

# 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 2. Summary of Significant Accounting Policies *(cont'd)*

### i. 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 3. Property, Plant and Equipment

| Group   | Note         | Leasehold and freehold land, wet berthing and buildings<br>S\$'000 | Improvements to premises<br>S\$'000 | Quays and dry docks<br>S\$'000 | Infrastructure<br>S\$'000 | Plant and machinery<br>S\$'000 | Marine vessels<br>S\$'000 | Tools and workshop equipment<br>S\$'000 | Furniture, fittings and office equipment<br>S\$'000 | Motor vehicles<br>S\$'000 | Capital work-in-progress<br>S\$'000 | Total<br>S\$'000 |
|---|--------------|--|-------------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|---|---|---------------------------|-------------------------------------|------------------|
| <b>Cost / Valuation</b>                               |              |  |                                     |                                |                           |                                |                           |   |   |                           |                                     |                  |
| 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       |
| <b>Accumulated Depreciation and Impairment Losses</b> |              |  |                                     |                                |                           |                                |                           |   |   |                           |                                     |                  |
| 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        |
| <b>Carrying Amounts</b>                               |              |  |                                     |                                |                           |                                |                           |   |   |                           |                                     |                  |
| 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       |

# Notes to the Financial Statements

Year ended December 31, 2017

## 3. Property, Plant and Equipment (cont'd)

| Group   | Note          | Leasehold and freehold land, wet berthing and buildings<br>S\$'000 | Improvements to premises<br>S\$'000 | Quays and dry docks<br>S\$'000 | Infrastructure<br>S\$'000 | Plant and machinery<br>S\$'000 | Marine vessels<br>S\$'000 | Tools and workshop equipment<br>S\$'000 | Furniture, fittings and office equipment<br>S\$'000 | Motor vehicles<br>S\$'000 | Capital work-in-progress<br>S\$'000 | Total<br>S\$'000 |
|---|---------------|--|-------------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|---|---|---------------------------|-------------------------------------|------------------|
| <b>Cost / Valuation</b>                               |               |  |                                     |                                |                           |                                |                           |   |   |                           |                                     |                  |
| 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       |
| <b>Accumulated Depreciation and Impairment Losses</b> |               |  |                                     |                                |                           |                                |                           |   |   |                           |                                     |                  |
| 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        |
| <b>Carrying Amounts</b>                               |               |  |                                     |                                |                           |                                |                           |   |   |                           |                                     |                  |
| 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       |

# Notes to the Financial Statements

Year ended December 31, 2017

## 3. Property, Plant and Equipment (cont'd)

| Company   | Note | Leasehold and freehold land, wet berthage and buildings<br>S\$'000 | Improvements to premises<br>S\$'000 | Quays and dry docks<br>S\$'000 | Plant and machinery<br>S\$'000 | Furniture, fittings and office equipment<br>S\$'000 | Motor vehicles<br>S\$'000 | Capital work-in-progress<br>S\$'000 | Total<br>S\$'000 |
|---|------|--|-------------------------------------|--------------------------------|--------------------------------|---|---------------------------|-------------------------------------|------------------|
| <b>Cost</b>   |      |  |                                     |                                |                                |   |                           |                                     |                  |
| 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          |
| <b>Accumulated Depreciation and Impairment Losses</b> |      |  |                                     |                                |                                |   |                           |                                     |                  |
| 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          |
| <b>Carrying Amounts</b>                               |      |  |                                     |                                |                                |   |                           |                                     |                  |
| 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          |

# Notes to the Financial Statements

Year ended December 31, 2017

## 3. Property, Plant and Equipment *(cont'd)*

| Company   | Note | Leasehold and freehold land, wet berthage and buildings<br>S\$'000 | Improvements to premises<br>S\$'000 | Quays and dry docks<br>S\$'000 | Plant and machinery<br>S\$'000 | Furniture, fittings and office equipment<br>S\$'000 | Motor vehicles<br>S\$'000 | Capital work-in-progress<br>S\$'000 | Total<br>S\$'000 |
|---|------|--|-------------------------------------|--------------------------------|--------------------------------|---|---------------------------|-------------------------------------|------------------|
| <b>Cost</b>   |      |  |                                     |                                |                                |   |                           |                                     |                  |
| 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          |
| <b>Accumulated Depreciation and Impairment Losses</b> |      |  |                                     |                                |                                |   |                           |                                     |                  |
| 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          |
| <b>Carrying Amounts</b>                               |      |  |                                     |                                |                                |   |                           |                                     |                  |
| 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          |



# Notes to the Financial Statements

Year ended December 31, 2017

## 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:

|                              | 2017             | 2016      |
|------------------------------|------------------|-----------|
| Note                         | S\$'000          | 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)                        | <b>4,982,344</b> | 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).

# Notes to the Financial Statements

Year ended December 31, 2017

## 4. Investment Properties

|   |       | Investment properties | Group<br>Investment properties<br>work-in-progress | Total   |
|---|-------|-----------------------|--|---------|
|   | Note  | S\$'000               | S\$'000  | S\$'000 |
| <b>Cost</b>   |       |                       |  |         |
| 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 |
| <b>Accumulated Depreciation and Impairment Losses</b> |       |                       |  |         |
| 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  |
| <b>Carrying Amounts</b>                               |       |                       |  |         |
| At January 1, 2017                                    |       | 20,580                | 40,684   | 61,264  |
| At December 31, 2017                                  |       | 27,497                | 63,421   | 90,918  |
| <b>Cost</b>   |       |                       |  |         |
| 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  |
| <b>Accumulated Depreciation and Impairment Losses</b> |       |                       |  |         |
| 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  |
| <b>Carrying Amounts</b>                               |       |                       |  |         |
| 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    | 2016    |
|   | S\$'000 | 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      | 2016      |
|                                    | S\$'000   | S\$'000   |
| <b>At cost and carrying value:</b> |           |           |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 6. Interests in Associates and Joint Ventures

|  | Note | Group            |           |
|--|------|------------------|-----------|
|  |      | 2017             | 2016      |
|  |      | 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    |
|  |      | <b>1,765,420</b> | 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                                      | <b>1,881</b> | 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   | <b>66,364</b> | (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 | <b>153,138</b> | 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%.

# Notes to the Financial Statements

Year ended December 31, 2017

## 7. Other Financial Assets

|  | Note | Group           |                 |
|--|------|-----------------|-----------------|
|  |      | 2017<br>S\$'000 | 2016<br>S\$'000 |
| <b>Non-current Assets</b>  |      |                 |                 |
| Available-for-sale financial assets:   |      |                 |                 |
| – Equity shares  | (a)  | <b>122,047</b>  | 151,151         |
| – Unit trusts and funds  | (b)  | <b>11,005</b>   | 10,319          |
|  |      | <b>133,052</b>  | 161,470         |
| Financial assets at fair value through profit or loss, on initial recognition: |      |                 |                 |
| – Cross currency swaps   |      | <b>5,811</b>    | 10,533          |
| – Interest rate swaps  |      | <b>73</b>       | 52              |
| – Foreign exchange option contracts  |      | <b>77</b>       | –               |
|  |      | <b>5,961</b>    | 10,585          |
| Hedge of net investment in foreign operations:                                 |      |                 |                 |
| – Cross currency swaps   |      | –               | 13,284          |
| Cash flow hedges:  |      |                 |                 |
| – Forward foreign exchange contracts   |      | <b>24,614</b>   | 12,994          |
| – Fuel oil swaps   |      | <b>7,618</b>    | 1,693           |
| – Interest rate swaps  |      | <b>69</b>       | 879             |
| – Cross currency swaps   |      | <b>4,066</b>    | –               |
|  |      | <b>36,367</b>   | 15,566          |
|  |      | <b>175,380</b>  | 200,905         |

## 7. Other Financial Assets (cont'd)

|  | Note | Group           |                 | Company         |                 |
|--|------|-----------------|-----------------|-----------------|-----------------|
|  |      | 2017<br>S\$'000 | 2016<br>S\$'000 | 2017<br>S\$'000 | 2016<br>S\$'000 |
| <b>Current Assets</b>  |      |                 |                 |                 |                 |
| Available-for-sale financial assets:   |      |                 |                 |                 |                 |
| – Unit trusts and funds  | (b)  | <b>56,236</b>   | 32,338          | –               | –               |
| Financial assets at fair value through profit or loss, on initial recognition: |      |                 |                 |                 |                 |
| – Forward foreign exchange contracts   |      | <b>218</b>      | 18,829          | <b>141</b>      | –               |
| – Foreign exchange swap contracts  |      | <b>1,291</b>    | 228             | –               | –               |
| – Electricity futures market contract  |      | –               | 40              | –               | –               |
| – Commodity swap   |      | <b>2,078</b>    | –               | –               | –               |
|  |      | <b>3,587</b>    | 19,097          | <b>141</b>      | –               |
| Hedge of net investment in foreign operations:                                 |      |                 |                 |                 |                 |
| – Cross currency swaps   |      | <b>13,469</b>   | –               | –               | –               |
| Cash flow hedges:  |      |                 |                 |                 |                 |
| – Forward foreign exchange contracts   |      | <b>33,001</b>   | 34,037          | –               | –               |
| – Fuel oil swaps   |      | <b>34,609</b>   | 28,236          | –               | –               |
| – Interest rate swaps  |      | <b>456</b>      | 1,602           | –               | –               |
|  |      | <b>68,066</b>   | 63,875          | –               | –               |
| Fair value hedges:   |      |                 |                 |                 |                 |
| – Forward foreign exchange contracts   |      | <b>692</b>      | 4,146           | –               | –               |
|  |      | <b>142,050</b>  | 119,456         | <b>141</b>      | –               |

- 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 8. Trade and Other Receivables

|  | Note    | Group       |           |           |             |           |           | Company     |         |         |             |          |          |
|--|---------|-------------|-----------|-----------|-------------|-----------|-----------|-------------|---------|---------|-------------|----------|----------|
|  |         | 2017        |           |           | 2016        |           |           | 2017        |         |         | 2016        |          |          |
|  |         | Non-current | Current   | Total     | Non-current | Current   | Total     | Non-current | Current | Total   | Non-current | Current  | Total    |
|  | S\$'000 | 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  |



# Notes to the Financial Statements

Year ended December 31, 2017

## 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:

- 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%;
- Under the arrangements, the operator is required to design, construct, operate, manage and maintain the assets; and
- 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

- 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);
- Service fees prepaid under the Gasoil Supply and Storage Agreement for the usage of the tank; and
- Capacity charges prepaid for the use of gas delivery pipelines, prepaid insurance premium, transport tariff recoverable and maintenance of plant.

