Notes to the Financial Statements

Year ended December 31, 2020

D. Our Assets *(cont'd)*

D2. Investment properties *(cont'd)*

		Group		
(S$ million)	Note	Investment properties	Investment properties work-in-progress	Total
Cost				
Balance at January 1, 2020		146	3	149
Translation adjustments		4	*	4
Additions		1	6	7
Reclassification		6	(6)	–
Transfer from property, plant and equipment	D1	1	–	1
Transfer to inventories		*	–	*
Disposals / Write-offs		*	–	*
Balance at December 31, 2020		158	3	161
Accumulated depreciation and impairment losses				
Balance at January 1, 2020		21	–	21
Translation adjustments		1	–	1
Depreciation for the year	B4(a)	4	–	4
Transfer from property, plant and equipment	D1	*	–	*
Disposals / Write-offs		*	–	*
Balance at December 31, 2020		26	–	26
Carrying amounts				
At January 1, 2020		125	3	128
At December 31, 2020		132	3	135
Cost				
Balance at January 1, 2019		50	80	130
Translation adjustments		(2)	*	(2)
Additions		*	21	21
Reclassification		98	(98)	–
Balance at December 31, 2019		146	3	149
Accumulated depreciation and impairment losses				
Balance at January 1, 2019		20	–	20
Translation adjustments		*	–	*
Depreciation for the year	B4(a)	1	–	1
Balance at December 31, 2019		21	–	21
Carrying amounts				
At January 1, 2019		30	80	110
At December 31, 2019		125	3	128

D. Our Assets *(cont'd)*

D2. Investment properties *(cont'd)*

Amounts recognised in profit or loss for investment properties

	Group	
(S$ million)	2020	2019
Rental income	7	8
Operating expenses arising from rental of investment properties	5	5

The fair value of the investment properties as at the balance sheet date is S$191 million (2019: S$175 million). The fair values are mostly determined by independent professional valuers using a combination of investment income method and direct or market comparison techniques, including adjustments to reflect the specific use of the investment properties. Such valuation is derived from observable market data from an active and transparent market. In the absence of current prices in an active market, the fair values are determined by considering the aggregate of the estimated cash flow expected to be received from renting out the properties or Directors' valuation. A yield that reflects the specific risks inherent in the cash flows is then applied to the net annual cash flows to obtain the fair values.

Investment properties of S$18 million (2019: S$16 million) have been pledged to secure loan facilities.

The Group leases out its investment properties. The lease agreement provides for additional lease payments annually based on changes to a price index. Non-cancellable operating lease rentals receivable are included in Note C9(b).

D3. Intangible assets

The balance sheet contains significant intangible assets, mainly in relation to goodwill, intellectual property rights and long-term contracts. Goodwill, which arises when business acquired at a higher amount than the fair value of its net assets primarily due to the synergies expected to create, is not amortised but is subject to annual impairment reviews. The intellectual property rights and long-term contracts are amortised over the estimated life of the rights and contracts.

Accounting policies

a. *Goodwill*

Goodwill is measured at cost less accumulated impairment losses. The goodwill cost represents the excess of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree, less the net amount recognised (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a negative goodwill is recognised immediately in profit or loss.

Goodwill is tested for impairment on an annual basis.

Goodwill that has previously been taken to reserves is not taken to profit or loss when (i) the business is disposed of or discontinued or (ii) the goodwill is impaired. Similarly, negative goodwill that has previously been taken to reserves is not taken to profit or loss when the business is disposed of or discontinued.

b. *Intellectual property rights*

Intellectual property rights are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of 10 to 15 years.

