |
| Profit attributable to owners of the Company | **187,886** | 355,876 |
| | No. of shares | No. of shares |
| | '000 | '000 |
| ii. Weighted average number of ordinary shares: | | |
| Issued ordinary shares at January 1 | **1,785,558** | 1,785,176 |
| Effect of share options exercised, performance shares and restricted shares released | **2,654** | 2,408 |
| Effect of own shares held | **(1,201)** | (1,028) |
| Weighted average number of ordinary shares at December 31 | **1,787,011** | 1,786,556 |

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| **b. Diluted earnings per share** | | |
| Diluted earnings per share is based on: | | |
| i. Profit attributable to owners of the Company: | | |
| Profit attributable to equity holders of the Company | **230,772** | 394,889 |
| Less: Profit attributable to perpetual security holders of the Company | **(42,886)** | (39,013) |
| Profit attributable to owners of the Company | **187,886** | 355,876 |
| | No. of shares | No. of shares |
| | '000 | '000 |
| ii. Weighted average number of shares issued used in the calculation of basic earnings per share | **1,787,011** | 1,786,556 |
| Weighted average number of unissued ordinary shares from: | | |
| – share options | **–** | 9 |
| – performance shares | **3,166** | 3,266 |
| – restricted shares | **12,207** | 12,371 |
| Weighted average number of ordinary shares | **1,802,384** | 1,802,202 |



## 30. Earnings Per Share *(cont'd)*

For the purpose of calculating diluted earnings per ordinary share, the weighted average number of ordinary shares outstanding is adjusted for the effects of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: performance shares and restricted shares (2016: three categories of dilutive potential ordinary shares: share options, performance shares and restricted shares). All share options have expired on June 9, 2016.

For share options, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from the exercise of all outstanding share options granted to employees where such shares would be issued at a price lower than the fair value (average share price during the year). The difference between the weighted average number of shares to be issued at the exercise prices under the options and the weighted average number of shares that would have been issued at the fair value (ie. average market price) based on assumed proceeds from the issue of these shares are treated as ordinary shares issued for no consideration. The number of such shares issued for no consideration is added to the number of ordinary shares outstanding in the computation of diluted earnings per share. No adjustment is made to the profit attributable to owners of the Company. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

For performance shares and restricted shares, the weighted average number of ordinary shares in issue is adjusted as if all dilutive performance shares and restricted shares are released. No adjustment is made to the profit attributable to owners of the Company.

## 31. Dividends

Subject to the approval by the shareholders at the next Annual General Meeting, the directors have proposed a final ordinary one-tier tax exempt dividend of 2.0 cents per share (2016: one-tier tax exempt dividend of 4.0 cents per share) amounting to an estimated net dividend of S$35,750,000 (2016: S$71,422,000) in respect of the year ended December 31, 2017, based on the number of issued shares as at December 31, 2017.

The proposed dividend of 2.0 (2016: 4.0) cents per share has not been included as a liability in the financial statements.

| | Group and Company | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| **Dividend paid** | | |
| Interim one-tier tax exempt dividend of 3.0 cents per share in respect of year 2017 (2016: 4.0 cents per share in respect of year 2016) | **53,625** | 71,478 |
| Final one-tier tax exempt dividend of 4.0 cents per share in respect of year 2016 (2016: 6.0 cents per share in respect of year 2015) | **71,492** | 107,246 |
| | **125,117** | 178,724 |

## 32. Share-based Incentive Plans

The Company's Performance Share Plan (SCI PSP 2010) and Restricted Share Plan (SCI RSP 2010) (collectively, the "2010 Share Plans") were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on April 22, 2010. The 2010 Share Plans replaced the Share Plans which were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on June 5, 2000 and expired in 2010.

The Executive Resource & Compensation Committee (the "Committee") of the Company has been designated as the Committee responsible for the administration of the Share Plans. The Committee comprises the following members, all of whom are directors:

Ang Kong Hua (Chairman)
Margaret Lui
Tan Sri Mohd Hassan Marican
Nicky Tan Ng Kuang *(appointed on April 19, 2017)*

The SCI RSP 2010 is the incentive scheme for directors and employees of the Group whereas SCI PSP 2010 is aimed primarily at key executives of the Group.

The 2010 Share Plans are intended to increase the Company's flexibility and effectiveness in its continuing efforts to attract, retain and incentivise participants to higher standards of performance and encourage greater dedication and loyalty by enabling the Company to give recognition to past contributions and services; as well as motivating participants to contribute to the long-term prosperity of the Group. The 2010 Share Plans will strengthen the Company's competitiveness in attracting and retaining talented key senior management and senior executives.

The SCI RSP 2010 is intended to apply to a broad base of senior executives as well as to the non-executive directors, while the SCI PSP 2010 is intended to apply to a select group of key senior management. Generally, it is envisaged that the range of performance targets to be set under the SCI RSP 2010 and the SCI PSP 2010 will be different, with the latter emphasising stretched or strategic targets aimed at sustaining longer term growth.

The 2010 Share Plans will provide incentives to high performing key senior management and senior executives to excel in their performance and encourage greater dedication and loyalty to the Company. Through the 2010 Share Plans, the Company will be able to motivate key senior management and senior executives to continue to strive for the Group's long-term shareholder value. In addition, the 2010 Share Plans aim to foster a greater ownership culture within the Group which align the interests of participants with the interests of shareholders, and to improve performance and achieve sustainable growth for the Company in the changing business environment.

The 2010 Share Plans use methods fairly common among major local and multinational companies to incentivise and motivate key senior management and senior executives to achieve pre-determined targets which create and enhance economic value for shareholders. The Company believes that the 2010 Share Plans will be effective tools in motivating key senior management and senior executives to strive to deliver long-term shareholder value.

While the 2010 Share Plans cater principally to Group executives, it is recognised that there are other persons who can make significant contributions to the Group through their close working relationship with the Group. Such persons include employees of associated companies over which the Company has operational control.

A participant's awards under the 2010 Share Plans will be determined at the sole discretion of the Committee. In considering an award to be granted to a participant, the Committee may take into account, *inter alia*, the participant's performance during the relevant period, and his capability, entrepreneurship, scope of responsibility and skill set.



## 32. Share-based Incentive Plans *(cont'd)*

Other information regarding the 2010 Share Plans and Share Option Plan is as follows:

**a. Share Option Plan**

Under the rules of the Share Option Plan, participants who ceased to be employed by the Group or the associated company by reason of ill health, injury or disability, redundancy, retirement at or after the legal retirement age, retirement before the legal retirement age, death, etc., or any other event approved by the Committee, may be allowed by the Committee to retain their unexercised options. The Committee may determine the number of shares comprised in that option which may be exercised and the period during which such option shall be exercisable, being a period not later than the expiry of the exercise period in respect of that option. Such option may be exercised at any time notwithstanding that the date of exercise of such option falls on a date prior to the first day of the exercise period in respect of such option.

Other information regarding the Share Option Plan is as follows:

i. The exercise price of the options can be set at market price or a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant. Market price is the volume-weighted average price for the shares on the Singapore Exchange Securities Trading Limited (SGX-ST) over the three consecutive trading days prior to grant date of that option. For all options granted to date, the exercise prices are set at market price.

ii. After the first 12 months of lock-out period, the Group imposed a further vesting of 4 years for managers and above for retention purposes.

iii. In 2016, all options were settled by the issuance of treasury shares.

iv. The options granted expire after 5 years for non-executive directors and associated company's employees, and 10 years for the employees of the Group. There are no outstanding share options for non-executive directors.

v. All options have expired on June 9, 2016.

**Sembcorp Industries Ltd**
**Ordinary shares**
**2016**

| Date of grant of options | Exercise price per share | Options outstanding at Jan 1, 2016 | Options exercised | Options cancelled / lapsed / not accepted | Options outstanding at Dec 31, 2016 | Options exercisable at Jan 1, 2016 | Options exercisable at Dec 31, 2016 |
|---|---|---|---|---|---|---|---|
| 09/06/2006 | S$2.52 | 319,549 | (169,250) | (150,299) | – | 319,549 | – |
| | | **319,549** | **(169,250)** | **(150,299)** | **–** | **319,549** | **–** |

## 32. Share-based Incentive Plans *(cont'd)*

**a. Share Option Plan** *(cont'd)*

All options granted under the Share Option Plan on ordinary shares of Sembcorp Marine Ltd expired on October 2, 2016.

**Sembcorp Marine Ltd**
**Ordinary shares**
**2016**

| Date of grant of options | Exercise price per share | Options outstanding at Jan 1, 2016 | Options exercised | Options cancelled / lapsed / not accepted | Options outstanding at Dec 31, 2016 | Options exercisable at Jan 1, 2016 | Options exercisable at Dec 31, 2016 |
|---|---|---|---|---|---|---|---|
| 02/10/2006 | S$2.38 | 973,312 | – | (973,312) | – | 973,312 | – |
| | | **973,312** | **–** | **(973,312)** | **–** | **973,312** | **–** |

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

In 2016, Sembcorp Industries Ltd's options exercised in 2016 were all settled by way of issuance of treasury shares. Sembcorp Industries Ltd's options were exercised on a regular basis throughout the year. The weighted average share price in 2016 was S$2.74. All share options granted under the Share Option Plan on ordinary shares of Sembcorp Industries Ltd expired on June 9, 2016.

In 2016, Sembcorp Marine Ltd's options exercised in 2016 resulted in 414,000 ordinary shares being issued at a weighted average price of S$3.09. All share options granted under the Share Option Plan on ordinary shares of Sembcorp Marine Ltd expired on October 2, 2016.

**b. Performance Share Plan**

Under the Performance Share Plan (SCI PSP 2010), the awards granted conditional on performance targets are set based on medium-term corporate objectives at the start of each rolling three-year performance qualifying period. A specific number of performance shares shall be awarded at the end of the three-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset.

The performance levels were calibrated based on Wealth Added and Total Shareholder Return. For awards granted from 2014 onwards, the performance levels were calibrated based on Wealth Added, Total Shareholder Return and Earnings per share. A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Performance shares to be delivered will range between 0% to 150% of the conditional performance shares awarded.

To create alignment between senior management and other employees at the time of vesting, SCI PSP 2010 has in place a plan trigger. Under this trigger mechanism, the performance shares for the performance period 2017 to 2019 will be vested to the senior management participants only if the restricted shares for the performance period 2018 to 2019 are vested, subject to the achievement of the performance conditions for the respective performance periods.

Senior management participants are required to hold a minimum percentage of the shares released to them under the Performance Share Plan to maintain a beneficial ownership stake in the Group, for the duration of their employment or tenure with the Group. A maximum cap is set based on a multiple of the individual participant's annual base salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.



## 32. Share-based Incentive Plans *(cont'd)*

**b. Performance Share Plan** *(cont'd)*

**i. Sembcorp Industries Ltd Performance Shares**

The details of the movement of the performance shares of Sembcorp Industries Ltd awarded during the year are as follows:

| | 2017 | 2016 |
|---|---|---|
| At January 1 | **2,418,250** | 2,081,250 |
| Conditional performance shares awarded | **889,553** | 987,000 |
| Conditional performance shares lapsed | **(304,500)** | (25,000) |
| Performance shares lapsed arising from targets not met | **(600,000)** | (625,000) |
| At December 31 | **2,403,303** | 2,418,250 |

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2014 to 2016 (2016: performance period 2013 to 2015), no performance shares were released via the issuance of treasury shares (2016: nil).

In 2017, 600,000 (2016: 625,000) performance shares were lapsed for under-achievement of the performance targets for the performance period 2014 to 2016 (2016: 2013 to 2015).

The total number of performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at end 2017, was 2,403,303 (2016: 2,418,250). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 3,604,954 (2016: 3,627,375) performance shares.

**ii. Performance shares of a listed subsidiary**

The details of the movement of the performance shares of Sembcorp Marine Ltd awarded during the year are as follows:

| | 2017 | 2016 |
|---|---|---|
| At January 1 | **4,513,000** | 3,200,000 |
| Conditional performance shares awarded | **1,600,000** | 1,918,000 |
| Performance shares lapsed arising from targets not met | **(1,380,000)** | (605,000) |
| At December 31 | **4,733,000** | 4,513,000 |

No performance shares of Sembcorp Marine Ltd were awarded to the directors of the Company.

With the Sembcorp Marine Ltd's committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2014 to 2016 (2016: performance period 2013 to 2015), no performance shares were released via the issuance of treasury shares (2016: nil).

In 2017, 1,380,000 (2016: 605,000) performance shares lapsed for under-achievement of the performance targets for the performance period 2014 to 2016 (2016: 2013 to 2015).

The total number of performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at December 31, 2017, was 4,733,000 (2016: 4,513,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 7,099,500 (2016: 6,769,500) performance shares.

## 32. Share-based Incentive Plans *(cont'd)*

### b. Performance Share Plan *(cont'd)*

#### ii. Performance shares of a listed subsidiary *(cont'd)*

*Fair value of performance shares*

The fair values of the performance shares are estimated using a Monte Carlo simulation methodology at the grant dates.

The fair values of performance shares granted during the year are as follows:

| | Fair value of Sembcorp Industries Ltd performance shares granted on May 15, 2017 | Fair value of Sembcorp Industries Ltd performance shares granted on May 10, 2016 | Fair value of Sembcorp Marine Ltd performance shares granted on May 26, 2017 | Fair value of Sembcorp Marine Ltd performance shares granted on May 27, 2016 |
|---|---|---|---|---|
| Fair value at measurement date | **S$2.69** | S$1.40 | **S$1.45** | S$0.85 |
| **Assumptions under the Monte Carlo model** | | | | |
| Share price | **S$3.18** | S$2.69 | **S$1.69** | S$1.56 |
| Expected volatility: | | | | |
| Sembcorp Industries Ltd / Sembcorp Marine Ltd | **29.5%** | 27.1% | **35.1%** | 29.2% |
| Morgan Stanley Capital International (MSCI) AC Asia Pacific excluding Japan Industrials Index | **13.9%** | 13.9% | **14.0%** | 13.4% |
| Correlation with MSCI | **48.3%** | 42.6% | **44.0%** | 43.2% |
| Risk-free interest rate | **1.23%** | 1.11% | **1.3%** | 1.2% |
| Expected dividend | **3.56%** | 5.95% | **2.9%** | 2.9% |

The expected volatility is based on the historical volatility over the most recent period that is close to the expected life of the performance shares.

During the year, the Group charged S$2,334,000 (2016: S$3,576,000) to the profit or loss based on the fair value of the performance shares at the grant date being expensed over the vesting period.

### c. Restricted Share Plan

Under the Restricted Share Plan (SCI RSP 2010), the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria for the restricted shares are calibrated based on Return on Total Assets (excluding Sembcorp Marine Ltd) and Group Profit from Operations (excluding Sembcorp Marine Ltd) for awards granted in 2017.

A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Based on the criteria, restricted shares to be delivered will range from 0% to 150% of the conditional restricted shares awarded.

The managerial participants of the Group will be awarded restricted shares under SCI RSP 2010, while the non-managerial participants of the Group will receive their awards in an equivalent cash value. This cash-settled notional restricted shares award for non-managerial participants is known as the Sembcorp Challenge Bonus.

A specific number of restricted shares shall be awarded at the end of the two-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset. There is a further vesting period of three years after the performance period, during which one-third of the awarded shares are released each year to managerial participants. Non-managerial participants will receive the equivalent in cash at the end of the two-year performance cycle, with no further vesting conditions.



## 32. Share-based Incentive Plans *(cont'd)*

### c. Restricted Share Plan *(cont'd)*

Senior management participants are required to hold a minimum percentage of the shares released to them under the Restricted Share Plan to maintain a beneficial ownership stake in the Group, for the duration of their employment or tenure with the Group. A maximum cap is set based on a multiple of the individual participant's annual base salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.

To align the interests of the non-executive directors with the interests of shareholders, up to 30% of the aggregate directors' fees approved by shareholders for a particular financial year may be paid out in the form of restricted shares awards under the SCI RSP 2010.

From 2011, non-executive directors were not awarded any shares except as part of their directors' fees (except for Tang Kin Fei, who was the Group President & CEO until March 31, 2017, and who did not receive any directors' fees). In 2017 and 2016, the awards granted consisted of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. Non-executive directors are required to hold shares (including shares obtained by other means) worth at least one-time the annual base retainer; any excess may be sold as desired. A non-executive director can dispose of all of his shares one year after leaving the Board.

The actual number of shares awarded to each non-executive director will be determined by reference to the volume-weighted average price of a share on the SGX-ST over the 14 trading days from (and including) the day on which the shares are first quoted ex-dividend after the AGM (or, if the resolution to approve the final dividend is not approved, over the 14 trading days immediately following the date of the AGM). The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash. A non-executive director who steps down before the payment of the share component will receive all of his director's fees for the year (calculated on a pro-rated basis, where applicable) in cash.

#### i. Sembcorp Industries Ltd Restricted Shares

The details of the movement of the restricted shares of Sembcorp Industries Ltd awarded during the year are as follows:

| | 2017 | 2016 |
|---|---|---|
| At January 1 | **9,095,728** | 7,829,129 |
| Conditional restricted shares awarded | **3,554,234** | 3,980,832 |
| Conditional restricted shares lapsed | **(247,977)** | (416,046) |
| Additional restricted shares awarded arising from targets met | **589,655** | 536,350 |
| Conditional restricted shares released | **(3,263,724)** | (2,834,537) |
| At December 31 | **9,727,916** | 9,095,728 |

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016, a total of 1,422,285 restricted shares were released in 2017. For awards in relation to the performance period 2014 to 2015, a total of 940,410 (2016: 910,442) were released in 2017. For awards in relation to the performance period 2013 to 2014, a total of 696,429 (2016: 734,804) restricted shares were released in 2017. For awards in relation to the performance period 2012 to 2013, no restricted shares were released in 2017 (2016: 966,691). In 2017, there were 204,600 (2016: 218,100) shares released to non-executive directors. In 2016, there were additional 4,500 shares released to employees due to sale of a subsidiary. Of the restricted shares released, 36,513 (2016: 32,572) restricted shares were cash-settled. The remaining restricted shares were released via the issuance of treasury shares.

## 32. Share-based Incentive Plans *(cont'd)*

### c. Restricted Share Plan *(cont'd)*

#### i. Sembcorp Industries Ltd Restricted Shares *(cont'd)*

In 2017, additional 589,655 (2016: 536,350) restricted shares were awarded for the over-achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015).

The total number of restricted shares outstanding, including award(s) achieved but not released, as at end 2017, was 9,727,916 (2016: 9,095,728). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 6,947,566 (2016: 6,686,507). Based on the multiplying factor, the actual release of the conditional awards could range from zero to a maximum of 10,421,349 (2016: 10,029,760) restricted shares.

Sembcorp Challenge Bonus

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015), a total of S$1,609,946, equivalent to 438,253 (2016: S$1,239,046, equivalent to 401,914) notional restricted shares, were paid. A total of 660,000 (2016: 566,000) notional restricted shares of Sembcorp Industries Ltd's shares were awarded in 2017 for the Sembcorp Challenge Bonus.

The total number of notional restricted shares in awards for the Sembcorp Challenge Bonus granted conditionally and representing 100% of targets to be achieved, but not released as at end 2017, was 1,226,000 (2016: 1,002,012). Based on the multiplying factor, the number of notional restricted shares to be converted into the funding pool could range from zero to a maximum of 1,839,000 (2016: 1,503,018).

#### ii. Restricted shares of a listed subsidiary

The details of the movement of the restricted shares of Sembcorp Marine Ltd awarded during the year are as follows:

| | 2017 | 2016 |
|---|---|---|
| At January 1 | **13,716,142** | 10,101,585 |
| Conditional restricted shares awarded | **8,176,450** | 8,232,700 |
| Conditional restricted shares lapsed | **(798,920)** | (474,378) |
| Restricted shares lapsed arising from targets not met | **(3,923,317)** | (1,471,967) |
| Conditional restricted shares released | **(1,786,942)** | (2,671,798) |
| At December 31 | **15,383,413** | 13,716,142 |

With the Sembcorp Marine Ltd's committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016, a total of 266,891 restricted shares were released. For awards in relation to the performance period 2014 to 2015, a total of 386,942 (2016: 461,541) restricted shares were released. For awards in relation to the performance period 2013 to 2014, a total of 733,009 (2016: 845,290) restricted shares were released. In 2016, 848,667 restricted shares were released for awards in relation to the performance period 2012 to 2013. In 2017, 400,100 (2016: 516,300) restricted shares were released to non-executive directors. The restricted shares were released via the issuance of treasury shares.

In 2017, 3,923,317 (2016: 1,471,967) Sembcorp Marine Ltd's restricted shares were lapsed for under-achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015).

The total number of Sembcorp Marine Ltd's restricted shares outstanding, including awards achieved but not released, as at December 31, 2017, was 15,383,413 (2016: 13,716,142). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 14,674,000 (2016: 12,239,840). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 22,011,000 (2016: 18,359,760) restricted shares.



## 32. Share-based Incentive Plans *(cont'd)*

### c. Restricted Share Plan *(cont'd)*

#### ii. Restricted shares of a listed subsidiary *(cont'd)*

Challenge Bonus of a listed subsidiary

With the Sembcorp Marine Ltd's committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015), a total of S$454,284 (2016: S$766,416), equivalent to 248,950 (2016: 456,064) notional restricted shares, were paid.

A total of 3,074,000 (2016: 3,387,850) notional restricted shares were awarded on May 26, 2017 (2016: May 27, 2016) for the Sembcorp Marine Challenge Bonus.

The total number of notional restricted shares in awards for the Sembcorp Marine Challenge Bonus granted conditionally and representing 100% of targets to be achieved, but not released as at December 31, 2017, was 5,230,850 (2016: 4,827,393). Based on the multiplying factor, the number of notional restricted shares to be converted into the funding pool could range from zero to a maximum of 7,846,275 (2016: 7,241,090).

Fair value of restricted shares

The fair values of the restricted shares are estimated using a Monte Carlo simulation methodology at the grant dates.

The fair values of restricted shares granted during the year are as follows:

| | Fair value of Sembcorp Industries Ltd restricted shares granted on May 15, 2017 | Fair value of Sembcorp Industries Ltd restricted shares granted on May 10, 2016 | Fair value of Sembcorp Marine Ltd restricted shares granted on May 26, 2017 | Fair value of Sembcorp Marine Ltd restricted shares granted on May 27, 2016 |
|---|---|---|---|---|
| Fair value at measurement date | **S$2.81** | S$2.26 | **S$1.50** | S$1.40 |
| **Assumptions under the Monte Carlo model** | | | | |
| Share price | **S$3.18** | S$2.69 | **S$1.69** | S$1.56 |
| Expected volatility: | | | | |
| Sembcorp Industries Ltd / Sembcorp Marine Ltd | **29.5%** | 27.1% | **35.1%** | 29.2% |
| Risk-free interest rate | **1.13%–1.34%** | 0.94%–1.28% | **1.1%–1.4%** | 1.0%–1.4% |
| Expected dividend | **3.56%** | 5.95% | **2.9%** | 2.9% |

The expected volatility is based on the historical volatility over the most recent period that is close to the expected life of the restricted shares.

During the year, the Group charged S$15,451,000 (2016: S$15,231,000) to the profit or loss based on the fair value of restricted shares at the grant date being expensed over the vesting period.

Fair value of Sembcorp Challenge Bonus

During the year, the Group charged S$2,829,000 (2016: wrote back charges of S$131,000) to the profit or loss based on the market values of the shares at the balance sheet date. The fair value of the compensation cost is based on the notional number of restricted shares awarded for Sembcorp Challenge Bonus and the market price at the vesting date.

## 33. Disposal of Significant Subsidiaries and Joint Venture

**2016**

i. In December 2016, the Group's wholly-owned subsidiary, China Water Company (Yancheng) Limited has completed the sale of its entire 49% stake in Yancheng China Water Co. Ltd (joint venture) to Yancheng City Municipal Utilities Investment Company Ltd for RMB260 million (approximately S$54.9 million). The gain on disposal of S$34.7 million was recognised in non-operating income.

