Notes to the Financial Statements

Year ended December 31, 2020

D. Our Assets

D1. Property, plant and equipment

Accounting policies

Property, plant and equipment (PPE) are measured at cost less accumulated depreciation and impairment losses. The cost initially recognised includes acquisition costs and costs directly attributable to bringing the assets to the location and to a working condition for their intended use and capitalised borrowing costs. Cost also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of PPE. The estimated costs to be incurred for restoring the asset upon expiry of the lease agreement also form part of the cost of the PPE.

i. Subsequent expenditure

Subsequent expenditure is recognised in the carrying amount of the asset when it is probable that future economic benefits will flow to the Group and its costs can be measured reliably. The costs of day-to-day servicing of PPE are recognised as an expense when incurred. For items subject to regular overhauls, the overhaul costs incurred are capitalised and the carrying amounts of replaced components are written off to profit or loss.

ii. Depreciation

Depreciation is based on the cost of an asset less its residual value, being the estimated net amount obtain from disposal. Depreciation is recognised as an expense in profit or loss on a straight-line basis over their estimated useful lives of each major component of an item of PPE, unless it is included in the carrying amount of another asset.

The estimated useful lives for the current and comparative years are as follows:

Leasehold land and wet berthage	Lease period of 3 to 60 years
Buildings	3 to 50 years
Improvements to premises	3 to 30 years
Quays and dry docks	6 to 60 years
Infrastructure	8 to 60 years
Plant and machinery	3 to 30 years
Marine vessels	7 to 31 years
Tools and workshop equipment	3 to 10 years
Furniture, fittings and office equipment	1 to 10 years
Motor vehicles	2 to 10 years

No depreciation is provided on freehold land and capital work-in-progress.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

iii. Impairment

The carrying value of assets is reviewed at least annually and when there is a trigger or an indication of impairment. Impairment occurs when the carrying value of assets or its smallest identifiable, independent asset group that generates cash flows, cash-generating unit (CGU) is greater than the present value of the net cash flows they are expected to generate.

iv. Reversals of impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

v. Disposals

Gains or losses arising from the retirement or disposal of PPE are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

D. Our Assets *(cont'd)*

D1. Property, plant and equipment *(cont'd)*

Key estimates and judgements

The recoverable amount of an asset or CGU is the greater of its value in use (VIU) and its fair value less costs to sell. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

The carrying value of property, plant and equipment is tested for impairment whenever there is any objective evidence or indication that the property, plant and equipment may be impaired. This determination and derivation of the relevant inputs requires significant judgement. Such impairment would take into account the market value of the asset, changes to the technological, market, economic or legal environment in which the Group operates, market interest rates, evidence of obsolescence or physical damage to the property, plant and equipment and changes to the expected usage to the property, plant and equipment.

The assets' depreciation methods, estimated useful lives and residual values, are reviewed annually and adjusted prospectively where appropriate. The review takes into consideration of factors such as changes in the expected level of usage and technological developments.

Discontinued operation

Impairment assessment of the Group's shipyards in 2019

In 2019, owing to the continuing difficult market conditions impacting the offshore and marine sector, there were indications that the Group's subsidiary, Sembcorp Marine Ltd's (SCM) shipyards (the CGU) might be impaired. Under the Group's formal impairment assessment of the individual CGUs in: (i) Singapore (yards in Singapore, together with their sub-contracting yards in Indonesia and the United Kingdom); and (ii) Brazil, the recoverable amounts for the Group's individual CGUs were determined using the VIU calculations.

The VIU calculation for the Group's CGUs used discounted cash flow projections which took into account management's assessment of the forecasted order book over a period of 5 years for Singapore and Brazil (the "projection periods"), with applicable growth rates for Singapore and Brazil beyond the projection periods (up to a maximum of 40 years). Key drivers supporting the recoverable amounts include: forecasted order book, project margins which are projected with reference to historical experience, and long-term growth rate of less than 5%.

