Notes to the Financial Statements

Year ended December 31, 2018

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on March 4, 2019.

1. Domicile and Activities

Sembcorp Industries Ltd (the "Company") is a company incorporated in the Republic of Singapore and has its registered office at 30 Hill Street #05-04, Singapore 179360.

The Company's immediate and ultimate holding company is Temasek Holdings (Private) Limited, a company incorporated in the Republic of Singapore.

The financial statements comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in associates, joint ventures and joint operations.

The principal activities of the Company include:

a. investment holding, as well as the corporate headquarter which gives strategic direction and provides management services to its subsidiaries; and

b. production and supply of utilities services, terminalling and storage of petroleum products and chemicals.

The principal activities of key subsidiaries are as follows:

i. Utilities

The Utilities segment's principal activities are in the provision of energy and water to industrial, commercial and municipal customers. Key activities in the energy sector include power generation, process steam production, as well as natural gas importation. In the water sector, the business offers wastewater treatment as well as the production of reclaimed, desalinated and potable water and water for industrial use. In addition, the business also provides on-site logistics, solid waste management and specialised project management, engineering, and procurement services;

ii. Marine

The Marine segment focuses principally on providing integrated solutions for the offshore and marine industry. Key capabilities include rigs & floaters; repairs & upgrades; offshore platforms and specialised shipbuilding;

iii. Urban Development

The Urban Development segment owns, develops, markets and manages integrated urban developments comprising industrial parks as well as business, commercial and residential space in Asia; and

iv. Others / Corporate

The Others / Corporate segment comprises businesses mainly relating to minting, design and construction activities, offshore engineering and others.

2. Summary of Significant Accounting Policies

a. Basis of Preparation

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (International) (SFRS(I)) and International Financial Reporting Standards (IFRS). SFRS(I) are issued by the Accounting Standards Council, which comprise standards and interpretations that are equivalent to IFRSs issued by the International Accounting Standards Board.

All references to SFRS(I) and IFRS are subsequently referred to as SFRS(I) in these financial statements unless otherwise specified.

These are the Group's first financial statements prepared in accordance with SFRS(I), and SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)* and has been applied.

In the previous financial years, the financial statements were prepared in accordance with Financial Reporting Standards in Singapore (FRS). An explanation of how the transition to SFRS(I) and application of SFRS(I) 9 and SFRS(I) 15 have affected the reported financial positions of the Group and Company, and financial performance and cash flows of the Group is provided in Note 46.

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 million unless otherwise stated. '*' denotes financial information that is less than S$1 million. The financial statements have been prepared on the historical cost basis except as otherwise described in the accounting policies below.

The preparation of the financial statements in conformity with SFRS(I) 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 43.

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these financial statements and in preparing the opening SFRS(I) balance sheets as at January 1, 2017 for the purposes of the transition to SFRS(I), unless otherwise indicated.

b. Consolidation

i. Business Combinations

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.

Acquisitions from January 1, 2017

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.

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

b. Consolidation *(cont'd)*

i. Business Combinations *(cont'd)*

Acquisitions from January 1, 2017 *(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 before January 1, 2017

As part of transition to SFRS(I), the Group elected not to restate those business combinations that occurred before the date transition to SFRS(I), i.e. January 1, 2017. Goodwill arising from acquisitions before January 1, 2017 has been carried forward from the previous FRS framework as at the date of transition, as follows:

Acquisitions between January 1, 2004 and December 31, 2009

For acquisitions between January 1, 2004 and December 31, 2009, business combinations are accounted for using the purchase method, upon the adoption of FRS 103. Under the purchase method, the cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to profit or loss in the period of the acquisition.

Acquisitions prior to January 1, 2004

Prior to January 1, 2004, business combinations were accounted for either by the purchase method, or if they were between entities under common control, by the historical cost method similar to the pooling-of-interest method.

ii. Put Option with Non-controlling Interests

When an entity within the Group writes a put option with the non-controlling shareholders as part of the acquisition of a subsidiary for settlement in cash or in another financial asset, a put liability is recognised for the present value of the exercise price of the option. This creates an obligation or potential obligation for the entity to purchase its subsidiary's equity instruments (constitutes the Group's own equity in the consolidated financial statements) for cash or another financial asset.

When the non-controlling shareholders still have present access to the returns associated with the underlying ownership interests, the Group has chosen an accounting policy that the non-controlling shareholders continue to be recognised. Therefore, the present value of the option is recognised in equity. Subsequent to initial recognition of the financial liability, changes in the carrying amount of the financial liability is recognised within equity.

If the put option expires unexercised, then the charge to equity will be reversed and the financial liability will be derecognised. If the put option is exercised, then the charge to equity will be reversed and the financial liability will be derecognised and the acquisition accounting will be applied.

At the entity's level, the put option shall be accounted as embedded derivatives.

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

b. Consolidation *(cont'd)*

iii. Non-controlling Interests

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on a transaction-by-transaction basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value, unless another measurement basis is required by SFRS(I).

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 SFRS(I) 3. 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 financial asset at fair value through Other Comprehensive Income (OCI) 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.

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.

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.

ix. Impairment for Associates and Joint Ventures

An impairment loss in respect of an associate or joint venture shall be recognised if, and only if, the recoverable amount of the (associate or joint venture) investment is less than the carrying amount. An impairment loss is recognised in the profit or loss. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

b. Consolidation *(cont'd)*

x. 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.

xi. 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:

- Equity instruments designated as fair value through other comprehensive income (FVOCI) (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss) (2017: available for sale equity instruments);
- 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.

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.

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

c. Foreign Currencies *(cont'd)*

ii. Foreign Operations *(cont'd)*

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.

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.

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

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

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 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.

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.

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

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

vii. Depreciation *(cont'd)*

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.

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.

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

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.

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 Contracts

Long-term revenue and supplier contracts are fair valued using cash flow projections over the contractual period of 1 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).

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

f. Intangible Assets *(cont'd)*

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.

g. Financial Assets

i. Recognition and Initial Measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instruments.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and Subsequent Measurement

Policies applicable from January 1, 2018:

Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial Assets at Amortised Costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity Investments at FVOCI

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect on initial recognition to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The Group's equity investments are classified as FVOCI.

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

g. Financial Assets *(cont'd)*

ii. Classification and Subsequent Measurement *(cont'd)*

Policies applicable from January 1, 2018: *(cont'd)*

Financial Assets at FVTPL

All other financial assets not classified as measured at amortised costs or FVOCI as described above are measured at FVTPL. This includes derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI, as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business Model Assessment

The Group makes an assessment of the objective of the business model in which an asset is held because this best reflects the way the business is managed and information is provided to Management. The information considered includes:

- the stated policies and objectives for the respective financial assets and the operation of those policies in practice;
- how the performance of the respective financial assets is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model and how those risks are managed; and
- the frequency, volume and timing of disposals of investments in prior periods, the reasons for such disposals and its expectations about future activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of Whether Contractual Cash Flows are Solely Payments of Principal and Interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial assets contains a contractual term that could change the timing and amount of contractual cash flows that would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- prepayment features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

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

g. Financial Assets *(cont'd)*

ii. Classification and Subsequent Measurement *(cont'd)*

Policies applicable from January 1, 2018: *(cont'd)*

Subsequent Measurement and Gains and Losses

Financial Assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, see Note 2(i) for derivatives designated as hedging instruments.

Financial Assets at Amortised Costs

The assets are subsequently measured at amortised costs using the effective interest method. The amortised costs is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity Investment at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Policies applicable before January 1, 2018:

The Group classifies non-derivative financial assets into the following categories: financial assets at FVTPL; 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 FVTPL is irrevocable.

Financial Assets at FVTPL

A financial asset is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVTPL 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 FVTPL 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 FVTPL comprise unquoted securities that otherwise would have been classified as available-for-sale.

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.

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

g. Financial Assets *(cont'd)*

ii. Classification and Subsequent Measurement *(cont'd)*

Policies applicable from January 1, 2018: *(cont'd)*

Subsequent Measurement and Gains and Losses *(cont'd)*

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, trade and other receivables, including service concession receivables and excluding prepayments and advances to suppliers.

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).

iii. Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its balance sheet, but retains either all or substantially all of its risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheets, when and only when, the Group currently has a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

v. 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.

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

g. Financial Assets *(cont'd)*

vi. 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 from or at the direction of the grantor for the construction or upgrade services provided, and the right to receive cash only depends on the passage of time. Such financial assets are measured at fair value upon initial recognition and classified as financial assets 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)).

vii. Impairment

Policies applicable from January 1, 2018:

The Group recognises loss allowances for expected credit losses ("ECLs") on:

- financial assets measured at amortised costs; and
- contract assets (as defined in SFRS(I) 15).

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected credit life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

Simplified Approach

The Group applies the simplified approach to provide for ECLs for all trade receivables and contract assets without a significant financing component. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

General Approach

The Group applies the general approach to provide for ECLs on all the other financial assets (i.e. service concession receivables). Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without due costs or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If the credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

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

g. Financial Assets *(cont'd)*

vii. Impairment *(cont'd)*

Policies applicable from January 1, 2018: *(cont'd)*

General Approach (cont'd)

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

- the financial asset remains outstanding for more than the reasonable range of past due days, taking into consideration historical payment track records, current macroeconomics situation as well as the general industry trend.

The Group considers a contract asset to be in default when the customer is unlikely to pay its contractual obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised costs are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- breach of contract such as a default or past due outstanding for more than the reasonable range of past due days, taking into consideration historical payment track records, current macroeconomics situation as well as the general industry trend;

- the restructuring of a loan or advanced by the Group on terms that the Group would not consider otherwise;

- it is probable that the debtor will enter bankruptcy or other financial reorganisation or is having significant financial difficulty; or

- the disappearance of an active market for a security because of financial difficulties.

Presentation of loss allowance for ECLs in the balance sheet

Loss allowance for financial assets measured at amortised costs and contract assets are deducted from the gross carrying amount of these assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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

g. Financial Assets *(cont'd)*

vii. Impairment *(cont'd)*

Policies applicable before January 1, 2018:

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.

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.

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

g. Financial Assets *(cont'd)*

vii. Impairment *(cont'd)*

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.

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 FVTPL.

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, the economic relationship between the hedged item and the hedging instrument, including whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

Hedging relationships designated under FRS39 that were still existing as at December 31, 2017 are treated as continuing hedges and hedge documentations were aligned accordingly to the requirements of SFRS(I) 9.

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.

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

i. Hedging Activities *(cont'd)*

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.

When the hedged item is a non-financial item, 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, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. 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.

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

j. Inventories

i. Finished Goods and Spares

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.

ii. 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 advances received from customers are presented separately as contract liabilities.

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.

l. Impairment – Non-financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then, to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and as and when indicators of impairment occur.

i. Calculation of Recoverable Amount

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

ii. Reversals of Impairment

An impairment loss in respect of goodwill is not reversed, even if it relates to an impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or balance sheet date. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate or joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate or joint venture may be impaired.

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

m. Financial Liabilities

The Group initially recognises financial liabilities on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group classifies financial liabilities as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. These financial liabilities comprised interest-bearing borrowings, bank overdrafts, and trade and other payables and other long term payables (excludes deferred income, deferred grants, advance payments and long-term employee benefits).

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.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantively different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including non-cash transferred or liabilities assumed) is recognised in profit or loss.

n. 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.

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

n. Employee Benefits *(cont'd)*

ii. Defined Benefit Plans *(cont'd)*

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.

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.

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

n. Employee Benefits *(cont'd)*

vi. Equity and Equity-related Compensation Benefits

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.

For awards granted until 2017, the fair value of the compensation cost is measured at grant date and are then 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 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)*

n. 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. With effect from 2018, the liability takes into account the performance achieved for the year.

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.

o. 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.

p. 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.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, joint ventures and associates to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred tax reflects the consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

q. 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.

r. 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.

s. 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.

t. Revenue

Revenue is measured based on consideration specified in a contract with customer. The Group recognises revenue when it transfers control over a good or service to a customer.

i. Sale of Electricity, Utilities and Gases and Related Services

The sale of electricity, utilities and gas and the related services are determined to be a series of distinct goods satisfied over time. This is because the customers simultaneously receive and consume the benefits provided by the Group. Invoices are generated monthly based on the output delivered to the customers. The sales are made with a credit term of 30 days, typically, consistent with market practice.

Revenue from these sales are recognised based on price (including variable considerations) specified in the contracts. Variable considerations (e.g. off specification delivery) are reviewed and estimated monthly. A refund liability (included in provisions) is recognised for off specification delivery and outage, if any.

For 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, contract revenue contains a financing component. If the financing component is significant, the consideration is adjusted for the time value of money of the contracts.

t. Revenue *(cont'd)*

i. Sale of Electricity, Utilities and Gases and Related Services *(cont'd)*

Contract liability is recognised when advance from customers are received in relation to connection and capacity charges for delivery of utilities. The contract liability is transferred to profit or loss over the period stipulated in the contract.

If the payments received exceed the revenue recognised, a contact liability is recognised. If the Company has recognised revenue but not issued an invoice, the entitlement to the consideration is recognised as a contract asset if that entitlement is conditional on something other than the passage of time. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.

ii. Construction of Ships and Rigs, Conversion, Infrastructure and Related Engineering Services

The Group builds specialised assets for customer through fixed price contracts. Revenue is recognised when the control over the specialised asset has been transferred to the customer. At contract inception, the Group assesses whether the Group transfers control of the asset over time or at a point in time by determining if (a) its performance does not create an asset with an alternative use to the Group; and (b) the Group has an enforceable right to payment for performance completed to date.

The specialised asset has no alternative use for the Group due to contractual restriction, and the Group has enforceable rights to payment arising from the contractual terms. For these contracts, revenue is recognised over time by reference to the Group's progress towards completing the construction of the specialised asset. The stage of completion is typically assessed by reference to either surveys of work performed (output method), or the cost incurred to date relative to total estimated cost (input method) depending on which method commensurate with the pattern of transfer of control to the customer. Costs incurred that are not related to the contract or that do not contribute towards satisfying a performance obligation are excluded from the measure of progress and instead are expensed as incurred.

For certain contracts where the Group does not have enforceable right to payment, revenue is recognised only when the completed specialised asset is delivered to the customers and the customers have accepted it in accordance with the contract. On signing of the contract, customers are usually required to make an advance payment that is not refundable if the contract is cancelled. The advance payment is presented as contract liability.

The period between the transfer of the promised goods and payment by the customer may exceed one year. For such contracts, the Group recognises a financing component using a discount rate that reflect this as a separate financing transaction with the customer at contract inception. If the period between transfer and payment is one year or less, the Group elects the practical expedient not to adjust for significant financing component.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the profit or loss in the period in which the circumstances that give rise to the revision become known by management.

Depending on the terms of the contract, the percentage of completion of each contract is assessed by reference to surveys of work performed, or by reference to the ratio of contract costs incurred till date and total estimated contract costs.

Certain contracts include standard warranty terms as guarantee on the performance of the asset. The warranty is recognised as a provision, based on estimated claims made from historical data, 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.

The customer is invoiced on a milestone payment schedule. If the value of the goods transferred by the Group exceed the payments received, a contract asset is recognised. If the payments received exceed the value of the goods transferred, a contract liability is recognised.

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

t. Revenue *(cont'd)*

ii. Construction of Ships and Rigs, Conversion, Infrastructure and Related Engineering Services *(cont'd)*

For costs incurred in fulfilling the contract which are within the scope of another SFRS(I) (e.g. Inventories), these have been accounted for in accordance with those other SFRS(I). If these are not within the scope of another SFRS(I), the Group will capitalise these as contract costs assets only if (a) these cost relate directly to a contract or an anticipated contract which the Group can specifically identify; (b) these costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (c) these costs are expected to be recovered. Otherwise, such costs are recognised as an expense immediately.

Capitalised contract costs are subsequently amortised on a systematic basis as the Group recognises the related revenue over time. An impairment loss is recognised in the profit or loss to the extent that the carrying amount of capitalised contract costs exceeds the expected remaining consideration less any directly related costs not yet recognised as expenses.

iii. Repair and Related Engineering Services

Repair works are typically performed based on customer's specification and control is transferred progressively when the services are rendered. Revenue is recognised over time by reference to the progress towards completing the repair works. The stage of completion is typically assessed by reference to either surveys of work performed (output method), which is commensurate with the pattern of transfer of control to the customer. The related costs are recognised in profit or loss when they are incurred, unless they related to future performance obligation.

Invoices are generated based on the agreed billing milestone stipulated in the contracts or based on the amount certified by customers monthly.

Where the period between the satisfaction of a performance obligation and payment by a customer exceeds a year, the Group adjusts the transaction price with its customer and recognises a financing component. In adjusting for the financing component, the Group uses a discount rate that would reflect that of a separate financing transaction between the Group and its customer at contract inception. The Group has elected to apply the practical expedient not to adjust transaction price for the existence of significant financing component when the period between the transfer of control of good or service to a customer and the payment date is one year or less.

For contracts with variable considerations (i.e. liquidated damages), revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for possibility of delays of the projects. The Group reviews the progress of the projects at each reporting date and updates the transaction price accordingly.

If the value of the construction services rendered exceeds payments received from the customer, a contract asset is recognised. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional. If the amount on invoices issued exceed the revenue recognised, a contract liability is recognised.

Certain contracts include standard warranty terms as guarantee on the performance of the asset. The warranty is recognised as a provision, based on estimated claims made from historical data, 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.

iv. Service Concession Revenue

Revenue relating to construction services under a service concession arrangement is recognised over time, consistent with the Group's accounting policy on recognising revenue on construction contracts (see Note 2(t)(ii) above).

Operation or service revenue is recognised in the period in which the services are provided by the Group, consistent with the Group's accounting policy on recognising revenue on sale of electricity, utilities and gases and related services (see Note 2(t)(i) above). When the Group provides more than one service in a service concession arrangement, the consideration received is allocated with reference to the relative stand-alone selling prices of the services delivered.

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

t. Revenue *(cont'd)*

v. Services

Waste management and environmental management services

For the waste management and environmental services, the customer simultaneously receives and consumes the benefits as they are being provided. Invoices are generated monthly.

Revenue is recognised over time as the services are provided. The stage of completion is determined based on the output method (time lapsed or quantity of waste collected) which commensurate with the pattern of transfer of provision of services to the customers. The related costs are recognised in profit or loss when they are incurred.

For all revenue contracts with customers, the Group accounts for modifications to the scope or price of a contract as separate contracts if the modification adds distinct goods or services at their stand-alone selling prices. For contract modifications that add distinct goods or services but not at their stand-alone selling prices, the Group combines the remaining performance consideration in the original contract with the consideration promised on the modification to create a new transaction price that is then allocated to all remaining performance obligations to be satisfied. For contract modifications that do not add distinct goods or services, the Group accounts for the modification as continuation of the original contract and recognises as a cumulative adjustment to revenue at the date of the modification.

u. 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.

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. It includes interest income from non-current receivables.

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.

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

w. Leases *(cont'd)*

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 income, 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.

In calculating the interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the assets is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to gross basis.

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.

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.

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

aa. Assets (or Disposal Groups) Held For Sale

Non-current assets (or disposal groups) are classified as assets held for sale and measured at the lower of carrying amount and fair value less costs to sell if they are expected to be recovered principally through a sale transaction rather than through continuing use.

Any impairment losses on initial classification and subsequent gains or losses on re-measurement are recognised in profit or loss. Subsequent increases in fair value less costs to sell are recognised in profit or loss (not exceeding the accumulated impairment loss that has been previously recognised).

ab. Financial Guarantee Contracts

Financial guarantee contracts are accounted for as insurance contracts and treated as contingent liabilities until such time as they become probable that the Group and Company will be required to make a payment under the guarantee. A provision is recognised based on the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the guarantee contract.

ac. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Property, Plant and Equipment

(S$ million)	Note	Leasehold and freehold land, wet berthage and buildings	Improvements to premises	Quays and dry docks	Infrastructure	Plant and machinery	Marine vessels	Tools and workshop equipment	Furniture, fittings and office equipment	Motor vehicles	Capital work-in-progress	Total
Group												
Cost / Valuation												
Balance at January 1, 2018		1,771	67	1,513	184	9,575	279	64	201	93	1,252	14,999
Translation adjustments		(11)	*	4	(6)	(456)	3	*	(1)	*	(12)	(479)
Additions		5	*	8	9	81	1	3	7	5	1,027	1,146
Reclassification		81	*	*	(34)	749	–	*	2	*	(798)	–
Transfer from inventory		–	–	–	–	8	–	–	–	–	–	8
Transfer to investment properties	4	(5)	–	–	–	–	–	–	–	–	–	(5)
Disposals / Write-offs		(5)	(1)	*	–	(33)	–	*	(2)	(2)	(4)	(47)
Transfer to assets held for sale	11	–	*	–	–	(36)	–	–	*	–	–	(36)
Acquisition of subsidiaries	(iv)	1	–	–	–	367	–	–	–	1	42	411
Disposal of subsidiaries		(11)	*	–	(7)	(7)	–	–	(3)	(6)	(1)	(35)
Balance at December 31, 2018		1,826	66	1,525	146	10,248	283	67	204	91	1,506	15,962
Accumulated Depreciation and Impairment Losses												
Balance at January 1, 2018		512	51	293	41	2,631	60	57	145	51	–	3,841
Translation adjustments		*	*	*	(2)	(49)	1	*	*	*	–	(50)
Depreciation for the year	31(a)	58	2	47	11	388	11	4	18	8	–	547
Transfer to investment properties	4	(2)	–	–	–	*	–	–	*	–	–	(2)
Disposals / Write-offs		(1)	(1)	*	–	(18)	–	*	(2)	(2)	–	(24)
Transfer to assets held for sale	11	–	*	–	–	(9)	–	–	*	–	–	(9)
Disposal of subsidiaries		(3)	*	–	(3)	(6)	–	–	(2)	(4)	–	(18)
Impairment losses	31(a)	*	–	–	–	*	5	–	–	*	–	5
Balance at December 31, 2018		564	52	340	47	2,937	77	61	159	53	–	4,290
Carrying Amounts												
At January 1, 2018		1,259	16	1,220	143	6,944	219	7	56	42	1,252	11,158
At December 31, 2018		1,262	14	1,185	99	7,311	206	6	45	38	1,506	11,672

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

(S$ million)	Note	Leasehold and freehold land, wet berthage and buildings	Improvements to premises	Quays and dry docks	Infrastructure	Plant and machinery	Marine vessels	Tools and workshop equipment	Furniture, fittings and office equipment	Motor vehicles	Capital work-in-progress	Total
Group												
Cost / Valuation												
Balance at January 1, 2017		1,600	58	1,229	167	8,360	293	60	196	89	2,520	14,572
Translation adjustments		(12)	–	3	(6)	(64)	(14)	–	(1)	–	(2)	(96)
Additions		21	2	–	19	26	–	3	8	6	591	676
Reclassification		171	7	284	4	1,384	–	1	5	–	(1,856)	–
Transfer to intangible assets	12	–	–	–	–	–	–	–	–	–	(1)	(1)
Transfer to investment properties	4	(4)	–	–	–	–	–	–	–	–	–	(4)
Disposals / Write-offs		(2)	–	(3)	–	(12)	–	–	(6)	(2)	–	(25)
Transfer to assets held for sale	11	–	–	–	–	(121)	–	–	–	–	–	(121)
Acquisition of a subsidiary	(v)	–	–	–	–	4	–	–	–	–	–	4
Disposal of subsidiaries		(3)	–	–	–	(2)	–	–	(1)	–	–	(6)
Balance at December 31, 2017		1,771	67	1,513	184	9,575	279	64	201	93	1,252	14,999
Accumulated Depreciation and Impairment Losses												
Balance at January 1, 2017		464	46	255	27	2,275	51	52	132	44	–	3,346
Translation adjustments		(5)	–	–	(2)	(8)	(2)	–	(1)	–	–	(18)
Depreciation for the year	31(a)	56	5	39	13	373	11	5	20	8	–	530
Transfer to investment properties	4	*	–	–	–	–	–	–	–	–	–	*
Disposals / Write-offs		(1)	–	(1)	–	(9)	–	–	(6)	(1)	–	(18)
Transfer to assets held for sale	11	–	–	–	–	(21)	–	–	–	–	–	(21)
Impairment losses	(vi), 31(a)	–	–	–	3	23	–	–	–	–	–	26
Disposal of subsidiaries		(2)	–	–	–	(2)	–	–	–	–	–	(4)
Balance at December 31, 2017		512	51	293	41	2,631	60	57	145	51	–	3,841
Carrying Amounts												
At January 1, 2017		1,136	12	974	140	6,085	242	8	64	45	2,520	11,226
At December 31, 2017		1,259	16	1,220	143	6,944	219	7	56	42	1,252	11,158

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

(S$ million)	Note	Leasehold and freehold land, wet berthage and buildings	Improvements to premises	Quays and dry docks	Plant and machinery	Furniture, fittings and office equipment	Motor vehicles	Capital work-in-progress	Total
Company									
Cost									
Balance at January 1, 2018		20	8	8	709	16	2	4	767
Additions		*	*	*	5	1	*	36	42
Reclassification		–	–	–	1	*	–	(1)	–
Transfer from Inventory		–	–	–	1	–	–	–	1
Disposals		*	*	*	(2)	*	*	–	(2)
Transfer to assets held for sale	11	–	*	–	(36)	–	–	–	(36)
Balance at December 31, 2018		20	8	8	678	17	2	39	772
Accumulated Depreciation and Impairment Losses									
Balance at January 1, 2018		10	8	4	383	14	1	–	420
Depreciation for the year		1	*	*	32	1	*	–	34
Transfer to assets held for sale	11	–	*	–	(9)	–	–	–	(9)
Disposals		*	*	*	(1)	*	*	–	(1)
Balance at December 31, 2018		11	8	4	405	15	1	–	444
Carrying Amounts									
At January 1, 2018		10	–	4	326	2	1	4	347
At December 31, 2018		9	–	4	273	2	1	39	328
Cost									
Balance at January 1, 2017		20	8	8	819	19	2	2	878
Additions		–	*	–	11	1	–	4	16
Reclassification		–	–	–	2	*	–	(2)	–
Transfer to intangible assets	12	–	–	–	–	–	–	*	*
Disposals		*	*	–	(2)	(4)	–	–	(6)
Transfer to assets held for sale	11	–	–	–	(121)	–	–	–	(121)
Balance at December 31, 2017		20	8	8	709	16	2	4	767
Accumulated Depreciation and Impairment Losses									
Balance at January 1, 2017		9	7	4	343	16	1	–	380
Depreciation for the year		1	1	*	39	2	*	–	43
Transfer to assets held for sale	11	–	–	–	(21)	–	–	–	(21)
Disposals		*	*	–	(1)	(4)	–	–	(5)
Impairment losses	(vi)	*	–	–	23	–	–	–	23
Balance at December 31, 2017		10	8	4	383	14	1	–	420
Carrying Amounts									
At January 1, 2017		11	1	4	476	3	1	2	498
At December 31, 2017		10	–	4	326	2	1	4	347

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:

		Group		
(S$ million)	Note	December 31, 2018	December 31, 2017	January 1, 2017
Freehold land and buildings		**105**	110	89
Leasehold land and buildings		**33**	40	41
Plant and machinery		**4,484**	4,674	3,909
Capital work-in-progress		**159**	105	880
Other assets		**46**	54	54
	23(a)	**4,827**	4,983	4,973

ii. In 2018, no assets were acquired under finance lease (2017: net book value of S$1 million; January 1, 2017: net book value of S$1 million).

iii. During the year, interest and direct staff costs amounting to S$51 million (2017: S$66 million) and S$8 million (2017: S$13 million), respectively were capitalised as capital work-in-progress. Included in these amount are capitalised interest costs calculated using a capitalisation rate from 1.92% to 4.75% (2017: 1.20% to 6.50%).

iv. Property, plant and equipment arising from the acquisition of subsidiaries was at fair value at the acquisition date.

v. The existing 5-year time charter contract of the Group's marine accommodation vessel ended during the year. 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 the expected renewal rates based on prevailing market conditions. The renewal rates have been adjusted assuming a certain level of discount from the current contractual rates but another 2% inflationary adjustment has been factored 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 the 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 12.66% (2017: 9.55%). Based on the Group's assessment of the recoverable amount of the marine accommodation vessel which amounted to S$196 million, an impairment loss of S$5 million (2017: nil) was recognised in the current year's profit or loss. The above assumptions are inherently judgemental. Any unfavourable changes to the above assumptions would lead to additional impairment.

vi. 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 (if relevant). Accordingly, an impairment loss in relation to these boilers amounting to S$23 million was recognised in the 2017's cost of sales.

