CIRCULAR DATED 20 OCTOBER 2021

THIS CIRCULAR IS ISSUED BY SEMBCORP MARINE LTD (THE "COMPANY"). THIS CIRCULAR IS IMPORTANT AS IT CONTAINS THE RECOMMENDATION OF THE INDEPENDENT DIRECTORS (AS DEFINED HEREIN) AND THE ADVICE AND RECOMMENDATION OF PROVENANCE CAPITAL PTE. LTD., THE INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT DIRECTORS. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION AND YOU SHOULD READ IT CAREFULLY.

If you are in any doubt in relation to this Circular or as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

If you have sold or transferred all your Shares (as defined herein), you should immediately forward this Circular to the purchaser or transferee or to the bank, stockbroker or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited assumes no responsibility for the correctness of any of the statements made, reports contained, opinions expressed or advice given in this Circular.

sembcorp marine

SEMBCORP MARINE LTD

(Incorporated in the Republic of Singapore)
(Company Registration No.: 196300098Z)

CIRCULAR TO SHAREHOLDERS

in relation to the

MANDATORY CONDITIONAL GENERAL CASH OFFER

by

Morgan Stanley

MORGAN STANLEY ASIA (SINGAPORE) PTE.

(Incorporated in the Republic of Singapore)
(Company Registration No.: 199206298Z)

for and on behalf of

STARTREE INVESTMENTS PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No.: 200208606H)

to acquire all the issued and paid-up ordinary shares in the share capital of the Company other than those already owned, controlled or agreed to be acquired by the Offeror and parties acting in concert with it

Independent Financial Adviser to the Independent Directors

PROVENANCECAPITAL

Provenance Capital Pte. Ltd.

(Incorporated in the Republic of Singapore)
(Company Registration No.: 200309056E)

SHAREHOLDERS (AS DEFINED HEREIN) SHOULD NOTE THAT THE OFFER DOCUMENT (AS DEFINED HEREIN) STATES THAT ACCEPTANCES SHOULD BE RECEIVED BY 5.30 P.M. (SINGAPORE TIME) ON 3 NOVEMBER 2021. THE OFFEROR DOES NOT INTEND TO EXTEND THE OFFER BEYOND THE CLOSING DATE (AS DEFINED HEREIN).

ACCORDINGLY, SHAREHOLDERS WHO WISH TO ACCEPT THE OFFER MUST DO SO BY SUCH TIME AND DATE.

CONTENTS

DEFINITIONS

Except where the context otherwise requires, the following definitions apply throughout this Circular:

"**1H2021**"	:	The six months ended 30 June 2021
"**1H2021 Results**"	:	The unaudited condensed interim financial statements of the Group for the six months ended 30 June 2021
"**1H2021 Statement of Prospects**"	:	Has the meaning given to it in **Appendix F**
"**2H2021**"	:	The six months ending 31 December 2021
"**2H2021 Results Guidance**"	:	The results guidance from the management of the Company for the six months ending 31 December 2021 which was issued by the Company on 19 October 2021
"**2H2021 Statement of Prospects**"	:	Has the meaning given to it in **Appendix J**
"**Act**"	:	The Companies Act, Chapter 50 of Singapore
"**Annual Report**"	:	The annual report of the Group
"**Auditors**"	:	KPMG LLP, the auditors of the Company
"**Awards**"	:	Share awards granted under the RSP2020 or PSP2020, as the case may be
"**Board**"	:	The board of Directors
"**CDP**"	:	The Central Depository (Pte) Limited
"**Circular**"	:	This circular to Shareholders dated 20 October 2021 from the Company containing, *inter alia*, the advice and recommendation of the IFA to the Independent Directors and the recommendation of the Independent Directors in relation to the Offer
"**Closing Date**"	:	**5.30 p.m. (Singapore time) on 3 November 2021**, being the last day for the lodgement of acceptances of the Offer
"**Code**"	:	The Singapore Code on Take-overs and Mergers
"**Company**"	:	Sembcorp Marine Ltd (Company Registration Number: 196300098Z), a public limited company incorporated in Singapore
"**Company Securities**"	:	(i) securities which are being offered (i.e. the Shares); (ii) securities which carry voting rights in the Company; or (iii) convertible securities, warrants, options or Derivatives in respect of the Shares or securities which carry voting rights in the Company
"**Concert Parties**"	:	Parties acting in concert with the Offeror in connection with the Offer

"**Constitution**"	:	The constitution of the Company
"**CPF**"	:	The Central Provident Fund of Singapore
"**Derivative**"	:	Includes any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security or securities
"**Directors**"	:	The directors of the Company as at the Latest Practicable Date
"**Distributions**"	:	Any dividends, rights and other distributions declared, paid or made by the Company in respect of the Shares
"**Encumbrances**"	:	Any claims, charges, equities, mortgages, liens, pledges, encumbrances, rights of pre-emption and other third party rights and interests of any nature whatsoever
"**FAA**"	:	Form of Acceptance and Authorisation for Offer Shares, which forms part of the Offer Document and which is issued to Shareholders whose Offer Shares are deposited with CDP
"**FAT**"	:	Form of Acceptance and Transfer for Offer Shares, which forms part of the Offer Document and which is issued to Shareholders whose Offer Shares are not deposited with CDP
"**FY**"	:	The financial year ended or ending, as the case may be, on 31 December of the relevant year
"**FY2020 Results**"	:	The audited consolidated financial statements of the Group for FY2020
"**Group**"	:	The Company and its subsidiaries, and "**Group Company**" means any one of them
"**IFA**" or "**Provenance Capital**"	:	Provenance Capital Pte. Ltd., the independent financial adviser to the Independent Directors in respect of the Offer
"**IFA Letter**"	:	The letter dated 20 October 2021 from the IFA addressed to the Independent Directors in respect of the Offer as set out in **Appendix A** to this Circular
"**Independent Directors**"	:	Tan Sri Mohd Hassan Marican, Wong Weng Sun, Eric Ang Teik Lim, Bob Tan Beng Hai, Gina Lee-Wan, William Tan Seng Koon, Patrick Daniel, Tan Wah Yeow and Koh Chiap Khiong, being the Directors who are considered to be independent for the purposes of the Offer
"**Interested Person**"	:	As defined in the Note on Rule 24.6 of the Code and read with Note 1 on Rule 23.12 of the Code, an interested person is: (i) a director, chief executive officer, or substantial shareholder of the company; (ii) the immediate family of a director, the chief executive officer, or a substantial shareholder (being an individual) of the company;

		(iii) the trustees, acting in their capacity as such trustees, of any trust of which a director, the chief executive officer or a substantial shareholder (being an individual) and his immediate family is a beneficiary; (iv) any company in which a director, the chief executive officer or a substantial shareholder (being an individual) together and his immediate family together (directly or indirectly) have an interest of 30 per cent. or more; (v) any company that is the subsidiary, holding company or fellow subsidiary of the substantial shareholder (being a company); or (vi) any company in which a substantial shareholder (being a company) and any of the companies listed in (v) above together (directly or indirectly) have an interest of 30 per cent. or more
"**Latest Practicable Date**"	:	15 October 2021, being the latest practicable date prior to the printing of this Circular
"**Listing Manual**"	:	The listing manual of the Main Board of the SGX-ST in force as at the Latest Practicable Date
"**Morgan Stanley**"	:	Morgan Stanley Asia (Singapore) Pte.
"**Offer**"	:	The mandatory conditional general cash offer by Morgan Stanley, for and on behalf of the Offeror, to acquire the Offer Shares, on the terms and subject to the conditions set out in the Offer Document, the FAA and the FAT
"**Offer Announcement**"	:	The announcement issued by Morgan Stanley on the Offer Announcement Date, for and on behalf of the Offeror, in relation to the Offer
"**Offer Announcement Date**"	:	22 September 2021, being the date of the Offer Announcement
"**Offer Document**"	:	The document dated 6 October 2021, including the FAA and the FAT and any other document(s) which may be issued for and on behalf of the Offeror to amend, revise, supplement or update the Offer Document from time to time
"**Offer Document Dissemination Date**"	:	6 October 2021, being the date of despatch of the notification of electronic dissemination of the Offer Document and its related documents dated 6 October 2021, the FAA, the FAT and the electronic dissemination of the Offer Document and any related documents
"**Offer Price**"	:	S$0.08 in cash for each Offer Share
"**Offer Shares**"	:	(i) All the Shares, other than those already owned, controlled or agreed to be acquired by the Offeror Concert Party Group as at the Offer Announcement Date; and (ii) all new Shares unconditionally issued or to be issued, or treasury shares unconditionally delivered or to be delivered, as the case may be, prior to the Closing Date pursuant to the valid vesting and release of any outstanding Awards under the RSP2020 and PSP2020

"**Offeror**"	:	Startree Investments Pte. Ltd. (Company Registration Number: 200208606H), a company incorporated in Singapore
"**Offeror Concert Party Group**"	:	The Offeror and its Concert Parties
"**Offeror Securities**"	:	(i) Offeror Shares; and (ii) securities which carry voting rights in the Offeror; or (iii) convertible securities, warrants, options or Derivatives in respect of the Offeror Shares, or securities which carry voting rights in the Offeror
"**Offeror Shares**"	:	Issued ordinary shares in the capital of the Offeror
"**Overseas Shareholders**"	:	The Shareholders whose addresses are outside of Singapore, as shown on the Register or in the records of CDP (as the case may be)
"**PSP2020**"	:	The Sembcorp Marine Performance Share Plan 2020 approved and adopted by the Shareholders on 20 May 2020
"**Record Date**"	:	In relation to any Distributions, the date on which Shareholders must be registered with the Company or with CDP, as the case may be, in order to participate in such Distributions
"**Register**"	:	The register of members of the Company, as maintained by the Share Registrar
"**Rights Issue**"	:	The renounceable underwritten rights issue by the Company of 18,833,459,491 Rights Shares, which were allotted and issued on 22 September 2021
"**Rights Issue Announcement Date**"	:	The date of announcement made by the Company relating to, *inter alia*, the Rights Issue, being 24 June 2021
"**Rights Shares**"	:	The new Shares allotted and issued by the Company pursuant to the Rights Issue
"**RSP2020**"	:	The Sembcorp Marine Restricted Share Plan 2020 approved and adopted by the Shareholders on 20 May 2020
"**Securities and Futures Act**"	:	The Securities and Futures Act, Chapter 289 of Singapore
"**SGX-ST**"	:	Singapore Exchange Securities Trading Limited
"**Share Registrar**"	:	KCK CorpServe Pte. Ltd., the share registrar of the Company
"**Shareholders**"	:	Persons who are registered as holders of Shares as indicated on the Register and Depositors who have Shares entered against their names in the Depository Register
"**Shares**"	:	Issued and paid-up ordinary shares in the capital of the Company
"**SIC**"	:	The Securities Industry Council of Singapore

"**Subject Assets**"	:	means the assets which are the subject of the Valuation Letter
"**Valuation Letter**"	:	the valuation letter dated 20 October 2021 in relation to the market value of the Subject Assets as set out in **Appendix I** to this Circular
"**Valuer**"	:	Deloitte & Touche Financial Advisory Services Pte. Ltd., being the independent valuer who prepared the Valuation Letter
"**S$**" and "**cents**"	:	Singapore dollars and cents, respectively, being the lawful currency for the time being of Singapore
"**%**" or "**per cent.**"	:	Per centum or percentage

Acting in Concert. Unless otherwise defined, the term "**acting in concert**" shall have the meaning ascribed to it in the Code.

Depositor and Depository Register. The terms "**Depositor**" and "**Depository Register**" shall have the meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act.

Headings. The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Offer Document. References to "**Offer Document**" shall include the FAA and the FAT, unless the context otherwise requires.

Plurality, Gender, Person, etc. Words importing the singular shall, where applicable, include the plural and *vice versa*. Words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall, where applicable, include corporations.

Related Corporation. The term "**related corporation**" shall have meaning ascribed to it in Section 6 of the Act.

Rounding. Any discrepancies in figures in this Circular between the amounts shown and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures that precede them.

Shareholders. References to "**you**", "**your**" and "**yours**" in this Circular are, as the context so determines, to Shareholders (including persons whose Offer Shares are deposited with CDP or who have purchased Offer Shares on the SGX-ST).

Statutes. Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Act, the Securities and Futures Act, the Code, the Listing Manual or any statutory modification thereof and not otherwise defined in this Circular shall, where applicable, have the same meaning assigned to it under the Act, the Securities and Futures Act, the Code, the Listing Manual or any statutory modification thereof, as the case may be, unless the context otherwise requires.

Subsidiary. The term "**subsidiary**" shall have the meaning ascribed to it in Section 5 of the Act.

Total number of issued Shares. In this Circular, any reference to the total number of issued Shares is a reference to 31,389,099,152 Shares in issue as at the Latest Practicable Date, excluding 6,223 treasury shares as at the Latest Practicable Date. All percentages calculated with reference to the issued Shares are rounded to the nearest two decimal places.

Time and Date. Any reference to a time of day and date in this Circular is made by reference to Singapore time and date, respectively, unless otherwise stated.

Statements which are reproduced in their entirety from the Offer Document, the IFA Letter, the Valuation Letter, the FY2020 Results and related releases, the Annual Report for FY2020, the 1H2021 Results, the 2H2021 Results Guidance and the Constitution are set out in this Circular within quotes and in italics, and capitalised terms used within these reproduced statements bear the meanings ascribed to them in the Offer Document, the IFA Letter, the Valuation Letter, the FY2020 Results and related releases, the Annual Report for FY2020, the 1H2021 Results, the 2H2021 Results Guidance and the Constitution respectively.

CAUTIONARY NOTE

Cautionary Note on Forward-Looking Statements

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as "aim", "seek", "expect", "anticipate", "believe", "estimate", "intend", "project", "plan", "strategy", "forecast" and similar expressions or future or conditional verbs such as "if", "will", "would", "should", "could", "may" and "might". These statements reflect the Company's current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of information available as at the Latest Practicable Date. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties. Accordingly, actual results or outcomes may differ materially from those described in such forward-looking statements. Shareholders should not place undue reliance on such forward-looking statements, and neither the Company nor the IFA guarantees any future performance or event or undertakes any obligation to update publicly or revise any forward-looking statements, subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any other regulatory or supervisory body or agency.

LETTER TO SHAREHOLDERS

SEMBCORP MARINE LTD

(Company Registration No.: 196300098Z)
(Incorporated in the Republic of Singapore)

Board of Directors:	**Registered Office:**
Tan Sri Mohd Hassan Marican (*Chairman and Non-Executive and Non-Independent Director*)	80 Tuas South Boulevard Singapore 637051
Wong Weng Sun (*President & CEO and Executive and Non-Independent Director*)	
Eric Ang Teik Lim (*Non-Executive and Lead Independent Director*)	
Bob Tan Beng Hai (*Non-Executive and Independent Director*)	
Gina Lee-Wan (*Non-Executive and Independent Director*)	
William Tan Seng Koon (*Non-Executive and Independent Director*)	
Patrick Daniel (*Non-Executive and Independent Director*)	
Tan Wah Yeow (*Non-Executive and Independent Director*)	
Koh Chiap Khiong (*Non-Executive and Non-Independent Director*)	

20 October 2021

To: The Shareholders of Sembcorp Marine Ltd

Dear Sir/Madam

MANDATORY CONDITIONAL GENERAL CASH OFFER BY MORGAN STANLEY, FOR AND ON BEHALF OF THE OFFEROR, FOR THE OFFER SHARES

1. INTRODUCTION

1.1 Offer Announcement. On the Offer Announcement Date, Morgan Stanley announced for and on behalf of the Offeror that the Offeror had been issued in aggregate 9,277,318,151 Shares pursuant to the Rights Issue.

Under Rule 14.1 of the Code, where any person (defined to include any body corporate) who, together with persons acting in concert with that person, holds not less than 30% but not more than 50% of the voting rights of a company and such person, or any person acting in concert with him, acquires, in any period of six (6) months, additional shares carrying more than 1% of the voting rights of the company, such person is required to make a mandatory general offer for all the shares in the company which the person and/or persons acting in concert do not already own or control.

As a consequence of the Rights Issue, the number of Shares held by the Offeror Concert Party Group increased from 5,353,577,297 Shares, representing approximately 42.6 per cent. of the total issued Shares[1], to 14,631,571,691 representing approximately 46.6 per cent. of the total issued Shares[2].

Accordingly, the Offeror Concert Party Group has increased its shareholding in the Company by more than 1% and has incurred an obligation to make the Offer for all the Offer Shares in accordance with Rule 14 of the Code.

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[1] Based on the then-existing total of 12,555,639,661 Shares in issue as at 23 August 2021, being the latest practicable date prior to the lodgement of the offer information statement dated 26 August 2021 issued by the Company in relation to the Rights Issue, excluding 6,223 treasury shares.

[2] Based on 31,389,099,152 Shares in issue as at the Offer Announcement Date, being the total number of issued Shares of the Company as at the Offer Announcement Date following the allotment and issuance of all the Shares pursuant to the Rights Issue, excluding 6,223 treasury shares.

1.2 **Offer Document.** Shareholders should by now have received a copy of the Offer Document issued by Morgan Stanley, for and on behalf of the Offeror, on 6 October 2021. The Offer Document sets out the formal offer by Morgan Stanley, for and on behalf of the Offeror, to acquire all the Offer Shares, subject to the terms and conditions set out therein. **Shareholders are advised to read the terms and conditions of the Offer set out in the Offer Document carefully.**

Copies of the Offer Announcement and the Offer Document are available on the website of the SGX-ST at **www.sgx.com**.

1.3 **Circular.** The purpose of this Circular is to provide Shareholders with relevant information pertaining to the Offer and to set out the recommendation of the Independent Directors and the advice and recommendation of the IFA to the Independent Directors with regard to the Offer.

Shareholders should read the Offer Document, this Circular and the IFA Letter set out in Appendix A to this Circular carefully and consider the recommendation of the Independent Directors and the advice and recommendation of the IFA to the Independent Directors before deciding whether or not to accept the Offer.

If you are in any doubt about the Offer, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

2. THE OFFER

2.1 **Offer Price.** As stated in the Offer Document, the Offer Price for each Offer Share is as follows:

For each Offer Share: S$0.08 in cash.

The Offer Price is final and the Offeror will not revise the Offer Price or any other terms of the Offer.

2.2 **Offer Shares.** As stated in the Offer Document, the Offer will be extended to all the Offer Shares.

2.3 **No Encumbrances.** As stated in the Offer Document, the Offer Shares are to be acquired:

(i) fully paid;

(ii) free from all Encumbrances; and

(iii) together with all rights, benefits, entitlements and advantages attached thereto as at the Offer Announcement Date, and thereafter attaching thereto, including but not limited to the right to receive and retain all Distributions (if any), the Record Date for which falls on or after the Offer Announcement Date.

2.4 **Adjustment for Distributions**. Without prejudice to the foregoing, the Offer Price has been determined on the basis that the Offer Shares will be acquired with the right to receive any Distribution, the Record Date for which falls on or after the Offer Announcement Date. In the event of any such Distribution, the Offer Price payable to a Shareholder who validly accepts or has validly accepted the Offer shall be reduced by an amount which is equal to the amount of such Distribution, depending on when the settlement date in respect of the Offer Shares tendered in acceptance of the Offer (the "**Offer Settlement Date**") falls:

(i) if the Offer Settlement Date falls on or before the Record Date, the Offeror will pay the relevant accepting Shareholders the unadjusted Offer Price for each Offer Share, as the Offeror will receive the Distribution in respect of such Offer Shares from the Company; and

(ii) if the Offer Settlement Date falls after the Record Date, the Offer Price payable for such Offer Shares tendered in acceptance shall be reduced by an amount which is equal to the Distribution in respect of such Offer Shares, as the Offeror will not receive such Distribution from the Company.

2.5 **Minimum Acceptance Condition.** Pursuant to Rule 14.2 of the Code, if the Offeror Concert Party Group does not hold more than 50% of the issued Shares when the Offer is made, the Offer is required to be made conditional upon the Offeror Concert Party Group receiving such number of acceptances which would result in the Offeror Concert Party Group holding more than 50% of the voting rights attributable to the share capital of the Company.

Accordingly, the Offer is conditional upon the Offeror having received, by the close of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror Concert Party Group (either before or during the Offer and pursuant to the Offer or otherwise), will result in the Offeror Concert Party Group holding such number of Shares carrying more than 50% of the total voting rights attributable to the issued Shares (excluding any Shares held in treasury) as at the close of the Offer (including any Shares which may be unconditionally issued pursuant to the valid vesting and release of the Awards prior to the Closing Date) (the "**Minimum Acceptance Condition**").

The Offer will not become or be capable of being declared unconditional as to acceptances until the close of the Offer, unless at any time prior to the close of the Offer, the Offeror has received valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror Concert Party Group before or during the Offer, will result in the Offeror Concert Party Group holding more than 50% of the maximum potential issued share capital of the Company as at the Closing Date. For this purpose, the "**maximum potential issued share capital of the Company**" means the total number of issued Shares (excluding treasury shares) had all the Shares under the Awards been issued and delivered as at the date of such declaration.

Save for the Minimum Acceptance Condition, the Offer is unconditional in all other respects.

2.6 **Warranty.** As stated in the Offer Document, a Shareholder who tenders his/her/its Offer Shares in acceptance of the Offer will be deemed to unconditionally and irrevocably represent, warrant and undertake to the Offeror that he/she/it sells such Offer Shares as or on behalf of the beneficial owner(s) thereof, (a) fully paid, (b) free from all Encumbrances, and (c) together with all rights, benefits, entitlements and advantages attached thereto as at the Offer Announcement Date and thereafter attaching thereto, including the right to all Distributions (if any), the Record Date for which falls on or after the Offer Announcement Date.

2.7 **No Extension of Closing Date.** As stated in the Offer Document, except insofar as the Offer may be withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder, the Offer will remain open for acceptance by Shareholders for the period commencing on the Offer Document Dissemination Date and ending on the Closing Date, being the date falling 28 days after the Offer Document Dissemination Date.

Accordingly, the Offer will close at 5:30 p.m. (Singapore time) on 3 November 2021, being the Closing Date, and the Offeror will not extend the Offer beyond the Closing Date. The Offer will not be open for acceptance beyond 5:30 p.m. (Singapore time) on the Closing Date.

2.8 **Further Details of the Offer.** Further details of the Offer are set out on pages 11 to 13 and Appendices 1 and 2 to the Offer Document including details on (a) the duration of the Offer; (b) the settlement of the consideration for the Offer; (c) the requirements relating to the announcement of the level of acceptances of the Offer; (d) the right of withdrawal of acceptances of the Offer; and (e) the procedures for acceptance of the Offer.

2.9 **No Awards Offer**. The Company has, as at the Latest Practicable Date, outstanding Awards in respect of 2,265,500 Shares in connection with the payment of Directors' fees for FY2020.

Under the rules of the RSP2020, the Awards are personal to the holders of the Awards and are not transferable. Accordingly, the Offeror will not make an offer to acquire the outstanding Awards.

For the avoidance of doubt, the Offer will be extended to all new Shares unconditionally issued or to be issued pursuant to the valid vesting and release of any outstanding Awards prior to the Closing Date.

