

SEMBCORP INDUSTRIES EXTRAORDINARY GENERAL MEETING IN RELATION TO THE PROPOSED DISTRIBUTION *IN SPECIE* OF ORDINARY SHARES IN THE CAPITAL OF SEMBCORP MARINE

- Responses to substantial and relevant questions

Unless otherwise defined, all capitalised terms used herein shall bear the same meanings ascribed to them in the circular to SCI Shareholders dated July 22, 2020 (“Circular”).

Singapore, August 6, 2020 – Sembcorp Industries Ltd (“SCI”) would like to thank SCI Shareholders for submitting their questions in advance of the SCI Extraordinary General Meeting (“SCI EGM”) in relation to the proposed distribution *in specie* of ordinary shares in the capital of Sembcorp Marine Ltd (“SCM”) to be convened and held by way of electronic means on August 11, 2020 at 11.30 am (Singapore time).

We have reviewed all the questions received from SCI Shareholders, and grouped them under the following common themes. In cases where there were overlapping questions revolving around the same topic, we have endeavoured to provide a consolidated answer to the substantial and relevant questions.

- (i) The Transaction
- (ii) Financials
- (iii) Business and Strategy
- (iv) Others

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

Appendix 1

Questions	Responses
The Transaction	
<p>What must happen for the Transaction to proceed? Who can and cannot vote for the resolutions and what percentage of shareholder approval is required?</p>	<p>There are in total three resolutions that need to be approved for the Proposed Distribution and the Proposed SCM Rights Issue to proceed.</p> <p>For SCI, only one resolution will be tabled: an Ordinary Resolution to approve the Proposed Distribution. The resolution requires the approval of a simple majority (>50%) of SCI Shareholders who are voting at the SCI EGM. The Temasek Concert Party Group will be required to abstain from voting on this resolution.</p> <p>For SCM, two resolutions will be tabled: an Ordinary Resolution to approve the Proposed SCM Rights Issue and a Whitewash Resolution with respect to the Proposed Distribution. Both resolutions require the approval of a simple majority (>50%) of SCM Shareholders who are voting at the SCM EGM. SCI has provided an irrevocable undertaking to vote in favour of the Ordinary Resolution to approve the Proposed SCM Rights Issue. However, the Temasek Concert Party Group (including SCI) is required to abstain from voting on the Whitewash Resolution.</p> <p>SCI Shareholders should note that the three resolutions are inter-conditional. In the event that SCM Shareholders do not approve the SCM Rights Issue Resolution and/or the Independent SCM Shareholders do not approve the Whitewash Resolution, or the SCI Shareholders do not approve the Distribution Resolution, then neither the Proposed SCM Rights Issue nor the Proposed Distribution will proceed.</p>
<p>What are the rationale and benefits of the Transaction for SCI Shareholders?</p>	<p>The Transaction is aimed at transforming SCI into a focused Energy and Urban business that can be competitive in these sectors amid the global energy transition and offer distinct advantages to our stakeholders.</p> <p>This Transaction is expected to unlock shareholder value. We believe that a demerger will deliver a clearer investment proposition to SCI equity holders, and make SCI more comparable to industry peers. There may also be a potential positive re-rating of SCI's equity value given the appeal to equity investors focused on the Energy and Urban space.</p> <p>Our financial metrics are also expected to improve as illustrated by the pro forma financial effects. More details of our pro forma financial effects can be found in Appendix A of the Circular.</p>