In 2017, due to weakened margin from a plant in the Utilities business segment in Americas, the Group tested the related asset for impairment and recognised an impairment loss of S$3 million with respect to plant and equipment. The recoverable amount of the plant of S$26 million 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 2017's cost of sales.

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

vii. During the year, property, plant and equipment included additional provision for restoration costs amounting to S$4 million (2017: S$21 million) (Note 20).

viii. 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, 2018, 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, 2018, as the alienation of this leasehold land is in progress (approved by the Chief Minister and awaiting final approval of the Group of Ministers).

ix. 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, 2018, the requisite land title has not been transferred to SLYG. No impairment, revision of useful life or provision for restoration cost has been recorded.

x. During the year, Sembcorp Energy India Limited (SEIL) Project 1's Unit 1 was shut down due to the breakdown of one of its major electrical components. Subsequent to the year end, the electrical component has been replaced. The detailed technical assessment of the breakdown by external experts are currently ongoing. Management's assessment of the implication and extent of the damage is in progress. Accordingly, no impairment, revision of useful life, or provision for additional costs has been determined or recorded as at December 31, 2018.

xi. Property, plant and equipment are assessed for impairment, where indicators of impairment exist. Please refer to Note 12 for the key assumptions and risk factors in relation to discounted cash flow projection used by the Group to determine the recoverable amounts of property, plant and equipment within the Group's CGUs where goodwill has been allocated and is monitored.

Company

xii. 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 S$nil as at December 31, 2017. Accordingly, an impairment loss in relation to these boilers amounting to S$23 million was recognised in 2017's cost of sales.

xiii. During the year, there was no additional provision for restoration costs included in property plant and equipment (2017: S$2 million) (Note 20).

Change in estimates

As part of the Group's transformation and yard consolidation strategy in the Marine business segment, the Group is scheduled to move out completely from its yard at Tanjong Kling Road ("Tanjong Kling Yard") by end 2019 and return the yard to the Government ahead of its original schedule. Accordingly, the Group has revised its estimates for the useful lives of certain assets at Tanjong Kling Yard in 2018. The effect of these changes on depreciation expense in current and future periods on assets currently held is as follows:

(S$ million)	2018	2019	2020	2021	2022	Later
Group						
Increase / (decrease) in depreciation expense and decrease / (increase) in profit before tax	11	44	(10)	(9)	(9)	(27)

4. Investment Properties

(S$ million)	Note	Group Investment properties	Investment properties work-in-progress	Total
Cost				
Balance at January 1, 2018		45	63	108
Translation adjustments		*	(3)	(3)
Additions		*	20	20
Transfer from property, plant and equipment	3	5	–	5
Balance at December 31, 2018		50	80	130
Accumulated Depreciation and Impairment Losses				
Balance at January 1, 2018		17	–	17
Translation adjustments		*	–	*
Depreciation for the year	31(a)	1	–	1
Transfer from property, plant and equipment	3	2	–	2
Balance at December 31, 2018		20	–	20
Carrying Amounts				
At January 1, 2018		28	63	91
At December 31, 2018		30	80	110
Cost				
Balance at January 1, 2017		36	41	77
Translation adjustments		–	(1)	(1)
Additions		2	26	28
Transfer from property, plant and equipment	3	4	–	4
Reclassification		3	(3)	–
Balance at December 31, 2017		45	63	108
Accumulated Depreciation and Impairment Losses				
Balance at January 1, 2017		16	–	16
Translation adjustments		*	–	–
Depreciation for the year	31(a)	1	–	1
Transfer from property, plant and equipment		*	–	–
Balance at December 31, 2017		17	–	17
Carrying Amounts				
At January 1, 2017		20	41	61
At December 31, 2017		28	63	91

4. Investment Properties *(cont'd)*

The following amounts are recognised in profit or loss:

(S$ million)	Group December 31, 2018	December 31, 2017
Rental income	**8**	7
Operating expenses arising from rental of investment properties	**5**	5

The fair value of the investment properties as at the balance sheet date is S$154 million (2017: S$153 million; January 1, 2017: S$91 million). 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$nil (2017: S$39 million; January 1, 2017: S$40 million) have been pledged to secure loan facilities.

5. Investment in Subsidiaries

(S$ million)	Company December 31, 2018	December 31, 2017	January 1, 2017
At cost and carrying value:			
Quoted equity shares	**739**	739	739
Unquoted equity shares	**1,616**	1,616	1,414
Preference shares	**288**	288	288
Share-based payments reserve	**4**	6	3
	2,647	2,649	2,444

The fair value of the equity interest of the listed subsidiary, with a carrying amount of S$739 million (2017: S$739 million; January 1, 2017: S$739 million), amounts to S$1,962 million (2017: S$2,345 million; January 1, 2017: S$1,758 million) based on the last transacted market price on the last transaction day of the year.

Details of key subsidiaries are set out in Note 44.

6. Associates and Joint Ventures

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Associates and joint ventures		**1,683**	1,711	1,698
Loan to an associate	(a)	**58**	54	48
		1,741	1,765	1,746

In 2018, the Group received dividends of S$236 million (2017: S$155 million) from its investments in associates and joint ventures.

The carrying value includes goodwill on acquisition as follows:

(S$ million)	Group 2018	Group 2017
Balance at January 1	**2**	2
Goodwill on acquisition	**1**	–
Balance at December 31	**3**	2

a. On adoption of SFRS(I) 9, the loan is classified as financial assets at amortised cost. Allowance for impairment on this loan is insignificant.

The loan to an associate is unsecured, bears interest at 8.5% per annum and have no fixed terms of repayment. The settlement of the amount is neither planned nor likely to occur in the foreseeable future and hence the loan is classified as non-current.

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, 2018 and 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:

(S$ million)	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Carrying amount	**415**	503	471
Profit / (Loss) for the year	**26**	35	(7)
Other comprehensive income	**7**	31	(4)
Total comprehensive income	**33**	66	(11)

The fair value of the equity interest of a listed associate amounts to S$240 million (2017: S$309 million; January 1, 2017: S$328 million) based on the last transacted market price on the last transaction day of the year.

In 2017, the Group recognised an impairment loss of S$4 million representing the entire carrying amount of one of the Group's associates as management has assessed that the commercial viability of the business is highly unlikely in the foreseeable future and the value-in-use of its assets is estimated to be S$nil as at December 31, 2017. The impairment losses on associates were recorded in non-operating expenses. No such impairment losses were recognised in 2018.

6. Associates and Joint Ventures *(cont'd)*

Joint Ventures

The Group has one (2017: nil) joint venture that is material and a number of joint ventures that are individually immaterial to the Group. All are equity accounted. Summarised financial information of the material joint venture is presented as follows:

(S$ million)	Vietnam Singapore Industrial Park JV Co
December 31, 2018	
Revenue	418
Profit for the year[a]	114
Other comprehensive income	–
Total comprehensive income	114
Attributable to non-controlling interests	12
Attributable to investee's shareholders	102

a. Includes depreciation and amortisation of S$6 million, finance income of S$7 million, finance cost of S$1 million and income tax expense of S$29 million

Non-current assets	153
Current assets[b]	737
Non-current liabilities[c]	(170)
Current liabilities[d]	(268)
Non-controlling interests	(73)
Net assets	379

b. Includes cash and cash equivalents of S$179 million

c. Includes non-current financial liabilities (excluding trade and other payables and provisions) of S$156 million

d. Includes current financial liabilities (excluding trade and other payables and provisions) of S$49 million

6. Associates and Joint Ventures *(cont'd)*

Joint Ventures *(cont'd)*

(S$ million)	Vietnam Singapore Industrial Park JV Co	Individually immaterial joint ventures	Total
December 31, 2018			
Group's interest in net assets of investees at beginning of the year	240	1,022	1,262
Group's share of:			
Profit from continuing operations	52	96	148
Other comprehensive income	–	24	24
Total comprehensive income	52	120	172
Dividends received during the year	(96)	(120)	(216)
Translation during the year	(3)	(29)	(32)
Addition during the year, net of disposal	–	82	82
Carrying amount of interest in investees at end of the year	193	1,075	1,268

December 31, 2017	
Revenue	337
Profit for the year[a]	85
Total comprehensive income	85
Attributable to non-controlling interests	6
Attributable to investee's shareholders	79

a. Includes depreciation and amortisation of S$8 million, finance income of S$4 million, finance cost of S$1 million and income tax expense of S$21 million

Non-current assets	140
Current assets[b]	666
Non-current liabilities[c]	(135)
Current liabilities[d]	(134)
Non-controlling interests	(67)
Net assets	470

b. Includes cash and cash equivalents of S$174 million

c. Includes non-current financial liabilities (excluding trade and other payables and provisions) of S$122 million

d. Includes current financial liabilities (excluding trade and other payables and provisions) of S$33 million

6. Associates and Joint Ventures *(cont'd)*

Joint Ventures *(cont'd)*

(S$ million)	Vietnam Singapore Industrial Park JV Co	Individually immaterial joint ventures	Total
December 31, 2017			
Group's interest in net assets of investees at beginning of the year	259	1,016	1,275
Group's share of:			
Profit from continuing operations	40	89	129
Other comprehensive income	–	23	23
Total comprehensive income	40	112	152
Dividends received during the year	(46)	(91)	(137)
Translation during the year	(13)	(30)	(43)
Addition during the year, net of disposal	–	15	15
Carrying amount of interest in investees at end of the year	240	1,022	1,262

The Group's share of the capital commitments of the joint ventures at the balance sheet date amounted to S$405 million (2017: S$493 million; January 1, 2017: S$271 million).

The Group's interest in joint ventures with total carrying amount of S$83 million (2017: S$86 million; January 1, 2017: S$55 million) as at balance sheet date has been pledged to banks to secure credit facilities granted to the joint venture entities.

7. Other Financial Assets

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Non-current Assets				
Available-for-sale financial assets:				
– Equity shares	(a)	**–**	122	151
– Unit trusts and funds	(b)	**–**	11	10
		–	133	161
Financial assets at fair value through other comprehensive income:				
– Equity shares	(d)	**108**	–	–
Financial assets at fair value through profit or loss:				
– Cross currency swaps		**8**	6	11
– Interest rate swaps		*****	*	*
– Foreign exchange option contracts		*****	*	–
– Unit trusts and funds		**15**	–	–
		23	6	11
Hedge of net investment in foreign operations:				
– Cross currency swaps		**–**	–	13
– Forward foreign exchange contracts		**26**	–	–
		26	–	13
Cash flow hedges:				
– Forward foreign exchange contracts		**1**	24	13
– Fuel oil swaps		*****	8	2
– Interest rate swaps		**2**	*	1
– Cross currency swaps		**77**	4	–
		80	36	16
At amortised cost:				
– Long-term fixed deposits		**25**	–	–
		262	175	201

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

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Current Assets				
Available-for-sale financial assets:				
– Unit trusts and funds	(b)	**–**	56	33
Financial assets at fair value through profit or loss:				
– Forward foreign exchange contracts		**–**	*	19
– Foreign exchange swap contracts		**5**	1	*
– Electricity futures market contract		**–**	–	*
– Commodity swap		*****	2	–
– Unit trusts and funds	(c)	**56**	–	–
		61	3	19
Hedge of net investment in foreign operations:				
– Cross currency swaps		**–**	14	–
Cash flow hedges:				
– Forward foreign exchange contracts		**13**	33	34
– Fuel oil swaps		**7**	35	28
– Interest rate swaps		*****	*	2
– Cross currency swap		**13**	–	–
– Electricity futures market contracts		**1**	–	–
		34	68	64
Fair value hedges:				
– Forward foreign exchange contracts		**–**	1	4
		95	142	120

a. In 2017, the cumulative fair value loss of available-for-sale financial assets of S$2 million previously recorded in equity was reclassified to profit or loss, when the available-for-sale financial assets were impaired.

b. In 2017, included in unit trusts and funds are amounts of S$54 million (January 1, 2017: S$32 million) pledged to secure loan facilities.

c. Included in unit trust and funds are amounts of S$55 million pledged to secure loan facilities.

d. At January 1 2018, the Group designated equity investments as FVOCI because these equity investments represent investments that the Group intends to hold for the long-term strategic purposes. In 2017, these investments were classified as available-for sale.

8. Trade and Other Receivables

(S$ million)	Note	December 31, 2018 Non-current	December 31, 2018 Current	December 31, 2018 Total	December 31, 2017 Non-current	December 31, 2017 Current	December 31, 2017 Total	January 1, 2017 Non-current	January 1, 2017 Current	January 1, 2017 Total
Group										
Trade receivables		**965**	**1,252**	**2,217**	113	1,283	1,396	3	1,134	1,137
Service concession receivables	(a)	**1,061**	**13**	**1,074**	881	12	893	461	12	473
Amounts due from related parties	10	**40**	**128**	**168**	62	53	115	142	46	188
Staff loans		**–**	*****	*****	–	*	*	–	*	*
Deposits		**77**	**13**	**90**	39	49	88	59	17	76
Sundry receivables	(b)	**–**	**94**	**94**	–	103	103	8	142	150
Unbilled receivables	(c)	**–**	**422**	**422**	–	415	415	–	375	375
Loan receivables	(e)	**137**	**209**	**346**	–	4	4	–	4	4
Recoverables		**–**	**22**	**22**	–	26	26	1	29	30
Interest receivables		**–**	**7**	**7**	–	6	6	–	8	8
Dividend receivables		**–**	**–**	**–**	–	*	*	–	110	110
		2,280	**2,160**	**4,440**	1,095	1,951	3,046	674	1,877	2,551
Loss allowance (2017: Allowance for doubtful trade and other receivables)	(g)	**(10)**	**(197)**	**(207)**	(1)	(205)	(206)	(9)	(226)	(235)
Financial assets at amortised costs (2017: Loan and receivables)	39	**2,270**	**1,963**	**4,233**	1,094	1,746	2,840	665	1,651	2,316
Prepayments	(f)	**79**	**105**	**184**	87	74	161	69	77	146
Employee defined benefit asset	22	*****	**–**	*****	3	–	3	–	–	–
Advances to suppliers		**–**	**221**	**221**	–	274	274	–	278	278
		2,349	**2,289**	**4,638**	1,184	2,094	3,278	734	2,006	2,740
Company										
Trade receivables		**–**	**26**	**26**	–	42	42	–	98	98
Amounts due from related parties	10	**268**	**11**	**279**	221	9	230	200	5	205
Deposits		**–**	**2**	**2**	–	2	2	–	2	2
Sundry receivables	(b)	**–**	**–**	**–**	–	1	1	–	–	–
Unbilled receivables	(c)	**–**	**53**	**53**	–	80	80	–	81	81
Recoverables		**–**	**1**	**1**	–	5	5	–	1	1
		268	**93**	**361**	221	139	360	200	187	387
Loss allowance (2017: Allowance for doubtful trade and other receivables)	(g)	**–**	**–**	**–**	–	(2)	(2)	–	(20)	(20)
Financial assets at amortised costs (2017: Loan and receivables)	39	**268**	**93**	**361**	221	137	358	200	167	367
Prepayments	(f)	**5**	**3**	**8**	5	2	7	6	4	10
Advance to suppliers		**–**	**–**	**–**	–	2	2	–	–	–
		273	**96**	**369**	226	141	367	206	171	377

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 subsidiaries 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$181 million and S$9 million (2017: S$453 million and S$54 million) accordingly for the service concession arrangements in Myanmar and Bangladesh. All of these arrangements fall within the scope of SFRS(I) INT 12. The construction of the power plant in Myanmar was completed during the year.

The significant aspects of the service concession arrangements are as follows:

i. The subsidiaries will receive a minimum guaranteed sum from the grantors in exchange for services performed. The subsidiaries recognised these as financial receivables as they have contractual rights under the concession arrangements. The financial receivables are measured on initial recognition at their fair values, representing the present value of the guaranteed annual payments to be received from the grantor, discounted at interest rates ranging from 3.62% to 17.0%;

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

iii. Upon expiry of the concession arrangements, the assets are to be transferred to the local governments between 2024 to 2041. Any extension will be based on mutual agreement.

As at December 31, 2018, management is currently financing the land lease agreement with the relevant authority for the power plant constructed in Myanmar. 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 land lease agreement not being finalised.

b. Sundry Receivables

Sundry receivables represent mainly other receivables, GST receivables and sales consideration receivable from the divestment of a joint venture in December 2016. The sales consideration receivables from the divestment of a joint venture were received in 2017.

8. Trade and Other Receivables *(cont'd)*

c. Unbilled Receivables

Unbilled receivables represent revenue accrued for sale of utilities commodities and services. Included in the Company's unbilled receivables are amounts of S$17 million (2017: S$45 million; January 1, 2017: S$45 million) due from related companies.

d. Trade and Other Receivables

Trade and other receivables of S$1,285 million (2017: S$1,080 million; January 1, 2017: S$721 million) have been pledged to secure loan facilities. Included in the pledged amount is S$390 million (2017: S$216 million; January 1, 2017: nil) that relates to the underlying assets of the service concession arrangements.

e. Loan Receivables

The non-current loan receivables relates to loan extended to a customer. The loan bears interest at Libor plus 4% margin per annum upon physical delivery of a vessel to the customer, is unsecured and repayable after 2019.

f. Prepayments

Prepayments are charged to profit or loss on a straight-line basis over the prepaid period. They relate primarily to:

Group

i. Connection fees prepaid under the Generation Connection and Use of System Agreement for the use of the transmission lines to a related corporation amounted to S$26 million (2017: S$28 million; January 1, 2017: S$30 million);

ii. Service fees prepaid under the Gasoil Supply and Storage Agreement for the usage of the tank; and

iii. Capacity charges prepaid for the use of gas delivery pipelines, prepaid insurance premium, transport tariff recoverable and maintenance of plant.

Company

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

8. Trade and Other Receivables *(cont'd)*

g. The impairment losses on financial assets at amortised costs (2017: loans and receivables) are as follow:

(S$ million)	Note	December 31, 2018			December 31, 2017			January 1, 2017		
		Gross	Impairment	Net	Gross	Impairment	Net	Gross	Impairment	Net
Group										
Trade receivables		**2,217**	**(176)**	**2,041**	1,395	(189)	1,206	1,137	(205)	932
Amounts due from related parties	10	**168**	**(8)**	**160**	115	(6)	109	188	(6)	182
Other receivables		**2,055**	**(23)**	**2,032**	1,536	(11)	1,525	1,226	(24)	1,202
		4,440	**(207)**	**4,233**	3,046	(206)	2,840	2,551	(235)	2,316
Company										
Trade receivables		**26**	**–**	**26**	42	(2)	40	98	(20)	78
Amounts due from related parties	10	**279**	**–**	**279**	230	–	230	205	–	205
Other receivables		**56**	**–**	**56**	88	–	88	84	–	84
		361	**–**	**361**	360	(2)	358	387	(20)	367

9. Contract Assets

(S$ million)	Group		
	December 31, 2018	December 31, 2017	January 1, 2017
Contract assets	**1,022**	661	453

(S$ million)	Company		
	December 31, 2018	December 31, 2017	January 1, 2017
Contract assets	**10**	–	–

The contract assets mainly relates to the Group's conditional rights to consideration for work completed but not yet billed at reporting date on the long-term contracts for ship and rig building, conversion and repair; and infrastructure construction. The contract assets are transferred to trade receivables when the rights become unconditional. Significant changes in the contract assets balances during the period are as follows:

(S$ million)	Group		Company	
	2018	2017	2018	2017
Transfer of contract assets recognised at the beginning of the year to trade receivables	**(460)**	(368)	**–**	–
Recognition of revenue, net of transfer to trade receivables during the year	**818**	577	**10**	–
Cumulative catch-up adjustments arising from:				
– Changes in measurement of progress	**2**	*	**–**	–
– Contract modifications	**1**	*	**–**	–

10. Amounts Due from Related Parties

(S$ million)	Note	Associates December 31, 2018	Associates December 31, 2017	Associates January 1, 2017	Joint ventures December 31, 2018	Joint ventures December 31, 2017	Joint ventures January 1, 2017	Related companies December 31, 2018	Related companies December 31, 2017	Related companies January 1, 2017	Total December 31, 2018	Total December 31, 2017	Total January 1, 2017
Group													
Amounts due from:													
Trade		**5**	7	3	**11**	13	11	**23**	9	7	**39**	29	21
Non-trade		**1**	2	3	**88**	19	7	*****	–	–	**89**	21	10
Loans		**–**	–	–	**40**	65	145	**–**	–	12	**40**	65	157
	8	**6**	9	6	**139**	97	163	**23**	9	19	**168**	115	188
Loss allowance (2017: Allowance for doubtful receivables)		**(1)**	(2)	(1)	**(6)**	(4)	(5)	**(1)**	–	–	**(8)**	(6)	(6)
		5	7	5	**133**	93	158	**22**	9	19	**160**	109	182
Amount due within 1 year		**(5)**	(7)	(5)	**(94)**	(32)	(17)	**(22)**	(9)	(19)	**(121)**	(48)	(41)
		–	–	–	**39**	61	141	**–**	–	–	**39**	61	141

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

The loans to joint ventures of S$39 million (2017: S$61 million; January 1, 2017: S$141 million) are unsecured, not expected to be repaid in the next 12 months and bear interest rates ranging from 1.03% to 4.43% (2017: 0.75% to 3.36%; January 1, 2017: 0.67% to 2.99%) per annum. The remaining balance is repayable in the next 12 months.