## 34. Acquisition of Significant Subsidiaries and Non-controlling Interests

***Acquisition of Significant Subsidiaries***

**2016**

i. On March 9, 2016, Sembcorp Marine acquired an additional 44% equity stake in Gravifloat AS (Gravifloat), a marine engineering and naval architecture company, to 56% and Gravifloat became a subsidiary of the Group. Consequently, financial statements of Gravifloat were consolidated into the Group's financial statements.

The principal activity of Gravifloat is to design and hold patents for re-deployable modularised LNG and LPG solutions.

***Revenue and profit contribution***

The revenue and profit contribution from the new acquisition were not material.

Had the acquired businesses been consolidated from January 1, 2016, the contribution to the Group's consolidated revenue and consolidated profit for the year ended December 31, 2016, would not have been significant.

***Consideration transferred***

The following table summarises the acquisition date fair value of each major class of consideration transferred:

| | 2016 |
|---|---|
| | S$'000 |
| *a. Effect on cash flows of the Group* | |
| Cash paid | 47,258 |
| Less: Cash and cash equivalents in subsidiaries acquired | (7) |
| Cash outflow on acquisition | 47,251 |

| | Note | At fair value S$'000 |
|---|---|---|
| *b. Identifiable assets acquired and liabilities assumed* | | |
| Intangible assets | 11 | 134,575 |
| Other receivables | | 8 |
| Cash and cash equivalents | | 7 |
| Total assets | | 134,590 |
| Deferred tax liabilities | 12 | 33,633 |
| Total liabilities | | 33,633 |
| Total net identifiable assets | | 100,957 |
| Less: Non-controlling interests | | (44,421) |
| Add: Goodwill | 11 | 5,219 |
| Less: Amount previously accounted for as available-for-sale financial asset | | (5,004) |
| Less: Gain on deemed disposal of available-for-sale financial asset | 28 | (4,243) |
| Consideration transferred for the businesses | | 52,508 |
| Amount reflected as other payables | 15(b) | (5,250) |
| Cash paid | | 47,258 |



## 34. Acquisition of Significant Subsidiaries and Non-controlling Interests *(cont'd)*

***Acquisition of Significant Subsidiaries*** *(cont'd)*

***Measurement of fair values***

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

| Assets acquired | Valuation technique | Key assumptions |
|---|---|---|
| Intangible assets | Relief-from-royalty method | • Royalty rates based on existing patents |
| | | • Useful life of 10 years |
| | | • Discount rate of 24.5% |

***Non-controlling interests***

The Group has elected to measure the non-controlling interest (NCI) of Gravifloat at fair value at the date of acquisition, which amounted to S$44,421,000.

***Goodwill***

The goodwill of S$5,219,000 recognised on acquisition is primarily attributed to the control premium to acquire a controlling stake in Gravifloat. This goodwill recognised is not expected to be deductible for tax purpose.

The re-measurement to fair value of the Group's previously held 12% interest in Gravifloat resulted in a gain of S$4,243,000 in profit or loss on deemed disposal. This amount has been recognised in non-operating income (see Note 28).

***Acquisition-related costs***

The acquisition-related costs incurred in relation to the acquisition were immaterial and charged to profit or loss.

ii. On March 11, 2016, Sembcorp's interest in Sembcorp Gayatri Power Limited (SGPL), a thermal power plant in India, was increased from 49% to 65% with the acquisition of shares from the other shareholder and became a subsidiary of the Group. Consequently, the financial statements of SGPL were consolidated into the Group's financial statements from the acquisition date.

The principal activities of SGPL are to build, own and operate a 1,320 megawatt (2 x 660 megawatt units) coal-fired power plant in India.

***Revenue and profit contribution***

The acquired businesses contributed revenue of S$40,828,000 and loss for the year of S$32,400,000 to the Group's results for the period from March 11, 2016 to December 31, 2016.

Had the acquired businesses been consolidated from January 1, 2016, the Group's consolidated revenue and consolidated profit for the year ended December 31, 2016 would have been S$7,907,048,000 and S$436,277,000 respectively.

## 34. Acquisition of Significant Subsidiaries and Non-controlling Interests *(cont'd)*

### *Acquisition of Significant Subsidiaries (cont'd)*

#### *Consideration transferred*

The following table summarises the acquisition date fair value of each major class of consideration transferred:

| | | 2016 |
|---|---|---|
| | | S$'000 |
| *a. Effect on cash flows of the Group* | | |
| Cash paid | | 72,575 |
| Less: Cash and cash equivalents in subsidiaries acquired* | | (67,408) |
| Cash outflow on acquisition | | 5,167 |

| | Note | At fair value S$'000 |
|---|---|---|
| *b. Identifiable assets acquired and liabilities assumed* | | |
| Property, plant and equipment | 3 | 1,704,742 |
| Intangible assets | 11 | 106 |
| Trade and other receivables | | 98,414 |
| Inventories | | 95 |
| Cash and cash equivalents | | 78,457 |
| Total assets | | 1,881,814 |
| | | |
| Trade and other payables | | 144,359 |
| Current tax payable | | 7,146 |
| Borrowings | | 1,175,099 |
| Total liabilities | | 1,326,604 |
| | | |
| Total net identifiable assets | | 555,210 |
| Less: Non-controlling interests | | (102,640) |
| Add: Goodwill | 11 | 44,073 |
| Less: Amount previously accounted for as joint venture | | (418,187) |
| Less: Foreign currency translation reserve realised when the joint venture became a subsidiary | | (2,390) |
| Less: Fair value gain on step-up acquisition of a joint venture | 28 | (3,491) |
| Consideration transferred for the businesses | | 72,575 |

* *Excluded restricted cash of S$11,049,000*

#### *Measurement of fair values*

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

| Assets acquired | Valuation technique | Key assumptions |
|---|---|---|
| Property, plant and equipment | Market comparison technique and cost technique | Land valuation based on prevailing market rates of similar agricultural lands from certified land valuer. |

#### *Acquired receivables*

Included in trade and other receivables are trade receivables stated at fair value of S$68,088,000. SGPL has not commenced operations at the date of acquisition. Receivables mainly pertain to advances to suppliers.



## 34. Acquisition of Significant Subsidiaries and Non-controlling Interests *(cont'd)*

### *Acquisition of Significant Subsidiaries (cont'd)*

#### *Non-controlling interests*

The Group has elected to measure the non-controlling interest (NCI) based on their proportionate interest of the acquired business' net identifiable assets as recognised by the Group, which amounted to S$102,640,000.

#### *Goodwill*

The goodwill of S$44,073,000 recognised on acquisition is primarily attributed to the control premium to acquire a controlling stake in SGPL. None of the goodwill recognised is expected to be deductible for tax purpose.

The re-measurement to fair value of the Group's existing 49% interest in SGPL resulted in a gain of S$3,491,000 in profit or loss. This amount has been recognised in "Other Income" in the income statements (see Note 28).

None of the goodwill recognised is expected to be deductible for tax purpose.

#### *Acquisition-related costs*

Acquisition-related costs were not material and were borne by the Company.

iii. On August 26, 2016, Sembcorp Marine's wholly-owned subsidiary, Sembcorp Marine Integrated Yard (SMIY) acquired a 100% stake in LMG Marin AS (LMG). Consequently, the financial statements of LMG were consolidated into the Group's financial statements. LMG is a naval architecture as well as ship design and engineering house headquartered in Bergen, Norway, with offices in Poland and France.

In August 2016, a subsidiary in India acquired a 74% stake in Mulanur Renewable Energy Private Limited (Mulanur) for a consideration of INR1,125,000 (approximately S$23,000). This acquisition is consistent with the Group's plan to expand its renewable energy market.

#### *Revenue and profit contribution*

The revenue and profit contribution from these new acquisitions were not material.

Had the acquired businesses been consolidated from January 1, 2016, the contribution to the Group's consolidated revenue and consolidated profit for the year ended December 31, 2016, would not have been significant.

## 34. Acquisition of Significant Subsidiaries and Non-controlling Interests *(cont'd)*

***Acquisition of Significant Subsidiaries*** *(cont'd)*

***Consideration transferred***

The following table summarises the acquisition date fair value of each major class of consideration transferred:

| | 2016 |
|---|---|
| | S$'000 |
| *a. Effect on cash flows of the Group* | |
| Cash paid | 24,564 |
| Less: Cash and cash equivalents in subsidiaries acquired | (5,462) |
| Cash outflow on acquisition | 19,102 |

| | Note | At fair value S$'000 |
|---|---|---|
| *b. Identifiable assets acquired and liabilities assumed* | | |
| Property, plant and equipment | 3 | 32,191 |
| Intangible assets | 11 | 34,724 |
| Trade and other receivables | | 7,831 |
| Cash and cash equivalents | | 5,462 |
| Total assets | | 80,208 |
| Trade and other payables | | 40,875 |
| Current tax payable | | 22 |
| Deferred tax liabilities | | 8,586 |
| Total liabilities | | 49,483 |
| Total net identifiable assets | | 30,725 |
| Less: Non-controlling interests | | (576) |
| Less: Negative Goodwill | 28 | (2,858) |
| Consideration transferred for the businesses | | 27,291 |
| Amount reflected as other payables | 15(b) | (2,727) |
| Cash paid | | 24,564 |

***Measurement of fair values***

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

| Assets acquired | Valuation technique | Key assumptions |
|---|---|---|
| Property, plant and equipment | Market Value Approach | • Freehold land – Prevailing market rates of similar agricultural lands from certified land valuer. |
| | | • Plant and machinery – Current replacement costs derived from market quotes received from suppliers / manufacturers. |
| Intangible assets | Relief-from-royalty method | • Royalty rates based on existing ship design |
| | | • Useful life of 10 years |
| | | • Discount rates range from 26.4% to 34.2% |

***Acquired receivables***

Included in trade and other receivables are trade receivables stated at fair value of S$5,790,000. The gross contractual amount for trade receivables due is S$5,638,000, of which S$168,000 was expected to be uncollectible at the date of acquisition.



## 34. Acquisition of Significant Subsidiaries and Non-controlling Interests *(cont'd)*

***Acquisition of Significant Subsidiaries*** *(cont'd)*

***Non-controlling interests***

The Group has elected to measure the non-controlling interest (NCI) based on their proportionate interest of the acquired business' net identifiable assets as recognised by the Group, which amounted to S$575,000.

***Goodwill***

The negative goodwill of S$2,858,000 recognised on acquisitions in Mulanur and LMG were recognised in "Other Income" (see Note 28).

***Acquisition-related costs***

Acquisition-related costs were not material and charged to profit or loss.

***Acquisition of Significant Non-controlling Interests***

**2017**

i. In August 2017, the Company increased its shareholding in SGI from 68.74% to 71.57%, via subscription of the rights issues of Sembcorp Green Infra Limited (SGI).

Subsequently, the Group has entered an agreement to acquire the remaining balance of the equity stakes of SGI. The transfer of the legal title of the shares is expected to be completed in early 2018. However, with effect from September 2017, the Group has the beneficiary interests and all risks and rewards associated to these shares. Accordingly, the Group's stake in SGI for consolidation purposes was increased from 71.57% to 100%.

**2016**

i. On August 29, 2016, Sembcorp Marine acquired the remaining 15% in the issued and fully paid-up share capital of PPL Shipyard Pte Ltd (PPLS) for an aggregate cash consideration of US$115,059,000 (equivalent of S$156,778,000). Following the acquisition, PPLS became a wholly-owned subsidiary of Sembcorp Marine.

ii. As at December 31, 2015, the Company's effective holding in Sembcorp Energy India Ltd (SEIL) (formerly known as Thermal Powertech Corporation India Limited) was 67.4%, as the Company had agreed to defer the non-controlling interest (NCI) injection and not to exercise dilution rights and the subscription period remained open till March 31, 2016. In April 2016, the Company increased its shareholding in SEIL to 86.87%.

iii. In 2016, the Group increased its stake in SGI from 64.06% to 68.74% for a consideration amounting to S$60,434,000.

iv. Subsequent to the acquisition in March 2016, the Group increased its stake from 65% to 88% in SGPL as a result of the conversion of Fully and Compulsory Convertible Debenture.

The following summarises the effect of changes in the Group's ownership interest:

| | SGI S$'000 |
|---|---|
| **2017** | |
| Group's ownership interest at January 1, 2017 | 306,404 |
| Effect of increase in Group's ownership interest | 149,468 |
| Share of comprehensive income and capital injection during the year | 59,395 |
| Group's ownership interest at December 31, 2017 | 515,267 |

## 34. Acquisition of Significant Subsidiaries and Non-controlling Interests *(cont'd)*

| | PPL | SEIL | SGI | SGPL |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **2016** | | | | |
| Group's ownership interest at January 1, 2016 | 866,130 | 413,032 | 230,951 | 452,570 |
| Effect of increase in Group's ownership interest | 152,921 | 116,596 | (2,304) | 35,630 |
| Share of comprehensive income and capital injection during the year | (61,568) | (30,397) | 77,757 | (14,640) |
| Group's ownership interest at December 31, 2016 | 957,483 | 499,231 | 306,404 | 473,560 |

## 35. Related Parties

**a. Related party transactions**

The Group had the following significant outstanding balances and transactions with related parties during the year:

| | Outstanding balances | | Transactions | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Related Corporations** | | | | |
| Sales | **9,086** | 6,569 | **82,918** | 46,143 |
| Purchases including rental | **268** | 3,923 | **211,842** | 180,760 |
| Loans due from | **–** | 11,775 | **–** | – |
| Finance income | **–** | – | **2,272** | 1,952 |
| Finance expense | **–** | – | **24,813** | 23,336 |
| **Associates and Joint Ventures** | | | | |
| Sales | **14,562** | 9,365 | **66,964** | 68,147 |
| Purchases including rental | **7,881** | 8,111 | **4,428** | 14,008 |
| Payment on behalf | **–** | – | **4,836** | 6,026 |
| Loans due from | **64,472** | 144,399 | **–** | – |

The Group does not provide financial assistance to non-wholly-owned subsidiary companies. The balances due from related parties arose from the usual trade transactions, reimbursements and for financing of capital expansion.

## 35. Related Parties *(cont'd)*

**b. Compensation of key management personnel**

The Group considers the directors of the Company (including the Group President & CEO of the Company); the Group Chief Financial Officer; the President & CEO of Sembcorp Marine; the Head of Renewables & Environmental Business; the Head of Global Operations Group; and the CEO of Sembcorp Development Ltd to be key management personnel in accordance with FRS 24 *Related Party Disclosures*. These persons have the authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation paid is as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Directors' fees and remuneration | **8,676** | 6,221 |
| Other key management personnel remuneration | **7,661** | 7,480 |
| | **16,337** | 13,701 |
| Fair value of share-based compensation | **4,685** | 4,525 |

Remuneration includes salary (which includes allowances, fees and other emoluments) and bonus (which includes AWS, discretionary bonus and performance targets bonus).

In addition to the above, the Company provides medical benefits to all employees including key management personnel.

The Group adopts an incentive compensation plan, which is tied to the creation of Economic Value Added (EVA), as well as to attainment of individual and Group performance goals for its key executives. A "bonus bank" is used to hold incentive compensation credited in any year. Typically, one-third of the available balance is paid out in cash each year, with the balance being carried forward to the following year. The balances of the bonus bank in future will be increased or decreased by the yearly EVA performance of the Group and its subsidiaries achieved and the payouts made from the bonus bank.

The fair value of share-based compensation relates to performance shares and restricted shares granted that were charged to the profit or loss.

## 36. Financial Instruments

***Financial risk management objectives and policies***

The Group's activities expose it to market risk (including interest rate risk, foreign currency risk and price risk), credit risk and liquidity risk.

As part of the Group's Enterprise Risk Management framework, Group treasury policies and financial authority limits are documented and reviewed periodically. The policies set out the parameters for management of Group liquidity, counterparty risk, foreign exchange and derivative transactions and financing.

The Group utilises foreign exchange contracts, foreign exchange swaps, interest rate swaps, fuel oil swaps, contracts for differences and various financial instruments to manage exposures to interest rate, foreign exchange and commodity price risks arising from operating, financing and investment activities. Exposures to foreign currency risks are also hedged naturally by a matching sale or purchase of a matching asset or liability of the same currency and amount where possible. All such transactions must involve underlying assets or liabilities and no speculative transactions are allowed.

The financial authority limits seek to limit and mitigate transactional risks by setting out the threshold of approvals required for the entry into contractual obligations and investments.

## 36. Financial Instruments *(cont'd)*

### a. Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and reduce market risk exposures within acceptable parameters.

#### i. Interest rate risk

The Group's exposure to market risk for changes in interest rate environment relates mainly to its debt obligations.

The Group's policy is to maintain an efficient and optimal interest cost structure using a mix of fixed and variable rate debts and long-term and short-term borrowings.

The Group enters into interest rate swaps and cross currency swaps to reduce its exposure to interest rate volatility and the duration of such interest rate swaps and cross currency swaps do not exceed the tenor of the underlying debt.

At December 31, 2017, the Group had interest rate swaps and cross currency swaps with an aggregate notional amount of S$2,250,430,000 (2016: S$1,677,395,000), of which S$2,200,441,000 (2016: S$1,619,167,000) was designated as cash flow hedges. The Group receives a variable interest rate and pays a fixed rate interest ranging from 2.19% to 10.28% (2016: 0.98% to 13.05%) per annum on the notional amount. Interest rate swaps with notional amounts of S$277,255,000 (2016: S$506,231,000) are taken with a related corporation.

*Sensitivity analysis*

It is estimated that 100 basis points (bp) change in interest rate at the reporting date would increase / (decrease) equity and profit before tax by the following amounts. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | Profit before tax | | Equity | |
|---|---|---|---|---|
| | 100 bp | 100 bp | 100 bp | 100 bp |
| | Increase | Decrease | Increase | Decrease |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | |
| **December 31, 2017** | | | | |
| Variable rate financial instruments | **(33,944)** | 33,944 | **35,015** | (35,169) |
| **December 31, 2016** | | | | |
| Variable rate financial instruments | **(30,762)** | 30,762 | **32,269** | (32,603) |
| **Company** | | | | |
| **December 31, 2017** | | | | |
| Variable rate financial instruments | **7,138** | (7,138) | **–** | – |
| **December 31, 2016** | | | | |
| Variable rate financial instruments | **3,850** | (3,850) | **–** | – |



## 36. Financial Instruments *(cont'd)*

### a. Market risk *(cont'd)*

#### ii. Foreign currency risk

The Group operates globally and is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company and its subsidiaries. The currencies in which these transactions are primarily denominated in are Singapore dollars (SGD), United States dollars (USD), Euros (EURO), Pounds Sterling (GBP), Indian Rupee (INR) and Brazilian Real (BRL). Such risks are hedged either by forward foreign exchange contracts in respect of actual or forecasted currency exposures which are reasonably certain or hedged naturally by a matching sale or purchase of a matching asset or liability of the same currency and amount.

The Group's investments in its United Kingdom (UK) subsidiaries are hedged by GBP / SGD Cross Currency Swaps with notional amount of S$333,758,000 (2016: S$333,758,000), which mitigates the currency risks arising from the subsidiaries' net assets. In 2016, the Group's investments in its Middle East (ME) subsidiaries are hedged by a USD / SGD foreign exchange swap contract with a notional amount of S$26,615,000. In 2017, this USD / SGD foreign exchange swap contract has been settled. On consolidation, the effective portions of the fair value gain of S$166,000 (2016: Fair value gain of S$59,810,000), fair value gain of S$1,292,000 (2016: fair value loss of S$637,000) arising from the GBP / SGD Cross Currency Swaps, and USD / SGD foreign exchange swap contract respectively, are recognised directly in the foreign currency translation reserves. These financial instruments are designated as hedge of a net investment in foreign operations and were effective as at December 31, 2017.

Foreign exchange forward contracts and cross currency swaps with notional amounts of S$260,499,000 (2016: S$334,883,000) and S$339,607,000 (2016: S$339,607,000) respectively are taken with a related corporation.

## 36. Financial Instruments *(cont'd)*

### a. Market risk *(cont'd)*

#### ii. Foreign currency risk *(cont'd)*

The summary of quantitative data about the Group's exposure to foreign currency risk (excluding the GBP / SGD Cross Currency Swaps, GBP / SGD foreign exchange forward contract and foreign exchange swap contract that are designated as a hedge of the Group's net investments in its subsidiaries in United Kingdom (UK) and Middle East (ME)) as provided to the management of the Group based on its risk management policy was as follows:

| | SGD | USD | EURO | GBP | INR | BRL | Others |
|---|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | | |
| **2017** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 29,398 | 326,341 | 19,419 | 226,369 | – | 2,192 | 80,588 |
| Trade and other receivables | 77,215 | 1,066,753 | 6,144 | 6,242 | 965,929 | 9,109 | 92,398 |
| Due from customers on construction contracts | 4,626 | 853,244 | – | – | – | 156,030 | – |
| Other financial assets | – | 24,679 | – | – | 18,200 | – | – |
| | 111,239 | 2,271,017 | 25,563 | 232,611 | 984,129 | 167,331 | 172,986 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 101,020 | 668,201 | 56,808 | 119,069 | 296,071 | 67,173 | 45,902 |
| Interest-bearing borrowings | – | 616,186 | – | – | – | 95,094 | 100,374 |
| | 101,020 | 1,284,387 | 56,808 | 119,069 | 296,071 | 162,267 | 146,276 |
| Net financial assets / (liabilities) | 10,219 | 986,630 | (31,245) | 113,542 | 688,058 | 5,064 | 26,710 |
| Add: Firm commitments and highly probable forecast transactions in foreign currencies | (135) | 269,842 | (247,226) | 30,931 | – | (28,402) | (130,346) |
| Less: Cross currency swap | – | – | – | – | (890,188) | – | – |
| Less: Foreign exchange forward contracts | 16,171 | (109,321) | 5,302 | (160,725) | (53,595) | – | 969,346 |
| Net currency exposure | 26,255 | 1,147,151 | (273,169) | (16,252) | (255,725) | (23,338) | (865,710) |
| **2016** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 47,566 | 434,208 | 37,387 | 241,385 | – | – | 23,873 |
| Trade and other receivables | 15,110 | 1,292,008 | 27,754 | 21,159 | 173,557 | – | 155,089 |
| Due from customers on construction contracts | 1,359 | 1,028,923 | 8,833 | 14,026 | – | 156,030 | 29,798 |
| Other financial assets | – | 23,277 | – | – | 20,475 | – | – |
| | 64,035 | 2,778,416 | 73,974 | 276,570 | 194,032 | 156,030 | 208,760 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 108,561 | 747,675 | 58,088 | 72,266 | 9 | 36,690 | 101,922 |
| Interest-bearing borrowings | – | 1,275,228 | – | – | – | – | 5,640 |
| | 108,561 | 2,022,903 | 58,088 | 72,266 | 9 | 36,690 | 107,562 |
| Net financial (liabilities) / assets | (44,526) | 755,513 | 15,886 | 204,304 | 194,023 | 119,340 | 101,198 |
| Add: Firm commitments and highly probable forecast transactions in foreign currencies | (33,346) | 336,546 | (363,857) | 389,118 | – | (79,316) | 14,165 |
| Less: Cross currency swap | – | – | – | – | (167,548) | – | – |
| Less: Foreign exchange forward contracts | 32,208 | (581,441) | 57,853 | (639,516) | – | – | (8,417) |
| Net currency exposure | (45,664) | 510,618 | (290,118) | (46,094) | 26,475 | 40,024 | (106,946) |

## 36. Financial Instruments *(cont'd)*

### a. Market risk *(cont'd)*

#### ii. Foreign currency risk *(cont'd)*

The Company's gross exposure to foreign currencies is as follows:

| | USD | EURO | GBP | Others |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Company** | | | | |
| **2017** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 35,231 | – | 1 | – |
| Trade and other receivables | 83,360 | – | – | – |
| Long-term trade receivables | – | – | – | – |
| | 118,591 | – | 1 | – |
| **Financial liabilities** | | | | |
| Trade and other payables | 26,236 | 35 | 1,473 | 183 |
| Net financial assets / (liabilities) | 92,355 | (35) | (1,472) | (183) |
| Net currency exposure | 92,355 | (35) | (1,472) | (183) |
| **2016** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 13,984 | – | 21 | – |
| Trade and other receivables | 126,128 | – | 52 | – |
| Long-term trade receivables | – | – | – | – |
| | 140,112 | – | 73 | – |
| **Financial liabilities** | | | | |
| Trade and other payables | 36,080 | 22 | 217 | 285 |
| Net financial assets / (liabilities) | 104,032 | (22) | (144) | (285) |
| Net currency exposure | 104,032 | (22) | (144) | (285) |



## 36. Financial Instruments *(cont'd)*

### a. Market risk *(cont'd)*

#### ii. Foreign currency risk *(cont'd)*

*Sensitivity analysis*

A 10% strengthening of the following currencies against the functional currencies of the Company and its subsidiaries at the balance sheet date would have increased / (decreased) equity and profit before tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of firm commitments and highly probable forecast transactions in foreign currencies. The analysis is performed on the same basis for 2016.

| | Group | | Company | |
|---|---|---|---|---|
| | Equity | Profit before tax | Equity | Profit before tax |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **2017** | | | | |
| SGD | 1,358 | 1,022 | – | – |
| USD | 5,543 | 109,979 | – | 9,236 |
| EURO | 152 | (2,760) | – | (4) |
| GBP | (5,421) | 2,972 | – | (147) |
| INR | (92,558) | (27,393) | – | – |
| BRL | – | 506 | – | – |
| Others | 8,425 | 2,162 | – | (18) |
| **2016** | | | | |
| SGD | 2,644 | (4,452) | – | – |
| USD | (14,930) | 62,244 | – | 10,403 |
| EURO | 3,535 | 3,160 | – | (2) |
| GBP | (38,718) | 8,976 | – | (14) |
| INR | (12,028) | 600 | – | – |
| BRL | – | 11,934 | – | – |
| Others | 27 | (4,270) | – | (29) |

A 10% weakening of the above currencies against the functional currencies of the Company and its subsidiaries at the balance sheet date would have had the equal but opposite effect on the above currencies to the amounts shown above, except for amounts of S$1,820,000 (2016: S$2,048,000) relating to INR which would be recognised in profit before tax instead of equity, on the basis of impairment noted on the equity securities. This analysis is performed on the same basis for 2016 and assumes that all other variables remain constant.