#### Company

- Connection and capacity charges prepaid for the use of pipelines and piperacks.

The impairment losses on loans and receivables are as follow:

|                                  |       | Gross            | Impairment | Net              | Gross     | Impairment       | Net       |
|----------------------------------|-------|------------------|------------|------------------|-----------|------------------|-----------|
|                                  |       | 2017             | 2017       | 2017             | 2016      | 2016             | 2016      |
|                                  | Note  | S\$'000          | S\$'000    | S\$'000          | S\$'000   | S\$'000          | S\$'000   |
| <b>Group</b>                     |       |                  |            |                  |           |                  |           |
| Trade receivables                |       | <b>1,388,373</b> | (189,141)  | <b>1,199,232</b> | 1,156,044 | <b>(204,844)</b> | 951,200   |
| Amounts due from related parties | 9     | <b>115,199</b>   | (6,359)    | <b>108,840</b>   | 188,061   | <b>(6,280)</b>   | 181,781   |
| Other receivables                |       | <b>1,547,067</b> | (10,469)   | <b>1,536,598</b> | 1,233,562 | <b>(24,291)</b>  | 1,209,271 |
|                                  | 36(b) | <b>3,050,639</b> | (205,969)  | <b>2,844,670</b> | 2,577,667 | <b>(235,415)</b> | 2,342,252 |
| <b>Company</b>                   |       |                  |            |                  |           |                  |           |
| Trade receivables                |       | <b>42,292</b>    | (1,510)    | <b>40,782</b>    | 98,430    | <b>(20,686)</b>  | 77,744    |
| Amounts due from related parties | 9     | <b>229,528</b>   | –          | <b>229,528</b>   | 205,355   | –                | 205,355   |
| Other receivables                |       | <b>87,659</b>    | –          | <b>87,659</b>    | 83,872    | –                | 83,872    |
|                                  | 36(b) | <b>359,479</b>   | (1,510)    | <b>357,969</b>   | 387,657   | <b>(20,686)</b>  | 366,971   |

# Notes to the Financial Statements

Year ended December 31, 2017

## 9. Amounts Due from Related Parties

|                                    | Note | Associates     |         | Joint ventures  |          | Related companies |          | Total           |          |
|------------------------------------|------|----------------|---------|-----------------|----------|-------------------|----------|-----------------|----------|
|                                    |      | 2017           | 2016    | 2017            | 2016     | 2017              | 2016     | 2017            | 2016     |
|                                    |      | S\$'000        | S\$'000 | S\$'000         | S\$'000  | S\$'000           | S\$'000  | S\$'000         | S\$'000  |
| <b>Group</b>                       |      |                |         |                 |          |                   |          |                 |          |
| Amounts due from:                  |      |                |         |                 |          |                   |          |                 |          |
| Trade                              |      | <b>6,806</b>   | 3,416   | <b>12,559</b>   | 10,610   | <b>9,086</b>      | 6,569    | <b>28,451</b>   | 20,595   |
| Non-trade                          |      | <b>2,521</b>   | 3,145   | <b>18,786</b>   | 7,106    | –                 | –        | <b>21,307</b>   | 10,251   |
| Loans                              |      | –              | –       | <b>65,441</b>   | 145,440  | –                 | 11,775   | <b>65,441</b>   | 157,215  |
|                                    | 8    | <b>9,327</b>   | 6,561   | <b>96,786</b>   | 163,156  | <b>9,086</b>      | 18,344   | <b>115,199</b>  | 188,061  |
| Allowance for doubtful receivables |      | <b>(1,534)</b> | (578)   | <b>(4,825)</b>  | (5,702)  | –                 | –        | <b>(6,359)</b>  | (6,280)  |
|                                    |      | <b>7,793</b>   | 5,983   | <b>91,961</b>   | 157,454  | <b>9,086</b>      | 18,344   | <b>108,840</b>  | 181,781  |
| Amount due within 1 year           |      | <b>(7,793)</b> | (5,983) | <b>(31,230)</b> | (16,746) | <b>(9,086)</b>    | (18,344) | <b>(48,109)</b> | (41,073) |
|                                    |      | –              | –       | <b>60,731</b>   | 140,708  | –                 | –        | <b>60,731</b>   | 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.

|                                  | Note | Subsidiaries   |         | Associates  |         | Joint ventures |         | Related companies |         | Total          |         |
|----------------------------------|------|----------------|---------|-------------|---------|----------------|---------|-------------------|---------|----------------|---------|
|                                  |      | 2017           | 2016    | 2017        | 2016    | 2017           | 2016    | 2017              | 2016    | 2017           | 2016    |
|                                  |      | S\$'000        | S\$'000 | S\$'000     | S\$'000 | S\$'000        | S\$'000 | S\$'000           | S\$'000 | S\$'000        | S\$'000 |
| <b>Company</b>                   |      |                |         |             |         |                |         |                   |         |                |         |
| Amounts due from related parties | 8    | <b>228,766</b> | 205,238 | <b>66</b>   | 50      | –              | –       | <b>696</b>        | 67      | <b>229,528</b> | 205,355 |
| Amount due within 1 year         | 8    | <b>(7,766)</b> | (5,238) | <b>(66)</b> | (50)    | –              | –       | <b>(696)</b>      | (67)    | <b>(8,528)</b> | (5,355) |
|                                  | 8    | <b>221,000</b> | 200,000 | –           | –       | –              | –       | –                 | –       | <b>221,000</b> | 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 10. Assets Held for Sale

|                               | Note | Group           |                 |
|-------------------------------|------|-----------------|-----------------|
|                               |      | 2017<br>S\$'000 | 2016<br>S\$'000 |
| <b>Group</b>                  |      |                 |                 |
| Property, plant and equipment | 3    | 99,730          | –               |
| Interest in associate         | 6    | –               | 182,215         |
|                               |      | 99,730          | 182,215         |
| <b>Company</b>                |      |                 |                 |
| 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<br>S\$'000 | Service<br>concession<br>arrangements<br>S\$'000 | Long-term<br>revenue<br>contract<br>S\$'000 | Intellectual<br>property<br>rights<br>S\$'000 | Water<br>rights<br>S\$'000 | Others<br>S\$'000 | Total<br>S\$'000 |
|---|-------|---------------------|--|---|---|----------------------------|-------------------|------------------|
|   |       |                     |  |   |   |                            |                   |                  |
| <b>Group</b>  |       |                     |  |   |   |                            |                   |                  |
| <b>Cost</b>   |       |                     |  |   |   |                            |                   |                  |
| 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<br>and equipment            | 3     | –                   | –  | –   | –   | –                          | 808               | 808              |
| Disposals   |       | –                   | (80)   | –   | –   | –                          | (614)             | (694)            |
| Write off   | 28(a) | –                   | (567)  | –   | –   | –                          | –                 | (567)            |
| Balance at<br>December 31, 2017                           |       | 223,572             | 154,596  | 94,057                                      | 228,724                                       | 10,181                     | 41,288            | 752,418          |
| <b>Accumulated Amortisation<br/>and Impairment Losses</b> |       |                     |  |   |   |                            |                   |                  |
| 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<br>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<br>December 31, 2017                           |       | 26,378              | 53,748   | 11,170                                      | 56,322  | 38                         | 23,975            | 171,631          |
| <b>Carrying Amounts</b>                                   |       |                     |  |   |   |                            |                   |                  |
| 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          |

