

SEMBCORP INDUSTRIES 22ND ANNUAL GENERAL MEETING

- Responses to substantial and relevant questions

Singapore, May 21, 2020 – Sembcorp Industries (Sembcorp) would like to thank shareholders for submitting their questions in advance of our 22nd Annual General Meeting (AGM) to be convened and held by way of electronic means on May 21, 2020 at 10.00 am (Singapore time).

As there were overlaps in the questions received, we will not be providing responses to every question. Instead, we have set out our responses to the substantial questions relevant to the resolutions tabled for approval at the AGM through the following themes:

- (i) The Energy business
- (ii) The Urban business
- (iii) The Marine business
- (iv) Financial and share price performance
- (v) Others

Please refer to our responses as set out in Appendix 1.

Other questions relating to the impact of COVID-19 and future outlook

In addition, there were questions received relating to the outlook for Sembcorp's businesses including the impact arising from the COVID-19 pandemic. Shareholders can refer to our press release "Update on the impact of the COVID-19 pandemic" released on the SGXNet on May 18, 2020. More information on this topic as well as responses to some other questions will be covered by our Group President & CEO, Neil McGregor and Group CFO, Graham Cockcroft during their presentations at the AGM. The presentation slides will be available on our [website](#) following the AGM.

Appendix 1

Responses to substantial questions relevant to the resolutions tabled for approval at the Sembcorp Industries 22nd Annual General Meeting

Questions	Responses
The Energy Business	
General	
<p>Have low oil prices affected your power plants in Singapore, China, India and the UK?</p>	<p>We see limited impact of low oil prices on our power plant operations in China, India and the UK. However, the performance of the Singapore Energy business is expected to be negatively impacted as a result of the indexation of many of its energy contracts to commodity prices, including its energy-from-waste operations. In addition, the decline in the price of oil and its derivatives has significantly reduced the net realisable value of the inventory of gasoil reserves in Singapore that is required to fulfil certain regulatory requirements.</p>
<p>Do you have any coal powered utility plants? If so, do you plan to exit or have an exit strategy for your coal assets?</p>	<p>Currently, Sembcorp owns 100% of two 1,320MW supercritical coal-fired power plants in India and 49% of a 1,620MW coal-fired power plant in China. In response to climate change, we have set a target to reduce greenhouse gas emissions intensity to 0.42 tonnes of CO₂ equivalent per megawatt hour by 2022. Our power portfolio going forward will be guided by this aim and we will restrict investments in coal-fired power plants.</p> <p>We continue to explore an initial public offering as well as other strategic options for our Energy business in India.</p>
<p>The Energy segment of Sembcorp (with its sizeable renewable energy portfolio) is under-valued by the local financial market. This is especially so compared to recent renewable energy M&A transactions e.g. the sale of Equis Energy in 2017. What are your strategies to unlock value or raise market perception for the Energy segment?</p>	<p>As a Group with multiple businesses, our valuation by the market is subject to many factors.</p> <p>Sembcorp's renewables portfolio has been growing. Over the last two years, we have grown our global renewables capacity by about 20% to over 2,600MW. Profit contribution from our renewables business has grown nearly five-fold since 2016, and the business delivered S\$80 million of net profit in 2019.</p> <p>Going forward, we will continue to focus on growing our renewables portfolio and on lifting the performance of our Energy business, which we believe will be recognised by the market in due time.</p>

<p>Sembcorp has traditionally focused on markets such as India, Singapore, Southeast Asia (e.g. Vietnam), China and the UK. Has Sembcorp considered venturing into other markets that have potential for renewable energy like Japan and Taiwan?</p>	<p>Backed by the strong track record and scale Sembcorp has established in the region, our strategy has been to focus on deepening our presence in our key markets. However, should the right opportunities surface for other markets, we will consider them on a case-by-case basis.</p>
<p>How confident is the Group in its ability to compete in the renewables sector?</p>	<p>Sembcorp is today one of Singapore’s largest home-grown renewable energy players, operating an international portfolio of wind and solar assets. Backed by our strong market positions, project development and operations & maintenance expertise, we believe that we are well-positioned to compete and grow in this sector.</p> <p>In key growth markets such as India, we have the highest renewables capacity under self-operations for an independent power producer in the country. In Singapore, we have 238 megawatt-peak (MWp) of solar capacity, including a 60MWp floating solar photovoltaic (PV) system recently awarded by PUB, which will be one of the world’s largest, inland floating solar PV systems. Across our markets, we leverage innovative technologies as a key differentiator. For example, we have introduced our Virtual Brain platform, an analytics-based digital asset management platform for our renewable energy portfolio in India. In addition, we are able to offer a suite of solutions to support the sector including battery storage and distributed energy solutions.</p>
<p>Singapore</p>	
<p>Kindly provide more details on the plan to replace your Singapore power generation asset, in particular the timeline and the financial impact on the Singapore Energy operations.</p>	<p>We are in the final stages of making a replacement decision on one of our cogeneration power facilities in Singapore. Given that we have yet to make a final investment decision to proceed, it is too preliminary to guide on the timeline and financial impact of the project.</p>
<p>When are your solar power partnerships in Singapore expected to contribute materially to earnings?</p>	<p>In Singapore, we currently have 87MWp of solar capacity in operation with another 151MWp under construction. We do not expect material profit contribution from the current portfolio.</p>