## 36. Financial Instruments *(cont'd)*

### a. Market risk *(cont'd)*

#### iii. Price risk

*Unit trust and funds, and equity securities price risk*

The Group is exposed to unit trust and funds, and equity securities price risk because of the investments held by the Group which are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss.

*Sensitivity analysis*

If prices for unit trust and funds, and equity securities increase by 10% with all other variables held constant, the increase in equity and profit before tax will be:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Equity | **18,665** | 19,117 |

A 10% decrease in the underlying unit trust and funds, and equity securities prices would have had the equal but opposite effect to the amounts shown above, except for amounts of S$1,820,000 (2016: S$3,495,000) which would be recognised in profit before tax instead of equity, on the basis of impairment noted on the equity securities. The analysis is performed on the same basis for 2016 and assumes that all other variables remain constant.

*Commodity risk*

The Group hedges against fluctuations in commodity prices that affect revenue and cost. Exposures are managed via swaps and contracts for differences.

Contracts for differences are entered into with a counterparty at a strike price, with or without fixing the quantity upfront, to hedge against adverse price movements on the sale of electricity. Exposure to price fluctuations arising on the purchase of fuel is managed via fuel oil swaps where the price of fuel is indexed to a benchmark fuel price index, for example Singapore High Sulphur Fuel Oil 180 CST fuel oil and Dated Brent.

*Sensitivity analysis*

If prices for commodities increase by 10% with all other variables held constant, the increase in equity as a result of fair value changes on cash flow hedges will be:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Equity | **23,737** | 12,806 |

A 10% decrease in the prices for commodities would have had the equal but opposite effect to the amounts shown above. The analysis is performed on the same basis for 2016 and assumes that all other variables remain constant.



## 36. Financial Instruments *(cont'd)*

### a. Market risk *(cont'd)*

#### iii. Price risk *(cont'd)*

*Notional amount*

At the balance sheet date, the Group had financial instruments with the following notional contract amounts:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | Notional amount | Notional amount |
| | S$'000 | S$'000 |
| Fuel oil swap agreements | **247,158** | 133,109 |

In 2017, fuel oil swap contracts with notional amounts of S$1,588,000 (2016: Nil) are entered with a related corporation.

### b. Credit risk

The Group monitors its exposure to credit risks arising from sales to trade customers on an on-going basis, and credit evaluations are done on customers that require credit. The credit quality of customers is assessed after taking into account its financial position and past experience with the customers.

The Group only deals with pre-approved customers and financial institutions with good credit rating. To minimise the Group's counterparty risk, the Group enters into derivative transactions only with creditworthy institutions. Cash and fixed deposits are placed in banks and financial institutions with good credit rating.

The maximum exposure to credit risk is the carrying amount of each financial asset, including derivatives, in the balance sheet, before taking into account any collateral held.

The Group's and the Company's maximum exposure to credit risk for loans and receivables at the balance sheet date is as follows:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | S$'000 | S$'000 | S$'000 | S$'000 |
| **By business activity** | | | | | |
| Utilities | | **2,056,612** | 1,742,770 | **357,969** | 366,971 |
| Marine | | **2,352,233** | 2,751,652 | **–** | – |
| Urban Development | | **27,399** | 7,976 | **–** | – |
| Others | | **63,197** | 82,736 | **–** | – |
| | | **4,499,441** | 4,585,134 | **357,969** | 366,971 |
| **Loans and receivables** | | | | | |
| Non-current* | | **1,093,599** | 664,696 | **221,000** | 200,000 |
| Current | | **3,405,842** | 3,920,438 | **136,969** | 166,971 |
| | 8, 13 | **4,499,441** | 4,585,134 | **357,969** | 366,971 |

* *Not past due.*

## 36. Financial Instruments *(cont'd)*

### b. Credit risk *(cont'd)*

The age analysis of current loans and receivables is as follows:

| | Gross 2017 S$'000 | Impairment 2017 S$'000 | Gross 2016 S$'000 | Impairment 2016 S$'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Not past due | **2,926,850** | **1,434** | 3,449,492 | 9,419 |
| Past due 0 to 3 months | **322,626** | **4,006** | 261,231 | 2,333 |
| Past due 3 to 6 months | **103,366** | **548** | 97,564 | 571 |
| Past due 6 to 12 months | **42,195** | **4,064** | 65,390 | 2,716 |
| More than 1 year | **215,591** | **194,734** | 272,818 | 211,018 |
| | **3,610,628** | **204,786** | 4,146,495 | 226,057 |
| **Company** | | | | |
| Not past due | **121,651** | **–** | 113,109 | – |
| Past due 0 to 3 months | **14,360** | **–** | 3,309 | – |
| Past due 3 to 6 months | **419** | **–** | 351 | – |
| Past due 6 to 12 months | **105** | **–** | 2,403 | – |
| More than 1 year | **1,944** | **1,510** | 68,485 | 20,686 |
| | **138,479** | **1,510** | 187,657 | 20,686 |

Movements in the allowance for impairment of current and non-current loans and receivables are as follows:

| | Note | Group 2017 S$'000 | Group 2016 S$'000 | Company 2017 S$'000 | Company 2016 S$'000 |
|---|---|---|---|---|---|
| Balance at January 1 | | **235,415** | 226,873 | **20,686** | 20,686 |
| Currency translation difference | | **(7,340)** | 9,000 | **–** | – |
| Allowance made | | **15,947** | 9,683 | **–** | – |
| Allowance utilised | | **(6,501)** | (2,361) | **(4,948)** | – |
| Allowance written back | | **(31,514)** | (7,948) | **(14,228)** | – |
| Acquisition of subsidiary | | **–** | 168 | **–** | – |
| Disposal of subsidiary | | **(38)** | – | **–** | – |
| Balance at December 31 | 8 | **205,969** | 235,415 | **1,510** | 20,686 |

In 2017, impairment losses amounting to S$14,221,000 were written back as the past due receivables from a customer that was undergoing restructuring was received by the Group, upon completion of the restructuring exercise during the current year. Impairment losses relating to the past due receivables recognised previously amounted to S$19,169,000.

In 2017, S$15,997,000 (2016: S$7,492,000) was written back (being monies received) relating to a receivable that was previously impaired by approximately S$24,969,000.

The total net write-back of impairment losses of S$15,567,000 (2016: impairment losses of S$1,735,000) have been recognised in the general and administrative expenses.

The allowance account in respect of loans and receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written against the carrying amount of the impaired financial asset. Apart from the above, no impairment allowance is necessary in respect of outstanding trade receivables.



## 36. Financial Instruments *(cont'd)*

### c. Liquidity risk

The Group manages its liquidity risk with the view to maintaining a healthy level of cash and cash equivalents appropriate to the operating environment and expected cash flows of the Group. Liquidity requirements are maintained within the credit facilities established and are adequate and available to the Group to meet its obligations.

The cash flows associated with the cash flow hedges of the Group are expected to occur within 1 year and between 1-5 years. Correspondingly, the cash flows related to the hedging instruments (foreign exchange contracts, fuel oil swaps, interest rate swaps, cross currency swaps and electricity future market contracts) that are designated as cash flows hedges are expected to impact profit and loss within 1 year, between 1-5 years and upon disposal of its investment in subsidiaries.

The table below analyses the maturity profile of the Group's and the Company's financial liabilities (including derivatives financial liabilities) based on contractual undiscounted cash inflows / (outflows), including estimated interest payments and excluding the impact of netting agreements:

| | | Cash Flows | | | |
|---|---|---|---|---|---|
| | Carrying amount S$'000 | Contractual cash flow S$'000 | Less than 1 year S$'000 | Between 1 and 5 years S$'000 | Over 5 years S$'000 |
| **Group** | | | | | |
| **2017** | | | | | |
| **Derivatives** | | | | | |
| Derivative financial liabilities | 67,165 | | | | |
| – inflow | | 1,545,146 | 517,806 | 1,027,340 | – |
| – outflow | | (1,677,308) | (584,755) | (1,078,646) | (13,907) |
| Derivative financial assets | (127,450) | | | | |
| – inflow | | 1,619,466 | 1,092,847 | 521,116 | 5,503 |
| – outflow | | (1,499,259) | (996,440) | (502,819) | – |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables* | 3,477,019 | (3,477,019) | (3,338,390) | (45,184) | (93,445) |
| Interest-bearing borrowings | 9,847,604 | (12,584,654) | (2,095,481) | (6,237,102) | (4,252,071) |
| | 13,264,338 | (16,073,628) | (5,404,413) | (6,315,295) | (4,353,920) |
| **2016** | | | | | |
| **Derivatives** | | | | | |
| Derivative financial liabilities | 77,745 | | | | |
| – inflow | | 2,093,037 | 1,093,883 | 999,154 | – |
| – outflow | | (2,197,301) | (1,148,859) | (1,045,098) | (3,344) |
| Derivative financial assets | (122,407) | | | | |
| – inflow | | 1,270,403 | 743,969 | 515,393 | 11,041 |
| – outflow | | (1,147,521) | (661,803) | (485,718) | – |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables* | 3,454,853 | (3,454,853) | (3,341,692) | (35,208) | (77,953) |
| Put liability to acquire non-controlling interest | 215,885 | (215,885) | – | (215,885) | – |
| Interest-bearing borrowings | 9,221,304 | (12,491,711) | (2,594,864) | (5,569,862) | (4,326,985) |
| | 12,847,380 | (16,143,831) | (5,909,366) | (5,837,224) | (4,397,241) |

* *Excludes advance payments, deferred income, deferred grants, rental payable, Goods and Services Tax and employee benefits.*

## 36. Financial Instruments *(cont'd)*

### c. Liquidity risk *(cont'd)*

| | Carrying amount | Contractual cash flow (Cash Flows) | Less than 1 year (Cash Flows) | Between 1 and 5 years (Cash Flows) | Over 5 years (Cash Flows) |
|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Company** | | | | | |
| **2017** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables* | 405,378 | (448,611) | (141,218) | (154,827) | (152,566) |
| **2016** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables* | 400,513 | (452,962) | (141,951) | (153,042) | (157,969) |

* *Excludes advance payments, deferred income, deferred grants, rental payables, Goods and Services Tax and employee benefits.*

The following table indicates the periods in which the cash flow associated with derivatives that are cash flow hedges are expected to impact the profit or loss and the fair value of the related hedging instruments.

| | Carrying amount | Contractual cash flow (Cash Flows) | Less than 1 year (Cash Flows) | Between 1 and 5 years (Cash Flows) | Over 5 years (Cash Flows) |
|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | |
| **2017** | | | | | |
| **Derivative financial liabilities** | 55,928 | | | | |
| – inflow | | 1,282,105 | 254,765 | 1,027,340 | – |
| – outflow | | (1,401,521) | (303,836) | (1,090,235) | (7,450) |
| **Derivative financial assets** | (104,433) | | | | |
| – inflow | | 1,079,157 | 543,859 | 535,298 | – |
| – outflow | | (978,600) | (475,781) | (502,819) | – |
| | (48,505) | (18,859) | 19,007 | (30,416) | (7,450) |
| **2016** | | | | | |
| **Derivative financial liabilities** | 53,451 | | | | |
| – inflow | | 1,376,080 | 376,926 | 999,154 | – |
| – outflow | | (1,451,071) | (403,158) | (1,044,944) | (2,969) |
| **Derivative financial assets** | (79,441) | | | | |
| – inflow | | 691,700 | 510,472 | 180,772 | 456 |
| – outflow | | (613,513) | (447,678) | (165,835) | – |
| | (25,990) | 3,196 | 36,562 | (30,853) | (2,513) |



## 36. Financial Instruments *(cont'd)*

### c. Liquidity risk *(cont'd)*

| | Carrying amount | Contractual cash flow (Cash Flows) | Less than 1 year (Cash Flows) | Between 1 and 5 years (Cash Flows) | Over 5 years (Cash Flows) |
|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Company** | | | | | |
| **2016** | | | | | |
| **Derivative financial liabilities** | 326 | | | | |
| – inflow | | 28,038 | 28,038 | – | – |
| – outflow | | (28,364) | (28,364) | – | – |
| | 326 | (326) | (326) | – | – |

### d. Estimation of fair values

FRS 107 establishes a fair value hierarchy that prioritises the inputs used to measure fair value. The three levels of the fair value input hierarchy defined by FRS 107 are as follows:

- Level 1 – Fair values are measured based on quoted prices (unadjusted) from active markets for identical financial instruments.
- Level 2 – Fair values are measured using inputs, other than those used for Level 1, that are observable for the financial instruments either directly (prices) or indirectly (derived from prices).
- Level 3 – Fair values are measured using inputs which are not based on observable market data (unobservable input).

***Securities***

The fair value of financial assets at fair value through profit or loss, and available-for-sale financial assets, is based on quoted market prices (bid price) in an active market at the balance sheet date without any deduction for transaction costs. If the market for a quoted financial asset is not active, and for unquoted financial assets, the Group establishes fair value by using other valuation techniques.

## 36. Financial Instruments *(cont'd)*

### d. Estimation of fair values *(cont'd)*

***Derivatives***

The fair value of foreign exchange contracts and foreign exchange swaps are accounted for based on the difference between the contractual price and the current market price.

The fair values of interest rate swaps and cross currency swaps are the indicative amounts that the Group is expected to receive or pay to terminate the swap with the swap counterparties at the balance sheet date.

The fair value of fuel oil swaps contracts is accounted for based on the difference between the contractual strike price with the counterparty and the current market price.

The fair value of the put liability derivatives is accounted based on the share price and volatility in share price of the option.

Contracts for differences (CFDs) are accounted for based on the difference between the contracted price entered into with the counterparty and the reference price. The electricity futures market was launched on April 1, 2015. There have been minimal trades made and the fair values of the electricity futures would need to be adjusted to reflect the illiquidity. The utilisation of valuation techniques involving prices from the electricity future market to compute the fair values of the CFDs will result in a wide range of estimated fair values. As such, it is determined that the fair value of the CFDs cannot be measured reliably. The CFDs are measured at cost at the measurement date. Upon settlement, the gains and losses for CFDs are taken to profit or loss.

***Non-derivative non-current financial assets and liabilities***

Carrying amount of non-derivative non-current financial assets and liabilities which bear floating interest are assumed to approximate their fair value because of the short period to repricing. Fair values determined for the remaining non-derivative non-current financial assets and liabilities are calculated based on discounted expected future principal and interest cash flows at the market rate of interest at the reporting date. This includes determination for fair value disclosure purpose as well.

Fair value determined for the put liability is calculated based on the present value of the obligation computed based on the expected exercise price.

For finance leases, the market rate of interest is determined by reference to similar lease agreements.

***Other financial assets and liabilities***

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values because of the short period to maturity.

For financial instruments that are not actively traded in the market, the fair value is determined by independent third party or using valuation techniques where applicable. The Group may use a variety of methods and make assumptions that are based on existing market conditions at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used to estimate the fair value for medium term notes for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. Where discounted cash flow techniques are used, the management will estimate the future cash flows and use relevant market rate as the discount rate at the balance sheet date.



## 36. Financial Instruments *(cont'd)*

### e. Fair value hierarchy

The following table sets forth by level within the fair value hierarchy of the financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2017. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

***Financial assets and liabilities carried at fair value***

| | Fair value measurement using: | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | |
| **At December 31, 2017** | | | | |
| Available-for-sale financial assets | 146,573 | 694 | 39,379 | 186,646 |
| Derivative financial assets | – | 128,142 | – | 128,142 |
| | 146,573 | 128,836 | 39,379 | 314,788 |
| Derivative financial liabilities | – | (67,165) | – | (67,165) |
| | 146,573 | 61,671 | 39,379 | 247,623 |
| **At December 31, 2016** | | | | |
| Available-for-sale financial assets | 153,252 | 537 | 37,377 | 191,166 |
| Derivative financial assets | – | 126,553 | – | 126,553 |
| | 153,252 | 127,090 | 37,377 | 317,719 |
| Put liability | – | – | (215,885) | (215,885) |
| Derivative financial liabilities | – | (77,745) | – | (77,745) |
| | 153,252 | 49,345 | (178,508) | 24,089 |
| **Company** | | | | |
| **At December 31, 2017** | | | | |
| Derivative financial assets | – | 141 | – | 141 |
| **At December 31, 2016** | | | | |
| Derivative financial liabilities | – | (326) | – | (326) |

In 2017 and 2016, there have been no transfers between the different levels of the fair value hierarchy.

## 36. Financial Instruments *(cont'd)*

**e. Fair value hierarchy** *(cont'd)*

*Level 3 fair values*

**i. Available-for-sale financial assets**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of available-for-sale financial assets in Level 3 of the fair value hierarchy:

| | Available-for-sale |
|---|---|
| | S$'000 |
| **Group** | |
| **At January 1, 2017** | 37,377 |
| Additions | 984 |
| Net change in fair value recognised in other comprehensive income | 1,018 |
| **At December 31, 2017** | 39,379 |
| **At January 1, 2016** | 34,477 |
| Additions | 2,661 |
| Net change in fair value recognised in other comprehensive income | 239 |
| **At December 31, 2016** | 37,377 |

Available-for-sale financial assets in Level 3 of the fair value hierarchy include unquoted equity shares, venture capital funds and unquoted funds.

The fair value of the unquoted equity shares and venture capital funds are determined by reference to the investment's net asset values as stated in the unaudited financial statements and audited fund valuation report respectively.

The fair value of the unquoted funds is based on the latest available unaudited net asset values of the underlying funds provided by the administrator of those funds on the basis that their net asset values approximate their fair value at reporting date. The key unobservable inputs include net asset value for fund investment and / or recent transaction price among investors.

The estimated fair value would increase / (decrease) if the net asset values for unquoted equity shares and fund investments were higher / (lower), or if the recent transaction prices were higher / (lower).

**ii. Put liability**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of put liability in Level 3 of the fair value hierarchy:

| | Put Liability |
|---|---|
| | S$'000 |
| **Group** | |
| **At January 1, 2016** | 193,113 |
| Net changes in present value recognised in capital reserve | 22,772 |
| **At December 31, 2016** | 215,885 |

As at December 31, 2017, the Group no longer has a put liability to acquire non-controlling interest.

## 36. Financial Instruments *(cont'd)*

**e. Fair value hierarchy** *(cont'd)*

*Level 3 fair values (cont'd)*

**ii. Put liability** *(cont'd)*

*Sensitivity analysis*

If the cost of debt increases or decreases by 10% with all other assumptions held constant, the favourable / (unfavourable) impact to the equity statement is as follows:

| | Equity | |
|---|---|---|
| | Favourable | (Unfavourable) |
| | S$'000 | S$'000 |
| **Group** | | |
| **December 31, 2016** | | |
| Capital reserve | **2,231** | (2,269) |

The estimated present value of put liability to acquire non-controlling interests would increase / (decrease) if the cost of debt decreases / (increases).