# Notes to the Financial Statements

Year ended December 31, 2017

## 11. Intangible Assets (cont'd)

|   |       | Goodwill | Service concession arrangements | Long-term revenue contract | Intellectual property rights | Water rights | Others  | Total   |
|---|-------|----------|---------------------------------|----------------------------|------------------------------|--------------|---------|---------|
|   | Note  | S\$'000  | S\$'000                         | S\$'000                    | S\$'000                      | S\$'000      | S\$'000 | S\$'000 |
| <b>Group</b>  |       |          |                                 |                            |                              |              |         |         |
| <b>Cost</b>   |       |          |                                 |                            |                              |              |         |         |
| 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 |
| <b>Accumulated Amortisation and Impairment Losses</b> |       |          |                                 |                            |                              |              |         |         |
| 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 |
| <b>Carrying Amounts</b>                               |       |          |                                 |                            |                              |              |         |         |
| 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<br>S\$'000 | Others<br>S\$'000 | Total<br>S\$'000 |
|---|------|---------------------|-------------------|------------------|
| <b>Company</b>  |      |                     |                   |                  |
| <b>Cost</b>   |      |                     |                   |                  |
| 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           |
| <b>Accumulated Amortisation and Impairment Losses</b> |      |                     |                   |                  |
| 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            |
| <b>Carrying Amounts</b>                               |      |                     |                   |                  |
| At January 1, 2017                                    |      | 18,946              | 4,157             | 23,103           |
| At December 31, 2017                                  |      | 18,946              | 5,620             | 24,566           |
| <b>Cost</b>   |      |                     |                   |                  |
| 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           |
| <b>Accumulated Amortisation and Impairment Losses</b> |      |                     |                   |                  |
| 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            |
| <b>Carrying Amounts</b>                               |      |                     |                   |                  |
| At January 1, 2016                                    |      | 18,946              | 3,278             | 22,224           |
| At December 31, 2016                                  |      | 18,946              | 4,157             | 23,103           |

# Notes to the Financial Statements

Year ended December 31, 2017

## 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           |
| <b>Total</b>                            | <b>40,330</b> | <b>37,776</b> |

### 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:

|  | Note | Group          |                |
|--|------|----------------|----------------|
|  |      | 2017           | 2016           |
|  |      | S\$'000        | S\$'000        |
| <b>Cash-generating Unit (CGU)</b>  |      |                |                |
| 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<br>(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         |
|  |      | <b>197,194</b> | <b>224,732</b> |



# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 11. Intangible Assets (cont'd)

Goodwill (cont'd)

Group (cont'd)

Impairment Testing for Goodwill (cont'd)

### f. Sembcorp Gayatri Power Limited

- Use of cash flow projections over the remaining useful life of the plant of 24 years (2016: 25 years), with no terminal value considered;
- 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;
- 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
- 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   |
| <b>Group</b>                    |           |  |                                |                                     |                         |           |
| <b>2017</b>                     |           |  |                                |                                     |                         |           |
| <b>Deferred tax liabilities</b> |           |  |                                |                                     |                         |           |
| 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   |
| <b>Deferred tax assets</b>      |           |  |                                |                                     |                         |           |
| 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   |
| <b>Group</b>                    |          |  |                                |                                     |                         |           |
| <b>2016</b>                     |          |  |                                |                                     |                         |           |
| <b>Deferred tax liabilities</b> |          |  |                                |                                     |                         |           |
| 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) |

# Notes to the Financial Statements

Year ended December 31, 2017

## 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 | <b>428,340</b>  | 402,431  | <b>52,686</b> | 60,501  |
| Deferred tax assets      | <b>(55,972)</b> | (51,520) | –             | –       |
|                          | <b>372,368</b>  | 350,911  | <b>52,686</b> | 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 | <b>18,000</b>  | 19,973  |
| Tax losses                       | <b>525,890</b> | 459,434 |
| Capital allowances               | <b>452,089</b> | 309,735 |
|                                  | <b>995,979</b> | 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:

- 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
- 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

|                                      | Note | Group            |           | Company        |         |
|--------------------------------------|------|------------------|-----------|----------------|---------|
|                                      |      | 2017             | 2016      | 2017           | 2016    |
|                                      |      | S\$'000          | S\$'000   | S\$'000        | S\$'000 |
| Raw materials and consumables        |      | <b>339,528</b>   | 307,573   | <b>2,616</b>   | 3,062   |
| Finished goods                       |      | <b>1,036,869</b> | 13,899    | <b>9,026</b>   | 8,903   |
|                                      |      | <b>1,376,397</b> | 321,472   | <b>11,642</b>  | 11,965  |
| Allowance for inventory obsolescence |      | <b>(102,500)</b> | (26,065)  | <b>(3,094)</b> | (2,789) |
|                                      |      | <b>1,273,897</b> | 295,407   | <b>8,548</b>   | 9,176   |
| Work-in-progress                     | (a)  | <b>1,841,647</b> | 3,080,548 | <b>68</b>      | 1,439   |
| Properties under development         |      | <b>98,752</b>    | 90,325    | –              | –       |
|                                      |      | <b>3,214,296</b> | 3,466,280 | <b>8,616</b>   | 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.

|  | Note | Group              |             | Company   |         |
|--|------|--------------------|-------------|-----------|---------|
|  |      | 2017               | 2016        | 2017      | 2016    |
|  |      | S\$'000            | S\$'000     | S\$'000   | S\$'000 |
| a. Work-in-progress:   |      |                    |             |           |         |
| Costs and attributable profits less allowance for foreseeable losses |      | <b>10,419,414</b>  | 9,665,706   | <b>68</b> | 1,439   |
| Progress billings  |      | <b>(8,758,661)</b> | (6,808,231) | –         | –       |
|  |      | <b>1,660,753</b>   | 2,857,475   | <b>68</b> | 1,439   |
| Comprising:  |      |                    |             |           |         |
| Due from customers on construction contracts                         | 36   | <b>1,654,771</b>   | 2,242,882   | –         | –       |
| Work-in-progress   |      | <b>186,876</b>     | 837,666     | <b>68</b> | 1,439   |
|  |      | <b>1,841,647</b>   | 3,080,548   | <b>68</b> | 1,439   |
| Excess of progress billings over work-in-progress                    |      | <b>(180,894)</b>   | (223,073)   | –         | –       |
|  |      | <b>1,660,753</b>   | 2,857,475   | <b>68</b> | 1,439   |

# Notes to the Financial Statements

Year ended December 31, 2017

## 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

|   | Note | Group     |           | Company |         |
|---|------|-----------|-----------|---------|---------|
|   |      | 2017      | 2016      | 2017    | 2016    |
|   |      | S\$'000   | S\$'000   | S\$'000 | S\$'000 |
| <b>Current liabilities</b>                |      |           |           |         |         |
| 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 |
| <b>Non-current liabilities</b>            |      |           |           |         |         |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 16. Amounts Due to Related Parties

|                         | Note | Associates   |         | Joint ventures |         | Related companies |         | Total        |         |
|-------------------------|------|--------------|---------|----------------|---------|-------------------|---------|--------------|---------|
|                         |      | 2017         | 2016    | 2017           | 2016    | 2017              | 2016    | 2017         | 2016    |
|                         |      | S\$'000      | S\$'000 | S\$'000        | S\$'000 | S\$'000           | S\$'000 | S\$'000      | S\$'000 |
| <b>Group</b>            |      |              |         |                |         |                   |         |              |         |
| Amounts due to:         |      |              |         |                |         |                   |         |              |         |
| Trade                   |      | <b>2,144</b> | 1,623   | <b>3,266</b>   | 3,872   | <b>268</b>        | 3,923   | <b>5,678</b> | 9,418   |
| Non-trade               |      | <b>363</b>   | 357     | <b>4</b>       | 44      | –                 | 1       | <b>367</b>   | 402     |
| Advance payment – trade |      | –            | –       | <b>2,471</b>   | 2,616   | –                 | –       | <b>2,471</b> | 2,616   |
|                         | 15   | <b>2,507</b> | 1,980   | <b>5,741</b>   | 6,532   | <b>268</b>        | 3,924   | <b>8,516</b> | 12,436  |

The non-trade amounts due to related parties are unsecured, interest-free and repayable on demand.

|                            | Note | Subsidiaries     |           | Joint ventures |         | Related companies |         | Total            |           |
|----------------------------|------|------------------|-----------|----------------|---------|-------------------|---------|------------------|-----------|
|                            |      | 2017             | 2016      | 2017           | 2016    | 2017              | 2016    | 2017             | 2016      |
|                            |      | S\$'000          | S\$'000   | S\$'000        | S\$'000 | S\$'000           | S\$'000 | S\$'000          | S\$'000   |
| <b>Company</b>             |      |                  |           |                |         |                   |         |                  |           |
| Amounts due to:            |      |                  |           |                |         |                   |         |                  |           |
| Trade                      | (i)  | <b>10,040</b>    | 2,730     | <b>5</b>       | 2       | <b>67</b>         | 6       | <b>10,112</b>    | 2,738     |
| Non-trade                  |      | <b>1,603</b>     | 1,581     | –              | –       | –                 | –       | <b>1,603</b>     | 1,581     |
| Loans from a related party | (ii) | <b>245,000</b>   | 245,000   | –              | –       | –                 | –       | <b>245,000</b>   | 245,000   |
|                            |      | <b>256,643</b>   | 249,311   | <b>5</b>       | 2       | <b>67</b>         | 6       | <b>256,715</b>   | 249,319   |
| Amounts due after 1 year   |      | <b>(245,000)</b> | (245,000) | –              | –       | –                 | –       | <b>(245,000)</b> | (245,000) |
|                            | 15   | <b>11,643</b>    | 4,311     | <b>5</b>       | 2       | <b>67</b>         | 6       | <b>11,715</b>    | 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 17. Provisions

|   | Note | Claims<br>S\$'000 | Restoration<br>costs<br>S\$'000 | Warranty<br>S\$'000 | Fines<br>S\$'000 | Others<br>S\$'000 | Total<br>S\$'000 |
|---|------|-------------------|---------------------------------|---------------------|------------------|-------------------|------------------|
| <b>Group</b>                            |      |                   |                                 |                     |                  |                   |                  |
| <b>2017</b>                             |      |                   |                                 |                     |                  |                   |                  |
| 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          |
| <b>2016</b>                             |      |                   |                                 |                     |                  |                   |                  |
| 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<br>S\$'000 | Restoration<br>costs<br>S\$'000 | Total<br>S\$'000 |
|---|-------------------|---------------------------------|------------------|
| <b>Company</b>  |                   |                                 |                  |
| <b>2017</b>   |                   |                                 |                  |
| 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           |
| <b>2016</b>   |                   |                                 |                  |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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    |
| <b>Current Liabilities</b>  |               |                |          |            |
| 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             | -        | -          |
|   | <b>13,105</b> | <b>36,976</b>  | <b>-</b> | <b>326</b> |
| <b>Non-current Liabilities</b>  |               |                |          |            |
| 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        | -        | -          |
|   | <b>54,060</b> | <b>256,654</b> | <b>-</b> | <b>-</b>   |