China	
<p>How did the illegal discharge of off-specification wastewater by Sembcorp Nanjing SUIWU occur? What has been done to ensure something similar does not occur in another Sembcorp plant?</p>	<p>The incident occurred as a result of the illegal and isolated activities of a few employees of the joint venture company for a period prior to early 2017. The Group again wishes to express its deep regret for the illegal and criminal activities of the joint venture employees involved. This is an isolated incident and we do not tolerate or condone any illegal activities. The employees have since been charged, tried and sentenced in their individual capacities by the local courts. Their employment was also terminated.</p> <p>We have strengthened our internal controls and processes in our water operations in China. We also enhanced internal audits and operation reviews led by a cross-functional team at Group level, implemented a proprietary technology platform to track and monitor plant performance and compliance, and established a Country Centre of Excellence in Shanghai.</p>
UK	
<p>How was the acquisition price for UK Power Reserve (UKPR) arrived at? Please explain the significant impairment. Was there enough due diligence conducted and what will you enhance in the future?</p>	<p>The acquisition price for UKPR was determined taking into account discounted cash flows and relevant transaction multiples.</p> <p>However, market conditions in the UK have been challenging. The business has been impacted by a combination of political, economic and industry factors. The retirement of the UK's coal and older gas-fired power plants has been slower than expected and there has been increased competition from new entrants. In addition, there was a reduction in underlying demand. The increase in energy capacity and reduction in demand naturally led to more competition causing lower prices and impacting the earnings of UKPR.</p> <p>Considering the challenges faced by the business including the factors outlined above, the business' future performance was projected to be below the investment case. As part of the annual impairment testing exercise, we therefore prudently assessed the value-in-use of its assets and decided to impair the assets.</p> <p>We believe that appropriate due diligence was conducted for the acquisition. However, market conditions and the regulatory environment in the UK are undergoing rapid change which has altered the current outlook on future expectations. We have since strengthened our in-house domain expertise in the area of the UK electricity market trading and grid services to sharpen our forecasting abilities, especially for merchant markets in disruption. We still believe that flexible generation will create value in the future as the UK, and other markets, stride towards their decarbonisation targets.</p>

The Urban Business	
<p>What is the business model of the Urban business and its value proposition compared to other real estate players?</p>	<p>Sembcorp's Urban business owns, develops, markets and manages integrated urban developments comprising industrial parks as well as business, commercial and residential space in Asia.</p> <p>Our key capabilities include master planning and urban design, industry positioning and investment promotion, infrastructure and land development, permits and licensing, facilities and operational management. As such, our offering goes beyond that of typical real estate developers. We do however selectively undertake property development in our projects. We are a valued partner to governments, with the ability to deliver the economic engine to support industrialisation and urbanisation by attracting local and international investments.</p>
The Marine Business	
<p>Are you looking to divest, privatise or merge Sembcorp Marine with other oil and gas companies given the downturn in the offshore and marine sector?</p>	<p>We continue to regularly review our portfolio for opportunities to maximise value for our shareholders.</p>
<p>Given the downturn in the offshore and marine sector, what are the initiatives in place to improve Sembcorp Marine's performance so that it returns to profitability? What is the business' strategy?</p>	<p>In light of the challenging and deteriorating business environment, Sembcorp Marine's current priority is to ensure that it has adequate liquidity to sustain operations and ride through this severe downturn. Sembcorp Marine will continue to focus on safe and timely execution of its projects and to hunt for pockets of opportunities less affected by the current business climate.</p> <p>Sembcorp Marine is moving towards businesses and product segments that focus on cleaner fuel sources and provide greener energy solutions in partnership with its key customers. It will also continue its selective investments in strategic innovations, technologies and production capabilities to strengthen its competitive edge and improve new orders flow.</p>
<p>With low oil prices, how has Sembcorp Marine diversified its product offerings to shift its reliance from the rigs and platforms segment? What is Sembcorp Marine doing to secure contracts related to green solutions? Are there any targets set and target regions for growth?</p>	<p>Sembcorp Marine has made substantial strategic investments and acquired new technologies which allow it to offer diversified solutions across the offshore, marine and energy value chain. It has broadened its product suites, especially in green solutions such as gas value chain, offshore wind, battery-powered vessels and ballast water treatment solutions.</p> <p>The business aims to gear up for the shift towards cleaner energy use, grow order volume in offshore wind by raising brand awareness in regions unfamiliar with Sembcorp Marine solutions and its track record, and develop new design solutions for the battery- and hydrogen fuel cell-powered ship segments.</p>