D. Our Assets *(cont'd)*
D3. Intangible assets *(cont'd)*

Accounting policies *(cont'd)*

c. Service concession arrangements

The Group recognises an intangible asset arising from a service concession arrangement, when it has a right to charge for usage of the concession infrastructure. This intangible asset is measured at fair value upon initial recognition by reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and accumulated impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period when the Group has a right to charge the public for the usage of the infrastructure to the end of the concession period.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 25 to 30 years.

d. Long-term contracts

Long-term revenue and supplier contracts are fair valued using cash flow projections over the contractual period of 1 to 30 years. Amortisation is recognised in profit or loss on a straight-line basis over the contractual period.

e. Water rights

Water rights are perpetual in nature. Water rights are measured at cost less accumulated impairment losses. Water rights are tested for impairment annually.

f. Other intangible assets

Other intangible assets with a finite life are measured at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill is recognised in profit or loss as an expense as incurred. Other intangible assets are amortised on a straight-line basis from the date the asset is available for use and over its estimated useful lives ranging from 3 to 30 years.

g. Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates and its costs can be measured reliably. All other expenditures are expensed as incurred.

h. Impairment

For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated and tested for impairment annually and as and when indicators of impairment occur.

i. Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

Key estimates and judgements

The determination of the recoverable amounts of goodwill and other intangible assets involves a high degree of judgement and is subject to significant estimation uncertainties, principally, the discount rates, gross margin forecasts and plant load factors. The gross margin forecasts and plant load factors take into account expected customer demand and forecasted tariff rates. These are inherently subject to estimation uncertainties as well as political and regulatory developments.

Discontinued operation

The Group performs regular (at least annually) technical, commercial and management review to confirm the continued intent to develop the engineering designs for the offshore solutions. Where there is no longer an intention to continue the development, the carrying amount of the design under development is expensed off to profit or loss immediately. When the design is available for use, the capitalised costs will be reclassified within intangible assets and commence amortisation.

D. Our Assets *(cont'd)*
D3. Intangible assets *(cont'd)*

(S$ million)	Note	Goodwill	Service concession arrangements	Long-term contracts	Intellectual property rights	Design under development	Others	Total
Group								
Cost								
Balance at January 1, 2020		299	63	232	299	50	42	985
Translation adjustments		(4)	3	(6)	–	–	*	(7)
Additions		–	1	–	–	–	58	59
Acquisition of subsidiaries	G2	–	–	10	–	–	*	10
Disposal of subsidiary	G2	–	(12)	–	–	–	–	(12)
Disposal		–	*	–	–	–	(23)	(23)
Transfer from other category of asset		–	*	–	–	–	*	*
Write-off	B4(a)	–	(1)	–	–	–	*	(1)
Distribution of a subsidiary	G3	(18)	–	–	(299)	(50)	(3)	(370)
Balance at December 31, 2020		277	54	236	–	–	74	641
Accumulated amortisation and impairment losses								
Balance at January 1, 2020		90	23	100	114	–	28	355
Translation adjustments		1	1	(1)	*	–	*	1
Amortisation charge for the year								
– Continuing operations	B4(a)	–	4	17	–	–	6	27
– Discontinued operation		–	–	–	19	–	–	19
Disposal of subsidiary	G2	–	(6)	–	–	–	–	(6)
Disposal		–	*	–	–	–	–	*
Impairment losses	B4(a), (c)	27	–	6	–	–	–	33
Distribution of a subsidiary	G3	–	–	–	(133)	–	(2)	(135)
Write-off	B4(a)	–	(1)	–	–	–	*	(1)
Balance at December 31, 2020		118	21	122	–	–	32	293
Carrying amounts								
At January 1, 2020		209	40	132	185	50	14	630
At December 31, 2020		159	33	114	–	–	42	348