The cash flows are projected based on the Group's historical experience, market observable data surrounding the state-owned and international oil majors' capital commitment and projected capital expenditures in oil and gas production and exploration activities, regulations relating to local content requirements in Brazil, market expectations and developments for contract order prices, and other external analysts' forecast reports in oil price movements and demands for drilling and production solutions. These cash flows are then discounted using the applicable discount rates based on their pre-tax weighted average cost of capital of 9.43% and 11.82% for the Singapore CGU and Brazil CGU respectively; and the Group assessed that no impairment loss is required for these individual CGUs.

The forecasted order book and the forecasted margins assumed in the VIU calculation are, however, subject to estimation uncertainties that may have a significant risk of resulting in material adjustments in any future periods affected.

The estimation uncertainties of the forecasted order book of the Singapore cash generating unit is, however, reduced by a certain level of order books already secured by the Group. Nevertheless, there are remaining estimation uncertainties surrounding the remaining unsecured order book, and forecast project margins, that may result in significant adjustments in the future periods.

Certain phases of the Brazil CGU are presently undergoing yard construction and the yard will gradually ramp up to its full operational capacity over the years. The Group has factored in the long-term fundamentals of the oil and gas industry in Brazil in their forecast. Changes in the recoverable amount are sensitive to impairment loss if the forecast order book and the forecasted margins beyond the near term were to deviate from the original forecast or if discount rate were to increase by 1.8%. The recoverable amount of the Brazil CGU is further subject to political risk and will be reviewed at regular intervals.

Changes to the assumptions used in relation to the above key drivers, such as delays and / or decrease in order book, and reduction in project margins could lead to lower operating cash inflows and material impairment outcomes, which might in turn affect the financial position and performance of the Group.

D. Our Assets *(cont'd)*

D1. Property, plant and equipment *(cont'd)*

In 2020, the Group presents right-of-use assets as part of property, plant and equipment as both are capital assets. The Group continues to invest in renewable power equipment and shipyard facilities (via SCM prior to the Distribution) in 2020. Steam, electricity generating equipment and water treatments equipment and related infrastructure assets form the majority of our tangible assets as at December 31, 2020; while December 31, 2019, also includes shipyards facilities including berthage. All assets are depreciated over their useful economic lives.

(S$ million)	Note	Leasehold and freehold land, wet berthage and buildings	Improvements to premises	Quays and dry docks	Infrastructure	Plant and machinery	Marine vessels	Tools and workshop equipment	Furniture, fittings and office equipment	Motor vehicles	Capital work-in-progress	Right-of-use assets (Note D1.1)	Total
Group													
Cost / Valuation													
Balance at January 1, 2020		1,921	100	1,572	94	10,856	327	74	205	83	1,315	625	17,172
Translation adjustments		4	2	6	(6)	(280)	3	*	(1)	*	1	(1)	(272)
Additions		2	4	–	2	73	–	*	9	6	206	42	344
Reclassification		*	3	6	7	494	(21)	1	1	2	(505)	12	–
Acquisition of subsidiaries	G2	1	*	–	–	2	–	–	*	4	4	15	26
Transfer to investment properties	D2	–	*	–	–	–	–	–	*	–	(1)	–	(1)
Transfer from other category of assets	(v)	–	–	–	–	16	–	–	–	*	*	–	16
Remeasurement adjustments for right-of-use assets		–	–	–	–	–	–	–	–	–	–	1	1
Reversal of accrued capital expenditure	(viii)	–	–	–	–	–	–	–	–	–	(69)	–	(69)
Disposals / Write-offs		(1)	*	–	–	(23)	(1)	*	(2)	(2)	(7)	(30)	(66)
Disposal of subsidiaries	G2	*	–	–	–	*	–	–	*	*	–	–	*
Distribution of a subsidiary	G3	(1,539)	(34)	(1,572)	(41)	(1,718)	(308)	(75)	(149)	(28)	(786)	(352)	(6,602)
Balance at December 31, 2020		388	75	12	56	9,420	–	–	63	65	158	312	10,549
Accumulated depreciation and impairment losses													
Balance at January 1, 2020		590	54	385	30	3,374	86	65	167	51	6	161	4,969
Translation adjustments		2	(1)	*	(1)	(38)	*	(2)	*	(1)	*	(1)	(42)
Depreciation for the year													
– Continuing operations	B4(a)	9	2	*	4	370	–	–	6	7	–	15	413
– Discontinued operation		23	*	19	3	39	7	3	6	1	–	15	116
Reclassification		–	–	–	–	*	*	–	–	–	–	–	–
Transfer to investment properties	D2	–	*	–	–	–	–	–	*	–	–	–	*
Disposals / Write-offs		*	*	–	–	(16)	(1)	*	(2)	(1)	*	(20)	(40)
Disposal of subsidiaries	G2	*	–	–	–	*	–	–	*	*	–	–	*
Impairment losses	(vi), (vii), B4(a)	1	*	–	–	63	–	–	*	–	–	–	64
Distribution of a subsidiary	G3	(525)	(34)	(395)	(12)	(770)	(92)	(66)	(131)	(22)	–	(88)	(2,135)
Balance at December 31, 2020		100	21	9	24	3,022	–	–	46	35	6	82	3,345
Carrying amounts													
At January 1, 2020		1,331	46	1,187	64	7,482	241	9	38	32	1,309	464	12,203
At December 31, 2020		288	54	3	32	6,398	–	–	17	30	152	230	7,204