(S$ million)	Note	Subsidiaries December 31, 2018	Subsidiaries December 31, 2017	Subsidiaries January 1, 2017	Total December 31, 2018	Total December 31, 2017	Total January 1, 2017
Company							
Amounts due from related parties	8	**279**	230	205	**279**	230	205
Amount due within 1 year	8	**(11)**	(9)	(5)	**(11)**	(9)	(5)
	8	**268**	221	200	**268**	221	200

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

The loans to related parties of S$268 million (2017: S$221 million; January 1, 2017: S$200 million) are unsecured, not expected to be repaid in the next 12 months and bear interest rates ranging from 3.24% to 4.75% (2017: 3.70% to 4.75%; January 1, 2017: 4.75%) per annum.

11. Assets Held for Sale

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Property, plant and equipment	3, (a)	**127**	100	–
Interest in associate	(b)	**2**	–	182
		129	100	182

(S$ million)	Note	Company December 31, 2018	Company December 31, 2017	Company January 1, 2017
Property, plant and equipment	3, (a)	**127**	100	–

11. Assets Held for Sale *(cont'd)*

a. 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). On August 8, 2018, the sale and purchase agreement was amended to sell additional utilities assets to the customer for a consideration of US$30 million (approximately S$41 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, 2018 and December 31, 2017 respectively. The sale is expected to be completed by 2019.

b. On January 15, 2019, the Group's subsidiaries, Sembcorp Marine Repairs and Upgrades Pte. Ltd. (SMRU) and Semb-Eco Pte. Ltd. (Semb-Eco) entered into a share swap agreement with Ecospec Global Technology Pte. Ltd. (EGT) and its shareholders. Consequently, EGT will cease to be an associate of the Group.

12. Intangible Assets

(S$ million)	Note	Goodwill	Service concession arrangements	Long-term contracts	Intellectual property rights	Water rights	Others	Total
Group								
Cost								
Balance at January 1, 2018		224	155	94	229	10	41	753
Translation adjustments		(18)	(10)	(18)	–	–	5	(41)
Additions		–	3	–	–	–	17	20
Acquisition of subsidiaries		93	–	153	55	–	–	301
Disposal of subsidiary		–	(64)	–	–	–	(3)	(67)
Write-off	31(a)	(1)	–	–	–	–	–	(1)
Balance at December 31, 2018		298	84	229	284	10	60	965
Accumulated Amortisation and Impairment Losses								
Balance at January 1, 2018		26	54	11	56	–	25	172
Translation adjustments		–	(3)	(1)	–	–	–	(4)
Amortisation charge for the year	31(a)	–	7	8	22	–	10	47
Disposal of subsidiary		–	(27)	–	–	–	(2)	(29)
Impairment losses	31(c)	1	–	–	–	–	–	1
Write-off	31(a)	(1)	–	–	–	–	–	(1)
Balance at December 31, 2018		26	31	18	78	–	33	186
Carrying Amounts								
At January 1, 2018		198	101	83	173	10	16	581
At December 31, 2018		272	53	211	206	10	27	779

12. Intangible Assets *(cont'd)*

(S$ million)	Note	Goodwill	Service concession arrangements	Long-term contracts	Intellectual property rights	Water rights	Others	Total
Group								
Cost								
Balance at January 1, 2017		225	152	95	229	11	31	743
Translation adjustments		(1)	–	(1)	–	(1)	–	(3)
Additions		–	3	–	–	–	10	13
Transfer from property, plant and equipment	3	–	–	–	–	–	1	1
Disposals		–	–	–	–	–	(1)	(1)
Write-off	31(a)	–	*	–	–	–	–	*
Balance at December 31, 2017		224	155	94	229	10	41	753
Accumulated Amortisation and Impairment Losses								
Balance at January 1, 2017		–	46	7	37	–	16	106
Translation adjustments		–	–	–	–	–	–	–
Amortisation charge for the year	31(a)	–	8	4	19	–	9	40
Disposals		–	–	–	–	–	*	*
Impairment losses	31(c)	26	–	–	–	–	–	26
Write-off	31(a)	–	*	–	–	–	–	*
Balance at December 31, 2017		26	54	11	56	–	25	172
Carrying Amounts								
At January 1, 2017		225	106	88	192	11	15	637
At December 31, 2017		198	101	83	173	10	16	581

Intangible assets of less than S$1 million (2017: S$1 million; January 1, 2017: S$2 million) have been pledged to secure loan facilities.

12. Intangible Assets *(cont'd)*

(S$ million)	Goodwill	Others	Total
Company			
Cost			
Balance at January 1, 2018	19	15	34
Additions	–	3	3
Balance at December 31, 2018	19	18	37
Accumulated Amortisation and Impairment Losses			
Balance at January 1, 2018	–	9	9
Amortisation charge for the year	–	4	4
Balance at December 31, 2018	–	13	13
Carrying Amounts			
At January 1, 2018	19	6	25
At December 31, 2018	19	5	24
Cost			
Balance at January 1, 2017	19	11	30
Transfer from property, plant and equipment	–	*	*
Additions	–	4	4
Balance at December 31, 2017	19	15	34
Accumulated Amortisation and Impairment Losses			
Balance at January 1, 2017	–	7	7
Amortisation charge for the year	–	2	2
Balance at December 31, 2017	–	9	9
Carrying Amounts			
At January 1, 2017	19	4	23
At December 31, 2017	19	6	25

Amortisation

The amortisation of intangible assets is analysed as follows:

	Group	
(S$ million)	December 31, 2018	December 31, 2017
Cost of sales	**41**	36
Administrative expenses	**6**	4
Total	**47**	40

12. Intangible Assets *(cont'd)*

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 SFRS(I) INT 12. In 2018, the subsidiaries in South Africa which have service concession agreements have been disposed.

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.

Long-term Contracts

India

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.

United Kingdom (UK)

The subsidiaries in the UK acquired in 2018, have contracted with the National Grid of the UK to generate electricity through a portfolio of diesel and gas generators in multiple sites across the UK and supplier contracts with tenures ranging from 1 to 15 years. The majority of these contracts provide fixed rate cash flows relating to plant availability (Capacity Market contracts). Please refer to Note 43 for information with respect to the suspension of the Great Britain Capacity Market Scheme.

12. Intangible Assets *(cont'd)*

Intellectual Property Rights

Intellectual property rights relate to acquired patents for the Jurong Espadon Drillship, Satellite Services Platform offshore designs, re-deployable modularised LNG and LPG solutions, and all of Sevan Marine ASA and HiLoad LNG ASA intellectual property rights.

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.

Other Intangible Assets

Other intangible assets comprise carbon allowances, software, development rights and golf club membership.

Goodwill

Group

Impairment Testing for Goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

		Group		
(S$ million)	Note	December 31, 2018	December 31, 2017	January 1, 2017
Cash-generating Unit (CGU)				
SUT Division	(a)	**19**	19	19
Sembcorp Gas Pte Ltd	(b)	**42**	42	42
SEIL (Project I) (formerly known as Sembcorp Energy India Ltd)	(c)	**25**	27	27
SEIL (Project II) (formerly known as Sembcorp Gayatri Power Limited)	(d)	**41**	45	46
Sembcorp Green Infra Limited and its subsidiaries	(e)	**38**	41	42
UK Power Reserve Limited	(f)	**83**	–	–
Sembcorp Cogen Pte Ltd	(g)	**–**	–	26
Multiple units with insignificant goodwill		**24**	24	23
		272	198	225

The recoverable amounts for SUT Division, Sembcorp Gas Pte Ltd, SEIL (Project I), Sembcorp Green Infra Limited and its subsidiaries, SEIL (Project II) and UK Power Reserve 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 5.6% to 12.3% (2017: 5.3% to 11.1%) had been used.

At the balance sheet date, based on the following key assumptions, the recoverable amounts of the respective CGUs exceeded their carrying amounts.

12. Intangible Assets *(cont'd)*

Goodwill (cont'd)

Group *(cont'd)*

Impairment Testing for Goodwill *(cont'd)*

a. SUT Division

i. Use cash flow projections over the remaining useful life of the plants of up to 20 years (2017: 21 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 assumption ranging from 1.0% to 1.8% (2017: 1.4% to 1.9%) has been used to project overheads and other general expenses.

b. 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 1.0% to 1.8% (2017: 1.4% to 1.9%) has been used to project overheads and other general expenses.

c. SEIL (Project I)

i. Use of cash flow projections over the remaining useful life of the plant of 22 years (2017: 23 years). No terminal value is considered;

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% (2017: 4%) 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(viii)).

12. Intangible Assets *(cont'd)*

Goodwill (cont'd)

Group *(cont'd)*

Impairment Testing for Goodwill *(cont'd)*

d. SEIL (Project II)

i. Use of cash flow projections over the remaining useful life of the plant of 23 years (2017: 24 years), with no terminal value considered;

ii. Revenue is projected primarily based on the forecasted combination of long-term and short-term contracts and electricity spot prices with reference to estimated demand and supply of electricity as well as estimated margin;

iii. Expected capital expenditure for replenishment of parts and scheduled maintenance related costs have been included in the projections in accordance with plant maintenance programme; and

iv. Inflation rate of 4% (2017: 4%) has been used to project overheads and other general expenses.

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 28 years (2017: 29 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 4% (2017: 5%) has been used to project overheads and other general expenses.

f. UK Power Reserve Limited

i. Use of cash flow projections over a period ranging from 2019 to 2040;

ii. Revenue and margins are projected based on the estimated electricity at forecasted margins which are based on market supply and demand forecast; and

iii. Cash flows relating to the Capacity Market (suspended from November 2018 by the European Court of Justice) are assumed to re-commence in 2020 and that payment will be received from 2020 and continue over the remaining life of the contracts.

At the date of signing these financial statements, the impact of the suspension of the capacity market is evolving. As a result, changes in circumstances may result in alternative estimates and judgements in future financial statements.

g. Sembcorp Cogen Pte Ltd

The following assumptions were used for impairment testing for goodwill allocated to Sembcorp Cogen Pte Ltd in 2017:

a. Use cash flow projections over the remaining useful life of the plants up to 26 years. No terminal value is considered;

b. 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;

c. 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

d. Inflation rate assumption ranging from 1.4% to 1.9% has been used to project overheads and other general expenses.

g. Sembcorp Cogen Pte Ltd *(cont'd)*

In 2017, the Group recognised impairment on the entire amount of goodwill allocated to Sembcorp Cogen Pte Ltd amounting to S$26 million 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 2017's profit or loss and the CGU is allocated to utilities segment.

Impairment Testing for Other Intangibles Assets

Other intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indicators exist. Impairment indicators for long term contracts in the UK are described in Note 12(f).

Company

The Company's goodwill relates to goodwill of SUT on the acquisition of the SUT Division in 2008.

13. Deferred Tax Assets and Liabilities

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the year are as follows:

(S$ million)	At January 1	Recognised in profit or loss (Note 30)	Recognised in equity (Note 27)	Acquisition of subsidiaries (Note 37)	Disposal of subsidiaries (Note 36)	Translation adjustments	At December 31
Group							
2018							
Deferred tax liabilities							
Property, plant and equipment	492	(6)	–	21	(9)	(13)	485
Other financial assets	39	–	(11)	–	–	–	28
Trade and other receivables	24	2	–	–	–	–	26
Intangible assets	64	(4)	–	–	–	(2)	58
Other items	16	–	(1)	24	–	(1)	38
Total	635	(8)	(12)	45	(9)	(16)	635
Deferred tax assets							
Property, plant and equipment	(171)	3	–	–	–	–	(168)
Inventories	(4)	1	–	–	–	–	(3)
Trade receivables	(2)	4	–	–	–	–	2
Trade and other payables	(20)	(6)	–	–	–	–	(26)
Tax losses	(13)	5	–	–	–	5	(3)
Provisions	(29)	(20)	–	–	–	–	(49)
Other financial liabilities	(22)	–	(12)	–	–	–	(34)
Retirement benefit obligations	–	6	–	–	–	–	6
Other items	(10)	8	–	–	–	–	(2)
Total	(271)	1	(12)	–	–	5	(277)

13. Deferred Tax Assets and Liabilities *(cont'd)*

(S$ million)	At January 1	Recognised in profit or loss (Note 30)	Recognised in equity (Note 27)	Translation adjustments	At December 31
Group					
2017					
Deferred tax liabilities					
Property, plant and equipment	472	22	–	(2)	492
Other financial assets	35	2	2	–	39
Trade and other receivables	14	10	–	–	24
Intangible assets	70	(6)	–	–	64
Other items	9	7	–	–	16
Total	600	35	2	(2)	635
Deferred tax assets					
Property, plant and equipment	(99)	(73)	–	1	(171)
Inventories	(1)	(3)	–	–	(4)
Trade receivables	–	(2)	–	–	(2)
Trade and other payables	(18)	(2)	–	–	(20)
Tax losses	(79)	65	–	1	(13)
Provisions	(25)	(4)	–	–	(29)
Other financial liabilities	(26)	(1)	5	–	(22)
Retirement benefit obligations	(1)	–	1	–	–
Other items	(62)	50	–	2	(10)
Total	(311)	30	6	4	(271)

(S$ million)	At January 1, 2017	Recognised in profit or loss	At December 31, 2017	Recognised in profit or loss	At December 31, 2018
Company					
Deferred tax liabilities					
Property, plant and equipment	65	(6)	59	(2)	57
Deferred tax assets					
Provisions	(5)	(1)	(6)	(1)	(7)

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		
(S$ million)	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
Deferred tax liabilities	**425**	428	402	**50**	53	60
Deferred tax assets	**(67)**	(64)	(113)	**–**	–	–
	358	364	289	**50**	53	60

As at December 31, a deferred tax liability of S$16 million (2017: S$23 million; January 1, 2017: S$24 million) for potential taxable temporary differences arising from undistributed retained earnings related to investment in subsidiaries and joint ventures were not recognised.

13. Deferred Tax Assets and Liabilities *(cont'd)*

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		
(S$ million)	December 31, 2018	December 31, 2017	January 1, 2017
Deductible temporary differences	**173**	18	20
Tax losses	**1,547**	1,728	1,489
Capital allowances	**21**	25	18
	1,741	1,771	1,527

Tax losses of the Group amounting to S$253 million (2017: S$121 million; January 1, 2017: S$120 million) will expire between 2019 and 2027 (2017: 2018 and 2026; January 1, 2017: 2017 and 2024). The remaining tax losses, capital allowances and deductible temporary differences do not expire under current tax legislation.

Deferred tax assets have not been recognised under the following circumstances:

a. Where they qualified for offset against the tax liabilities of member companies within the Group under the Loss Transfer System of Group Relief but the terms of the transfer have not been ascertained as at year end; or

b. Where it is uncertain that future taxable profit will be available against which certain subsidiaries of the Group can utilise the benefits.

14. Inventories

	Group			Company		
(S$ million)	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
Raw materials and consumables	**243**	251	191	**2**	3	3
Finished goods	**175**	210	207	**8**	9	9
	418	461	398	**10**	12	12
Allowance for inventory obsolescence	**(25)**	(36)	(31)	**(3)**	(3)	(3)
	393	425	367	**7**	9	9
Properties under development	**120**	99	90	**–**	*	2
	513	524	457	**7**	9	11

In 2018, raw materials and changes in finished goods included as cost of sales amounted to S$1,695 million (2017: S$1,599 million).

During the year, the Group conducted a review of all inventories and considered a need to adjust the carrying value to reflect lower expected net realisable value which resulted in a net write-back of S$1 million (2017: write-down of S$10 million).

Inventories of S$142 million (2017: S$128 million; January 1, 2017: S$89 million) and no properties under development (2017: S$66 million; January 1, 2017: S$67 million) have been pledged to secure loan facilities.

15. Contract Costs

(S$ million)	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Current Assets			
Costs to secure contract	*	–	–
Fulfilment cost	**329**	2,363	2,612
	329	2,363	2,612
Non-current Assets			
Costs to secure contract	*	–	–
Fulfilment cost	**–**	128	–
	*	128	–

i. Costs to secure contract
Management expects the incremental costs of securing contracts to be recoverable. The Group has therefore capitalised them in the amount of less than S$1 million (2017: S$nil; January 1, 2017: S$nil) as at December 31, 2018.

ii. Fulfilment cost
Costs incurred relating to rig and shipbuilding and construction that are to be sold upon completion are capitalised as fulfilment cost for future performance obligations as at December 31, 2018. These costs are expected to be recoverable and are amortised to profit or loss when the related revenue are recognised. In 2018, S$2,292 million (2017: S$204 million) was amortised to cost of sales and there was no impairment losses (2017: net write-back of S$20 million).

16. Cash and Cash Equivalents

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017	Company December 31, 2018	Company December 31, 2017	Company January 1, 2017
Fixed deposits with banks		**323**	672	487	**–**	–	–
Cash and bank balances		**1,602**	2,015	1,395	**759**	720	390
Cash and cash equivalents in the balance sheets		**1,925**	2,687	1,882	**759**	720	390
Restricted bank balances		**(1)**	(5)	(11)	**–**	–	–
Bank overdrafts	23	**(1)**	–	(16)	**–**	–	–
Cash and cash equivalents in the consolidated statement of cash flows		**1,923**	2,682	1,855	**759**	720	390

Fixed deposits with banks of the Group earn interest at rates ranging from 0.10% to 9.00% (2017: 0.01% to 13.36%) per annum.

Included in the cash and bank balances are amounts of S$424 million (2017: S$549 million) placed with a related corporation.

Included in the Group's cash and cash equivalents in the balance sheet is an amount of S$293 million (2017: S$282 million; January 1, 2017: S$217 million) over which banks have a first charge in the event that the respective subsidiaries do not meet the debt servicing requirement. Included in this balance is restricted cash of S$1 million (2017: S$5 million; January 1, 2017: S$11 million).

Included in the Company's cash and cash equivalents at the balance sheet date are amounts of S$756 million (2017: S$714 million; January 1, 2017: S$385 million) placed with a subsidiary and amounts of S$3 million (2017: S$6 million; January 1, 2017: S$5 million) placed with a related corporation.

17. Trade and Other Payables

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017	Company December 31, 2018	Company December 31, 2017	Company January 1, 2017
Current Liabilities							
Trade payables		**1,094**	1,113	1,077	**14**	7	9
Advance payments from customers		**17**	22	17	**–**	1	1
Amounts due to related parties	19	**14**	9	12	**2**	12	4
Accrued capital and operating expenditure	(a)	**1,571**	1,619	1,876	**109**	109	117
Deposits		**34**	32	30	**–**	–	–
Accrued interest payable		**42**	43	45	**–**	–	–
Other creditors	(b)	**196**	502	107	**5**	7	6
		2,968	3,340	3,164	**130**	136	137
Non-current Liabilities							
Deferred grants	(c)	**4**	3	2	**–**	–	–
Amounts due to related parties	19	**–**	–	–	**245**	245	245
Other long-term payables	(d)	**171**	181	149	**23**	29	23
Deferred income		**62**	72	78	**–**	1	1
		237	256	229	**268**	275	269

a. Included in the Company's accrued operating expenses are amounts of S$43 million (2017: S$35 million; January 1, 2017: S$41 million) due to related companies.

b. The Group's other creditors as at December 31, 2017 was 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$8 million.

c. Deferred grants relate to government grants for capital assets.

d. 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.

18. Contract Liabilities

(S$ million)	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017	Company December 31, 2018	Company December 31, 2017	Company January 1, 2017
Current Liabilities						
Contract liabilities	**445**	1,157	682	**1**	1	1
Non-current Liabilities						
Contract liabilities	**64**	116	271	**30**	13	14

18. Contract Liabilities *(cont'd)*

The contract liabilities primarily relate to the advance consideration received from customers for which revenue is recognised over time and at a point in time. For revenue recognised over time, the balance at year end will be recognised over the period stipulated in the contract.

Significant changes in the contract liabilities balances during the year are as follows:

	Group		Company	
(S$ million)	**2018**	**2017**	**2018**	**2017**
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**(1,141)**	(454)	**(1)**	(1)
Increases due to cash received, excluding amounts recognised as revenue during the year	**388**	810	**18**	–
Currency translation changes	**(8)**	(37)	**–**	–
Cumulative catch-up adjustments arising from:				
– Changes in measurement of progress	**(2)**	*	**–**	–
– Contract modifications	**(2)**	–	**–**	–

19. Amounts Due to Related Parties

		Associates			Joint ventures			Related companies			Total		
(S$ million)	**Note**	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**
Group													
Amounts due to:													
Trade		**2**	3	2	**7**	3	3	**1**	*	4	**10**	6	9
Non-trade		**1**	*	–	*****	*	–	**–**	–	–	**1**	–	–
Advance payment – trade		**–**	–	–	**3**	3	3	**–**	–	–	**3**	3	3
	17	**3**	3	2	**10**	6	6	**1**	*	4	**14**	9	12

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

		Subsidiaries			Joint ventures			Related companies			Total		
(S$ million)	**Note**	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**
Company													
Amounts due to:													
Trade	(i)	**1**	10	2	**–**	–	–	**–**	–	–	**1**	10	2
Non-trade		**1**	2	2	**–**	–	–	**–**	–	–	**1**	2	2
Loans from a related party	(ii)	**245**	245	245	**–**	–	–	**–**	–	–	**245**	245	245
		247	257	249	**–**	–	–	**–**	–	–	**247**	257	249
Amounts due after 1 year		**(245)**	(245)	(245)	**–**	–	–	**–**	–	–	**(245)**	(245)	(245)
	17	**2**	12	4	**–**	–	–	**–**	–	–	**2**	12	4

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 million (2017: S$245 million; January 1, 2017: S$245 million) bear interest rates ranging from 3.72% to 3.82% (2017: 3.72% to 3.82%; January 1, 2017: 3.72% to 3.82%) per annum and are unsecured.

20. Provisions

(S$ million)	Note	Claims	Restoration costs	Warranty	Fines	Others	Total
Group							
2018							
Balance at January 1		25	108	21	25	18	197
Translation adjustments		–	(4)	–	–	–	(4)
Provisions made during the year		10	4	64	25	2	105
Provisions reversed during the year		(10)	(3)	(27)	–	–	(40)
Provisions utilised during the year		(1)	*	–	(10)	(1)	(12)
Disposal of subsidiaries		–	*	–	–	–	*
Unwind of discount on restoration costs	29	–	3	–	–	–	3
Balance at December 31		24	108	58	40	19	249
Provisions due:							
– within 1 year		24	–	17	40	5	86
– after 1 year but within 5 years		–	36	41	–	12	89
– after 5 years		–	72	–	–	2	74
		24	108	58	40	19	249
2017							
Balance at January 1		23	86	18	–	7	134
Translation adjustments		*	(3)	*	–	*	(3)
Provisions made during the year		12	21	11	25	12	81
Provisions reversed during the year		(4)	–	(8)	–	–	(12)
Provisions utilised during the year		(6)	(1)	–	–	(1)	(8)
Disposal of subsidiaries		–	*	–	–	–	*
Unwind of discount on restoration costs	29	–	5	–	–	–	5
Balance at December 31		25	108	21	25	18	197
Provisions due:							
– within 1 year		25	7	21	25	14	92
– after 1 year but within 5 years		–	26	–	–	2	28
– after 5 years		*	75	–	–	2	77
		25	108	21	25	18	197

20. Provisions *(cont'd)*

(S$ million)	Claims	Restoration costs	Total
Company			
2018			
Balance at January 1	**16**	16	32
Provisions made during the year	**4**	–	4
Provisions utilised during the year	**(1)**	–	(1)
Balance at December 31	**19**	16	35
Provisions due:			
– within 1 year	**19**	–	19
– after 5 years	**–**	16	16
	19	16	35
2017			
Balance at January 1	**15**	11	26
Provisions made during the year	**4**	2	6
Provisions utilised during the year	**(3)**	–	(3)
Unwind of discount on restoration costs	**–**	3	3
Balance at December 31	**16**	16	32
Provisions due:			
– within 1 year	**16**	–	16
– after 5 years	**–**	16	16
	16	16	32

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 warranty 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.

Fines
During the year, additional provision for fines was made relating to an alleged discharge of off-specification wastewater at an overseas water business. The provision amount was estimated based on available information and advice from technical advisers and external lawyers, as at the date of this report. Legal proceedings are ongoing. The actual amount of the fines and claims is dependent on 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.