D. Our Assets *(cont'd)*

D3. Intangible assets *(cont'd)*

(S$ million)	Note	Goodwill	Service concession arrangements	Long-term contracts	Intellectual property rights	Water rights	Design under development	Others	Total
Group									
Cost									
Balance at January 1, 2019		298	84	229	284	10	–	60	965
Translation adjustments		(1)	(3)	4	*	*	–	(3)	(3)
Additions	(c)	–	1	–	9	*	–	8	18
Acquisition of subsidiaries	(c)	1	–	–	6	–	–	–	7
Disposal of subsidiary		(1)	–	–	–	–	–	(1)	(2)
Disposal		–	(9)	–	–	*	–	(23)	(32)
Transfer from / (to) assets held for sale	B6	–	(10)	–	–	(10)	–	*	(20)
Transfer from other category of asset	(b)	–	–	–	–	–	50	1	51
Write-off	B4(a)	–	*	–	–	–	–	*	*
Other		2	–	(1)	–	–	–	–	1
Balance at December 31, 2019		299	63	232	299	*	50	42	985
Accumulated amortisation and impairment losses									
Balance at January 1, 2019		26	31	18	78	*	–	33	186
Translation adjustments		–	(2)	3	*	–	–	(1)	*
Amortisation charge for the year	B4(a)	–	5	15	26	*	–	8	54
Disposal of subsidiary		(1)	–	–	–	–	–	(1)	(2)
Disposal		–	(4)	–	–	*	–	(1)	(5)
Transfer from / (to) assets held for sale	B6	–	(7)	–	–	*	–	*	(7)
Transfer from other category of asset		–	–	–	–	–	–	*	*
Reclass within intangible asset		–	–	–	10	–	–	(10)	–
Impairment losses	B4(a), (c)	65	–	64	–	–	–	–	129
Write-off	B4(a)	–	*	–	–	–	–	*	*
Balance at December 31, 2019		90	23	100	114	*	–	28	355
Carrying amounts									
At January 1, 2019		272	53	211	206	10	–	27	779
At December 31, 2019		209	40	132	185	*	50	14	630

D. Our Assets *(cont'd)*

D3. Intangible assets *(cont'd)*

a. In 2020, the Group recognised impairment loss on goodwill of S$27 million (2019: S$65 million) in non-operating expenses and long-term contracts of S$6 million (2019: S$64 million) in cost of sales.

b. In 2019, engineering design under development of S$50 million was reclassified from contract costs to intangible assets as management had re-assessed that the costs incurred met the criteria for recognition as development costs as this relate to technical knowledge gained from development activities that are not contract specific and will give rise to future economic benefits. SCM's financials are no longer consolidated in the Group post Distribution.

c. In 2019, with the completion of the share swap agreement with RGT, Semb-Eco, Semb-Eco Technology Pte. Ltd. and Semb-Eco R&D Pte. Ltd. became wholly-owned subsidiaries of the Group. In conjunction with the share swap, S$9 million intellectual property rights were added. SCM's financials are no longer consolidated in the Group post Distribution.

Intangible assets of less than S$1 million (2019: less than S$1 million) have been pledged to secure loan facilities.

(S$ million)	Goodwill	Others	Total
Company			
Cost			
Balance at January 1, 2020	19	23	42
Additions	–	3	3
Disposals	–	*	*
Transfer from / (to) other category of assets	–	*	*
Balance at December 31, 2020	19	26	45
Accumulated amortisation and impairment losses			
Balance at January 1, 2020	–	16	16
Amortisation charge for the year	–	3	3
Disposals	–	*	*
Balance at December 31, 2020	–	19	19
Carrying amounts			
At January 1, 2020	19	7	26
At December 31, 2020	19	7	26
Cost			
Balance at January 1, 2019	19	18	37
Additions	–	4	4
Disposals	–	*	*
Transfer from / (to) other category of assets	–	1	1
Balance at December 31, 2019	19	23	42
Accumulated amortisation and impairment losses			
Balance at January 1, 2019	–	13	13
Amortisation charge for the year	–	3	3
Balance at December 31, 2019	–	16	16
Carrying amounts			
At January 1, 2019	19	5	24
At December 31, 2019	19	7	26

D. Our Assets *(cont'd)*

D3. Intangible assets *(cont'd)*

Amortisation

The amortisation of intangible assets is analysed as follows:

(S$ million)	Group 2020	Group 2019
Cost of sales	21	48
Administrative expenses	6	6
Total	27	54

Service concession arrangements

The subsidiaries in Chile, Panama and China have service concession agreements with the local municipalities in Chile; Panama; and Fuzhou, Xinmin and Yanjiao in People's Republic of China to supply drinking water to the local communities. In 2020, the subsidiaries in Chile and Panama (2019: the subsidiaries in Xinmin China) which have service concession agreements have been divested.