3. INFORMATION ON THE OFFEROR

3.1 Information on the Offeror. The Offer Document sets out information on the Offeror, which has been extracted therefrom and is reproduced in *italics* below. Unless otherwise defined, all terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document. Shareholders are advised to read the extract below carefully.

"***5. INFORMATION ON THE OFFEROR***

*5.1 **The Offeror.** The Offeror is a company incorporated in Singapore on 3 October 2002 as an investment holding company, and is an indirect wholly-owned subsidiary of Temasek.*

5.2 As at the Latest Practicable Date:

(a) the Offeror has an issued and paid-up share capital of S$2 comprising two (2) ordinary shares; and

(b) the Directors of the Offeror are Mr. Nagi Hamiyeh and Mr. Tan Chong Lee.

*5.3 **The Offeror Concert Party Group.** Based on the latest information available to the Offeror as at the Latest Practicable Date, the Offeror Concert Party Group holds in aggregate 14,631,571,691 Shares as at the Latest Practicable Date, representing approximately 46.6% of the total number of issued Shares.*"

3.2 Further Information on the Offeror. Further information on the Offeror is set out in **Appendix C** to this Circular.

4. RATIONALE FOR THE OFFER AND OFFEROR'S INTENTIONS FOR THE COMPANY

The full text of the rationale for the Offer and the Offeror's intentions relating to the Company has been extracted from the Offer Document and is reproduced in *italics* below. Unless otherwise defined, all terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document. Shareholders are advised to read the extract below carefully.

"***7. RATIONALE FOR THE MGO***

7.1 As stated in Section 1.3 of the Letter to Shareholders in this Offer Document, the Offeror is making the MGO in compliance with the requirements of Rule 14 of the Code.

7.2 As a consequence of the Offeror's participation in the Rights Issue, the Offeror Concert Party Group's shareholding in the Company has increased by more than 1% in a period of six (6) months and accordingly, under Rule 14.1 of the Code, the Offeror Concert Party Group is required to make a mandatory general offer for all the shares in the Company which the Offeror Concert Party Group does not already own or control.

8. THE OFFEROR'S INTENTIONS RELATING TO THE COMPANY

*8.1 The Offeror notes the Company's disclosures including its announcement dated 24 June 2021, its circular to Shareholders dated 4 August 2021 and its Offer Information Statement in respect of, inter alia, (a) measures to improve the Group's operating and financial performance through a Performance Improvement Plan to drive operational improvements and optimise its cost structure and (b) discussions with a view to potentially combining businesses of Keppel Offshore & Marine Ltd ("**KOM**") with those of the Company (the "**Potential Combination**"), with the objective of creating sustainable value over the long term for KOM and the Company and their respective stakeholders. Shareholders should refer to the announcements released by the Company in respect of the above for more information.*

To the extent that the Company's board and management presents any recommendations or proposals for Shareholders' consideration whether in respect of the Potential Combination (if any) or otherwise, the Offeror will evaluate and consider such recommendations or proposals commercially as appropriate at the relevant time.

8.2 *Subject to and pending the above, it is the current intention of the Offeror that the Company continues with its business and activities in accordance with its board and management's strategies and decisions and the Offeror does not have any plans to make any material changes to the Group's businesses, re-deploy its fixed assets or to discontinue the employment of its employees."*

5. COMPULSORY ACQUISITION AND LISTING STATUS

The Offer Document sets out the intentions of the Offeror relating to the listing status of the Company and its rights of compulsory acquisition in respect of the Company. The relevant paragraphs have been extracted from the Offer Document and are reproduced in *italics* below. Unless otherwise defined, all terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document. Shareholders are advised to read the extract below carefully.

"***9. COMPULSORY ACQUISITION AND LISTING STATUS***

9.1 Listing Status.

(a) Pursuant to Rule 1105 of the Listing Manual, upon an announcement by the Offeror that acceptances have been received pursuant to the MGO that bring the holdings owned by the Offeror and its concert parties to above 90% of the total number of issued Shares (excluding Shares held in treasury), the SGX-ST may suspend the trading of the Shares on the SGX-ST until such time it is satisfied that at least 10% of the total number of issued Shares (excluding Shares held in treasury) are held by at least 500 Shareholders who are members of the public. Rule 1303(1) of the Listing Manual provides that if the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding Shares held in treasury), thus causing the percentage of the total number of issued Shares (excluding Shares held in treasury) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the MGO.

*(b) Rule 723 of the Listing Manual requires the Company to ensure that at least 10% of the total number of Shares in issue excluding treasury shares is at all times held by the public ("**Free Float Requirement**"). In addition, under Rule 724(1) of the Listing Manual, if the percentage of the total number of issued Shares (excluding Shares held in treasury) held in public hands falls below 10%, the Company must, as soon as practicable, announce that fact and the SGX-ST may suspend the trading of all the Shares. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of Shares (excluding Shares held in treasury) in public hands to at least 10%, failing which the Company may be delisted from the SGX-ST.*

(c) It is the present intention of the Offeror to maintain the listing status of the Company on the SGX-ST following completion of the MGO.

However, the Offeror reserves the right to re-evaluate its position, taking into account, among other things, the level of acceptances received by the Offeror in respect of the MGO and the prevailing market conditions at the relevant time. Accordingly, there is no assurance that the Offeror will take steps to maintain the listing status of the Company on the SGX-ST in the event the Free Float Requirement is not satisfied by the Company.

9.2 Compulsory Acquisition.

(a) Pursuant to Section 215(1) of the Companies Act, if the Offeror receives valid acceptances pursuant to the MGO (or otherwise acquires Shares during the period when the MGO is open for acceptance) in respect of not less than 90% of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the MGO and excluding any Shares held in treasury), the Offeror would be entitled to exercise the right to compulsorily acquire all the Shares of Shareholders who have not accepted the MGO, at a price equal to the Offer Price. In addition, pursuant to

Section 215(3) of the Companies Act, if the Offeror acquires such number of Shares which, together with the Shares held by it, its related corporations or their respective nominees, comprise 90% or more of the total number of issued Shares as at the close of the MGO, the Shareholders who have not accepted the MGO have a right to require the Offeror to acquire their Shares at the Offer Price. Such Shareholders who wish to exercise such a right are advised to seek their own independent legal advice.

(b) As stated in Section 9.1(c) above, it is the present intention of the Offeror to maintain the listing status of the Company on the SGX-ST following completion of the MGO. Accordingly, the Offeror presently has no intention of exercising its right of compulsory acquisition under Section 215(1) of the Companies Act, should it become available.

The Offeror reserves the right to re-evaluate its position, taking into account, among other things, the level of acceptances received by the Offeror in respect of the MGO and the prevailing market conditions at the relevant time. Accordingly, there is no assurance that the current intention will be carried into effect."

6. DIRECTORS' INTERESTS

Details of the Directors including, *inter alia*, the Directors' direct and deemed interests in the Shares as at the Latest Practicable Date are set out in **Appendix B** to this Circular.

7. ADVICE OF THE IFA

7.1 IFA. Provenance Capital has been appointed as the independent financial adviser to advise the Independent Directors in respect of the Offer. The IFA Letter, setting out its opinion and advice in full, is set out in **Appendix A** to this Circular. Shareholders are advised to read the IFA Letter carefully.

7.2 Advice of the IFA. The following is an extract from Section 9 of the IFA Letter (as reproduced in *italics* below) and should be read by Shareholders in conjunction with, and in the full context of, the full text of the IFA Letter. Unless otherwise defined, all terms and expressions used in the extract below shall have the same meanings as those defined in the IFA Letter.

"*In arriving at our recommendation in respect of the Offer, we have taken into account, reviewed and deliberated on the following key considerations which we considered to be pertinent in our assessment of the Offer:*

(a) Market price performance of the Shares;

(b) Financial analysis of the Group;

(c) Comparison with precedent takeover overs of selected SGX-ST listed companies;

(d) Comparison of valuation statistics of selected listed companies which are broadly comparable with the Group;

(e) Estimated value range of the Shares;

(f) Dividend track record of the Company; and

(g) Other relevant considerations.

Based on our analysis and after having considered carefully the information available to us as at the Latest Practicable Date, overall, we are of the view that the financial terms of the Offer are not fair and not reasonable. Accordingly, we advise the Independent Directors to recommend Shareholders to REJECT the Offer.

Shareholders who wish to realise their investments in the Company can choose to sell their Shares in the open market if they can obtain a price higher than the Offer Price (after deducting transaction costs)."

8. RECOMMENDATION OF THE INDEPENDENT DIRECTORS

8.1 **Recommendation of the Independent Directors.** The Independent Directors, having considered carefully the terms of the Offer and the advice and recommendation of the IFA in the IFA Letter, concur with the advice and recommendation of the IFA in respect of the Offer. Accordingly, the Independent Directors recommend that Shareholders REJECT the Offer.

SHAREHOLDERS ARE ADVISED TO READ THE IFA LETTER SET OUT IN APPENDIX A TO THIS CIRCULAR CAREFULLY.

8.2 **No Regard to Specific Objectives.** In making their recommendation, the Independent Directors have not had regard to the specific objectives, financial situation, tax status, risk profiles or unique needs and constraints of any individual Shareholder. Accordingly, the Independent Directors recommend that any individual Shareholder who may require advice in the context of his specific investment portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

9. OVERSEAS SHAREHOLDERS

The Offer Document sets out information in relation to Overseas Shareholders, which has been extracted therefrom and is reproduced in *italics* below. Unless otherwise defined, all terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document.

"***13. OVERSEAS SHAREHOLDERS***

13.1 ***Overseas Jurisdictions.*** *This Offer Document does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any security, nor is it a solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of the securities referred to in this Offer Document in any jurisdiction in contravention of applicable law.*

The release, publication or distribution of this Offer Document in certain jurisdictions may be restricted by law and therefore persons in any such jurisdictions into which this Offer Document is released, published or distributed should inform themselves about and observe such restrictions.

*Copies of this Offer Document and any formal documentation relating to the MGO are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any jurisdiction where the making of or the acceptance of the MGO will violate the laws of that jurisdiction ("**Restricted Jurisdiction**") and will not be capable of acceptance by any such use, instrumentality or facility within any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction.*

The MGO (unless otherwise determined by the Offeror and permitted by applicable law and regulation) will not be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction and the MGO will not be capable of acceptance by any such use, means, instrumentality or facilities.

13.2 ***Overseas Shareholders.*** *The availability of the MGO to Shareholders whose addresses are outside Singapore as shown in the Register or in the Depository Register (as the case may be) (each, an "**Overseas Shareholder**") may be affected by the laws of the relevant overseas jurisdictions in which they are located. Accordingly, Overseas Shareholders should inform themselves of, and observe, any applicable requirements in the relevant overseas jurisdictions.*

For the avoidance of doubt, the MGO will be open to all Shareholders, including those to whom the Notification (containing the address and instructions for the electronic retrieval of the Offer Document and its related documents) and the relevant Acceptance Forms may not be sent.

It is the responsibility of Overseas Shareholders who wish to accept the MGO to satisfy themselves as to the full observance of the laws of the relevant overseas jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, or compliance with other necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such Overseas Shareholders shall be liable for any such taxes, imposts, duties or other requisite payments payable and the Offeror, its related corporations, Morgan Stanley, CDP, the Registrar and/or any person acting on their behalf shall be fully indemnified and held harmless by such Overseas Shareholders for any such taxes, imposts, duties or other requisite payments as the Offeror, its related corporations, Morgan Stanley, CDP, the Registrar and/or any person acting on their behalf may be required to pay. In accepting the MGO, each Overseas Shareholder represents and warrants to the Offeror and Morgan Stanley that he/she/it is in full observance of the laws of the relevant jurisdiction in that connection and that he/she/it is in full compliance with all necessary formalities or legal requirements.

Any Overseas Shareholder who is in doubt about his/her/its position should consult his/her/its professional adviser in the relevant jurisdiction.

13.3 ***Copies of the Notification and the relevant Acceptance Forms.*** *Where there are potential restrictions on sending the Notification (containing the address and instructions for the electronic retrieval of this Offer Document and its related documents) and the relevant Acceptance Forms to any overseas jurisdiction, the Offeror and Morgan Stanley each reserves the right not to send these documents to Overseas Shareholders in such overseas jurisdictions. Subject to compliance with applicable laws, any affected Overseas Shareholder may, nonetheless, attend in person and obtain a copy of the Notification (containing the address and instructions for the electronic retrieval of this Offer Document and its related documents), the relevant Acceptance Forms and any related documents during normal business hours and up to the Closing Date, from (a) CDP (in the case of a Shareholder whose Offer Shares are deposited with CDP) by submitting a request to CDP via CDP's Customer Service Hotline at +65 6535 7511 during their operating hours or email CDP at asksgx@sgx.com; or (b) the Registrar, KCK CorpServe Pte. Ltd. (in the case of a Shareholder whose Offer Shares are not deposited with the CDP) at its office located at 24 Raffles Place, #07-07 Clifford Centre, Singapore 048621.*

Alternatively, an Overseas Shareholder may, subject to compliance with applicable laws, write to (i) the Offeror c/o The Central Depository (Pte) Limited (in the case of a Shareholder whose Offer Shares are deposited with CDP) at Robinson Road Post Office, P.O. Box 1984, Singapore 903934; or (ii) the Offeror c/o the Registrar (in the case of a Shareholder whose Offer Shares are not deposited with the CDP) at the above-stated address of the Registrar to request for the Notification (containing the address and instructions for the electronic retrieval of this Offer Document and its related documents), the relevant Acceptance Forms (with no shareholder details printed on the relevant Acceptance Forms) and any related documents to be sent to an address in Singapore by ordinary post at his/her/its own risk, up to five (5) Market Days prior to the Closing Date.

13.4 ***Notice.*** *The Offeror and Morgan Stanley each reserves the right to notify any matter, including the fact that the MGO has been made, to any or all Shareholders (including Overseas Shareholders) by announcement to the SGX-ST or paid advertisement in a daily newspaper published or circulated in Singapore, in which case, such notice shall be deemed to have been sufficiently given notwithstanding any failure by any Shareholder to receive or see such announcement or advertisement.*"

10. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who do not wish to accept the Offer need not take any further action in respect of the Offer Document, the FAA and/or the FAT which have been sent to them.

Shareholders who wish to accept the Offer must do so not later than **5.30 p.m. (Singapore time) on the Closing Date**. The Independent Directors would like to draw the attention of Shareholders who wish to accept the Offer to the "Procedures for Acceptance of the MGO" as set out in Appendix 2 to the Offer Document, the FAA and/or the FAT.

Shareholders who wish to accept the Offer should complete and return their acceptance form as soon as possible and, in any event, so as to be received, on behalf of the Offeror, by CDP (in respect of the FAA) or the Share Registrar (in respect of the FAT), as the case may be, not later than **5.30 p.m. (Singapore time) on the Closing Date**.

11. RESPONSIBILITY STATEMENT

The Directors (including any who may have delegated detailed supervision of the preparation of this Circular) have taken all reasonable care to ensure that the facts stated and all opinions expressed in this Circular (other than those relating to the Offeror, parties acting in concert or deemed to be acting in concert with the Offeror, the Offer and the IFA Letter) are fair and accurate and that no material facts have been omitted from this Circular, and they jointly and severally accept responsibility accordingly. Where any information has been extracted or reproduced from published or otherwise publicly available sources (including, without limitation, the Offer Announcement and the Offer Document), the sole responsibility of the Directors has been to ensure, through reasonable enquiries, that such information has been accurately extracted from such sources or, as the case may be, reflected or reproduced in this Circular.

In respect of the IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated with respect to the Group are fair and accurate.

Yours faithfully
For and on behalf of the Board of Directors of

Sembcorp Marine Ltd
Tan Sri Mohd Hassan Marican
Chairman

APPENDIX A

LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS IN RESPECT OF THE OFFER

PROVENANCE CAPITAL PTE. LTD.
(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

20 October 2021

To: The Independent Directors of Sembcorp Marine Ltd
(deemed to be independent in respect of the Offer)

Tan Sri Mohd Hassan Marican	(Chairman and Non-Executive Non-Independent Director)
Mr Wong Weng Sun	(President & CEO and Executive Director)
Mr Eric Ang Teik Lim	(Lead Independent Director)
Mr Bob Tan Beng Hai	(Independent Director)
Mrs Gina Lee-Wan	(Independent Director)
Mr William Tan Seng Koon	(Independent Director)
Mr Patrick Daniel	(Independent Director)
Mr Tan Wah Yeow	(Independent Director)
Mr Koh Chiap Khiong	(Non-Executive Non-Independent Director)

Dear Sirs/Mdm,

MANDATORY CONDITIONAL CASH OFFER FOR SEMBCORP MARINE LTD

*Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to shareholders of Sembcorp Marine Ltd ("**Shareholders**") dated 20 October 2021 ("**Circular**"). The latest practicable date as referred to in the Circular and for the purposes of this letter ("**Letter**") is 15 October 2021 ("**Latest Practicable Date**").*

1. INTRODUCTION

1.1 Potential mandatory offer

On 24 June 2021 ("**Announcement Date**"), Sembcorp Marine Ltd ("**SCM**" or "**Company**", together with its subsidiaries, "**Group**") announced a renounceable underwritten rights issue ("**Rights Issue**") of up to 18,833,468,826 new ordinary shares in the capital of the Company ("**Rights Shares**") at an issue price of S$0.08 for each Rights Share ("**Issue Price**"), on the basis of 3 Rights Shares for every 2 existing ordinary shares in the capital of the Company ("**Shares**"), to raise gross proceeds of approximately S$1.5 billion.

Temasek Holdings (Private) Limited ("**Temasek**"), through its indirect wholly-owned subsidiary, Startree Investments Pte. Ltd. ("**Startree**"), then had an interest of 42.6% in the issued share capital of the Company. Startree had entered into an undertaking agreement ("**Undertaking Agreement**") with the Company to, *inter alia*, subscribe for its *pro rata* entitlement to the Rights Issue and to subscribe for or procure the subscription of excess Rights Shares which when aggregated with its *pro rata* entitlement will represent not more than 67.0% of the total number of Rights Shares.

The fulfilment by Startree of its obligations under the Undertaking Agreement may result in Temasek and its concert parties ("**Temasek Concert Party Group**") increasing their shareholding in the Company by more than 1% ("**Relevant Event**"). Accordingly, in such an event, unless the obligation is otherwise waived by the Securities Industry Council of Singapore ("**SIC**") in accordance with the provisions of the Singapore Code on Take-overs and Mergers ("**Code**"), the Temasek Concert Party Group would incur an obligation to make a mandatory general offer ("**Compliance Offer**") for the remaining Shares not already owned or controlled by the Temasek Concert Party Group, in accordance with Rule 14 of the Code, at the highest price at which the Temasek Concert Party Group has acquired the Shares in the 6 months preceding the Compliance Offer and during the period of the Compliance Offer. Startree had not sought the whitewash waiver from the SIC under the Code. Based on available information, the offer price at which the Temasek Concert Party Group will be obliged to offer under the Compliance Offer (if any) will be the Issue Price.

Further, pursuant to Rule 14.2 of the Code, if the Temasek Concert Party Group does not hold more than 50% of the issued Shares when the Compliance Offer is made, the Compliance Offer will be conditional upon the Temasek Concert Party Group receiving such number of acceptances which would result in the Temasek Concert Party Group holding more than 50% of the issued Shares ("**Minimum Acceptance Condition**").

1.2 Offer Announcement and formal Offer Document

<u>Offer Announcement</u>

On 17 September 2021, the Company announced *inter alia* the results of the Rights Issue and that pursuant to the Undertaking Agreement, Startree will be allotted its full *pro rata* entitlement of 8,029,689,702 Rights Shares and 1,247,628,449 excess Rights Shares on or around 22 September 2021. As a result, Startree's shareholding interest in the Company will increase to 46.6% (comprising 14,630,444,619 Shares) of the enlarged share capital of the Company comprising 31,389,099,152 Shares (excluding treasury shares).

As the Relevant Event was triggered, in accordance with Rule 14.1 of the Code, Morgan Stanley Asia (Singapore) Pte., as Financial Adviser to Startree ("**Offeror**"), had on 22 September 2021 ("**Offer Announcement Date**") made the offer announcement ("**Offer Announcement**"), for and on behalf of the Offeror, that it intends to make a mandatory conditional general cash offer ("**Offer**") for all the Shares other than those already owned, controlled or agreed to be acquired by the Offeror and its concert parties ("**Offeror Concert Party Group**") ("**Offer Shares**").

The Offer is conditional upon the Minimum Acceptance Condition. Save for the Minimum Acceptance Condition, the Offer is unconditional in all other respects.

The offer price for each Offer Shares is **S$0.08 in cash** ("**Offer Price**"). **The Offeror has stated that the Offer Price is final and it <u>will not</u> revise the Offer Price or any other terms of the Offer.**

The Offeror has also disclosed in the Offer Announcement that it does not intend to extend the Offer beyond the closing date of the Offer, which is 28 days after the date of posting of the formal offer document ("**Closing Date**"), regardless of whether or not the Minimum Acceptance Condition has been fulfilled by the Closing Date.

<u>Offer Document</u>

On 6 October 2021, the Offeror announced that the formal offer document dated 6 October 2021 ("**Offer Document**") setting out the detailed terms and conditions of the Offer, has been electronically despatched to Shareholders, and an electronic copy of the Offer Document is also available on the SGXNET.

Shareholders should note that the Offeror has given notice that the Closing Date of the Offer shall be **5.30 p.m. (Singapore time) on 3 November 2021, and the Offeror will not extend the Offer beyond this Closing Date.**

1.3 Our role as Independent Financial Adviser to the Offer

In connection with the Offer, the Company has appointed Provenance Capital Pte. Ltd. ("**Provenance Capital**") as the independent financial adviser ("**IFA**") to advise the directors of the Company ("**Directors**") who are deemed to be independent in respect of the Offer ("**Independent Directors**"), and for the purposes of making their recommendation to Shareholders in relation to the Offer.

As at the Latest Practicable Date, the Directors are as follows:

(i) Tan Sri Mohd Hassan Marican, Chairman and Non-Executive Non-Independent Director
(ii) Mr Wong Weng Sun, President & CEO and Executive Director
(iii) Mr Eric Ang Teik Lim, Lead Independent Director
(iv) Mr Bob Tan Beng Hai, Independent Director
(v) Mrs Gina Lee-Wan, Independent Director
(vi) Mr William Tan Seng Koon, Independent Director
(vii) Mr Patrick Daniel, Independent Director
(viii) Mr Tan Wah Yeow, Independent Director
(ix) Mr Koh Chiap Khiong, Non-Executive and Non-Independent Director

The Company has confirmed that all the Directors are deemed Independent Directors in respect of the Offer.

This Letter is therefore addressed to the Independent Directors and sets out, *inter alia*, our evaluation of the financial terms of the Offer and our recommendations on the Offer. This Letter forms part of the Circular which provides, *inter alia*, details of the Offer and the recommendations of the Independent Directors to the Shareholders on the Offer.