21. Other Financial Liabilities

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Current Liabilities				
Financial liabilities at fair value through profit or loss:				
– Forward foreign exchange contracts		**2**	4	18
– Foreign exchange swap contracts		*****	*	5
– Electricity futures market contracts		**–**	*	*
– Commodity swap contracts		**–**	*	–
– Commodity contracts		**2**	–	–
Cash flow hedges:				
– Interest rate swaps		*****	1	*
– Forward foreign exchange contracts		**12**	5	9
– Fuel oil swaps		**46**	3	5
– Electricity futures market contracts		*****	–	*
		62	13	37
Non-current Liabilities				
Financial liabilities at fair value through profit or loss:				
– Interest rate swaps		*****	*	*
– Electricity futures market contracts		**–**	*	*
– Foreign exchange option contracts		*****	*	*
– Cross currency swaps		**2**	7	1
Cash flow hedges:				
– Interest rate swaps		**13**	14	4
– Forward foreign exchange contracts		**5**	2	24
– Fuel oil swaps		**22**	*	4
– Cross currency swaps		**–**	31	8
– Electricity futures market contracts		**1**	–	–
– Put liability to acquire non-controlling interests	(a)	**–**	–	216
		43	54	257

a. Amount as at January 1, 2017 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 (ie. Non-controlling shareholders upon the Group's acquisition of 60% in SGI in 2015). In 2017, the Group acquired the remaining interest in SGI. Consequently, the Group no longer has a put liability.

22. Retirement Benefit Obligations

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Provision for retirement gratuities	(a)	**4**	4	4
Retirement benefit obligations / (assets)	(b)	**1**	(3)	3
		5	1	7
Retirement benefit obligations				
– Non-current		**5**	4	7
Retirement benefit assets				
– Non-current	8	*****	(3)	–

a. Provision for Retirement Gratuities

(S$ million)	Group 2018	Group 2017
Balance at January 1	**4**	4
Translation adjustments	*****	–
Provision made during the year	**1**	1
Less: Amount paid	**(1)**	(1)
Balance at December 31	**4**	4

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.

b. Retirement 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 SFRS(I) 1-19 in order to assess the liabilities of the schemes at December 31, 2018, December 31, 2017 and January 1, 2017.

22. Retirement Benefit Obligations *(cont'd)*

b. Retirement Benefit Obligations *(cont'd)*

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:

(S$ million)	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Present value of funded defined benefit obligations	**214**	242	239
Fair value of plan assets	**(213)**	(245)	(236)
Deficit / (Surplus) in scheme	**1**	(3)	3

The amounts included in the balance sheet are as follows:

(S$ million)	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Retirement benefit obligations	**1**	–	3
Retirement benefit assets	*****	(3)	–
	1	(3)	3

The proportion of fair value of plan assets at the balance sheet is analysed as follows:

(S$ million)	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017
Equity instruments	**34**	83	80
Debt instruments	**154**	136	134
Other assets	**25**	26	22
	213	245	236

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.

Movement in Net Defined Benefit Liability / (Asset)

The following table shows reconciliation from the opening balances to the closing balances for net defined benefit liability / (asset) and its components.

(S$ million)	Defined benefit obligation 2018	Defined benefit obligation 2017	Fair value of plan assets 2018	Fair value of plan assets 2017	Net defined benefit liability / (asset) 2018	Net defined benefit liability / (asset) 2017
Group						
Balance at January 1	**242**	239	(245)	**(236)**	(3)	3
Included in income statement						
Service cost	**1**	1	*	**–**	1	1
Interest cost / (income)	**6**	6	(6)	**(6)**	*	–
	7	7	(6)	**(6)**	1	1
Included in other comprehensive income						
Re-measurements loss / (gain):						
Actuarial loss / (gain) arising from:						
– demographic assumptions	**(10)**	(4)	–	**–**	(10)	(4)
– financial assumptions	**2**	8	–	**–**	2	8
– experience adjustment	*****	1	–	**–**	*	1
Return on plan assets excluding interest income	**–**	–	12	**(9)**	12	(9)
Effect of movements in exchange rates	**(8)**	2	9	**(2)**	1	–
	(16)	7	21	**(11)**	5	(4)
Other						
Contributions paid by employer	**–**	–	(2)	**(3)**	(2)	(3)
Benefits paid	**(19)**	(11)	19	**11**	*	–
	(19)	(11)	17	**8**	(2)	(3)
Balance at December 31	**214**	242	(213)	**(245)**	1	(3)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 17 (2017: 18; January 1, 2017: 19) years.

22. Retirement Benefit Obligations *(cont'd)*

b. Retirement Benefit Obligations *(cont'd)*

Principal Actuarial Assumptions

The main financial assumptions used by the independent qualified actuaries to calculate the liabilities under SFRS(I) 1-19 are as follows:

	Group		
	December 31, 2018 %	December 31, 2017 %	January 1, 2017 %
Discount rate at December 31	**2.8**	2.5	2.7
Future rate of pension increases	**1.9 – 3.1**	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 (2017: 21; January 1, 2017: 21) for male and 24 (2017: 24; January 1, 2017: 25) for female.

A 1% increase / decrease in discount rate would have decreased / increased the defined benefit obligations by 15.7% / 20.0% (2017: 15.3% / 19.6%; January 1, 2017: 16.5% / 21.4%). A 1% increase / decrease in future rate of pension increases would have increased / decreased the defined benefit obligations by 12.6% / 12.4% (2017: 12.4% / 11.9%; January 1, 2017: 15.2% / 13.6%).

23. Interest-bearing Borrowings

		Group		
(S$ million)	Note	December 31, 2018	December 31, 2017	January 1, 2017
Current Liabilities				
Secured term loans	(a)	**686**	695	548
Unsecured term loans	(b)	**1,174**	876	1,561
Bank overdrafts	16	**1**	–	16
Finance lease liabilities	(c)	**1**	1	1
		1,862	1,572	2,126
Non-current Liabilities				
Non-convertible debentures		**202**	11	11
Secured term loans	(a)	**3,063**	3,010	3,210
Unsecured term loans	(b)	**5,603**	5,251	3,873
Finance lease liabilities	(c)	**2**	3	2
		8,870	8,275	7,096
		10,732	9,847	9,222

Included in interest-bearing borrowings are S$840 million (2017: S$988 million; January 1, 2017: S$1,000 million) of loans taken with a related corporation.

Effective Interest Rates and Maturity of Liabilities (Excluding Finance Lease Liabilities)

	Group		
	December 31, 2018 %	December 31, 2017 %	January 1, 2017 %
Floating rate loans	**1.60 – 11.25**	1.34 – 12.40	1.59 – 16.05
Fixed rate loans	**0.77 – 11.48**	0.77 – 12.80	1.55 – 16.09
Bonds & notes	**2.94 – 4.25**	2.94 – 4.25	2.94 – 4.25
Debentures	**9.65 – 12.00**	12.00	12.00

23. Interest-bearing Borrowings *(cont'd)*

Effective Interest Rates and Maturity of Liabilities (Excluding Finance Lease Liabilities) *(cont'd)*

	Group		
(S$ million)	December 31, 2018	December 31, 2017	January 1, 2017
Within 1 year	**1,861**	1,571	2,125
After 1 year but within 5 years	**5,801**	5,201	4,042
After 5 years	**3,067**	3,071	3,052
Total borrowings	**10,729**	9,843	9,219

a. Secured Term Loans

The secured term loans are collaterised by the following assets:

		Group Net Book Value		
(S$ million)	Note	December 31, 2018	December 31, 2017	January 1, 2017
Property, plant and equipment	3(i)	**4,827**	4,983	4,973
Investment properties	4	**–**	39	40
Unit trusts and funds	7	**55**	54	32
Trade and other receivables	8	**1,285**	1,080	721
Intangible assets	12	*****	1	2
Inventories	14	**142**	128	89
Properties under development	14	**–**	66	67
Cash and cash equivalents	16	**293**	282	217
Equity shares of a subsidiary		**155**	568	724

b. 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 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, 2018, December 31, 2017 and January 1, 2017, SFS has the following outstanding medium term notes issued under the Programme:

				Principal amount		
(S$ million)	Nominal interest rate	Year of issue	Year of maturity	December 31, 2018	December 31, 2017	January 1, 2017
S$ medium term notes	6 month SOR + 0.55%	2010	2017	**–**	–	100
S$ medium term notes	3.7325%	2010	2020	**300**	300	300
S$ medium term notes	4.25%	2010	2025	**100**	100	100
S$ medium term notes	3.64%	2013	2024	**200**	200	200
S$ medium term notes	2.94%	2014	2021	**100**	100	100
S$ medium term notes	3.593%	2014	2026	**150**	150	150
				850	850	950

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.

23. Interest-bearing Borrowings *(cont'd)*

Effective Interest Rates and Maturity of Liabilities (Excluding Finance Lease Liabilities) *(cont'd)*

b. Unsecured Term Loans *(cont'd)*

As at December 31, an amount of S$172 million (2017: S$189 million; January 1, 2017: S$165 million) 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, 2018, December 31, 2017 and January 1, 2017, Jurong Shipyard Pte Ltd, a subsidiary of SCM, has the following outstanding medium term notes under the Programme:

(S$ million)	Nominal interest rate	Year of issue	Year of maturity	Principal amount
S$ medium term notes	2.95%	2014	2021	275
S$ medium term notes	3.85%	2014	2029	325
				600

As at December 31, 2018, an amount of S$168 million (2017: S$168 million; January 1, 2017: S$168 million) medium term notes was held by a related corporation.

c. Finance Lease Liabilities

The Group has obligations under finance leases that are payable as follows:

(S$ million)	December 31, 2018			December 31, 2017			January 1, 2017		
	Payments	Interest	Principal	Payments	Interest	Principal	Payments	Interest	Principal
Group									
Within 1 year	**1**	*****	**1**	1	–	1	1	–	1
After 1 year but within 5 years	**2**	*****	**2**	3	1	2	2	1	1
After 5 years	**–**	**–**	**–**	2	1	1	2	1	1
Total	**3**	*****	**3**	6	2	4	5	2	3

Under the terms of the lease agreements, no contingent rents are payable. The interest rates range from 4.85% to 10.25% (2017: 1.60% to 18.27%; January 1, 2017: 1.75% to 14.70%) per annum.

23. Interest-bearing Borrowings *(cont'd)*

Effective Interest Rates and Maturity of Liabilities (Excluding Finance Lease Liabilities) *(cont'd)*

c. Finance Lease Liabilities *(cont'd)*

Reconciliation of movements of liabilities to cash flows arising from financing activities:

(S$ million)	Accrued interest payable (Note 17)	Interest-bearing borrowings* (Note 23)	Finance lease liabilities (Note 23)	Total
Balance at January 1, 2018	43	9,843	4	9,890
Cash flows				
Cash payments	–	(2,156)	–	(2,156)
Cash proceeds	–	3,011	–	3,011
Interest paid	(486)	–	–	(486)
Non-cash items				
Acquisition of subsidiary	–	244	1	245
Disposal of subsidiary	–	(2)	(2)	(4)
Interest expenses, including amortisation of capitalised transaction costs	484	2	–	486
New finance lease	–	–	1	1
Foreign exchange movement	1	(214)	(1)	(214)
	485	30	(1)	514
Balance at December 31, 2018	42	10,728	3	10,773
Balance at January 1, 2017	45	9,203	3	9,251
Cash flows				
Cash payments	–	(2,427)	(1)	(2,428)
Cash proceeds	–	3,206	–	3,206
Interest paid	(484)	–	–	(484)
Non-cash items				
Capitalised borrowing cost	–	1	–	1
Interest expenses, including amortisation of capitalised transaction costs	482	14	–	496
New finance lease	–	–	2	2
Foreign exchange movement	–	(154)	–	(154)
	482	(139)	2	345
Balance at December 31, 2017	43	9,843	4	9,890

* Excluding finance lease liabilities and bank overdrafts.

24. Share Capital

	Group and Company No. of ordinary shares	
	2018	2017
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.

25. Other Reserves

(S$ million)	Note	Group December 31, 2018	Group December 31, 2017	Group January 1, 2017	Company December 31, 2018	Company December 31, 2017	Company January 1, 2017
Distributable							
Reserve for own shares	(a)	**(9)**	*	(5)	**(9)**	–	(5)
Non-distributable							
Currency translation reserve	(b)	**(390)**	(265)	(124)	**–**	–	–
Capital reserve	(c)	**183**	160	109	**(149)**	(141)	(132)
Merger reserve	(d)	**29**	29	29	**–**	–	–
Share-based payments reserve	(e)	**(8)**	(9)	(14)	**151**	143	130
Fair value reserve	(f)	**34**	27	21	**–**	–	–
Hedging reserve	(g)	**(87)**	(27)	(78)	**–**	–	–
		(248)	(85)	(62)	**(7)**	2	(7)

a. Reserve for Own Shares
At December 31, 2018, the Company held 3,100,138 (2017: 42,827; January 1, 2017: 1,990,038) of its own uncancelled shares as treasury shares.

b. Currency Translation Reserve
The currency translation reserve comprises:

i. Foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the presentation currency of the Group;

ii. Exchange differences on monetary items which form part of the Group's net investment in foreign operations; and

iii. Gains or losses on instruments used to hedge the Group's net investment in foreign operations that are determined to be effective hedges.

c. Capital reserve comprises acquisitions and disposals with non-controlling interests that do not result in a change of control, capitalisation of accumulated profits for the issue of bonus shares, capital reserve (net of goodwill) on consolidation and equity accounting, asset revaluation reserve, capital redemption reserve, convertible loan stock reserve and transfer from revenue reserve in accordance with the regulations of the foreign jurisdiction in which the Group's subsidiaries, associates and joint ventures operate, and treasury shares of a subsidiary.

Capital reserve also comprises the recognition of call options issued to non-controlling interests of subsidiaries, as these options are regarded as equity instruments, when they are settled by the delivery of a fixed number of equity shares for a fixed amount of cash.

d. Merger reserve represents the difference between the values 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 expired.

f. Fair value reserve includes the cumulative net change in the fair value of equity investments designated at FVOCI (2017: available-for-sale investments) until the investments are derecognised. This does not include impairment losses recognised in profit or loss prior to January 1, 2018.

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.

26. Perpetual Securities

On August 21, 2018, the Company has redeemed and cancelled S$200 million, 5% subordinated perpetual securities.

On June 22, 2017, the Company issued subordinated perpetual securities with an aggregate principal amount of S$200 million. Incremental costs incurred amounting to S$1 million was recognised in equity as a deduction from proceeds.

On May 20, 2015, the Company issued subordinated perpetual securities with an aggregate principal amount of S$600 million. Incremental costs incurred amounting to S$3 million was recognised in equity as a deduction from proceeds.

On August 21, 2013, the Company issued subordinated perpetual securities with an aggregate principal amount of S$200 million. Incremental costs incurred amounting to S$1 million was recognised in equity as a deduction from proceeds.

Such perpetual securities bear distributions at a rate of 3.70% to 4.75% 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 SFRS(I) 1-32 *Financial Instruments: Presentation*. The whole instrument is presented within equity, and distributions are treated as dividends.

During the financial year, distributions amounting to S$43 million (2017: S$43 million) were accrued to perpetual security holders.

As at December 31, 2018, an amount of S$7 million (2017: S$24 million; January 1, 2017: S$17 million) perpetual securities was held by a related corporation.

27. Other Comprehensive Income

Tax effects relating to each component of OCI:

(S$ million)	Group 2018 Before tax	Group 2018 Tax expense	Group 2018 Net of tax	Group 2017 Before tax	Group 2017 Tax expense	Group 2017 Net of tax
Foreign currency translation differences for foreign operations	**(160)**	**–**	**(160)**	(139)	–	(139)
Exchange differences on monetary items forming part of net investment in a foreign operation	**(1)**	**–**	**(1)**	(6)	–	(6)
Share of other comprehensive income of associates and joint ventures	**31**	**–**	**31**	54	–	54
Cash flow hedges: net movement in hedging reserves (Note (a))	**(125)**	**23**	**(102)**	34	(7)	27
Financial assets at FVOCI (2017: Available-for-sale financial assets): net movement in fair value reserve (Note (b))	**(4)**	*****	**(4)**	5	–	5
Realisation of reserve upon disposal / liquidation of subsidiaries	**19**	**–**	**19**	(16)	–	(16)
Realisation of reserve upon disposal of assets held for sale	**–**	**–**	**–**	(20)	–	(20)
Defined benefit plan actuarial gains and losses	**(5)**	**1**	**(4)**	4	(1)	3
Other comprehensive income	**(245)**	**24**	**(221)**	(84)	(8)	(92)

27. Other Comprehensive Income *(cont'd)*

(S$ million)	Group 2018	Group 2017
a. Cash flow hedges:		
Net change in fair value of hedging instruments	**50**	55
Amount reclassified to profit or loss	**(175)**	(20)
Tax expense	**23**	(8)
Net movement in the hedging reserve during the year recognised in OCI	**(102)**	27
b. Financial assets as FVOCI (2017: Available-for-sale financial assets):		
Changes in fair value	**4**	38
Amount reclassified to profit or loss	**	(33)
Tax expense	*	–
Net changes in fair value during the year recognised in OCI	**4**	5

** Not applicable for 2018

28. Turnover

(S$ million)	Note	Group 2018	Group 2017
Revenue from contracts with customers	(a)	**11,634**	8,966
Charter hire and rental income		**55**	60
		11,689	9,026

The amount of revenue recognised in 2018 from performance obligations satisfied or partially satisfied in previous periods, mainly due to change in estimate for the transaction price is S$nil (2017: S$6 million).

Construction and engineering related activities for Utilities include service concession revenue. Included in service concession revenue is interest revenue of S$53 million (2017: S$43 million).

28. Turnover *(cont'd)*

a. Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers (including revenue related to a discontinued operation) is disaggregated by primary geographical markets, major product / service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

	Reportable segments				
(S$ million)	Utilities	Marine	Urban Development	All other segments	Total
2018					
Primary geographical markets					
Singapore	3,814	154	–	233	4,201
China	216	2	–	1	219
India	1,685	1	–	*	1,686
Rest of Asia	200	421	3	21	645
Middle East & Africa	109	7	–	–	116
UK	454	195	–	*	649
Rest of Europe	–	913	–	–	913
Norway	3	1,627	–	*	1,630
Brazil	–	243	–	–	243
USA	–	1,185	–	*	1,185
Others	55	92	–	*	147
Total	6,536	4,840	3	255	11,634
Major product / service lines					
Provision of energy products and related services (including electricity, gas and steam)	5,694	–	–	–	5,694
Provision of water products and related services	247	–	–	–	247
Ship and rig repair, building, conversion and related services	–	4,808	–	–	4,808
Construction and engineering related activities	246	–	–	210	456
Others	349	32	3	45	429
Total	6,536	4,840	3	255	11,634
Timing of revenue recognition					
Over time	6,514	2,441	1	209	9,165
At a point in time	22	2,399	2	46	2,469
Total	6,536	4,840	3	255	11,634

28. Turnover *(cont'd)*

a. Disaggregation of revenue from contracts with customers *(cont'd)*

(S$ million)	Reportable segments Utilities	Marine	Urban Development	All other segments	Total
2017					
Primary geographical markets					
Singapore	3,033	273	–	273	3,579
China	152	2	–	*	154
India	1,592	3	–	*	1,595
Rest of Asia	453	197	5	13	668
Middle East & Africa	105	58	–	–	163
UK	312	745	–	*	1,057
Rest of Europe	–	819	–	*	819
Norway	–	242	–	–	242
Brazil	–	213	–	–	213
USA	–	177	–	*	177
Others	50	249	–	*	299
Total	5,697	2,978	5	286	8,966
Major product / service lines					
Provision of energy products and related services (including electricity, gas and steam)	4,617	–	–	–	4,617
Provision of water products and related services	233	–	–	–	233
Ship and rig repair, building, conversion and related services	–	2,950	–	–	2,950
Construction and engineering related activities	533	–	–	253	786
Others	314	28	5	33	380
Total	5,697	2,978	5	286	8,966
Timing of revenue recognition					
Over time	5,697	2,444	4	252	8,397
At a point in time	–	534	1	34	569
Total	5,697	2,978	5	286	8,966

28. Turnover *(cont'd)*

b. Transaction price allocated to remaining performance obligation

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at reporting date. This is estimated based on the expected progress of the projects or expected energy output.

(S$ million)	2018 Within the next 12 months	Between 1 to 5 years	More than 5 years	Total
Segment				
Utilities	1,522	5,413	2,247	9,182
Marine	2,175	913	–	3,088
Urban development	285	–	–	285
Others	368	511	2	881
Total	4,350	6,837	2,249	13,436

The Group applies the practical expedient in paragraph 121 of SFRS(I) 15 and does not disclose information about its remaining performance obligations if:

- the performance obligation is part of a contract that has an original expected duration of one year or less; or
- the Group has a right to invoice a customer in an amount that corresponds directly with its performance to date, then it recognises revenue in that amount.

Estimated amounts of considerations which are variable in nature are not included in the disclosure of transaction price allocated to the remaining performance obligations.

The Group applies the practical expedient in paragraph C5(c) of SFRS(I) 15 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.

29. Finance Income and Finance Costs

(S$ million)	Note	Group 2018	2017
Finance income			
Finance income from financial assets measured at amortised costs (2017: loans and receivables):			
– associates and joint ventures		**7**	9
– bank and others		**69**	34
Significant financing component from contracts with customers		**11**	11
		87	54
Finance costs			
Interest paid and payable to, measured at amortised cost (2017: loans and receivables):			
– banks and others		**469**	480
Amortisation of capitalised transaction costs		**17**	16
Unwind of discount on restoration costs	20	**3**	5
Significant financing component from contracts with customers		**4**	1
Interest rate swaps:			
– changes in fair value through profit or loss		**15**	25
– ineffective portion of changes in fair value		*****	–
		508	527

30. Tax Expense

(S$ million)	Group 2018	Group 2017
Current tax expense		
Current year	**107**	114
Over provided in prior years	**(39)**	(66)
Foreign withholding tax	**27**	5
	95	53
Deferred tax expense		
Movements in temporary differences	**(27)**	21
Under provided in prior years	**28**	44
Effect of changes in tax rates	**(8)**	*
	(7)	65
Tax expense	**88**	118
Reconciliation of effective tax rate		
Profit for the year	**332**	493
Total tax expense	**88**	118
Share of results of associates and joint ventures, net of tax	**(174)**	(164)
Profit before share of results of associates and joint ventures, and tax expense	**246**	447
Tax using Singapore tax rate of 17%	**42**	76
Effect of changes in tax rates	**(8)**	*
Effect of different tax rates in foreign jurisdictions	**19**	(12)
Tax incentives and income not subject to tax	**(38)**	(61)
Expenses not deductible for tax purposes	**52**	50
Utilisation of deferred tax benefits not previously recognised	**(53)**	(4)
Over provided in prior years	**(11)**	(22)
Deferred tax benefits not recognised	**59**	90
Foreign withholding tax	**27**	5
Tax adjustment on changes in undistributed profits from foreign entities	*****	*
Others	**(1)**	(4)
Tax expense	**88**	118

31. Profit for the Year

The following items have been included in arriving at profit for the year:

(S$ million)	Note	Group 2018	Group 2017
a. Expenses			
Allowance for / (write-back of) impairment losses (net)			
– property, plant and equipment	3	**5**	26
– receivables and contract assets		**3**	(16)
– contract cost		**–**	(20)
(Write-back) / Allowance for stock obsolescence		**(1)**	10
Amortisation of intangible assets	12	**47**	40
Audit fees paid / payable			
– auditors of the Company		**2**	2
– other member firms of KPMG International		**2**	1
– other auditors		**1**	1
Non-audit fees paid / payable			
– auditors of the Company		**1**	1
– other member firms of KPMG International		**1**	1
– other auditors		**1**	1
Depreciation			
– property, plant and equipment	3	**547**	530
– investment properties	4	**1**	1
Operating lease expenses		**22**	27
Property, plant and equipment written off		**11**	3
Intangible assets written off	12	*****	*
Bad debts (written back) / written off		*****	*
Provision for fines		**25**	25
Net change in fair value of cash flow hedges		**(70)**	(24)
Staff costs			
Staff costs		**790**	839
Included in staff costs are:			
Equity-settled share-based payments		**11**	17
Cash-settled share-based payments		**2**	3
Contributions to:			
– defined benefit plan		**1**	1
– defined contribution plan		**49**	51

31. Profit for the Year *(cont'd)*

(S$ million)	Note	Group 2018	Group 2017
b. Other operating income			
Grants received			
– income related		**7**	8
Gain / (loss) on disposal of property, plant and equipment		**4**	(2)
Net exchange (loss) / gain		**(22)**	8
Net change in fair value of cash flow hedges		**(2)**	2
Net change in fair value of fair value hedges		**(1)**	(4)
Net change in fair value of financial assets at FVTPL (designated on initial recognition)		*****	–
Net change in fair value of financial assets at FVTPL (mandatorily measured)		**18**	(3)
Gain from derecognition of financial assets		**4**	22
c. Non-operating income and (expenses)			
Gross dividend income from financial assets at FVOCI (2017: available-for-sale financial assets)		*****	*
Gain on disposal / liquidation of:			
– subsidiaries		**11**	5
– joint venture / associate		**18**	–
– business		**15**	–
– assets / investments held for sale		**–**	47
Allowance for impairment losses (net)			
– goodwill	12	**(1)**	(26)
– associates		**–**	4
Negative goodwill		*****	*
Assumption of liabilities on behalf of a joint venture		**–**	(11)
Impairment losses on available-for-sale financial assets	7	******	(2)