	<p>Finally, SCI Shareholders will receive value in the form of shares in a recapitalised SCM with Temasek (which is currently the single largest shareholder of SCI) as a direct and significant shareholder. SCI Shareholders will have the investment flexibility to calibrate their holdings in SCI and SCM and be invested directly in two focused companies.</p> <p>With greater flexibility following the demerger, each company will be in a stronger position to adapt to new and emerging market realities, and pursue our own sustainable growth paths.</p>
What happens if SCM Shareholders do not subscribe for the S\$2.1 billion renounceable underwritten Proposed SCM Rights Issue?	<p>SCI has irrevocably undertaken to subscribe for its <i>pro-rata</i> entitlement of SCM Rights Shares and will take up any Excess SCM Rights Shares, up to a total of S\$1.5 billion of SCM Rights Shares. Temasek has also agreed to enter into the Sub-Underwriting Agreement with DBS Bank Ltd. for the remaining S\$0.6 billion of SCM Rights Shares¹.</p>
What ticker symbol would the SCM Shares distributed to SCI Shareholders trade under?	<p>SCM Shares are listed on the Mainboard of the SGX-ST. It trades under the ticker symbol S51.SI.</p>
Are SCI Shareholders allowed to sell off the SCM Shares after it is credited into shareholders' investment account?	<p>Yes, there is no minimum holding period or lock-up period and SCI Shareholders will have the flexibility to deal with the SCM Shares received pursuant to the Proposed Distribution independently of their SCI Shares, and calibrate their holdings of SCI and SCM in accordance with their individual investment objectives.</p>
What are the estimated chances of the Whitewash Resolution being passed at the SCM EGM? Is the Transaction more favorable to SCI Shareholders than to SCM Shareholders?	<p>We are unable to comment on the expected outcome of the Whitewash Resolution as the voting decision lies with the Independent SCM Shareholders.</p> <p>The Boards and Management teams of SCI and SCM believe that the proposed Transaction will meet SCM Group's critical liquidity needs, strengthen the two companies' financial positions and is in the best interests of their respective shareholders.</p> <p>In SCM's SGXNet announcement on July 22, 2020 titled "Additional information in response to questions from SIAS", SCM explained that the Proposed SCM Rights Issue will meet the critical need to strengthen its balance sheet, improve its liquidity position to ride out the current industry downturn, help SCM compete for new high-value projects and ensure long-term viability. The S\$1.5 billion subordinated loan from SCI in 2019 (the "Subordinated Loan") will be converted into equity in SCM, forming a permanent source of capital</p>

¹ The Sub-Underwriting Agreement is entered into by Startree, a wholly-owned subsidiary of Temasek, on June 8, 2020. No sub-underwriting fees will be paid to Temasek or Startree.

	<p>for SCM. SCM will also raise additional cash of approximately S\$0.6 billion to fund its ongoing operations.</p> <p>If all of the resolutions are approved, all SCM Shareholders (including SCI Shareholders who will receive SCM Shares pursuant to the Proposed Distribution), will own shares in a recapitalised SCM.</p> <p>The Transaction will enable SCI and SCM to better focus on their respective industries. With greater flexibility following the demerger, both companies can pursue their own sustainable growth paths on the back of changes to their industries in recent years.</p> <p>Furthermore, both SCI and SCM will have strong shareholder bases to support the respective companies' strategies and business models for the long term. Temasek (including holdings of its wholly-owned subsidiaries) will be a direct and significant shareholder of both SCI (approximately 49.3%) and SCM (stake exceeding 30%).</p> <p>The independent financial adviser to the Independent Directors of SCM has opined that the terms of the Transaction taken as a whole are fair and reasonable, and the Whitewash Resolution, when considered in the context of the Transaction, is in the best interests of SCM and is not prejudicial to the interests of the Independent SCM Shareholders. The Independent Directors of SCM have also recommended that SCM Shareholders vote in favour of the Whitewash Resolution.</p>
<p>Can SCI Shareholders receive SCI Shares instead of SCM Shares?</p>	<p>SCI Shares are not the subject of the Transaction. There are two parts to this Transaction. The first is the S\$2.1 billion renounceable underwritten Proposed SCM Rights Issue proposed to be undertaken by SCM.</p> <p>In the second part of the Transaction, after the completion of the Proposed SCM Rights Issue, SCI proposes to effect a demerger of SCM from SCI, via a distribution <i>in specie</i> of all the SCM Shares held by SCI to SCI Shareholders on a <i>pro-rata</i> basis.</p> <p>SCI Shareholders can expect to receive between 4.279 and 4.911 SCM Shares for each SCI Share owned as at the SCI Record Date. No payment is required from SCI Shareholders.</p>