## 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

|  | Note | Group        |              |
|--|------|--------------|--------------|
|  |      | 2017         | 2016         |
|  |      | S\$'000      | S\$'000      |
| Provision for retirement gratuities    | (a)  | 3,696        | 3,791        |
| Defined benefit (assets) / obligations | (b)  | (2,601)      | 3,104        |
|  |      | <b>1,095</b> | <b>6,895</b> |
| <b>Defined benefit obligations</b>     |      |              |              |
| - Current                              | 15   | 187          | 330          |
| - Non-current                          |      | 3,810        | 6,565        |
| <b>Defined benefit assets</b>          |      |              |              |
| - 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         | <b>3,696</b> | <b>3,791</b> |

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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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      |
| <b>Group</b>                                      |                            |                |                           |                  |   |              |
| Balance at January 1                              | 238,826                    | 236,339        | (235,722)                 | (230,473)        | 3,104                                   | 5,866        |
| <b>Included in income statement</b>               |                            |                |                           |                  |   |              |
| 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          |
| <b>Included in other comprehensive income</b>     |                            |                |                           |                  |   |              |
| 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)      |
| <b>Other</b>                                      |                            |                |                           |                  |   |              |
| 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)      |
| <b>Balance at December 31</b>                     | <b>241,908</b>             | <b>238,826</b> | <b>(244,509)</b>          | <b>(235,722)</b> | <b>(2,601)</b>                          | <b>3,104</b> |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18 (2016: 19) years.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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

|                                | Note | Group            |                  |
|--------------------------------|------|------------------|------------------|
|                                |      | 2017             | 2016             |
|                                |      | S\$'000          | S\$'000          |
| <b>Current Liabilities</b>     |      |                  |                  |
| 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              |
|                                |      | <b>1,572,451</b> | <b>2,125,587</b> |
| <b>Non-current Liabilities</b> |      |                  |                  |
| 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            |
|                                |      | <b>8,275,153</b> | <b>7,095,717</b> |
|                                |      | <b>9,847,604</b> | <b>9,221,304</b> |

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                | <b>9,843,234</b> | <b>9,218,456</b> |

### 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 collateralised by the following assets:

|                               | Note | Group     |           |
|-------------------------------|------|-----------|-----------|
|                               |      | 2017      | 2016      |
|                               |      | 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   |

# Notes to the Financial Statements

Year ended December 31, 2017

## 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<br>S\$'000  | 2016<br>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<br>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                |                     |                      | 2016                |                     |                      |
|---------------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------|
|                                 | Payments<br>S\$'000 | Interest<br>S\$'000 | Principal<br>S\$'000 | Payments<br>S\$'000 | Interest<br>S\$'000 | Principal<br>S\$'000 |
| <b>Group</b>                    |                     |                     |                      |                     |                     |                      |
| 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<br>(Note 15)<br>S\$'000 | Interest-bearing borrowings*<br>(Note 20)<br>S\$'000 | Finance lease liabilities<br>(Note 20)<br>S\$'000 | Total<br>S\$'000 |
|--|--|--|---|------------------|
| <b>Balance at January 1, 2017</b>  | 44,834   | 9,201,671  | 2,848   | 9,249,353        |
| <b>Cash flows</b>  |  |  |   |                  |
| Cash payments  | –  | (2,426,971)  | (1,034)   | (2,428,005)      |
| Cash proceeds  | –  | 3,206,073  | –   | 3,206,073        |
| Interest paid  | (484,220)  | –  | –   | (484,220)        |
| <b>Non-cash items</b>  |  |  |   |                  |
| 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          |
| <b>Balance at December 31, 2017</b>  | 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 22. Other Reserves

|                              | Note | Group           |                 | Company         |                 |
|------------------------------|------|-----------------|-----------------|-----------------|-----------------|
|                              |      | 2017<br>S\$'000 | 2016<br>S\$'000 | 2017<br>S\$'000 | 2016<br>S\$'000 |
| <b>Distributable</b>         |      |                 |                 |                 |                 |
| Reserve for own shares       | (a)  | (125)           | (5,490)         | (125)           | (5,490)         |
| <b>Non-distributable</b>     |      |                 |                 |                 |                 |
| 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 uncanceled shares as treasury shares.
- b. Currency Translation Reserve  
The currency translation reserve comprises:
- 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;
  - Exchange differences on monetary items which form part of the Group's net investment in foreign operations; and
  - 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                  | 2016                  |                        | 2017                  |
|  | Before tax<br>S\$'000 | Tax expense<br>S\$'000 | Net of tax<br>S\$'000 | Before tax<br>S\$'000 | Tax expense<br>S\$'000 | Net of tax<br>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)                 |
| <b>Other comprehensive income</b>  | <b>(95,309)</b>       | <b>(8,031)</b>         | <b>(103,340)</b>      | 123,981               | (27,906)               | 96,075                |

# Notes to the Financial Statements

Year ended December 31, 2017

## 24. Other Comprehensive Income (cont'd)

|  | Group    |          |
|--|----------|----------|
|  | 2017     | 2016     |
|  | S\$'000  | S\$'000  |
| <b>a. Cash flow hedges:</b>  |          |          |
| 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>b. Available-for-sale financial assets:</b>   |          |          |
| 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 |
| <b>Finance income</b>                                     |         |         |
| – 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.       |         |         |
| <b>Finance costs</b>                                      |         |         |
| 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   |
| 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  |
| <b>Current tax expense</b>         |          |          |
| 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   |
| <b>Deferred tax expense</b>        |          |          |
| 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  |

# Notes to the Financial Statements

Year ended December 31, 2017

## 27. Tax Expense (cont'd)

|  | Group     |           |
|--|-----------|-----------|
|  | 2017      | 2016      |
|  | S\$'000   | S\$'000   |
| <b>Reconciliation of effective tax rate</b>                                      |           |           |
| 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:

|  | Note  | Group    |         |
|--|-------|----------|---------|
|  |       | 2017     | 2016    |
|  |       | S\$'000  | S\$'000 |
| <b>a. Expenses</b>   |       |          |         |
| 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  |
| <b>Staff costs</b>   |       |          |         |
| 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  |

# Notes to the Financial Statements

Year ended December 31, 2017

## 28. Profit for the year (cont'd)

|   | Note | Group           |                 |
|---|------|-----------------|-----------------|
|   |      | 2017<br>S\$'000 | 2016<br>S\$'000 |
| <b>b. Other operating income</b>  |      |                 |                 |
| 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)        |
| <b>c. Non-operating income and (expenses)</b>   |      |                 |                 |
| 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:

| Name of company  | Country of incorporation | Operating Segment | Ownership interests held by non-controlling interests |           |
|--|--------------------------|-------------------|---|-----------|
|  |                          |                   | 2017<br>%   | 2016<br>% |
| 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<br>S\$'000 | India Thermal Energy<br>S\$'000 |
|---|----------------------------------|---------------------------------|
| <b>2017</b>   |                                  |                                 |
| Revenue   | 2,387,354                        | 1,482,957                       |
| Profit / (loss) for the year                                  | 9,948                            | (148,945)                       |
| Other comprehensive income                                    | (55,509)                         | (9,804)                         |
| <b>Total comprehensive income</b>                             | <b>(45,561)</b>                  | <b>(158,749)</b>                |
| Attributable to non-controlling interests:                    |                                  |                                 |
| Profit / (loss) for the year                                  | 1,362                            | (17,435)                        |
| Other comprehensive income                                    | (21,647)                         | (1,265)                         |
| <b>Total comprehensive income</b>                             | <b>(20,285)</b>                  | <b>(18,700)</b>                 |
| 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)                       |
| <b>Net assets</b>   | <b>2,519,372</b>                 | <b>967,638</b>                  |
| <b>Net assets attributable to non-controlling interests</b>   | <b>1,002,067</b>                 | <b>123,137</b>                  |
| 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)                       |
| <b>Net increase / (decrease) in cash and cash equivalents</b> | <b>91,301</b>                    | <b>(30,858)</b>                 |
| <b>Dividends paid to non-controlling interests</b>            | <b>(16,566)</b>                  | <b>–</b>                        |
| <b>2016</b>   |                                  |                                 |
| Revenue   | 3,544,816                        | 700,428                         |
| Profit / (loss) for the year                                  | 75,160                           | (66,410)                        |
| Other comprehensive income                                    | 51,668                           | 10,249                          |
| <b>Total comprehensive income</b>                             | <b>126,828</b>                   | <b>(56,161)</b>                 |
| Attributable to non-controlling interests:                    |                                  |                                 |
| Profit / (loss) for the year                                  | 27,116                           | (9,467)                         |
| Other comprehensive income                                    | 17,467                           | (3,696)                         |
| <b>Total comprehensive income</b>                             | <b>44,583</b>                    | <b>(13,163)</b>                 |
| 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)                       |
| <b>Net assets</b>   | <b>2,607,621</b>                 | <b>1,126,554</b>                |
| <b>Net assets attributable to non-controlling interests</b>   | <b>1,040,215</b>                 | <b>141,835</b>                  |
| 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                          |
| <b>Net increase in cash and cash equivalents</b>              | <b>612,402</b>                   | <b>38,867</b>                   |
| <b>Dividends paid to non-controlling interests</b>            | <b>(29,089)</b>                  | <b>–</b>                        |