** Not applicable for 2018

32. 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: December 31, 2018 %	December 31, 2017 %	January 1, 2017 %
Sembcorp Marine Group	Singapore	Marine	**39**	39	39
Sembcorp Energy India Limited (SEIL)*	India	Utilities	**6**	–	–
SEIL (Project I), formerly known as Sembcorp Energy India Ltd* (India Thermal Energy)	India	Utilities	**–**	13	13
SEIL (Project II), formerly known as Sembcorp Gayatri Power Limited* (India Thermal Energy)	India	Utilities	**–**	12	12

* In 2018, the two India Thermal Energy projects have amalgamated into SEIL. The Group has also reorganised its India energy business and its equity stake in SEIL increased from 86.87% to 93.70% and Sembcorp Green Infra Ltd (SGI) became a wholly-owned subsidiary of SEIL

32. 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 SFRS(I):

(S$ million)	Sembcorp Marine Group	Sembcorp Energy India Group
2018		
Revenue	4,888	1,686
(Loss) / profit for the year	(78)	27
Other comprehensive income	(36)	(113)
Total comprehensive income	**(114)**	**(86)**
Attributable to non-controlling interests:		
(Loss) / profit for the year	(33)	4
Other comprehensive income	(17)	(9)
Total comprehensive income	**(50)**	**(5)**
Non-current assets	5,617	5,167
Current assets	2,960	1,216
Non-current liabilities	(3,466)	(3,406)
Current liabilities	(2,763)	(1,563)
Net assets	**2,348**	**1,414**
Net assets attributable to non-controlling interests	**931**	**106**
Cash flows (used in) / from operating activities	(170)	397
Cash flows used in investing activities	(382)	(707)
Cash flows from financing activities	89	344
Net (decrease) / increase in cash and cash equivalents	**(463)**	34
Dividends paid to non-controlling interests	**(8)**	–

32. Non-controlling Interests *(cont'd)*

(S$ million)	Sembcorp Marine Group	India Thermal Energy
2017		
Revenue	3,035	1,483
Profit / (loss) for the year	256	(149)
Other comprehensive income	(44)	(10)
Total comprehensive income	**212**	**(159)**
Attributable to non-controlling interests:		
Profit / (loss) for the year	97	(18)
Other comprehensive income	(18)	*
Total comprehensive income	**79**	**(18)**
Non-current assets	4,599	3,789
Current assets	5,093	851
Non-current liabilities	(3,565)	(2,820)
Current liabilities	(3,647)	(853)
Net assets	**2,480**	**967**
Net assets attributable to non-controlling interests	**987**	**124**
Cash flows from operating activities	50	283
Cash flows from / (used in) investing activities	65	(36)
Cash flows used in financing activities	(24)	(278)
Net increase / (decrease) in cash and cash equivalents	**91**	**(31)**
Dividends paid to non-controlling interests	**(17)**	**–**

33. Earnings Per Share

(S$ million)	Group 2018	Group 2017
a. Basic earnings per share		
Basic earnings per share is based on:		
i. Profit attributable to owners of the Company:		
Profit attributable to equity holders of the Company	**347**	383
Less: Profit attributable to perpetual security holders of the Company	**(43)**	(43)
Profit attributable to owners of the Company	**304**	340
	No. of shares in million	**No. of shares in million**
ii. Weighted average number of ordinary shares:		
Issued ordinary shares at January 1	**1,787**	1,786
Effect of share options exercised, performance shares and restricted shares released	**1**	2
Effect of own shares held	**(2)**	(1)
Weighted average number of ordinary shares at December 31	**1,786**	1,787

33. Earnings Per Share *(cont'd)*

(S$ million)	Group 2018	Group 2017
b. Diluted earnings per share		
Diluted earnings per share is based on:		
i. Profit attributable to owners of the Company:		
Profit attributable to equity holders of the Company	**347**	383
Less: Profit attributable to perpetual security holders of the Company	**(43)**	(43)
Profit attributable to owners of the Company	**304**	340
	No. of shares in million	**No. of shares in million**
ii. Weighted average number of shares issued used in the calculation of basic earnings per share	**1,786**	1,787
Weighted average number of unissued ordinary shares from:		
– performance shares	**3**	3
– restricted shares	**7**	12
Weighted average number of ordinary shares	**1,796**	1,802

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.

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.

34. 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 cents per share (2017: one-tier tax exempt dividend of 2 cents per share) amounting to an estimated net dividend of S$36 million (2017: S$36 million) in respect of the year ended December 31, 2018, based on the number of issued shares as at December 31, 2018.

The proposed dividend of 2 (2017: 2) cents per share has not been included as a liability in the financial statements.

(S$ million)	Group and Company 2018	Group and Company 2017
Dividend paid		
Interim one-tier tax exempt dividend of 2 cents per share in respect of year 2018 (2017: 3 cents per share in respect of year 2017)	**36**	54
Final one-tier tax exempt dividend of 2 cents per share in respect of year 2017 (2017: 4 cents per share in respect of year 2016)	**35**	71
	71	125

35. 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 is 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
Tham Kui Seng *(Appointed on May 1, 2018)*

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 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.

They provide incentives to high performing 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 is able to motivate 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 to 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. Generally, it is envisaged that the range of performance targets to be set under the SCI PSP 2010 and the SCI RSP 2010 will be different, with the former emphasising stretched or strategic targets aimed at sustaining longer term growth.

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 award 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 / her capability, entrepreneurship, scope of responsibility and skill set.

35. Share-based Incentive Plans *(cont'd)*

Other information regarding the 2010 Share Plans is as follows:

a. Performance Share Plan

Under the SCI PSP 2010, the awards granted are conditional on performance targets set based on medium-term corporate objectives at the start of each rolling three-year performance qualifying period. For awards granted in 2017 and earlier, a specific number of performance shares will 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. During the year, SCI PSP 2010 was updated after a review of the Group's long-term business plans. Following this review, for awards granted from 2018 onwards, depending on the extent of the achievement of performance conditions during a three-year period, 50% of the final performance shares will vest at the end of three-year performance period, and the remaining 50% will vest in the subsequent year.

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 realised 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.

For awards granted from 2018 onwards, the performance was calibrated based on Total Shareholder Return and transformation outcomes. The transformation criteria comprise goals on Return on Equity (excluding Sembcorp Marine Ltd), Total Renewable Capacity and implementation of digital initiatives. 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 from 0% to 150% of the conditional performance shares awarded.

Senior management participants are required to hold a minimum percentage of the shares released to them under the SCI PSP 2010 to maintain a 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, but in the event of a shortfall, they have a two-calendar year period to meet the minimum percentage requirement.

i. Sembcorp Industries Ltd Performance Shares

The details of the movement of the performance shares of Sembcorp Industries Ltd awarded during the financial year since commencement of the Performance Share Plan (aggregate) are as follows:

	2018	**2017**
At January 1	**2,403,303**	2,418,250
Conditional performance shares awarded	**1,982,000**	889,553
Conditional performance shares lapsed	**(40,000)**	(304,500)
Performance shares lapsed arising from targets not met	**(743,750)**	(600,000)
At December 31	**3,601,553**	2,403,303

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2017 (2017: performance period 2014 to 2016), no performance shares were released via the issuance of treasury shares (2017: nil).

In 2018, 743,750 (2017: 600,000) performance shares were lapsed for under-achievement of the performance targets for the performance period 2015 to 2017 (2017: 2014 to 2016).

The total number of performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at end December 31, 2018, was 3,601,553 (2017: 2,403,303). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 5,402,329 (2017: 3,604,954) performance shares.

35. Share-based Incentive Plans *(cont'd)*

a. Performance Share Plan *(cont'd)*

ii. Performance shares of a listed subsidiary

The details of the movement of the performance shares of Sembcorp Marine Ltd awarded during the year are as follows:

	2018	2017
At January 1	**4,733,000**	4,513,000
Conditional performance shares awarded	**1,168,000**	1,600,000
Conditional performance shares lapsed	**(598,000)**	–
Performance shares lapsed arising from targets not met	**(1,215,000)**	(1,380,000)
At December 31	**4,088,000**	4,733,000

No performance shares of Sembcorp Marine Ltd were awarded to the directors of the Company.

In 2018, 1,215,000 (2017: 1,380,000) performance shares were lapsed due to under-achievement of the performance targets for the performance period 2015 to 2017 (2017: 2014 to 2016).

With the Sembcorp Marine Ltd Executive Resource & Compensation Committee's (Sembcorp Marine Ltd Committee) approval on the achievement factor for performance targets for the performance period 2015 to 2017 (2017: performance period 2014 to 2016), no performance shares were released via the issuance of treasury shares in 2018 (2017: nil).

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, 2018, was 4,088,000 (2017: 4,733,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 6,132,000 (2017: 7,099,500) performance shares.

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 August 14, 2018	Fair value of Sembcorp Industries Ltd performance shares granted on May 15, 2017	Fair value of Sembcorp Marine Ltd performance shares granted on August 23, 2018	Fair value of Sembcorp Marine Ltd performance shares granted on May 26, 2017
Fair value at measurement date	S$1.29	S$2.69	S$1.94	S$1.45
Assumptions under the Monte Carlo model				
Share price	S$2.73	S$3.18	S$1.93	S$1.69
Expected volatility:				
Sembcorp Industries Ltd / Sembcorp Marine Ltd	21.6%	29.5%	39.8%	35.1%
Morgan Stanley Capital International (MSCI) AC Asia Pacific excluding Japan Industrials Index	–	13.9%	12.2%	14.0%
Correlation with MSCI	–	48.3%	41.5%	76.3%
Risk-free interest rate	2.0%	1.2%	1.9%	1.3%
Expected dividend	3.2%	3.6%	1.8%	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 million (2017: S$2 million) to the profit or loss based on the fair value of the performance shares at the grant date being expensed over the vesting period.

35. Share-based Incentive Plans *(cont'd)*

b. Restricted Share Plan

Award granted until 2017

Under the SCI RSP 2010, the awards granted until 2017 were conditional on performance targets set based on corporate objectives at the start of each rolling two-year performance qualifying period. For awards granted in 2017, the performance criteria for the restricted shares are calibrated based on Return on Total Assets and Group Profit from Operations (both excluding Sembcorp Marine Ltd).

A minimum threshold performance must be realised 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.

A specific number of restricted shares will 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.

Award granted in 2019

After a comprehensive review of the Group's total remuneration structure, with effect from FY 2019, shares will be granted to eligible employees under the SCI RSP 2010 based on financial performance and corporate objectives achieved in the preceding year. The performance criteria for FY 2019 restricted shares awards granted are calibrated based on EBITDA and ROE (excluding Sembcorp Marine Ltd), and non-financial performance targets, comprising transformation milestones and adherence to environment, health and safety standards achieved by the Group for FY 2018.

Senior management participants are required to hold a minimum percentage of the shares released to them under the Restricted Share Plan to maintain a 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 Neil McGregor, who is the Group President & CEO, and who did not receive any directors' fees). In 2017, the awards granted comprised 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 Singapore Exchange (SGX) 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 the director's fees for the year (calculated on a pro-rated basis, where applicable) in cash.

For managerial participants, a quarter of the awards granted will vest immediately depending on the fulfilment of the criteria outlined above. The remaining three-quarters of the awards will vest over the following three years in equal tranches, subject to individual performance and fulfilment of service conditions at vesting.

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.

35. Share-based Incentive Plans *(cont'd)*

b. Restricted Share Plan *(cont'd)*

i. Sembcorp Industries Ltd Restricted Shares (awarded until 2017)

The details of the movement of the restricted shares based on the SCI RSP 2010 of Sembcorp Industries Ltd awarded during the year are as follows:

	2018	2017
At January 1	**9,727,916**	9,095,728
Conditional restricted shares awarded	**178,600**	3,554,234
Conditional restricted shares lapsed	**(707,698)**	(247,977)
(Restricted shares lapsed due to under-achievement of targets) / Additional restricted shares awarded due to over-achievement of targets	**(1,441,095)**	589,655
Conditional restricted shares released	**(2,675,126)**	(3,263,724)
At December 31	**5,082,597**	9,727,916

With the Committee's approval on the achievement factor for performance targets for the performance period 2016 to 2017, a total of 765,993 restricted shares were released in 2018. For awards in relation to the performance period 2015 to 2016, a total of 1,019,562 (2017: 1,422,285) were released in 2018. For awards in relation to the performance period 2014 to 2015, 698,350 restricted shares were released in 2018 (2017: 940,410). For awards in relation to the performance period 2013 to 2014, 696,429 restricted shares were released in 2017. In 2018, there were 178,600 (2017: 204,600) shares released to non-executive directors. In 2018, there were additional 12,621 shares released to employees due to sale of a subsidiary. Of the restricted shares released, 55,437 (2017: 36,513) restricted shares were cash-settled. The remaining restricted shares were released via the issuance of treasury shares.

In 2018, 1,441,095 shares were lapsed due to under-achievement of the performance targets for the performance period 2016 to 2017; in 2017, additional 589,655 restricted shares were awarded for the over-achievement of the performance targets for the performance period 2015 to 2016.

The total number of restricted shares outstanding, including award(s) achieved but not released, as at end 2018, was 5,082,597 (2017: 9,727,916). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 2,992,934 (2017: 6,947,566). Based on the multiplying factor, the actual release of the conditional awards could range due to zero to a maximum of 4,489,401 (2017: 10,421,349) restricted shares.

Awards for the performance and corporate objectives achieved in 2018 will be granted in FY 2019.

Sembcorp Challenge Bonus

With the Committee's approval on the achievement factor for performance targets for the performance period 2016 to 2017 (2017: performance period 2015 to 2016), a total of S$0.9 million, equivalent to 258,928 (2017: S$1.6 million, equivalent to 438,253) notional restricted shares, were paid. No (2017: 660,000) notional restricted shares of Sembcorp Industries Ltd's shares were awarded in 2018 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 2018, was 660,000 (2017: 1,226,000). The number of notional restricted shares to be converted into the funding pool could range from zero to a maximum of 990,000 (2017: 1,839,000).

35. Share-based Incentive Plans *(cont'd)*

b. Restricted Share Plan *(cont'd)*

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:

	2018	2017
At January 1	**15,383,413**	13,716,142
Conditional restricted shares awarded	**8,123,988**	8,176,450
Conditional restricted shares lapsed	**(624,821)**	(798,920)
Restricted shares lapsed arising from targets not met	**(6,078,150)**	(3,923,317)
Conditional restricted shares released	**(1,187,703)**	(1,786,942)
At December 31	**15,616,727**	15,383,413

With the Sembcorp Marine Ltd Committee's approval on the achievement factor for performance targets for the performance period 2016 to 2017, a total of 395,199 restricted shares were released in 2018. For awards in relation to the performance period 2015 to 2016, a total of 198,575 (2017: 266,891) restricted shares were released in 2018. For awards in relation to the performance period 2014 to 2015, a total of 318,129 (2017: 386,942) restricted shares were released in 2018. For awards in relation to the performance period 2013 to 2014, no restricted shares were released in 2018 (2017: 733,009). In 2018, there were 275,800 (2017: 400,100) restricted shares released to non-executive directors. The restricted shares were released via the issuance of treasury shares.

In 2018, 6,078,150 (2017: 3,923,317) Sembcorp Marine Ltd's restricted shares lapsed due to under-achievement of the performance targets for the performance period 2016 to 2017 (2017: performance period 2015 to 2016).

The total number of Sembcorp Marine Ltd's restricted shares outstanding, including awards achieved but not released, as at December 31, 2018, was 15,616,727 (2017: 15,383,413). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 14,817,138 (2017: 14,674,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 22,225,707 (2017: 22,011,000) restricted shares.

Challenge Bonus of a listed subsidiary

With the Sembcorp Marine Ltd Committee's approval on the achievement factor for performance targets for the performance period 2016 to 2017 (2017: performance period 2015 to 2016), a total of S$1 million (2017: S$* million), equivalent to 354,774 (2017: 248,950) notional restricted shares, were paid.

A total of 2,520,117 (2017: 3,074,000) notional restricted shares were awarded on August 23, 2018 (2017: May 26, 2017) 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, 2018, was 4,684,737 (2017: 5,230,850). 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 7,027,106 (2017: 7,846,275).

35. Share-based Incentive Plans *(cont'd)*

b. Restricted Share Plan *(cont'd)*

ii. Restricted shares of a listed subsidiary *(cont'd)*

Fair Value of Restricted Shares

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 Marine Ltd restricted shares granted on August 23, 2018	Fair value of Sembcorp Marine Ltd restricted shares granted on May 26, 2017
Fair value at measurement date	S$2.81	S$1.78	S$1.50
Assumptions under the Monte Carlo model			
Share price	S$3.18	S$1.93	S$1.69
Expected volatility:			
Sembcorp Industries Ltd / Sembcorp Marine Ltd	29.5%	39.8%	35.1%
Risk-free interest rate	1.1% – 1.3%	0.6% – 1.9%	1.1% – 1.4%
Expected dividend	3.6%	1.8%	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$9 million (2017: S$15 million) to the profit or loss based on the fair value of restricted shares at the grant date being expensed over the vesting period.

From 2018 onwards, the fair value of the compensation cost is estimated based on performance achievement for the year.

Fair Value of Sembcorp Challenge Bonus

During the year, the Group charged S$2 million (2017: S$3 million) 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. With effect from 2018, consistent to the change in RSP, the liability also takes into account the performance achieved for the year.

36. Disposal of Significant Subsidiaries

During the year, disposal of subsidiaries primarily relates to the Group's divestment of its municipal water operations in South Africa Water business, including a 100% stake in Sembcorp Utilities South Africa Pty Ltd, 100% stake in Sembcorp Silulumanzi (RF) Pty Ltd and 73.4% stake in Sembcorp Siza Water (RF) Pty Ltd to South African Water Works Pty Ltd.

(S$ million)	Note	
Property, plant and equipment		6
Intangible assets		38
Other receivables		17
Inventory		1
Cash and cash equivalents		15
Total assets		77
Trade and other payables		15
Other financial liabilities		3
Finance lease		2
Deferred tax liabilities	13	9
Total liabilities		29
Net assets derecognised		48
Less: Non-controlling interest		(4)
Realisation of currency translation		26
		70
Gain on disposal		8
Consideration received		78
Less: cash and cash equivalents disposed of		(15)
Net cash inflow		63

37. Acquisition of Significant Subsidiaries and Non-controlling Interests

Acquisition of Significant Subsidiaries

2018

i. On June 1, 2018, the Group acquired 100% equity stake in UK Power Reserve (UKPR), the UK's largest flexible distributed energy generator and UKPR became a subsidiary of the Group. Consequently, financial statements of UKPR were consolidated into the Group's financial statements.

The principal activity of UKPR is to operate a portfolio of highly flexible distributed energy generation projects across 32 locations in England and Wales, with 533 megawatts in operation and a further 480 megawatts in construction and under development.

Revenue and profit contribution

The acquired business contributed revenue of S$63 million and loss of S$32 million to the Group's result for the period from June 1, 2018 to December 31, 2018.

Had the acquired businesses been consolidated from January 1, 2018, the contribution to the Group's consolidated revenue and consolidated profit for the year ended December 31, 2018, would have been S$11,790 million and S$330 million respectively.

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

Acquisition of Significant Subsidiaries *(cont'd)*

2018

i. ***Consideration Transferred***

The following table summarises the acquisition date provisional fair value of each major class of consideration transferred:

(S$ million)	2018
a. Effect on cash flows of the Group	
Cash paid	401
Less: Cash and cash equivalents in subsidiaries acquired	(35)
Cash outflow on acquisition	366

(S$ million)	Note	At fair value
b. Identifiable assets acquired and liabilities assumed		
Property, plant and equipment		400
Intangible assets	12	153
Other receivables		65
Inventories		3
Cash and cash equivalents		35
Total assets		656
Trade and other payables		53
Other financial liabilities		1
Borrowings		244
Finance lease		1
Deferred tax liabilities	13	45
Total liabilities		344
Total net identifiable assets		312
Add: Goodwill	12	89
Consideration transferred for the businesses		401

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique	Key assumptions
Property, plant and equipment	Market Value Approach	• Freehold land – Prevailing market rates of similar agricultural lands from certified land valuer. • Plant and machinery – Current replacement costs derived from market quotes received from suppliers / manufacturers.
Intangible assets	Multi-period Excess Earnings Method ("MEEM")	• Cash flows from Capacity Market contracts with the National Grid of UK. • Contract tenure of 1 – 14 years. • Discount rates range from 12% to 16%.

The above fair values of identifiable assets acquired and liabilities assumed have been determined on a provisional basis. In particular, UKPR's operations are subject to regulatory developments, including the suspension of the Capacity Market from November 2018 as well as uncertainties related to the effects of Brexit, whereby the full range of possible effects are unknown. Please refer to Note 12(f) for further information. The Group will continue to review these matters during the measurement period.

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

Acquisition of Significant Subsidiaries *(cont'd)*

2018 *(cont'd)*

i. ***Consideration Transferred*** *(cont'd)*

Goodwill

The goodwill of S$89 million recognised on acquisition is primarily attributed to:

- the value of the acquired workforce; and
- the value associated with future earnings generated through either non-contractual services (e.g. Energy Optimisation and TRIAD) or from securing contractual services (e.g. capacity market, fast reserve and firm frequency reserve) in the future which were not secured at the date of acquisition and therefore cannot be recognised.

The goodwill recognised is not expected to be deductible for tax purpose.

Acquisition-related Costs

The Group incurred acquisition related cost of S$3 million. These costs have been charged to profit or loss.

Acquired Receivables

Included in trade and other receivables are trade receivables stated at fair value of S$2 million. The gross contractual amount for trade receivables due is S$2 million and, at the acquisition date, the entire contractual amount was expected to be collectible.

The above are inclusive of fair value adjustments, determined on a provisional basis.

ii. During the year, Sembcorp Marine Ltd's wholly-owned subsidiary, Sembcorp Marine Integrated Yard (SMIY) acquired Sevan Marine ASA's interests and title to all its intellectual property; 100% of the shares of HiLoad LNG AS (HiLoad), a Sevan Marine subsidiary which holds certain intellectual property rights; the takeover of all operating and associated costs, including unexpired leases; and the transfer of 26 Sevan Marine employees. Consequently, the intangible asset and financial statements of HiLoad were consolidated into the Group's financial statements.

Effect of acquisition

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, 2018, the contribution to the Group's consolidated revenue and consolidated profit for the year ended December 31, 2018, would not have been significant.

Consideration Transferred

The following table summarises the acquisition date provisional fair value of each major class of consideration transferred:

(S$ million)	2018
a. Effect on cash flows of the Group	
Cash paid	55
Less: Cash and cash equivalents in subsidiaries acquired	*
Cash outflow on acquisition	55

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

Acquisition of Significant Subsidiaries *(cont'd)*

2018 *(cont'd)*

ii. ***Consideration Transferred*** *(cont'd)*

(S$ million)	Note	At fair value
b. Identifiable assets acquired and liabilities assumed		
Intangible assets	12	55
Trade and other receivables		*
Cash and cash equivalents		*
Total assets		55
Trade and other payables		*
Total liabilities		*
Total net identifiable assets		55
Consideration transferred for the businesses		55

Acquisition-related Costs

Acquisition-related costs incurred in relation to the acquisition were immaterial and charged to profit or loss.

2017

i. In August 2017, the Company increased its shareholding in Sembcorp Green Infra Limited (SGI) from 68.74% to 71.57%, via subscription of the rights issues of 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%.

The following summarises the effect of changes in the Group's ownership interest:

(S$ million)	SGI
Group's ownership interest at January 1, 2017	306
Effect of increase in Group's ownership interest	150
Share of comprehensive income and capital injection during the year	59
Group's ownership interest at December 31, 2017	515

38. 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	
(S$ million)	2018	2017	2018	2017
Related Corporations				
Sales	**23**	9	**187**	83
Purchases including rental	**1**	*	**237**	212
Finance income	**–**	–	**1**	2
Finance expense	**–**	–	**46**	25
Associates and Joint Ventures				
Sales	**10**	15	**67**	67
Purchases including rental	**12**	8	**11**	4
Payment on behalf	**–**	–	**5**	5
Loans due from	**40**	65	**–**	–

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.

b. Compensation of Key Management Personnel

The Group strategy was effected in 2018 and with that, 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 Ltd; the Head of Singapore, South East Asia & China (Energy); the CEO of Sembcorp Development Ltd; and the Head of India to be key management personnel in accordance with SFRS(I) 1-24 *Related Party Disclosures*. These persons have the authority and responsibility for planning, directing and controlling the activities of the Group.

In 2017, the Group considered the directors of the Company (including the Group President & CEO of the Company); the Group Chief Financial Officer; the President & CEO of Sembcorp Marine Ltd; the Head of Renewables & Environment Business; the Head of Global Operations Group; and the CEO of Sembcorp Development Ltd to be key management personnel in accordance with SFRS(I) 1-24 *Related Party Disclosures*. These persons had the authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation paid is as follows:

	Group	
(S$ million)	2018	2017
Directors' fees and remuneration	**5**	9
Other key management personnel remuneration	**6**	7
	11	16
Fair value of share-based compensation	**3**	5

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.

