

Independent Auditors' Report

Year ended December 31, 2020

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, 2020, the consolidated income statement, 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 90 to 216.

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 Singapore Companies Act, Chapter 50 (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, 2020 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, long-term contracts, and interests in associates and joint ventures and goodwill (collectively, the Group's non-financial assets)

(Refer to Notes D1, D3 and G5 to the financial statements: property, plant and equipment of S\$7,204,000,000, goodwill of S\$159,000,000, long-term contracts of S\$114,000,000 and associates and joint ventures of S\$1,588,000,000)

Risk:

As at December 31, 2020, the Group's non-financial assets for the Energy segment amounted to S\$9,065,000,000. The Group's key Energy segment assets are in China, India, Singapore and United Kingdom.

Management performs impairment assessment of these assets at least annually and as and when indicators of impairment occur. As a result of management's impairment review, the Group recognised impairment losses totalling S\$209,000,000 as the recoverable amounts for certain CGUs did not support the assets' carrying amounts.

An impairment loss exists when the net carrying amount of the assets is in excess of the recoverable amount. 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 amount 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 discount rates, gross margin forecasts, plant load factors (power plants) and wastewater plant treatment capacity (wastewater treatment assets). The gross margin forecasts, plant load factors and wastewater plant treatment capacity take into account expected customer demand and forecasted tariff rates. These are inherently subject to estimation uncertainties as well as political and regulatory developments.

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

Impairment assessment of property, plant and equipment, long-term contracts, and interests in associates and joint ventures and goodwill (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, including our valuation specialists to the extent appropriate, reviewed the key assumptions supporting the VIU calculations to arrive at the recoverable amounts of these CGUs. We compared the plant load factors, wastewater plant treatment capacity and gross margin forecasts to what has been achieved historically, discussions with management, as well as prevailing industry trends. We compared the discount rates to available market observable data including market and country risk premiums and any asset-specific risk premium.

We performed sensitivity analysis of the key assumptions and the key drivers of the cash flow forecasts for the individual CGUs and considered the likelihood of such changes arising. We analysed in particular, the sensitivity analysis which considers reasonably possible changes in key assumptions in respect of a CGU in India where the headroom is dependent on securing long-term power purchase agreement in the foreseeable future.

We assessed the related disclosures on key assumptions applied in determining the recoverable amounts of the CGUs.

Our findings:

The Group has a process for identifying and reviewing the CGUs for impairment testing. The impairment test assessments incorporated the known relevant considerations as at the reporting date. The disclosures describing the inherent degree of estimation uncertainty and the sensitivity of the assumptions applied are appropriate. If unfavourable changes to these assumptions occur, this could lead to lower operating cash inflows and impairment outcomes which may in turn affect the financial position and performance of the Group.

Valuation of trade and service concession receivables

(Refer to Note E1 to the financial statements: Trade receivables of S\$871,000,000 and service concession receivables of S\$974,000,000)

Risk:

As at December 31, 2020, the Group's gross trade and service concession receivables totalled S\$1,845,000,000 against which a loss allowance of S\$40,000,000 was recorded.

Management estimates the loss allowance based on the ageing of overdue balances, repayment histories of individual debtors, existing customer-specific and 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 reviewed significant inputs to the model which management uses to estimate the Group's expected credit loss and considered the reasonableness of these inputs.

We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving management's assessment on recoverability of these receivables.

Our findings:

The Group has processes to assess credit risk and determine the amount of loss allowance to be recognised on trade and service concession receivables.

Management's assessment of the recoverability of these receivables are supported by available evidence.

We found the disclosures in describing the areas of judgement and inherent degree of estimation uncertainties involved, to be appropriate.

Independent Auditors' Report

Year ended December 31, 2020

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:

- Group FY2020 Highlights
- Chairman and CEO's Statement
- Group Financial Review
- Energy Review
- Urban Review
- Directors' Statement

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

- Our Leadership
- Environmental, Social and Governance Review
- Corporate Information
- Supplementary Information
- 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.

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

Auditors' responsibilities for the audit of the financial statements *(cont'd)*

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 25, 2021