# Notes to the Financial Statements

Year ended December 31, 2017

## 30. Earnings Per Share

|  | Group         |               |
|--|---------------|---------------|
|  | 2017          | 2016          |
|  | S\$'000       | S\$'000       |
| <b>a. Basic earnings per share</b>   |               |               |
| 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>b. Diluted earnings per share</b>   |               |               |
| 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 |               |               |
| 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 |
| <b>Dividend paid</b>  |                   |         |
| 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 |



# Notes to the Financial Statements

Year ended December 31, 2017

## 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                            | –                                   |
|                          |                          | <b>319,549</b>                     | <b>(169,250)</b>  | <b>(150,299)</b>                          | <b>–</b>                            | <b>319,549</b>                     | <b>–</b>                            |

# Notes to the Financial Statements

Year ended December 31, 2017

## 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                            | –                                   |
|                          |                          | <b>973,312</b>                     | –                 | <b>(973,312)</b>                          | –                                   | <b>973,312</b>                     | –                                   |

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   | <b>2,418,250</b> | 2,081,250 |
| Conditional performance shares awarded                 | <b>889,553</b>   | 987,000   |
| Conditional performance shares lapsed                  | <b>(304,500)</b> | (25,000)  |
| Performance shares lapsed arising from targets not met | <b>(600,000)</b> | (625,000) |
| At December 31   | <b>2,403,303</b> | 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   | <b>4,513,000</b>   | 3,200,000 |
| Conditional performance shares awarded                 | <b>1,600,000</b>   | 1,918,000 |
| Performance shares lapsed arising from targets not met | <b>(1,380,000)</b> | (605,000) |
| At December 31   | <b>4,733,000</b>   | 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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  | <b>S\$2.69</b>   | S\$1.40  | <b>S\$1.45</b>   | S\$0.85  |
| <b>Assumptions under the Monte Carlo model</b>  |  |  |  |  |
| Share price   | <b>S\$3.18</b>   | S\$2.69  | <b>S\$1.69</b>   | S\$1.56  |
| Expected volatility:  |  |  |  |  |
| Sembcorp Industries Ltd / Sembcorp Marine Ltd   | <b>29.5%</b>   | 27.1%  | <b>35.1%</b>   | 29.2%  |
| Morgan Stanley Capital International (MSCI) AC Asia Pacific excluding Japan Industrials Index | <b>13.9%</b>   | 13.9%  | <b>14.0%</b>   | 13.4%  |
| Correlation with MSCI   | <b>48.3%</b>   | 42.6%  | <b>44.0%</b>   | 43.2%  |
| Risk-free interest rate   | <b>1.23%</b>   | 1.11%  | <b>1.3%</b>  | 1.2%   |
| Expected dividend   | <b>3.56%</b>   | 5.95%  | <b>2.9%</b>  | 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  | <b>9,095,728</b>   | 7,829,129   |
| Conditional restricted shares awarded                         | <b>3,554,234</b>   | 3,980,832   |
| Conditional restricted shares lapsed                          | <b>(247,977)</b>   | (416,046)   |
| Additional restricted shares awarded arising from targets met | <b>589,655</b>     | 536,350     |
| Conditional restricted shares released                        | <b>(3,263,724)</b> | (2,834,537) |
| At December 31  | <b>9,727,916</b>   | 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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   |
| <b>Assumptions under the Monte Carlo model</b> |   |   |   |   |
| 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

- 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 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       |
| <b>a. Effect on cash flows of the Group</b>                                 |       |               |
| Cash paid   |       | 47,258        |
| Less: Cash and cash equivalents in subsidiaries acquired                    |       | (7)           |
| Cash outflow on acquisition   |       | 47,251        |
| <b>b. Identifiable assets acquired and liabilities assumed</b>              |       |               |
|   |       | At fair value |
|   | Note  | S\$'000       |
| 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 | <ul style="list-style-type: none"> <li>Royalty rates based on existing patents</li> <li>Useful life of 10 years</li> <li>Discount rate of 24.5%</li> </ul> |

#### 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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              |                |
| <b>a. Effect on cash flows of the Group</b>  |                      |                |
| Cash paid  |                      | 72,575         |
| Less: Cash and cash equivalents in subsidiaries acquired*                                      |                      | (67,408)       |
| Cash outflow on acquisition  |                      | 5,167          |
|  | <b>At fair value</b> |                |
|  | <b>Note</b>          | <b>S\$'000</b> |
| <b>b. Identifiable assets acquired and liabilities assumed</b>                                 |                      |                |
| 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 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     |                      |
| <b>a. Effect on cash flows of the Group</b>                    |             |                      |
| Cash paid  |             | 24,564               |
| Less: Cash and cash equivalents in subsidiaries acquired       |             | (5,462)              |
| Cash outflow on acquisition                                    |             | 19,102               |
|  |             | <b>At fair value</b> |
|  | <b>Note</b> | <b>S\$'000</b>       |
| <b>b. Identifiable assets acquired and liabilities assumed</b> |             |                      |
| 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      | <ul style="list-style-type: none"> <li>Freehold land – Prevailing market rates of similar agricultural lands from certified land valuer.</li> <li>Plant and machinery – Current replacement costs derived from market quotes received from suppliers/manufacturers.</li> </ul> |
| Intangible assets             | Relief-from-royalty method | <ul style="list-style-type: none"> <li>Royalty rates based on existing ship design</li> <li>Useful life of 10 years</li> <li>Discount rates range from 26.4% to 34.2%</li> </ul>   |

#### 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

- 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

- 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.
- 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%.
- In 2016, the Group increased its stake in SGI from 64.06% to 68.74% for a consideration amounting to S\$60,434,000.
- 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 |
| <b>2017</b>   |         |
| 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 |

# Notes to the Financial Statements

Year ended December 31, 2017

## 34. Acquisition of Significant Subsidiaries and Non-controlling Interests *(cont'd)*

|   | PPL      | SEIL     | SGI     | SGPL     |
|---|----------|----------|---------|----------|
|   | S\$'000  | S\$'000  | S\$'000 | S\$'000  |
| <b>2016</b>   |          |          |         |          |
| 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 |
| <b>Related Corporations</b>          |                      |         |              |         |
| 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  |
| <b>Associates and Joint Ventures</b> |                      |         |              |         |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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<br>Increase<br>S\$'000 | 100 bp<br>Decrease<br>S\$'000 | 100 bp<br>Increase<br>S\$'000 | 100 bp<br>Decrease<br>S\$'000 |
| <b>Group</b>                        |                               |                               |                               |                               |
| <b>December 31, 2017</b>            |                               |                               |                               |                               |
| Variable rate financial instruments | (33,944)                      | 33,944                        | 35,015                        | (35,169)                      |
| <b>December 31, 2016</b>            |                               |                               |                               |                               |
| Variable rate financial instruments | (30,762)                      | 30,762                        | 32,269                        | (32,603)                      |
| <b>Company</b>                      |                               |                               |                               |                               |
| <b>December 31, 2017</b>            |                               |                               |                               |                               |
| Variable rate financial instruments | 7,138                         | (7,138)                       | -                             | -                             |
| <b>December 31, 2016</b>            |                               |                               |                               |                               |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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   |
| <b>Group</b>  |          |           |           |           |           |          |           |
| <b>2017</b>   |          |           |           |           |           |          |           |
| <b>Financial assets</b>   |          |           |           |           |           |          |           |
| 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   |
| <b>Financial liabilities</b>  |          |           |           |           |           |          |           |
| 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) |
| <b>2016</b>   |          |           |           |           |           |          |           |
| <b>Financial assets</b>   |          |           |           |           |           |          |           |
| 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   |
| <b>Financial liabilities</b>  |          |           |           |           |           |          |           |
| 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) |