***Assets and liabilities not carried at fair value but for which fair values are disclosed****

| | Fair value measurement using: | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | |
| **At December 31, 2017** | | | | |
| Investment properties | – | 129,500 | 23,196 | 152,696 |
| Interests in an associate | 308,466 | – | – | 308,466 |
| Long-term service concession receivables | – | 896,500 | – | 896,500 |
| Due from customers on construction contracts | – | 1,637,441 | – | 1,637,441 |
| Long-term interest-bearing borrowings | – | (8,264,339) | – | (8,264,339) |
| **At December 31, 2016** | | | | |
| Investment properties | – | 58,328 | 32,465 | 90,793 |
| Interests in an associate | 327,633 | – | – | 327,633 |
| Long-term service concession receivables | – | 476,949 | – | 476,949 |
| Due from customers on construction contracts | – | 2,236,715 | – | 2,236,715 |
| Long-term interest-bearing borrowings | – | (7,006,831) | – | (7,006,831) |
| **Company** | | | | |
| **At December 31, 2017** | | | | |
| Interest in a subsidiary | 2,344,658 | – | – | 2,344,658 |
| Amounts due from related parties | – | 225,266 | – | 225,266 |
| **At December 31, 2016** | | | | |
| Interest in a subsidiary | 1,758,494 | – | – | 1,758,494 |
| Amounts due from related parties | – | 198,276 | – | 198,276 |

* *Excludes financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term nature, frequent pricing and where the effect of discounting is immaterial.*

## 36. Financial Instruments *(cont'd)*

### f. Fair value versus carrying amounts

| | Note | Designated at fair value | Fair value – hedging instruments | Available-for-sale | Loans and receivables | Other financial liabilities within the scope of FRS 39 | Other financial liabilities outside the scope of FRS 39 | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|---|
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | | | | |
| **December 31, 2017** | | | | | | | | | |
| Cash and cash equivalents | 14 | – | – | – | 2,686,658 | – | – | 2,686,658 | 2,686,658 |
| Trade receivables | 8 | – | – | – | 1,199,232 | – | – | 1,199,232 | 1,199,199 |
| Service concession receivables | 8 | – | – | – | 892,797 | – | – | 892,797 | 896,500 |
| Other loans and receivables* | 8 | – | – | – | 597,467 | – | – | 597,467 | 597,467 |
| Amounts due from related parties | 9 | – | – | – | 73,713 | – | – | 73,713 | 73,713 |
| Due from customers on construction contracts | 13 | – | – | – | 1,654,771 | – | – | 1,654,771 | 1,637,441 |
| Available-for-sale financial assets: | | | | | | | | | |
| – Equity shares | 7 | – | – | 122,047 | – | – | – | 122,047 | 119,405 |
| – Unit trusts and funds | 7 | – | – | 67,241 | – | – | – | 67,241 | 67,241 |
| Financial assets at fair value through profit or loss, on initial recognition: | | | | | | | | | |
| – Forward foreign exchange contracts | 7 | 218 | – | – | – | – | – | 218 | 218 |
| – Cross currency swaps | 7 | 5,811 | – | – | – | – | – | 5,811 | 5,811 |
| – Interest rate swaps | 7 | 73 | – | – | – | – | – | 73 | 73 |
| – Foreign exchange swap contracts | 7 | 1,291 | – | – | – | – | – | 1,291 | 1,291 |
| – Commodity swap | 7 | 2,078 | – | – | – | – | – | 2,078 | 2,078 |
| – Foreign exchange option contracts | 7 | 77 | – | – | – | – | – | 77 | 77 |
| Hedge of net investment in foreign operations: | | | | | | | | | |
| – Cross currency swaps | 7 | – | 13,469 | – | – | – | – | 13,469 | 13,469 |
| Cash flow hedges: | | | | | | | | | |
| – Forward foreign exchange contracts | 7 | – | 57,615 | – | – | – | – | 57,615 | 57,615 |
| – Fuel oil swaps | 7 | – | 42,227 | – | – | – | – | 42,227 | 42,227 |
| – Interest rate swaps | 7 | – | 525 | – | – | – | – | 525 | 525 |
| – Cross currency swaps | 7 | – | 4,066 | – | – | – | – | 4,066 | 4,066 |
| Fair value hedges: | | | | | | | | | |
| – Forward foreign exchange contracts | 7 | – | 692 | – | – | – | – | 692 | 692 |
| | | 9,548 | 118,594 | 189,288 | 7,104,638 | – | – | 7,422,068 | 7,405,766 |

* *Excludes Goods and Services Tax.*

## 36. Financial Instruments *(cont'd)*

### f. Fair value versus carrying amounts *(cont'd)*

| | Note | Designated at fair value | Fair value – hedging instruments | Available-for-sale | Loans and receivables | Other financial liabilities within the scope of FRS 39 | Other financial liabilities outside the scope of FRS 39 | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|---|
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | | | | |
| **December 31, 2017** | | | | | | | | | |
| Trade payables | 15 | – | – | – | – | 2,036,217 | – | 2,036,217 | 2,036,217 |
| Amounts due to non-controlling interests** | 15 | – | – | – | – | 284 | – | 284 | 284 |
| Other payables** | 15 | – | – | – | – | 1,313,117 | – | 1,313,117 | 1,313,117 |
| Other long-term payables** | 15 | – | – | – | – | 34,309 | – | 34,309 | 34,309 |
| Amounts due to related parties** | 16 | – | – | – | – | 6,045 | – | 6,045 | 6,045 |
| Financial liabilities at fair value through profit or loss, on initial recognition: | | | | | | | | | |
| – Forward foreign exchange contracts | 18 | 3,377 | – | – | – | – | – | 3,377 | 3,377 |
| – Foreign exchange swap contracts | 18 | 252 | – | – | – | – | – | 252 | 252 |
| – Interest rate swaps | 18 | 213 | – | – | – | – | – | 213 | 213 |
| – Electricity futures market contracts | 18 | 33 | – | – | – | – | – | 33 | 33 |
| – Commodity swap contracts | 18 | 201 | – | – | – | – | – | 201 | 201 |
| – Foreign exchange option contracts | 18 | 64 | – | – | – | – | – | 64 | 64 |
| – Cross currency swaps | 18 | 7,097 | – | – | – | – | – | 7,097 | 7,097 |
| Cash flow hedges: | | | | | | | | | |
| – Interest rate swaps | 18 | – | 15,331 | – | – | – | – | 15,331 | 15,331 |
| – Forward foreign exchange contracts | 18 | – | 6,527 | – | – | – | – | 6,527 | 6,527 |
| – Fuel oil swaps | 18 | – | 3,401 | – | – | – | – | 3,401 | 3,401 |
| – Cross currency swap | 18 | – | 30,669 | – | – | – | – | 30,669 | 30,669 |
| Interest-bearing borrowings: | | | | | | | | | |
| – Short-term borrowings | 20 | – | – | – | – | 1,571,456 | – | 1,571,456 | 1,571,456 |
| – Long-term borrowings | 20 | – | – | – | – | 8,271,778 | – | 8,271,778 | 8,264,339 |
| – Finance lease liabilities | 20 | – | – | – | – | – | 4,370 | 4,370 | 4,370 |
| | | 11,237 | 55,928 | – | – | 13,233,206 | 4,370 | 13,304,741 | 13,297,302 |

** *Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, rental payables, and employee benefits.*

## 36. Financial Instruments *(cont'd)*

### f. Fair value versus carrying amounts *(cont'd)*

| | Note | Designated at fair value S$'000 | Fair value – hedging instruments S$'000 | Available-for-sale S$'000 | Loans and receivables S$'000 | Other financial liabilities within the scope of FRS 39 S$'000 | Other financial liabilities outside the scope of FRS 39 S$'000 | Total carrying amount S$'000 | Fair value S$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| **December 31, 2016** | | | | | | | | | |
| Cash and cash equivalents | 14 | – | – | – | 1,882,547 | – | – | 1,882,547 | 1,882,547 |
| Trade receivables | 8 | – | – | – | 951,200 | – | – | 951,200 | 951,200 |
| Service concession receivables | 8 | – | – | – | 472,914 | – | – | 472,914 | 476,949 |
| Other loans and receivables* | 8 | – | – | – | 691,866 | – | – | 691,866 | 691,866 |
| Amounts due from related parties | 9 | – | – | – | 145,221 | – | – | 145,221 | 145,221 |
| Due from customers on construction contracts | 13 | – | – | – | 2,242,882 | – | – | 2,242,882 | 2,236,715 |
| Available-for-sale financial assets: | | | | | | | | | |
| – Equity shares | 7 | – | – | 151,151 | – | – | – | 151,151 | 148,509 |
| – Unit trusts and funds | 7 | – | – | 42,657 | – | – | – | 42,657 | 42,657 |
| Financial assets at fair value through profit or loss, on initial recognition: | | | | | | | | | |
| – Forward foreign exchange contracts | 7 | 18,829 | – | – | – | – | – | 18,829 | 18,829 |
| – Cross currency swaps | 7 | 10,533 | – | – | – | – | – | 10,533 | 10,533 |
| – Interest rate swaps | 7 | 52 | – | – | – | – | – | 52 | 52 |
| – Foreign exchange swap contracts | 7 | 228 | – | – | – | – | – | 228 | 228 |
| – Electricity futures market contracts | 7 | 40 | – | – | – | – | – | 40 | 40 |
| Hedge of net investment in foreign operations: | | | | | | | | | |
| – Cross currency swaps | 7 | – | 13,284 | – | – | – | – | 13,284 | 13,284 |
| Cash flow hedges: | | | | | | | | | |
| – Forward foreign exchange contracts | 7 | – | 47,031 | – | – | – | – | 47,031 | 47,031 |
| – Fuel oil swaps | 7 | – | 29,929 | – | – | – | – | 29,929 | 29,929 |
| – Interest rate swaps | 7 | – | 2,481 | – | – | – | – | 2,481 | 2,481 |
| Fair value hedges: | | | | | | | | | |
| – Forward foreign exchange contracts | 7 | – | 4,146 | – | – | – | – | 4,146 | 4,146 |
| | | 29,682 | 96,871 | 193,808 | 6,386,630 | – | – | 6,706,991 | 6,702,217 |

* *Excludes Goods and Services Tax.*

## 36. Financial Instruments *(cont'd)*

### f. Fair value versus carrying amounts *(cont'd)*

| | Note | Designated at fair value | Fair value – hedging instruments | Available-for-sale | Loans and receivables | Other financial liabilities within the scope of FRS 39 | Other financial liabilities outside the scope of FRS 39 | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|---|
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | | | | |
| **December 31, 2016** | | | | | | | | | |
| Trade payables | 15 | – | – | – | – | 2,305,645 | – | 2,305,645 | 2,305,645 |
| Amounts due to non-controlling interests** | 15 | – | – | – | – | 279 | – | 279 | 279 |
| Other payables** | 15 | – | – | – | – | 1,025,948 | – | 1,025,948 | 1,025,948 |
| Other long-term payables** | 15 | – | – | – | – | 23,106 | – | 23,106 | 19,112 |
| Amounts due to related parties** | 16 | – | – | – | – | 9,820 | – | 9,820 | 9,820 |
| Financial liabilities at fair value through profit or loss, on initial recognition: | | | | | | | | | |
| – Forward foreign exchange contracts | 18 | 17,475 | – | – | – | – | – | 17,475 | 17,475 |
| – Foreign exchange swap contracts | 18 | 5,161 | – | – | – | – | – | 5,161 | 5,161 |
| – Interest rate swaps | 18 | 63 | – | – | – | – | – | 63 | 63 |
| – Electricity futures market contracts | 18 | 237 | – | – | – | – | – | 237 | 237 |
| – Foreign exchange option contracts | 18 | 314 | – | – | – | – | – | 314 | 314 |
| – Cross currency swaps | 18 | 1,044 | – | – | – | – | – | 1,044 | 1,044 |
| Cash flow hedges: | | | | | | | | | |
| – Interest rate swaps | 18 | – | 4,418 | – | – | – | – | 4,418 | 4,418 |
| – Forward foreign exchange contracts | 18 | – | 32,026 | – | – | – | – | 32,026 | 32,026 |
| – Fuel oil swaps | 18 | – | 8,747 | – | – | – | – | 8,747 | 8,747 |
| – Cross currency swap | 18 | – | 8,217 | – | – | – | – | 8,217 | 8,217 |
| – Electricity futures market contracts | 18 | – | 43 | – | – | – | – | 43 | 43 |
| Put liability to acquire non-controlling interests | 18 | – | – | – | – | 215,885 | – | 215,885 | 215,885 |
| Interest-bearing borrowings: | | | | | | | | | |
| – Short-term borrowings | 20 | – | – | – | – | 2,125,087 | – | 2,125,087 | 2,125,087 |
| – Long-term borrowings | 20 | – | – | – | – | 7,093,369 | – | 7,093,369 | 7,006,831 |
| – Finance lease liabilities | 20 | – | – | – | – | – | 2,848 | 2,848 | 2,848 |
| | | 24,294 | 53,451 | – | – | 12,799,139 | 2,848 | 12,879,732 | 12,789,200 |

*** Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, rental payables, and employee benefits.*

## 36. Financial Instruments *(cont'd)*

### f. Fair value versus carrying amounts *(cont'd)*

| | Note | Fair value – hedging instruments | Loans and receivables | Other financial liabilities within the scope of FRS 39 | Other financial liabilities outside the scope of FRS 39 | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Company** | | | | | | | |
| **December 31, 2017** | | | | | | | |
| Cash and cash equivalents | 14 | – | 720,138 | – | – | 720,138 | 720,138 |
| Trade receivables | 8 | – | 40,782 | – | – | 40,782 | 40,782 |
| Other loans and receivables* | 8 | – | 87,514 | – | – | 87,514 | 87,514 |
| Amounts due from related parties | 9 | – | 229,528 | – | – | 229,528 | 233,794 |
| Cash flow hedges: | | | | | | | |
| – Forward foreign exchange contracts | 7 | 141 | – | – | – | 141 | 141 |
| | | 141 | 1,077,962 | – | – | 1,078,103 | 1,082,369 |
| Trade payables | 15 | – | – | 7,383 | – | 7,383 | 7,383 |
| Other payables** | 15 | – | – | 112,903 | – | 112,903 | 112,903 |
| Amounts due to related parties | 16 | – | – | 256,715 | – | 256,715 | 263,211 |
| | | – | – | 377,001 | – | 377,001 | 383,497 |
| **December 31, 2016** | | | | | | | |
| Cash and cash equivalents | 14 | – | 389,905 | – | – | 389,905 | 389,905 |
| Trade receivables | 8 | – | 77,744 | – | – | 77,744 | 77,744 |
| Other loans and receivables* | 8 | – | 83,838 | – | – | 83,838 | 83,838 |
| Amounts due from related parties | 9 | – | 205,355 | – | – | 205,355 | 203,631 |
| | | – | 756,842 | – | – | 756,842 | 755,118 |
| Trade payables | 15 | – | – | 8,790 | – | 8,790 | 8,790 |
| Other payables** | 15 | – | – | 119,627 | – | 119,627 | 119,627 |
| Amounts due to related parties | 16 | – | – | 249,319 | – | 249,319 | 243,835 |
| Cash flow hedges: | | | | | | | |
| – Forward foreign exchange contracts | 18 | 326 | – | – | – | 326 | 326 |
| | | 326 | – | 377,736 | – | 378,062 | 372,578 |

* *Excludes Goods and Services Tax.*

** *Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, and employee benefits.*



## 36. Financial Instruments *(cont'd)*

### g. Capital management

The Group aims to maintain a sound capital base so as to maintain investor, creditor and market's confidence and to sustain future development and growth of its businesses, while at the same time maintaining an appropriate dividend policy to reward shareholders. The Group monitors Economic Value Added attributable to shareholders, which the Group defines as net operating profit after tax less capital charge excluding non-controlling interests. Management also monitors the level of dividends paid to ordinary shareholders.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Capital is defined as equity attributable to the equity holders. The Group's debt-to-capitalisation ratio as at the balance sheet was as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Debt | **9,847,604** | 9,221,304 |
| Total equity | **8,215,754** | 8,162,714 |
| Total debt and equity | **18,063,358** | 17,384,018 |
| Debt-to-capitalisation ratio | **0.55** | 0.53 |

There were no changes in the Group's approach to capital management during the year.

Some of its subsidiaries are required to maintain certain ratios of consolidated net borrowings to consolidated net assets. These externally imposed capital requirements have been complied with as at the respective reporting dates.

## 37. Contingent Liabilities (Unsecured)

***Group***

The Group has provided guarantees to banks to secure banking facilities provided to joint ventures. These financial guarantee contracts are accounted for as insurance contracts. The principal risk to which the Group and the Company is exposed is credit risk in connection with guarantee contracts it has issued. The credit risk represents the loss that would be recognised upon a default by the parties to which the guarantees were given on behalf of. To mitigate this risk, management continually monitors the risk and has established processes including performing credit evaluations of the parties it is providing the guarantee on behalf of.

There are no terms and conditions attached to the guarantee contracts that would have a material effect on the amount, timing and uncertainty of the Group's and Company's future cash flows.

Estimates of the Group's and Company's obligation arising from financial guarantee contracts may be affected by future events, which cannot be predicted with any certainty. The assumptions made may well vary from actual experience so that the actual liability may vary considerably from the best estimates. As of balance sheet date, there is no provision made in respect of the obligations.

As at the balance sheet date, the Group had the following contingent liabilities:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Guarantees given to banks to secure banking facilities provided to: | | |
| – Joint ventures | **437,863** | 517,416 |
| – Others | **70,596** | 35,139 |
| Performance guarantees to external parties | **333,069** | 518,857 |

The periods in which the financial guarantees expire are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Less than 1 year | **114,265** | 139,151 |
| Between 1 to 5 years | **307,759** | 325,785 |
| More than 5 years | **86,435** | 87,619 |
| | **508,459** | 552,555 |

a. Certain of the Group's subsidiaries are involved in claims, litigations, land disputes and other regulatory matters in certain emerging countries as at the year end. Due to the nature of these disputes and matters and also in view of the uncertainty of the outcome, the Group believes that the amount of exposure cannot currently be determinable. Therefore no impairment, revision of useful life or provision for restoration cost, where applicable, has been recorded.

   Of the above, the Group's subsidiaries are involved in certain tax disputes, where the amount of potential expense has been estimated to be approximately S$18,154,000. Due to the nature of these tax disputes, the potential outcome and obligation is uncertain. No provisions have been recorded in this regard.



## 37. Contingent Liabilities (Unsecured) *(cont'd)*

***Group*** *(cont'd)*

b. In 2015, a customer, Marco Polo Drilling (I) Pte. Ltd. (MPD), alleged that a subsidiary of the Group has not complied with certain of its material contractual obligations and purported to terminate the contract and consequently sought refund of 50% of the initial instalment being the sum of S$30,094,000 (US$21,430,000) from the subsidiary and related interest charges. The subsidiary terminated the contract after MPD continued not to make payment of this balance 50% of the initial instalment, due since February 2014.

   The subsidiary continues to disagree with MPD's allegations and strongly believes its contractual right of payment extends to the full initial instalment received and receivable from MPD.

   In 2017, the subsidiary, MPD and Marco Polo Marine Ltd (MPM) (guarantor to perform MPD's obligations in full under the contract), have entered into a settlement agreement on a without admission of fault or liability basis on the terms that a Consent Award be entered into in favour of the subsidiary for the part of the subsidiary's claim and interest in the arbitration proceedings, and with MPD and MPM withdrawing their respective claims. The settlement amount of approximately S$1.6 million has been received in January 2018.

**Company**

a. The Company has provided guarantees to banks to secure banking facilities provided to a wholly-owned subsidiary, Sembcorp Financial Services Pte Ltd. These financial guarantee contracts are accounted for as insurance contracts.

   Intra-group financial guarantees comprise guarantees granted by the Company to banks in respect of banking facilities amounting to S$4,400 million (2016: S$3,530 million), which include S$2,006 million (2016: S$1,099 million) drawn down as at balance sheet date. The periods in which the financial guarantees expire are as follows:

| | Company | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Less than 1 year | **20,492** | 194,952 |
| Between 1 to 5 years | **1,339,009** | 453,628 |
| More than 5 years | **646,576** | 450,000 |
| | **2,006,077** | 1,098,580 |

## 37. Contingent Liabilities (Unsecured) *(cont'd)*

***Company*** *(cont'd)*

b. The Company has provided corporate guarantees of S$87.0 million (2016: S$79.8 million) to a subsidiary, Sembcorp Cogen Pte Ltd (SembCogen) for the following:

i. Long-term contract (End User Agreement) dated January 15, 1999 with a fellow subsidiary, Sembcorp Gas Pte Ltd (SembGas) to purchase natural gas over the period of 22 years.

Under the End User Guarantee Agreement, the Company and one of its subsidiaries, Sembcorp Utilities Pte Ltd, issued corporate guarantees in favour of SembGas for 70% and 30% respectively of SembCogen's obligations under the End User Agreement.

ii. Two long-term agreements entered in 2010 for the purchase of a total 42 BBtud (Billion British thermal units per day) of liquefied natural gas (LNG) from BG Singapore Gas Marketing Pte Ltd (BG). The agreements have a term of 10 years and SembCogen has an option to extend the term by 2 successive periods of 5 years each subject to fulfilment of conditions set in the agreements. The obligations of SembCogen under the LNG purchase agreements are currently secured by corporate guarantees issued by the Company in favour of BG.

## 38. Commitments

Commitments not provided for in the financial statements are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| – Commitments in respect of contracts placed | **704,574** | 761,562 |
| – Uncalled capital and commitments to subscribe for additional shares in joint ventures and other investments | **156,354** | 112,266 |
| | **860,928** | 873,828 |

At the balance sheet date, commitments in respect of payments for non-cancellable operating leases mainly for land and buildings, with a term of more than one year are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Lease payments due: | | | | |
| Within 1 year | **34,862** | 38,138 | **8,990** | 9,406 |
| Between 1 and 5 years | **99,700** | 112,377 | **24,251** | 29,999 |
| After 5 years | **424,688** | 453,188 | **36,711** | 45,572 |
| | **559,250** | 603,703 | **69,952** | 84,977 |

Lease payments on the above leases are usually adjusted annually to reflect market rentals.

There are no significant contingent rentals on the above leases. Certain leases contain escalation clauses to reflect market rentals. Certain leases include renewal options for additional lease period of 10 to 30 years and at rental rates based on prevailing market rates.



## 38. Commitments *(cont'd)*

On January 15, 1999, SembGas entered into a long-term Gas Sales Agreement to purchase 2,625,000 BBtu (Billion British thermal units) of natural gas over a period of 22 years. SembGas also entered into agreements with certain customers for the on-sale of this gas, which agreements incorporated provisions, which specifically deal with, *inter alia*, SembGas' liability for shortfalls in deliveries of gas and relief from such liability in certain circumstances.

On April 15, 2008, SembGas entered into another agreement to import an additional tranche of 90 BBtu per day of natural gas over a period of 15 years, with first delivery of gas taken place in 2011.

In 2010, SembCogen entered into two long-term agreements to purchase liquefied natural gas (LNG), usage of LNG Terminal and other charges over a period of 10 years and has the option to extend the term by two successive periods of 5 years.

In 2012, Sembcorp Energy India Ltd (SEIL) (formerly known as Thermal Powertech Corporation India Limited) entered into a 10-year agreement with PT. Bayan Resources TBK, to purchase a total of 10 million metric tonnes of coal. The coal price shall be based on Global Coal Index at the time of delivery. In 2013, SEIL entered into a 20-year agreement with Mahanadi Coalfields Limited, to purchase a 2.54 million metric tonnes at the price governed by local government authority.

The Group leases out its investment properties and marine vessel. For the leases of the marine vessel, the initial lease term is 5 years, with an option to extend for another 5 years. The lease agreement provides for additional lease payments annually based on changes to a price index. Non-cancellable operating lease rentals are receivable as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Lease receivable: | | |
| Within 1 year | **43,371** | 72,980 |
| Between 1 and 5 years | **5,452** | 43,572 |
| More than 5 years | **3,118** | 2,898 |
| | **51,941** | 119,450 |

## 39. Segment Reporting

### a. Operating Segments

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments as follows:

i. The Utilities segment's principal activities are in the provision of energy and water to industrial, commercial and municipal customers. Key activities in the energy sector include power generation, process steam production, as well as natural gas importation. In the water sector, the business offers wastewater treatment as well as the production of reclaimed, desalinated and potable water and water for industrial use. In addition, the business also provides on-site logistics, solid waste management and specialised project management, engineering, and procurement services.

ii. The Marine segment focuses principally on providing integrated solutions for the offshore and marine industry. Key capabilities include rigs & floaters; repairs & upgrades; offshore platforms and specialised shipbuilding.

iii. The Urban Development segment owns, develops, markets and manages integrated urban developments comprising industrial parks as well as business, commercial and residential space in Asia.

iv. The Others / Corporate segment comprises businesses mainly relating to minting, design and construction activities, offshore engineering and others.