39. 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.

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's policy is to target at least 50% of its debt portfolio with fixed interest rate. This is achieved partly by entering into fixed-rate instruments and partly by borrowing at a floating rate and using interest rate swaps and cross currency swaps to hedge the variability in cash flows attributable to the floating interest rates.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item by looking at the critical terms.

In these hedge relationships, the main sources of ineffectiveness could be due to:

- the effect of the counterparties' and the Group's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- changes in the timing of hedged transactions.

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

a. Market Risk *(cont'd)*

i. Interest Rate Risk *(cont'd)*

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	
(S$ million)	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Group				
December 31, 2018				
Variable rate financial instruments	(38)	38	33	(33)
December 31, 2017				
Variable rate financial instruments	(33)	33	35	(35)
Company				
December 31, 2018				
Variable rate financial instruments	8	(8)	–	–
December 31, 2017				
Variable rate financial instruments	7	(7)	–	–

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 policy is to manage and hedge the foreign exchange exposure as and when the exposure is identified.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item by looking at the critical terms.

In these hedge relationships, the main sources of ineffectiveness could be due to:

- the effect of the counterparties' and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(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:

(S$ million)	SGD	USD	EURO	GBP	INR	BRL	Others
Group							
2018							
Financial assets							
Cash and cash equivalents	25	257	7	10	–	2	8
Loan to an associate	–	–	–	58	–	–	–
Trade and other receivables	23	1,698	26	1,026	941	8	173
Other financial assets	–	36	–	–	–	–	–
	48	1,991	33	1,094	941	10	181
Financial liabilities							
Trade and other payables	142	936	58	500	–	80	41
Interest-bearing borrowings	–	436	–	316	–	–	104
	142	1,372	58	816	–	80	145
Net financial assets / (liabilities)	(94)	619	(25)	278	941	(70)	36
Add: Firm commitments and highly probable forecast transactions in foreign currencies	(3)	(222)	(221)	(21)	–	55	(112)
Add: Contract assets	–	954	1	3	–	–	9
Less: Cross currency swaps	–	–	–	–	(820)	–	–
Less: Foreign exchange forward contracts	40	(476)	–	(298)	(105)	–	43
Net currency exposure	(57)	875	(245)	(38)	16	(15)	(24)
2017							
Financial assets							
Cash and cash equivalents	29	326	19	226	–	2	81
Trade and other receivables	78	1,069	7	6	966	9	92
Other financial assets	–	25	–	–	18	–	–
	107	1,420	26	232	984	11	173
Financial liabilities							
Trade and other payables	101	668	58	119	296	117	47
Interest-bearing borrowings	–	616	–	–	–	95	100
	101	1,284	58	119	296	212	147
Net financial assets / (liabilities)	6	136	(32)	113	688	(201)	26
Add: Firm commitments and highly probable forecast transactions in foreign currencies	*	270	(248)	31	–	(28)	(130)
Add: Contract Assets	5	634	–	–	–	–	–
Less: Cross currency swaps	–	–	–	–	(890)	–	–
Less: Foreign exchange forward contracts	16	(109)	5	(161)	(54)	–	79
Net currency exposure	27	931	(275)	(17)	(256)	(229)	(25)

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

a. Market Risk *(cont'd)*

ii. Foreign Currency Risk *(cont'd)*

(S$ million)	SGD	USD	EURO	GBP	INR	BRL	Others
Group							
January 1, 2017							
Financial assets							
Cash and cash equivalents	48	434	37	241	–	–	24
Trade and other receivables	15	1,308	28	21	174	–	155
Other financial assets	–	23	–	–	20	–	–
	63	1,765	65	262	194	–	179
Financial liabilities							
Trade and other payables	109	592	58	72	–	37	102
Interest-bearing borrowings	–	1,443	–	–	–	–	6
	109	2,035	58	72	–	37	108
Net financial (liabilities) / assets	(46)	(270)	7	190	194	(37)	71
Add: Firm commitments and highly probable forecast transactions in foreign currencies	(33)	337	(364)	389	–	79	(144)
Add: Contract Assets	8	433	11	11	–	–	30
Less: Cross currency swap	–	–	–	–	(167)	–	–
Less: Foreign exchange forward contracts	32	(581)	58	(639)	–	–	(8)
Net currency exposure	(39)	(81)	(288)	(49)	27	42	(51)

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

a. Market Risk *(cont'd)*

ii. Foreign Currency Risk *(cont'd)*

The Company's gross exposure to foreign currencies is as follows:

(S$ million)	USD
Company	
2018	
Financial assets	
Cash and cash equivalents	25
Trade and other receivables	33
	58
Financial liabilities	
Trade and other payables	27
Net financial assets	31
Net currency exposure	31
2017	
Financial assets	
Cash and cash equivalents	35
Trade and other receivables	83
	118
Financial liabilities	
Trade and other payables	26
Net financial assets	92
Net currency exposure	92

(S$ million)	USD
Company	
January 1, 2017	
Financial assets	
Cash and cash equivalents	14
Trade and other receivables	126
	140
Financial liabilities	
Trade and other payables	36
Net financial assets	104
Net currency exposure	104

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(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 2017.

	Group		Company
(S$ million)	Equity	Profit before tax	Profit before tax
2018			
SGD	3	(9)	–
USD	(67)	96	3
EURO	–	(2)	–
GBP	5	(8)	–
INR	–	2	–
BRL	–	(7)	–
Others	–	8	–
2017			
SGD	1	1	–
USD	(47)	59	9
EURO	*	(3)	–
GBP	(5)	3	–
INR	2	(26)	–
BRL	–	(20)	–
Others	–	11	–

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$2 million in 2017 relating to INR which would be recognised in profit before tax instead of equity, on the basis of impairment noted on the equity securities.

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 FVOCI or FVTPL (2017: available-for-sale).

Sensitivity Analysis

If prices for equity securities and unit trusts and funds (2017: 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	
(S$ million)	2018	2017
Equity	**11**	19
Profit before tax	**7**	–

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

a. Market Risk *(cont'd)*

iii. Price Risk *(cont'd)*

Sensitivity Analysis (cont'd)

A 10% decrease in the underlying equity securities and unit trusts and funds (2017: unit trust and funds, and equity securities) prices would have had the equal but opposite effect to the amounts shown above. The analysis is performed on the same basis for 2017 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 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.

The Company designates the fuel oil swaps and electricity futures in their entirety in cash flow hedges to hedge its commodity risk and applies a hedge ratio of 1:1.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference index of Singapore High Sulphur Fuel Oil 180 CST fuel oil and Dated Brent, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item by looking at the critical terms.

The Group did not identify any significant sources of ineffectiveness in these hedge relationships.

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	
(S$ million)	**2018**	**2017**
Equity	**27**	24

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 2017 and assumes that all other variables remain constant.

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

a. Market Risk *(cont'd)*

iv. Cash Flow Hedges

At December 31, 2018, the Group held the following instruments to hedge exposures to changes in foreign currency, interest rates and commodity prices:

			Maturity		
(S$ million)	**Rate ($)**	**Interest rate (%)**	**Within 1 year**	**Between 1 to 5 years**	**More than 5 years**
2018					
Foreign currency risk					
Forward foreign exchange contracts (Buy / Sell)					
– SGD / USD	0.70 – 0.77	–	1,013	223	–
– USD / SGD	1.29 – 1.45	–	275	118	–
– SGD / INR	52.03	–	104	–	–
Interest rate risk					
Interest rate swap					
– Fixed-to-float	–	1.18 – 3.11	505	1,282	–
Foreign currency and interest rate risk					
Cross currency swaps					
– SGD / INR	46.96	9.46 – 10.20	166	740	–
– USD / INR	66.75	8.36	–	309	–
– CLP / USD	0.0015	3.39	30	–	–
Commodity risk					
Fuel oil swaps					
– Fuel oil swap ($ per MT)	244.25 – 496.00	–	273	103	–
– Fuel oil swap ($ per BBL)	61.20 – 77.60	–	10	–	–
– Electricity futures market contracts	85.99 – 125.00	–	4	5	–

The amounts at the reporting date relating to items designated as hedged items were as follows:

(S$ million)	**Cash flow hedge reserve for continuing hedges**
2018	
Foreign currency risk	
Receivables	8
Highly probable purchases	(1)
Interest rate risk	
Variable rate borrowings	(8)
Foreign currency and interest rate risk	
Receivables	1
Variable rate borrowings	(3)
Commodity risk	
Highly probable purchases	(52)

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

a. Market Risk *(cont'd)*

iv. Cash Flow Hedges *(cont'd)*

The amounts related to items designated as hedging instruments and hedge ineffectiveness were as follows:

	2018										
			Carrying Amount								
(S$ million)	Nominal Amount	Quantity	Assets	Liabilities	Line item in the balance sheets where the hedging instrument is included	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from hedging reserve to profit or loss	Line item affected in profit or loss because of the reclassification
Foreign currency risk										
Forward foreign exchange contracts	1,733	–	14	17	Other financial assets and liabilities	(47)	2	Non-operating income / expense	6	Cost of goods sold, Other operating income / expense
Interest rate risk										
Interest rate swaps	1,787	–	2	13	Other financial assets and liabilities	3	–	–	2	Finance costs
Foreign currency and interest rate risk										
Cross currency swaps	1,245	–	90	–	Other financial assets and liabilities	126	–	–	(116)	Finance costs, Other operating income / expense
Commodity risk										
Fuel oil swaps	386	750,276 MT and 91,400 BBL	7	68	Other financial assets and liabilities	(28)	–	–	(72)	Cost of goods sold
Electricity futures market contracts	9	–	1	1	Other financial assets and liabilities	(1)	–	–	*	–

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting:

(S$ million)	2018 Cash flow hedge reserve
Balance at January 1	(27)
Movement during the year	
Changes in fair value:	
Foreign currency risk	(47)
Interest rate risk	3
Foreign currency and interest rate risk	126
Commodity risk	(29)
Amount reclassified to profit or loss:	
Foreign currency risk	8
Interest rate risk	2
Foreign currency and interest rate risk	(116)
Commodity risk	(72)
Tax on movements on reserves during the year	23
Share of other comprehensive income of associates and joint ventures	27
	(75)
Share of non-controlling interests	15
Balance at December 31	(87)

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

a. Market Risk *(cont'd)*

iv. Cash Flow Hedges

Comparative Information under FRS39

Interest Rate Risk

At December 31, 2017, the Group had interest rate swaps and cross currency swaps with an aggregate notional amount of S$2,250 million (January 1, 2017: S$1,677 million), of which S$2,200 million (January 1, 2017: S$1,619 million) 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% (January 1, 2017: 0.98% to 13.05%) per annum on the notional amount. Interest rate swaps with notional amounts of S$277 million (January 1, 2017: S$506 million) are taken with a related corporation.

Foreign Currency Risk

Foreign exchange forward contracts and cross currency swaps with notional amounts of S$261 million (January 1, 2017: S$335 million) and S$340 million (January 1, 2017: S$340 million) respectively are taken with a related corporation.

Price Risk

Commodity

At the balance sheet date, the Group had financial instrument with the following notional contract amounts:

	Group	
(S$ million)	Notional amount December 31, 2017	Notional amount January 1, 2017
Fuel oil swap agreements	**247**	133

In 2017, fuel oil swap contracts with notional amounts of S$2 million (2016: S$nil) are entered with a related corporation.

v. Net Investment Hedges

The Group's investments in its United Kingdom (UK) subsidiaries are hedged by GBP / SGD forward foreign exchange contracts, which mitigates the currency risks arising from the subsidiaries' net assets.

The amounts related to items designated as hedging instruments were as follows:

	2018				During the current financial year					
		Carrying Amount								
(S$ million)	Nominal Amount	Assets	Liabilities	Line item in the balance sheets where the hedging instrument is included	Change in value of hedging instrument used for calculating hedge ineffectiveness for 2018	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from foreign currency translation reserve to profit or loss	Line item affected in profit or loss because of the reclassification
Foreign currency risk										
GBP / SGD forward foreign exchange contract	353	26	–	Other financial assets	–	26	–	–	–	–

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

a. Market Risk *(cont'd)*

v. Net Investment Hedges *(cont'd)*

The amounts related to items designed as hedged items were as follows:

	2018	During the current financial year	
(S$ million)	Change in value of hedged item used for calculating hedge effectiveness	Foreign currency translation reserve	Balances remaining in the foreign currency translation reserve from hedging relationships for which hedge accounting is no longer applied
Net Investment			
GBP net investment	(26)	37	–

Comparative Information under FRS39

At December 31, 2017, the Group's investments in its United Kingdom (UK) subsidiaries are hedged by GBP / SGD Cross Currency Swaps with notional amount of S$333.8 million (January 1, 2017: S$333.8 million), which mitigates the currency risks arising from the subsidiaries' net assets. As at January 1, 2017, 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$26.6 million. As at December 31, 2017, this USD / SGD foreign exchange swap contract has been settled. On consolidation, the effective portions of S$0.2 million, fair value gain of S$1.3 million (January 1, 2017: fair value loss of S$0.6 million) 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. The financial instruments are designated as hedge of a net investment in foreign operations and were effective as at December 31, 2017.

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.

For the Company's amounts due from subsidiaries, the Company considers the financial assets to have a low credit risk by taking into consideration the Group's financial ability to settle the amounts, in estimating the risk of default used in measuring expected credit loss.

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 Group assumes that credit risk of a financial asset has increased significantly when the financial asset remains outstanding for more than the reasonable range of past due days, taking into consideration historical payment track records, current macroeconomics situation as well as the general industry trend.

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 does not hold any collateral in respect of its financial assets, except for balances with customers where guarantees or security deposits are obtained.

b. Credit Risk *(cont'd)*

The Group's and the Company's maximum exposure to credit risk for financial assets at amortised cost (2017: loans and receivables) and contract assets at the balance sheet date is as follows:

	Group			Company		
(S$ million)	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
By business activity						
Utilities	**2,337**	2,059	1,749	**371**	358	367
Marine	**2,780**	1,357	930	**–**	–	–
Urban Development	**86**	27	8	**–**	–	–
Others	**52**	58	82	**–**	–	–
	5,255	3,501	2,769	**371**	358	367
Non-current#	**2,270**	1,094	665	**268**	221	200
Current	**2,985**	2,407	2,104	**103**	137	167

\# Not past due

Expected credit loss (ECL) assessment for customers with credit ratings (or equivalent) as at January 1 and December 31, 2018.

The Group allocates exposure from key customer to a credit risk grade based on data that is determined to be indicative of the risk of loss (including but not limited to external ratings if available, audited financial statements to calculate the internal risk rating using the Altman Z-score method, and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies such as Standards and Poor's and Moody's.

For the remaining customers, the Group allocates exposure to credit risk with reference to the key customers by segmenting the customers based on the geographic region and industry classification. For customers segmented by geographic region and industry classification and an ECL rate is calculated for each segment based on probabilities of default and loss given default. 12-month and lifetime probabilities of default are based on historical data supplied by Standards and Poor's and Moody's for reach credit rating. Loss given default parameters generally reflect an assumed recovery rate of 37.8%. The Group monitors changes in credit risk by tracking published external credit ratings.

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

b. Credit Risk *(cont'd)*

The following table provides information about the exposure to credit risk and ECLs for trade receivables (including service concession receivables) and contract assets for customers with credit ratings (or equivalent):

(S$ million)	Credit impaired	Gross carrying amount	Loss allowance	Net carrying amount
2018				
Group				
Receivables measured at 12-month ECL				
Service concession receivables				
– External credit ratings of AAA–B	No	1,074	(9)	1,065

(S$ million)	Equivalent to external credit rating	Credit impaired	Gross carrying amount	Loss allowance	Net carrying amount
2018					
Group					
Receivables measured at lifetime ECL					
Trade and other receivables and contract assets					
– Industrial	AAA–B+	No	2,858	(5)	2,853
– Government	AAA–BBB	No	33	–	33
– Retail	AAA–CCC	No	35	(1)	34
– Others	BBB–CCC	No	89	(2)	87
– Industrial	Not applicable	Yes	159	(159)	–
Total			3,174	(167)	3,007
Company					
Receivables measured at lifetime ECL					
Trade and other receivables and contract assets					
– Industrial	BBB	No	73	–	73
			73	–	73

There were no trade and other receivables and contract assets for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets.

Expected credit loss assessment for customers (allowance matrix) as at January 1 and December 31, 2018.

The Group uses an allowance matrix to measure the ECLs of trade receivable from certain customers.

Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through succession stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics: geographic regions and nature of customers.

Loss rates are based on actual credit loss experience over the past 3-5 years adjusted for current conditions and the Group's view of economic conditions over the expected lives of the receivables only if these factors have a significant impact to the credit loss.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for customers with no credit rating or no representative credit rating or equivalent:

(S$ million)	Credit impaired	Weighted average loss rate	Gross carrying amount	Loss allowance	Net carrying amount
2018					
Group					
Not past due	No	0.1%	447	*	447
Past due 0 to 3 months	No	0.1%	253	*	253
Past due 3 to 6 months	No	0.4%	78	*	78
Past due 6 to 12 months	No	2.8%	82	(3)	79
More than 1 year	No	33.2%	74	(23)	51
Total			934	(26)	908
Company					
Not past due	No		94	–	94
Past due 0 to 3 months	No		9	–	9
Total			103	–	103

For remaining financial assets at amortised cost amounting to S$280 million, which pertain mainly to long-term fixed deposits with financial institutions, dividend receivables from joint ventures and GST receivables, the Group considers the risk or probability that a credit loss occurs, and recognises a loss allowance of S$5 million.

Comparative information under FRS39

The age analysis of current loans and receivables and contract assets as at December 31, 2017 is as follows:

(S$ million)	Gross December 31, 2017	Impairment December 31, 2017	Gross January 1, 2017	Impairment January 1, 2017
2017				
Group				
Not past due	1,928	1	1,633	9
Past due 0 to 3 months	323	4	261	2
Past due 3 to 6 months	103	1	98	1
Past due 6 to 12 months	42	4	65	3
More than 1 year	216	195	273	211
	2,612	205	2,330	226
Company				
Not past due	123	–	113	–
Past due 0 to 3 months	14	–	3	–
Past due 3 to 6 months	–	–	–	–
Past due 6 to 12 months	–	–	2	–
More than 1 year	2	2	69	20
	139	2	187	20

39. Financial Instruments *(cont'd)*

***Financial Risk Management Objectives and Policies** (cont'd)*

b. Credit Risk *(cont'd)*

Movements in the loss allowance for trade and other receivables and contract assets (2017: current and non-current loans and receivables) are as follows:

		Group				Company			
(S$ million)	Note	12-month ECL 2018	Lifetime ECL 2018	Total 2018	Total 2017	12-month ECL 2018	Lifetime ECL 2018	Total 2018	Total 2017
Balance at January 1, per FRS 39		**–**	**206**	**206**	235	**–**	**2**	**2**	21
Adjustments on initial application of SFRS(I) 9		**8**	**4**	**12**	–	**–**	**–**	**–**	–
Balance at January 1, under SFRS(I) 9 (2017: FRS39)		**8**	**210**	**218**	235	**–**	**2**	**2**	21
Currency translation difference		**–**	**(9)**	**(9)**	(7)	**–**	**–**	**–**	–
Impairment loss recognised		**1**	**9**	**10**	16	**–**	**–**	**–**	–
Loss allowance utilised		**–**	**(4)**	**(4)**	(7)	**–**	**(2)**	**(2)**	(5)
Loss allowance written back		**–**	**(6)**	**(6)**	(32)	**–**	**–**	**–**	(14)
Disposal of subsidiary		**–**	**(2)**	**(2)**	–	**–**	**–**	**–**	–
Balance at December 31	8	**9**	**198**	**207**	205	**–**	**–**	**–**	2

Non-trade Amounts due from Subsidiaries

The Company held non trade receivables from its subsidiaries of S$245 million (2017: S$245 million; January 1, 2017: S$245 million). These balances are amounts lent to subsidiaries to satisfy short-term funding requirements. The Company uses a similar approach for assessment of ECLs for these receivables to those used for debt investments. Impairment on these balances has been measured on the 12-month expected loss basis which reflects the low credit risk of the exposures. The amount of the allowance on these balances is insignificant.

Comparative Information under FRS39

2017

For 2017, the allowance account in respect of loans and receivables was 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.

In 2017, impairment losses amounting to S$14 million 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 million.

In 2017, S$16 million was written back (being monies received) relating to a receivable that was previously impaired by approximately S$25 million.

The total net write-back of impairment losses of S$16 million was recognised in the general and administrative expenses.

39. Financial Instruments *(cont'd)*

***Financial Risk Management Objectives and Policies** (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.

In particular, the Group's subsidiaries in the marine sector will continue to take steps to manage cost, cash flows and gearing to address their financial position. While the majority of their contracts and new orders are secured on progressive payment terms, future new orders may result in increased working capital needs.

Maturity Profile of the Group's and the Company's Financial Liabilities

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 futures market contracts) that are designated as cash flows hedges are expected to impact profit and loss within 1 year, between 1-5 years and upon disposal of its investment in subsidiaries.

The table below analyses the maturity profile of the Group's and the Company's financial liabilities (including derivatives financial liabilities) based on contractual undiscounted cash inflows / (outflows), including estimated interest payments and excluding the impact of netting agreements:

		Cash Flows			
(S$ million)	Carrying amount	Contractual cash flow	Less than 1 year	Between 1 and 5 years	Over 5 years
Group					
2018					
Derivatives					
Derivative financial liabilities	105				
– inflow		1,747	1,461	286	–
– outflow		(1,864)	(1,551)	(306)	(7)
Derivative financial assets	(153)				
– inflow		2,977	1,795	1,169	13
– outflow		(2,858)	(1,764)	(1,094)	–
Non-derivative financial liabilities					
Trade and other payables*	3,053	(3,053)	(2,917)	(52)	(84)
Interest-bearing borrowings	10,732	(13,032)	(1,977)	(6,913)	(4,142)
	13,737	(16,083)	(4,953)	(6,910)	(4,220)
2017					
Derivatives					
Derivative financial liabilities	67				
– inflow		1,545	518	1,027	–
– outflow		(1,678)	(585)	(1,079)	(14)
Derivative financial assets	(128)				
– inflow		1,619	1,093	521	5
– outflow		(1,499)	(996)	(503)	–
Non-derivative financial liabilities					
Trade and other payables*	3,419	(3,419)	(3,281)	(45)	(93)
Interest-bearing borrowings	9,847	(12,585)	(2,096)	(6,237)	(4,252)
	13,205	(16,017)	(5,347)	(6,316)	(4,354)

* Excludes advance payments, deferred grants, rental payable, Goods and Services Tax and employee benefits

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

c. Liquidity Risk *(cont'd)*

(S$ million)	Carrying amount	Cash Flows: Contractual cash flow	Less than 1 year	Between 1 and 5 years	Over 5 years
Group					
2018					
January 1, 2017					
Derivatives					
Derivative financial liabilities	78				
– inflow		2,093	1,094	999	–
– outflow		(2,197)	(1,149)	(1,045)	(3)
Derivative financial assets	(122)				
– inflow		1,270	744	515	11
– outflow		(1,148)	(662)	(486)	–
Non-derivative financial liabilities					
Trade and other payables*	3,234	(3,234)	(3,121)	(35)	(78)
Put liability to acquire non-controlling interest	216	(216)	–	(216)	–
Interest-bearing borrowings	9,221	(12,492)	(2,595)	(5,570)	(4,327)
	12,627	(15,924)	(5,689)	(5,838)	(4,397)
Company					
2018					
Non-derivative financial liabilities					
Trade and other payables*	398	(432)	(139)	(146)	(147)
2017					
Non-derivative financial liabilities					
Trade and other payables*	406	(449)	(141)	(155)	(153)
January 1, 2017					
Non-derivative financial liabilities					
Trade and other payables*	401	(453)	(142)	(153)	(158)

* Excludes advance payments, deferred grants, rental payable, Goods and Services Tax and employee benefits

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

c. Liquidity Risk *(cont'd)*

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.

(S$ million)	Carrying amount	Cash Flows: Contractual cash flow	Less than 1 year	Between 1 and 5 years	Over 5 years
Group					
2018					
Derivative financial liabilities	99				
– inflow		1,167	890	278	–
– outflow		(1,265)	(951)	(313)	(1)
Derivative financial assets	(114)				
– inflow		1,519	715	804	–
– outflow		(1,452)	(713)	(740)	–
	(15)	(31)	(59)	29	(1)
2017					
Derivative financial liabilities	56				
– inflow		1,282	255	1,027	–
– outflow		(1,402)	(304)	(1,090)	(8)
Derivative financial assets	(104)				
– inflow		1,079	544	535	–
– outflow		(979)	(476)	(503)	–
	(48)	(20)	19	(31)	(8)
January 1, 2017					
Derivative financial liabilities	53				
– inflow		1,376	377	999	–
– outflow		(1,451)	(403)	(1,045)	(3)
Derivative financial assets	(79)				
– inflow		692	510	181	*
– outflow		(614)	(448)	(166)	–
	(26)	3	36	(31)	(3)
Company					
January 1, 2017					
Derivative financial liabilities	–				
– inflow		28	28	–	–
– outflow		(28)	(28)	–	–
	–	–	–	–	–

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

d. Estimation of Fair Values

SFRS(I) 13 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 SFRS(I) 13 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.

