

Independent Auditor's Report to the Members of Singapore Technologies Engineering Ltd

Report On The Audit Of The Financial Statements

Our Opinion

In our opinion, the accompanying consolidated financial statements of Singapore Technologies Engineering Ltd ("the Company") and its subsidiaries ("the Group") are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

What we have audited

The financial statements of the Group and the Company comprise:

- the consolidated income statement of the Group for the year ended 31 December 2020;
- the consolidated statement of comprehensive income of the Group for the year then ended;
- the consolidated balance sheet of the Group as at 31 December 2020;
- the consolidated statement of changes in equity of the Group for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended;
- the notes to the financial statements, including a summary of significant accounting policies;
- the balance sheet of the Company as at 31 December 2020; and
- the notes to the balance sheet of the Company, including a summary of significant accounting policies.

Basis For Opinion

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

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

Independence

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

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Our Audit Approach

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended 31 December 2020. 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.

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Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Impairment assessment of non-financial assets – goodwill</i>	
Refer to Note C3 to the financial statements. As at 31 December 2020, the carrying value of the Group's goodwill amounted to \$786,379,000. Goodwill is allocated to the Group's cash generating units ("CGU") – Aircraft Maintenance & Modification, Component/Engine Repair & Overhaul, Engineering & Material Services, Communication & Sensor Systems Group, Software Systems Group and Automotive. There is a risk of impairment of a certain CGU in the United States which is operating in a challenging business environment. In accordance with SFRS(I) 1-36, management is required to perform an impairment assessment of goodwill annually by comparing the recoverable amount of the CGU with its carrying amount to determine whether there is any impairment loss. For the purpose of impairment testing, the recoverable amount of the CGU is determined based on the value-in-use calculations, using cash flow projections. In the current financial year, impairment charge of \$14,431,000 was recorded to reduce the carrying amount of the CGU to the estimated recoverable amount. We focused on this area because of the significant judgements required in estimating the revenue growth rate, gross profit margins, discount rate and terminal growth rate applied in computing the recoverable amount of the CGU.	We have assessed the appropriateness of management's identification of CGU and critically assessed the key assumptions used in the goodwill impairment assessment. Our audit procedures included the following: - evaluated management's key assumptions relating to revenue growth rates, gross profit margins, discount rates and terminal growth rates and understood how management has considered the impact of the COVID-19 pandemic and market uncertainty in their estimates. - reviewed the basis and methodology used to derive the recoverable amount of the CGU. - assessed the appropriateness of management assumptions by comparing to past historical performance and considering the current developments arising from the COVID-19 pandemic. - performed sensitivity analysis on management assumptions relating to revenue growth rates, gross profit margins, discount rates and terminal growth rates. - involved our valuation experts to evaluate the appropriateness of management's assumptions, relating to terminal growth rates and discount rates, by developing an independent expectation using economic and industry forecasts and rates of comparable companies with consideration for specific jurisdiction factors. - considered the adequacy of the disclosures in the financial statements. Based on the audit procedures performed above, we found management's judgement and assumptions in relation to the determination of the recoverable amount to be appropriate, and the disclosure in this respect to be adequate.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition based on stage of completion	
Refer to Note B2 to the financial statements. During the year ended 31 December 2020, the Group recognised revenue of \$7,158,286,000 relating to sale of goods, rendering of services and contract revenue. Some of these revenue are recognised based on the stage of completion of performance obligations of each individual contract, which are measured by reference to either assessment or surveys of work performed (output method) or the cost incurred relative to total estimated costs (input method). We focused on this area because of the significant management judgement required in: • determining each performance obligation within a contract; • forecasting the costs to be incurred; • forecasting the overall margins of these performance obligations; and • assessment of the stage of completion of each performance obligation.	Our audit procedures included the following: • understood the end-to-end processes and validated key controls relating to revenue and receivables cycle. • assessed the relevant internal control relating to customer contract acceptance and terms, change orders, monitoring of project development, cost incurred and estimating cost to complete. • assessed the terms of the customer contracts and the appropriateness of the customer recognition policies. • assessed the contractual terms and evaluated the work status of the customer contracts and to ascertain the appropriateness of revenue recognised based on the stage of completion of each performance obligation. • selected sample of contracts and assessed management's assumptions for determining stage of completion including estimated profit and cost to complete through interviews with management and verification to the supporting documents. • performed analysis and retrospective reviews of completed contracts to assess the appropriateness of management's assumptions applied. Based on the audit procedures performed above, we found the basis of the identification of performance obligations and the revenue recognised based on the stage of completion of each performance obligation to be appropriate.

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Other Information

Management is responsible for the other information. The other information comprises the Corporate Overview, Performance Review, Risk & Sustainability Highlights, Corporate Governance, Directors' Statement, SGX Listing Manual Requirement and Corporate Information (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other sections of the annual report ("the Other Sections"), which are expected to be made available to us after that date.

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

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

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

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

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

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

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

Auditor's Responsibilities For The Audit Of The Financial Statements

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

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Auditor's Responsibilities For The Audit Of The Financial Statements (continued)

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

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

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

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

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

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Report On Other Legal And Regulatory Requirements

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

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

A handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP". The signature is stylized and cursive, with the letters "P", "C", and "L" being particularly prominent.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore
18 February 2021