# Notes to the Financial Statements

Year ended December 31, 2017

## 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 |
| <b>Company</b>                       |         |         |         |         |
| <b>2017</b>                          |         |         |         |         |
| <b>Financial assets</b>              |         |         |         |         |
| Cash and cash equivalents            | 35,231  | –       | 1       | –       |
| Trade and other receivables          | 83,360  | –       | –       | –       |
| Long-term trade receivables          | –       | –       | –       | –       |
|                                      | 118,591 | –       | 1       | –       |
| <b>Financial liabilities</b>         |         |         |         |         |
| 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)   |
| <b>2016</b>                          |         |         |         |         |
| <b>Financial assets</b>              |         |         |         |         |
| Cash and cash equivalents            | 13,984  | –       | 21      | –       |
| Trade and other receivables          | 126,128 | –       | 52      | –       |
| Long-term trade receivables          | –       | –       | –       | –       |
|                                      | 140,112 | –       | 73      | –       |
| <b>Financial liabilities</b>         |         |         |         |         |
| 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           |
| <b>2017</b> |          |                   |         |                   |
| 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)              |
| <b>2016</b> |          |                   |         |                   |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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 |
| <b>By business activity</b>  |           |           |         |         |
| 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 |
| <b>Loans and receivables</b> |           |           |         |         |
| 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 36. Financial Instruments (cont'd)

### b. Credit risk (cont'd)

The age analysis of current loans and receivables is as follows:

|                         | Gross            | Impairment     | Gross     | Impairment |
|-------------------------|------------------|----------------|-----------|------------|
|                         | 2017             | 2017           | 2016      | 2016       |
|                         | S\$'000          | S\$'000        | S\$'000   | S\$'000    |
| <b>Group</b>            |                  |                |           |            |
| 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    |
|                         | <b>3,610,628</b> | <b>204,786</b> | 4,146,495 | 226,057    |
| <b>Company</b>          |                  |                |           |            |
| 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     |
|                         | <b>138,479</b>   | <b>1,510</b>   | 187,657   | 20,686     |

Movements in the allowance for impairment of current and non-current loans and receivables are as follows:

|                                 | Group    |         | Company  |         |
|---------------------------------|----------|---------|----------|---------|
|                                 | 2017     | 2016    | 2017     | 2016    |
| Note                            | S\$'000  | S\$'000 | S\$'000  | 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   |

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:

|   | Carrying amount | Cash Flows            |                  |                       |              |
|---|-----------------|-----------------------|------------------|-----------------------|--------------|
|   |                 | Contractual cash flow | Less than 1 year | Between 1 and 5 years | Over 5 years |
|   | S\$'000         | S\$'000               | S\$'000          | S\$'000               | S\$'000      |
| <b>Group</b>                                      |                 |                       |                  |                       |              |
| <b>2017</b>                                       |                 |                       |                  |                       |              |
| <b>Derivatives</b>                                |                 |                       |                  |                       |              |
| 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)             | –            |
| <b>Non-derivative financial liabilities</b>       |                 |                       |                  |                       |              |
| 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)  |
| <b>2016</b>                                       |                 |                       |                  |                       |              |
| <b>Derivatives</b>                                |                 |                       |                  |                       |              |
| 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)             | –            |
| <b>Non-derivative financial liabilities</b>       |                 |                       |                  |                       |              |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 36. Financial Instruments (cont'd)

### c. Liquidity risk (cont'd)

|   | Cash Flows      |                       |                  |                       |              |
|---|-----------------|-----------------------|------------------|-----------------------|--------------|
|   | Carrying amount | Contractual cash flow | Less than 1 year | Between 1 and 5 years | Over 5 years |
|   | S\$'000         | S\$'000               | S\$'000          | S\$'000               | S\$'000      |
| <b>Company</b>                              |                 |                       |                  |                       |              |
| <b>2017</b>                                 |                 |                       |                  |                       |              |
| <b>Non-derivative financial liabilities</b> |                 |                       |                  |                       |              |
| Trade and other payables*                   | 405,378         | (448,611)             | (141,218)        | (154,827)             | (152,566)    |
| <b>2016</b>                                 |                 |                       |                  |                       |              |
| <b>Non-derivative financial liabilities</b> |                 |                       |                  |                       |              |
| 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.

|   | Cash Flows      |                       |                  |                       |              |
|---|-----------------|-----------------------|------------------|-----------------------|--------------|
|   | Carrying amount | Contractual cash flow | Less than 1 year | Between 1 and 5 years | Over 5 years |
|   | S\$'000         | S\$'000               | S\$'000          | S\$'000               | S\$'000      |
| <b>Group</b>                            |                 |                       |                  |                       |              |
| <b>2017</b>                             |                 |                       |                  |                       |              |
| <b>Derivative financial liabilities</b> |                 |                       |                  |                       |              |
| - inflow                                | 55,928          | 1,282,105             | 254,765          | 1,027,340             | -            |
| - outflow                               |                 | (1,401,521)           | (303,836)        | (1,090,235)           | (7,450)      |
| <b>Derivative financial assets</b>      |                 |                       |                  |                       |              |
| - inflow                                | (104,433)       | 1,079,157             | 543,859          | 535,298               | -            |
| - outflow                               |                 | (978,600)             | (475,781)        | (502,819)             | -            |
|   | (48,505)        | (18,859)              | 19,007           | (30,416)              | (7,450)      |
| <b>2016</b>                             |                 |                       |                  |                       |              |
| <b>Derivative financial liabilities</b> |                 |                       |                  |                       |              |
| - inflow                                | 53,451          | 1,376,080             | 376,926          | 999,154               | -            |
| - outflow                               |                 | (1,451,071)           | (403,158)        | (1,044,944)           | (2,969)      |
| <b>Derivative financial assets</b>      |                 |                       |                  |                       |              |
| - inflow                                | (79,441)        | 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)

|   | Cash Flows      |                       |                  |                       |              |
|---|-----------------|-----------------------|------------------|-----------------------|--------------|
|   | Carrying amount | Contractual cash flow | Less than 1 year | Between 1 and 5 years | Over 5 years |
|   | S\$'000         | S\$'000               | S\$'000          | S\$'000               | S\$'000      |
| <b>Company</b>                          |                 |                       |                  |                       |              |
| <b>2016</b>                             |                 |                       |                  |                       |              |
| <b>Derivative financial liabilities</b> |                 |                       |                  |                       |              |
|   | 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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   |
| <b>Group</b>                        |                               |          |           |           |
| <b>At December 31, 2017</b>         |                               |          |           |           |
| 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   |
| <b>At December 31, 2016</b>         |                               |          |           |           |
| 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    |
| <b>Company</b>                      |                               |          |           |           |
| <b>At December 31, 2017</b>         |                               |          |           |           |
| Derivative financial assets         | –                             | 141      | –         | 141       |
| <b>At December 31, 2016</b>         |                               |          |           |           |
| Derivative financial liabilities    | –                             | (326)    | –         | (326)     |

In 2017 and 2016, there have been no transfers between the different levels of the fair value hierarchy.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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            |
| <b>Group</b>  |                    |
| <b>At January 1, 2017</b>   | 37,377             |
| Additions   | 984                |
| Net change in fair value recognised in other comprehensive income | 1,018              |
| <b>At December 31, 2017</b>                                       | 39,379             |
| <b>At January 1, 2016</b>   |                    |
| Additions   | 2,661              |
| Net change in fair value recognised in other comprehensive income | 239                |
| <b>At December 31, 2016</b>                                       | 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       |
| <b>Group</b>   |               |
| <b>At January 1, 2016</b>                                  | 193,113       |
| Net changes in present value recognised in capital reserve | 22,772        |
| <b>At December 31, 2016</b>                                | 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        |
| <b>Group</b>             |            |                |
| <b>December 31, 2016</b> |            |                |
| 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     |
| <b>Group</b>                                 |                               |             |         |             |
| <b>At December 31, 2017</b>                  |                               |             |         |             |
| 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) |
| <b>At December 31, 2016</b>                  |                               |             |         |             |
| 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) |
| <b>Company</b>                               |                               |             |         |             |
| <b>At December 31, 2017</b>                  |                               |             |         |             |
| Interest in a subsidiary                     | 2,344,658                     | –           | –       | 2,344,658   |
| Amounts due from related parties             | –                             | 225,266     | –       | 225,266     |
| <b>At December 31, 2016</b>                  |                               |             |         |             |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 36. Financial Instruments (cont'd)

### f. Fair value versus carrying amounts

|  | Note | Designated at fair value<br>S\$'000 | Fair value – hedging instruments<br>S\$'000 | Available-for-sale<br>S\$'000 | Loans and receivables<br>S\$'000 | Other financial liabilities within the scope of FRS 39<br>S\$'000 | Other financial liabilities outside the scope of FRS 39<br>S\$'000 | Total carrying amount<br>S\$'000 | Fair value<br>S\$'000 |
|--|------|-------------------------------------|---|-------------------------------|----------------------------------|---|--|----------------------------------|-----------------------|
| <b>Group</b>   |      |                                     |   |                               |                                  |   |  |                                  |                       |
| <b>December 31, 2017</b>   |      |                                     |   |                               |                                  |   |  |                                  |                       |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 36. Financial Instruments (cont'd)