2. TERMS OF REFERENCE

Provenance Capital has been appointed as the IFA to advise the Independent Directors in respect of their recommendations to Shareholders in relation to the Offer.

We have confined our evaluation and assessment to the financial terms of the Offer, and have not taken into account the commercial risks or commercial merits of the Offer. In addition, we have not been requested to, and we do not express any advice or give any opinion on the merits of the Offer relative to any other alternative transaction. We were not involved in the negotiations pertaining to the Offer nor were we involved in the deliberations leading up to the decision to put forth the Offer to Shareholders.

The scope of our appointment does not require us to express, and we do not express, any view on the future growth prospects, financial position or earnings potential of the Group. Such evaluation or comments remain the responsibility of the Directors although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion. The opinion set forth herein is based solely on publicly available information as well as information provided by the Directors and the management of the Group ("**Management**"), and is predicated on the economic and market conditions prevailing as at or around the Latest Practicable Date. This Letter therefore does not reflect any projections on the future financial performance of the Group and we do not express any views as to the prices at which the Shares may trade after the close of the Offer.

We have not been requested or authorised to solicit, and we have not solicited, any indications of interest from any third party with respect to the Shares. In this regard, we have not addressed the relative merits of the Offer in comparison with any alternative transaction the Company may consider in the future. Therefore, we do not express any views in these areas in arriving at our recommendation.

In formulating our opinion and recommendation, we have held discussions with the Directors and Management and have relied to a considerable extent on the information set out in the Circular, other public information collated by us and the information, representations, opinions, facts and statements provided to us, whether written or verbal, by the Company and its other professional advisers. Whilst care has been exercised in reviewing the information we have relied upon, we have not independently verified the information both written and verbal, and accordingly cannot and do not make any representation or warranty, expressly or impliedly, in respect of, and do not accept any responsibility for, the accuracy, completeness or adequacy of such information. Nonetheless, we have made reasonable enquiries and exercised our judgement on the reasonable use of such information and have found no reason to doubt the accuracy or reliability of such information.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Company and/or the Group (including without limitation, property, plant and equipment ("**PPE**")).

However, in connection with the Offer, the Company has commissioned Deloitte & Touche Financial Advisory Services Pte Ltd ("**Deloitte**" or "**Valuer**") to carry out an independent valuation of the subject assets as defined by the Valuer ("**Subject Assets**") as at 30 June 2021 ("**Valuation Date**"). The valuation letter dated 20 October 2021 as prepared by the Valuer ("**Valuation Letter**") is attached as Appendix I to the Circular.

We are not experts in the evaluation or appraisal of the Subject Assets concerned, and for the purposes of evaluating and assessing the financial terms of the Offer, we have taken into account, *inter alia*, the independent valuation by the Valuer for such appraisal and we have not made any independent verification of the contents thereof.

The information we have relied on in the assessment of the Offer was based on market, economic, industry, monetary and other conditions prevailing as at or around the Latest Practicable Date, which may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion or assumptions in light of any subsequent development after the Latest Practicable Date that may affect our opinion or assumptions contained herein. Shareholders should take note of any announcements relevant to their consideration of the Offer which may be released or published after the Latest Practicable Date.

In rendering our advice and giving our recommendation, we have not considered the specific investment objectives, financial situation, tax position, risk profiles or particular needs and constraints of any Shareholder. As each Shareholder may have different investment profiles and objectives, we advise the Directors to recommend that any Shareholder who may require specific advice in relation to his investment portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Company has been separately advised by its own professional advisers in the preparation of the Circular. We have no role or involvement and have not and will not provide any advice (financial or otherwise) in the preparation, review and verification of the Circular. Accordingly, we take no responsibility for and express no view, whether expressed or implied, on the contents of the Circular (other than this Letter).

Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any Shareholder may reproduce, disseminate or quote this Letter (or any part thereof) for any purpose, other than for the purpose of the Offer, at any time and in any manner, without the prior written consent of Provenance Capital in each specific case.

Our opinion is addressed to the Independent Directors for their benefit and deliberation of the Offer. Their recommendation made to the Shareholders in relation to the Offer shall remain the responsibility of the Independent Directors.

Our recommendation to the Independent Directors in relation to the Offer should be considered in the context of the entirety of this Letter and the Circular.

Responsibility Statement by the Directors

The Directors have confirmed that, to the best of their knowledge and belief, all material information relating to the Company and the Group provided to us in connection with the Offer, is true, complete and accurate in all material respects and there is no other information or fact, the omission of which would cause any information disclosed to us or the facts of or in relation to the Offer to be inaccurate, incomplete or misleading in any material respect. The Directors jointly and severally accept responsibility accordingly.

3. THE OFFER

The detailed terms and conditions of the Offer are set out in Section 2 and Appendix 1 of the Offer Document. The key terms of the Offer are set out below for your reference:

3.1 Offer Shares

The Offer is made for:

(i) all the Shares other than those already owned, controlled or agreed to be acquired by the Offeror Concert Party Group as at the Offer Announcement Date; and

(ii) all new Shares unconditionally issued or to be issued, or treasury shares unconditionally delivered or to be delivered, as the case may be, prior to the Closing Date pursuant to the valid vesting and release of any outstanding awards ("**Awards**") granted under the Restricted Share Plan ("**RSP2020**") and the Performance Share Plan ("**PSP2020**") approved and adopted by Shareholders on 20 May 2020.

3.2 Offer Price

The Offer Price for each Offer Share is **S$0.08 in cash**.

The Offeror has stated that the Offer Price is final and it <u>will not</u> revise the Offer Price or any other terms of the Offer.

3.3 No Encumbrances

The Offer Shares will be acquired:

(a) fully paid;

(b) free from all Encumbrances (as defined in the Offer Document); and

(c) together with all rights, benefits, entitlements and advantages attached thereto as at the Offer Announcement Date, and thereafter attaching thereto, including but not limited to the right to receive and retain all dividends, rights and other distributions declared, paid or made by the Company (collectively, "**Distributions**") (if any), the Record Date for which falls on or after the Offer Announcement Date.

"**Record Date**" means, in relation to any Distributions, the date on which Shareholders must be registered with the Company or with The Central Depository (Pte) Limited ("**CDP**"), as the case may be, in order to participate in such Distributions.

In the event of any such Distribution on or after the Offer Announcement Date, the Offer Price payable to a Shareholder who validly accepts or has validly accepted the Offer shall be reduced by the amount of such Distribution, depending on when the settlement date in respect of the Offer Shares tendered in acceptance of the Offer ("**Offer Settlement Date**") falls:

(i) if the Offer Settlement Date falls on or before the Record Date, the Offeror will pay the relevant accepting Shareholders the unadjusted Offer Price for each Offer Share, as the Offeror will receive the Distribution in respect of such Offer Shares from the Company; and

(ii) if the Offer Settlement Date falls after the Record Date, the Offer Price payable for such Offer Shares tendered in acceptance shall be reduced by an amount which is equal to the Distribution in respect of such Offer Shares, as the Offeror will not receive such Distribution from the Company.

Since the Offer Announcement Date and up to the Latest Practicable Date, we note that the Company has not made or declared any Distribution.

3.4 Minimum Acceptance Condition

The Offer is conditional upon the Offeror having received, by the close of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror Concert Party Group (either before or during the Offer and pursuant to the Offer or otherwise), will result in the Offeror Concert Party Group holding such number of Shares carrying more than 50% of the total voting rights attributable to the issued Shares (excluding any Shares held in treasury) as at the close of the Offer (including any Shares which may be unconditionally issued pursuant to the valid vesting and release of the Awards prior to the Closing Date).

The Offer will not become or be capable of being declared unconditional as to acceptances until the close of the Offer, unless at any time prior to the close of the Offer, the Offeror has received valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror Concert Party Group before or during the Offer, will result in the Offeror Concert Party Group holding more than 50% of the maximum potential issued share capital of the Company as at the Closing Date. For this purpose, the "**maximum potential issued share capital of the Company**" means the total number of issued Shares (excluding treasury shares) had all the Shares under Awards been issued and delivered as at the date of such declaration.

Save for the Minimum Acceptance Condition, the Offer is unconditional in all other respects.

As at the Latest Practicable Date, we note that the Offer has not become or been declared to be unconditional in all respects.

3.5 Duration of the Offer and final Closing Date

The Offer is open for acceptance by Shareholders for at least 28 days from the despatch date of the Offer Document, unless the Offer is withdrawn with the consent of the SIC and every person is released from any obligation incurred thereunder. Accordingly, the Offeror has stated that the Offer will close on the Closing Date, that is, **5.30 p.m. (Singapore time) on 3 November 2021**.

The Offeror has also given notice pursuant to Rule 22.6 of the Code that the Offer will not be open for acceptance beyond the Closing Date, notwithstanding that the Offer may have become or been declared unconditional as to acceptances by then.

This means that if the Offer becomes unconditional as to acceptances before the Closing Date or even if the Offer becomes unconditional as to acceptances on the Closing Date itself, there will NOT be any extension of the Closing Date and Shareholders who do not accept the Offer by the Closing Date will not be able to do so after the Closing Date. Acceptances of the Offer received after the Closing Date will be rejected.

If the Offer does not become unconditional in all respects by the Closing Date, the Offer will lapse, and all Shares tendered in acceptance of the Offer will then be returned to Shareholders.

The Offeror is not obliged to extend the Offer if the Minimum Acceptance Condition is not fulfilled by the Closing Date.

3.6 No Awards Offer

As at the Offer Announcement Date, the Company has outstanding Awards in respect of 2,265,500 Shares granted under the RSP2020 in connection with the payment of Directors' fees for the financial year ended 31 December 2020.

Under the rules of the RSP2020, the Awards are personal to the holders of the Awards and are not transferable. Accordingly, the Offeror will not make an offer to acquire the outstanding Awards.

For the avoidance of doubt, as mentioned in paragraph 2.8 of the Offer Document, the Offer will be extended to all new Shares unconditionally issued or to be issued pursuant to the valid vesting or release of any outstanding Awards prior to the Closing Date.

3.7 Warranty

A Shareholder who tenders his/her/its Offer Shares in acceptance of the Offer will be deemed to unconditionally and irrevocably represent, warrant and undertake to the Offeror that the accepting Shareholder sells such Offer Shares as or on behalf of the beneficial owner(s) thereof, (a) fully paid, (b) free from all Encumbrances and (c) together with all rights, benefits and entitlements and advantages attached thereto as at the Offer Announcement Date and thereafter attaching thereto, including the right to all Distributions (if any), the Record Date for which falls on or after the Offer Announcement Date.

3.8 Further details of the Offer

Further details of the Offer, including details on (a) the settlement of the consideration for the Offer; (b) the requirements relating to the announcement(s) of the level of acceptances of the Offer; (c) the right of withdrawal of acceptances of the Offer; and (d) procedures for acceptance of the Offer are set out in Appendices 1 and 2 to the Offer Document.

4. SALIENT INFORMATION ON THE OFFEROR

As disclosed in paragraph 5 of the Offer Document, the Offeror is a company incorporated in Singapore on 3 October 2002 as an investment holding company, and is an indirect wholly-owned subsidiary of Temasek. The issued and paid-up share capital of the Offeror is S$2 comprising 2 ordinary shares and the Directors of the Offeror are Mr Nagi Hamiyeh and Mr Tan Chong Lee.

Based on publicly available information as at the Latest Practicable Date, the Offeror Concert Party Group has a deemed interest in 14,631,571,691 Shares, representing 46.61% of the total issued share capital of the Company comprising 31,389,099,152 Shares (excluding 6,223 treasury shares).

Further details relating to the Offeror Concert Party Group are set out in Appendices 3 and 5 to the Offer Document.

5. RATIONALE FOR THE OFFER, OFFEROR'S INTENTIONS RELATING TO THE COMPANY AND LISTING STATUS

5.1 Rationale for the Offer and the Offeror's intention relating to the Company

The full text of the Offeror's rationale for the Offer and intentions relating to the Company is set out in paragraphs 7 and 8 of the Offer Document.

We note the following:

- The Offer was made in compliance with Rule 14.1 of the Code as a consequence of the Rights Issue which resulted in the Offeror Concert Party Group increasing its shareholding interest by more than 1% in a period of 6 months;

- The Offeror notes the Company's disclosures *inter alia* on measures to improve the existing businesses of the Group, and its discussions with Keppel Corporation Limited ("**KCL**") with a view to potentially combine ("**Potential Combination**") its businesses with the businesses of Keppel Offshore & Marine Ltd ("**KOM**"), with the objective of creating sustainable value over the long term for the Company, KOM and their respective stakeholders. The Offeror will evaluate and consider the recommendations or proposals as may be presented by the Company's board and management commercially as appropriate at the relevant time; and

- Subject to and pending the above, the Offeror's current intention is for the Company to continue with its business and activities in accordance with its board and management's strategies and decisions and the Offeror does not have any plans to make any material changes to the Group's businesses, re-deploy its fixed assets or to discontinue the employment of its employees.

5.2 Listing Status of the Company

The Offeror has expressed that its present intention is to maintain the listing status of the Company on SGX-ST following completion of the Offer.

Under Rule 723 of the Listing Manual, the Company must ensure that at least 10% of the total number of issued Shares (excluding treasury shares) is at all times held by the public ("**Free Float Requirement**").

However, in the event the Free Float Requirement is not satisfied at the close of the Offer, the Offeror reserves the right to re-evaluate its position, taking into account, among other things, the level of acceptances received by the Offeror in respect of the Offer and the prevailing market conditions at the relevant time. Accordingly, there is no assurance that the Offeror will take steps to maintain the listing status of the Company on the SGX-ST in the event the Free Float Requirement is not satisfied by the Company.

5.3 Compulsory Acquisition

Pursuant to Section 215(1) of the Companies Act, Chapter 50 of Singapore ("**Companies Act**"), if the Offeror receives valid acceptances pursuant to the Offer (or otherwise acquires Shares during the period when the Offer is open for acceptance) in respect of not less than 90% of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Offer and excluding any Shares held in treasury), the Offeror would be entitled to exercise the right to compulsorily acquire all the Shares of Shareholders who have not accepted the Offer, at a price equal to the Offer Price.

As stated in Section 5.2 above, it is the present intention of the Offeror to maintain the listing status of the Company on the SGX-ST following the completion of the Offer. Accordingly, the Offeror presently has no intention of exercising its right of compulsory acquisition under Section 215(1) of the Companies Act, should it become available.

The Offeror reserves the right to re-evaluate its position taking into account, among other things, the level of acceptances received by the Offeror in respect of the Offer and the prevailing market conditions at the relevant time. Accordingly, there is no assurance that the current intention will be carried out into effect.

6. SALIENT INFORMATION ON THE COMPANY AND THE GROUP

General information on the Company and the Group is set out in Appendix B of the Circular.

6.1 Overview

The Company is incorporated in Singapore and listed on the Main Board of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

The Group provides engineering solutions to the global offshore and marine ("**O&M**") and energy industries, with an increasing focus on renewable and clean energy solutions. Headquartered in Singapore, the Group has close to 60 years of track record in the design and construction of rigs, floaters, offshore platforms and specialised vessels, as well as in the repair, upgrading and conversion of different ship types. The Group's customers include international oil majors, state-owned oil majors, independent energy players, offshore wind developers, owners of floating production units, shipping companies, and cruise and ferry operators. The Group operates shipyards and other facilities strategically located in Singapore, Indonesia, the United Kingdom, Brazil and Norway.

6.2 Directors

As at the Latest Practicable Date, the Directors are as follows:

(i) Tan Sri Mohd Hassan Marican, Chairman and Non-Executive Non-Independent Director
(ii) Mr Wong Weng Sun, President & CEO and Executive Director
(iii) Mr Eric Ang Teik Lim, Lead Independent Director
(iv) Mr Bob Tan Beng Hai, Independent Director
(v) Mrs Gina Lee-Wan, Independent Director
(vi) Mr William Tan Seng Koon, Independent Director
(vii) Mr Patrick Daniel, Independent Director
(viii) Mr Tan Wah Yeow, Independent Director
(ix) Mr Koh Chiap Khiong, Non-Executive and Non-Independent Director

The Company has confirmed that all the Directors are deemed Independent Directors in respect of the Offer.

As at the Latest Practicable Date, the Directors' shareholding interests in the Company are as follows:

Directors	Direct and deemed interests (No. of Shares)	% shareholding interest in the Company(1)
Tan Sri Mohd Hassan Marican	8,884,626	0.028
Mr Wong Weng Sun	25,425,714	0.081
Mr Eric Ang Teik Lim	123,000	negligible
Mr Bob Tan Beng Hai	3,625,500	0.012
Mrs Gina Lee-Wan	2,580,000	0.008
Mr William Tan Seng Koon	1,397,600	0.004
Mr Patrick Daniel	1,387,500	0.004
Mr Tan Wah Yeow	1,066,500	0.003
Mr Koh Chiap Khiong	7,110,474	0.023

Note:

(1) Based on 31,389,099,152 Shares (excluding treasury shares) as at the Latest Practicable Date.

The intentions of the above Directors in relation to their holdings of the Offer Shares with respect to the Offer are set out in paragraph 5.9 of Appendix B to the Circular.

6.3 Issued share capital of the Company

The issued share capital of the Company was significantly increased in the last 2 years mainly through (a) a 5-for-1 rights issue in September 2020 which raised new equity of S$2.1 billion ("**2020 Rights Issue**") and (b) the recently completed 3-for-2 Rights Issue on 22 September 2021 which raised new equity of S$1.5 billion. As a result, as at the Latest Practicable Date, the issued share capital of the Company is S$4,088,002,197.10 comprising 31,389,099,152 Shares, excluding 6,223 treasury shares.

In brief, the 2020 Rights Issue was a recapitalisation of the Company and a demerger exercise from Sembcorp Industries Ltd ("**SCI**") via the distribution in specie of SCI's stake in the Company to the shareholders of SCI ("**SCI Distribution**"). As a result, Temasek became a direct and controlling Shareholder. The Temasek Concert Party Group held a shareholding interest of 42.6% in the Company after the SCI Distribution.

The recently completed Rights Issue was to address the funding needs of the Group and to strengthen its financial position to accelerate its strategic expansion into the high-growth clean and renewable energy segment. Startree, a wholly-owned subsidiary of Temasek, had subscribed to the Rights Shares pursuant to its obligations under the Undertaking Agreement. The Temasek Concert Party Group had increased its shareholding interest in the Company by 4.0%, from 42.6% before the Rights Issue to 46.6% after the Rights Issue. Accordingly, the Offeror is obliged to make the Offer under the Code.

As at the Latest Practicable Date, the Company has outstanding 6,233 treasury shares and outstanding Awards in respect of 2,265,500 Shares granted under the RSP2020 which are due to be released in connection with the payment of Directors' fees for the financial year ended 2020. Save for the above, the Company does not have other securities which carry voting rights in the Company or any outstanding instruments convertible into, rights to subscribe for and options in respect of, Shares or securities which carry voting rights in the Company.

The implied market capitalisation of the Company based on the Offer Price of S$0.08, is approximately S$2,511 million.

6.4 Financial information of the Group

6.4.1 Financial performance of the Group

The global O&M industry has seen a prolonged and severe downturn since 2015 due to a collapse in oil prices and major structural changes in the energy industry. In the 3 years prior to the downturn, the Group had reported pre-tax profits of over S$600 million per year, on the back of strong order books for drilling rigs and other major offshore projects. Since then, order books have decreased and the Group's financial performance had been significantly affected. The Group had reported losses since the financial years ended 31 December 2018 ("**FY20218**"), 31 December 2019 ("**FY2019**") and 31 December 2020 ("**FY2020**"), and up to the last reported interim results for the 6 months ended 30 June 2021 ("**1H2021**").

The Group has 4 commercial units, as follows:

- **Rigs & Floaters** – provides turnkey solutions for complex projects including design, engineering, procurement, construction and commissioning of rigs and floaters;

- **Repairs & Upgrades** – offers one-stop repair and upgrade solutions for all types of O&M vessels and structures;

- **Offshore Platforms** – provides design and construction solutions for a wide range of offshore platforms, catering to the highest technical specifications for a global customer base; and

- **Specialised Shipbuilding** – provides design and construction solutions for high-performance, specialised vessels.

Set out below is a summary of the financial performance of the Group for the last three financial years, namely FY2018, FY2019 and FY2020, and the interim results for 1H2021 with the corresponding interim period for FY2020 ("**1H2020**"). The unaudited results for 1H2021 have been reviewed by the Company's auditors.

	Audited			Unaudited	
S$'000	**FY2018**	**FY2019**	**FY2020**	**1H2020**	**1H2021**
Turnover	4,887,866	2,882,560	1,510,280	906,199	844,186
Gross profit/(loss)	3,094	(91,818)	(490,463)	(194,585)	(588,247)
Loss for the year/period	(78,366)	(140,187)	(587,208)	(194,337)	(649,507)
Loss attributable to:					
- Owners of the Company	(74,131)	(137,174)	(582,510)	(192,146)	(647,242)
- Non-controlling interests	(4,235)	(3,013)	(4,698)	(2,191)	(2,265)

***Source**: Company's annual reports for FY2019 and FY2020, and the unaudited results announcement for 1H2021*

FY2019 vs FY2018

Turnover decreased by 41.0% from S$4.89 billion in FY2018 to S$2.88 billion in FY2019 due mainly to lower revenue recognition from Rigs & Floaters and Offshore Platform projects, mitigated by higher revenue from Repairs & Upgrades.

Overall, the Group reported higher loss attributable to owners of the Company of S$137.2 million in FY2019 compared to S$74.1 million in FY2018 due mainly to the accelerated depreciation for the Tanjong Kling Yard of S$48 million and continued low overall business volume. The loss was partly offset by profit from Repairs & Upgrades business, which rose on improved margins and better product mix.

In FY2019, Rigs & Floaters accounted for the largest share of total turnover at 72%, followed by Repairs & Upgrades at 21% and Offshore Platforms at 5%. Specialised Shipbuilding contributed 1% to total turnover.

FY2020 vs FY2019

Turnover continued to decline by 47.6% to S$1.51 billion in FY2020 compared to S$2.88 billion FY2019 due to the adverse impact of the COVID-19 pandemic on the macro-environment and the resulting oil price volatility, which had delayed the execution of existing projects and securing of new projects.

The Group reported significantly higher loss attributable to owners of the Company of S$582.5 million in FY2020 compared to S$137.2 million in FY2019 due mainly to lower overall business volumes, incurrence of higher overall costs for all projects and S$144 million of asset impairments and provisions. The loss was partly offset by profit from Repairs & Upgrades and Offshore Platforms businesses which included Renewable Energy Solutions, and government grants for the COVID-19 pandemic. The S$144 million impairments and provisions include additional provision of S$74 million for reinstating the Group's vacated Tanjong Kling Yard, impairment loss of S$49 million on a marine vessel, inventory write-down relating to jack-up equipment of S$34 million and expected credit loss on receivables from a customer of S$5 million.

In FY2020, Rigs & Floaters continued to account for the largest share of total turnover at 45%, followed by Repairs & Upgrades at 28% and Offshore Platforms (which included renewable energy solutions) at 21%. Specialised Shipbuilding contributed 4% to total turnover.