<p>The demerger should have taken place earlier when there were a few years of noticeable losses. Why did it take a pandemic for the corporate action to take place?</p>	<p>We regularly review our strategy, operations and investments for opportunities to maximise value for our shareholders as the business environment changes. Since the last strategic review, the macro economic landscape has changed significantly, and with this change and limited business overlap between SCI and SCM, the boards and managements of both companies believe that the proposed Transaction would be in the best interests of their respective shareholders.</p> <p>The creation of two focused companies will allow each company to be in a stronger position, with better financial metrics and available resources, to ride through the current pandemic and press ahead to adapt to new and emerging market realities and reposition towards sustainable business models in their respective industry sectors.</p>
<p>What happens if the Transaction is not approved? What are management's plans? What happens to the Subordinated Loan from SCI to SCM? Will SCI consider the conversion of SCM's debt to an equity stake in SCM even if SCM Shareholders vote against the Transaction at the SCM EGM?</p>	<p>If any one of the resolutions proposed at the SCI EGM or the SCM EGM is not approved, the Proposed SCM Rights Issue and the Proposed Distribution will not proceed. SCI would retain its current shareholding in SCM, SCM's S\$1.5 billion Subordinated Loan owing to SCI will remain outstanding, and the critical need to address SCM's liquidity requirements will not be met.</p> <p>If that were to happen, SCM's strenuous efforts to recapitalise and strengthen its balance sheet will be negated and the critical need to address its liquidity requirements will fail. In such a scenario, SCI remains committed to enhancing shareholder value, and will continue to focus on serving the best interests of SCI Shareholders as we explore other options and alternatives going forward.</p>
<p>Financials</p>	
<p>Please explain the decline in NAV from S\$3.85 in FY2019 to S\$3.19 in FY1H2020, so that we can understand the pro forma NAV post-demerger.</p>	<p>The two NAV figures mentioned were reported in SCI's past results announcements and reflect the NAV prior to the Transaction. For the pro forma financial effects of the Transaction, please refer to Appendix A of the Circular.</p> <p>The difference between the NAV at the end of FY2019 and the NAV at the end of 1H2020 is approximately S\$0.66 per SCI Share.</p> <p>Of the difference in NAV of approximately S\$0.66 per SCI Share, approximately S\$0.45 per SCI Share (or more than two thirds) resulted from the redemption of SCI's perpetual securities in the first half of this year. SCI redeemed S\$800 million of perpetual securities using debt, which is cheaper than the perpetual securities. While such redemption increased SCI's debt balance, SCI believes that such redemption was in the interests of SCI Shareholders.</p> <p>Second, SCI recorded a net loss of S\$131 million in 1H2020 due to losses posted by the Marine business as well as exceptional items</p>

	<p>totaling S\$191 million. This is equivalent to approximately S\$0.07 per SCI Share.</p> <p>Third, there was a loss in other comprehensive income, which includes the fair value of cash-flow hedges, of S\$169 million, equivalent to about \$0.10 per SCI Share.</p> <p>Lastly, SCI paid a dividend of S\$0.03 per SCI Share.</p>
<p>Could management give comments on SCI's gearing and cash position please?</p>	<p>SCI will benefit from a material reduction in its debt levels after the demerger of SCM. On a pro forma basis, SCI's total debt as at 31 December 2019 will decrease from S\$11.6 billion to S\$8.7 billion due to the deconsolidation of SCM's total debt in SCI's balance sheet.</p> <p>On a pro forma basis, while net gearing may increase (due to a reduction in the equity base for SCI), leverage ratios such as Net debt / FY2019 EBITDA and Gross debt / FY2019 EBITDA will improve. More details on pro forma leverage ratios can be found in Appendix A of the Circular.</p>
<p>Why was there no interim dividend declared for 1H2020?</p>	<p>In view of the current challenging environment, the Board had decided to defer the dividend consideration to the full year. Hence, there was no interim dividend declared for 1H2020.</p>
<p>Can the company provide mid-term projections on its NTA, NAV, EPS, PE etc.?</p>	<p>We do not provide forward guidance or projections on our financials. Details on pro forma leverage ratios post the demerger can be found in Appendix A of the Circular.</p> <p>Please also refer to SCI's prospects statement contained in our 1H2020 results announcement posted on SGXNet.</p>
<p>Is the quantum of impairment expected to taper in 2H2020? What is the expected currency translation loss post-divestment of the water business in Chile?</p>	<p>The value of our assets will be subject to regular review and testing for impairment. Given the economic uncertainty, we will continue to assess any potential change in asset prices as well as the assumptions of our businesses and its future performance to determine if any impairment is required.</p> <p>As announced on July 30, 2020, we have completed the divestment of the water business in Chile. With the completion of the divestment, a currency translation loss of approximately S\$32 million recognised in the foreign currency translation reserve is taken to profit and loss. A hedging gain of approximately S\$5 million reduces the net change to profit and loss to S\$27 million, resulting in a reduction of 1.51 Singapore cents in earnings per SCI Share.</p>