Notes to the Financial Statements

Year ended December 31, 2020

D. Our Assets *(cont'd)*

D1. Property, plant and equipment *(cont'd)*

(S$ million)	Note	Leasehold and freehold land, wet berthage and buildings	Improvements to premises	Quays and dry docks	Infrastructure	Plant and machinery	Marine vessels	Tools and workshop equipment	Furniture, fittings and office equipment	Motor vehicles	Capital work-in-progress	Right-of-use assets (Note D1.1)	Total
Group													
Cost / Valuation													
Balance at January 1, 2019		1,826	66	1,525	146	10,248	283	67	204	91	1,506	–	15,962
Recognition of right-of-use asset on initial application of SFRS(I) 16		–	–	–	–	–	–	–	–	–	–	605	605
Translation adjustments		(10)	(1)	(5)	(10)	(50)	(3)	*	(2)	*	(11)	1	(91)
Additions	(xiii)	3	2	1	6	110	48	6	11	4	877	34	1,102
Reclassification		150	47	51	16	680	–	1	*	*	(1,056)	–	(111)
Transfer to intangible assets		–	–	–	–	*	–	–	*	*	(1)	–	(1)
Transfer to other financial assets		(6)	(8)	–	–	(5)	–	–	*	*	*	2	(17)
Disposals / Write-offs		(5)	(2)	–	–	(50)	(1)	*	(3)	(6)	*	(10)	(77)
Transfer to assets held for sale		(15)	–	–	(64)	(51)	–	–	(2)	*	–	(2)	(134)
Disposal of subsidiaries	G2	(22)	(4)	–	–	(26)	–	–	(3)	(6)	*	(5)	(66)
Balance at December 31, 2019		1,921	100	1,572	94	10,856	327	74	205	83	1,315	625	17,172
Accumulated depreciation and impairment losses													
Balance at January 1, 2019		564	52	340	47	2,937	77	61	159	53	–	–	4,290
Recognition of right-of-use asset on initial application of SFRS(I) 16		–	–	–	–	–	–	–	–	–	–	122	122
Translation adjustments		(3)	*	*	(3)	5	(1)	*	(1)	*	*	*	(3)
Depreciation for the year	B4(a)	56	3	66	10	411	10	4	16	8	–	43	627
Reclassification		(16)	2	(21)	–	(1)	–	–	*	*	–	–	(36)
Transfer to intangible assets		–	–	–	–	–	–	–	*	*	–	–	*
Transfer (from) / to other financial assets		*	(1)	–	–	(1)	–	–	*	*	–	3	1
Disposals / Write-offs		(1)	(2)	–	–	(26)	*	*	(3)	(6)	–	(2)	(40)
Transfer to assets held for sale		(6)	–	–	(24)	(10)	–	–	(1)	*	–	*	(41)
Disposal of subsidiaries	G2	(5)	*	–	–	(15)	–	–	(3)	(4)	–	(5)	(32)
Impairment losses	(ix), (x), B4(a)	1	*	–	–	74	–	–	*	–	6	*	81
Balance at December 31, 2019		590	54	385	30	3,374	86	65	167	51	6	161	4,969
Carrying amounts													
At January 1, 2019		1,262	14	1,185	99	7,311	206	6	45	38	1,506	483	12,155
At December 31, 2019		1,331	46	1,187	64	7,482	241	9	38	32	1,309	464	12,203