## 39. Segment Reporting *(cont'd)*

### a. Operating Segments *(cont'd)*

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Information regarding the results of each reportable segment is included below:

| | Utilities S$'000 | Marine S$'000 | Urban Development S$'000 | Others / Corporate S$'000 | Elimination S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Turnover** | | | | | | |
| External sales | 5,670,149 | 2,387,354 | 7,758 | 280,344 | – | 8,345,605 |
| Inter-segment sales | 29,446 | – | 3,993 | 64,609 | (98,048) | – |
| **Total** | 5,699,595 | 2,387,354 | 11,751 | 344,953 | (98,048) | 8,345,605 |
| **Results** | | | | | | |
| Segment results | 580,561 | 68,287 | (13,220) | (4,397) | – | 631,231 |
| Share of results of associates and joint ventures, net of tax | 69,298 | (3,617) | 102,608 | (4,231) | – | 164,058 |
| **Profit from operations** | 649,859 | 64,670 | 89,388 | (8,628) | – | 795,289 |
| Finance income | 31,208 | 11,548 | 213 | 69,636 | (70,009) | 42,596 |
| Finance costs | (440,626) | (95,522) | (4,075) | (55,568) | 70,009 | (525,782) |
| | 240,441 | (19,304) | 85,526 | 5,440 | – | 312,103 |
| Tax (expense) / credit | (89,308) | 25,795 | 808 | (4,686) | – | (67,391) |
| Non-controlling interests | (11,096) | 336 | (3,106) | (74) | – | (13,940) |
| **Net profit for the year** | 140,037 | 6,827 | 83,228 | 680 | – | 230,772 |
| **Assets** | | | | | | |
| Segment assets | 11,734,243 | 9,078,716 | 383,400 | 2,940,990 | (2,774,016) | 21,363,333 |
| Interests in associates and joint ventures | 869,110 | 67,965 | 735,142 | 93,203 | – | 1,765,420 |
| Tax assets | 61,903 | 17,081 | 2,605 | 2,836 | – | 84,425 |
| **Total assets** | 12,665,256 | 9,163,762 | 1,121,147 | 3,037,029 | (2,774,016) | 23,213,178 |
| **Liabilities** | | | | | | |
| Segment liabilities | 8,028,045 | 6,541,028 | 273,730 | 2,341,251 | (2,774,016) | 14,410,038 |
| Tax liabilities | 483,861 | 88,242 | 440 | 14,843 | – | 587,386 |
| **Total liabilities** | 8,511,906 | 6,629,270 | 274,170 | 2,356,094 | (2,774,016) | 14,997,424 |
| **Capital expenditure** | 479,084 | 193,455 | 167 | 16,380 | – | 689,086 |
| **Significant non-cash items** | | | | | | |
| Depreciation and amortisation | 360,729 | 196,576 | 2,684 | 11,339 | – | 571,328 |
| Allowance for impairment in value of assets and assets written off (net) | 28,426 | 2,775 | – | 49 | – | 31,250 |
| Impairment of goodwill | 26,378 | – | – | – | – | 26,378 |
| Impairment of investment in an associate | 4,163 | – | – | – | – | 4,163 |
| (Write-back of) / allowance for doubtful debts and bad debts (net) | (15,687) | 175 | (61) | (6) | – | (15,579) |
| Gain on disposal of assets held for sale | – | (46,816) | – | – | – | (46,816) |
| Assumption of liabilities on behalf of a joint venture | – | 11,000 | – | – | – | 11,000 |
| Gain on disposal / liquidation of investment in subsidiaries | (3,860) | (753) | – | – | – | (4,613) |
| Reversal of contract costs (net) on termination, net of write-down of inventories and foreseeable loss on contract work-in-progress | 9,639 | (19,622) | – | 306 | – | (9,677) |
| Provision for fines | 25,390 | – | – | – | – | 25,390 |
| Gain on disposal of other financial assets | (3,179) | (17,200) | – | (1,290) | – | (21,669) |

## 39. Segment Reporting *(cont'd)*

### a. Operating Segments *(cont'd)*

| | Utilities | Marine | Urban Development | Others / Corporate | Elimination | Total |
|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **2016** | | | | | | |
| **Turnover** | | | | | | |
| External sales | 4,111,054 | 3,544,155 | 7,051 | 244,788 | – | 7,907,048 |
| Inter-segment sales | 21,829 | 661 | 4,173 | 31,248 | (57,911) | – |
| **Total** | 4,132,883 | 3,544,816 | 11,224 | 276,036 | (57,911) | 7,907,048 |
| **Results** | | | | | | |
| Segment results | 632,980 | 205,871 | (11,923) | (43,020) | – | 783,908 |
| Share of results of associates and joint ventures, net of tax | 104,241 | (35,134) | 50,315 | 5,699 | – | 125,121 |
| **Profit from operations** | 737,221 | 170,737 | 38,392 | (37,321) | – | 909,029 |
| Finance income | 23,495 | 7,922 | 214 | 52,591 | (53,804) | 30,418 |
| Finance costs | (318,332) | (88,651) | (2,933) | (45,897) | 53,804 | (402,009) |
| | 442,384 | 90,008 | 35,673 | (30,627) | – | 537,438 |
| Tax expense | (80,746) | (15,121) | (552) | (3,865) | – | (100,284) |
| Non-controlling interests | (13,610) | (26,626) | (1,823) | (206) | – | (42,265) |
| **Net profit / (loss) for the year** | 348,028 | 48,261 | 33,298 | (34,698) | – | 394,889 |
| **Assets** | | | | | | |
| Segment assets | 11,080,613 | 9,335,419 | 371,503 | 1,795,808 | (2,115,609) | 20,467,734 |
| Interests in associates and joint ventures | 903,769 | 74,816 | 668,392 | 98,772 | – | 1,745,749 |
| Tax assets | 54,722 | 20,572 | 927 | 531 | – | 76,752 |
| **Total assets** | 12,039,104 | 9,430,807 | 1,040,822 | 1,895,111 | (2,115,609) | 22,290,235 |
| **Liabilities** | | | | | | |
| Segment liabilities | 7,167,664 | 6,680,087 | 273,475 | 1,530,002 | (2,115,609) | 13,535,619 |
| Tax liabilities | 453,127 | 124,522 | 1,530 | 12,723 | – | 591,902 |
| **Total liabilities** | 7,620,791 | 6,804,609 | 275,005 | 1,542,725 | (2,115,609) | 14,127,521 |
| **Capital expenditure** | 582,807 | 419,879 | 5,117 | 15,946 | – | 1,023,749 |
| **Significant non-cash items** | | | | | | |
| Depreciation and amortisation | 282,439 | 159,457 | 2,325 | 9,492 | – | 453,713 |
| Allowance for / (write-back of) impairment in value of assets and assets written off (net) | 4,904 | 21,277 | (1,029) | 57,769 | – | 82,921 |
| Impairment of investment in associates | – | 2,120 | – | – | – | 2,120 |
| (Write-back of) / allowance for doubtful debts and bad debts (net) | (371) | 5,255 | 35 | (248) | – | 4,671 |
| Gain on disposal of investments in subsidiary, joint ventures and associate | (34,572) | (186) | – | – | – | (34,758) |
| Gain on disposal of assets held for sale | (3,820) | – | – | – | – | (3,820) |
| Inventories written down / (written back) | 4,648 | (1,166) | – | (402) | – | 3,080 |
| Gain on disposal of other financial assets | (2,796) | – | – | – | – | (2,796) |

## 39. Segment Reporting *(cont'd)*

### b. Geographical Segments

The Group's geographical segments are presented in ten principal geographical areas: Singapore, China, India, Rest of Asia, Middle East & Africa, UK, Rest of Europe, Brazil, U.S.A and Other Countries. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and total assets are based on the geographical location of the assets.

| | Singapore | China | India | Rest of Asia | Middle East & Africa | UK | Rest of Europe | Brazil | U.S.A | Other Countries | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **2017** | | | | | | | | | | | |
| Revenue from external customers | 3,519,296 | 155,280 | 1,595,727 | 307,710 | 162,533 | 1,056,637 | 1,629,516 | 213,192 | 185,447 | (479,733)* | 8,345,605 |
| Total assets | 10,247,836 | 1,847,751 | 6,464,172 | 1,683,153 | 445,506 | 340,783 | 401,559 | 1,612,524 | 6,490 | 163,404 | 23,213,178 |
| Non-current assets | 4,442,553 | 1,522,049 | 5,282,436 | 1,388,611 | 388,518 | 122,985 | 355,524 | 1,431,890 | 4,941 | 177,807 | 15,117,314 |
| Capital expenditure | 160,903 | 29,113 | 367,597 | 2,972 | 3,772 | 9,626 | 38 | 96,213 | 4 | 18,848 | 689,086 |
| **2016** | | | | | | | | | | | |
| Revenue from external customers | 2,963,985 | 193,212 | 848,705 | 558,067 | 111,813 | 915,726 | 1,482,631 | 83,942 | 697,744 | 51,223 | 7,907,048 |
| Total assets | 10,014,848 | 2,069,257 | 6,249,517 | 1,211,123 | 448,804 | 261,289 | 451,270 | 1,392,270 | 7,292 | 184,565 | 22,290,235 |
| Non-current assets | 4,508,611 | 1,428,532 | 5,195,087 | 1,022,156 | 440,916 | 144,637 | 398,681 | 1,346,186 | 5,282 | 175,916 | 14,666,004 |
| Capital expenditure | 269,123 | 118,965 | 369,211 | 23,128 | 9,515 | 10,580 | 61 | 193,331 | 8 | 29,827 | 1,023,749 |

* *During the financial year, certain construction contracts were terminated, and the contract revenue previously recognised was reversed through profit or loss. Refer to Note 13.*

## 40. Significant Accounting Estimates and Judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

***Key sources of estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Information on other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

### a. Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other intangible assets are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

This requires an estimation of the value in use of the cash-generating units to which the non-financial assets are allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Information about the assumptions and their risk factors relating to non-financial assets are disclosed in Note 3 and 11.

## 40. Significant Accounting Estimates and Judgements *(cont'd)*

***Key sources of estimation uncertainty*** *(cont'd)*

**b. Taxes**

The Group is subjected to taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for taxes. In determining the amount of current and deferred taxes, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due.

There are certain transactions and computation 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. The Group believes that its accruals for tax liabilities are adequate for all open years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the taxes and deferred tax provisions in the period in which such determination is made. The tax expense is disclosed in Note 27.

*Deferred tax assets*

Certain subsidiaries of the Group have tax benefits arising from unutilised tax losses, tax credits and deductible temporary differences, which are available for set-off against future taxable profits. Of these, the utilisation of these tax benefits, for which deferred tax asset was recognised, is presumed on the Group's ability to generate taxable profits in the foreseeable future. This is, however, highly dependent on macroeconomic conditions impacting the offshore and marine sector, expected movements and recovery of oil prices, and financial strength of the Group's customers, which would then significantly affect the realisability of these deferred tax assets.

**c. Pension assumptions**

The Group has decided on certain principal actuarial assumptions, as detailed in Note 19, in estimating its pension liability as at the balance sheet date. If there were adverse changes to these actuarial assumptions, then the Group's re-measurements from defined benefit plans would increase.

**d. Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 1 to 60 years. The carrying amounts of the Group's property, plant and equipment are set out in Note 3. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.



## 40. Significant Accounting Estimates and Judgements *(cont'd)*

***Key sources of estimation uncertainty*** *(cont'd)*

**e. Provision for restoration costs**

The provision recognised represents management's best estimate of the present value of the future costs required. Significant estimates and assumptions are made in determining the amount of restoration provisions. Those estimates and assumptions deal with uncertainties such as: changes to the relevant legal and regulatory framework; the timing, extent and costs required. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provisions recognised are periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the asset and provision. Such changes give rise to a change in future depreciation and interest charges.

**f. Fair value measurement**

The Group has made certain assumptions in estimating fair values which are defined in Note 2(ac).

**g. Provisions and contingent liabilities**

Estimates of the Group's obligations arising from contracts or regulations that exist as at balance sheet date may be affected by future events, which cannot be predicted with any certainty. The assumptions and estimates are made based on the management's knowledge and experience and may vary from actual experience so that the actual liability may vary considerably from the best estimates.

*Warranty*

The provision for warranty is based on estimates from known and expected warranty work and contractual obligation for further work to be performed after completion. The warranty expense incurred could be higher or lower than the provision made. Movements in provision for warranty are detailed in Note 17.

*Contingent liabilities*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Movements in provisions and disclosure of contingent liabilities are detailed in Note 17 and Note 37 respectively.

**h. Determination of net realisable value of inventories and work-in-progress**

The net realisable value of certain inventories and work-in-progress is estimated by reference to latest quotations, independent brokers' valuations and discounted cash flow model. However, such net realisable value estimated (where a reasonably possible range of outcomes are possible), may not be the actual realisable value, given the limited transactions involving the sale and purchase of oil rigs in recent times. In addition, the conventional methods of valuation are inherently difficult to apply, as a result of the volatility and illiquidity of the market, and limited actual number of transactions. A combination of valuation techniques are typically adopted with no singular valuation technique being preferred, resulting in the wider range of valuation outcomes observed. Such uncertainties may significantly affect the eventual net realisable value of inventories; and there is a significant risk of a material adjustment to the carrying amounts of inventories in future periods.

## 40. Significant Accounting Estimates and Judgements *(cont'd)*

***Critical accounting judgements in applying the Group's accounting policies***

In the process of applying the Group's accounting policies, management has made certain judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

**a. Revenue recognition and assessment of risk of foreseeable losses on long-term construction contracts**

The Group has recognised revenue on infrastructure construction contract, rigs & floaters, repairs & upgrades and offshore platforms based on the percentage of completion method in proportion to the stage of completion. The percentage of completion is assessed by reference to surveys of work performed or by reference to the ratio of costs incurred to-date to the estimated total costs for each contract. Significant judgement is required in determining the appropriate stage of completion and estimating a reasonable contribution margin for revenue and costs recognition; and likewise, judgement is required in determining the triggering point of suspension of revenue recognition when it is no longer probable that inflow of economic benefits associated with the contracts will occur. Such considerations include the Group's assessment of the credit-worthiness of customers and an evaluation of the contract performance obligations discharged by the customers. Revenue from infrastructure construction contract, ship and rig repair, building and conversion is disclosed in Note 25.

The Group conducts critical review of all its long-term land development and construction contracts regularly. Allowance is made where necessary to account for foreseeable losses where total costs to complete the contracts exceed the contract revenue. To determine the total costs, the Group monitors and reviews constantly the progress of all long-term land development and construction contracts taking into consideration all inputs from both internal project managers and external customers. The review includes evaluation of any potential risks and factors which may affect the contract price and timely completion. The review also encompasses the cost analysis process whereby both actual costs incurred and future costs to complete are critically examined.

*Cost allocation method on long-term land development contracts*

Land development costs incurred are capitalised as work-in-progress and allocated to the respective parcels of land based on the relative sales method.

**b. Impairment of investments and financial assets**

The Group follows the guidance of FRS 39 *Financial Instruments: Recognition and Measurement* in determining whether there is any objective evidence that an investment or financial asset is impaired. This determination requires significant judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of an investment and financial asset is less than its cost; and the financial health of and near-term business outlook for the investment or financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The carrying amounts of investments and financial assets are disclosed in the following notes:

- Note 7 – Other Financial Assets
- Note 8 – Trade and Other Receivables

In assessing whether there is any objective evidence that its investment in available-for-sale financial assets is impaired, the Group takes into consideration whether there is a significant or prolonged decline in the fair value of its investment, alongside with other considerations such as volatility of the share price relative to general stock indices, analysts' reports on outlook of the underlying security, and other qualitative factors such as the financial performance of the investment.

In assessing the level of impairment allowance required on the Group's trade and other receivables, the Group considers the financial restructuring (where relevant), credit-worthiness and financial health of its customers whose conditions are subject to changes, which may require changes in the level of impairment allowance in future periods.



## 40. Significant Accounting Estimates and Judgements *(cont'd)*

***Critical accounting judgements in applying the Group's accounting policies*** *(cont'd)*

**c. Impairment assessment of property, plant and equipment and associates**

The carrying value of property, plant and equipment is tested for impairment whenever there is any objective evidence or indication that the property, plant and equipment may be impaired. This determination and derivation of the relevant inputs requires significant judgement. This impairment takes into account the market value of the asset, changes to the technological, market, economic or legal environment in which the Group operates, market interest rates, evidence of obsolescence or physical damage to the property, plant and equipment and changes to the expected usage to the property, plant and equipment.

*Impairment assessment of the Group's shipyards*

Owing to the continuing difficult market conditions impacting the offshore and marine sector, there was an indication that the Group's subsidiary, Sembcorp Marine Ltd's (SCM) shipyards (the "cash generating units" (CGU)) might be impaired. Under the Group's formal impairment assessment of the individual CGUs in: (i) Singapore (yards in Singapore, together with their sub-contracting shipyards in Indonesia and the United Kingdom); and (ii) Brazil, the recoverable amounts for the Group's individual CGUs were determined using the value in use calculations.

The value in use calculation for the Group's CGUs used discounted cash flow projections which took into account management's assessment of the forecasted order book over a period of 5 years and 10 years for Singapore and Brazil (the "projection periods"), respectively, with applicable growth rates for Singapore and Brazil beyond the projection periods (up to a maximum of 40 years). The forecasted order book and the related project margins are the key drivers supporting the recoverable amounts. The projected cash flows are supported by the Group's historical experience, market observable data surrounding the state-owned and international oil majors' capital commitment and projected capital expenditures in oil and gas production and exploration activities, regulations relating to local content requirements in Brazil, market expectations and developments for contract order prices, and other external analysts' forecast reports in oil price movements and demands for drilling and production solutions. These cash flows are then discounted using the applicable discount rates based on their pre-tax weighted average cost of capital of 9.5% (2016: 9.7%) and 10.0% (2016: 15.9%) for the Singapore CGU and Brazil CGU respectively; and the Group assessed that no impairment loss is required for these individual CGUs.

The forecasted order book and the forecasted margins assumed in the value in use calculation are, however, subject to estimation uncertainties that may have a significant risk of resulting in material adjustments in any future periods affected.

The estimation uncertainties of the forecasted order book of the Singapore CGU are, however, reduced by a certain level of order books already secured by the Group. Nevertheless, there are remaining estimation uncertainties surrounding the remaining unsecured order book, and forecast project margins, that may result in significant adjustments in the future periods.

Certain phases of the Brazil CGU are presently undergoing yard construction and the yard will gradually ramp up to its full operational capacity. The Group has factored in the long-term fundamentals of the oil and gas industry in Brazil and accordingly, prepared a 10 years cash flow projection. Changes in the recoverable amount are sensitive to impairment losses if the forecast order book and the forecasted margins beyond the near term were to deviate significantly from the original forecast. The recoverable amount of the Brazil CGU is further subject to political risk and will be reviewed at regular intervals.

*Impairment assessment of the Group's associate*

The recoverable amount of the interest in an associate was estimated based on its value in use. In estimating the recoverable amount, the Group applied the relief from royalty method to value the existing intellectual properties owned by the associate. As the associate is a new start-up with various intellectual properties at different stages of their business life cycles, the discount rates applied by the Group range from 20% to 22%, to reflect the higher risks inherent in the forecasted cash flows. Any significant changes to these forecasted cash flows, caused by changes in the risk of returns of the various intellectual properties may result in material adjustments on the associate's recoverable amounts in future periods.

## 40. Significant Accounting Estimates and Judgements *(cont'd)*

***Critical accounting judgements in applying the Group's accounting policies*** *(cont'd)*

**d. Classification of development properties**

In assessing the classification of development properties, management considers its intention with regards to the use of the properties, i.e. held with the intention of development and sale in the ordinary course of business or for rental and capital appreciation. Where there is a change in intended use, a change in classification may be required.

## 41. Subsidiaries

Details of key subsidiaries are as follows:

| Name of key subsidiaries | Country of incorporation | Effective equity held by the Group 2017 % | 2016 % |
|---|---|---|---|
| **Utilities** | | | |
| Sembcorp Utilities Pte Ltd[1] | Singapore | **100** | 100 |
| Sembcorp Cogen Pte Ltd[1] | Singapore | **100** | 100 |
| Sembcorp Gas Pte Ltd[1] | Singapore | **70.00** | 70.00 |
| Sembcorp Utilities (UK) Limited[2] | United Kingdom | **100** | 100 |
| Sembcorp Utilities (Netherlands) N.V.[2] | The Netherlands | **100** | 100 |
| Sembcorp Environment Pte. Ltd.[1] | Singapore | **100** | 100 |
| SembWaste Pte Ltd[1] | Singapore | **100** | 100 |
| Sembcorp Energy India Ltd (formerly known as Thermal Powertech Corporation India Limited)[2] | India | **86.87** | 86.87 |
| Sembcorp Green Infra Limited[2] | India | **100[3]** | 68.74 |
| Sembcorp Gayatri Power Limited[2] | India | **88.00** | 88.00 |
| Sembcorp Myingyan Power Company Limited[2] | Myanmar | **100** | 100 |
| **Marine** | | | |
| Sembcorp Marine Ltd[1] | Singapore | **60.98** | 60.99 |
| Jurong Shipyard Pte Ltd[1] | Singapore | **60.98** | 60.99 |
| PPL Shipyard Pte Ltd[1] | Singapore | **60.98** | 60.99 |
| Sembcorp Marine Repairs & Upgrades Pte. Ltd.[1] | Singapore | **60.98** | 60.99 |
| Sembcorp Marine Offshore Platforms Pte Ltd[1] | Singapore | **60.98** | 60.99 |
| **Urban Development** | | | |
| Sembcorp Development Ltd[1] | Singapore | **100** | 100 |
| Vietnam Singapore Industrial Park Pte Ltd[1] | Singapore | **96.59** | 92.88 |
| Singapore Technologies Industrial Corp Ltd[1] | Singapore | **100** | 100 |
| Nanjing Riverside Quay Co., Ltd[2] | China | **100** | 100 |
| **Others** | | | |
| Sembcorp Design and Construction Pte Ltd[1] | Singapore | **100** | 100 |
| Singapore Precision Industries Pte Ltd[1] | Singapore | **100** | 100 |

[1] *Audited by KPMG LLP, Singapore.*
[2] *Audited by member firms of KPMG International.*
[3] *In 2017, the Group has acquired the remaining equity stakes of SGI (refer to Note 34).*

## 42. Associates, Joint Ventures and Joint Operations

Details of key associates, joint ventures and joint operations are as follows:

| Name of key associates | Country of incorporation | Effective equity held by the Group 2017 % | 2016 % |
|---|---|---|---|
| **Utilities** | | | |
| ^^^ Sembcorp Salalah Power and Water Company SAOG | Oman | **40.00** | 40.00 |
| **Urban Development** | | | |
| ^^ Wuxi-Singapore Industrial Park Development Co., Ltd | People's Republic of China | **45.36** | 45.36 |
| **Name of key joint ventures** | | | |
| **Utilities** | | | |
| ^ Phu My 3 BOT Power Company Ltd. | Vietnam | **66.67** | 66.67 |
| # Shanghai Cao Jing Co-generation Co. Ltd | People's Republic of China | **30.00** | 30.00 |
| ^^ Emirates Sembcorp Water & Power Company P.J.S.C | United Arab Emirates | **40.00** | 40.00 |
| # Chongqing Songzao Sembcorp Electric Power Co., Ltd | People's Republic of China | **49.00** | 49.00 |
| **Urban Development** | | | |
| ^^ Vietnam Singapore Industrial Park J.V. Co., Ltd. | Vietnam | **49.26** | 47.37 |
| ** Sino-Singapore Nanjing Eco Hi-tech Island Development Co., Ltd | People's Republic of China | **21.50** | 21.50 |
| ^^ Sino-Singapore (Chengdu) Innovation Park Development Co., Ltd | People's Republic of China | **25.00** | 25.00 |
| *** PT Kawansan Industri Kendal | Indonesia | **49.00** | 49.00 |
| **Name of key joint operations** | | | |
| **Others** | | | |
| ### Sinohydro-Sembcorp Joint Venture | Singapore | **50.00** | 50.00 |

The auditors of key associates, joint ventures and joint operations are as follows:

^^ *Audited by member firms of KPMG International.*
^ *Audited by Ernst & Young Vietnam Limited.*
# *Audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company.*
** *Audited by Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd, China.*
### *Audited by KPMG LLP, Singapore.*
*** *Audited by BDO Indonesia.*
^^^ *Audited by PricewaterhouseCoopers LLC.*

See Note 6 for details on pledge on the Company's interests in its joint ventures.

## 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) at December 31, 2017 that are applicable for annual period beginning on January 1, 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after January 1, 2018.

The Group's financial statements for the financial year ending December 31, 2018 will be prepared in accordance with SFRS(I). As a result, this will be the last set of financial statements prepared under the current FRS.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*.

In addition to the adoption of the new framework, the Group will also concurrently apply the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

- SFRS(I) 15 *Revenue from Contracts with Customers* which includes the clarifications to IFRS 15 *Revenue from Contracts with Customers* issued by the IASB in April 2016;
- SFRS(I) 9 *Financial Instruments* which includes the amendments to IFRS 4 *Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* issued by the IASB in September 2016;
- requirements in SFRS(I) 2 *Share-based Payment* arising from the amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions* issued by the IASB in June 2016;
- requirements in SFRS(I) 1-40 *Investment Property* arising from the amendments to IAS 40 – *Transfers of Investment Property* issued by the IASB in December 2016;
- requirements in SFRS(I) 1 arising from the amendments to IFRS 1 – *Deletion of short-term exemptions for first-time adopters* issued by the IASB in December 2016;
- requirements in SFRS(I) 1-28 *Investments in Associates and Joint Ventures* arising from the amendments to IAS 28 – *Measuring an associate or joint venture at fair value* issued by the IASB in December 2016; and
- SFRS(I) INT 22 *Foreign Currency Transactions and Advance Consideration*.