1H2021 vs 1H2020

Turnover declined by 6.8% to S$844 million in 1H2021 compared to S$906 million 1H2020 mainly attributed to the ongoing COVID-19 disruptions that caused delays in the execution and completion of existing projects.

The Group reported severe deterioration of loss attributable to owners of the Company of S$647 million in 1H2021 compared to S$192 million in 1H2020 as a result of push-out of delivery dates for its ongoing projects, as well as significantly higher provisions of manpower and other costs to complete its ongoing projects over the next 6 to 18 months. The loss incurred in 1H2021 took into account the provision of S$361 million of additional labour and other costs to be incurred over the next 6 to 18 months to complete existing projects, additional provisions of S$65 million for yard reinstatement, and an increase in asset impairment loss of S$46 million.

In 1H2021, Offshore Platforms segment was the largest contributor to total turnover (35%), followed by Rigs & Floaters at 32%, Repairs & Upgrades at 28%, and Specialised Shipbuilding at 2%. In comparison, in 1H2020, Rigs & Floaters segment was the largest contributor to total turnover at 51%, followed by Repairs & Upgrades at 29%, Offshore Platforms at 14% and Specialised Shipbuilding at 4%.

In the results announcement for 1H2021, the Company had commented that it expects the Group to incur losses in the second half of FY2021 ("**2H2021**") because of insufficient revenue to cover overhead costs.

As at 30 June 2021, the Group had net order book which comprised S$1.56 billion of projects under execution (with a total original contract sum of S$6.1 billion) and S$0.22 billion of ongoing Repairs & Upgrades projects with firm deliveries in 2021.

Adjusted earnings per Share after the Rights Issue

The Rights Issue has the immediate effect of diluting the Group's losses on a per Share basis and, to some extent, reducing interest expenses as and when the proceeds of the Rights Issue are utilised to repay the Group's term loans. On 27 September 2021, the Company announced that it had utilised S$430 million of the net proceeds from the Rights Issue to repay its loan facility.

Results guidance for 2H2021

Post the Latest Practicable Date, the Company had on 19 October 2021 announced *inter alia* that COVID-19 related measures continue to have a serious impact on the Group's performance, and had made the following results guidance for 2H2021:

"*As of the date of this Announcement and based on information currently available to the Group, the Group expects that the increased costs to complete projects, as well as the losses arising from the added delays, will result in significant losses for the Group for 2H2021, which could potentially be in the range of the losses reported for 1H2021. The Group will only be able to quantify the actual losses closer to the end of the financial year ending 31 December 2021, as much will also depend on the performance of the Group in the last quarter of 2021.*"

6.4.2 Financial position of the Group

A summary of the latest statement of financial position of the Group as at 30 June 2021 is set out below:

S$'000	**Unaudited as at 30 June 2021**
Non-current assets	
Property, plant and equipment	4,005,308
Right-of-use assets	247,436
Interests in associates and joint ventures	16,142
Other financial assets	2,791
Trade and other receivables	1,123,955
Contract assets	431,812
Intangible assets	209,782
Deferred tax assets	205,004
	6,242,230
Current assets	
Inventories	94,852
Trade and other receivables	282,717
Contract costs	51,870
Contract assets	1,338,953
Tax recoverable	18,549
Other financial assets	13,611
Cash and cash equivalents	788,293
	2,588,845
Total assets	**8,831,075**
Current liabilities	
Trade and other payables	1,426,063
Contract liabilities	169,305
Provisions	37,493
Other financial liabilities	4,064
Current tax payable	10,654
Interest-bearing borrowings	1,614,037
Lease liabilities	21,714
	3,283,330
Net current (liabilities)	**(694,485)**

S$'000	Unaudited as at 30 June 2021
Non-current liabilities	
Deferred tax liabilities	30,231
Provisions	229,565
Interest-bearing borrowings	1,977,767
Lease liabilities	263,364
Other long-term payables	3,703
	2,504,630
Total liabilities	**5,787,960**
Net assets	**3,043,115**
Equity attributable to owners of the Company	**3,016,640**
Non-controlling interests	**26,475**
Total equity	**3,043,115**

Before adjusting for the Rights Issue	
Net asset value ("NAV") of the Group	**S$3,016,640,000**
Net tangible asset ("NTA") of the Group	**S$2,806,858,000**
Number of issued Shares as at 30 June 2021	**12,555,229,044**
NAV per Share as at 30 June 2021	**S$0.2403**
NTA per Share as at 30 June 2021	**S$0.2236**

Source*: The Company's unaudited results announcement for 1H2021*

Assets

As at 30 June 2021, the Group had total assets of S$8,831 million. The main assets are:

(a) property, plant and equipment ("**PPE**") of S$4,005 million, and right-of-use assets of S$247 million.

PPE comprises mainly marine vessels and shipyard assets. The PPE, right-of-use assets and certain intangible assets were tested for impairment. An impairment loss of S$46 million on marine vessels was recognised in 1H2021. Based on the Group's assessment, no impairment loss was required for the Group's shipyard assets. During 1H2021, the Group recognised right-of-use assets of S$75 million from the additional provision for restoration costs of S$75 million less additional impairment loss of S$66 million on the Tanjong Kling Yard as the Group is scheduled to restore the yard and return the land to the Singapore Government by 2025.

PPE and right-of-use assets constitute 48.2% of total assets of the Group as at 30 June 2021;

(b) current and non-current trade and other receivables totalling S$1,407 million, which represent 15.9% of total assets of the Group. This includes the outstanding non-current receivables from Borr Drilling Limited ("**Borr**") of S$1,094 million; and

(c) current and non-current contract assets totalling S$1,771 million, which represent 20.1% of total assets of the Group. These contract assets mainly relate to the Group's rights to consideration for work completed but not yet billed at reporting date on the long-term contracts for ship and rig building, conversion and repair. The contract assets are transferred to trade receivables when the rights become unconditional. This includes the outstanding contract assets pertaining to the Group's customer, Transocean Ltd ("**Transocean**") of S$928 million.

In view of the significant assets held by the Group, in connection with the Offer, the Company had commissioned Deloitte as the Valuer to carry out an independent valuation ("**Valuation**") of the Subject Assets as at the Valuation Date, i.e. 30 June 2021. Please see further details on the Valuation in Section 7 of this Letter.

Liabilities

As at 30 June 2021, the Group has total liabilities of S$5,788 million. The main liabilities are:

(i) current and non-current interest-bearing borrowings totalling S$3,592 million, representing 62.1% of total liabilities; and

(ii) current trade and other payables of S$1,426 million, representing 24.6% of total liabilities.

In view of the term loans maturing in the next 12 months, the Group was in a net current liabilities position of S$694 million as at 30 June 2021. The Group was in talks with its lenders to refinance and re-profile its current loans with longer term maturities, and had disclosed its intentions to utilise some of the proceeds from the Rights Issue to repay certain of these loans due. With the Rights Issue, the working capital position and gearing ratio of the Group are expected to improve significantly.

On 22 September 2021, the Company announced the completion of the Rights Issue and on 27 September 2021, the Company announced that it had utilised S$430 million of the net proceeds from the Rights Issue to repay its loan facility.

Equity/NAV/NTA

Total equity comprises equity attributable to owners of the Company of S$3,017 million and non-controlling interests of S$26 million as at 30 June 2021.

Accordingly, NAV of the Group as at 30 June 2021 was S$3,017 million, representing NAV per Share of S$0.2403 based on 12,555,229,044 outstanding Shares as at 30 June 2021.

After deducting intangible assets of S$210 million, the NTA of the Group was S$2,807 million, representing NTA per Share of S$0.2236 as at 30 June 2021.

Adjusted NAV of the Group as at 30 June 2021 after the Rights Issue

The Rights Issue was fully subscribed in view of the Undertaking Agreement by the close of the Rights Issue on 14 September 2021. The total number of issued Shares (excluding treasury shares) had increased from 12,555,229,044 Shares as at 30 June 2021 to 31,389,099,152 Shares due mainly to the issuance of 18,833,459,491 Rights Shares.

As at 30 June 2021, the Company had 416,840 treasury shares classified under reserve account of (S$771K). On 5 August 2021, the Company purchased 744,100 Shares from the open market for a total consideration of S$91K to be held as treasury shares. On 20 August 2021, the Company transferred 1,154,717 treasury shares out of 1,160,940 treasury shares in connection with the release of Awards under the Company's share awards scheme. Accordingly, the Company has 6,223 treasury shares remaining as at the Latest Practicable Date. The transfer of the above treasury shares in relation to the Awards has negligible impact on the NAV of the Group but will increase the number of issued Shares.

Taking into account the net proceeds raised from the Rights Issue and the transfer of treasury shares, the adjusted NAV of the Group as at 30 June 2021 would be as follows:

	S$ 'million	No. of issued Shares ('million)	S$ per Share
Unaudited NAV of the Group as at 30 June 2021	3,016.6	12,555.2	0.2403
Add: Net proceeds from the Rights Issue	1,495.7	18,833.5	0.0794
Add: Transfer of treasury shares under the Company's share awards scheme	negligible	0.4	negligible
Adjusted NAV of the Group as at 30 June 2021	**4,512.3**	**31,389.1**	**0.1437**

Estimated projected NAV of the Group following the Company's results guidance for 2H2021

As mentioned in Section 6.4.1 above, the Company is expecting significant losses for 2H2021 which could potentially be in the range of the losses reported for 1H2021. On the assumption that the loss for 2H2021 is approximately S$0.6 billion, this would represent a loss of S$0.0191 per Share for 2H2021.

In view of the above, for the purposes of evaluating the Offer, we have deduced an estimated projected NAV per Share as at 31 December 2021 to be approximately S$0.1246, based on the adjusted NAV per Share of S$0.1437 as at 30 June 2021 less the estimated loss per Share of S$0.0191 for 2H2021.

7. INDEPENDENT VALUATION OF THE SUBJECT ASSETS

7.1 Salient information on the Valuation by the Valuer

In connection with the Offer, the Company had commissioned the Valuer to carry out an independent valuation of the Subject Assets as at the Valuation Date. The Valuation Letter dated 20 October 2021 is attached as Appendix I to the Circular.

The salient information of the Valuation is summarised below.

Subject Assets

The Subject Assets being valued comprises the Group's 2 main cash generating units, namely the Singapore Cash Generating Unit and Brazil Cash Generating Unit; and the non-current trade receivables from Borr ("**Borr receivables**") and contract assets with Transocean ("**Transocean contract assets**").

The Singapore Cash Generating Unit comprises the following yard operations in Singapore, Indonesia and United Kingdom:

Country	Location of yard operations
Singapore	(i) Tuas Boulevard Yard at 80 Tuas South Boulevard; (ii) Admiralty Yard at 50, 60 and 80 Admiralty Road West; and (iii) Pandan Yard at 21 Pandan Road.
Indonesia	(i) Batam Yard at Integrated Industrial Area (Kawasan Industri Terpadu) of Kabil, Batam Municipality, Riau Island; and (ii) Karimun Yard at Jl. Teluk Paku, Kel. Pasir Panjang, Kec. Meral Barat, Kab. Karimum, Prop. Kepulauan Riau.
United Kingdom	Sembawang SLP Yard at Hamilton Road, Lowestoft, Suffolk, NR32 1XF.

The Brazil Cash Generating Unit comprises the following yard operations in Brazil:

Country	Location of yard operations
Brazil	Estaleiro Jurong Aracruz Yard at Rodovia ES-010, S/N Km 58, Barra do Sahy, Aracruz, State of Espirito Santo, Brazil, CEP: 29198-025

The net book value ("**NBV**") of the Subject Assets amounts to, in total, S$6.2 billion, which represents 70% of the total assets of the Group as at 30 June 2021. A breakdown of the NBV of the Subject Assets is as follows:

Subject Assets	NBV as at 30 June 2021 (S$ 'million)
Singapore Cash Generating Unit	2,642
Brazil Cash Generating Unit	1,531
Borr receivables	1,094
Transocean contract assets	928
Total	**6,195**

Valuation Basis

The Valuer has used the market value standard for the Valuation, presuming the application of existing use basis and incumbent-management control basis. Market Value is defined for this purpose by the International Valuation Standards 2020 as follows:

"*Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*."

Valuation Approach

The Valuer had performed the Valuation of the Subject Assets based on the Income Approach's Discounted Cash Flow ("**DCF**") method. With the recent Rights Issue, the Company is of the opinion that the Group will have sufficient cash and cash equivalents to fund any cash deficit in the short term. As such, the Valuer is of the view that the DCF method is appropriate for the Valuation of the Subject Assets as the owner or prospective owner expects to continue to operate the Subject Assets on a going concern basis. The Valuer is of the view that the application of the DCF method based on future cash flows will therefore better reflect the intrinsic value of the Subject Assets and is used to determine the Market Value of the Subject Assets.

In undertaking the Valuation of the Subject Assets, the Valuer had considered *inter alia* the following:

- past management accounts with respect of the Subject Assets for the financial years ended 31 December 2016 to FY2020, and 1H2021; and base projections covering a 10-year period from 1 July 2021 to 31 December 2031, including the results guidance for 2H2021;

- order book, pipeline orders and future orders for the Singapore Cash Generating Unit and Brazil Cash Generating Unit, including forecast orders in renewable solutions, as the Company undertakes strategic expansion to also support energy transition to renewable energy;

- the forecast periods take into consideration the remaining tenure of lease periods of each of the Singapore Cash Generating Unit yards from the Valuation Date, as these yards are on leasehold, while the Brazil Cash Generating Unit yard is freehold in nature;

- tax rates for Singapore Cash Generating Unit and Brazil Cash Generating Unit of 17% and 34% based on corporate tax rates in Singapore and Brazil respectively;

- assessment of the discount rates applicable to the Subject Assets, reflecting the risks associated with the cashflow of these Subject Assets, in particular, discount rates of 8%-9% for the Brazil Cash Generating Unit, and 7%-8% for the Singapore Cash Generating Unit, Borr receivables and Transocean contract assets; and

- the timing of the cash recovery of the Borr receivables and Transocean contract assets is based on current contractual terms.

The Valuer had made the caveat *inter alia* that the Valuation of the Subject Assets has not considered the Potential Combination with KOM, and highlighted that the Valuation of the Subject Assets is not an opinion on the value of the Company as a group.

It should also be noted that given the long projection period applied in the DCF method, the Valuer had highlighted that actual results may differ from projections as events and circumstances may not occur as expected, assumptions used in the DCF method are subjective and judgemental, and the difference between the actual and projected cashflows can be significant.

<u>Concluded Value</u>

As disclosed in the Valuation Letter, the Valuer had estimated the range of Market Value of the Subject Assets to be between S$7.7 billion and S$8.8 billion, and with respect to the valuation of the Brazil Cash Generating Unit, the Valuer had computed their workings based on the foreign exchange rate of US$1:S$1.35 as at the Valuation Date.

We note that the concluded range of Market Value of the Subject Assets by the Valuer represent significant revaluation surpluses above the NBV of the Subject Assets, and bulk of the revaluation surpluses is attributable to the Singapore Cash Generating Unit, representing more than 75% of total revaluation surpluses.

<u>Potential tax liabilities</u>

In assessing the above revaluation surplus, we have considered whether there is any potential tax liability which would arise on the sale of the above Subject Assets in a hypothetical scenario for the purposes of Rule 26.3 of the Code.

Under Rule 26.3 of the Code, the Company is required, *inter alia*, to make an assessment of any potential tax liability which would arise if the Subject Assets, which are the subject of a valuation given in connection with the Offer, were to be sold at the amount of the valuation.

Based on the range of Market Value of the Subject Assets of between S$7.7 billion and S$8.8 billion as set out above, the Company had estimated that the potential tax liabilities that may be incurred by the Group on a hypothetical disposal of the Subject Assets is approximately S$90 million to S$104 million. The aforesaid tax liabilities will not crystallise if the Group does not dispose of its interests in the Subject Assets.

Directors and Management have represented and confirmed that the Group has no immediate plans to dispose of its interests in the Subject Assets and as such, the aforesaid tax liabilities are not likely to crystallise. Further information is set out in paragraph 13 of Appendix B to the Circular.

Hence, after deducting the estimated potential tax liabilities of S$90 million to S$104 million, the net revaluation surplus arising from the Valuation of the Subject Assets is between **S$1.4 billion and S$2.5 billion**.

A summary of the key valuation information is set out in the table below:

Subject Assets	**Low** (S$ 'million)	**High** (S$ 'million)
Range of Market Value as at 30 June 2021	7,700	8,800
Less: NBV as at 30 June 2021	(6,195)	(6,195)
Gross revaluation surplus	1,505	2,605
Less: Potential tax liabilities for purposes of Rule 26.3 of the Code	(90)	(104)
Net revaluation surplus	**1,415**	**2,501**

7.2 Revalued NAV of the Group

As set out in Section 6.4.2 of this Letter, the estimated projected NAV per Share as at 31 December 2021 is S$0.1246. Arising from the net revaluation surplus of the Subject Assets as set out in Section 7.1 above, the revalued NAV of the Group ("**RNAV**") as at 30 June 2021 is estimated to be as follows:

	S$ 'million	**S$ per Share[(1)]**
Estimated projected NAV of the Group as at 31 December 2021	3,912.3	0.1246
Add: Range of net revaluation surplus arising from the Valuation of the Subject Assets	1,415 – 2,501	0.0451 – 0.0797
Range of estimated RNAV of the Group as at 31 December 2021	**5,327.3 – 6,413.3**	**0.1697 – 0.2043**

Note:

(1) Based on 31,389.1 million Shares.

The range of estimated RNAV per Share of approximately S$0.17 to S$0.20 represents a significant premium of between 36% and 64% above the estimated projected NAV per Share of S$0.1246 as at 31 December 2021.

7.3 Confirmation by the Company

Aside from the Valuation of the Subject Assets, the adjustments to the NAV of the Group to take into consideration events post 30 June 2021 and up to the Latest Practicable Date, and the results guidance for 2H2021, in our evaluation of the financial terms of the Offer, we have also considered whether there is any other tangible asset which should be valued at an amount that is materially different from that which was recorded in the latest unaudited statement of financial position of the Group as at 30 June 2021, and whether there are any factors which have not been otherwise disclosed in the financial statements of the Group that are likely to impact the NAV of the Group as at 30 June 2021.

In respect of the above and save as disclosed and/or announced by the Company, including the results guidance for 2H2021, the Directors and Management have confirmed to us that as at the Latest Practicable Date, to the best of their knowledge and belief:

(a) there are no material differences between the realisable value of the Group's assets and their respective book values as at 30 June 2021 which would have a material impact on the NAV of the Group;

(b) other than that already provided for or disclosed in the Group's financial statements as at 30 June 2021, there are no other contingent liabilities, bad or doubtful debts or material events which are likely to have a material impact on the NAV of the Group as at the Latest Practicable Date;

(c) there are no litigation, claim or proceeding pending or threatened against the Company or any of its subsidiaries or of any fact likely to give rise to any proceeding which might materially and adversely affect the financial position of the Group taken as a whole as at 30 June 2021;

(d) there are no intangible assets which ought to be disclosed in the unaudited statement of financial position of the Group as at 30 June 2021 in accordance with Singapore Financial Reporting Standards (International) and which have not been so disclosed and where such intangible assets would have a material impact on the overall financial position of the Group as at 30 June 2021; and

(e) there are no material acquisitions and disposals of assets by the Group between 30 June 2021 and the Latest Practicable Date, and the Group does not have any immediate plans for any such impending material acquisition or disposal of assets, conversion of the use of its material assets or material change in the nature of the Group's business, save for the Company's announcement of the non-binding memorandum of understanding ("**MOU**") with KCL on the Potential Combination.

8. ASSESSMENT OF THE FINANCIAL TERMS OF THE OFFER

In evaluating and assessing the financial terms of the Offer, we have taken into account the pertinent factors set out below which we consider to have a significant bearing on our assessment:

(a) Market price performance of the Shares;

(b) Financial analysis of the Group;

(c) Comparison with precedent takeover offers of selected SGX-ST listed companies;

(d) Comparison of valuation statistics of selected listed companies which are broadly comparable with the Group;

(e) Estimated value range of the Shares;

(f) Dividend track record of the Company; and

(g) Other relevant considerations.

8.1 Market price performance of the Shares

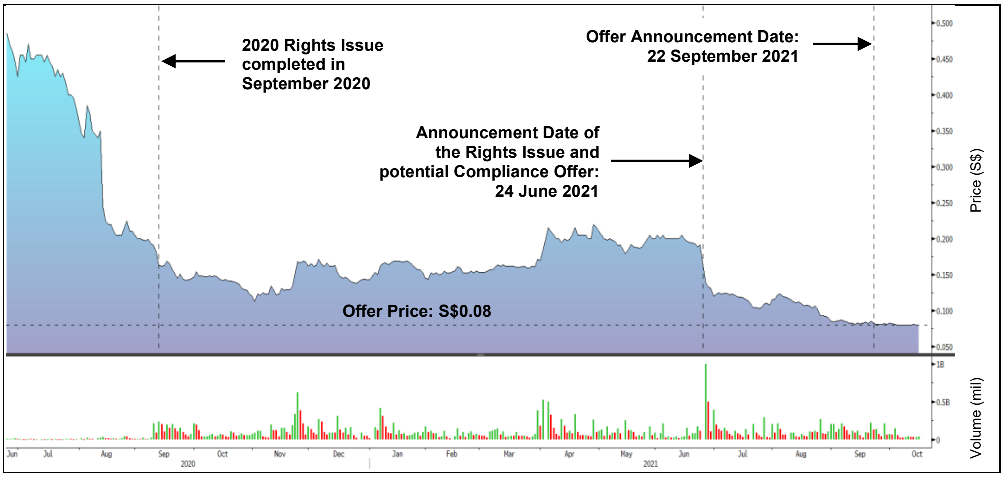
The announcement of the Rights Issue and the potential Compliance Offer was made on 24 June 2021, being the Announcement Date. The Rights Issue was completed on 22 September 2021 and the Offer Announcement was made before trading hours on 22 September 2021.

For the purpose of our analysis of the trading performance of the Shares in respect of the Offer, we have compared the Offer Price against the historical market price performance of the Shares for the 1-year period prior to the Announcement Date from 24 June 2020 to 23 June 2021 ("**Last Trading Day**"), being the last trading day prior to the announcement of the Rights Issue and the potential Compliance Offer, and up to the Latest Practicable Date ("**Period Under Review**"). Trading on the Shares was halted on the Announcement Date.

Share Price Chart

We set out below a chart showing the Offer Price relative to the daily last transacted prices (unadjusted for any corporate actions), and trading volume of the Shares for the Period Under Review:

Price movement and trading volume of the Shares for the Period Under Review



Source: Bloomberg L.P.