Notes to the Financial Statements

Year ended December 31, 2020

D. Our Assets *(cont'd)*

D1. Property, plant and equipment *(cont'd)*

(S$ million)	Leasehold and freehold land, wet berthage and buildings	Improvements to premises	Quays and dry docks	Plant and machinery	Furniture, fittings and office equipment	Motor vehicles	Capital work-in-progress	Right-of-use assets (Note D1.1)	Total
Company									
Cost									
Balance at January 1, 2020	20	7	8	723	19	3	1	144	925
Additions	*	*	–	10	1	*	6	*	17
Reclassification	–	–	–	*	–	–	*	–	–
Transfer from / (to) other category of assets	–	–	–	–	–	–	*	–	*
Disposals / Write-offs	–	*	–	(3)	*	–	–	(2)	(5)
Balance at December 31, 2020	20	7	8	730	20	3	7	142	937
Accumulated depreciation and impairment losses									
Balance at January 1, 2020	12	7	4	432	16	1	–	44	516
Depreciation for the year	1	*	*	32	1	*	–	4	38
Disposals / Write-offs	–	*	–	(3)	*	–	–	(2)	(5)
Impairment losses	–	–	–	5	–	–	–	–	5
Balance at December 31, 2020	13	7	4	466	17	1	–	46	554
Carrying amounts									
At January 1, 2020	8	–	4	291	3	2	1	100	409
At December 31, 2020	7	–	4	264	3	2	7	96	383
Company									
Cost									
Balance at January 1, 2019	20	8	8	678	17	2	39	–	772
Recognition of right-of-use assets on initial application of SFRS(I) 16	–	–	–	–	–	–	–	152	152
Additions	*	*	–	11	2	1	2	*	16
Reclassification	–	–	–	39	*	–	(39)	–	–
Transfer from / (to) other category of assets	–	–	–	–	–	–	(1)	–	(1)
Disposals	*	(1)	–	(5)	*	*	–	(8)	(14)
Balance at December 31, 2019	20	7	8	723	19	3	1	144	925
Accumulated depreciation and impairment losses									
Balance at January 1, 2019	11	8	4	405	15	1	–	–	444
Recognition of right-of-use assets on initial application of SFRS(I) 16	–	–	–	–	–	–	–	42	42
Depreciation for the year	1	*	*	30	1	*	–	4	36
Disposals	*	(1)	–	(3)	*	*	–	(2)	(6)
Balance at December 31, 2019	12	7	4	432	16	1	–	44	516
Carrying amounts									
At January 1, 2019	9	–	4	273	2	1	39	–	328
At December 31, 2019	8	–	4	291	3	2	1	100	409

D. Our Assets *(cont'd)*

D1. Property, plant and equipment *(cont'd)*

Group

i. Property, plant and equipment with the following net book values have been pledged to secure loan facilities granted to subsidiaries:

(S$ million)	Note	Group December 31, 2020	Group December 31, 2019
Freehold land and buildings		160	168
Leasehold land and buildings including right-of-use assets		43	52
Plant and machinery		4,465	4,680
Capital work-in-progress		19	216
Other assets		37	43
	C6(i)	4,724	5,159

ii. During the year, interest and direct staff costs amounting to S$23 million (2019: S$51 million) and S$3 million (2019: S$8 million), respectively were capitalised as capital work-in-progress. Included in these amounts are capitalised interest costs calculated using a capitalisation rate from 4.28% to 6.50% (2019: 3.27% to 7.00%).

iii. Property, plant and equipment arising from the acquisition of subsidiaries was at fair value at the acquisition date.