The Group does not expect the application of the above standards and interpretations to have a significant impact on the financial statements, except for SFRS(I) 15 and SFRS(I) 9.

### i. SFRS(I) 1

When the Group adopts SFRS(I) in 2018, the Group will apply SFRS(I) 1 with January 1, 2017 as the date of transition for the Group and the Company. SFRS(I) 1 generally requires that the Group applies SFRS(I) on a retrospective basis, as if such accounting policy had always been applied. If there are changes to accounting policies arising from new or amended standards effective in 2018, restatement of comparatives may be required because SFRS(I) 1 requires both the opening balance sheet and comparative information to be prepared using the most current accounting policies. SFRS(I) 1 provides mandatory exceptions and optional exemptions from retrospective application, but these are often different from those specific transition provisions in individual FRSs applied to the FRS financial statements. The Group does not expect the application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 to have any significant impact on the financial statements.



## 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards *(cont'd)*

### ii. SFRS(I) 15

SFRS(I) 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

The Group plans to adopt SFRS(I) 15 in its financial statements for the year ending December 31, 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of SFRS(I) 15 retrospectively, except as described below, and the comparative period presented in the 2018 financial statements will be restated.

The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as completed contracts at the beginning of the earliest period presented, are not restated.

The Group plans to use the practical expedients for variable considerations. This means that for contracts with variable consideration that were completed on or before the initial application date, the transaction price at the date of completion is used, rather than estimating the amount of variable consideration.

The Group plans to use the practical expedients for contract modifications. This means that for contracts that were modified before the beginning of the earliest period presented, the aggregate effect of all contract modifications when identifying separate performance obligations and determining and allocating the transaction price on transition are reflected.

The Group plans to use the practical expedients for performance obligation disclosures. This means that for periods presented before the initial application date, the amount of the transaction price allocated to the remaining performance obligations and an explanation of when that revenue was recognised are not disclosed.

The expected key impacts upon the adoption of SFRS(I) 15 are described below:

***Long-term contracts***

**a. Timing of revenue and cost recognition**

The Group currently recognises revenue from long-term contracts from its rig & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding under Marine's operating segment and other infrastructure construction using the percentage of completion method, provided the outcome of the contract can be reliably estimated.

The Group does not have an alternative use for the specialised assets which are built to customers' order.

When the Group has an enforceable right to payment for performance completed to date or where the Group's performance creates or enhances an asset that the customer controls as the asset is being created or enhanced, the Group expects to continue to recognise revenue on these long-term contracts over time. The costs associated to fulfil the performance obligation are expensed as control of goods or services is transferred to the customer over time.

When the right to payment for performance completed to date cannot be enforced due to non-enforceability of right to payment for performance completed to date, the revenue and related costs of sales are recognised only when the constructed assets are delivered to customers.

## 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards *(cont'd)*

### ii. SFRS(I) 15 *(cont'd)*

#### b. Contract costs

For long-term contracts where the stage of completion is determined by reference to surveys of work done, contract costs are recognised as an expense in profit or loss using the percentage of completion method prior to the adoption of SFRS(I) 15.

On adoption of SFRS(I) 15, the costs incurred to fulfil the satisfied performance obligation are recognised in profit or loss as control of goods or services to the customer is transferred over time. As there is no direct linkage between the costs being expensed and the output measure used to determine revenue, this may result in volatile contract margin over the life cycle of the contracts for the long-term contracts.

Where the control of goods and services to the customer is transferred at a future point in time, the costs incurred to fulfil the future performance obligation are capitalised as they are recoverable, and presented as "Contract costs" within the balance sheet. The costs capitalised are recognised in profit or loss when the performance obligation is satisfied.

*Consideration payable to customer*

The Group currently offsets certain payments made to customers for purchase of goods against revenue. Upon the adoption of SFRS(I) 15, such payments are treated as consideration payable to customer, and are recognised as an expense instead.

*Significant financing component*

The Group has certain contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. In such cases, contract revenue contains a financing component. For contracts where financing components are determined to be significant, the transaction price is adjusted for the time value of money of the contracts.

The Group is currently in the process of finalising the effects of SFRS(I) 15 and the quantum of the final transition adjustments may be different upon finalisation.

### iii. SFRS(I) 9

SFRS(I) 9 contains new requirements for classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements.

The Group plans to take advantage of the exemption in SFRS(I) 1 allowing it not to restate comparative information in the 2018 SFRS(I) financial statements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 9 are recognised in retained earnings and reserves as at January 1, 2018.

The following assessments have to be made on the basis of facts and circumstances that existed at January 1, 2018.

– The determination of the business model within which a financial asset is held.

– The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

– The designation of investment in equity instruments that is not held for trading as at fair value through other comprehensive income (FVOCI).

– The designation of investments in unit trusts and funds as at fair value through profit or loss.



## 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards *(cont'd)*

### iii. SFRS(I) 9 *(cont'd)*

New hedge accounting requirements are applied prospectively. All hedging relationships designated under FRS 39 *Financial Instruments: Recognition and Measurement* at December 31, 2017 that meet the criteria for hedge accounting under SFRS(I) 9 at January 1, 2018 will be regarded as continuing hedging relationships.

The information below reflects the Group's expectation of the implications arising from changes in the accounting treatment. The actual tax effect may change when the transition adjustments are finalised.

#### a. Classification and measurement: financial assets

For financial assets currently held at amortised costs and at fair value, the Group expects to continue measuring these assets at amortised costs and at fair value under SFRS(I) 9. The Group plans to elect to present in OCI the changes in fair value of the AFS equity securities that are held by the Group and the Company because these investments are not held for trading. The changes in fair value recognised in OCI will not be reclassified to profit or loss upon disposal of the AFS equity. The Group does not expect any significant impact on the financial statements from the Group's election to present in OCI the changes in fair value of its AFS equity securities.

The Group's investments in unit trusts and funds, which is currently classified as available-for-sale financial assets, will be classified as fair value through profit or loss upon the adoption of SFRS(I) 9 and the fair value reserve relating to the fair value changes of the unit trusts and funds will be reclassified to revenue reserves. The amount to be reclassified as at January 1, 2018 is approximately S$119,000. Going forward, the changes in fair value for the unit trusts and funds will be recognised in profit or loss.

#### b. Impairment

SFRS(I) 9 replaces the current 'incurred loss' model with a forward-looking expected credit loss (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI (except for investments in equity instruments).

The Group plans to apply the simplified approach and record lifetime ECL on its trade and other receivables (excluding service concession receivables) and contract assets arising from the application of SFRS(I) 15.

The Group plans to apply general approach for service concession receivables where the loss allowances are equal to the 12-month ECL.

The Group does not expect any material tax impact on the increase in impairment arising from SFRS(I) 9 adoption.

The Group is currently in the process of finalising its computation based on its expected credit loss model and the quantum of the final transition adjustments may be different upon finalisation.

**Summary of Quantitative Impact**

The Group is currently finalising the transition adjustments. The following reconciliations provide an estimate of the expected impacts on initial application of SFRS(I) 1, SFRS(I) 15 and SFRS(I) 9 on the Group's and the Company's financial position as at December 31, 2017 and January 1, 2018 and the Group's profit or loss and other comprehensive income for the year ended December 31, 2017.

## 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards *(cont'd)*

**Summary of Quantitative Impact** *(cont'd)*

***Balance Sheet***

| | As at December 31, 2017 | | | As at January 1, 2018 | |
|---|---|---|---|---|---|
| | Current framework | SFRS(I) 15 | SFRS(I) framework | SFRS(I) 9 | SFRS(I) framework |
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | |
| **Non-current assets** | | | | | |
| Interests in associates and joint ventures | 1,765,420 | – | 1,765,420 | (2,511) | 1,762,909 |
| Trade and other receivables | 1,184,276 | – | 1,184,276 | (7,931) | 1,176,345 |
| Others | 12,167,618 | – | 12,167,618 | – | 12,167,618 |
| | 15,117,314 | – | 15,117,314 | (10,442) | 15,106,872 |
| **Current assets** | | | | | |
| Inventories and work-in-progress | 3,214,296 | (2,687,648) | 526,648 | – | 526,648 |
| Trade and other receivables | 2,031,555 | 261,931 | 2,293,486 | (1,648) | 2,291,838 |
| Contract costs | – | 2,465,252 | 2,465,252 | – | 2,465,252 |
| Contract assets | – | 660,052 | 660,052 | – | 660,052 |
| Others | 2,850,013 | – | 2,850,013 | – | 2,850,013 |
| | 8,095,864 | 699,587 | 8,795,451 | (1,648) | 8,793,803 |
| **Total assets** | 23,213,178 | 699,587 | 23,912,765 | (12,090) | 23,900,675 |
| **Current liabilities** | | | | | |
| Trade and other payables | 3,818,766 | (447,024) | 3,371,742 | – | 3,371,742 |
| Excess of progress billings over work-in-progress | 180,894 | (180,894) | – | – | – |
| Contract liabilities | – | 1,375,465 | 1,375,465 | – | 1,375,465 |
| Current tax payables | 159,046 | (8,055) | 150,991 | – | 150,991 |
| Others | 1,677,773 | – | 1,677,773 | – | 1,677,773 |
| | 5,836,479 | 739,492 | 6,575,971 | – | 6,575,971 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 428,340 | – | 428,340 | (274) | 428,066 |
| Other long-term payables | 294,511 | 1,162 | 295,673 | – | 295,673 |
| Others | 8,438,094 | – | 8,438,094 | – | 8,438,094 |
| | 9,160,945 | 1,162 | 9,162,107 | (274) | 9,161,833 |
| **Total liabilities** | 14,997,424 | 740,654 | 15,738,078 | (274) | 15,737,804 |
| **Net assets** | 8,215,754 | (41,067) | 8,174,687 | (11,816) | 8,162,871 |
| **Equity attributable to owners of the Company** | | | | | |
| Other reserves | (82,676) | (3,037) | (85,713) | 119 | (85,594) |
| Revenue reserve | 5,483,190 | (22,461)[1] | 5,460,729 | (11,581)[2] | 5,449,148 |
| Others | 1,568,811 | – | 1,568,811 | – | 1,568,811 |
| **Non-controlling interests** | 1,246,429 | (15,569) | 1,230,860 | (354) | 1,230,506 |
| **Total equity** | 8,215,754 | (41,067) | 8,174,687 | (11,816) | 8,162,871 |

[1] *Amount relates mainly to reversal of cumulative profits of certain contracts, recognised in prior years according to existing policies in Note 2(u)(ii) where such revenue and related costs of sales would be recognised on delivery to customers upon adoption of SFRS(I) 15.*

[2] *Amount relates mainly to the expected increase in impairment loss for trade and other receivables (including service concession receivables) as a result of the application of the expected credit loss model upon adoption of SFRS(I) 9 instead of the current "incurred loss" model.*



## 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards *(cont'd)*

**Summary of Quantitative Impact** *(cont'd)*

***Consolidated Income Statement***

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | Current framework | SFRS(I) 15 | SFRS(I) framework |
| | S$'000 | S$'000 | S$'000 |
| **Group** | | | |
| **Turnover** | 8,345,605 | 658,312[3] | 9,003,917 |
| Cost of sales | (7,399,538) | (369,291)[3] | (7,768,829) |
| **Gross profit** | 946,067 | 289,021 | 1,235,088 |
| Other operating income | 75,550 | 11,259 | 86,809 |
| Finance costs | (525,782) | (420) | (526,202) |
| Others | (183,732) | – | (183,732) |
| **Profit before tax** | 312,103 | 299,860 | 611,963 |
| Tax expense | (67,391) | (50,382) | (117,773) |
| **Profit for the year** | 244,712 | 249,478 | 494,190 |
| **Attributable to:** | | | |
| Owners of the Company | 230,772 | 153,241 | 384,013 |
| Non-controlling interests | 13,940 | 96,237 | 110,177 |
| **Profit for the year** | 244,712 | 249,478 | 494,190 |

***Consolidated Statement of Comprehensive Income***

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | Current framework | SFRS(I) 15 | SFRS(I) framework |
| | S$'000 | S$'000 | S$'000 |
| **Group** | | | |
| **Profit for the year** | 244,712 | 249,478 | 494,190 |
| ***Items that may be reclassified subsequently to profit or loss:*** | | | |
| Others | (106,082) | – | (106,082) |
| ***Items that may not be reclassified subsequently to profit or loss:*** | | | |
| Others | 2,742 | – | 2,742 |
| **Total comprehensive income for the year** | 141,372 | 249,478 | 390,850 |
| **Attributable to:** | | | |
| Owners of the Company | 160,025 | 153,241 | 313,266 |
| Non-controlling interests | (18,653) | 96,237 | 77,584 |
| **Total comprehensive income for the year** | 141,372 | 249,478 | 390,850 |

[3] *Amount relates mainly to the reversal of adjustments (in relation to contract terminations) recorded in 2017 set-off partially by reversal of revenue and related costs of sales for other contracts recognised in 2017 according to existing policies in Note 2(u)(ii), which would be recognised on delivery to customers upon adoption of SFRS(I) 15.*

## 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards *(cont'd)*

**Summary of Quantitative Impact** *(cont'd)*

**Balance Sheet**

| | As at December 31, 2017 | | |
|---|---|---|---|
| | Current framework | SFRS(I) 15 | SFRS(I) framework |
| | S$'000 | S$'000 | S$'000 |
| **Company** | | | |
| **Non-current assets** | 3,346,706 | – | 3,346,706 |
| **Current assets** | 870,327 | – | 870,327 |
| **Total assets** | 4,217,033 | – | 4,217,033 |
| **Current liabilities** | | | |
| Current tax payable | 49,746 | (18) | 49,728 |
| Others | 153,581 | – | 153,581 |
| | 203,327 | (18) | 203,309 |
| **Non-current liabilities** | | | |
| Other long-term payables | 286,199 | 1,162 | 287,361 |
| Others | 68,704 | – | 68,704 |
| | 354,903 | 1,162 | 356,065 |
| **Total liabilities** | 558,230 | 1,144 | 559,374 |
| **Net assets** | 3,658,803 | (1,144) | 3,657,659 |
| **Equity attributable to owners of the Company** | | | |
| Revenue reserve | 2,087,875 | (1,144) | 2,086,731 |
| Others | 1,570,928 | – | 1,570,928 |
| **Total equity** | 3,658,803 | (1,144) | 3,657,659 |



## 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards *(cont'd)*

**Applicable to financial statements for the year 2019 and thereafter**

The following new SFRS(I), amendments to and interpretations of SFRS(I) are effective for annual periods beginning after January 1, 2018:

Applicable to 2019 financial statements

- SFRS(I) 16 *Leases*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures* (Amendments to SFRS(I) 1-28)
- *Prepayment Features with Negative Compensation* (Amendments to SFRS(I) 9)

Mandatory effective date deferred

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to SFRS(I) 10 and SFRS(I) 1-28).

The Group is still in the process of assessing the impact of the new SFRS(I)s, amendments to and interpretations of SFRS(I)s on the financial statements. The Group's preliminary assessment of SFRS(I) 16, which is expected to have a more significant impact on the Group, is as described below.

**SFRS(I) 16**

SFRS(I) 16 replaces existing lease accounting guidance. SFRS(I) 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if SFRS(I) 15 is also applied. SFRS(I) 16 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group also expects the ROU assets recognised at date of initial application to be equal to their lease liabilities.

The Group has performed a preliminary assessment of the impact on its financial statements based on its existing operating lease arrangements (refer to Note 38).

Until 2018, the approximate financial impact of the standard is unknown due to factors that impact calculation of lease liabilities such as discount rate, expected term of leases including renewal options and exemptions for short-term leases. The Group will continue to assess its portfolio of leases to calculate the impending impact of transition to the new standard.

### 43. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and Adoption of New Standards *(cont'd)*

**SFRS(I) 16** *(cont'd)*

**i. The Group as lessee**

The Group expects its existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under SFRS(I) 16. The operating lease commitments on an undiscounted basis amount to approximately 2.4% of the consolidated total assets and 3.7% of consolidated total liabilities. Under the new standard, remaining lease payments of the operating leases will be recognised at their present value discounted using appropriate discount rate. In addition, the nature of expenses related to those leases will now change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge of ROU assets and interest expense on lease liabilities.

**ii. The Group as lessor**

SFRS(I) 16 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the existing operating lease and finance lease accounting models respectively. However, SFRS(I) 16 requires more extensive disclosures to be provided by a lessor.

### 44. Subsequent Events

**i. Reorganisation of India energy businesses and proposed initial public offering**

On February 19, 2018, the Group announced the reorganisation of its India energy business. The following transfers have taken place as part of the reorganisation:

a. Transfer of SCU's 88.0% stake in SGPL to SEIL;

b. Transfer of NCI's 12.0% stake in SGPL to SEIL; and

c. Transfer of SCU's entire stake in SGI to SEIL.

The consideration for the transfers was settled by SEIL through the issuance of new shares.

Upon completion of the reorganisation, the Group's stake in SEIL increased from 86.87% to 93.70% and SGPL and SGI will become wholly owned subsidiaries of SEIL.

On February 23, 2018, the Group announced that it has initiated the process for an initial public offering of SEIL on BSE Limited (BSE) and the National Stock Exchange of India (NSE).

**ii. Divestment of municipal water operations in South Africa**

On February 23, 2018, the Group announced that it has entered into a conditional sale agreement to divest its 100% stake in Sembcorp Utilities South Africa, its 100% effective stake in Sembcorp Silulumanzi and its 73.4% stake in Sembcorp Siza Water to South African Water Works Pty Ltd for gross proceeds of ZAR 790 million (approximately S$89 million).

Upon completion, Sembcorp Utilities South Africa, Sembcorp Silulumanzi and Sembcorp Siza Water will cease to be part of the Group.

This divestment is not expected to have a material impact to the Group in 2018.





### (Under SGX-ST Listing Manual requirements)

### A. Directors' and Key Executives' Remuneration Earned for the Year

Summary compensation table for the year ended December 31, 2017

| | Salary[1] | Bonus earned | Fair value of share-based compensation granted for the year[3] | Directors' fees[4] Cash-based[5] | Directors' fees[4] Share-based[6] | Brought forward bonus bank[2] |
|---|---|---|---|---|---|---|
| **Name of Director** | **S$'000** | **S$'000** | **S$'000** | **S$'000** | **S$'000** | **S$'000** |
| **Payable by Company** | | | | | | |
| Ang Kong Hua | – | – | – | 447 | 191 | – |
| Tang Kin Fei[7] | 386 | – | – | – | – | 3,980 |
| Tang Kin Fei[5,7] | – | – | – | 25 | – | – |
| Neil McGregor[5] | – | – | – | 22 | 9 | – |
| Neil McGregor[8] | 1,144[9] | 521 | 2,326 | – | – | – |
| Bobby Chin Yoke Choong *(retired on April 19, 2017)* | – | – | – | 70 | – | – |
| Margaret Lui[5] | – | – | – | 120 | 52 | – |
| Tan Sri Mohd Hassan Marican | – | – | – | 107 | 46 | – |
| Tham Kui Seng | – | – | – | 106 | 46 | – |
| Dr Teh Kok Peng | – | – | – | 122 | 52 | – |
| Ajaib Haridass | – | – | – | 116 | 50 | – |
| Nicky Tan[5] | – | – | – | 106 | 45 | – |
| Yap Chee Keong | – | – | – | 115 | 50 | – |
| Jonathan Asherson OBE *(appointed on July 17, 2017)* | – | – | – | 29 | 13 | – |
| **Payable by Subsidiaries** | | | | | | |
| Tang Kin Fei[5] *(retired on April 18, 2017)* | – | – | – | 96 | – | – |
| Neil McGregor[5] *(appointed on April 20, 2017)* | – | – | – | 153 | 37 | – |
| Tan Sri Mohd Hassan Marican | – | – | – | 420 | 180 | – |
| Ajaib Haridass | – | – | – | 190 | 82 | – |
| Tham Kui Seng | – | – | – | 53 | – | – |
| **Name of Key Executive** | | | | | | |
| Tan Cheng Guan[5] | 663 | 202 | 550 | 44 | – | 1,633 |
| Koh Chiap Khiong[5] | 613 | 233 | 550 | 180 | 61 | 1,804 |
| Ng Meng Poh[5] | 611 | 189 | 550 | 95 | – | 1,748 |
| Wong Weng Sun | 867 | 852 | 1,069 | – | – | 2,676 |
| Kelvin Teo[5] | 413 | 248 | 234 | 10 | – | 403 |

# Supplementary Information

Year ended December 31, 2017

## (Under SGX-ST Listing Manual requirements) *(cont'd)*

## A. Directors' and Key Executives' Remuneration Earned for the Year *(cont'd)*

Notes:

1 The amount shown is inclusive of basic salary, fixed allowances, AWS and other emoluments.

2 The Brought Forward Bonus Bank is the outstanding balance of bonus as at December 31, 2017 (incorporating any adjustment made to the bank balance but excluding the bonus earned during the financial year). Typically, one-third of the accumulated bonus comprising Bonus Earned in the financial year and the Brought Forward Bonus is paid out in cash each year, with the balance being carried forward to the following year. The balances of the bonus bank in future will be adjusted by the yearly EVA performance of the Group and its subsidiaries and the payouts made from the Bonus Bank.

3 The fair value of the share plans granted for the year is disclosed. The shares granted to key executives are contingent upon meeting performance measures. If these performance measures are not met, the key executive will not be vested with any shares.

4 Based on the Directors' Fee framework, the computation of non-executive directors' fees totalled S$2,258,625 in 2017 (2016: S$2,365,750). After applying the 15% voluntary reduction in fees payable to existing non-executive directors, the resulting non-executive directors' fees for the financial year 2017 totalled S$1,938,769.

5 Directors' fees for Margaret Lui are payable to Azalea Investment Management Pte Ltd. Directors' fees for Neil McGregor are payable to Temasek International Pte Ltd. Directors' fees for Nicky Tan are payable to Tan Kok Wah and Tee Min Foundation Ltd. Directors' fees in cash from subsidiaries for Neil McGregor, Tan Cheng Guan, Koh Chiap Khiong and Ng Meng Poh are payable to SCI. Directors' fees in cash of S$74,000 from subsidiaries for Tang Kin Fei are payable to SCI. Directors' fees in cash from subsidiaries for Kelvin Teo are payable to Sembcorp Parks Management Pte Ltd and Batamindo Shipping & Warehousing Pte Ltd.

6 To align the interests of the non-executive directors with the interests of shareholders, up to 30% of the aggregate directors' fees approved by shareholders for a particular financial year may be paid out in the form of restricted share awards under the Sembcorp Industries Restricted Share Plan 2010.

From 2011, the awards granted under the Sembcorp Industries Restricted Share Plan 2010 to all directors as part of their directors' fees (except for Tang Kin Fei, who was the Group President & CEO, and who did not receive any directors' fees) will consist of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. Non-executive directors are required to hold shares (including shares obtained by other means) worth the value of their annual base retainer (currently S$75,000); any excess may be sold as desired. A non-executive director can dispose of all of his shares one year after leaving the Board.

The actual number of shares awarded to each non-executive director will be determined by reference to the volume-weighted average price of a share on the SGX-ST over the 14 trading days from (and including) the day on which the shares are first quoted ex-dividend after the AGM (or, if the resolution to approve the final dividend is not approved, over the 14 trading days immediately following the date of the AGM). The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash. A non-executive director who steps down before the payment of the share component will receive all of his director's fees for the year (calculated on a pro-rated basis, where applicable) in cash.

Details on the share options, performance shares and restricted shares granted to the directors are set out in the section on Share-based Incentive Plans in the Directors' Report.