Business and Strategy	
<p>What are SCI's strategic direction and specific action plans for the next 3-12 months if the Transaction goes through?</p>	<p>The Proposed Distribution would transform SCI into a focused Energy and Urban business and allow SCI to allocate capital and resources solely to these businesses. SCI has a strong portfolio, anchored in sectors providing essential solutions and in growing markets, especially in Asia where there is a burgeoning demand for sustainable development. With increased strategic focus, we will be able to dedicate capital, resources and efforts to enhance the value of this portfolio and capture growth opportunities arising from the megatrends that shape the world today including urbanisation, electrification and decarbonisation.</p> <p>One example is the renewable energy sector. SCI is one of Singapore's largest home-grown renewable energy players, backed by strong market positions, project development capabilities and operations and maintenance expertise. With increased focus, SCI can concentrate our resources and efforts to leverage innovative technologies to compete and grow in this sector.</p> <p>Please also refer to SCI's prospects statement contained in our 1H2020 results announcement.</p>
<p>What actions are SCI taking in view of the challenging macro environment to ensure the profitability and sustainability of the company?</p> <p>When can we expect an improvement in the performance and share price of SCI?</p>	<p>Positioning our Energy business for the global energy transition faces the twin challenges of disruption to our business model arising from the megatrends of decarbonisation, digitalisation, decentralisation and demand disruption, as well as 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.</p> <p>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 executing our transformation plan. Anchored by strong fundamentals, we believe that SCI 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>

<p>What are the company's green initiatives in the foreseeable future? How will this affect profitability?</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>Sembcorp is 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 capabilities and operations and maintenance expertise, we believe that we are well-positioned to compete and grow in this sector.</p>
<p>Any updates on the India IPO?</p>	<p>We continue to explore strategic options for our businesses on an ongoing basis.</p>
<p>Will UK Power Reserve be affected by lower demand for flexible power?</p>	<p>Given that power demand in the UK has reduced due to the COVID-19 pandemic, there will be reduced requirement for flexible generation. As such, we expect UK Power Reserve's performance to continue to be impacted.</p>
<p>Any plans in terms of further restructuring after the demerger?</p>	<p>SCI is focused on achieving success in this Transaction and unlocking value for our shareholders. We remain committed to managing our portfolio for performance and on executing our transformation plan to create long-term value for our stakeholders.</p>
<p>Does the Board see any potential M&A opportunities with Keppel's businesses?</p>	<p>As a group, we will continue to focus on delivering our strategy to reposition ourselves as an integrated energy and urban player with a focus on renewables and sustainable solutions. In the event of any material developments, we will update the market accordingly.</p>
<p>Others</p>	
<p>Based on the Proposed SCM Rights Issue price of S\$0.20, what would be the nominal value of an SCI Share post distribution <i>in specie</i>?</p>	<p>We do not speculate or comment in this regard as the SCI share price post-Transaction is a function of many factors including, amongst others, the market reaction and investors' view of SCI as a focused Energy and Urban player.</p>
<p>Will the price of SCI Shares drop after the demerger?</p>	<p>We do not speculate or comment on future share prices as they are largely driven by trading on the SGX-ST. SCI adheres to fair disclosures to investors. All public announcements are lodged on the website of the SGX-ST and can also be found on our company website at www.sembcorp.com.</p>

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