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 futures 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.

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

d. Estimation of Fair Values *(cont'd)*

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.

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, 2018. 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:			
(S$ million)	**Level 1**	**Level 2**	**Level 3**	**Total**
Group				
At December 31, 2018				
Financial assets at FVOCI	71	–	37	108
Financial assets at FVTPL	56	–	15	71
Derivative financial assets	–	153	–	153
	127	153	52	332
Derivative financial liabilities	–	(105)	–	(105)
	127	48	52	227
At December 31, 2017				
Available-for-sale financial assets	147	1	39	187
Derivative financial assets	–	128	–	128
	147	129	39	315
Derivative financial liabilities	–	(67)	–	(67)
	147	62	39	248
At January 1, 2017				
Available-for-sale financial assets	153	1	37	191
Derivative financial assets	–	127	–	127
	153	128	37	318
Put liability	–	–	(216)	(216)
Derivative financial liabilities	–	(78)	–	(78)
	153	50	(179)	24

In 2018 and 2017, there have been no transfers between the different levels of the fair value hierarchy.

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

e. Fair Value Hierarchy *(cont'd)*

Level 3 fair values

i. Financial assets at FVOCI (2017: available-for-sale financial assets)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of financial assets at FVOCI (2017: available-for-sale financial assets) in Level 3 of the fair value hierarchy:

(S$ million)	**Financial assets at FVOCI**
Group	
At January 1, 2018	39
Additions	3
Net change in fair value recognised in OCI	(5)
At December 31, 2018	37

(S$ million)	**Available-for-sale**
Group	
At January 1, 2017	37
Additions	1
Net change in fair value recognised in OCI	1
At December 31, 2017	39

Financial asset at FVOCI (2017: available-for-sale financial assets) in Level 3 of the fair value hierarchy include unquoted equity shares (2017: 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).

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

e. Fair Value Hierarchy *(cont'd)*

Level 3 fair values

i. Financial assets at FVOCI (2017: available-for-sale financial assets) *(cont'd)*

*Assets and liabilities not carried at fair value but for which fair values are disclosed**

	Fair value measurement using:			
(S$ million)	**Level 1**	**Level 2**	**Level 3**	**Total**
Group				
At December 31, 2018				
Investment properties	–	132	22	154
Associate	240	–	–	240
Service concession receivables	–	1,068	–	1,068
Long-term interest-bearing borrowings	–	(8,821)	–	(8,821)
At December 31, 2017				
Investment properties	–	130	23	153
Associate	309	–	–	309
Service concession receivables	–	897	–	897
Long-term interest-bearing borrowings	–	(8,264)	–	(8,264)
At January 1, 2017				
Investment properties	–	58	33	91
Associate	328	–	–	328
Service concession receivables	–	477	–	477
Long-term interest-bearing borrowings	–	(7,007)	–	(7,007)
Company				
At December 31, 2018				
Investment in a subsidiary	1,962	–	–	1,962
Amounts due from related parties	–	267	–	267
At December 31, 2017				
Investment in a subsidiary	2,345	–	–	2,345
Amounts due from related parties	–	225	–	225
At January 1, 2017				
Investment in a subsidiary	1,758	–	–	1,758
Amounts due from related parties	–	198	–	198

* 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.

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

f. Fair Value versus Carrying Amounts

(S$ million)	Note	Mandatorily at FVTPL	Fair value – hedging instruments	FVOCI – equity instruments	Financial assets at amortised costs	Other financial liabilities	Total carrying amount	Fair value
Group								
December 31, 2018								
Cash and cash equivalents	16	–	–	–	1,925	–	1,925	1,925
Trade receivables	8	–	–	–	2,041	–	2,041	2,041
Service concession receivables	8	–	–	–	1,065	–	1,065	1,068
Long-term fixed deposit	7	–	–	–	25	–	25	25
Other financial assets at amortised costs*	8	–	–	–	983	–	983	983
Amounts due from related parties	10	–	–	–	160	–	160	160
Financial asses at FVOCI:								
– Equity shares	7	–	–	108	–	–	108	108
Financial assets at FVTPL:								
– Cross currency swaps	7	8	–	–	–	–	8	8
– Foreign exchange swap contracts	7	5	–	–	–	–	5	5
– Unit trusts and funds	7	71	–	–	–	–	71	71
Hedge of net investment in foreign operations:								
– Forward foreign exchange contracts	7	–	26	–	–	–	26	26
Cash flow hedges:								
– Forward foreign exchange contracts	7	–	14	–	–	–	14	14
– Fuel oil swaps	7	–	7	–	–	–	7	7
– Interest rate swaps	7	–	2	–	–	–	2	2
– Cross currency swaps	7	–	90	–	–	–	90	90
– Electricity futures market contracts	7	–	1	–	–	–	1	1
		84	140	108	6,199	–	6,531	6,534
Trade payables	17	–	–	–	–	1,094	1,094	1,094
Other payables**	17	–	–	–	–	1,831	1,831	1,831
Other long-term payables**	17	–	–	–	–	27	27	27
Amounts due to related parties**	19	–	–	–	–	11	11	11
Financial liabilities at FVTPL, on initial recognition:								
– Forward foreign exchange contracts	21	2	–	–	–	–	2	2
– Commodity swap contracts	21	2	–	–	–	–	2	2
– Cross currency swaps	21	2	–	–	–	–	2	2
Cash flow hedges:								
– Interest rate swaps	21	–	13	–	–	–	13	13
– Forward foreign exchange contracts	21	–	17	–	–	–	17	17
– Fuel oil swaps	21	–	68	–	–	–	68	68
– Electricity futures market contracts	21	–	1	–	–	–	1	1
Interest-bearing borrowings:								
– Short-term borrowings	23	–	–	–	–	1,861	1,861	1,861
– Long-term borrowings	23	–	–	–	–	8,868	8,868	8,821
– Finance lease liabilities	23	–	–	–	–	3	3	3
		6	99	–	–	13,695	13,800	13,753

* Excludes Goods and Services Tax

** Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, rental payables, and employee benefits

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

f. Fair Value versus Carrying Amounts *(cont'd)*

(S$ million)	Note	Designated at fair value	Fair value – hedging instruments	Available-for-sale	Loans and receivables	Other financial liabilities within the scope of FRS 39	Other financial liabilities outside the scope of FRS 39	Total carrying amount	Fair value
Group									
December 31, 2017									
Cash and cash equivalents	16	–	–	–	2,687	–	–	2,687	2,687
Trade receivables	8	–	–	–	1,206	–	–	1,206	1,206
Service concession receivables	8	–	–	–	893	–	–	893	897
Other loans and receivables*	8	–	–	–	586	–	–	586	586
Amounts due from related parties	10	–	–	–	109	–	–	109	109
Available-for-sale financial assets:									
– Equity shares	7	–	–	122	–	–	–	122	119
– Unit trusts and funds	7	–	–	67	–	–	–	67	67
Financial assets at FVTPL, on initial recognition:									
– Cross currency swaps	7	6	–	–	–	–	–	6	6
– Foreign exchange swap contracts	7	1	–	–	–	–	–	1	1
– Commodity swap contracts	7	2	–	–	–	–	–	2	2
Hedge of net investment in foreign operations:									
– Cross currency swaps	7	–	14	–	–	–	–	14	14
Cash flow hedges:									
– Forward foreign exchange contracts	7	–	57	–	–	–	–	57	57
– Fuel oil swaps	7	–	43	–	–	–	–	43	43
– Cross currency swaps	7	–	4	–	–	–	–	4	4
Fair value hedges:									
– Forward foreign exchange contracts	7	–	1	–	–	–	–	1	1
		9	119	189	5,481	–	–	5,798	5,799
Trade payables	17	–	–	–	–	1,113	–	1,113	1,113
Other payables**	17	–	–	–	–	2,179	–	2,179	2,179
Other long-term payables**	17	–	–	–	–	34	–	34	34
Amounts due to related parties**	19	–	–	–	–	6	–	6	6
Financial liabilities at FVTPL, on initial recognition:									
– Forward foreign exchange contracts	21	4	–	–	–	–	–	4	4
– Cross currency swaps	21	7	–	–	–	–	–	7	7
Cash flow hedges:									
– Interest rate swaps	21	–	15	–	–	–	–	15	15
– Forward foreign exchange contracts	21	–	7	–	–	–	–	7	7
– Fuel oil swaps	21	–	3	–	–	–	–	3	3
– Cross currency swaps	21	–	31	–	–	–	–	31	31
Interest-bearing borrowings:									
– Short-term borrowings	23	–	–	–	–	1,571	–	1,571	1,571
– Long-term borrowings	23	–	–	–	–	8,272	–	8,272	8,264
– Finance lease liabilities	23	–	–	–	–	–	4	4	4
		11	56	–	–	13,175	4	13,246	13,238

* Excludes Goods and Services Tax

** Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, rental payables, and employee benefits

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies *(cont'd)*

f. Fair Value versus Carrying Amounts *(cont'd)*

(S$ million)	Note	Designated at fair value	Fair value – hedging instruments	Available-for-sale	Loans and receivables	Other financial liabilities within the scope of FRS 39	Other financial liabilities outside the scope of FRS 39	Total carrying amount	Fair value
Group									
January 1, 2017									
Cash and cash equivalents	16	–	–	–	1,882	–	–	1,882	1,882
Trade receivables	8	–	–	–	932	–	–	932	932
Service concession receivables	8	–	–	–	473	–	–	473	477
Other loans and receivables*	8	–	–	–	685	–	–	685	685
Amounts due from related parties	10	–	–	–	182	–	–	182	182
Available-for-sale financial assets:									
– Equity shares	7	–	–	151	–	–	–	151	149
– Unit trusts and funds	7	–	–	43	–	–	–	43	43
Financial assets at FVTPL, on initial recognition:									
– Forward foreign exchange contracts	7	19	–	–	–	–	–	19	19
– Cross currency swaps	7	11	–	–	–	–	–	11	11
Hedge of net investment in foreign operations:									
– Cross currency swaps	7	–	13	–	–	–	–	13	13
Cash flow hedges:									
– Forward foreign exchange contracts	7	–	47	–	–	–	–	47	47
– Fuel oil swaps	7	–	30	–	–	–	–	30	30
– Interest rate swaps	7	–	3	–	–	–	–	3	3
Fair value hedges:									
– Forward foreign exchange contracts	7	–	4	–	–	–	–	4	4
		30	97	194	4,154	–	–	4,475	4,477
Trade payables	17	–	–	–	–	1,077	–	1,077	1,077
Other payables**	17	–	–	–	–	2,047	–	2,047	2,047
Other long-term payables**	17	–	–	–	–	23	–	23	19
Amounts due to related parties**	19	–	–	–	–	9	–	9	9
Financial liabilities at FVTPL, on initial recognition:									
– Forward foreign exchange contracts	21	18	–	–	–	–	–	18	18
– Foreign exchange swap contracts	21	5	–	–	–	–	–	5	5
– Cross currency swaps	21	1	–	–	–	–	–	1	1
Cash flow hedges:									
– Interest rate swaps	21	–	4	–	–	–	–	4	4
– Forward foreign exchange contracts	21	–	33	–	–	–	–	33	33
– Fuel oil swaps	21	–	9	–	–	–	–	9	9
– Cross currency swaps	21	–	8	–	–	–	–	8	8
Put liability to acquire non-controlling interests	21	–	–	–	–	216	–	216	216
Interest-bearing borrowings:									
– Short-term borrowings	23	–	–	–	–	2,125	–	2,125	2,125
– Long-term borrowings	23	–	–	–	–	7,094	–	7,094	7,007
– Finance lease liabilities	23	–	–	–	–	–	3	3	3
		24	54	–	–	12,591	3	12,672	12,581

* Excludes Goods and Services Tax

** Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, rental payables, and employee benefits

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies (cont'd)

f. Fair Value versus Carrying Amounts *(cont'd)*

(S$ million)	Note	Financial assets at amortised costs	Other financial liabilities	Total carrying amount	Fair value
Company					
December 31, 2018					
Cash and cash equivalents	16	759	–	759	759
Trade receivables	8	26	–	26	26
Other financial assets at amortised costs*	8	56	–	56	56
Amounts due from related parties	10	279	–	279	278
		1,120	–	1,120	1,119
Trade payables	17	–	14	14	14
Other payables**	17	–	113	113	113
Amounts due to related parties	19	–	247	247	246
		–	374	374	373

* Excludes Goods and Services Tax

** Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, rental payables, and employee benefits

(S$ million)	Note	Loans and receivables	Other financial liabilities within the scope of FRS 39	Total carrying amount	Fair value
Company					
December 31, 2017					
Cash and cash equivalents	16	720	–	720	720
Trade receivables	8	40	–	40	40
Other loans and receivables*	8	88	–	88	88
Amounts due from related parties	10	230	–	230	234
		1,078	–	1,078	1,082
Trade payables	17	–	7	7	7
Other payables**	17	–	113	113	113
Amounts due to related parties	19	–	257	257	263
		–	377	377	383

* Excludes Goods and Services Tax

** Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, rental payables, and employee benefits

39. Financial Instruments *(cont'd)*

Financial Risk Management Objectives and Policies (cont'd)

f. Fair Value versus Carrying Amounts *(cont'd)*

(S$ million)	Note	Loans and receivables	Other financial liabilities within the scope of FRS 39	Total carrying amount	Fair value
Company					
January 1, 2017					
Cash and cash equivalents	16	390	–	390	390
Trade receivables	8	78	–	78	78
Other loans and receivables*	8	84	–	84	84
Amounts due from related parties	10	205	–	205	205
		757	–	757	757
Trade payables	17	–	9	9	9
Other payables**	17	–	119	119	119
Amounts due to related parties	19	–	249	249	244
Cash flow hedges:					
– Forward foreign exchange contracts	7	–	–	–	–
		–	377	377	372

* Excludes Goods and Services Tax

** Excludes advance payments, deferred income, deferred grants, Goods and Services Tax, rental payables, and employee benefits

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	
(S$ million)	2018	2017
Debt	**10,732**	9,847
Total equity	**7,938**	8,174
Total debt and equity	**18,670**	18,021
Debt-to-capitalisation ratio	**0.57**	0.55

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.

40. 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		
(S$ million)	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**
Guarantees given to banks to secure banking facilities provided to:			
– Joint ventures	**212**	438	517
– Others	**121**	71	35
Performance guarantees to external parties	**372**	333	519

The periods in which the financial guarantees expire are as follows:

	Group		
(S$ million)	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**
Less than 1 year	**83**	114	139
Between 1 to 5 years	**116**	308	326
More than 5 years	**134**	86	88
	333	508	553

The Group's subsidiaries are involved in certain tax disputes, where the amount of potential expense has been estimated to be approximately S$52 million (2017: S$18 million). Due to the nature of these tax disputes, the potential outcome and obligation is uncertain. No provisions have been recorded in this regard.

40. Contingent Liabilities (Unsecured) *(cont'd)*

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$5,034 million (2017: S$4,400 million), which include S$2,436 million (2017: S$2,006 million) drawn down as at balance sheet date. The periods in which the financial guarantees expire are as follows:

	Company		
(S$ million)	**December 31, 2018**	**December 31, 2017**	**January 1, 2017**
Less than 1 year	**14**	20	195
Between 1 to 5 years	**1,772**	1,339	454
More than 5 years	**650**	647	450
	2,436	2,006	1,099

b. The Company has provided corporate guarantees of S$117 million (2017: S$87 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 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.

41. Commitments

Commitments not provided for in the financial statements are as follows:

(S$ million)	Group 2018	2017
– Commitments in respect of contracts placed	**886**	705
– Uncalled capital and commitments to subscribe for additional shares in joint ventures and other investments	**63**	156
	949	861

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		
(S$ million)	December 31, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
Lease payments due:						
Within 1 year	**42**	35	38	**9**	9	9
Between 1 and 5 years	**114**	100	112	**21**	24	30
After 5 years	**628**	425	453	**35**	37	46
	784	560	603	**65**	70	85

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.

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:

(S$ million)	Group 2018	2017
Lease receivable:		
Within 1 year	**6**	43
Between 1 and 5 years	**10**	6
More than 5 years	**2**	3
	18	52

42. 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.

42. 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:

(S$ million)	Utilities	Marine	Urban Development	Others / Corporate	Elimination	Total
2018						
Turnover						
External sales	6,536	4,888	5	260	–	11,689
Inter-segment sales	33	–	*	54	(87)	–
Total	6,569	4,888	5	314	(87)	11,689
Results						
Segment results	728	(58)	*	(3)	–	667
Share of results of associates and joint ventures, net of tax	92	(2)	94	(10)	–	174
Profit from operations	820	(60)	94	(13)	–	841
Finance income	35	55	1	101	(105)	87
Finance costs	(425)	(101)	(5)	(82)	105	(508)
	430	(106)	90	6	–	420
Tax (expense) / credit	(98)	22	*	(12)	–	(88)
Non-controlling interests	(20)	36	(4)	3	–	15
Net profit for the year	312	(48)	86	(3)	–	347
Assets						
Segment assets	12,617	8,483	698	3,568	(3,892)	21,474
Associates and joint ventures	946	67	666	62	–	1,741
Tax assets	65	34	4	3	–	106
Total assets	13,628	8,584	1,368	3,633	(3,892)	23,321
Liabilities						
Segment liabilities	9,230	6,164	494	2,809	(3,892)	14,805
Tax liabilities	493	62	1	22	–	578
Total liabilities	9,723	6,226	495	2,831	(3,892)	15,383
Capital expenditure	818	342	*	7	–	1,167
Significant non-cash items						
Depreciation and amortisation	380	201	1	13	–	595
Allowance for impairment in value of assets and assets written off (net)	10	5	–	1	–	16
Inventories written back, net	(2)	1	–	*	–	(1)
Gain on disposal of property, plant and equipment	(1)	(3)	–	*	–	(4)
Impairment of goodwill	–	–	–	1	–	1
Allowance for / (write-back of) doubtful debts and bad debts (net)	2	3	(2)	*	–	3
Provision for fines	25	–	–	–	–	25
Gain on disposal of other financial assets	4	*	–	15	–	19
Gain on disposal in subsidiaries	8	*	–	3	–	11

(S$ million)	Utilities	Marine	Urban Development	Others / Corporate	Elimination	Total
2017						
Turnover						
External sales	5,697	3,035	8	286	–	9,026
Inter-segment sales	29	–	4	65	(98)	–
Total	5,726	3,035	12	351	(98)	9,026
Results						
Segment results	581	354	(13)	(2)	–	920
Share of results of associates and joint ventures, net of tax	69	(4)	103	(4)	–	164
Profit from operations	650	350	90	(6)	–	1,084
Finance income	31	23	*	70	(70)	54
Finance costs	(441)	(96)	(4)	(56)	70	(527)
	240	277	86	8	–	611
Tax expense	(89)	(24)	*	(5)	–	(118)
Non-controlling interests	(11)	(96)	(3)	*	–	(110)
Net profit for the year	140	157	83	3	–	383
Assets						
Segment assets	11,734	9,611	384	2,933	(2,774)	21,888
Associates and joint ventures	869	68	735	93	–	1,765
Tax assets	62	25	2	3	–	92
Total assets	12,665	9,704	1,121	3,029	(2,774)	23,745
Liabilities						
Segment liabilities	8,029	7,121	274	2,334	(2,774)	14,984
Tax liabilities	484	88	*	15	–	587
Total liabilities	8,513	7,209	274	2,349	(2,774)	15,571
Capital expenditure	479	194	*	16	–	689
Significant non-cash items						
Depreciation and amortisation	360	197	3	11	–	571
Allowance for impairment in value of assets and assets written off, net	28	3	–	–	–	31
Impairment of goodwill	26	–	–	–	–	26
Impairment of investment in an associate	4	–	–	–	–	4
Write-back of doubtful debts and bad debts, net	(16)	–	–	–	–	(16)
Gain on disposal of assets held for sale	–	(47)	–	–	–	(47)
Assumption of liabilities on behalf of a joint venture	–	11	–	–	–	11
Gain on disposal / liquidation of investment in subsidiaries	(4)	(1)	–	–	–	(5)
Contract costs written back, net	–	(20)	–	–	–	(20)
Provision for fines	25	–	–	–	–	25
Gain on disposal of other financial assets	(3)	(17)	–	(1)	–	(21)

42. 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, Norway, Rest of Europe, Brazil, USA 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.

(S$ million)	Singapore	China	India	Rest of Asia	Middle East & Africa	UK	Norway	Rest of Europe	Brazil	USA	Other Countries	Total
2018												
Revenue from external customers	4,204	219	1,687	647	116	649	1,628	963	243	1,186	147	11,689
Total assets	9,986	2,126	6,482	1,659	359	424	147	225	1,721	4	158	23,321
Non-current assets	5,534	1,533	5,266	1,488	324	814	137	196	1,520	2	183	16,997
Capital expenditure	384	20	513	1	3	145	*	*	89	*	12	1,167
2017												
Revenue from external customers	3,581	155	1,595	668	163	1,057	242	1,934	213	177	299	9,026
Total assets	10,905	1,848	6,464	1,676	446	265	153	648	1,570	6	163	23,745
Non-current assets	4,579	1,522	5,282	1,389	388	123	147	563	1,432	5	178	15,253
Capital expenditure	161	29	367	3	4	10	*	*	96	*	19	689

43. Significant Accounting Estimates and Judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. These 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 ongoing 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 12.

43. 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 30.

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 promised on these subsidiaries' 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 subsidiaries' 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 22, 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.

During the year, the Group revised its estimates of the useful lives of certain assets at Tanjong Kling Yard. The effect of the changes is shown in Note 3.

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.

43. Significant Accounting Estimates and Judgements *(cont'd)*

Key Sources of Estimation Uncertainty *(cont'd)*

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 20.

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 20 and Note 40 respectively.

Certain of the Group's subsidiaries are involved in claims, litigations, land disputes and other regulatory matters in certain countries as at the year end. This includes the uncertainties surrounding the suspension of the Great Britain capacity markets scheme as well as uncertainties related to the effects of Brexit, whereby the full range of possible effects remain unknown. 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.

h. Determination of Net Realisable Value of Inventories

The net realisable value of inventories of subsidiaries in the Marine sector is estimated by reference to contract prices. However, such net realisable value may not be the actual realisable value, arising from contract modifications, if any, which may result in other variable considerations. Such contract modifications may significantly affect the eventual realisable value of inventories and there is a significant risk of resulting in a material adjustment to the carrying amounts of inventories in future periods.

43. 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 Losses on Long-term Construction Contracts

The Group has assessed that the following contracts with customers: long-term contracts for ship and rig building, long-term contracts for ship and rig conversion, infrastructure construction and engineering services, consultancy services, waste management services, environmental management services, sale of electricity, utilities and gases and the related services respectively, as well as repair work, engineering, overhaul and related services respectively, each has a single performance obligation in view that the services in the contracts are not distinct and / or are integrated.

Significant judgement is required in determining whether the performance obligations are distinct. Such considerations include the Group's assessment of whether the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customers and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts.

For contracts with variable considerations (i.e. liquidated damages, buyer has the right to rescind the output for delivery of utilities and gas which do not meet the buyer's specifications), the Group has applied judgement in determining the transaction price for the recognition of revenue. Such judgement includes assessment of the evaluation of any potential risks and factors which may affect the completion or delivery of the contracts, in accordance with the contractual obligations.

For revenue recognised over time, the percentage of completion for certain contracts is assessed by reference to the contract costs incurred till date in proportion to the total estimated contract costs for each contract. Significant judgement is used to estimate these total contract costs to complete. In making these estimates, management has relied on the expertise of surveying engineers and also past experience of completed projects. The estimated total costs is reviewed every reporting period and adjusted where necessary, with the corresponding effect of change being recognised prospectively from the date of change.

The Group conducts critical review of all its long-term construction contracts regularly. Allowance is made where necessary to account for onerous contracts. To determine the total costs, the Group monitors and reviews the progress of all long-term land development and construction contracts, taking into consideration inputs from internal project managers and external customers. Significant judgement has been exercised in estimating these total contract costs to complete as well as in the evaluation of any potential risks and factors which may affect contract price, cost and timely completion of these contracts. 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.

43. Significant Accounting Estimates and Judgements *(cont'd)*

Critical Accounting Judgements in Applying the Group's Accounting Policies *(cont'd)*

b. Contract Costs – Fulfilment Costs

For ship and rig building contracts with customers where revenue is recognised at a point in time (i.e. upon delivered to customer), the costs incurred during the construction phase are recognised as an asset (i.e. contract costs – fulfilment). Upon fulfilment of the performance obligation and recognition of revenue, these costs will be recognised in profit or loss. Significant judgement is required to determine if the contract costs recognised are expected to be recovered. Such judgement includes assessment of the evaluation of any potential risks and factors which may affect the customer ability to take delivery of the ship and rig. The review also encompasses the analysis of the industry outlook and the customers' financial health.

c. Impairment of Trade Receivables and Contract Assets

The loss allowances for financial assets and contract assets are based on assumptions about risk of default and expected loss rates to be applied for the respective category of the trade receivables and contract assets. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation including evaluation of the Group's past history of loss rate, existing market conditions as well as forward looking estimates at the end of each reporting period. In assessing the segmentation of the customers for the loss allowance, judgement is involved in determining the credit-worthiness and financial health of its customers. Where their conditions change, this may require changes in the customers' segmentation, which in turn may affect the level of loss allowance in future periods.

The carrying amounts of trade receivables and contract assets are disclosed in the following notes:

- Note 8 – Trade and Other Receivables
- Note 9 – Contract Assets

d. 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 require significant judgement. Such impairment would take 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. Please refer to Notes 3 and 12 for information about the key assumptions and associated risk factors.

Impairment Assessment of the Group's Shipyards

Owing to the continued 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 orderbook over period of 5 years for Singapore and Brazil (the "projection periods") with applicable growth rates for Singapore and Brazil beyond the projection periods (up to a maximum of 40 years). Key drivers supporting the recoverable amounts include: forecasted order, project margins which are projected with reference to historical experience, and terminal growth rate of less than 5%.

The cash flows are projected based on 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 6.6% (2017: 9.5%) and 12.5% (2017: 10.0%) for the Singapore CGU and Brazil CGU respectively; and the Group assessed that no impairment loss is required for these individual CGUs.

43. Significant Accounting Estimates and Judgements *(cont'd)*

***Critical Accounting Judgements in Applying the Group's Accounting Policies** (cont'd)*

d. Impairment Assessment of Property, Plant and Equipment and Associates *(cont'd)*

Impairment Assessment of the Group's Shipyards (cont'd)

The forecasted orderbook 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 orderbook of the Singapore CGU are, however, reduced by a certain level of orderbooks already secured by the Group. Nevertheless, there are remaining estimation uncertainties surrounding the remaining unsecured orderbook, 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 in their forecast. Changes in the recoverable amount are sensitive to impairment losses if the forecast orderbook 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.

e. 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.

f. Acquisition of subsidiaries

Please refer to Note 37 for information about the key assumptions involved in determining the fair value of the consideration transferred, identifiable assets acquired and liabilities assumed.

44. Subsidiaries

Details of key subsidiaries are as follows:

Name of key subsidiaries	Country of incorporation	Effective equity held by the Group 2018 %	2017 %
Utilities			
Sembcorp Utilities Pte Ltd [1]	Singapore	**100**	100
Sembcorp Cogen Pte Ltd [1]	Singapore	**100**	100
Sembcorp Gas Pte Ltd [1]	Singapore	**70.00**	70.00
Sembcorp Utilities (UK) Limited [2]	United Kingdom	**100**	100
Sembcorp Energy UK Limited [2]	United Kingdom	**100**	–
Sembcorp Environment Pte. Ltd. [1]	Singapore	**100**	100
SembWaste Pte Ltd [1]	Singapore	**100**	100
Sembcorp Energy India Ltd, SEIL, (formerly known as Thermal Powertech Corporation India Limited) [2,4]	India	**93.73**	86.87
Sembcorp Green Infra Limited (SGI) [3,4]	India	**93.73**	100 [3]
Sembcorp Gayatri Power Limited (SGPL) [2,4]	India	**–**	88.00
Sembcorp Myingyan Power Company Limited [2]	Myanmar	**100**	100
Marine			
Sembcorp Marine Ltd [1]	Singapore	**61.01**	60.98
Jurong Shipyard Pte Ltd [1]	Singapore	**61.01**	60.98
PPL Shipyard Pte Ltd [1]	Singapore	**61.01**	60.98
Sembcorp Marine Repairs & Upgrades Pte. Ltd. [1]	Singapore	**61.01**	60.98
Sembcorp Marine Offshore Platforms Pte Ltd [1]	Singapore	**61.01**	60.98
Urban Development			
Sembcorp Development Ltd [1]	Singapore	**100**	100
Vietnam Singapore Industrial Park Pte Ltd [1]	Singapore	**96.59**	96.59
Singapore Technologies Industrial Corp Ltd [1]	Singapore	**100**	100
Nanjing Riverside Quay Co., Ltd [2]	People's Republic of China	**100**	100
Others			
Sembcorp Design and Construction Pte Ltd [1]	Singapore	**100**	100
Singapore Precision Industries Pte Ltd [1]	Singapore	**100**	100

[1] Audited by KPMG LLP, Singapore

[2] Audited by member firms of KPMG International

[3] In 2017, the Group has acquired the remaining equity stakes of SGI (refer to Note 37)

[4] In 2018, SEIL and SGPL have amalgamated into SEIL. The Group has also reorganised its India energy business and its equity stake in SEIL increased from 86.87% to 93.70% and SGI became a wholly-owned subsidiary of SEIL

The following summarises the effect of changes in the Group's ownership interest in SEIL Group:

(S$ million)	SEIL Group
Group's ownership interest at January 1, 2018*	1,360
Effect of increase in Group's ownership interest	29
Share of comprehensive income	(81)
Group's ownership interest at December 31, 2018	1,308

* Amount consists of Group's ownership interest in SEIL, SGPL and SGI before reorganisation

45. 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 2018 %	2017 %
Utilities			
^^^ Sembcorp Salalah Power and Water Company SAOG	Oman	**40.00**	40.00
Urban Development			
^^ Wuxi-Singapore Industrial Park Development Co., Ltd	People's Republic of China	**45.36**	45.36
Name of key joint ventures			
Utilities			
^ Phu My 3 BOT Power Company Ltd.	Vietnam	**66.67**	66.67
# Shanghai Cao Jing Co-generation Co. Ltd	People's Republic of China	**30.00**	30.00
^^ Emirates Sembcorp Water & Power Company P.J.S.C	United Arab Emirates	**40.00**	40.00
# Chongqing Songzao Sembcorp Electric Power Co., Ltd	People's Republic of China	**49.00**	49.00
## Guohua AES (Huanghua) Wind Power Co., Ltd	People's Republic of China	**49.00**	49.00
Urban Development			
^^ Vietnam Singapore Industrial Park J.V. Co., Ltd.	Vietnam	**49.26**	49.26
** Sino-Singapore Nanjing Eco Hi-tech Island Development Co., Ltd	People's Republic of China	**21.50**	21.50
^^ Sino-Singapore (Chengdu) Innovation Park Development Co., Ltd	People's Republic of China	**25.00**	25.00
*** PT Kawansan Industri Kendal	Indonesia	**49.00**	49.00
Name of key joint operations			
Others			
### Sinohydro-Sembcorp Joint Venture	Singapore	**50.00**	50.00

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

^^ Audited by member firms of KPMG International
^ Audited by Ernst & Young Vietnam Limited
# Audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company
** Audited by Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd, China
Audited by KPMG LLP, Singapore
*** Audited by BDO Indonesia
^^^ Audited by PricewaterhouseCoopers LLC
Audited by Baker Tilly Certified Public Accountants Co., Ltd, China

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

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS 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.

As stated in Note 2.1, these are the first financial statements of the Group and of the Company prepared in accordance with SFRS(I).

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2018, the comparative information presented in these financial statements for the year ended December 31, 2017 and in the preparation of the opening SFRS(I) balance sheets at January 1, 2017 (the Group's date of transition), subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

In preparing the opening SFRS(I) balance sheets, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with previous FRS.

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.

An explanation of how the transition from previous FRS to SFRS(I) and the adoption of SFRS(I) 9 and SFRS(I) 15 have affected the Group's financial position, financial performance and cash flows, and the Company's financial position is set out under the summary of quantitative impact and the accompanying notes.

Summary of Quantitative Impact

The following table summarises the impact, net of tax, of the transition to SFRS(I) 15 and SFRS(I) 9 on the Group's and the Company's balance sheets as at January 1, 2017, 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.

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Summary of Quantitative Impact *(cont')*

Balance Sheets

(S$ million)	As at December 31, 2017 As reported previously	SFRS(I) 15	As reported presently	As at January 1, 2018 SFRS(I) 9	As reported presently
Group					
Non-current assets					
Associates and joint ventures	1,765	–	1,765	(2)	1,763
Trade and other receivables	1,184	–	1,184	(8)	1,176
Contract costs	–	128	128	–	128
Others	12,168	8	12,176	–	12,176
	15,117	136	15,253	(10)	15,243
Current assets					
Inventories	3,214	(2,690)	524	–	524
Trade and other receivables	2,032	62	2,094	(4)	2,090
Contract assets	–	661	661	*	661
Contract costs	–	2,363	2,363	–	2,363
Others	2,850	–	2,850	–	2,850
	8,096	396	8,492	(4)	8,488
Total assets	23,213	532	23,745	(14)	23,731
Current liabilities					
Trade and other payables	3,819	(479)	3,340	–	3,340
Contract liabilities	–	1,157	1,157	–	1,157
Excess of progress billings over work-in-progress	181	(181)	–	–	–
Current tax payable	159	*	159	–	159
Others	1,677	–	1,677	–	1,677
	5,836	497	6,333	–	6,333
Non-current liabilities					
Deferred tax liabilities	428	*	428	*	428
Other long-term payables	295	(39)	256	–	256
Contract liabilities	–	116	116	–	116
Others	8,438	–	8,438	–	8,438
	9,161	77	9,238	–	9,238
Total liabilities	14,997	574	15,571	*	15,571
Net assets	8,216	(42)	8,174	(14)	8,160
Equity attributable to owners of the Company					
Other reserves	(82)	(3)	(85)	*	(85)
Revenue reserve	5,483	(23)[1]	5,460	(13)[2]	5,447
Others	1,569	–	1,569	–	1,569
Non-controlling interests	1,246	(16)	1,230	(1)	1,229
Total equity	8,216	(42)	8,174	(14)	8,160

[1] Amount relates mainly to reversal of cumulative profits of certain contracts that were recognised in prior years in accordance with existing policies in Note 2(t)(ii) where such revenue and related costs of sales would be recognised on delivery to customers upon adoption of SFRS(I) 15.

[2] Amount relates mainly to the expected increase in impairment loss for trade and other receivables (including service concession receivables) as a result of the application of the expected credit loss model in line with the adoption of SFRS(I) 9, instead of the previous 'incurred loss' model under the previous FRS.

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Summary of Quantitative Impact *(cont')*

Balance Sheets *(cont'd)*

(S$ million)	January 1, 2017 As reported previously	SFRS(I) 15	As reported presently
Group			
Non-current assets			
Associates and joint ventures	1,746	–	1,746
Trade and other receivables	734	–	734
Others	12,187	61	12,248
	14,667	61	14,728
Current assets			
Inventories	3,466	(3,009)	457
Trade and other receivables	1,958	48	2,006
Contract assets	–	453	453
Contract costs	–	2,612	2,612
Others	2,200	–	2,200
	7,624	104	7,728
Total assets	22,291	165	22,456
Current liabilities			
Trade and other payables	3,398	(234)	3,164
Contract liabilities	–	682	682
Excess of progress billings over work-in-progress	223	(223)	–
Current tax payable	190	–	190
Others	2,205	–	2,205
	6,016	225	6,241
Non-current liabilities			
Deferred tax liabilities	402	–	402
Other long-term payables	258	(29)	229
Contract liabilities	–	271	271
Others	7,452	–	7,452
	8,112	242	8,354
Total liabilities	14,128	467	14,595
Net assets	8,163	(302)	7,861
Equity attributable to owners of the Company			
Other reserves	(52)	(10)	(62)
Revenue reserve	5,385	(176)[3]	5,209
Others	1,369	–	1,369
Non-controlling interests	1,461	(116)	1,345
Total equity	8,163	(302)	7,861

[3] Amount relates mainly to reversal of cumulative profits of certain contracts that were recognised in prior years in accordance with existing policies in Note 2(t)(ii) where such revenue and related costs of sales would be recognised on delivery to customers upon adoption of SFRS(I) 15.

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Summary of Quantitative Impact *(cont')*

Consolidated Income Statement

(S$ million)	Year ended December 31, 2017 As reported previously	SFRS(I) 15	As reported presently
Group			
Turnover	8,346	680	9,026
Cost of sales	(7,400)	(391)[4]	(7,791)
Gross profit	946	289	1,235
Other operating income	75	–	75
Finance costs	(526)	(1)	(527)
Others	(183)	11	(172)
Profit before tax	312	299	611
Tax expense	(67)	(51)	(118)
Profit for the year	245	248	493
Attributable to:			
Owners of the Company	231	152	383
Non-controlling interests	14	96	110
Profit for the year	245	248	493

[4] Amount relates mainly to the reversal of adjustments (in relation to contract terminations) recorded in 2017, partially set-off by reversal of revenue and related cost of sales for other contracts recognised in 2017 in accordance with existing policies in Note 2(t)(ii), which would now be recognised on delivery to customers in line with the Group's adoption of SFRS(I) 15.

Consolidated Statement of Comprehensive Income

(S$ million)	Year ended December 31, 2017 As reported previously	SFRS(I) 15	As reported presently
Profit for the year	245	248	493
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	(151)	12	(139)
Others	47	–	47
Total comprehensive income for the year	141	260	401
Attributable to:			
Owners of the Company	160	160	320
Non-controlling interests	(19)	100	81
Total comprehensive income for the year	141	260	401

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Summary of Quantitative Impact *(cont')*

Balance Sheets

(S$ million)	Year ended December 31, 2017 As reported previously	SFRS(I) 15	As reported presently
Company			
Non-current assets	3,347	–	3,347
Current assets	870	–	870
Total assets	4,217	–	4,217
Current liabilities	203	–	203
Non-current liabilities			
Other long-term payables	287	(12)	275
Contract liabilities	–	13	13
Others	69	–	69
	356	1	357
Total liabilities	559	1	560
Net assets	3,658	(1)	3,657
Revenue reserve	2,087	(1)	2,086
Others	1,571	–	1,571
Equity attributable to owners of the Company	3,658	(1)	3,657

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Summary of Quantitative Impact *(cont')*

Balance Sheets *(cont'd)*

(S$ million)	January 1, 2017 As reported previously	SFRS(I) 15	As reported presently
Company			
Non-current assets	3,171	–	3,171
Current assets	572	–	572
Total assets	3,743	–	3,743
Current liabilities			
Trade and other payables	138	(1)	137
Contract liabilities	–	1	1
Others	63	–	63
	201	–	201
Non-current liabilities			
Other long-term payables	282	(13)	269
Contract liabilities	–	14	14
Others	71	–	71
	353	1	354
Total liabilities	554	1	555
Net assets	3,189	(1)	3,188
Revenue reserve	1,827	(1)	1,826
Others	1,362	–	1,362
Equity attributable to owners of the Company	3,189	(1)	3,188

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Notes to the reconciliation

i. SFRS(I) 1

Upon adoption of SFRS(I) in 2018, the Group applied SFRS(I) 1 with effect on 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. In the event of changes to accounting policies arising from new or amended standards effective in 2018, restatement of comparatives may be required, as 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 application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 does not have a significant impact on the financial statements.

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 adopted SFRS(I) 15 in its financial statements for the year ended December 31, 2018, using the retrospective approach. All requirements of SFRS(I) 15 have been applied retrospectively, except as described below, and the comparative periods presented for 2017 has been restated.

The Group has used 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 has used 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 has used 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 has used 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.

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Notes to the reconciliation

ii. SFRS(I) 15 *(cont'd)*

The key impact of the adoption of SFRS(I) 15 is described below:

Long-term Contracts

a. Timing of Revenue and Cost Recognition

The Group previously recognised revenue from long-term contracts from its rig & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding businesses under Marine's operating segment, as well as other infrastructure construction, using the percentage of completion method, provided the outcome of the contract could be reliably estimated.

The Group does not have an alternative use for specialised assets which are built to customers' order.

In the event that 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 will continue to recognise revenue from 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 will be recognised only when the constructed assets are delivered to customers.

b. Contract Costs

Prior to the adoption of SFRS(I) 15, in the case of long-term contracts where the stage of completion was determined with reference to surveys of work done, contract costs were recognised as an expense in profit or loss using the percentage of completion method.

On adoption of SFRS(I) 15, the costs incurred to fulfil the satisfied performance obligation are now recognised in profit or loss as control of the goods or services is transferred to the customer 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 changes in the contract margin over the term of these long-term contracts.

Where the control of goods and services is transferred to the customer 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 obligations are satisfied.

Consideration Payable to Customer

The Group previously offset 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.

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Notes to the reconciliation *(cont'd)*

iii. SFRS(I) 9

SFRS(I) 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' (ECL) model and a new general hedge accounting model. The Group adopted SFRS(I) 9 from January 1, 2018.

In accordance with the exemption in SFRS(I) 1, the Group has elected not to restate information for 2017. Accordingly, the information for 2017 is presented, as previously reported, under FRS 39 *Financial Instruments: Recognition and Measurement*. 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.

Arising from this, the Group is exempted from providing disclosures required by SFRS(I) 7 *Financial Instruments: Disclosures* for the comparative period to the extent that these disclosures relate to items within the scope of SFRS(I) 9. Instead, disclosures under FRS 107 *Financial Instruments: Disclosures* relating to items within the scope of FRS 39 have been provided for the comparative period.

Transition

Changes in accounting policies resulting from the adoption of SFRS(I) 9 have been generally applied by the Group retrospectively, except as described below:

- The following assessments were 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 FVOCI.
  - The designation of investments in unit trusts and funds as at FVTPL.
- New hedge accounting requirements are applied prospectively. All hedging relationships designated under FRS 39 *Financial Instruments: Recognition and Measurement* at December 31, 2017 that met the criteria for hedge accounting under SFRS(I) 9 at January 1, 2018 were therefore regarded as continuing hedging relationships.

a. Classification and Measurement of Financial Assets and Financial Liabilities

Under SFRS(I) 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI – equity instrument or FVTPL. The classification of financial assets under SFRS(I) 9 is generally based on the business model under which a financial asset is managed and its contractual cash flow characteristics. SFRS(I) 9 eliminates the previous FRS 39 categories of held to maturity, loans and receivables and available-for-sale. Under SFRS(I) 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The adoption of SFRS(I) 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under SFRS(I) 9, refer to Notes 2(g) and 2(m).

The following table and accompanying notes below explain the original measurement categories under FRS 39 and the new measurement categories under SFRS(I) 9 for each class of the Group's financial assets and financial liabilities as at January 1, 2018.

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Notes to the reconciliation *(cont'd)*

iii. SFRS(I) 9 *(cont'd)*

a. Classification and Measurement of Financial Assets and Financial Liabilities *(cont'd)*

The effect of adopting SFRS(I) 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements.

(S$ million)	Note	Original classification under FRS 39	New classification under SFRS(I) 9	Original carrying amount under FRS 39	New carrying amount under SFRS(I) 9
Group					
Financial assets					
Cash and cash equivalents	16	Loans and receivables	Amortised costs	2,687	2,687
Trade receivables	8	Loans and receivables	Amortised costs	1,206	1,202
Service concession receivables	8	Loans and receivables	Amortised costs	893	885
Other loans and receivables	8	Loans and receivables	Amortised costs	586	586
Amounts due from related parties	10	Loans and receivables	Amortised costs	109	109
Equity shares	7	Available-for-sale financial assets	FVOCI	122	122
Unit trusts and funds	7	Available-for-sale financial assets	FVTPL	67	67
Cross currency swaps	7	FVTPL	FVTPL	6	6
Foreign exchange swap contracts	7	FVTPL	FVTPL	1	1
Commodity swaps	7	FVTPL	FVTPL	2	2
Hedge of net investment in foreign operations:					
– Cross currency swaps	7	Fair value hedging instrument	Fair value hedging instrument	14	14
Cash flow hedges:					
– Forward foreign exchange contracts	7	Fair value hedging instrument	Fair value hedging instrument	57	57
– Fuel oil swaps	7	Fair value hedging instrument	Fair value hedging instrument	43	43
– Cross currency swaps	7	Fair value hedging instrument	Fair value hedging instrument	4	4
Fair value hedges:					
– Forward foreign exchange contracts	7	Fair value hedging instrument	Fair value hedging instrument	1	1
Total financial assets				5,798	5,786

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Notes to the reconciliation *(cont'd)*

iii. SFRS(I) 9 *(cont'd)*

a. Classification and Measurement of Financial Assets and Financial Liabilities *(cont'd)*

(S$ million)	Note	Original classification under FRS 39	New classification under SFRS(I) 9	Original carrying amount under FRS 39	New carrying amount under SFRS(I) 9
Company					
Cash and cash equivalents	16	Loans and receivables	Amortised costs	720	720
Trade receivables	8	Loans and receivables	Amortised costs	40	40
Other loans and receivables	8	Loans and receivables	Amortised costs	88	88
Amounts due from related parties	10	Loans and receivables	Amortised costs	230	230
Total financial assets				1,078	1,078

a. The Group elected to present in OCI the changes in fair value of the AFS equity securities that are held by the Group because these investments are not held for trading.

b. Trade receivables and service concession receivables that were classified as loans and receivables under FRS 39 are now classified at amortised cost. An increase of S$12 million in the allowance for impairment over these receivables was recognised in opening retained earnings at January 1, 2018 on transition to SFRS(I) 9.

b. Impairment

SFRS(I) 9 replaces the previous '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 applied 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 applied the general approach for service concession receivables where the loss allowances are equal to the 12-month ECL.

For assets in the scope of the SFRS(I) 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of SFRS(I) 9's impairment requirements at January 1, 2018 results in an additional allowance for impairment as follows.

(S$ million)	Group	Company
Loss allowance at December 31, 2017 under FRS 39	**206**	2
Additional impairment recognised as at January 1, 2018 on:		
Trade and other receivables as at December 31, 2017	**12**	–
Loss allowance as at January 1, 2018 under SFRS(I) 9	**218**	2

Additional information about how the Group and Company measure allowance for impairment is described in Note 39.

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

Notes to the reconciliation *(cont'd)*

iii. SFRS(I) 9 *(cont'd)*

c. Hedging

The Group has elected to adopt the new general hedge accounting model in SFRS(I) 9. This requires the Group to ensure that the hedging relationship are aligned with its risk management objectives and strategy, and to apply a more qualitative and forward-looking approach to assess hedge effectiveness.

Applicable to financial statements for the year 2019 and thereafter

The following new SFRS(I)s, amendments to and interpretations of SFRS(I)s 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)
- *Previously Held Interest in a Joint Operation* (Amendments to SFRS(I) 3 and 11)
- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* (Amendments to SFRS(I) 1-12)
- *Borrowing Costs Eligible for Capitalisation* (Amendments to SFRS(I) 1-23)
- *Plan Amendment, Curtailment or Settlement* (Amendments to SFRS(I) 1-19)

Applicable to 2021 financial statements

- SFRS(I) 17 *Insurance Contracts*

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.

46. Full Convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) and IFRS and Adoption of New Standards *(cont'd)*

SFRS(I) 16

SFRS(I) 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. SFRS(I) 16 replaces existing lease accounting guidance, including SFRS(I) 1-17 Leases, SFRS(I) INT 4 Determining whether an Arrangement contains a Lease, SFRS(I) INT 1-15 Operating Leases – Incentives and SFRS(I) INT 1-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

i. The Group as lessee

The Group and Company plan to apply SFRS(I) 16 retrospectively with the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of revenue reserve at the date of initial application. The Group and Company choose to measure the ROU asset at its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the Group's and Company's incremental borrowing rate at the date of initial application. For lease contracts that contain the option to renew, the Group and Company are expected to use hindsight in determining the lease term.

The Group and Company expect their existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under SFRS(I) 16. Lease payments that are increased every five years to reflect market rentals, and those that are based on changes in local price index, are included in the measurement of lease liabilities as at date of initial application.

As at January 1, 2019, the Group expects an increase in ROU assets of S$504 million, a decrease in property, plant and equipment of S$102 million, an increase in lease liabilities of S$542 million, a decrease in provisions of S$96 million, and a decrease in revenue reserves of S$44 million.

The Company expects an increase in ROU assets of S$69 million, an increase in lease liabilities of S$79 million and a decrease in revenue reserves of S$10 million.

The nature of expenses related to those leases will change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge for ROU assets and interest expense on lease liabilities.

No significant impact is expected for the Group's and Company's finance leases.

ii. The Group as lessor

SFRS(I) 16 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group and Company continue 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.

The Group and Company will reassess the classification of sub-leases in which the Group and Company are lessors. No significant impact is expected for other leases in which the Group and Company are lessors.

iii. Transition

The Group and Company plan to apply SFRS(I) 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting SFRS(I) 16 will be recognised as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information. The Group and Company plan to apply the practical expedient to grandfather the definition of a lease on transition. This means that they will apply SFRS(I) 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with SFRS(I) 1-17 and SFRS(I) INT 4.