7 Tang Kin Fei retired as Group President & CEO of SCI on March 31, 2017 and retired as Director of SCI on May 31, 2017.

8 Neil McGregor was appointed as Group President & CEO on April 1, 2017.

9 The amount excludes sign on bonus of S$800,000.



## (Under SGX-ST Listing Manual requirements) *(cont'd)*

## B. Interested Person Transactions

Interested person transactions carried out during the financial year which fall under Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited (SGX-ST) are as follows:

| | **Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual (excluding transactions less than S$100,000)** |
|---|---|
| | **2017** |
| | **S$'000** |
| **Sale of goods and services** | |
| Temasek Holdings (Private) Limited and its Associates | |
| – Accuron Technologies Limited and its Associates | 1,351 |
| – PSA International Pte Ltd and its Associates | 90,767 |
| – Singapore Power Limited and its Associates | 2,621 |
| – Temasek Capital (Private) Limited and its Associates | 1,633 |
| – Wildlife Reserves Singapore Pte Ltd and its Associates | 3,391 |
| | 99,763 |
| Olam International Ltd and its Associates | 3,503 |
| Starhub Ltd and its Associates | 21,610 |
| SATS Ltd and its Associates | 4,507 |
| Singapore Telecommunications Ltd and its Associates | 5,083 |
| Singapore Technologies Engineering Ltd and its Associates | 33,013 |
| | 167,479 |
| **Purchase of goods and services** | |
| Temasek Holdings (Private) Limited and its Associates | |
| – Singapore Power Limited and its Associates | 5,342 |
| – Temasek Capital (Private) Limited and its Associates[1] | 486,762 |
| – Certis CISCO Security Pte Ltd and its Associates | 203 |
| | 492,307 |
| Singapore Telecommunications Ltd and its Associates | 6,055 |
| Singapore Technologies Engineering Ltd and its Associates | 3,002 |
| | 501,364 |
| **Provision of management and support services** | |
| Temasek Holdings (Private) Limited and its Associates | |
| – Temasek Capital (Private) Limited and its Associates | 2,729 |
| **Obtaining of management and support services** | |
| Temasek Holdings (Private) Limited and its Associates | |
| – Temasek International (Private) Limited and its Associates | 275 |
| **Treasury transactions** | |
| Temasek Holdings (Private) Limited and its Associates | |
| – Clifford Capital Pte Ltd | 33,473 |
| **Total interested person transactions** | 705,320 |

### (Under SGX-ST Listing Manual requirements) *(cont'd)*
### B. Interested Person Transactions *(cont'd)*

| | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) |
|---|---|
| | **2017** |
| | **S$'000** |
| **Establishment of Joint Venture** | |
| Temasek Holdings (Private) Limited and its Associates | |
| – Ascendas-Singbridge Pte. Ltd. and its Associates | 33,488 |

Note:

1. This relates mainly to the purchase of gas by Sembcorp Cogen Pte Ltd from Sembcorp Gas Pte Ltd for the generation of electricity. Sembcorp Gas Pte Ltd is 30% owned by Seletar Investments Pte Ltd, a wholly-owned subsidiary of Temasek Holdings (Private) Limited.



# EVA Statement

| | Note | 2017 S$'000 | 2016 S$'000 |
|---|---|---|---|
| **Net operating profit before tax expense** | | **148,045** | 412,317 |
| Adjusted for: | | | |
| Share of associates' and joint ventures' profits | | **218,942** | 153,668 |
| Interest expense | 1 | **524,055** | 406,048 |
| Others | 2 | **41,424** | 72,491 |
| **Adjusted profit before interest and tax** | | **932,466** | 1,044,524 |
| Cash operating taxes | 3 | **(192,029)** | (173,969) |
| **Net operating profit after tax (NOPAT)** | | **740,437** | 870,555 |
| Average capital employed | 4 | **19,176,171** | 17,467,795 |
| Weighted average cost of capital | 5 | **6.5%** | 6.7% |
| **Capital charge** | | **1,246,451** | 1,170,342 |
| Add: Capital Charge Deferral (net) | 6 | **149,928** | 201,274 |
| **Economic Value Added (EVA)** | | **(356,086)** | (98,513) |
| Non-controlling share of EVA | | **122,825** | 106,139 |
| **EVA attributable to shareholders** | | **(233,261)** | 7,626 |
| Less: Unusual items (UI) gains | 7 | **(50,481)** | (38,173) |
| **EVA attributable to shareholders (exclude UI)** | | **(283,742)** | (30,547) |

Notes:

1. Interest expense includes imputed interest on present value of operating leases and capitalised interest charged to profit or loss upon disposal of the assets.
2. Other adjustments include recovery of investment costs, timing difference of allowances made for / (write-back) of doubtful debts, warranty, inventory obsolescence and goodwill written off / impaired and construction-in-progress.
3. The reported current tax is adjusted for the statutory tax impact of interest expense.
4. Average capital employed is computed by taking monthly average total assets less non-interest-bearing liabilities plus timing provision, goodwill written off / impaired and present value of operating leases.

| | 2017 S$'000 | 2016 S$'000 |
|---|---|---|
| **Major Capital Components:** | | |
| Property, plant and equipment | **11,711,143** | 10,570,175 |
| Investments | **2,225,739** | 2,372,686 |
| Other long-term assets | **1,405,947** | 914,641 |
| Net working capital and long-term liabilities | **3,833,342** | 3,610,293 |
| Average capital employed | **19,176,171** | 17,467,795 |

5. The Weighted Average Cost of Capital is calculated in accordance with the Sembcorp Group EVA Policy as follows:
   i. Cost of Equity using Capital Asset Pricing Model with market risk premium at 5.0% (2016: 5.0%);
   ii. Risk-free rate 2.22% (2016: 2.28%) based on yield-to-maturity of Singapore Government 10-year Bonds;
   iii. Ungeared beta ranging from 0.5 to 1.0 (2016: 0.5 to 1.0) based on Sembcorp Industries' risk categorisation; and
   iv. Cost of Debt rate at 4.25% (2016: 3.45%).
6. Capital charge deferral (net) refers to deferral of capital charge on investments made for projects where returns are not immediate at the time of investment (e.g. Greenfield projects) less cost of deferral at weighted average cost of capital.
7. Unusual items (UI) refer to gain / loss on divestment of subsidiaries, associates, joint ventures, long-term investments and disposal of major property, plant and equipment.

# Shareholders' Information

As at March 1, 2018

## Statistics of Shareholders

| | |
|---|---|
| Issued and fully paid-up capital: | S$565,571,683.28 |
| Number of issued shares: | 1,787,547,732 |
| Number / percentage of treasury shares: | 1,042,827 (0.06%) |
| Number of shareholders: | 36,909 |
| Class of shares: | Ordinary shares with equal voting rights[1] |

## Shareholdings Held by the Public

Based on information available to the company as of March 1, 2018, 50.5%[2] of the issued ordinary shares of the company is held by the public and therefore, the company has complied with Rule 723 of the SGX-ST Listing Manual.

| Substantial Shareholders | Direct Interest | Indirect Interest | Total | %[2] |
|---|---|---|---|---|
| Temasek Holdings (Private) Limited | 871,200,328 | 12,718,760[3] | 883,919,088 | 49.48 |

## Top 20 Shareholders

| No. | Name | No. of Ordinary Shares Held | %[2] |
|---|---|---|---|
| 1. | Temasek Holdings (Private) Limited | 871,200,328 | 48.77 |
| 2. | Citibank Nominees Singapore Pte Ltd | 215,182,505 | 12.04 |
| 3. | DBS Nominees Pte Ltd | 193,845,700 | 10.85 |
| 4. | DBSN Services Pte Ltd | 67,020,642 | 3.75 |
| 5. | HSBC (Singapore) Nominees Pte Ltd | 46,271,776 | 2.59 |
| 6. | United Overseas Bank Nominees Private Limited | 42,802,169 | 2.40 |
| 7. | Raffles Nominees (Pte) Ltd | 27,229,925 | 1.53 |
| 8. | Startree Investments Pte Ltd | 9,400,000 | 0.53 |
| 9. | OCBC Nominees Singapore Private Limited | 8,822,690 | 0.49 |
| 10. | DB Nominees (S) Pte Ltd | 7,921,598 | 0.44 |
| 11. | Tang Kin Fei | 4,488,806 | 0.25 |
| 12. | OCBC Securities Private Ltd | 4,380,877 | 0.25 |
| 13. | CGS-CIMB Securities (Singapore) Pte Ltd | 4,101,171 | 0.23 |
| 14. | BPSS Nominees Singapore (Pte.) Ltd. | 3,468,031 | 0.19 |
| 15. | Phillip Securities Pte Ltd | 2,959,037 | 0.17 |
| 16. | UOB Kay Hian Private Limited | 2,712,543 | 0.15 |
| 17. | DBS Vickers Securities (Singapore) Pte Ltd | 2,562,735 | 0.14 |
| 18. | Low Sin Leng | 1,604,437 | 0.09 |
| 19. | Maybank Kim Eng Securities Pte Ltd | 1,500,708 | 0.08 |
| 20. | Societe Generale Singapore Branch | 1,440,757 | 0.08 |
| | | 1,518,916,435 | 85.02 |

[1] *Ordinary shares purchased and held as treasury shares by the company will have no voting rights*

[2] *The percentage of issued ordinary shares is calculated based on the number of issued ordinary shares of the company as of March 1, 2018 excluding 1,042,827 ordinary shares held as treasury shares as at that date*

[3] *Temasek is deemed to be interested in the 12,718,760 shares in which its subsidiaries and / or associated companies have or are deemed to have an interest pursuant to Section 7 of the Companies Act*

## Analysis of Shareholdings

| Range of Shareholdings | No. of Ordinary Shareholders | % | No. of Ordinary Shares Held (Excluding Treasury Shares) | % |
|---|---|---|---|---|
| 1 – 99 | 586 | 1.59 | 22,183 | 0.00 |
| 100 – 1,000 | 6,573 | 17.81 | 5,421,630 | 0.31 |
| 1,001 – 10,000 | 24,918 | 67.51 | 98,124,370 | 5.49 |
| 10,001 – 1,000,000 | 4,811 | 13.03 | 162,920,242 | 9.12 |
| 1,000,001 and above | 21 | 0.06 | 1,520,016,480 | 85.08 |
| | 36,909 | 100.00 | 1,786,504,905 | 100.00 |

# Governance Disclosure Guide

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| General | a. Has the company complied with all the principles and guidelines of the Singapore Code of Corporate Governance 2012 (the Code)? If not, please state the specific deviations and the alternative corporate governance practices adopted by the company in lieu of the recommendations in the Code.<br>b. In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code? | Sembcorp has complied in all material aspects with the principles and guidelines set out in the Code. |

## Board Responsibility

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 1.5 | What are the types of material transactions which require approval from the board? | Significant investments and transactions exceeding threshold limits are approved by the board. Transactions below the threshold limit are approved by the board's Executive Committee and management to facilitate operational efficiency, in accordance with applicable financial authority limits. |



## Members of the Board

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 2.6 | a. What is the board's policy with regard to diversity in identifying director nominees?<br>b. Please state whether the current composition of the board provides diversity on each of the following – skills, experience, gender and knowledge of the company, and elaborate with numerical data where appropriate.<br>c. What steps has the board taken to achieve the balance and diversity necessary to maximise its effectiveness? | a. The board seeks to ensure that it has the required diversity, including gender diversity, as well as competencies needed, to support the company's growth. Best efforts are taken to ensure that in addition to contributing their valuable expertise and insights to board deliberations, directors also bring to the board independent and objective perspectives to allow balanced and well-considered decisions to be made.<br>b. In 2017, the Nominating Committee (NC) reviewed the composition of our board to ensure that it had the diversity and necessary competencies to support the company's growth. Our current board includes business leaders and professionals with strong experience in areas relevant to the Group's businesses. This includes experience in the engineering, petrochemicals, oil and gas and real estate industries, as well as the accounting, finance and legal sectors.<br>c. With reference to the Group's strategies and business plans, the NC has reviewed the skills mix of board members to ensure that the board has the required diversity, including gender diversity, as well as the necessary competencies to support the company's growth. Upon the need for a new director arising, the NC would consult with management and would identify a list of potential candidates. These candidates would be sourced through an extensive network of contacts and external databases where appropriate, based on the skill sets, experience, knowledge and attributes required to lead the growth of the company. Thereafter, the NC would interview the candidates and make its recommendation to the board for approval. All appointments to the board are made on merit and measured against objective criteria. Candidates must be able to discharge their responsibilities as directors while upholding the highest standards of governance practised by the Group. |

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| **Members of the Board** *(cont'd)* | | |
| Guideline 4.6 | Please describe the board nomination process for the company in the last financial year for:<br>a. Selecting and appointing new directors and<br>b. Re-electing incumbent directors | a. When the need for a new director arises, the NC consults with management and identifies a list of potential candidates. These candidates are sourced through an extensive network of contacts and external databases where appropriate, based on the skill sets, experience, knowledge and attributes required to lead the growth of the company. Thereafter, the NC will interview the candidates and make its recommendation to the board for approval.<br>b. While reviewing the re-appointment and re-election of directors, the NC considers the directors' contributions, other board representations and principal commitments to ensure they have sufficient time to discharge their responsibilities adequately. The board has adopted an internal guideline that seeks to address the competing time commitments that may be faced when a director holds multiple board directorship representations.<br>The board also recognises the contributions of directors who have, over time, developed deep insight into the Group's businesses. It exercises its discretion to retain the services of such directors where appropriate, to avoid an abrupt loss of experienced directors with a valuable understanding of the Group. |



| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| **Members of the Board** *(cont'd)* | | |
| Guideline 1.6 | a. Are new directors given formal training? If not, please explain why.<br>b. What are the types of information and training provided to:<br>i. new directors and<br>ii. existing directors<br>to keep them up to date? | a. Yes, the company conducts comprehensive orientation programmes for new directors.<br>b. i. All new directors receive formal letters of appointment explaining the Group's governance policies and practices, as well as their duties and obligations as directors. New directors also receive an information pack that contains the Group's organisation structure, the contact details of members of senior management, the company's constitution, respective committees' terms of reference, the Group's policy relating to disclosure of interests in securities and prohibition on dealings in Sembcorp securities, as well as guidelines on directors' fees. The company conducts comprehensive orientation programmes for new directors. These include briefings on board policies and processes, presentations by senior management about Sembcorp, its overall strategic plans and direction, financial performance and business activities in various markets, as well as facility visits.<br>ii. The company provides its directors complete, adequate and timely information on an ongoing basis to enable them to make informed decisions, discharge their duties and keep abreast of the Group's operational and financial performance, key issues, challenges and opportunities. This includes management and operation reports, financial statements and quarterly highlights of the Group's performance and key developments. The board also has ready access to the Group President & CEO, senior management, the company secretary and internal and external auditors at all times, should it need additional information. Details may be found on page 121 of the Corporate Governance Statement in this Annual Report.<br>As part of training and professional development for the board, the company also ensures that directors are briefed from time to time on changes to regulations, guidelines and accounting standards, as well as other relevant trends or issues. These are done either during board meetings, at board dinners or at specially convened sessions, including training sessions and seminars conducted by external professionals which are funded by the company. Details may be found on page 116 of the Corporate Governance Statement in this Annual Report. |

## Members of the Board *(cont'd)*

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 4.4 | a. What is the maximum number of listed company board representations that the company has prescribed for its directors? What are the reasons for this number?<br>b. If a maximum number has not been determined, what are the reasons?<br>c. What are the specific considerations in deciding on the capacity of directors? | a. The board has determined that the maximum number of listed company board representations held by any Sembcorp Industries director should not exceed five. This is based on the total time commitment required of our directors for involvement in our board and board committees. It aims to ensure that all directors have sufficient time and attention to devote to the affairs of the company and discharge their duties adequately.<br>b. Not applicable.<br>c. In deciding such matters, the board considers the total time commitment required of the directors for involvement in our board and board committees, as well as for their other appointments outside our company. |

## Board Evaluation

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 5.1 | a. What was the process upon which the board reached the conclusion on its performance for the financial year?<br>b. Has the board met its performance objectives? | a. Each director is required to complete a questionnaire on the effectiveness of the board and board committees, as well as directors' contributions and performance. The evaluation and feedback are then consolidated and presented to the board for discussion.<br>b. Yes. The board believes that it has met its performance objectives. This is reflected in the overall long-term performance of the Group. |

## Independence of Directors

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 2.1 | Does the company comply with the guideline on the proportion of independent directors on the board? If not, please state the reasons for the deviation and the remedial action taken by the company. | Yes. The current board comprises 10 directors, eight of whom are independent directors. |

## Independence of Directors *(cont'd)*

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 2.3 | a. Is there any director who is deemed to be independent by the board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent? If so, please identify the director and specify the nature of such a relationship.<br>b. What are the board's reasons for considering him independent? Please provide a detailed explanation. | a. Yes. Tan Sri Mohd Hassan Marican and Ajaib Haridass both sit on the board of Sembcorp Marine, a listed subsidiary of Sembcorp Industries from which the company has received payment in excess of S$200,000 in aggregate for consultancy services and provision of utilities services.<br>Mr Tham sits on the board of Sembcorp Design and Construction, a wholly-owned subsidiary of the company from which the company has received payment in excess of S$200,000 for consultancy services.<br>In addition, Tan Sri Mohd Hassan Marican and Tham Kui Seng respectively hold the positions of Senior International Advisor and Corporate Advisor at Temasek International Advisors, a subsidiary of Temasek.<br>b. The board has assessed these matters and is of the view that the payments received from these subsidiaries are not significant in the context of the Group's earnings. The board believes that Tan Sri Mohd Hassan Marican, Mr Haridass and Mr Tham's directorships in these subsidiaries have not and will not interfere, or be reasonably perceived to interfere, with their ability to exercise independent judgement and act in the best interest of Sembcorp Industries.<br>Tan Sri Mohd Hassan and Mr Tham's roles as advisors at Temasek International Advisors are non-executive in nature and they are not involved in its' day-to-day conduct of business. They are also not accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of Temasek. The board believes that they have acted and will continue to act in the best interest of Sembcorp.<br>Hence, the board has determined that Tan Sri Mohd Hassan Marican, Mr Haridass and Mr Tham are independent notwithstanding their relationship with Temasek and the Group's subsidiaries. |
| Guideline 2.4 | Has any independent director served on the board for more than nine years from the date of his first appointment? If so, please identify the director and set out the board's reasons for considering him independent. | No. The company does not have any director who has served beyond nine years from the date of his / her first appointment to the board.<br>A term limit of nine years is set for independent directors of the Group. Should the board decide to retain any director beyond this nine-year term, it will rigorously review the independence of that director and determine if he / she should continue to be regarded as an independent director. |

## Disclosure on Remuneration

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 9.2 | Has the company disclosed each director's and the CEO's remuneration as well as a breakdown (in percentage or dollar terms) into base / fixed salary, variable or performance-related income / bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so? | Yes. Information on each director's and the Group President & CEO's remuneration may be found under the related item in the Supplementary Information section of the Financial Statements in this Annual Report. |
| Guideline 9.3 | a. Has the company disclosed each key management personnel's remuneration, in bands of S$250,000 or in more detail, as well as a breakdown (in percentage or dollar terms) into base / fixed salary, variable or performance-related income / bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?<br><br>b. Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO). | a. Information on key management personnel's remuneration may be found under the related item in the Supplementary Information section of the Financial Statements in this Annual Report.<br><br>b. The aggregate remuneration paid in the financial year 2017 to the top five key management personnel, excluding our Group President & CEO, amounted to approximately S$7.7 million comprising salaries and bonuses. |
| Guideline 9.4 | Is there any employee who is an immediate family member of a director or the CEO, and whose remuneration exceeds S$50,000 during the year? If so, please identify the employee and specify the relationship with the relevant director or the CEO. | No, in 2017 the company had no employees who were immediate family members of a director or the Group President & CEO. |



## Disclosure on Remuneration *(cont'd)*

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 9.6 | a. Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.<br><br>b. What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?<br><br>c. Were all of these performance conditions met? If not, what were the reasons? | a. With the exception of our Group President & CEO, who does not receive director's fees, all our board members are non-executive directors. Remuneration for our key management personnel and executive director comprises three primary components: fixed remuneration, as well as annual variable bonuses and share-based incentives that are conditional upon meeting certain performance targets.<br><br>Annual variable bonuses are linked to the achievement of pre-agreed financial and non-financial performance targets, as well as the creation of economic value added.<br><br>Share-based incentives are long-term incentive schemes which use methods fairly common among major local and multinational companies to incentivise and motivate employees to achieve pre-determined targets that create and enhance economic value for shareholders.<br><br>b. Information on the remuneration received by key management and executive director and details on share-based incentives and performance targets are available in the Directors' Statement and Note 32 in the Notes to the Financial Statements in this Annual Report.<br><br>c. All the performance conditions under the Restricted Share Plan were met. As for the Performance Share Plan, not all the performance conditions were met against a background of adverse market conditions. Arising from the under-achievement of performance targets, 600,000 performance shares lapsed in 2017 and were not paid out. |

## Risk Management and Internal Controls

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 6.1 | What types of information does the company provide to independent directors to enable them to understand its business, the business and financial environment as well as the risks faced by the company? How frequently is the information provided? | On an ongoing basis, directors are provided with complete, adequate and timely information to enable them to make informed decisions, discharge their duties and keep abreast of the Group's operational and financial performance, key issues, challenges and opportunities. Management and operation reports as well as financial statements are presented to the board on a regular basis.<br><br>On a quarterly basis, financial highlights of the Group's performance and key developments are presented at board meetings.<br><br>On a regular basis, risk-related reports are submitted to the Risk Committee (RC). The RC, comprising of selected board members, assists the board in overseeing risk management for the Group. These reports include updates on the Group's risk portfolio and key risk indicators, reports on major risk exposure and any other risk-related issues, as well as actions taken to monitor and manage exposure to such risks or issues.<br><br>For more details on briefings, updates and information provided to our directors, please refer to pages 116 and 121 of the Corporate Governance Statement in this Annual Report. |
| Guideline 13.1 | Does the company have an internal audit function? If not, please explain why. | Yes. The Group Internal Audit department reports directly to the Audit Committee on audit matters and to the Group President & CEO on administrative matters. |



## Risk Management and Internal Controls *(cont'd)*

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|
| Guideline 11.3 | a. In relation to the major risks faced by the company, including financial, operational, compliance, information technology and sustainability, please state the bases for the board's view on the adequacy and effectiveness of the company's internal controls and risk management systems.<br><br>b. In respect of the past 12 months, has the board received assurance from the CEO and the CFO as well as the internal auditor that:<br><br>i. the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and<br><br>ii. the company's risk management and internal control systems are effective<br><br>If not, how does the board assure itself of points i. and ii. above? | a. The Group has implemented a comprehensive enterprise risk management (ERM) framework and governance assurance framework (GAF). Supporting the ERM framework and GAF is a system of internal controls, comprising a code of business conduct, group-wide governance and internal control policies, procedures, guidelines dictating the segregation of duties, approval authorities and limits, as well as checks and balances embedded in business processes.<br><br>The ERM framework and GAF are also complemented by a risk-based control self-assessment and certification programme.<br><br>During the year, the Group's risk profile was reviewed and updated and the effectiveness of our internal controls was assessed and enhanced through a combination of management control self-assessments, certifications and internal audits, as well as actions taken in follow up to these exercises.<br><br>Furthermore, the Group Internal Audit department audited the entities that are listed in its annual internal audit plan, which has been approved by the Audit Committee. Internal audit reports were issued and reviewed by the Audit Committee, expressing its view on the adequacy and effectiveness of the company's internal controls relating to finance, operations, compliance and information technology.<br><br>Based on the internal controls established and maintained by the Group, work performed by external and internal auditors and reviews performed by senior management, the board, with the concurrence of the Audit Committee, is of the opinion that the company's risk management systems and internal controls were adequate and effective as at December 31, 2017 to address the financial, operational, compliance and information technology risks of the Group.<br><br>b. Yes. For the financial year 2017, the board has been assured by the Group President & CEO and Group Chief Financial Officer that financial records have been properly maintained, that the financial statements give a true and fair view of the company's operations and finances and that the risk management and internal control systems of the Group are adequate and effective. |

# Governance Disclosure Guide

| Guideline | Questions | How has Sembcorp complied? |
|---|---|---|

## Risk Management and Internal Controls *(cont'd)*

Guideline 12.6

a. Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial year.

b. If the external auditors have supplied a substantial volume of non-audit services to the company, please state the bases for the Audit Committee's view on the independence of the external auditors.

a. As disclosed in Note 28(a) in the Notes to the Financial Statements, the fees paid / payable to external auditors for audit and non-audit services for the financial year are:

| | S$'000 |
|---|---|
| **Audit fees paid / payable** | |
| – To auditors of the company | 1,810 |
| – To other member firms of KPMG International | 1,320 |
| | 3,130 |
| **Non-audit fees paid / payable** | |
| – To auditors of the company | 886 |
| – To other member firms of KPMG International | 652 |
| | 1,538 |

b. Non-audit fees amount to only 49% of the total annual audit fees and are not deemed substantial.