<u>Our observations</u>

(a) during the 1-year period prior to the Announcement Date ("**1-Year Period**"), Share prices fell from S$0.485 on 24 June 2020 (the beginning of the 1-Year Period) to a low of S$0.113 on 2 November 2020. During this period, the Company was carrying out a 5-to-1 rights issue at the issue price of S$0.20 each to raise S$2.1 billion of new equity as announced on 8 June 2020. The Company obtained Shareholders' approval for the 2020 Rights Issue at its EGM on 11 August 2020 and the 2020 Rights Issue was completed on 11 September 2020;

(b) Share prices had improved to around S$0.20 in April, May and June 2021 until the announcement of the Rights Issue and the potential Compliance Offer on the Announcement Date (a 3-to-2 Rights Issue at the Issue Price of S$0.08 each to raise S$1.5 billion of new equity as announced on 24 June 2021). The Issue Price for the Rights Shares represents a 35.7% discount to the theoretical ex-rights price ("**TERP**") of S$0.124 and a 58.1% discount to the last transacted Share price of S$0.191 on the Last Trading Day;

(c) post the Announcement Date, Share prices fell from S$0.139 on 25 June 2021 to S$0.080 on the Latest Practicable Date. During this period, the Company obtained Shareholders' approval for the Rights Issue at its EGM on 23 August 2021 and the Rights Issue was completed on 22 September 2021. The formal Offer was announced on 22 September 2021. Since then and until the Latest Practicable Date, trading price of the Shares had remained relatively stable at or slightly above S$0.080, presumably supported by the Offer Price; and

(d) trading on the Shares was active throughout the Period Under Review.

8.2 Financial analysis of the Group

For the purposes of evaluating the Offer, we have also considered the valuation of the Company implied by the Offer Price and the historical financial information of the Group in terms of the earnings approach and net asset backing approach.

8.2.1 Price-earnings ratio (“PER”)

PER is a commonly used earnings approach which illustrates the valuation ratio of the current market value of a company’s shares relative to its consolidated basic earnings per share as stated in its financial statements. The PER is affected by, *inter alia*, the capital structure of a company, its tax position as well as its accounting policies relating to depreciation and intangible assets. The PER is commonly used for the purpose of illustrating the profitability and hence the valuation of a company as a going concern.

As shown in Section 6.4.1 of this Letter, the Group had incurred losses in the last 3½ years from FY2018 to 1H2021. In addition, Management had projected that the Group would incur significant losses in 2H2021.

Therefore, the use of the historical PER as a valuation approach to evaluate the Offer is not meaningful.

8.2.2 Price-to-book (“P/NAV”) ratio

P/NAV ratio is a commonly used net asset backing approach which shows the extent to which the shares of a company are backed by its net assets.

The NAV based valuation approach provides an estimate of the value of a company assuming the hypothetical sale of all its assets over a reasonable period of time and would be more relevant for asset-based companies or where the subject company intends to realise or convert the uses of all or most of its assets. Such a valuation approach would be particularly appropriate when applied in circumstances where the business is to cease operations or where the profitability of the business being valued is not sufficient to sustain an earnings-based valuation.

As shown in Section 6.4.2 of this Letter, the estimated projected NAV per Share as at 31 December 2021 is S$0.1246.

Based on the Offer Price of S$0.08 per Share, the **P/NAV ratio** of the Company is therefore **0.64 times**, which implies that the valuation of the Company (implied by the Offer Price) is at a discount of 35.8% to the estimated projected NAV per Share.

8.2.3 P/RNAV ratio

To the extent that a company has assets which have significant revaluation surplus arising from a potential valuation of these assets, the RNAV of the shares of the company would have to be considered.

As set out in Section 7.1 of this Letter, the Valuer had estimated the Valuation of the Subject Assets as at the Valuation Date to be between approximately S$7.7 billion and S$8.8 billion, which gives rise to a net revaluation surplus of between approximately S$1.4 billion and S$2.5 billion, after taking into consideration the potential tax liabilities assuming a hypothetical sale of the Subject Assets as required under the Code.

The Directors and Management have represented and confirmed that the Group has no immediate plans to dispose of its interests in the Subject Assets, and as such, the above tax liabilities are not likely to crystallise.

Arising from the net revaluation surplus, the RNAV per Share is significantly higher at approximately between S$0.17 and S$0.20 as set out in Section 7.2 above. Accordingly, the range of **P/RNAV ratios** of the Group implied by the Offer Price would be significantly lower at between **0.39 and 0.47 times**, compared to the P/NAV ratio of 0.64 times as set out in Section 8.2.2 above.

The above implies that the Offer Price is at a deep discount of approximately 53% to 61% below the RNAV of the Group as at 31 December 2021.

8.3 Comparison with precedent takeover offers of selected SGX-ST listed companies

We note that the Offer was made in compliance with the Code following the completion of the Rights Issue and the intention of the Offeror is to maintain the listing status of the Company on the SGX-ST.

Therefore, in our assessment of the reasonableness of the Offer Price, we have compared the financial terms implied by the Offer Price with those of non-privatisation takeover offers in cash (with expressed intention of the offeror to maintain the listing status of the target company on the SGX-ST) for companies listed on the SGX-ST (excluding partial offers and takeover offers of real estate investment trusts and business trusts) that were announced since January 2020 and completed prior to and up to the Latest Practicable Date ("**Precedent Takeover Offers**").

In total, there are 10 of such Precedent Takeover Offers.

This analysis serves as a general indication of the relevant premium/discount that the offerors had paid in order to acquire the target companies without having regard to their specific industry characteristics or other considerations, and the comparison sets out:

(a) the premium or discount represented by each of the respective offer prices to the last transacted prices prior to the announcement of the Precedent Takeover Offers; and

(b) the premium or discount represented by each of the respective offer prices to the NAV/NTA of the respective target companies, where applicable. We note that certain transactions had undertaken revaluations and/or adjustments to their assets which may have a material impact on their latest announced book values. In this respect, we have compared the offer price with the revalued NAV, revalued NTA or adjusted NAV or adjusted NTA of the Precedent Takeover Offers, where applicable.

For the purposes of our analysis of the Precedent Takeover Offers, we have also included the respective recommendations of the IFAs i.e. their conclusion to accept or reject the offers.

We wish to highlight that the target companies listed in the Precedent Takeover Offers as set out in the analysis below may not be directly comparable to the Group in terms of market capitalisation, size of operations, composition of business activities, asset base, geographical spread, track record, operating and financial leverage, risk profile, liquidity, accounting policies, prospects and other relevant criteria. Each transaction must be judged on its own commercial and financial merits. The premium or discount that an offeror pays in any particular offer varies in different specific circumstances depending on, *inter alia*, factors such as the intention of the offeror, the potential synergy the offeror can gain by acquiring the target, the prevailing market conditions and sentiments, attractiveness and profitability of the target's business and assets, the possibility of a significant revaluation of the assets to be acquired, the availability of substantial cash reserves, the liquidity in the trading of the target company's shares, the presence or absence of competing bids for the target company, and the existing and desired level of control in the target company. The list of the Precedent Takeover Offers is by no means exhaustive and as such any comparison made only serves as an illustration. Conclusions drawn from the comparisons made may not necessarily reflect the perceived or implied market valuation of the Company.

Name of target company	Sector	Date of announce-ment	Implied market capitalisation ('million)	Premium/ (Discount) of offer price over/(to) last transacted price prior to announcement (%)	Price/NAV (times)	IFA recommendation
TEE Land Limited	Real estate developer and investor	13 Jan 2020	S$80.0	8.0	0.6[1]	**Accept** - Fair and reasonable
Darco Water Technologies Limited	Water purification and wastewater treatment systems	5 May 2020	S$16.0	30.8	0.4[2]	**Reject** - Not fair, not reasonable
Axington Inc.	Integrated professional services	1 Jun 2020	S$33.3	43.4	1.3[3]	**Accept** - Fair and reasonable
TEE International Limited	Principally engaged in the business of engineering and construction, as well as the environmental, power and water infrastructure business	7 Jul 2020	S$21.9	12.7	1.0[4]	**Accept** - Fair and reasonable
Blumont Group Ltd	Investment holding, sterilisation, property, mineral and energy resources	16 Nov 2020	S$11.0	(80.0)[11]	1.1[5]	**Reject** - Not fair, not reasonable
Lum Chang Holdings Limited	Construction & Property Development	17 Nov 2020	S$143.1	8.6	0.5[6]	**Reject** - Not fair, not reasonable
Tianjin Zhong Xin Pharmaceutical Group Corporation Limited	Chinese traditional medicine manufacturing	20 Dec 2020	US$1,703.3	(5.3)	0.8[7]	**Reject** - Not fair, not reasonable
Transit-Mixed Concrete Ltd	Supplying concrete pumping services and waste management services.	20 Feb 2021	S$9.7	75.0	0.9[8]	**Accept** - Fair and reasonable
JEP Holdings Limited	Provision of solutions for precision machining and engineering services	21 Apr 2021	S$82.8	0.0	0.9[9]	**Accept** - Fair and reasonable
Lian Beng Group Limited	Construction & Property Development	14 Jun 2021	S$249.8	6.4	0.3[10]	**Reject** - Not fair, not reasonable
High				75.0	1.3	
Low				(80.0)	0.3	
Mean				20.0	0.8	
Median				8.6	0.9	
Company (implied by the Offer Price)		**24 Jun 2021**	**S$2,511.1[12]**	**(35.7)[13]**	**0.6** **(based on estimated projected NAV of the Group as at 31 Dec 2021)** **0.4 – 0.5** **(based on range of RNAV of the Group as at 31 Dec 2021)**	

***Source**: SGX-ST announcements and circulars to shareholders in relation to the Precedent Takeover Offers*

Notes:

(1) Based on the revalued NAV per share of TEE Land Limited as at 30 November 2019;

(2) Based on the NAV per share of Darco Water Technologies Limited as at 31 December 2019;

(3) Based on the adjusted NAV per share of Axington Inc. as at 31 December 2019;

(4) Based on the NAV per share of TEE International Limited as at 31 May 2020;

(5) Based on the revalued NAV per Share of Blumont Group Ltd as at 30 June 2020;

(6) Based on the revalued NAV per share of Lum Chang Holdings Limited as at 30 June 2020;

(7) Based on the revalued NAV per Share of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited as at 31 December 2020;

(8) Based on the NAV per share of Transit-Mixed Concrete Ltd as at 31 August 2020;

(9) Based on the revalued NAV per share of JEP holdings Limited as at 31 December 2020;

(10) Based on the revalued NAV per share of Lian Beng Group Limited as at 30 November 2020;

(11) Excluded as statistical outlier in the mean and median computations;

(12) Based on the number of issued Shares as at the Offer Announcement Date, to take into account the issuance of the rights shares following the completion of the Rights Issue, which was first announced on 24 June 2021; and

(13) Based on the discount of the Offer Price to TERP on the Last Trading Date, pursuant to the Announcement of the Rights Issue and the potential Compliance Offer.

Based on the above, we note that:

(a) none of the Precedent Takeover Offers was triggered as a result of subscription outcome of a completed rights issue. Generally, a controlling shareholder of a SGX-ST listed company carrying out a rights issue would apply to the SIC for a whitewash waiver from any potential mandatory takeover obligation under the Code as a result of it subscribing to its entitlement of rights shares and/or excess rights shares. In this case, the Offeror did not apply for a whitewash waiver from the SIC and, hence, the Offer was made as a consequence of triggering the mandatory offer under the Code. As such, when evaluating the Offer against the prevailing market price, the relevant market Share price would be based on the TERP of the Shares prior to the Announcement of the Rights Issue, after taking into consideration the terms of the Rights Issue and the then prevailing market Share price;

(b) the premium or discount as represented by the respective offer prices over/to the last transacted prices of the Precedent Takeover Offers ranged widely, from a discount of 80.0% to a premium of 75.0%, with a mean premium of 20.0% and a median premium of 8.6%. The Offer Price, which is at a discount of 35.7% to the TERP of S$0.124 on the Last Trading Day, is within the wide range but substantially below the mean and median statistics of the Precedent Takeover Offers;

(c) as at the Latest Practicable Date, the last transacted Share price was S$0.080, which is at the Offer Price of S$0.08;

(d) the P/NAV ratio of 0.6 times of the Group implied by the Offer is within the range but significantly lower than the mean and median P/NAV ratios of 0.8 times and 0.9 times respectively of the Precedent Takeover Offers. As the range of RNAV per Share is significantly higher than the estimated projected NAV per Share, the range of P/RNAV ratios of the Group implied by the Offer Price is much lower than the mean and median of the P/NAV ratios of the Precedent Takeover Offers; and

(e) overall, of the 10 Precedent Takeover Offers, 5 of them were recommended by the respective IFAs to accept the offers and the remaining 5 were recommended by the respective IFAs to reject the offers. Among the 5 Precedent Takeover Offers where the IFAs had recommended shareholders to reject the offers, 3 of them were made at premia above their market share prices prior to the announcement of these offers, but the P/NAV ratios were between 0.3 times and 0.5 times; and the other 2 offers were made at discounts to their market share prices, and the respective P/NAV ratios were higher at between 0.8 times and 1.1 times. Among the 5 Precedent Takeover Offers where the IFAs had recommended shareholders to accept the offers, the mean and median P/NAV ratios were at 0.9 times.

Shareholders should also note that the above comparison with the Precedent Takeover Offers is purely for illustrative purposes only.

8.4 Comparison of valuation statistics of selected listed companies which are broadly comparable with the Group

For the purposes of assessing the financial terms of the Offer, we have considered the valuation statistics of listed companies on the SGX-ST which can be considered as the Company's trading peers.

There are no direct listed comparable companies with the Group. Therefore, we have included companies which are involved in businesses which can be considered as broad proxies to the Group ("**Comparable Companies**"). These Comparable Companies are listed on the SGX-ST or on other stock exchanges with market capitalisations of at least S$2 billion. There are 7 of such Comparable Companies.

We have had discussions with Management about the suitability and reasonableness of the selected Comparable Companies acting as a basis for comparison with the Group. Relevant information has been extracted from Bloomberg L.P., publicly available annual reports and/or public announcements of the selected Comparable Companies. We make no representations or warranties, expressed or implied, as to the accuracy or completeness of such information. The accounting policies of the selected Comparable Companies with respect to the values for which the assets, revenue or cost are recorded may differ from that of the Group.

We wish to highlight that the selected Comparable Companies are not exhaustive and it should be noted that there may not be any listed company that is directly comparable with the Group in terms of location, business activities, customer base, size of operations, asset base, geographical spread of activities, geographical markets, track record, financial performance, operating and financial leverage, future prospects, liquidity, quality of earnings, accounting policies, risk profile and other relevant criteria. As such, any comparison made herein is necessarily limited and it may be difficult to place reliance on the comparison of valuation statistics for the selected Comparable Companies. Therefore, any comparison made serves only as an illustrative guide.

A brief description of the selected Comparable Companies, as extracted from Bloomberg L.P. and/or their respective annual reports, is set out below:

Name of Comparable Company	Primary Stock Exchange	Principal Businesses
KCL	SGX-ST	KCL's core businesses are offshore and marine (under KOM, its wholly-owned subsidiary), infrastructure, property investment and development, telecommunications and transportation, energy and engineering. KOM is a major global player in providing EPCI solutions for offshore platforms, production units and offshore renewable infrastructure, besides repairs and upgrades for vessels and rigs.

Korea Shipbuilding & Offshore Engineering Co Ltd ("**KSOE**")	Korea Exchange ("**KRX**")	KSOE is one of the largest global shipbuilding company, currently comprising Hyundai Group of heavy industries and engineering companies. Besides traditional commercial vessels such as tankers, containerships, bulk carriers, and naval vessels, KSOE is also a major player in offshore oil and gas drilling and floating production units, and expanding into offshore wind EPCI solutions.
Aker ASA ("**Aker**")	Oslo Stock Exchange	Aker is an industrial investment company specializing in the oil and gas, renewable energy, green, seafood and marine biotechnology sectors, exercising active ownership based on its industrial and financial expertise. The company is a significant shareholder in several listed oil service, oil exploring, fishing and shipping companies, with operations in every region of the world. It also owns Aker Solutions which provides EPCI solutions to offshore oil, gas & wind industries, as well as Aker Horizons which owns and develops renewable assets such as offshore wind farms, and provides carbon capture and clean hydrogen facility technology solutions.
CSSC Offshore and Marine Engineering Group Co Ltd ("**COMEC**")	Shanghai Stock Exchange and Hong Kong Stock Exchange	COMEC is one of the largest global shipbuilding companies in China, having merged with China Shipbuilding Industry Corporation in recent years. Besides military navy, civil passenger and traditional commercial vessels, COMEC also actively competes globally for oil and gas and renewable projects in floating production units, semi-submersibles, jack-ups and offshore wind value chain solutions.
Samsung Heavy Industries Co Ltd ("**SHI**")	KRX	SHI is similarly one of the world's major shipbuilding and offshore EPC industry player. SHI has traditionally focused on commercial vessels such as tankers, containerships, gas / LNG carriers and passenger ferry vessels and cruisers. Additionally, SHI also competes in the offshore oil and gas EPC space in drillships, FLNGs, FPSOs, fixed platforms and jack-ups. SHI has also expanded into offshore wind turbine installation vessels in recent years.
Daewoo Shipbuilding & Marine Engineering Co Ltd ("**DSME**")	KRX	DSME is in progress to merge with Hyundai Heavy Industries to be subsumed under KSOE above. DSME is likewise one of the larger shipbuilding and offshore EPC company globally. DSME traditionally manufactures commercial, passenger and naval vessels similar to SHI above. Additionally, DSME also focuses on offshore oil and gas EPC solutions including fixed platforms, drilling rigs, LNG related and floating production units. DSME has also recently expanded into offshore wind substations and turbine installation vessels.
Saipem S.p.A ("**Saipem**")	Borsa Italiana	Saipem is one of the larger oilfield services companies in the world. Saipem offers both offshore and onshore engineering and construction, as well as drilling services. For offshore engineering and construction, Saipem competes in the subsea and fixed platform segments and has also recently expanded into offshore wind and carbon capture solutions. Saipem also owns and operates its own fleet of drilling rigs and FPSO assets.

***Source**: Bloomberg L.P. and Management*

For the purposes of our evaluation of the Offer and for illustration, we have made comparison between the Group and the Comparable Companies using the P/NAV ratio or NAV approach, as the Group and several of the Comparable Companies had reported losses, which would make evaluation based on an earnings approach not meaningful.

The P/NAV ratio or NAV approach is used to show the extent to which the value of each share is backed by its net assets. The NAV approach of valuing a group of companies is based on the aggregate value of all the assets of the group in their existing condition, after deducting the sum of all liabilities of the group.

The announcement of the potential Compliance Offer was first made on 24 June 2021, the formal Offer was announced on 22 September 2021 and the Offer Document containing the detailed terms and conditions of the Offer was despatched on 6 October 2021. We have therefore analysed the P/NAV ratios of the Comparable Companies as at 24 June 2021, the updated P/NAV ratios of the Comparable Companies as at 22 September 2021, which takes into consideration half year results of the Comparable Companies, and the updated P/NAV ratios of these companies on 6 October 2021. We note that there is no material variation in the range, mean and median P/NAV statistics of the Comparable Companies at these various dates.

For illustration purposes, the statistics of the Comparable Companies as at 22 September 2021, being the Offer Announcement Date, are set out in the table below:

Comparable Company	**Last financial year end**	**Market capitalisation as at 22 September 2021, being the Offer Announcement Date (S$'million)**	**P/NAV[(1)] (times)**
KCL	31 Dec 2020	9,426	0.9
KSOE	31 Dec 2020	8,534	0.7
Aker	31 Dec 2020	7,586	2.8[(2)]
COMEC	31 Dec 2020	4,476	1.5
SHI	31 Dec 2020	4,429	1.3
DSME	31 Dec 2020	3,532	1.2
Saipem	31 Dec 2020	3,287	1.0
High			2.8
Low			0.7
Mean			1.1
Median			1.1
Company (implied by the Offer Price)	**31 Dec 2020**	**2,511**	**0.6 (based on estimated projected NAV as at 31 Dec 2021)** **0.4 – 0.5** **(based on range of RNAV of the Group as at 31 Dec 2021)**

***Source**: Bloomberg L.P., annual reports and latest publicly available financial information on the Comparable Companies*

Notes:

(1) The P/NAV ratios of the Comparable Companies are computed based on (a) their respective NAV values as set out in their latest published financial statements and/or annual reports available as at the Offer Announcement Date; and (b) their market capitalisations as at the Offer Announcement Date. With respect to the Company, the NAV and RNAV of the Group are based on the estimated projected NAV of the Group as at 31 December 2021 after taking into consideration the Company's results guidance for 2H2021; and

(2) Excluded as statistical outlier in the mean and median computations.

Based on the above, we note the following:

(a) the P/NAV ratio of the Group of 0.6 times as implied by the Offer Price is below the lower end of the range and therefore lower than the mean and median P/NAV ratios of the Comparable Companies; and

(b) we note that the NAV of the Comparable Companies may not have been revalued and RNAV figures of these Comparable Companies are not publicly or readily available. Hence, P/RNAV of the Group may not be a like-to-like comparison with the Comparable Companies.

However, purely for illustration purposes, we have also shown the P/RNAV ratio of the Group as a comparison with the P/NAV of the Comparable Companies. The P/RNAV ratio of the Group implied by the Offer Price is even lower compared to the P/NAV ratios of the Comparable Companies, as the RNAV of the Group is significantly higher than the estimated projected NAV of the Group as at 31 December 2021.

Shareholders should also note that the above comparison with the Comparable Companies is purely for illustrative purposes only.

8.5 Estimated value range of the Shares

In the preceding Sections 8.1 to 8.4 above, we have analysed the following:

(a) the share price performance for the Period Under Review. The Shares have been trading at or close to and slightly above the Offer Price since around September 2021, presumably supported by the Offer Price. The Shares were last transacted at S$0.080 on the Latest Practicable Date;

(b) the adjusted NAV per Share as at 30 June 2021 was S$0.1437 after adjusting for, in particular, the Rights Issue. The estimated projected NAV per Share as at 31 December 2021 is S$0.1246, after taking into consideration Company's results guidance for 2H2021 as announced post the Latest Practicable Date on 19 October 2021;

(c) the range of RNAV per Share of approximately between S$0.17 and S$0.20 as at 31 December 2021, after taking into consideration the Valuation of the Subject Assets as set out in the Valuation Letter;

(d) the mean and median P/NAV ratios of 0.9 times in relation to the Precedent Takeover Offers which were recommended by the IFAs to accept; and

(e) the mean and median P/NAV ratios of 1.1 times of the Comparable Companies.

We note that the current market sentiment on the Shares is weak and the Shares were trading at around S$0.08 which is at a deep discount to the adjusted NAV per Share of S$0.1437 as at 30 June 2021. Following the Company's results guidance for 2H2021, the estimated projected NAV per Share as at 31 December 2021 is S$0.1246. In comparison, the Comparable Companies are trading at an average of 1.1 times their historical NAV. At the other end of the spectrum, the derived RNAV per Share is much higher at approximately between S$0.17 and S$0.20 arising from the Valuation of the Subject Assets. However, P/RNAV ratios for the Comparable Companies are not readily available.

