Directors' Statement

Year ended December 31, 2022

Audit Committee

The members of the Audit Committee during the year and at the date of this report are:

Yap Chee Keong *(Chairman)*
Ajaib Haridass
Dr Josephine Kwa Lay Keng *(Appointed on April 21, 2022)*

The Audit Committee held five meetings during the financial year. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, and the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee performed the functions specified in Section 201B of the Companies Act 1967, the Listing Manual of the SGX, and the Code of Corporate Governance.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the external and internal auditors;
- interim financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the SGX).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the board of directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming AGM of the Company.

In appointing our auditors for the Company, subsidiaries and significant associated companies, we have complied with Rules 712 and 715 of the SGX Listing Manual.

Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Ang Kong Hua
Chairman

Wong Kim Yin
Director

Singapore
February 20, 2023

Independent Auditors' Report

Members of the Company
Sembcorp Industries Ltd

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sembcorp Industries Ltd (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at December 31, 2022, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 53 to 115.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 (the Act), Singapore Financial Reporting Standards (International) (SFRS(I)s) and International Financial Reporting Standards (IFRSs) so as to give a true and fair view of the financial position of the Group and the Company as at December 31, 2022 and of the financial performance, changes in equity and cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of property, plant and equipment, intangible assets and interests in associates and joint ventures (collectively, the Group's non-financial assets)

(Refer to Notes D1, D3 and G3 to the financial statements: property, plant and equipment of S$5,305,000,000, intangible assets of S$697,000,000 and associates and joint ventures of S$2,287,000,000).

Risk:

As at December 31, 2022, the Group's non-financial assets amounted to S$8,289,000,000. Management performs impairment assessment of these assets at least annually and as and when indicators of impairment or impairment reversal occur.

CGUs identified for impairment assessment are found in Note D3.

The recoverable amount of a CGU is the higher of the CGU's fair value less costs of disposal and its value-in-use (VIU). As the fair values of these assets are not readily determinable, the Group measures the recoverable amounts using the discounted cash flow technique to derive the assets' VIU.

The determination of the recoverable amounts of these CGUs involves a high degree of judgement and is subject to significant estimation uncertainties, principally, the gross margin forecasts, plant load factors and discount rates used. Gross margin forecasts and plant load factors depend on customer demand that corresponds with tariff rates that can be affected by political and regulatory developments.

Independent Auditors' Report

Report on the audit of the financial statements *(cont'd)*

Impairment assessment of property, plant and equipment, intangible assets and interests in associates and joint ventures (collectively, the Group's non-financial assets) *(cont'd)*

Our response:
We assessed the Group's process for identifying and reviewing the CGUs subject to impairment testing.

We reviewed the key assumptions supporting the value-in-use calculations. We compared the plant load factors and gross margin forecasts to what had been achieved historically and prevailing market conditions affecting tariff and electricity demand. Together with our valuation specialist, we compared the discount rates to market observable data of peer companies and applicable risk premiums.

We performed sensitivity analysis of key assumptions driving the cash flow forecasts for the individual CGUs and considered the likelihood of such changes arising.

Our findings:
The Group has a process for identifying and reviewing the CGUs for impairment testing. Key inputs on revenue and margins, cash flow projections period, maintenance capital expenditure, assumed inflationary adjustment on operating costs and discount rates are used in assessing the recoverable amounts of the CGUs. We found these key inputs comparable to market expectations. The disclosures describing the estimation uncertainties and the sensitivity of the assumptions applied are appropriate.

Valuation of trade and service concession receivables
(Refer to Note E1 to the financial statements: Trade receivables of S$677,000,000 and service concession receivables of S$897,000,000)

Risk:
As at December 31, 2022, the Group's gross trade and service concession receivables totalled S$1,574,000,000 against which a loss allowance of S$136,113,000 was recorded. Such assessment of expected credit losses involving customer-specific and forward-looking information requires management judgement.

Of the loss allowance recorded, S$110,494,000 originated from service concession receivables recorded by a subsidiary, Sembcorp Myingyan Power Company (SMPC). A lifetime approach was applied in determining this loss allowance following a deterioration in credit risk rating from initial recognition of these trade receivables. SMPC operates in an emerging economy which is currently facing an unstable political environment, a weakening economy impacting foreign exchange reserves and potentially facing increased trade and economic sanctions. The probability default rate of "CC" sovereign rating assigned to bonds issued by external credit rating agencies is applied to determine this expected credit loss allowance.

Our response:
We reviewed the Group's estimation process in determining the amount of loss allowance recognised on these receivables.

We evaluated the creditworthiness of individually significant receivable accounts including the ones with deterioration in credit risk after initial recognition; and checked the probability of default and loss given default factors appraised by external credit agencies.

We assessed the adequacy of disclosures surrounding management's assessment on recoverability of these receivables.

Our findings:
The Group performs credit risk assessment on its trade and service concession receivables.

Management's basis of expected credit loss allowances booked on these receivables is supported by past historical experience together with probabilities of default and loss given default obtained from Standards and Poor and Moody's.

We found the disclosures surrounding credit risk assessment to be adequate.

Accounting for acquisitions of subsidiaries and associates in China
(Refer to Note D3, G1, G3 and G5 to the financial statements: Goodwill of S$126,000,000, Subsidiaries of S$2,309,000,000, Associates and Joint Ventures of S$2,287,000,000)

Risk:
During the financial year ended December 31, 2022, the Group completed the following acquisitions in China through its subsidiaries: 98% equity interest in Shenzhen Huiyang New Energy Group (HYNE), 35% equity interest in SDIC New Energy Investment Co., Ltd. (SDIC) and 45.3% equity interest in Hunan Xingling New Energy Co., Ltd. (Xingling) (collectively, the "Chinese companies").

These acquisitions require purchase price to be allocated to the fair values of the identifiable assets (including intangible assets) acquired and liabilities assumed. There is judgement involved in the purchase price allocation process including valuation of any intangible assets that emerged on business combination. There is also an on-going nationwide audit carried out by regulators in relation to subsidies on energy production received by Chinese renewables companies. The initial purchase price allocation assigned to the individual assets and liabilities of these companies acquired together with contingent consideration payable estimated by management may be subject to adjustments.

Our response:
We read the sales and purchase agreements in relation to these acquisitions and reviewed the key terms.

We referred the fair valuation of the acquired assets and assumed liabilities by reference to the Chinese companies' business model.

We assessed the objectivity, competence and capabilities of the external valuation specialist engaged by management to perform the PPA and determine the fair values of acquired assets and assumed liabilities.

We involved our valuation specialist to compare the outcomes of PPA exercise against market expectations.

We sought external legal opinions on subsidy audit and implications on initial PPA exercise conducted on the Chinese companies acquired.

We also assessed the disclosures surrounding the acquisitions in Note G1, G3 and G5.

Our findings:
We found the estimates used in allocating purchase price to the individual assets acquired, and liabilities assumed (determined on a provisional basis) to be appropriate. The inputs including tariff and electricity demand used in the valuation model for intangible asset are comparable with market expectations.

We found the external valuation specialist engaged by management to be objective, competent and experienced.

We reviewed legal opinion from external legal counsel about the subsidy audit and expected implications on current tariff recorded by the Chinese companies.

We found the disclosures surrounding new acquisitions to be adequate.

Independent Auditors' Report

Report on the audit of the financial statements *(cont'd)*

Valuation of consideration to be received for discontinued operation and disposal group held for sale
(Refer to Note G6 to the financial statements: Assets held for sale of S$3,432,000,000 and liabilities held for sale of S$1,494,000,000)

Risk:
During the financial year ended December 31, 2022, the Group entered into a sales and purchase (S&P) agreement to divest subsidiary, Sembcorp Energy India Limited and its subsidiaries ("SEIL"). The assets and liabilities of SEIL have been presented as "held for sale" and measured at lower of carrying amount and fair value less costs to sell (the "Re-measurement" exercise).

The consideration for the sale of SEIL is deferred and the Group shall issue deferred payment note ("DPN") to purchaser upon completion of the transaction. The assessment of present value of DPN therefore becomes necessary in this re-measurement exercise; and the Group assessed that there is no write-down of carrying value of assets held for sale needed as at December 31, 2022 by reference to discounted cash flow model ("DCF") of SEIL as appraised by the Group.

In determining the fair value of DPN, it is assumed that the purchaser settles the DPN from agreed portions (as set out in S&P agreement) of distributions including dividends declared by SEIL. The Group has performed a discounted cashflow using the forecasted distributable reserves available from SEIL, taking into account (i) secured cash flows from various power purchase agreements ("PPA") with an average remaining duration of 15 years and (ii) unsecured cash flows from contract renewals and / or new contracts.

Following the above analysis, management applied a discount rate to present value the DPN to reflect the cash flow risks associated with the forecasted distributable dividends from SEIL, and credit-default risk of the purchaser.

Our response:
We read the sales and purchase agreement to obtain an understanding of the transaction and key terms together with terms of repayment arrangement of DPN.

We involved our valuation specialist to obtain market observable data including credit ratings of bonds issued by Indian public energy sector to benchmark with discount rate used by management.

Our findings:
Management's use of discount rate to present value the DPN reflects the risks associated with the cash flows and credit risk as appraised under prevailing market conditions and circumstances applicable to SEIL and the purchaser, respectively. Any changes in market conditions and circumstances may change the subsequent measurement value of DPN, with effects on future periods' profit or loss.

Other Information
Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained the following items prior to the date of this auditors' report:

- Our Leadership
- Corporate Information
- Group FY2022 Highlights
- Chairman and CEO's Statement
- Renewables Review
- Integrated Urban Solutions Review
- Conventional Energy Review
- Directors' Statement

The following items (the Reports) are expected to be made available to us after that date:

- Group Financial Review
- Environmental, Social and Governance Review
- Shareholding Statistics
- Additional Information on Directors Seeking Re-election

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

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

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

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

Responsibilities of management and directors for the financial statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act, SFRS(I)s and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

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

Independent Auditors' Report

Report on the audit of the financial statements *(cont'd)*

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

The engagement partner on the audit resulting in this independent auditors' report is Koh Wei Peng.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
February 20, 2023