iv. In 2020, property, plant and equipment included additional provision for restoration costs amounting to S$5 million (2019: S$3 million) (Note H3).

v. In 2020, additions to plant and machinery included a S$16 million settlement with a vendor in the form of strategic spares (Note E1(f)).

vi. In 2020, following the decision of a major customer to exit its Singapore operations, an impairment of S$21 million was recognised to reduce the carrying value of a wastewater treatment plant and a woodchip boiler facility to its net realisable value. An impairment of S$8 million was also made to a wastewater treatment plant in China due to the contract termination with a customer who has stopped production. These impairment charges were recognised in cost of sales.

vii. In 2020, triggered by the continued challenging market conditions and weak performance, an impairment of S$34 million (2019: S$52 million) was recognised in cost of sales for the UK Power Reserve (UKPR) assets based on the estimated VIU from a revised strategy for the business to focus primarily in the grid services market. The key assumptions used in determining the VIU are included in the table for impairment testing for goodwill in Note D3.

viii. The amount represents a reduction in capital work-in-progress due to reversal of accrued expenditure on completion of projects.

D. Our Assets *(cont'd)*

D1. Property, plant and equipment *(cont'd)*

Group *(cont'd)*

ix. In 2019, an impairment of S$22 million was recognised in cost of sales following an assessment of the plants' efficiency and effectiveness in meeting the new and more stringent effluent discharge standards that will come into force in Jiangsu, China in 2021. The Group used 4 years cash flow projections, representing the re-assessed estimated remaining useful life of the plant, with no terminal value considered and a pre-tax discount rate of 7.1% to determine the recoverable amount of the plants. Revenue is projected based on contracts secured with customers along with likely renewals and in consideration of treatment capacity of the plant. Inflation rates ranging from 0% to 3% has been used to project overheads and other general expenses. Expected capital expenditure for replenishment of parts and scheduled maintenance costs have been included in the projections in accordance with plant maintenance programme.

x. In 2019, management reviewed the economics of two of the wind power projects under development in India, which were impacted by the changes in the renewables market dynamics. Consequently the VIU of the related development costs was estimated to be S$nil as at December 31, 2019. Accordingly, an impairment loss of S$6 million was recognised in cost of sales.

xi. A subsidiary in India has entered into an agreement to convert an existing leasehold land upon which its property, plant and equipment reside, to freehold land. The subsidiary has fully paid for the conversion of the leasehold land based on the freehold rate. As at December 31, 2020, the land has not been transferred to the subsidiary. Pursuant to the current lease agreement, it is provided that in the event that the land is not transferred, the lessor is obliged to renew the lease for a further period on mutually agreed terms and conditions. No impairment, revision of useful life or provision for restoration cost has been recorded as at December 31, 2020, as the alienation of this leasehold land is in progress and the subsidiary management has assessed that delay in the above transfer was of administrative in nature and the transfer will happen in due course of time. During 2020, this leasehold land is reported together with other rented land under right-of-use assets.

xii. Prior to the Distribution, the Group leased out its marine vessel under an operating lease arrangement. Non-cancellable operating lease rentals receivables are included in Note C9(b) non-cancellable operating leases.

xiii. The acquisition of marine vessel in 2019 was settled via an offset of payables and dividend receivables from a joint venture.

Change in estimates

In 2019, the Group revised its estimates for the useful lives of certain asset within marine vessel from 25 years to 31 years after conducting an operational review of its useful lives. The effect of these changes on depreciation expense in current and future periods on assets currently held is as follows:

(S$ million)	2019	2020	2021	2022	2023	Later
Group						
(Decrease) / increase in depreciation expense and (increase) / decrease in profit before tax	(1)	(2)	(2)	(2)	(2)	9

SCM's financials are no longer consolidated in the Group post the Distribution on September 11, 2020.

D. Our Assets *(cont'd)*

D1.1 Right-of-use assets and leases

Accounting policies

This note provides information for leases where the Group is a lessee. For leases where the Group is a lessor, assets are measured at cost less accumulated depreciation and impairment losses. Income is recognised in accordance to Note B2 charter hire and rental income.