The Subject Assets which include the Group's 2 main cash generating units, represent 70% of the Group's total assets of S$8.8 billion as at 30 June 2021. The net revaluation surplus arising from the Valuation of the Subject Assets gives an uplift of value of between 23% and 40% above the NBV of these Subject Assets. Accordingly, the derived RNAV per Share increased significantly to approximately between S$0.17 and S$0.20. As mentioned above, P/RNAV ratios of the Comparable Companies are not readily available. Hence, we are unable to ascertain P/RNAV ratio statistics as a benchmark to estimate the range of values of the Shares based on its RNAV per Share.

In addition, the RNAV per Share as derived from the Valuation of the Subject Assets could be reflective of the longer term view of the underlying valuation of the Shares, as the Valuation of the Subject Assets is based on the Income Approach's DCF method taking into consideration *inter alia* cash flow projections over a 10-year base period as provided by Management.

We are of the view that consideration of the current market sentiment on listed securities in similar industry, in particular, the Comparable Companies, is relevant for our purposes in estimating the range of values for the Shares and evaluating the Offer.

Taking into consideration the above, overall, on balance, we are of the view that **for the purposes of the Offer, our estimated value range of the Shares is between S$0.125 and S$0.14**, based on the mean and median P/NAV ratios of the Comparable Companies of 1.1 times, and the estimated projected NAV per Share of S$0.1246 as at 31 December 2021 which takes into consideration the recently completed Rights Issue and the expected losses for 2H2021.

Hence, we are of the opinion that the Offer Price of S$0.08 is not fair and not reasonable, as it is below our estimated value range of the Shares.

8.6 Dividend track record of the Company

The Company's policy on dividends as disclosed in its annual reports for FY2018 to FY2020 is as follows:

"*The Company operates in a cyclical industry. It aims to balance returns to shareholders with the need for long-term sustainable growth. Taking into account its cash position, working capital requirements, capital expenditure plans and investment opportunities, the Company strives to provide shareholders annually with a consistent and sustainable dividend*."

During the last 3 financial years, i.e. FY2018 to FY2020, the Company had disclosed that the Board had adopted a prudent approach to conserving cash in light of the challenging business environment and did not recommend or declare any dividends. For 1H2021, the Board also did not recommend any interim dividends. The Group had reported losses during these periods.

8.7 Other relevant considerations

8.7.1 Non-binding MOU with KCL

In the announcement of the Rights Issue on the Announcement Date, the Company also announced that it had, on 24 June 2021, entered into the non-binding MOU with KCL to enter into exclusive negotiations to explore the Potential Combination of the Company and KOM, a wholly-owned subsidiary of KCL.

The Potential Combination envisages, subject to due diligence and further negotiation, a combination of the entire operating business of KOM (excluding legacy rig assets and associated receivables) with the Company to create a stronger combined entity ("**Combined Entity**").

The Potential Combination is subject to, among others, satisfactory due diligence, further negotiations between parties, execution of definitive agreements, receipt of the relevant regulatory approvals and the approval of shareholders (if and where required) of the respective parties. Pursuant to the terms of the MOU, if the Potential Combination is completed, it is envisaged that the Combined Entity will be a listed entity and the Shareholders will hold shares in the Combined Entity, while KCL will receive shares in the Combined Entity and a cash consideration of up to S$500 million (or a cash component with the economic equivalent effect). The Company had clarified that the net proceeds from the Rights Issue will not be used to fund any payment in relation to the Potential Combination.

Shareholders should take note of any further announcements by the Company on the Potential Combination which may be released or published after the Latest Practicable Date.

8.7.2 Likelihood of a competing offer is remote

The Directors have confirmed that, as at the Latest Practicable Date, apart from the Offer being made by the Offeror, no alternative offer or proposal has been received by the Company. We also note that there is no publicly available evidence of any alternative offer for the Shares.

As at the Latest Practicable Date, the Offeror Concert Party Group is the single largest Shareholder and has a controlling interest of 46.6% of the Company. The likelihood of a competing offer from any third party is therefore remote.

It is pertinent to note that the Offer is being made by the Offeror in compliance with the Code as a result of its subscription for the Rights Shares. Accordingly, the Offer is being made by the Offeror at the Offer Price which is at the Issue Price of the Rights Shares.

Shareholders are to take note of the Company's announcement on the MOU in relation to the Potential Combination, which if proceeded with, may result in a restructuring exercise where shares in the Combined Entity would be issued to Shareholders in exchange for their existing Shares.

8.7.3 Conditional Offer and Closing Date

The Offer is conditional upon the Offeror Concert Party Group achieving controlling interest of the Company of more than 50%. As at the Latest Practicable Date, the Offer has not become or been declared to be unconditional in all respects.

Notwithstanding the above, the Offeror has given notice of the final Closing Date i.e. that the Offer will close at 5.30 p.m. (Singapore time) on 3 November 2021 and that it will not extend the Offer beyond the Closing Date. Hence, there will not be any extension of the Closing Date even if the Offer becomes unconditional before or on the Closing Date.

In the event that the Offer does not become unconditional by the Closing Date, the Offer will lapse and all Shares tendered in acceptance of the Offer will be returned to Shareholders.

In the event that the Offer becomes unconditional in all respects before or by the Closing Date, all valid acceptances for the Offer will be accepted by the Offeror and these acceptances will count towards increasing the shareholding interest of the Offeror Concert Party Group in the Company.

8.7.4 Offeror's intention for the listing status of the Company

It is the Offeror's present intention to maintain the listing status of the Company on the Main Board of the SGX-ST following completion of the Offer. However, the Offeror reserves the right to re-evaluate its position, taking into account, among other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time.

Pursuant to Rule 723 of the Listing Manual, an issuer must ensure that at least 10% of its total number of issued shares excluding treasury shares must at all times be held by the public. As at the Latest Practicable Date, more than 50% of the Shares are deemed held by the public.

8.7.5 Company's results announcement for 1H2021

<u>Profit Forecast</u>

The Company had released its results announcement for 1H2021 on 29 July 2021 during the offer period.

As such under Rule 25.6(c) of the Code, the unaudited results for 1H2021 constitutes a profit forecast ("**Profit Forecast**") and, except with the SIC's consent, must be reported on by the auditor and financial adviser in accordance with Rule 25 of the Code.

The Company's independent auditors, KPMG LLP ("**Auditors**"), had on 29 July 2021 issued its report on the review of the unaudited results for 1H2021 in compliance with Rule 25 of the Code, and had made the following conclusion:

"*Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Financial Information is not prepared in all material respects, in accordance with SFRS(I) 1-34 Interim Financial Reporting*."

The above Auditors' report was attached to the Company's results announcement for 1H2021.

<u>Statement of Prospects</u>

In addition, the Company had in the results announcement for 1H2021 included a commentary on the Group's prospects which is reproduced in *italics* below:

"The Group still faces uncertainties arising from the COVID-19-led measures of border controls, as well as workforce supply and quarantine restraints. Continuing efforts to resolve the skilled manpower shortage on a timely basis is a key priority to address the risk of further project delays or terminations. The Group has also actively undertaken measures to improve project execution, replenish temporary working capital depletion and enhance the Group's liquidity position. However the Group expects to incur losses in 2H2021 because of insufficient revenues to cover overhead costs."

The above statement – "*However the Group expects to incur losses in 2H2021 because of insufficient revenues to cover overhead costs."* – is treated as a profit forecast under Rule 25.6 of the Code ("**Statement of Prospects**").

Pursuant to Rule 25.3 of the Code, the Statement of Prospects is also required to be examined and reported on by the auditors and the financial adviser.

The Auditors had examined the Statement of Prospects in accordance with the Singapore Standard on Assurance Engagements 3400 – *The Examination of Prospective Financial Information*, and had issued their letter dated 4 August 2021 in relation to the Statement of Prospects attached as Appendix 6 to the Circular to Shareholders in relation to the Rights Issue dated 4 August 2021.

The Auditors had made the following opinion:

"*Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the Statement of Prospects. Further, in our opinion, in all material respects, the Statement of Prospects, in so far as the accounting policies and calculations are concerned, is properly prepared on the basis of assumptions, and is consistent with the accounting policies adopted by the Group which are in accordance with Singapore Financial Reporting Standards (International) and International Financial Reporting Standards.*"

In connection with the Offer, we have issued our opinion on the results announcement for 1H2021 and the Statement of Prospects that they had been issued by the Board of Directors of the Company after due and careful enquiry, as set out in Appendix H to the Circular.

8.7.6 Company's business plans and outlook

Set out below are some of the commentaries in relation to the business plans and outlook that the Company had made in connection with its Rights Issue:

Since 2015, the Group had embarked on a strategic business transformation to re-balance its product solutions portfolio with an increasing focus on renewables and other green solutions. As at 30 June 2021, the Group has S$1.78 billion of net order book, majority of which are under the engineering, procurement and construction ("**EPC**") model, and approximately 34% pertains to green energy solutions. While the Group has proactively diversified its business and product segments towards the provision of clean energy solutions leveraging on its integrated O&M engineering capabilities, oil and gas remain a focus.

The Company believes that the recently completed Rights Issue will better position the Group to ride through the current challenging business environment and accelerate its strategic transition towards the high-growth renewable and clean energy segment.

The Group continues to augment the 3 key pillars of its strategic thrusts to (1) diversify in tandem with the global energy shift; (2) invest in its yard capabilities; and (3) acquire strategic technology as set out in paragraph 2.3 of the Circular to Shareholders dated 4 August 2021 in relation to the Rights Issue.

8.7.7 Company's results guidance for 2H2021

Statement of Prospects

As set out in Section 6.4.1 of this Letter, the Company had after the Latest Practicable Date, on 19 October 2021, issued a results guidance for 2H2021 which had included a commentary on the Group's expected losses for 2H2021 which is reproduced in *italics* below:

"As at the date of this Announcement and based on information currently available to the Group, the Group expects that the increased costs to complete the projects, as well as the losses arising from the added delays, will result in significant losses for 2H2021, which could potentially be in the range of the losses reported for 1H2021."

The above statement is treated as a Statement of Prospects under Rule 25.6 of the Code.

Pursuant to Rule 25.3 of the Code, the Statement of Prospects is required to be examined and reported on by the auditors and the financial adviser.

The Auditors had examined the Statement of Prospects in accordance with the Singapore Standard on Assurance Engagements 3400 – *The Examination of Prospective Financial Information*, and had issued their letter dated 19 October 2021 in relation to the Statement of Prospects attached as Appendix K to the Circular.

The Auditors had made the following opinion:

"*Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the Statement of Prospects. Further, in our opinion, in all material respects, the Statement of Prospects, in so far as the accounting policies and calculations are concerned, is properly prepared on the basis of assumptions, and is consistent with the accounting policies adopted by the Group which are in accordance with Singapore Financial Reporting Standards (International) and International Financial Reporting Standards.*"

In connection with the Offer, we have issued our opinion on the Statement of Prospects that they had been issued by the Board of Directors of the Company after due and careful enquiry, as set out in Appendix L to the Circular.

9. OUR RECOMMENDATION TO THE INDEPENDENT DIRECTORS ON THE OFFER

In arriving at our recommendation in respect of the Offer, we have taken into account, reviewed and deliberated on the following key considerations which we considered to be pertinent in our assessment of the Offer:

(a) Market price performance of the Shares;

(b) Financial analysis of the Group;

(c) Comparison with precedent takeover overs of selected SGX-ST listed companies;

(d) Comparison of valuation statistics of selected listed companies which are broadly comparable with the Group;

(e) Estimated value range of the Shares;

(f) Dividend track record of the Company; and

(g) Other relevant considerations.

Based on our analysis and after having considered carefully the information available to us as at the Latest Practicable Date, overall, we are of the view that the financial terms of the Offer are not fair and not reasonable. Accordingly, we advise the Independent Directors to recommend Shareholders to REJECT the Offer.

Shareholders who wish to realise their investments in the Company can choose to sell their Shares in the open market if they can obtain a price higher than the Offer Price (after deducting transaction costs).

In rendering the above advice, we have not given regard to the specific investment objectives, financial situation, tax position, risk profiles or particular needs and constraints of any individual Shareholder. As each individual Shareholder may have different investment objectives and profiles, we would advise that any individual Shareholder who may require specific advice in relation to his investment objectives or portfolio should consult his legal, financial, tax or other professional adviser immediately. The Directors should advise Shareholders that the opinion and advice of Provenance Capital should not be relied upon by any Shareholder as the sole basis for deciding whether or not to reject the Offer.

Our recommendation on the Offer is addressed to the Independent Directors for their benefit, in connection with and for the purposes of their consideration of the Offer, and may not be used or relied on for any other purposes (other than for the purpose of the Offer) without the prior written consent of Provenance Capital. The recommendation to be made by the Independent Directors to Shareholders in respect of the Offer respectively shall remain the responsibility of the Independent Directors.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.

Wong Bee Eng
Chief Executive Officer

APPENDIX B

GENERAL INFORMATION

1. DIRECTORS

The names, addresses and designations of the Directors as at the Latest Practicable Date are set out below:

Name	Address	Designation
Tan Sri Mohd Hassan Marican	c/o 80 Tuas South Boulevard Singapore 637051	Chairman and Non-Executive and Non-Independent Director
Wong Weng Sun	c/o 80 Tuas South Boulevard Singapore 637051	President & CEO and Executive and Non-Independent Director
Eric Ang Teik Lim	c/o 80 Tuas South Boulevard Singapore 637051	Non-Executive and Lead Independent Director
Bob Tan Beng Hai	c/o 80 Tuas South Boulevard Singapore 637051	Non-Executive and Independent Director
Gina Lee-Wan	c/o 80 Tuas South Boulevard Singapore 637051	Non-Executive and Independent Director
William Tan Seng Koon	c/o 80 Tuas South Boulevard Singapore 637051	Non-Executive and Independent Director
Patrick Daniel	c/o 80 Tuas South Boulevard Singapore 637051	Non-Executive and Independent Director
Tan Wah Yeow	c/o 80 Tuas South Boulevard Singapore 637051	Non-Executive and Independent Director
Koh Chiap Khiong	c/o 80 Tuas South Boulevard Singapore 637051	Non-Executive and Non-Independent Director

2. HISTORY

The Company is a public limited company incorporated in Singapore on 25 April 1963. The Company was officially listed on the Main Board of the SGX-ST on 18 September 1987.

3. PRINCIPAL ACTIVITIES

The principal activities of the Group include:

(i) **Rigs & Floaters**: the rigs and floaters segment provides turnkey solutions for complex projects;

(ii) **Repairs & Upgrades**: the repairs and upgrades segment offers one-stop repair and upgrade solutions for all types of Offshore & Marine vessels and structures;

(iii) **Offshore Platforms**: the offshore platform segment provides design and construction solutions for a wide range of offshore platforms; and

(iv) **Specialised Shipbuilding**: the specialised shipbuilding segment provides design and construction solutions for high performance specialised vessels.

4. SHARE CAPITAL

4.1 Issued Share Capital

4.1.1 Share Capital. As at the Latest Practicable Date, the Company has:

(i) an issued and paid-up share capital of S$4,088,002,197.10 comprising 31,389,099,152 issued Shares (excluding 6,223 treasury shares). There is only one class of shares in the capital of the Company, comprising the Shares. The Shares are ordinary shares carrying equal ranking rights to dividends, voting at general meetings and return of capital; and

(ii) 2,265,500 Shares due to be released under the RSP2020 in connection with the payment of Directors' fees for FY2020.

Save for the above, the Company does not have any other outstanding instruments convertible into, rights to subscribe for, and options in respect of, securities which carry voting rights affecting the Shares.

4.1.2 Share buyback. Particulars of purchases of Company Securities made by the Company during the period commencing six months prior to the Rights Issue Announcement Date and ending on the Latest Practicable Date (pursuant to the share purchase mandate renewed at the annual general meeting of the Company held on 23 April 2021) are as follows:

Date of purchase	Total number of Shares purchased	Price paid for each Share			Total consideration paid for the Shares (S$)
		Highest (S$)	Lowest (S$)	Single (S$)	
5 August 2021	744,100	0.122	0.122	0.122	90,889.47

4.1.3 Restrictions on transfer. There are no restrictions under the Constitution on the right to transfer any Shares, which has the effect of requiring the holders of Offer Shares, before transferring them, to first offer them for purchase to Shareholders or to any other person.

4.2 Rights in Respect of Capital, Dividends and Voting

The rights of Shareholders in respect of capital, dividends and voting are set out in the Constitution. For ease of reference, selected texts of the Constitution relating to the same have been extracted and reproduced in **Appendix M** to this Circular.

4.3 Number of Shares issued since the End of the Last Financial Year

Since the end of FY2020, 18,833,459,491 new Shares have been issued by the Company pursuant to the Rights Issue.

The Company does not hold any other class of share capital as at the Latest Practicable Date.

5. DISCLOSURE OF INTERESTS

5.1 Interests of the Company in Offeror Securities

As at the Latest Practicable Date, none of the Group Companies has any direct or indirect interest in any Offeror Securities.

5.2 Dealings in Offeror Securities by the Company

During the period commencing six months prior to the Rights Issue Announcement Date and ending on the Latest Practicable Date, none of the Group Companies has dealt for value in any Offeror Securities.

5.3 Interests of Directors in Offeror Securities

As at the Latest Practicable Date, none of the Directors has any direct or deemed interests in any Offeror Securities.

5.4 Dealings in Offeror Securities by Directors

During the period commencing six months prior to the Rights Issue Announcement Date and ending on the Latest Practicable Date, none of the Directors has dealt for value in any Offeror Securities.

5.5 Interests of Directors in Company Securities

Save as disclosed below, as at the Latest Practicable Date, none of the Directors has an interest, direct or indirect, in the Company Securities.

	Shares						Awards
	Direct Interest		Deemed Interest		Total Interest		
Director	**No. of Shares**	**%[1]**	**No. of Shares**	**%[1]**	**No. of Shares**	**%[1]**	**No. of Shares comprised in outstanding Awards**
Tan Sri Mohd Hassan Marican	8,884,626	0.028	-	-	8,884,626	0.028	809,500
Wong Weng Sun	25,425,714	0.081	-	-	25,425,714	0.081	-
Eric Ang Teik Lim	-	-	123,000[2]	n.m.[3]	123,000	n.m.[3]	217,500
Bob Tan Beng Hai	3,625,500	0.012	-	-	3,625,500	0.012	307,500
Gina Lee-Wan	2,580,000	0.008	-	-	2,580,000	0.008	211,800
William Tan Seng Koon	1,397,600	0.004	-	-	1,397,600	0.004	255,200
Patrick Daniel	1,387,500	0.004	-	-	1,387,500	0.004	226,300
Tan Wah Yeow	1,066,500	0.003	-	-	1,066,500	0.003	237,700
Koh Chiap Khiong	7,110,474	0.023	-	-	7,110,474	0.023	-

Notes:

(1) Based on 31,389,099,152 issued Shares (excluding treasury shares) as at the Latest Practicable Date and rounded to the nearest three decimal places.

(2) Held by spouse.

(3) Not meaningful.

5.6 Dealings in Company Securities by Directors

Save as disclosed below, during the period commencing six months prior to the Rights Issue Announcement Date and ending on the Latest Practicable Date, none of the Directors has dealt for value in any Company Securities.

Name	Date	No. of Company Securities Acquired / (No. of Company Securities Sold)	Transaction Price Per Company Security	Nature of Transaction
Tan Sri Mohd Hassan Marican	22 September 2021	3,807,700 Shares	S$0.08	Allotment and issuance of Rights Shares.
Tan Sri Mohd Hassan Marican	7 September 2021	(3,807,689 rights over Rights Shares)	S$0.001	Sale of nil paid rights relating to Rights Shares.
Wong Weng Sun	22 September 2021	2,500,000 Shares	S$0.08	Allotment and issuance of Rights Shares.
Eric Ang Teik Lim	22 September 2021	73,890 Shares	S$0.08	Allotment and issuance of Rights Shares to spouse.
Bob Tan Beng Hai	22 September 2021	2,175,300 Shares	S$0.08	Allotment and issuance of Rights Shares.
Gina Lee-Wan	22 September 2021	1,548,000 Shares	S$0.08	Allotment and issuance of Rights Shares.
William Tan Seng Koon	22 September 2021	500,000 Shares	S$0.08	Allotment and issuance of Rights Shares.
Patrick Daniel	22 September 2021	832,500 Shares	S$0.08	Allotment and issuance of Rights Shares.
Tan Wah Yeow	22 September 2021	639,900 Shares	S$0.08	Allotment and issuance of Rights Shares.
Koh Chiap Khiong	22 September 2021	2,000,404 Shares	S$0.08	Allotment and issuance of Rights Shares.
Koh Chiap Khiong	8 September 2021	(5,664,700 rights over Rights Shares)	S$0.001	Sale of nil paid rights relating to Rights Shares.

5.7 Interests of the IFA in Company Securities

As at the Latest Practicable Date, none of Provenance Capital, its related corporations or funds whose investments are managed by Provenance Capital or its related corporations on a discretionary basis, owns or controls any Company Securities.

5.8 Dealings in Company Securities by the IFA

As at the Latest Practicable Date, none of Provenance Capital, its related corporations or funds whose investments are managed by Provenance Capital or its related corporations on a discretionary basis, has dealt for value in the Company Securities during the period commencing six months prior to the Rights Issue Announcement Date and ending on the Latest Practicable Date.

5.9 Accepting or Rejecting the Offer

The following Directors who have direct or deemed interests in the Shares have informed the Company of their intentions in respect of the Offer, as follows:

Name	Accept / Reject
Tan Sri Mohd Hassan Marican	Reject
Wong Weng Sun	Reject
Eric Ang Teik Lim	Reject[1]
Bob Tan Beng Hai	Reject
Gina Lee-Wan	Reject
William Tan Seng Koon	Reject
Patrick Daniel	Reject
Tan Wah Yeow	Reject
Koh Chiap Khiong	Reject

Notes

(1) The holder of the Shares, being the spouse of the Director, intends to reject the Offer.

6. ARRANGEMENTS AFFECTING DIRECTORS

6.1 Directors' Service Contracts

Save as disclosed below, as at the Latest Practicable Date:

6.1.1 there are no service contracts between any Director or proposed director with the Company or any of its subsidiaries with more than 12 months to run and which cannot be terminated by the employing company within the next 12 months without paying any compensation; and

6.1.2 there were no service contracts entered into or amended between any Director or proposed director with, the Company or any of its subsidiaries during the period commencing six months prior to the Rights Issue Announcement Date and ending on the Latest Practicable Date.

6.2 No Payment or Benefit to Directors

As at the Latest Practicable Date, there is no agreement, arrangement or understanding for any payment or other benefit to be made or given to any Director or to any director of any corporation, which is by virtue of Section 6 of the Act, deemed to be related to the Company, as compensation for loss of office or otherwise in connection with the Offer.

6.3 No Agreement Conditional upon Outcome of Offer

As at the Latest Practicable Date, there is no agreement, arrangement or understanding between (a) the Offeror and (b) any Director or any other person in connection with or conditional upon the outcome of the Offer or otherwise connected with the Offer.

6.4 No Material Contracts entered into by Offeror

Save as otherwise disclosed in the Offer Document, as at the Latest Practicable Date, there are no material contracts entered into by the Offeror in which any Director has a material personal interest, whether direct or indirect.