Under these arrangements, the charges for use of these assets are adjusted regularly in accordance to the agreed cost reference and escalation formula in the concession agreement and approved by the respective local authorities (Note A2(iii)).

Long-term contracts

India

The subsidiaries in India have long-term power purchase agreements (PPAs) with the local Electricity Board and commercial customers.

The significant terms of the above PPAs are as follows:

- A subsidiary in India has a long-term contract to provide 500 megawatts of power to the Andhra Pradesh Power distribution companies for a period of 25 years.
- The subsidiaries in the renewables sector in India have long-term contracts with India's State Electricity Boards in Gujarat, Karnataka, Maharashtra, Rajasthan and Tamil Nadu, with tenures ranging from 10 to 30 years. These subsidiaries also sell electricity to commercial customers with tenures ranging from 10 to 25 years.

United Kingdom (UK)

The subsidiaries in the UK acquired in 2018, have contracted with the National Grid of the UK to generate electricity through a portfolio of diesel and gas generators in multiple sites across the UK and supplier contracts with tenures ranging from 1 to 15 years. The majority of these contracts provide fixed rate cash flows relating to plant availability (Capacity Market contracts).

In 2020, the Group has recognised an impairment of S$6 million (2019: S$64 million). See Note D3(a) for key assumptions used.

Intellectual property rights

Intellectual property rights relate to acquired patents for the Jurong Espadon Drillship, Satellite Services Platform offshore designs, re-deployable modularised LNG and LPG solutions, and all of Sevan Marine ASA and HiLoad LNG ASA intellectual property rights. SCM's financials are no longer consolidated in the Group post the Distribution on September 11, 2020.

Water rights

The water rights mainly have infinite useful lives and are perpetual in nature. The water rights as established in the acquisition contracts were obtained from the General Water Directorate (DGA), a regulatory body under the Ministry of Public Works in Chile. The rights allow the Group to extract water from the specific water sources and supply water to end customers. The subsidiaries in Chile with water rights which reclassified to asset held for sale in 2019 have been divested in 2020.

Other intangible assets

Other intangible assets comprise carbon allowances, software, development rights and golf club membership.

D. Our Assets *(cont'd)*

D3. Intangible assets *(cont'd)*

Goodwill

Group

Impairment testing for goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

(S$ million)	Group December 31, 2020	Group December 31, 2019
Cash-generating Unit (CGU)		
SUT Division	19	19
Sembcorp Gas Pte Ltd	42	42
SEIL (Project I) (formerly known as Sembcorp Energy India Ltd)	23	24
SEIL (Project II) (formerly known as Sembcorp Gayatri Power Limited)	39	41
Sembcorp Green Infra Limited and its subsidiaries	36	38
UK Power Reserve Limited ("UKPR")	–	27
Multiple units with insignificant goodwill	*	18
	159	209

The recoverable amounts for SUT Division, Sembcorp Gas Pte Ltd / Sembcorp Fuels Pte Ltd, SEIL (Project I), SEIL (Project II), Sembcorp Green Infra Limited and its subsidiaries and UKPR were determined using VIU calculations. Cash flow projections used in the VIU calculations were prepared based on management's past experience in operating the business and forward market outlook over the long-term nature of the utilities and power business. Pre-tax discount rates between 4.5% and 10.3% (2019: 5.0% to 11.0%) had been used.

Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Notes to the Financial Statements

Year ended December 31, 2020

D. Our Assets *(cont'd)*

D3. Intangible assets *(cont'd)*

At the balance sheet date, based on the following key assumptions, except for UKPR, the recoverable amounts of the respective CGUs exceeded their carrying amounts.

a. Key assumptions on recoverable amounts on respective CGUs

	SUT Division	Sembcorp Gas Pte Ltd / Sembcorp Fuels Pte Ltd	SEIL (Project I)	SEIL (Project II)	Sembcorp Green Infra Limited and its subsidiaries	UKPR
Cash flow projections period	Remaining useful life of plants assumed 20 years (2019: 21 years)	Remaining contractual period of existing contracts	Remaining useful life of plants assumed 20 years (2019: 21 years)	Remaining useful life of plants assumed 21 years (2019: 22 years)	Remaining useful life of plants assumed 30 years (2019: 30 years)	Estimated remaining useful life of the plants ranging from 2021 to 2039
Terminal value	None	None	None	None	None	None
Expected capital expenditure	In accordance with plant maintenance programme	In accordance with plant maintenance programme and pipeline servicing	In accordance with plant maintenance programme	In accordance with plant maintenance programme	In accordance with plant maintenance programme	In accordance with plant maintenance programme
Revenue and margins	Based on contracts secured along with likely renewals and forecasted demand for industrial utilities and services; as well as forecasted margins	Based on estimated sales and purchases of gas quantities derived from the contractual period of existing contracts	Based on combination of long-term and short-term contracts secured at contracted tariffs as well as electricity spot prices. Contract renewals are assumed based on estimated demand and supply as well as margin	Primarily based on the forecasted combination of long-term and short-term contracts and electricity spot prices with reference to estimated demand and supply of electricity as well as margin Probabilities of securing the contracts based on the latest estimates have been assigned to each contract and using these probabilities to discount the corresponding cash flow projections from the contracts	Based on long-term contracts secured at contracted tariffs. New contracts and contract renewals are assumed based on estimated demand and supply as well as margin	Based on market supply and demand forecast on the estimated electricity and at forecasted margins
Inflation rate assumptions used to project overheads and other general expenses	0.9% (2019: 1.3% to 1.4%)	0.9% (2019: 1.3% to 1.4%)	3.5% (2019: 4.0%)	3.5% (2019: 4.0%)	3.5% (2019: 4.0%)	2.5% (2019: 2.5%)
Others	NA	Forward USD / SGD exchange rate and High Sulphur Fuel Oil (HSFO) prices with reference to forward quotes were assumed in the forecast performance	Cash flows are estimated based on the premise that the conversion of the leasehold land, which the subsidiary has already paid in full, will be converted to freehold (Note D1(xi))	NA	NA	A combination of economic and industry factors including an increase in energy capacity and a reduction in underlying demand due to energy efficiency and reduced industrial production

Sembcorp Gas Pte Ltd

As Sembcorp Gas Pte Ltd became wholly-owned in November 2019, there is a change in CGU for Sembcorp Gas Pte Ltd to include Sembcorp Fuels (Singapore) Pte Ltd, whose principal activity is also arranging for purchase and sale of natural gas. These two entities are considered a single CGU, for the following reasons: both have same customer bases for natural gas, pricing is set by the same management team and cash inflows are not generated largely independently.

UKPR

In 2020, with the change in market conditions from what was assumed at the time of purchase, the remaining goodwill ascribed for UKPR's acquisition of S$27 million was impaired and recorded in non-operating expenses in B4(c). The business adopted a revised strategy to focus primarily in the grid services market. Together with the impairment losses on property, plant and equipment of S$34 million and long-term customer contracts of S$6 million, as well as an impairment of S$27 million goodwill, the total impairment charge recognised in the year amounted to S$67 million.

UKPR *(cont'd)*

In 2019, the impairment reviews performed for UKPR resulted in impairment losses on property, plant and equipment of S$52 million and long-term customer contracts of S$64 million for certain individual CGUs, as well as an impairment of S$62 million in goodwill which has been allocated to this group of CGUs. Total impairment charge recognised for the year amounted to S$178 million. An increase in the after tax discount rate from 7.0% to 8.0% (2019: 7.0% to 8.2%) would result in an overall additional impairments of S$17 million (2019: S$51 million).

Company

The Company's goodwill relates to goodwill of SUT on the acquisition of the SUT Division in 2008.