The Group determines whether an arrangement is or contains a lease at inception. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially used at the commencement date
- the extension option if the Group is reasonably certain to exercise that option
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option
- amounts expected to be payable by the Group under residual value guarantees, and
- payments of penalties for terminating the lease, if the leases term reflects the Group exercising that option

Adoption of the amendment to SFRS(I) 16 *COVID-19-Related Rent Concession*:

Rent concessions linked to COVID-19 pandemic are not assessed and accounted for as lease modifications but are taken to profit or loss.

The Group assesses at lease commencement date whether it is likely to exercise the extension options and reassesses when there is a significant event or significant changes in circumstances within its control.

The Group leasing activities and how these are accounted for

The Group leases land and building from non-related parties. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The policy on impairment and reversal of impairment is consistent with property, plant and equipment as disclosed in Note D1.

Payment associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less while low-value assets comprise of office equipment.

Key estimates and judgements

The Group considers all facts and circumstances that create an economic incentive to exercise an extension option, extension options are only included in the lease term if the lease is reasonably certain to be extended. If the Group should exercise the extension option, the potential future lease payments would result in an increase in lease liability.

D. Our Assets *(cont'd)*

D1.1 Right-of-use assets and leases *(cont'd)*

i. Amounts recognised in the balance sheets

Group

(S$ million)	December 31, 2020	December 31, 2019
Right-of-use assets		
Leasehold land and buildings	226	396
Plant and machinery	*	9
Marine vessels	–	52
Motor vehicles	3	1
Furniture, fittings and office equipment	1	6
	230	464

Lease liabilities recognised in the balance sheets:

(S$ million)	December 31, 2020	December 31, 2019
Current	11	34
Non-current	215	470
	226	504
Maturity analysis		
Within 1 year	11	34
After 1 year but within 5 years	36	112
After 5 years	179	358
Total	226	504

In 2020, cost of S$15 million (2019: S$75 million) was transferred from property, plant and equipment and remaining additions to the right-of-use assets were S$42 million (2019: S$32 million).

Company

(S$ million)	December 31, 2020	December 31, 2019
Right-of-use assets		
Leasehold land and buildings	66	68
Plant and machinery	30	32
Motor vehicles	–	*
	96	100

D. Our Assets *(cont'd)*

D1.1 Right-of-use assets and leases *(cont'd)*

i. Amounts recognised in the balance sheets *(cont'd)*

Lease liabilities recognised in the balance sheet:

Company

(S$ million)	December 31, 2020	December 31, 2019
Current	4	4
Non-current	112	116
	116	120
Maturity analysis		
Within 1 year	4	4
After 1 year but within 5 years	17	16
After 5 years	95	100
Total	116	120

During the year, additions to the right-of-use assets were S$1 million (2019: S$1 million).

ii. Amounts recognised in profit or loss

	Group	
(S$ million)	2020	2019*
Depreciation charge of right-of-use assets		
Leasehold land and buildings	12	12
Plant and machinery	1	2
Motor vehicles	1	1
Furniture, fittings and office equipment	1	*
	15	15
Interest expense (included in finance cost)	9	9
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	3	3
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in cost of goods sold and administrative expenses)	4	3
Expense relating to variable lease payments not included in lease liabilities (included in cost of goods sold and administrative expenses)	*	*

The total cash outflow for leases in 2020 of S$40 million (2019: S$48 million) has been reduced by total S$1 million of rent concessions linked to COVID-19 received from lessors and taken to profit or loss primarily from continuing operations.

D. Our Assets *(cont'd)*

D2. Investment properties

The Group holds certain properties for rental yields and for capital appreciation.

Accounting policies

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives ranging from 20 to 60 years or the lease period of 15 to 16 years. The assets' depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate. No depreciation is provided on the freehold land.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised as additions when it increases the future economic benefits, embodied in the specific asset to which it relates, and its costs can be measured reliably. The carrying amounts of the replaced components are written off to profit or loss. The cost of maintenance, repairs and minor improvements is recognised as an expense when incurred.

On disposal of investment properties, the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss.