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, 2023, 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 material accounting policy information as set out on pages 110 to 230.

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, 2023 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$6,465,000,000, intangible assets of S$952,000,000 and associates and joint ventures of S$2,396,000,000).

Risk:

As at December 31, 2023, the Group's non-financial assets amounted to S$9,813,000,000. 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. We involved our valuation specialist in comparing the discount rates to market observable data of peer companies and applicable risk premiums, where required.

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: Gross trade receivables of S$841,000,000 and service concession receivables of S$843,000,000)

Risk:
As at December 31, 2023, the Group's gross trade and service concession receivables totalled S$1,684,000,000 against which a loss allowance of S$170,000,000 was recorded. Such assessment of expected credit losses involving customer-specific and forward-looking information requires management judgement.

Management estimates the loss allowance based on the ageing of overdue balances, repayment histories of individual debtors, existing customer-specific, market conditions and forward-looking information.

Such assessment of expected credit losses is inherently subjective and requires the exercise of significant management judgement.

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 Economist Intelligence Unit (EIU), Standards and Poor and Moody.

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

Divestment of Sembcorp Energy India Limited (SEIL)
(Refer to Note G6 and H1 to the financial statements: DPN receivable of S$1,816,000,000)

Risk:
The Group completed its divestment of Sembcorp Energy India Limited and its subsidiaries ("SEIL") during the year. As part of this transaction, the Group provided vendor financing to the Purchaser (Tanweer Infrastructure Pte. Ltd.) ("Tanweer") via a deferred payment note ("DPN"). The Group expects the DPN to be fully repaid within 24 years. The DPN is accounted as a financial asset measured at fair value through profit or loss as it does not satisfy the solely payment of principal and interest (SPPI) criteria set out under SFRS(I) 9 Financial Instruments for this financial asset to be carried at amortised cost. Tanweer also requested the Group to provide advisory services to SEIL via a Technical Service Agreement ("TSA").

In determining the fair value of DPN, it is assumed that Tanweer 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.

Management applied a discount rate to present value the DPN to reflect the cash flow risks associated with the forecast distributable dividends from SEIL, and credit-default risk of the Purchaser.

High degree of judgement is required to determine if the Group retains control or significant influence over SEIL post divestment. Significant estimates are also required to determine the fair value of the DPN.

Our response:
We read the relevant transaction agreements and reviewed management's assessment on whether the Group retains control or significant influence over SEIL post completion of the divestment.

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 and application of valuation model used by management.

We performed a retrospective review over the amount received for the year and reviewed the latest cash flows forecasted by management to ascertain reasonableness of assumptions used in the valuation model.

We assessed adequacy of disclosure relating to the divestment.

Our findings:
Management assessed that the Group does not retain control or significant influence over SEIL following completion of the divestment. The Group divested 100% of equity stake in SEIL and does not have representatives on SEIL's board of directors who are responsible for key decisions which impact operations and financial returns of SEIL. The services which may be requested by Tanweer and provided by the Group under the TSA are advisory in nature and do not confer the Group the ability to control or significantly influence operations of SEIL. In addition, the TSA is non-exclusive and Tanweer has the discretion to appoint another competent third-party service provider. The DPN included certain rights such as the requirement for annual operating budget of SEIL to be approved by the Group. Such rights are considered protective in nature and commonly included in non-recourse project financing agreements provided by other financial institutions.

Management has appropriately recognised the DPN as fair value through profit or loss as it does not satisfy the solely payment of principal and interest (SPPI) criteria set out under SFRS(I) 9 Financial Instruments.

Amounts received by the Group are in line with management's forecast and assumptions used in the valuation model appears to be reasonable.

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.

We found the disclosures relating to the divestment to be adequate.

Independent Auditors' Report

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

Other Information

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

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

- Investor Relations
- Corporate Information
- Group FY2023 Highlights
- Investor Day 2023 Thematics
- Chairman and CEO's Statement
- Business Review – Performance Scorecard
- Gas and Related Services Review
- Renewables Review
- Integrated Urban Solutions Review
- Decarbonisation Solutions Review
- Directors' Statement

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

- Our Leadership
- 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.

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.

Independent Auditors' Report

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

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
February 19, 2024