## Communication with Shareholders

Guideline 15.4

a. Does the company regularly communicate with shareholders and attend to their questions? How often does the company meet with institutional and retail investors?

b. Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role?

c. How does the company keep shareholders informed of corporate developments, apart from SGXNET announcements and the Annual Report?

a. Yes, Sembcorp regularly communicates with shareholders and addresses any queries raised. Investor relations officers are also available by email or telephone to answer questions from shareholders, analysts and the media, as long as the information requested does not conflict with SGX-ST's rules of fair disclosure.

Details of shareholder meetings, including the frequency and examples of types of meetings, are available in the Investor Relations chapter and Corporate Governance Statement in this Annual Report.

b. Yes, Sembcorp has a dedicated investor relations team that communicates with investors.

c. Sembcorp uses multiple communication channels and platforms to keep its shareholders and the investing public informed and updated in accordance with SGX-ST's rules of fair disclosure. Aside from the Annual Report and SGX announcements, channels utilised include results briefings, Annual General Meetings, investor roadshows, conferences and forums, investor and media meetings, media interviews, site visits, news releases and circulars, the corporate website, group briefings and other appropriate channels.

Guideline 15.5

If the company is not paying any dividends for the financial year, please explain why.

Not applicable.

For 2017, a final tax exempt one-tier dividend of 2 cents per ordinary share has been proposed subject to shareholders' approval. Together with the interim dividend of 3 cents per ordinary share that has already been paid out, this would bring our total dividend for the financial year to 5 cents per ordinary share.



# Corporate Information

**Registered Office**
30 Hill Street #05-04
Singapore 179360
Tel: (65) 6723 3113
Fax: (65) 6822 3254
www.sembcorp.com

**Board of Directors**
Ang Kong Hua
*Chairman*

Neil McGregor
*Group President & CEO*

Margaret Lui
Tan Sri Mohd Hassan Marican
Tham Kui Seng
Dr Teh Kok Peng
Ajaib Haridass
Nicky Tan Ng Kuang
Yap Chee Keong
Jonathan Asherson OBE

**Executive Committee**
Ang Kong Hua
*Chairman*

Neil McGregor
Margaret Lui
Nicky Tan Ng Kuang

**Audit Committee**
Yap Chee Keong
*Chairman*

Tham Kui Seng
Dr Teh Kok Peng
Ajaib Haridass

**Risk Committee**
Ajaib Haridass
*Chairman*

Tham Kui Seng
Yap Chee Keong
Dr Teh Kok Peng

**Executive Resource & Compensation Committee**
Ang Kong Hua
*Chairman*

Margaret Lui
Tan Sri Mohd Hassan Marican
Nicky Tan Ng Kuang

**Nominating Committee**
Ang Kong Hua
*Chairman*

Margaret Lui
Tan Sri Mohd Hassan Marican
Nicky Tan Ng Kuang

**Technology Advisory Panel**
Ang Kong Hua
*Chairman*

Neil McGregor
Dr Teh Kok Peng
Dr Josephine Kwa Lay Keng
Prof Ng How Yong
Prof Lui Pao Chuen

**Company Secretary**
Kwong Sook May

**Registrar**
M & C Services Private Limited
112 Robinson Road #05-01
Singapore 068902

**Principal Bankers**
Citibank N.A.

Credit Agricole Corporate & Investment Bank

DBS Bank

Mizuho Bank Ltd

Oversea-Chinese Banking Corporation Limited

Standard Chartered Bank

Sumitomo Mitsui Banking Corporation

The Bank of Tokyo-Mitsubishi UFJ, Ltd

The Hongkong and Shanghai Banking Corporation Limited

United Overseas Bank Limited

**Auditors**
**KPMG LLP**
Public Accountants and Chartered Accountants
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

Partner-in-Charge: Ling Su Min
*(Appointed during the financial year ended December 31, 2014)*

# Notice of Annual General Meeting

**Sembcorp Industries Ltd**
**Co Regn No. 199802418D**
**(Incorporated in the Republic of Singapore)**

**Notice is hereby given** that the Twentieth Annual General Meeting of Sembcorp Industries Ltd (the "**Company**") will be held at The Auditorium, NTUC Centre, Level 7, One Marina Boulevard, Singapore 018989 on Friday, April 20, 2018 at 10.00 a.m. for the following purposes:

## Routine Business

1. To receive and adopt the Directors' Statement and Audited Financial Statements for the year ended December 31, 2017 and the Auditors' Report thereon. **Resolution 1**
2. To declare a final ordinary one-tier tax exempt dividend of 2 cents per share for the year ended December 31, 2017. **Resolution 2**
3. To re-elect the following directors, each of whom will retire by rotation pursuant to article 94 of the Company's Constitution and who, being eligible, will offer themselves for re-election:
   a. Ang Kong Hua **Resolution 3**
   b. Margaret Lui **Resolution 4**
   c. Dr Teh Kok Peng *(Independent Member of Audit Committee)* **Resolution 5**
4. To re-elect Jonathan Asherson OBE, a director who will retire pursuant to article 100 of the Company's Constitution and who, being eligible, will offer himself for re-election. **Resolution 6**
5. To approve directors' fees of up to S$2,500,000 for the year ending December 31, 2018 (2017: up to S$2,500,000). **Resolution 7**
6. To re-appoint KPMG LLP as Auditors of the Company and to authorise the directors to fix their remuneration. **Resolution 8**

## Special Business

To consider and, if thought fit, to pass, with or without modifications, the following resolutions which will be proposed as Ordinary Resolutions:

7. That authority be and is hereby given to the directors to: **Resolution 9**

   a. i. issue shares of the Company ("**shares**") whether by way of rights, bonus or otherwise; and / or

   ii. make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the directors may, in their absolute discretion, deem fit; and

   b. (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the directors while this Resolution was in force,

## Special Business *(cont'd)*

**provided that:**

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in accordance with paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) shall not exceed 5% of the total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in accordance with paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**")) for the purpose of determining the aggregate number of shares that may be issued under paragraph (1) above, the percentage of issued shares shall be based on the total number of issued shares excluding treasury shares and subsidiary holdings at the time this Resolution is passed, after adjusting for:

   (i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

   (ii) any subsequent bonus issue or consolidation or subdivision of shares,

   and, in paragraph (1) above and this paragraph (2), "subsidiary holdings" has the meaning given to it in the Listing Manual of the SGX-ST;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and

(4) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

8. That approval be and is hereby given to the directors to: **Resolution 10**

   a. grant awards in accordance with the provisions of the Sembcorp Industries Performance Share Plan 2010 (the "**SCI PSP 2010**") and / or the Sembcorp Industries Restricted Share Plan 2010 (the "**SCI RSP 2010**") (the SCI PSP 2010 and SCI RSP 2010, together the "**Share Plans**"); and

   b. allot and issue from time to time such number of fully paid-up ordinary shares of the Company as may be required to be delivered pursuant to the vesting of awards under the Share Plans,

   **provided that:**

   (1) the aggregate number of (i) new ordinary shares allotted and issued and / or to be allotted and issued, (ii) existing ordinary shares (including shares held in treasury) delivered and / or to be delivered, and (iii) ordinary shares released and / or to be released in the form of cash in lieu of ordinary shares, pursuant to the Share Plans, shall not exceed 7% of the total number of issued ordinary shares of the Company (excluding treasury shares and subsidiary holdings) from time to time; and

   (2) the aggregate number of ordinary shares under awards to be granted pursuant to the Share Plans during the period commencing from this Annual General Meeting and ending on the date of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, shall not exceed 1% of the total number of issued ordinary shares of the Company (excluding treasury shares and subsidiary holdings) from time to time,

   and in this Resolution, "subsidiary holdings" has the meaning given to it in the Listing Manual of the Singapore Exchange Securities Trading Limited.

## Special Business *(cont'd)*

9. That: **Resolution 11**

   a. approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual ("**Chapter 9**") of the Singapore Exchange Securities Trading Limited, for the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9), or any of them, to enter into any of the transactions falling within the types of interested person transactions described in the Appendix to the Company's Letter to Shareholders dated March 29, 2018 (the "**Letter**") with any party who is of the class of interested persons described in the Appendix to the Letter, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transactions;

   b. the approval given in paragraph a. above (the "**IPT Mandate**") shall, unless revoked or varied by the Company in General Meeting, continue in force until the conclusion of the next Annual General Meeting of the Company; and

   c. the directors and / or any of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they and / or he may consider expedient or necessary or in the interests of the Company to give effect to the IPT Mandate and / or this Resolution.

10. That: **Resolution 12**

   a. for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 (the "**Companies Act**"), the exercise by the directors of all the powers of the Company to purchase or otherwise acquire issued ordinary shares of the Company ("**Shares**") not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the directors from time to time up to the Maximum Price (as hereafter defined), whether by way of:

      i. market purchase(s) on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"); and / or

      ii. off-market purchase(s) (if effected otherwise than on the SGX-ST) in accordance with any equal access scheme(s) as may be determined or formulated by the directors as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act,

   and otherwise in accordance with all other laws and regulations and rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "**Share Purchase Mandate**");

   b. unless varied or revoked by the Company in General Meeting, the authority conferred on the directors pursuant to the Share Purchase Mandate may be exercised by the directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earliest of:

      i. the date on which the next Annual General Meeting of the Company is held;

      ii. the date by which the next Annual General Meeting of the Company is required by law to be held; and

      iii. the date on which purchases and acquisitions of Shares pursuant to the Share Purchase Mandate are carried out to the full extent mandated;



## Special Business *(cont'd)*

   c. in this Resolution:

   "**Average Closing Price**" means the average of the last dealt prices of a Share for the five consecutive market days on which the Shares are transacted on the SGX-ST immediately preceding the date of market purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the off-market purchase, and deemed to be adjusted in accordance with the listing rules of the SGX-ST for any corporate action which occurs after the relevant five-day period;

   "**date of the making of the offer**" means the date on which the Company makes an offer for the purchase or acquisition of Shares from holders of Shares, stating therein the relevant terms of the equal access scheme for effecting the off-market purchase;

   "**Maximum Limit**" means that number of issued Shares representing 2% of the total number of issued Shares as at the date of the passing of this Resolution (excluding treasury shares and subsidiary holdings (as defined in the Listing Manual of the SGX-ST)); and

   "**Maximum Price**", in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) which shall not exceed, whether pursuant to a market purchase or an off-market purchase, 105% of the Average Closing Price of the Shares; and

   d. the directors and / or any of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they and / or he may consider expedient or necessary or in the interests of the Company to give effect to the transactions contemplated and / or authorised by this Resolution.

By Order of the Board

Kwong Sook May
Company Secretary

Singapore
March 29, 2018

**Explanatory Notes:**

Resolutions 3 to 6 – detailed information on these directors can be found under the Board of Directors and Corporate Governance Statement sections in the Annual Report 2017. These directors (save for Mrs Margaret Lui who is Chief Executive Officer and a director of Azalea Investment Management Pte. Ltd., a related corporation of Temasek Holdings (Private) Limited) have no relationships (including immediate family relationships) with each other or with the other directors, the Company or its 10% shareholders.

If re-elected, Dr Teh Kok Peng will remain as a member of the Audit Committee. He is an independent director.

Resolution 7 – if passed, will facilitate the payment of directors' fees during the financial year in which the fees are incurred, that is, during the financial year ending December 31, 2018. The exact amount of directors' fees received by each director for the financial year ended December 31, 2017 is disclosed in full in the Supplementary Information section of the Annual Report 2017. Directors and their associates will abstain from voting on Resolution 7.

The amount of the directors' fees is based on the anticipated number of board and committee meetings for year 2018, assuming full attendance by all of the non-executive directors. The amount also caters for additional ad-hoc board and committee meetings. In the event that the amount proposed is insufficient, approval will be sought at the next Annual General Meeting in year 2019 ("**2019 AGM**") before any payments are made to directors for the shortfall.

The current intention is that the directors' fees for the non-executive directors for year 2018 will comprise a cash component and a share component, with up to 30% being paid out in the form of restricted share awards under the Sembcorp Industries Restricted Share Plan 2010. Any such award would typically consist of the grant of fully paid shares outright with no performance or vesting conditions attached, but with a selling moratorium. Under the Directors' Fee Framework, non-executive directors are required to hold shares (including shares obtained by other means) worth S$75,000; any excess may be sold as desired. A non-executive director can dispose of all of his shares one year after leaving the Board. See the Corporate Governance Statement in the Annual Report 2017 for more details.

The cash component of the directors' fees for year 2018 is intended to be paid half-yearly in arrears. The share component of the directors' fees for year 2018 is intended to be paid after the 2019 AGM has been held. The actual number of shares to be awarded to each non-executive director holding office at the time of the payment is intended to be determined by reference to the volume weighted average price of a share on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") over the 14 trading days from (and including) the day on which the shares are first quoted ex-dividend after the 2019 AGM (or, if no final dividend is proposed at the 2019 AGM, or the resolution to approve any such final dividend is not approved at the 2019 AGM, over the 14 trading days immediately following the date of the 2019 AGM). The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash. A non-executive director who steps down before the payment of the share component will receive all of his directors' fees for year 2018 (calculated on a pro-rated basis, where applicable) in cash.

**Statement pursuant to article 57 of the Constitution of the Company:**

Resolution 9 – is to empower the directors to issue shares of the Company and to make or grant instruments (such as warrants or debentures) convertible into shares, and to issue shares in pursuance of such instruments, up to a number not exceeding 50% of the total number of issued shares of the Company excluding treasury shares and subsidiary holdings, of which up to 5% may be issued other than on a *pro rata* basis to shareholders. The aggregate number of shares which may be issued shall be based on the total number of issued shares of the Company excluding treasury shares and subsidiary holdings at the time that Resolution 9 is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time that Resolution 9 is passed, and (b) any subsequent bonus issue or consolidation or subdivision of shares. As at March 1, 2018 (the "**Latest Practicable Date**"), the Company had 1,042,827 treasury shares and no subsidiary holdings.

**Explanatory Notes:** *(cont'd)*

Resolution 10 – is to empower the directors to offer and grant awards pursuant to the Sembcorp Industries Performance Share Plan 2010 and the Sembcorp Industries Restricted Share Plan 2010 (collectively, the "**Share Plans**") and to issue ordinary shares of the Company pursuant to the vesting of awards granted pursuant to the Share Plans provided that: (a) the aggregate number of (i) new ordinary shares allotted and issued and / or to be allotted and issued, (ii) existing ordinary shares (including shares held in treasury) delivered and / or to be delivered, and (iii) ordinary shares released and / or to be released in the form of cash in lieu of ordinary shares, pursuant to the Share Plans shall not exceed 7% of the total number of issued ordinary shares of the Company (excluding treasury shares and subsidiary holdings) from time to time; and (b) the aggregate number of ordinary shares under awards to be granted pursuant to the Share Plans during the period commencing from this Annual General Meeting to the next Annual General Meeting shall not exceed 1% of the total number of issued ordinary shares of the Company (excluding treasury shares and subsidiary holdings) from time to time. Approval for the adoption of the Share Plans was given by shareholders at an Extraordinary General Meeting of the Company held on April 22, 2010. The grant of awards under the Share Plans will be made in accordance with their respective provisions.

Resolution 11 – is to renew the mandate to enable the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9 of the Listing Manual), or any of them, to enter into certain interested person transactions with specified classes of interested persons, as described in the Letter to Shareholders dated March 29, 2018 (the "**Letter**"). Please refer to the Letter for more details.

Resolution 12 – is to renew the mandate to enable the Company to purchase or otherwise acquire issued ordinary shares of the Company, on the terms and subject to the conditions set out in the Resolution.

The Company intends to use its internal sources of funds to finance the purchase or acquisition of its ordinary shares. The amount of financing required for the Company to purchase or acquire its ordinary shares, and the impact on the Company's financial position, cannot be ascertained as at the date of this Notice as these will depend on the number of ordinary shares purchased or acquired, the price at which such ordinary shares were purchased or acquired and whether the ordinary shares purchased or acquired are held in treasury or cancelled.

Based on the existing issued ordinary shares as at the Latest Practicable Date and excluding any ordinary shares held in treasury, the purchase by the Company of 2% of its issued ordinary shares (and disregarding the ordinary shares held in treasury) will result in the purchase or acquisition of 35,730,098 ordinary shares.

In the case of both market purchases and off-market purchases by the Company and assuming that the Company purchases or acquires 35,730,098 ordinary shares at the maximum price of S$3.37 for one ordinary share (being the price equivalent to 105% of the average of the last dealt prices of the ordinary shares for the five consecutive market days on which the ordinary shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of 35,730,098 ordinary shares is S$120,410,430.

The financial effects of the purchase or acquisition of such ordinary shares by the Company pursuant to the proposed Share Purchase Mandate on the audited financial statements of the Group and the Company for the financial year ended December 31, 2017 based on these assumptions are set out in paragraph 3.7 of the Letter.

Please refer to the Letter for more details.

# Notice of Annual General Meeting

**Notes:**

1. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Annual General Meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Annual General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50.

2. A proxy need not be a member of the Company.

3. The instrument appointing a proxy or proxies must be lodged at the office of the Company's Share Registrar, M & C Services Private Limited, 112 Robinson Road #05-01, Singapore 068902 not less than 72 hours before the time appointed for the Annual General Meeting.

**Personal Data Privacy**

By submitting an instrument appointing a proxy(ies) and / or representative(s) to attend, speak and vote at the Annual General Meeting and / or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and / or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and / or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and / or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and / or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

**Notice of Books Closure and Dividend Payment Date**

**Notice is hereby given** that the Register of Members and Share Transfer Books of the Company will be closed on April 30, 2018 to determine the shareholders' entitlements to the proposed dividend. Duly completed transfers of shares received by the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road #05-01, Singapore 068902, up to 5.00 p.m. on April 27, 2018 (the "**Book Closure Date**") will be registered to determine shareholders' entitlements to the proposed dividend. Subject as aforesaid, shareholders whose securities accounts with The Central Depository (Pte) Limited are credited with ordinary shares of the Company as at 5.00 p.m. on the Book Closure Date will be entitled to the proposed dividend.

The proposed dividend, if approved by the members at the Annual General Meeting, will be paid on May 15, 2018.



# Proxy Form

**IMPORTANT**
1. Relevant intermediaries as defined in Section 181 of the Companies Act, Chapter 50 may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For CPF / SRS investors who have used their CPF / SRS moneys to buy shares in Sembcorp Industries Ltd, this form of proxy is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF / SRS investors should contact their respective Agent Banks / SRS Operators if they have any queries regarding their appointment as proxies.
3. By submitting an instrument appointing a proxy(ies) and / or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated March 29, 2018.

**Sembcorp Industries Ltd**
Co Regn No. 199802418D
(Incorporated in the Republic of Singapore)

**Twentieth Annual General Meeting**

I / We ______________________________ (Name) ______________ (NRIC / Passport / Co Regn No.)

of ______________________________________________________ (Address)

being a member / members of SEMBCORP INDUSTRIES LTD ("the Company") hereby appoint:

| Name | Address | NRIC / Passport No. | % of Shareholdings |
|---|---|---|---|
| | | | |

and / or (delete as appropriate)

| Name | Address | NRIC / Passport No. | % of Shareholdings |
|---|---|---|---|
| | | | |

as my / our proxy / proxies to attend, speak and vote for me / us on my / our behalf at the Twentieth Annual General Meeting ("20th AGM") of the Company to be held on Friday, April 20, 2018 at 10.00 a.m. at The Auditorium, NTUC Centre, Level 7, One Marina Boulevard, Singapore 018989 and at any adjournment thereof.

*(Voting will be conducted by poll. Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the Resolutions as set out in the Notice of the 20th AGM. In the absence of specific directions, the proxy / proxies will vote or abstain as he / they may think fit, as he / they will on any other matter arising at the 20th AGM.)*

| | Ordinary Resolutions | For | Against |
|---|---|---|---|
| | **ROUTINE BUSINESS** | | |
| 1. | To adopt the Directors' Statement and Audited Financial Statements | | |
| 2. | To declare a final dividend | | |
| 3. | To re-elect Ang Kong Hua | | |
| 4. | To re-elect Margaret Lui | | |
| 5. | To re-elect Dr Teh Kok Peng | | |
| 6. | To re-elect Jonathan Asherson OBE | | |
| 7. | To approve directors' fees for the year ending December 31, 2018 | | |
| 8. | To re-appoint KPMG LLP as Auditors and to authorise the directors to fix their remuneration | | |
| | **SPECIAL BUSINESS** | | |
| 9. | To approve the proposed renewal of the Share Issue Mandate | | |
| 10. | To authorise the directors to grant awards and issue shares under the Sembcorp Industries Share Plans | | |
| 11. | To approve the proposed renewal of the IPT Mandate | | |
| 12. | To approve the proposed renewal of the Share Purchase Mandate | | |

| Total Number of Shares Held |
|---|
| |

______________________________ ______________
Signature(s) or Common Seal of Member(s) Date

Glue all sides firmly. Stapling & spot sealing is disallowed.

Notes:

1. If the member has shares entered against his name in the Depository Register (maintained by The Central Depository (Pte) Limited), he should insert that number of shares. If the member has shares registered in his name in the Register of Members (maintained by or on behalf of the Company), he should insert that number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all shares held by the member.
2. a. A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Annual General Meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   b. A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Annual General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50.
3. A proxy need not be a member of the Company.
4. The instrument appointing a proxy or proxies must be deposited at the office of the Company's Share Registrar, M & C Services Private Limited, 112 Robinson Road #05-01, Singapore 068902 not less than 72 hours before the time appointed for the Annual General Meeting.
5. Completion and return of this instrument appointing a proxy or proxies shall not preclude a member from attending and voting in person at the Annual General Meeting if he finds that he is able to do so. In such event, the relevant instrument appointing a proxy or proxies will be deemed to be revoked.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies (including any related attachment). In addition, in the case of members whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register 72 hours before the time appointed for holding the Annual General Meeting as certified by the Central Depository (Pte) Limited to the Company.

Fold here

sembcorp

Postage will be paid by addressee. For posting in Singapore only.

BUSINESS REPLY SERVICE
PERMIT No. 06735

The Company Secretary
**Sembcorp Industries Ltd**
c/o M & C Services Private Limited
112 Robinson Road #05-01
Singapore 068902

Fold here

Glue all sides firmly. Stapling & spot sealing is disallowed.

**Sembcorp Industries Financial Calendar 2018**

| | |
|---|---|
| February 23, 2018 | Announcement of full year results for the year ended December 31, 2017 |
| April 20, 2018 | 20th Annual General Meeting |
| April 25, 2018 | Ex-dividend date for 2017 final dividend |
| May 3, 2018* | Announcement of first quarter results for the period ending March 31, 2018 |
| May 15, 2018 | Payment of 2017 final dividend |
| August 3, 2018* | Announcement of half year results for the period ending June 30, 2018 |
| November 2, 2018* | Announcement of third quarter results for the period ending September 30, 2018 |

*Provisional. Updates will be posted at www.sembcorp.com*

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