Financial and Share Price Performance	
<p>The financial performance and share price of Sembcorp have been underperforming over the last few years. What are the challenges / weaknesses that have led to this? What actions are you taking and what are some opportunities for the future?</p>	<p>The share price of Sembcorp Industries has been weighed down by a challenging operating environment for our businesses as well as a prolonged and severe downturn in the offshore and marine sector. Our subsidiary Sembcorp Marine recorded losses in 2018 and 2019.</p> <p>Positioning our Energy business for the global energy transition also has its challenges with the business model disruption that comes with the megatrends of decarbonisation, digitalisation, decentralisation and demand disruption. There has also been intense competition in some of our markets. While we are acting to stay ahead of the curve, reshaping our energy asset portfolio towards gas and renewables takes time, and so does enhancing capabilities and building new skills for the future. However, we believe we are making progress. In 2019, net profit in India improved from S\$47 million to S\$100 million, with the thermal portfolio turning in a profitable year. Net profit from our renewables business has also increased nearly five-fold since 2016 to S\$80 million in 2019. Our Urban business has been performing well and delivered its third year of record profits in 2019.</p> <p>Notwithstanding the difficult market conditions, we remain committed to managing our portfolio for performance and on executing our transformation plan. Anchored by strong fundamentals, we believe that Sembcorp is uniquely positioned to deliver solutions to support the shift to a sustainable future. With Singapore as our home base, we are well-placed to serve markets in Asia where population growth is driving rising demand for sustainable solutions that enable rapid industrialisation, urbanisation and electrification. Our goal is a strong portfolio of businesses that will support sustainable development and create value for our stakeholders.</p>
Others	
<p>There has been significant impairment charges across various business units. Are we expecting more impairment given the twin adverse impact of COVID-19 and the energy price crisis?</p>	<p>The value of our assets will be subject to regular review and testing for impairment.</p>
<p>Was Sembcorp fairly compensated for the divestment of Sembcorp Design & Construction? Was there any divestment gain?</p>	<p>The commercial construction business under Sembcorp Design & Construction was divested for gross proceeds of approximately S\$50 million. The consideration for the sale was arrived at pursuant to a competitive sale process and on an arm's length willing-buyer-willing-seller basis. We recognised a net gain of S\$14 million arising from the divestment.</p>

<p>Are there plans to restructure Sembcorp to improve its profitability, especially given the downtrend in the offshore and marine sector?</p>	<p>As required, we will evaluate various options in the best interest of Sembcorp Industries and our shareholders. We continue to focus on repositioning ourselves as an integrated energy and urban player and on lifting performance for the Group.</p>
<p>Can you share more about Sembcorp's investment in technology and digitalisation? How will this enhance Sembcorp's operations and how much has been budgeted for building such capabilities?</p>	<p>Sembcorp is actively building its digital capabilities around four themes: establishing a strong and secure information technology foundation, digitising our business, embedding innovation and managing the digital journey and change. Embracing digital technologies is critical for us to stay ahead of the game as it enables new business models that offer competitive advantages to early adopters.</p> <p>For example, we have built insight platforms using machine learning and artificial intelligence to radically improve how we operate and optimise our thermal and renewables assets. These platforms run on an advanced, secure data lake that has over 200,000 internet of things sensors streaming real-time operational data from multiple markets. Some of the initiatives that we are currently driving, such as our work in advanced predictive analytics, are the first of their kind in the energy sector. These could also help differentiate us in our industry. While we have not disclosed our budget for developing these capabilities, majority of our investment in research and development goes towards building intellectual property that will help improve how we maintain and optimise our assets and reduce greenhouse gas emissions in our energy business.</p>

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