### f. Fair value versus carrying amounts (cont'd)

|   | Note | Designated at fair value<br>S\$'000 | Fair value – hedging instruments<br>S\$'000 | Available-for-sale<br>S\$'000 | Loans and receivables<br>S\$'000 | Other financial liabilities within the scope of FRS 39<br>S\$'000 | Other financial liabilities outside the scope of FRS 39<br>S\$'000 | Total carrying amount<br>S\$'000 | Fair value<br>S\$'000 |
|---|------|-------------------------------------|---|-------------------------------|----------------------------------|---|--|----------------------------------|-----------------------|
| <b>Group</b>  |      |                                     |   |                               |                                  |   |  |                                  |                       |
| <b>December 31, 2017</b>  |      |                                     |   |                               |                                  |   |  |                                  |                       |
| 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 36. Financial Instruments (cont'd)

### f. Fair value versus carrying amounts (cont'd)

|  | Note | Designated at fair value<br>S\$'000 | Fair value – hedging instruments<br>S\$'000 | Available-for-sale<br>S\$'000 | Loans and receivables<br>S\$'000 | Other financial liabilities within the scope of FRS 39<br>S\$'000 | Other financial liabilities outside the scope of FRS 39<br>S\$'000 | Total carrying amount<br>S\$'000 | Fair value<br>S\$'000 |
|--|------|-------------------------------------|---|-------------------------------|----------------------------------|---|--|----------------------------------|-----------------------|
| <b>Group</b>   |      |                                     |   |                               |                                  |   |  |                                  |                       |
| <b>December 31, 2016</b>   |      |                                     |   |                               |                                  |   |  |                                  |                       |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 36. Financial Instruments (cont'd)

### f. Fair value versus carrying amounts (cont'd)

|   | Note | Designated at fair value<br>S\$'000 | Fair value – hedging instruments<br>S\$'000 | Available-for-sale<br>S\$'000 | Loans and receivables<br>S\$'000 | Other financial liabilities within the scope of FRS 39<br>S\$'000 | Other financial liabilities outside the scope of FRS 39<br>S\$'000 | Total carrying amount<br>S\$'000 | Fair value<br>S\$'000 |
|---|------|-------------------------------------|---|-------------------------------|----------------------------------|---|--|----------------------------------|-----------------------|
| <b>Group</b>  |      |                                     |   |                               |                                  |   |  |                                  |                       |
| <b>December 31, 2016</b>  |      |                                     |   |                               |                                  |   |  |                                  |                       |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 36. Financial Instruments (cont'd)

### f. Fair value versus carrying amounts (cont'd)

|   | Note | Fair value<br>– hedging<br>instruments<br>S\$'000 | Loans and<br>receivables<br>S\$'000 | Other<br>financial<br>liabilities<br>within the<br>scope of<br>FRS 39<br>S\$'000 | Other<br>financial<br>liabilities<br>outside the<br>scope of<br>FRS 39<br>S\$'000 | Total<br>carrying<br>amount<br>S\$'000 | Fair value<br>S\$'000 |
|---|------|---|-------------------------------------|--|---|--|-----------------------|
| <b>Company</b>                          |      |   |                                     |  |   |  |                       |
| <b>December 31, 2017</b>                |      |   |                                     |  |   |  |                       |
| 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<br>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               |
| <b>December 31, 2016</b>                |      |   |                                     |  |   |  |                       |
| 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<br>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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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 |

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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         | Marine           | Urban<br>Development | Others /<br>Corporate | Elimination        | Total             |
|---|-------------------|------------------|----------------------|-----------------------|--------------------|-------------------|
|   | S\$'000           | S\$'000          | S\$'000              | S\$'000               | S\$'000            | S\$'000           |
| <b>2017</b>   |                   |                  |                      |                       |                    |                   |
| <b>Turnover</b>   |                   |                  |                      |                       |                    |                   |
| 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)           | –                 |
| <b>Total</b>  | <b>5,699,595</b>  | <b>2,387,354</b> | <b>11,751</b>        | <b>344,953</b>        | <b>(98,048)</b>    | <b>8,345,605</b>  |
| <b>Results</b>  |                   |                  |                      |                       |                    |                   |
| 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           |
| <b>Profit from operations</b>   | <b>649,859</b>    | <b>64,670</b>    | <b>89,388</b>        | <b>(8,628)</b>        | <b>–</b>           | <b>795,289</b>    |
| 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)          |
| <b>Net profit for the year</b>  | <b>140,037</b>    | <b>6,827</b>     | <b>83,228</b>        | <b>680</b>            | <b>–</b>           | <b>230,772</b>    |
| <b>Assets</b>   |                   |                  |                      |                       |                    |                   |
| 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            |
| <b>Total assets</b>   | <b>12,665,256</b> | <b>9,163,762</b> | <b>1,121,147</b>     | <b>3,037,029</b>      | <b>(2,774,016)</b> | <b>23,213,178</b> |
| <b>Liabilities</b>  |                   |                  |                      |                       |                    |                   |
| 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           |
| <b>Total liabilities</b>  | <b>8,511,906</b>  | <b>6,629,270</b> | <b>274,170</b>       | <b>2,356,094</b>      | <b>(2,774,016)</b> | <b>14,997,424</b> |
| <b>Capital expenditure</b>  | <b>479,084</b>    | <b>193,455</b>   | <b>167</b>           | <b>16,380</b>         | <b>–</b>           | <b>689,086</b>    |
| <b>Significant non-cash items</b>   |                   |                  |                      |                       |                    |                   |
| 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)          |



# Notes to the Financial Statements

Year ended December 31, 2017

## 39. Segment Reporting *(cont'd)*

### a. Operating Segments *(cont'd)*

|  | Utilities         | Marine           | Urban<br>Development | Others /<br>Corporate | Elimination        | Total             |
|--|-------------------|------------------|----------------------|-----------------------|--------------------|-------------------|
|  | S\$'000           | S\$'000          | S\$'000              | S\$'000               | S\$'000            | S\$'000           |
| <b>2016</b>  |                   |                  |                      |                       |                    |                   |
| <b>Turnover</b>  |                   |                  |                      |                       |                    |                   |
| 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)           | –                 |
| <b>Total</b>   | <b>4,132,883</b>  | <b>3,544,816</b> | <b>11,224</b>        | <b>276,036</b>        | <b>(57,911)</b>    | <b>7,907,048</b>  |
| <b>Results</b>   |                   |                  |                      |                       |                    |                   |
| 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           |
| <b>Profit from operations</b>  | <b>737,221</b>    | <b>170,737</b>   | <b>38,392</b>        | <b>(37,321)</b>       | <b>–</b>           | <b>909,029</b>    |
| 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)          |
| <b>Net profit / (loss) for the year</b>  | <b>348,028</b>    | <b>48,261</b>    | <b>33,298</b>        | <b>(34,698)</b>       | <b>–</b>           | <b>394,889</b>    |
| <b>Assets</b>  |                   |                  |                      |                       |                    |                   |
| 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            |
| <b>Total assets</b>  | <b>12,039,104</b> | <b>9,430,807</b> | <b>1,040,822</b>     | <b>1,895,111</b>      | <b>(2,115,609)</b> | <b>22,290,235</b> |
| <b>Liabilities</b>   |                   |                  |                      |                       |                    |                   |
| 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           |
| <b>Total liabilities</b>   | <b>7,620,791</b>  | <b>6,804,609</b> | <b>275,005</b>       | <b>1,542,725</b>      | <b>(2,115,609)</b> | <b>14,127,521</b> |
| <b>Capital expenditure</b>   | <b>582,807</b>    | <b>419,879</b>   | <b>5,117</b>         | <b>15,946</b>         | <b>–</b>           | <b>1,023,749</b>  |
| <b>Significant non-cash items</b>  |                   |                  |                      |                       |                    |                   |
| 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)           |

# Notes to the Financial Statements

Year ended December 31, 2017

## 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    |
| <b>2017</b>                     |            |           |           |              |                      |           |                |           |         |                 |            |
| 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    |
| <b>2016</b>                     |            |           |           |              |                      |           |                |           |         |                 |            |
| 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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  |
|  |                          | %                                  | %     |
| <b>Utilities</b>   |                          |                                    |       |
| Sembcorp Utilities Pte Ltd <sup>1</sup>  | Singapore                | 100                                | 100   |
| Sembcorp Cogen Pte Ltd <sup>1</sup>  | Singapore                | 100                                | 100   |
| Sembcorp Gas Pte Ltd <sup>1</sup>  | Singapore                | 70.00                              | 70.00 |
| Sembcorp Utilities (UK) Limited <sup>2</sup>   | United Kingdom           | 100                                | 100   |
| Sembcorp Utilities (Netherlands) N.V. <sup>2</sup>   | The Netherlands          | 100                                | 100   |
| Sembcorp Environment Pte. Ltd. <sup>1</sup>  | Singapore                | 100                                | 100   |
| SembWaste Pte Ltd <sup>1</sup>   | Singapore                | 100                                | 100   |
| Sembcorp Energy India Ltd (formerly known as Thermal Powertech Corporation India Limited) <sup>2</sup> | India                    | 86.87                              | 86.87 |
| Sembcorp Green Infra Limited <sup>2</sup>  | India                    | 100 <sup>3</sup>                   | 68.74 |
| Sembcorp Gayatri Power Limited <sup>2</sup>  | India                    | 88.00                              | 88.00 |
| Sembcorp Myingyan Power Company Limited <sup>2</sup>   | Myanmar                  | 100                                | 100   |
| <b>Marine</b>  |                          |                                    |       |
| Sembcorp Marine Ltd <sup>1</sup>   | Singapore                | 60.98                              | 60.99 |
| Jurong Shipyard Pte Ltd <sup>1</sup>   | Singapore                | 60.98                              | 60.99 |
| PPL Shipyard Pte Ltd <sup>1</sup>  | Singapore                | 60.98                              | 60.99 |
| Sembcorp Marine Repairs & Upgrades Pte. Ltd. <sup>1</sup>  | Singapore                | 60.98                              | 60.99 |
| Sembcorp Marine Offshore Platforms Pte Ltd <sup>1</sup>  | Singapore                | 60.98                              | 60.99 |
| <b>Urban Development</b>   |                          |                                    |       |
| Sembcorp Development Ltd <sup>1</sup>  | Singapore                | 100                                | 100   |
| Vietnam Singapore Industrial Park Pte Ltd <sup>1</sup>   | Singapore                | 96.59                              | 92.88 |
| Singapore Technologies Industrial Corp Ltd <sup>1</sup>  | Singapore                | 100                                | 100   |
| Nanjing Riverside Quay Co., Ltd <sup>2</sup>   | China                    | 100                                | 100   |
| <b>Others</b>  |                          |                                    |       |
| Sembcorp Design and Construction Pte Ltd <sup>1</sup>  | Singapore                | 100                                | 100   |
| Singapore Precision Industries Pte Ltd <sup>1</sup>  | Singapore                | 100                                | 100   |

<sup>1</sup> Audited by KPMG LLP, Singapore.

<sup>2</sup> Audited by member firms of KPMG International.

<sup>3</sup> 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  |
|  |                            | %                                  | %     |
| <b>Utilities</b>   |                            |                                    |       |
| <sup>^^</sup> Sembcorp Salalah Power and Water Company SAOG                  | Oman                       | 40.00                              | 40.00 |
| <b>Urban Development</b>   |                            |                                    |       |
| <sup>^^</sup> Wuxi-Singapore Industrial Park Development Co., Ltd            | People's Republic of China | 45.36                              | 45.36 |
| <b>Name of key joint ventures</b>  |                            |                                    |       |
| <b>Utilities</b>   |                            |                                    |       |
| <sup>^</sup> Phu My 3 BOT Power Company Ltd.                                 | Vietnam                    | 66.67                              | 66.67 |
| <sup>#</sup> Shanghai Cao Jing Co-generation Co. Ltd                         | People's Republic of China | 30.00                              | 30.00 |
| <sup>^^</sup> Emirates Sembcorp Water & Power Company P.J.S.C                | United Arab Emirates       | 40.00                              | 40.00 |
| <sup>#</sup> Chongqing Songzao Sembcorp Electric Power Co., Ltd              | People's Republic of China | 49.00                              | 49.00 |
| <b>Urban Development</b>   |                            |                                    |       |
| <sup>^^</sup> Vietnam Singapore Industrial Park J.V. Co., Ltd.               | Vietnam                    | 49.26                              | 47.37 |
| <sup>**</sup> Sino-Singapore Nanjing Eco Hi-tech Island Development Co., Ltd | People's Republic of China | 21.50                              | 21.50 |
| <sup>^^</sup> Sino-Singapore (Chengdu) Innovation Park Development Co., Ltd  | People's Republic of China | 25.00                              | 25.00 |
| <sup>***</sup> PT Kawasan Industri Kendal                                    | Indonesia                  | 49.00                              | 49.00 |
| <b>Name of key joint operations</b>  |                            |                                    |       |
| <b>Others</b>  |                            |                                    |       |
| <sup>###</sup> Sinohydro-Sembcorp Joint Venture                              | Singapore                  | 50.00                              | 50.00 |

The auditors of key associates, joint ventures and joint operations are as follows:

<sup>^^</sup> Audited by member firms of KPMG International.

<sup>^</sup> Audited by Ernst & Young Vietnam Limited.

<sup>#</sup> Audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company.

<sup>\*\*</sup> Audited by Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd, China.

<sup>###</sup> Audited by KPMG LLP, Singapore.

<sup>\*\*\*</sup> Audited by BDO Indonesia.

<sup>^^^</sup> Audited by PricewaterhouseCoopers LLC.

See Note 6 for details on pledge on the Company's interests in its joint ventures.



# Notes to the Financial Statements

Year ended December 31, 2017

## 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.



# Notes to the Financial Statements

Year ended December 31, 2017

## 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.

# Notes to the Financial Statements

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           |
| <b>Group</b>  |                         |                       |                   |                       |                   |
| <b>Non-current assets</b>                           |                         |                       |                   |                       |                   |
| 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        |
| <b>Current assets</b>                               |                         |                       |                   |                       |                   |
| 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         |
| <b>Total assets</b>                                 | 23,213,178              | 699,587               | 23,912,765        | (12,090)              | 23,900,675        |
| <b>Current liabilities</b>                          |                         |                       |                   |                       |                   |
| 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         |
| <b>Non-current liabilities</b>                      |                         |                       |                   |                       |                   |
| 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         |
| <b>Total liabilities</b>                            | 14,997,424              | 740,654               | 15,738,078        | (274)                 | 15,737,804        |
| <b>Net assets</b>                                   | 8,215,754               | (41,067)              | 8,174,687         | (11,816)              | 8,162,871         |
| <b>Equity attributable to owners of the Company</b> |                         |                       |                   |                       |                   |
| Other reserves                                      | (82,676)                | (3,037)               | (85,713)          | 119                   | (85,594)          |
| Revenue reserve                                     | 5,483,190               | (22,461) <sup>1</sup> | 5,460,729         | (11,581) <sup>2</sup> | 5,449,148         |
| Others  | 1,568,811               | –                     | 1,568,811         | –                     | 1,568,811         |
| <b>Non-controlling interests</b>                    | 1,246,429               | (15,569)              | 1,230,860         | (354)                 | 1,230,506         |
| <b>Total equity</b>                                 | 8,215,754               | (41,067)              | 8,174,687         | (11,816)              | 8,162,871         |

<sup>1</sup> 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.

<sup>2</sup> 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           |
| <b>Group</b>               |                              |                        |                   |
| <b>Turnover</b>            | 8,345,605                    | 658,312 <sup>3</sup>   | 9,003,917         |
| Cost of sales              | (7,399,538)                  | (369,291) <sup>3</sup> | (7,768,829)       |
| <b>Gross profit</b>        | 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)         |
| <b>Profit before tax</b>   | 312,103                      | 299,860                | 611,963           |
| Tax expense                | (67,391)                     | (50,382)               | (117,773)         |
| <b>Profit for the year</b> | 244,712                      | 249,478                | 494,190           |
| <b>Attributable to:</b>    |                              |                        |                   |
| Owners of the Company      | 230,772                      | 153,241                | 384,013           |
| Non-controlling interests  | 13,940                       | 96,237                 | 110,177           |
| <b>Profit for the year</b> | 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           |
| <b>Group</b>  |                              |            |                   |
| <b>Profit for the year</b>  | 244,712                      | 249,478    | 494,190           |
| <b>Items that may be reclassified subsequently to profit or loss:</b>     |                              |            |                   |
| Others  | (106,082)                    | –          | (106,082)         |
| <b>Items that may not be reclassified subsequently to profit or loss:</b> |                              |            |                   |
| Others  | 2,742                        | –          | 2,742             |
| <b>Total comprehensive income for the year</b>                            | 141,372                      | 249,478    | 390,850           |
| <b>Attributable to:</b>   |                              |            |                   |
| Owners of the Company   | 160,025                      | 153,241    | 313,266           |
| Non-controlling interests   | (18,653)                     | 96,237     | 77,584            |
| <b>Total comprehensive income for the year</b>                            | 141,372                      | 249,478    | 390,850           |

<sup>3</sup> 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.

# Notes to the Financial Statements

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 |            |                   |
|---|-------------------------|------------|-------------------|
|   | Current framework       | SFRS(I) 15 | SFRS(I) framework |
|   | S\$'000                 | S\$'000    | S\$'000           |
| <b>Company</b>                                      |                         |            |                   |
| <b>Non-current assets</b>                           | 3,346,706               | –          | 3,346,706         |
| <b>Current assets</b>                               | 870,327                 | –          | 870,327           |
| <b>Total assets</b>                                 | 4,217,033               | –          | 4,217,033         |
| <b>Current liabilities</b>                          |                         |            |                   |
| Current tax payable                                 | 49,746                  | (18)       | 49,728            |
| Others  | 153,581                 | –          | 153,581           |
|   | 203,327                 | (18)       | 203,309           |
| <b>Non-current liabilities</b>                      |                         |            |                   |
| Other long-term payables                            | 286,199                 | 1,162      | 287,361           |
| Others  | 68,704                  | –          | 68,704            |
|   | 354,903                 | 1,162      | 356,065           |
| <b>Total liabilities</b>                            | 558,230                 | 1,144      | 559,374           |
| <b>Net assets</b>                                   | 3,658,803               | (1,144)    | 3,657,659         |
| <b>Equity attributable to owners of the Company</b> |                         |            |                   |
| Revenue reserve                                     | 2,087,875               | (1,144)    | 2,086,731         |
| Others  | 1,570,928               | –          | 1,570,928         |
| <b>Total equity</b>                                 | 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.

# Notes to the Financial Statements

Year ended December 31, 2017

## 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.