7. FINANCIAL INFORMATION ON THE GROUP

Set out below is certain financial information extracted from the Annual Reports for FY2018, FY2019 and FY2020, and the 1H2021 Results respectively. The FY2020 Results and 1H2021 Results is set out in **Appendix D** and **Appendix E** to this Circular respectively. The summary of the financial information set out below should be read in conjunction with the audited consolidated financial statements of the Group for FY2020 and the accompanying notes as set out in the Annual Reports for FY2018, FY2019 and FY2020, and the 1H2021 Results respectively, copies of which are available for inspection at the registered address of the Company at 80 Tuas South Boulevard, Singapore 637051 during normal business hours for the period during which the Offer remains open for acceptance.

Please refer to the 1H2021 Results together with:

(a) the independent auditor's review report in relation thereto which has been reproduced in **Appendix E** to this Circular;

(b) the bases and assumptions for the 1H2021 Statement of Prospects as set out in **Appendix F** to this Circular;

(c) the independent auditor's letter in relation to the 1H2021 Statement of Prospects which is set out in **Appendix G** to this Circular; and

(d) the letter from the IFA in relation to the 1H2021 Results and the 1H2021 Statement of Prospects, which is set out in **Appendix H** to this Circular.

7.1 Consolidated Income Statements

	Audited FY2018 S$'000	**Audited FY2019 S$'000**	**Audited FY2020 S$'000**	**Unaudited 1H2021 S$'000**
Turnover	4,887,866	2,882,560	1,510,280	844,186
Profit/(loss) before tax	(100,897)	(176,960)	(670,708)	(727,520)
Profit/(loss) after tax	(78,366)	(140,187)	(587,208)	(649,507)
Non-controlling interests	(4,235)	(3,013)	(4,698)	(2,265)
Basic earnings per Share (cents)(1)(2)	(3.55)	(6.57)(3)	(10.88)	(5.16)
Diluted earnings per Share (cents)(1)(2)	(3.55)	(6.57)(3)	(10.88)	(5.16)
Dividend per Share (cents)	-	-	-	-

Note:

(1) Net earnings per Share is calculated on the same basis as basic earnings per Share and diluted earnings per Share.

(2) Calculated based on the number of Shares outstanding, excluding treasury shares, at the end of each relevant period.

(3) As reported in the Company's Annual Report for FY2019. With the completion of the Rights Issue, the restated basic and diluted earnings per share for FY2019 as reported in the Company's Annual Report for FY2020 is S$6.32. Please refer to the Company's Annual Report for FY2020 for further details.

No dividend was declared by the Company on the Shares for each of FY2018, FY2019 and FY2020. This information was extracted from the Annual Reports for FY2018, FY2019 and FY2020.

7.2 Consolidated Balance Sheet

	Audited as at 31 December 2020 S$'000	Unaudited as at 30 June 2021 S$'000
ASSETS		
Non-current assets		
Property, plant and equipment	4,114,919	4,005,308
Right-of-use assets	251,016	247,436
Interests in associates and joint ventures	15,423	16,142
Other financial assets	4,570	2,791
Trade and other receivables	1,105,551	1,123,955
Contract assets	-	431,812
Intangible assets	220,999	209,782
Deferred tax assets	117,283	205,004
Total non-current assets	5,829,761	6,242,230
Current assets		
Inventories	94,361	94,852
Trade and other receivables	618,103	282,717
Contract costs	52,703	51,870
Contract assets	1,551,913	1,338,953
Tax recoverable	17,117	18,549
Other financial assets	33,840	13,611
Cash and cash equivalents	772,426	788,293
Total current assets	3,140,463	2,588,845
Total assets	8,970,224	8,831,075
LIABILITIES		
Current liabilities		
Trade and other payables	1,052,269	1,426,063
Contract liabilities	154,288	169,305
Provisions	38,005	37,493
Other financial liabilities	4,742	4,064
Current tax payable	7,056	10,654
Interest-bearing borrowings	2,121,394	1,614,037
Lease liabilities	22,100	21,714
Total current liabilities	3,399,854	3,283,330
Net current (liabilities) / assets	(259,391)	(694,485)
Non-current liabilities		
Deferred tax liabilities	26,852	30,231
Provisions	142,800	229,565
Other financial liabilities	722	-
Interest-bearing borrowings	1,428,400	1,977,767
Lease liabilities	269,467	263,364
Other long-term payables	5,982	3,703
Total non-current liabilities	1,874,223	2,504,630
Total liabilities	5,274,077	5,787,960
Net assets	3,696,147	3,043,115

	Audited as at 31 December 2020 S$'000	Unaudited as at 30 June 2021 S$'000
EQUITY		
Equity attributable to owners of the Company		
Share capital	2,575,374	2,575,374
Other reserves	(57,555)	(60,794)
Revenue reserve	1,149,577	502,060
	3,667,396	3,016,640
Non-controlling interests	28,751	26,475
Total equity	3,696,147	3,043,115

8. MATERIAL CHANGES IN FINANCIAL POSITION

As at 19 October 2021, save as disclosed in this Circular, in the FY2020 Results, the 1H2021 Results, the 2H2021 Results Guidance and other information on the Group which is publicly available (including without limitation, the announcements released by the Company on the SGX-ST and the offer information statement dated 26 August 2021 relating to the Rights Issue), there have been no other material changes to the financial position or prospects of the Group since 31 December 2020, being the date of the last audited consolidated financial statements of the Group laid before the Shareholders in general meeting.

9. MATERIAL CHANGE IN INFORMATION

Save as disclosed in this Circular and save for the information relating to the Company and the Offer that is publicly available, there has been no material change in any information previously published by or on behalf of the Company during the period commencing from the Rights Issue Announcement Date and ending on the Latest Practicable Date. The Directors are of the view that the 1H2021 Results, the 1H2021 Statement of Prospects, the 2H2021 Results Guidance and the 2H2021 Statement of Prospects remain valid for the purpose of the Offer.

10. ACCOUNTING POLICIES

The significant accounting policies of the Group which are disclosed in Note 3 of the FY2020 Results are reproduced in **Appendix D** to this Circular.

As at the Latest Practicable Date, save as disclosed above and in publicly available information on the Group (including, without limitation, the announcements released by the Company on the SGX-ST):

(i) there are no significant accounting policies or any matter from the notes of the financial statements of the Group which are of any major relevance for the interpretation of the financial statements of the Group; and

(ii) there are no changes in the accounting policies of the Group which will cause the financial information disclosed in this Circular to be not comparable to a material extent.

11. MATERIAL CONTRACTS WITH INTERESTED PERSONS

As at the Latest Practicable Date, save as disclosed in publicly available information on the Group (including, without limitation, the announcements released by the Company on the SGX-ST), none of the Group Companies has entered into any material contracts with Interested Persons (other than those entered into in the ordinary course of business) during the period commencing three years before the Rights Issue Announcement Date, and ending on the Latest Practicable Date.

12. MATERIAL LITIGATION

As at the Latest Practicable Date, save as disclosed in publicly available information on the Group (including, without limitation, the announcements released by the Company on the SGX-ST):

(i) none of the Group Companies is engaged in any material litigation or arbitration proceedings as plaintiff or defendant, which might materially and adversely affect the financial position of the Group as a whole; and

(ii) the Directors are not aware of any litigation, claim, arbitration or other proceedings pending or threatened against any of the Group Companies or of any facts likely to give rise to any such proceedings which might materially or adversely affect the financial position of the Group taken as a whole.

13. VALUATION LETTER

The Company has commissioned the Valuer to conduct an independent valuation of the Subject Assets. A copy of the Valuation Letter is set out in **Appendix I** to this Circular.

For the purposes of this paragraph 13, pursuant to Rule 26.3 of the Code, the Company is required, *inter alia*, to make an assessment of any potential tax liability which would arise if the Subject Assets, which are the subject of a valuation given in connection with an offer, were to be sold at the amount of valuation. Based on the market value of the Subject Assets provided to the Company by the Valuer, the potential tax liabilities that may be incurred by the Group on the hypothetical disposal of the Subject Assets is between approximately S$90 million to S$104 million. For the purposes of deriving a reasonable estimate of the potential tax liabilities, the Company has made assumptions that it deems reasonable and necessary. The aforesaid tax liabilities will not crystallise if the Group does not dispose of its interests in the Subject Assets.

The Directors and management of the Company have represented and confirmed that the Group has no immediate plans to dispose of its interests in the Subject Assets and as such, the aforesaid tax liabilities are not likely to crystallise.

14. GENERAL

14.1 Costs and Expenses

All expenses and costs incurred by the Company in relation to the Offer will be borne by the Company.

14.2 Consent of the Share Registrar

The Share Registrar has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its name and all the references to its name in the form and context in which it appears in this Circular.

14.3 Consent of the Auditors

The Auditors have given and have not withdrawn their written consent to the issue of this Circular with the inclusion herein of:

(a) its name and all references thereto;

(b) the independent auditors' report relating to the FY2020 Results as set out in **Appendix D** to this Circular and all references thereto;

(c) the review report issued to the Board dated 29 July 2021 in relation to the 1H2021 Results as set out in **Appendix E** to this Circular and all references thereto;

(d) the independent auditor's letter in relation to the 1H2021 Statement of Prospects as set out in **Appendix G** to this Circular and all references thereto; and

(e) the independent auditor's letter in relation to the 2H2021 Statement of Prospects as set out in **Appendix K** to this Circular and all references thereto,

each in the form and context in which they appear in this Circular.

14.4 Consent of the IFA

The IFA has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of:

(a) its name and all references thereto;

(b) its advice and recommendation to the Independent Directors set out in **paragraph 7.2** of the Letter to Shareholders in this Circular and all references thereto;

(c) the IFA Letter as set out in **Appendix A** to this Circular and all references thereto;

(d) the letter from the IFA in relation to the 1H2021 Results and the 1H2021 Statement of Prospects, as set out in **Appendix H** to this Circular and all references thereto; and

(e) the letter from the IFA in relation to the 2H2021 Statement of Prospects as set out in **Appendix L** to this Circular and all references thereto,

each in the form and context in which they appear in this Circular.

14.5 Consent of the Valuer

The Valuer has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its name, its Valuation Letter and all references thereto, in the form and context in which they appear in this Circular.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 80 Tuas South Boulevard, Singapore 637051, during normal business hours for the period during which the Offer remains open for acceptance:

(a) the Constitution;

(b) the Annual Reports for FY2018, FY2019 and FY2020;

(c) the 1H2021 Results;

(d) the IFA Letter as set out in **Appendix A** to this Circular;

(e) the independent auditor's letter in relation to the 1H2021 Statement of Prospects as set out in **Appendix G** to this Circular;

(f) the letter from the IFA in relation to the 1H2021 Results and the 1H2021 Statement of Prospects as set out in **Appendix H** to this Circular;

(g) the Valuation Letter;

(h) the 2H2021 Results Guidance;

(i) the independent auditor's letter in relation to the 2H2021 Statement of Prospects as set out in **Appendix K** to this Circular;

(j) the letter from the IFA in relation to the 2H2021 Statement of Prospects as set out in **Appendix L** to this Circular; and

(k) the letters of consent referred to in paragraphs 14.2, 14.3, 14.4 and 14.5 of this **Appendix B** above.

APPENDIX C

INFORMATION ON THE OFFEROR

1. THE OFFEROR

The following information on the Offeror has been extracted from Appendix 3 to the Offer Document and is set out in *italics* below. Unless otherwise defined, all terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document.

"***1. DIRECTORS***

The names, addresses and descriptions of the Directors of the Offeror as at the Latest Practicable Date are as follows:

Name	***Address***	***Description***
Mr. Nagi Hamiyeh	*c/o 60B Orchard Road, #06-18 The Atrium @ Orchard, Singapore 238891*	*Director*
Mr. Tan Chong Lee	*c/o 60B Orchard Road, #06-18 The Atrium @ Orchard, Singapore 238891*	*Director*

2. PRINCIPAL ACTIVITIES AND SHARE CAPITAL

The Offeror is an investment holding company incorporated in Singapore on 3 October 2002 and is an indirect wholly-owned subsidiary of Temasek.

As at the Latest Practicable Date, the Offeror has an issued and paid-up share capital of S$2 comprising two (2) issued ordinary shares.

3. FINANCIAL INFORMATION

*3.1 Set out below is a summary of certain financial information extracted from the Offeror's audited financial statements for the financial year ended 31 March 2019 ("**FY2019**"), the financial year ended 31 March 2020 ("**FY2020**") and the financial year ended 31 March 2021 ("**FY2021**") (collectively, the "**Offeror Financial Statements**"). The financial information referred to in this paragraph should be read in conjunction with the Offeror's Financial Statements, which are available for inspection at the office of the Registrar during normal business hours while the MGO remains open for acceptance:*

3.2 Statement of Earnings

	FY2019 (S$'000)	***FY2020 (S$'000)***	***FY2021 (S$'000)***
Net Investment income / (loss)	*(4,794)*	*(9,118)*	*11,504*
Exceptional items	*–*	*–*	*–*
Net earnings / (loss) for the year (before taxation)	*(4,940)*	*(9,256)*	*(76,495)*
Net earnings / (loss) for the year (after taxation)	*(4,940)*	*(9,256)*	*(76,495)*
Minority interests	*–*	*–*	*–*
Net earnings / (loss) per share	*(2,470)*	*(4,628)*	*(38,248)*
Net dividends per share	*–*	*–*	*–*

3.3 Balance Sheet

	FY2019 (S$'000)	***FY2020 (S$'000)***	***FY2021 (S$'000)***
Non-current assets			
Associate	*–*	*–*	*910,031*
Investments at FVTPL[(1)]	*23,970*	*14,476*	*17,296*
Loan to related company	*847*	*1,085*	*–*
Total assets	***24,817***	***15,561***	***927,327***
Equity			
Share capital	*	*	*
Accumulated profits/(losses)	*24,811*	*15,555*	*(60,940)*
Total equity	***24,811***	***15,555***	***(60,940)***
Current liabilities			
Loan from related company	*–*	*–*	*988,256*
Other payables	*6*	*6*	*11*
Total Liabilities	***6***	***6***	***988,267***
Total equity and liabilities	***24,817***	***15,561***	***927,327***

* *Amount is less than S$1,000*

__Note__:

(1) FVTPL refers to fair value through profit or loss.

4. MATERIAL CHANGES IN FINANCIAL POSITION

As at the Latest Practicable Date, save for the Offeror's subscription of Rights Shares pursuant to its obligations under the Undertaking Agreement in connection with the Rights Issue, and the Offeror making and financing the MGO, there has been no known material change in the financial position of the Offeror since 31 March 2021, being the date of the last audited financial statements of the Offeror.

5. SIGNIFICANT ACCOUNTING POLICIES

The audited financial statements of the Offeror for FY2021 have been prepared in accordance with the International Financial Reporting Standards. The significant accounting policies of the Offeror are set out in Note 4 of the audited financial statements of the Offeror for FY2021. A copy of the Offeror Financial Statements are available for inspection at the office of the Registrar during normal business hours while the MGO remains upon for acceptance.

6. CHANGES IN ACCOUNTING POLICIES

There have been no changes to the significant accounting policies of the Offeror since 31 March 2021, being the date of the last audited financial statements of the Offeror, which would cause the figures set out in this Appendix 3 to be not comparable to a material extent.

7. REGISTERED OFFICE

The registered office of the Offeror is at 60B Orchard Road, #06-18 The Atrium @ Orchard, Singapore 238891."

2. HOLDINGS AND DEALINGS IN THE SHARES

The following information on the holdings of, and dealings in, the Shares and Company Securities by the Offeror and certain parties acting in concert with the Offeror has been extracted from Appendix 5 to the Offer Document and is set out in *italics* below. Unless otherwise defined, all terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document.

"*1. HOLDINGS IN COMPANY SECURITIES*

As at the Latest Practicable Date, based on responses to enquiries that the Offeror has made and the latest information available to the Offeror, the holdings of the Relevant Persons in the Company Securities are set out below.

	Direct Holdings		*Indirect Holdings*		*Total Holdings*	
Name	***No. of Shares***	***%(1)***	***No. of Shares***	***%(1)***	***No. of Shares***	***%(1)***
Startree Investments Pte. Ltd.	*14,630,444,619*	*46.610*	-	-	*14,630,444,619*	*46.610*
Fullerton Management Pte Ltd(2)	-	-	*14,630,444,619*	*46.610*	*14,630,444,619*	*46.610*
Temasek Holdings (Private) Limited(2)	-	-	*14,630,444,619*	*46.610*	*14,630,444,619*	*46.610*
Mr. Bobby Chin Yoke Choong(3)	*1,127,072*	*0.004*	-	-	*1,127,072*	*0.004*
Morgan Stanley(4)	-	-	*4,777,923*	*0.015*	*4,777,923*	*0.015*

Notes:

(1) Based on a total number of 31,389,099,152 issued Shares (excluding 6,223 treasury shares) as at the Latest Practicable Date and rounded to the nearest three (3) decimal places.

(2) Startree Investments Pte. Ltd. is a wholly-owned subsidiary of Fullerton Management Pte Ltd, which in turn is a wholly-owned subsidiary of Temasek Holdings (Private) Limited.

(3) Mr. Bobby Chin Yoke Choong is a director of Temasek Holdings (Private) Limited.

(4) Excludes the holdings under the Exempt Principal Trader and Exempt Fund Manager status under the Practice Statement on the Exemption of Connected Fund Managers and Principal Traders issued by the SIC on 1 February 2018.

As at the Latest Practicable Date, based on responses to enquires that the Offeror has made and the latest information available to the Offeror, the Offeror Concert Party Group holds in aggregate 14,631,571,691 Shares, representing approximately 46.61% of the total number of issued Shares.

2. DEALINGS IN COMPANY SECURITIES DURING THE REFERENCE PERIOD

As at the Latest Practicable Date, based on responses to enquiries that the Offeror has made and the latest information available to the Offeror, the details of the dealings in Company Securities by the Relevant Persons during the Reference Period are set out below.

With respect to the dealings in the Shares by Morgan Stanley[1] (as the financial adviser to the Offeror in connection with the MGO), all dealings in the Shares are conducted in the ordinary course of business by the Morgan Stanley group, independent of the MGO and will not affect the Offer Price under the MGO.

Name	Date	Dealing	Aggregate No. of Shares	Transaction Price per Share (S$)
Parametric Portfolio Associates LLC[2]	26 March 2021	Buy	3,129,700	0.161
Parametric Portfolio Associates LLC[2]	18 June 2021	Buy	260,100	0.194
Startree Investments Pte. Ltd.	22 September 2021	Buy	9,277,318,151[3]	0.08
Mr. Bobby Chin Yoke Choong	22 September 2021	Buy	676,243[4]	0.08

Notes:

(1) Excludes the dealings undertaken under the Exempt Principal Trader and Exempt Fund Manager status under the Practice Statement on the Exemption of Connected Fund Managers and Principal Traders issued by the SIC on 1 February 2018.

(2) Parametric Portfolio Associates LLC is a wholly-owned subsidiary of Morgan Stanley.

(3) The Shares have been acquired pursuant to Startree Investments Pte. Ltd.'s subscription for its pro rata entitlement and excess Rights Shares pursuant to its obligations under the Undertaking Agreement in connection with the Rights Issue.

(4) The Shares have been acquired pursuant to Mr. Bobby Chin Yoke Choong's subscription for his pro rata entitlement to the Rights Shares in connection with the Rights Issue."

APPENDIX D

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The (i) FY2020 Results and (ii) Note 3 of the FY2020 Results set out below have been reproduced from the Company's Annual Report for FY2020, and was not specifically prepared for inclusion in this Circular.

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

We are pleased to submit this annual report to the members of Sembcorp Marine Ltd (the "Company" and including its subsidiaries, the "Group") together with the audited financial statements for the financial year ended 31 December 2020.

In our opinion:

(a) the financial statements set out on pages 100 to 207 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2020, and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act"), Singapore Financial Reporting Standards (International) and International Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors ("the Board") has, on the date of this statement, authorised these financial statements for issue.

DIRECTORS

The directors in office at the date of this statement are as follows:

Tan Sri Mohd Hassan Marican	Chairman
Wong Weng Sun	President and CEO
Eric Ang Teik Lim	
Bob Tan Beng Hai	
Gina Lee-Wan	
William Tan Seng Koon	
Patrick Daniel	
Tan Wah Yeow	
Koh Chiap Khiong	

DIRECTORS' INTERESTS

According to the register kept by the Company, particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and children) in shares, debentures, warrants and share options in the Company and its related corporations are as follows:

Name of director and corporation in which interests are held	Description of interests	Shareholdings registered in the name of director, spouse, children or nominees			Other shareholdings in which the director is deemed to have an interest		
		At beginning of the year	At end of the year	At 21/01/2021	At beginning of the year	At end of the year	At 21/01/2021
Tan Sri Mohd Hassan Marican							
Sembcorp Marine Ltd	Ordinary shares (Note 1)	466,500	5,076,926	5,076,926	–	–	–

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

DIRECTORS' INTERESTS (CONT'D)

Name of director and corporation in which interests are held	Description of interests	Shareholdings registered in the name of director, spouse, children or nominees			Other shareholdings in which the director is deemed to have an interest		
		At beginning of the year	At end of the year	At 21/01/2021	At beginning of the year	At end of the year	At 21/01/2021
Wong Weng Sun							
Sembcorp Marine Ltd	Ordinary shares	3,686,812	22,786,940	22,786,940	–	–	–
	Conditional award of 550,000 performance shares to be delivered after 2019 (Note 2a)	Up to 825,000	–	–	–	–	–
	Conditional award of 481,000 performance shares to be delivered after 2020 (Note 2b)	Up to 721,500	Up to 721,500	Up to 721,500	–	–	–
	Conditional award of 191,000 restricted shares to be delivered after 2017 (Note 3a)	9,550	–	–	–	–	–
	Conditional award of 181,000 restricted shares to be delivered after 2018 (Note 3b)	19,307	9,654	9,654	–	–	–
	Conditional award of 233,000 restricted shares to be delivered after 2018 (Note 4)	46,600	23,300	23,300	–	–	–

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

DIRECTORS' INTERESTS (CONT'D)

Name of director and corporation in which interests are held	Description of interests	Shareholdings registered in the name of director, spouse, children or nominees			Other shareholdings in which the director is deemed to have an interest		
		At beginning of the year	At end of the year	At 21/01/2021	At beginning of the year	At end of the year	At 21/01/2021
Eric Ang Teik Lim							
Sembcorp Marine Ltd	Ordinary shares	–	49,110	49,110	–	–	–
Bob Tan Beng Hai							
Sembcorp Marine Ltd	Ordinary shares	135,600	1,450,200	1,450,200	–	–	–
Gina Lee-Wan							
Sembcorp Marine Ltd	Ordinary shares	100,100	1,032,000	1,032,000	–	–	–
William Tan Seng Koon							
Sembcorp Marine Ltd	Ordinary shares	54,700	897,600	897,600	–	–	–
Patrick Daniel							
Sembcorp Marine Ltd	Ordinary shares	19,500	555,000	555,000	–	–	–
Tan Wah Yeow							
Sembcorp Marine Ltd	Ordinary shares	1,000	426,600	426,600	–	–	–
Koh Chiap Khiong							
Sembcorp Marine Ltd	Ordinary shares (Note 5)	148,700	5,110,070	5,110,070	–	–	–

Note 1: The shares are held in the name of Citibank Nominees Singapore Pte Ltd.

Note 2: The actual number to be delivered will depend on the achievement of set targets over a 3-year period as indicated below. Achievement of targets below threshold level will mean no performance shares will be delivered, while achievement up to 150% will mean up to 1.5 times the number of conditional performance shares awarded could be delivered.

(a) Period from 2017 to 2019*
(b) Period from 2018 to 2020

* For this period, no shares earned based on achievement factor at the end of the prescribed performance period, the conditional awards covering the period has thus lapsed.

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

DIRECTORS' INTERESTS (CONT'D)

Note 3: The actual number to be delivered will depend on the achievement of set targets at the end of 2-year performance period as indicated below. Achievement of targets below threshold level will mean no restricted shares will be delivered, while achievement up to 150% will mean up to 1.5 times the number of conditional restricted shares awarded could be delivered.

(a) Period from 2016 to 2017*
(b) Period from 2017 to 2018**

* For this period, 9,550 shares (the final release of 1/3 of the 28,650 shares) were vested under the award on 29 June 2020. The 1st and 2nd release of 9,550 shares each have been vested on 28 March 2018 and 29 March 2019 respectively.

** For this period, 9,653 shares (2nd release of 1/3 of the 28,960 shares) were vested under the award on 29 June 2020 and the remaining 9,654 shares will be vested in year 2021. The 1st release of 9,653 shares has been vested on 15 October 2019.

Note 4: The actual number to be delivered will depend on the achievement of set targets over one financial year performance period from 1 January 2018 to 31 December 2018. Achievement of targets below threshold level will mean no restricted shares will be delivered, while achievement up to 150% will mean up to 1.5 times the number of conditional restricted shares awarded could be delivered. For this period, 23,300 shares (2nd release of 1/3 of the 69,900 shares) were vested under the award on 29 June 2020 and the remaining 23,300 shares will be vested in year 2021. The 1st release of 23,300 shares has been vested on 15 October 2019.

Note 5: The shares are held in the name of Citibank Nominees Pte Ltd and DBS Nominees Pte Ltd.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

There were no changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2021.

Except as disclosed under the "Share-based Incentive Plans" section of this statement, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Except as disclosed in Notes 28(a) and 39(b) to the financial statements, since the end of the last financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

SHARE-BASED INCENTIVE PLANS

Following the expiry of the Company's 2010 Performance Share Plan ("SCM PSP 2010") and Restricted Share Plan ("SCM RSP 2010"), the Company's 2020 Performance Share Plan ("SCM PSP 2020") and Restricted Share Plan ("SCM RSP 2020") (collectively, the "2020 Share Plans") were approved and adopted by the shareholders at the annual general meeting of the Company ("AGM") held on 20 May 2020.

The Executive Resource and Compensation Committee (the "Committee") of the Company has been designated as the Committee responsible for the administration of the Share Plans. The Committee comprises the following members, all of whom are directors:

Eric Ang Teik Lim	Chairman
Tan Sri Mohd Hassan Marican	
William Tan Seng Koon	
Patrick Daniel	

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

SHARE-BASED INCENTIVE PLANS (CONT'D)

The SCM RSP 2020 is the incentive scheme for directors and employees of the Group whereas the SCM PSP 2020 is aimed primarily at key executives of the Group.

The 2020 Share Plans have substantially the same terms as the 2010 Share Plans, save for the introduction of the new malus and clawback rights, the reduction in the limit on the number of shares which may be delivered pursuant to awards granted under the new share plans, amendments to take into account the changes to relevant legislation and the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual"), and changes to streamline and rationalise certain other provisions.

Malus and Clawback Rights. The grant of each award, each release of shares, and each payment in lieu of shares which would otherwise have been released to the participant under the new share plans is subject to, and conditional upon, the Company's malus and clawback rights provided in the new share plans. Under these provisions, if certain exceptional circumstances occur in relation to a participant, the Committee can cancel all or part of any award to the extent not yet released, and exercise the right of clawback ("Clawback Right") in respect of shares which were released ("Released Shares") within the clawback period ("Clawback Period"), which is six years prior to the date on which the Committee makes the determination to exercise the Clawback Right ("Clawback Determination Date").

Number of Shares. The total number of shares which may be delivered pursuant to awards granted under the new share plans on any date, when added to the total number of new shares allotted and issued and/or to be allotted and issued, issued shares (including treasury shares) delivered and/or to be delivered, and shares released and/or to be released in the form of cash in lieu of shares, pursuant to awards granted under the new share plans, shall not exceed 5% of the total number of issued shares (excluding treasury shares and subsidiary holdings) on the date preceding the date of the relevant award. In contrast, the previous share plans provided for a maximum limit of 7% of the Company's issued shares (excluding treasury shares) on the date preceding the date of the relevant award. The Company is of the view that the reduced maximum limit of 5% will provide the Company with adequate means and flexibility to grant awards as incentive tools in a meaningful and effective manner to encourage staff retention and to align participants' interests more closely with those of shareholders.

The 2020 Share Plans are intended to increase the Company's flexibility and effectiveness in its continuing efforts to attract, retain and incentivise participants to higher standards of performance and encourage greater dedication and loyalty by enabling the Company to give recognition to past contributions and services; as well as motivating participants to contribute to the long-term prosperity of the Group. The 2020 Share Plans will strengthen the Company's competitiveness in attracting and retaining talented key senior management and senior executives.

The SCM RSP 2020 is intended to apply to a broad base of senior executives as well as to the non-executive directors, while the SCM PSP 2020 is intended to apply to a select group of key senior management. Generally, it is envisaged that the range of performance targets to be set under the SCM RSP 2020 and the SCM PSP 2020 will be different, with the latter emphasising stretched or strategic targets aimed at sustaining longer term growth.

The 2020 Share Plans will provide incentives to high performing key senior management and senior executives to excel in their performance and encourage greater dedication and loyalty to the Company. Through the 2020 Share Plans, the Company will be able to motivate key senior management and senior executives to continue to strive for the Group's long-term shareholder value. In addition, the 2020 Share Plans aim to foster a greater ownership culture within the Group which align the interests of participants with the interests of shareholders, and to improve performance and achieve sustainable growth for the Company in the changing business environment.

The 2020 Share Plans use methods fairly common among major local and multinational companies to incentivise and motivate key senior management and senior executives to achieve pre-determined targets which create and enhance economic value for shareholders. The Company believes that the 2020 Share Plans will be effective tools in motivating key senior management and senior executives to strive to deliver long-term shareholder value.

While the 2020 Share Plans cater principally to Group executives, it is recognised that there are other persons who can make significant contributions to the Group through their close working relationship with the Group. Such persons include employees of associates over which the Company has operational control.

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SHARE-BASED INCENTIVE PLANS (CONT'D)

A participant's awards under the 2020 Share Plans will be determined at the sole discretion of the Committee. In considering an award to be granted to a participant, the Committee may take into account, *inter alia*, the participant's performance during the relevant period, and his capability, entrepreneurship, scope of responsibility and skill set.

Other information regarding the 2020 Share Plans is as follows:

(a) Performance Share Plan

Under the SCM PSP 2020, the awards granted conditional on performance targets are set based on medium-term corporate objectives at the start of each rolling three-year performance qualifying period. A specific number of performance shares shall be awarded at the end of the three-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset.

Award granted in 2020 onwards

In 2020, following the review of the performance targets, the performance levels will be calibrated based on Return on Invested Capital, Total Shareholder Return and Revenue Realised. For awards granted in 2020 and onwards, both market-based and non-market-based performance conditions are taken into account.

A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Performance shares to be delivered will range between 0% to 150% of the conditional performance shares awarded.

To create alignment between senior management and other employees at the time of vesting, both SCM PSP 2020 and SCM RSP 2020 have in place a plan trigger. Under this trigger mechanism, the performance shares for the performance period 2020 to 2022 will be vested to the senior management participants only if the threshold targets of restricted shares are met in at least two out of three of the performance period 2020 to 2022 subject to the achievement of the performance conditions for the respective performance periods.

However, in 2020, no performances shares were awarded to senior management.

Senior management participants are required to hold a minimum percentage of the shares released to them under the Performance Share Plan to maintain a beneficial ownership stake in the Group, for the duration of their employment or tenure with the Group. A maximum cap is set based on a multiple of the individual participant's annual base salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.

The details of the movement of the performance shares of the Company awarded during the year are as follows:

Performance Shares participants	At 1 January	Movements during the year: Conditional performance shares awarded	Conditional performance shares lapsed	Performance shares lapsed arising from targets not met	At 31 December
2020					
Director of the Company					
Wong Weng Sun	1,031,000	–	–	(550,000)	481,000
Key executives of the Group	1,587,000	–	–	(900,000)	687,000
	2,618,000	–	–	(1,450,000)	1,168,000
2019					
Director of the Company					
Wong Weng Sun	1,669,000	–	–	(638,000)	1,031,000
Key executives of the Group	2,419,000	–	–	(832,000)	1,587,000
	4,088,000	–	–	(1,470,000)	2,618,000

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

SHARE-BASED INCENTIVE PLANS (CONT'D)

(a) Performance Share Plan (cont'd)

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2017 to 2019 (2019: performance period 2016 to 2018), there were no (2019: nil) performance shares released.

In 2020, there were 1,450,000 (2019: 1,470,000) performance shares that lapsed for under-achievement of the performance targets for the performance period 2017 to 2019 (2019: performance period 2016 to 2018).

The total number of performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at 31 December 2020, was 1,168,000 (2019: 2,618,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 1,752,000 (2019: 3,927,000) performance shares.

(b) Restricted Share Plan

Award granted in 2020 onwards

Under the Restricted Share Plan, the awards granted conditional on performance targets will be set based on corporate objectives at the start of the one-year performance qualifying period. Previously, the performance criteria for the SCM RSP 2010 were calibrated based on Earnings before Interest and Taxes. SCM RSP 2020 will be calibrated based on Earnings before Interest and Taxes and Return of Capital Employed.

A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Based on the criteria, restricted shares to be delivered will range from 0% to 150% of the conditional restricted shares awarded.

The senior management and managerial participants of the Group will be awarded restricted shares under the SCM RSP 2020, while the non-managerial participants of the Group will receive their awards in an equivalent cash value. This cash-settled notional restricted shares award for non-managerial participants is known as the Sembcorp Marine Challenge Bonus.

A specific number of restricted shares shall be awarded at the end of the respective performance cycle depending on the extent of the achievement of the performance conditions established at the onset. There is a further vesting period of three years after the performance period, during which one-third of the awarded shares are released each year to managerial participants. Non-managerial participants will receive the equivalent in cash at the end of the respective performance cycle, with no further vesting conditions.

However, in 2020, no restricted shares were awarded to employees.

Senior management participants are required to hold a minimum percentage of the shares released to them under the Restricted Share Plan to maintain a beneficial ownership stake in the Group, for the duration of their employment or tenure with the Group. A maximum cap is set based on a multiple of the individual participant's annual base salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.

To align the interests of the non-executive directors with the interests of shareholders, up to 30% of the aggregate directors' fees approved by shareholders for a particular financial year may be paid out in the form of restricted share awards under the SCM RSP 2020.

From 2011, non-executive directors were not awarded any shares except as part of their directors' fees (except for Mr Wong Weng Sun, who is the President & CEO, and who does not receive any directors' fees). In 2020 and 2019, the awards granted consisted of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. Non-executive directors are required to hold shares (including shares obtained by other means) worth at least one-time the annual base retainer; any excess may be sold as desired. A non-executive director can dispose of all of his shares one year after leaving the Board.

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

SHARE-BASED INCENTIVE PLANS (CONT'D)

(b) Restricted Share Plan (cont'd)

The actual number of shares awarded to each non-executive director will be determined by reference to the volume-weighted average price of a share on the SGX-ST over the 14 trading days from (and including) the day on which the shares are first quoted ex-dividend after the AGM (or, if the resolution to approve the final dividend is not approved, over the 14 trading days immediately following the date of the AGM). The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash.

The details of the movement of the restricted shares of the Company awarded during the year are as follows:

Restricted Shares participants	At 1 January	Movements during the year: Conditional restricted shares awarded	Restricted shares lapsed arising from targets not met	Conditional restricted shares released	Conditional restricted shares lapsed	At 31 December
2020						
Directors of the Company						
Tan Sri Mohd Hassan Marican	–	263,100	–	(263,100)	–	–
Wong Weng Sun	75,457	–	–	(42,503)	–	32,954
Bob Tan Beng Hai	–	106,100	–	(106,100)	–	–
Gina Lee-Wan	–	71,900	–	(71,900)	–	–
William Tan Seng Koon	–	94,900	–	(94,900)	–	–
Patrick Daniel	–	73,000	–	(73,000)	–	–
Tan Wah Yeow	–	70,100	–	(70,100)	–	–
Former director of the Company	–	78,700	–	(78,700)	–	–
Other executives	2,297,518	–	–	(1,250,142)	(124,294)	923,082
	2,372,975	757,800	–	(2,050,445)	(124,294)	956,036
2019						
Directors of the Company						
Tan Sri Mohd Hassan Marican	–	95,000	–	(95,000)	–	–
Wong Weng Sun	439,475	–	(315,140)	(48,878)	–	75,457
Bob Tan Beng Hai	–	44,200	–	(44,200)	–	–
Gina Lee-Wan	–	30,300	–	(30,300)	–	–
William Tan Seng Koon	–	37,800	–	(37,800)	–	–
Patrick Daniel	–	19,500	–	(19,500)	–	–
Tan Wah Yeow	–	1,000	–	(1,000)	–	–
Ron Foo Siang Guan	–	33,500	–	(33,500)	–	–
Other executives	15,177,252	–	(10,844,781)	(1,579,928)	(455,025)	2,297,518
	15,616,727	261,300	(11,159,921)	(1,890,106)	(455,025)	2,372,975

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2018, a total of 685,840 (2019: 759,914) restricted shares were released.

For awards in relation to the performance period 2017 to 2018, a total of 334,502 (2019: 377,226) restricted shares were released. For awards in relation to the performance period 2016 to 2017, a total of 272,303 (2019: 312,823) restricted shares were released. In 2019, a total of 178,843 restricted shares were released for awards in relation to the performance period 2015 to 2016.

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YEAR ENDED 31 DECEMBER 2020

SHARE-BASED INCENTIVE PLANS (CONT'D)

(b) Restricted Share Plan (cont'd)

In 2020, there were 757,800 (2019: 261,300) restricted shares released to non-executive directors.

The restricted shares were either released via the issuance of treasury shares or the issuance of new shares.

In 2019, there were 5,338,217 restricted shares that lapsed for under-achievement of the performance targets for the performance period 2018 and a total of 5,821,704 restricted shares that lapsed for under-achievement of the performance targets for the performance period 2017 to 2018.

The total number of restricted shares outstanding, including awards achieved but not released, as at 31 December 2020, was 956,036 (2019: 2,372,975).

Sembcorp Marine Challenge Bonus

In 2020 and 2019, there were no notional restricted shares awarded for the Sembcorp Marine Challenge Bonus.

(c) Maximum Number of Shares Issuable

The maximum number of performance shares and restricted shares which could be delivered, when aggregated with the number of new shares issued and issuable in respect of all options granted, is within the 5% limit of the share capital of the Company on the day preceding the relevant date of the grant.

AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this statement are:

Tan Wah Yeow	Chairman
Koh Chiap Khiong	
Patrick Daniel	
William Tan Seng Koon	

The Audit Committee held five meetings during the financial year. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee performs the functions specified in Section 201B of the Act, the Listing Manual, and the Code of Corporate Governance.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the external and internal auditors;
- financial statements of the Group (including results announcements) prior to submission to the Board;
- interested person transactions (as defined in Chapter 9 of the Listing Manual);
- internal audit plans and internal audit reports; and
- whistle-blowers' disclosures.

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

AUDIT COMMITTEE (CONT'D)

The Audit Committee has full access to the management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors, KPMG LLP and has recommended to the Board that KPMG LLP be nominated for re-appointment as the auditors of the Company at the forthcoming AGM of the Company.

In appointing our auditors for the Company, subsidiaries and significant associates, we have complied with Rules 712 and 715 of the Listing Manual.

AUDITORS

The auditors, KPMG LLP, have indicated their willingness to accept the re-appointment.

On behalf of the Board

Tan Sri Mohd Hassan Marican
Chairman

Wong Weng Sun
Director

Singapore
3 March 2021

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Sembcorp Marine Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 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 100 to 207.

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 consolidated financial position of the Group and the financial position of the Company as at 31 December 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated 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, right-of-use assets and intangible assets (the "shipyard assets")
(Refer to Notes 4, 5, 13 and 44 to the financial statements: Property, plant and equipment of $4,114,919,000, Right-of-use assets of $251,016,000 and Intangible assets of $220,999,000)

Impairment assessment of investments in subsidiaries
(Refer to Note 7 to the financial statements: Investments in subsidiaries of $3,586,155,000)

Recoverability of the deferred tax assets
(Refer to Note 14 to the financial statements: Deferred tax assets of $117,283,000)

Risk:

The Group's shipyard assets were subject to impairment test by management owing to the continued difficult market conditions impacting the offshore and marine sector. The ongoing and evolving COVID-19 pandemic, together with the adverse impacts on global economies and the shipyard business, have also heightened the estimation uncertainties around timing of recovery. Although the Group expects the industry to have an improved momentum in 2021 compared to 2020 if the present trajectory of a gradual economic recovery continues without further disruptions wrought by COVID-19, it remains premature to predict a sustainable strong recovery.

The Group's largest yard assets and facilities are (i) the integrated yards, which include the individual yard locations in Singapore, the sub-contracting yards in Indonesia and the United Kingdom (the Singapore cash generating unit) and (ii) the yard in Brazil (the Brazil cash generating unit). Such shipyard assets are measured at cost less accumulated depreciation and impairment loss. An impairment loss exists when the recoverable amount of the shipyard assets is less than the net carrying amount. The recoverable amount is defined as the higher of the asset's fair value less costs of disposal, and value in use. As the fair values of these shipyard assets are not readily determinable, the Group measures the recoverable amount based on value in use, using the discounted cash flow technique.

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The determination of the recoverable amounts of these cash generating units involves a high degree of judgement and is subject to significant estimation uncertainties, principally, the forecast order book and project margins. The forecast order book includes a diversified portfolio of long-term contracts whose contract pricing takes into account prevailing market conditions and the outlook of the oil and gas and renewable energy industries, while the project margins estimated considers projected costs to fulfil the forecasted order book, both of which are inherently subject to estimation uncertainties. Changes in the key assumptions applied such as project margins, discount rates, and long term growth rates, and changes in the timing and quantum of new orders, can have a significant impact on the recoverable amount. As disclosed in Note 44(d) to the financial statements, the recoverable amounts are more sensitive to the assumptions relating to project margins and changes in the timing and quantum of new orders.

As global players in the world's energy system transform and pivot in favour of cleaner energy, and build the appropriate energy infrastructure, the Group is expecting the Singapore cash generating unit to support this energy transition with its proprietary offshore, marine and energy solutions. As this pivot to cleaner energy and energy infrastructure is still in its early stage, the Singapore cash generating unit has thus far limited track record in contract awards in this area. In addition, while the energy market transition towards cleaner and renewable energy is expected to present significant business opportunities, this may also attract new industry players which will result in increased competition to the Group.

The Brazil cash generating unit has been operational although the yard facility is not yet fully completed. As there is limited track record of historical contract awards and performance, the Group has factored in the long term fundamentals of the oil and gas sector in Brazil to project the future order book. Accordingly, the future order book considers the projected capital expenditure of state-owned and international oil majors covering exploration and production projects that could lead to new build orders, regulations governing local content requirements, as well as forecast movements in oil prices in the foreseeable future projected by industry analysts. The long-term returns of the Brazil cash generating unit can also be significantly impacted by political risk.

In determining the timing and the amount of new orders included in the forecasts for both cash generating units, the Group has applied judgement in determining the potential outcome of active tenders it participated in by evaluating its competitors, the status and stage of development of the tenders and the Group's competitive edge.

The forecasts used to assess the valuation of the Company's investments in subsidiaries and the recoverability of the Group's deferred tax assets are similarly subject to the risks noted in the impairment assessments of the Group's shipyard assets.

The outcome of the impairment assessments performed by the Group on the shipyard assets and the Company's investments in subsidiaries shows that the recoverable amounts are in excess of the net carrying amounts, and the deferred tax assets are recoverable.

Our response:

We assessed the Group's process for identifying and reviewing the cash generating units subject to impairment testing.

We, including our valuation specialists to the extent appropriate, reviewed the key assumptions supporting the value-in-use calculations to arrive at the recoverable amounts of these cash generating units. We compared the forecast order book to firm commitments secured from customers, management approved budgets, prevailing industry trends, and industry analysts' reports on the growth potential in the demand for cleaner energy and energy infrastructure solutions. We compared the discount rates to market observable data including market and country risk premiums and any asset-specific risk premium. We compared the forecasted project margins to historical results to assess their viability. We assessed the reasonableness of the long term growth rates by comparing the rates to market observable data on forecasted inflation rates and energy consumption rates.

We checked the forecasted order book against management's guideline for orders evaluation, and enquired on the basis for management's conclusion.

We also reviewed available qualitative information from industry analysts, and for the Brazil cash generating unit, the projected capital expenditure by oil majors supporting the projection of orders, and regulations on local content requirements. We assessed the related disclosures on key assumptions applied in determining the recoverable amounts of the cash generating units.

INDEPENDENT AUDITORS' REPORT

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Our findings:

The Group has a process for identifying and reviewing the cash generating units for impairment testing. The impairment assessments have incorporated the known relevant considerations as at the reporting date.

In view of the limited track record of contract awards of the Singapore cash generating unit in the cleaner energy and energy infrastructure area thus far, and the limited track record of historical contract awards and performance for the Brazil cash generating unit, the determination of the timing and quantum of new orders at forecasted project margins involves a high degree of judgement and is subject to significant estimation uncertainties. Actual results are likely to be different from the forecasted financial information since anticipated events frequently do not occur as expected and the variation could be material. Unfavourable changes to any of these assumptions could lead to lower operating cash inflows and material impairment outcomes which might in turn adversely affect the financial position and performances of the Group.

We found the disclosures describing the inherent degree of estimation uncertainties and the sensitivity of the assumptions applied to be appropriate.

Recognition of revenue from construction contracts with customers and related provisions
(Refer to Notes 27 and 44 to the financial statements: Turnover of $1,510,280,000)

Risk:

One of the Group's significant revenue streams is derived from long-term construction contracts.

In accordance with SFRS(I) 15 *Revenue from Contracts with Customers*, the analysis of whether these contracts comprise one or more performance obligations, and whether the performance obligations are satisfied over time or at a point in time, are areas requiring critical judgement by the Group.

The Group accounts for revenue recognised over time from long-term construction contracts based on percentage of completion method, which involves estimation uncertainties around the stage of physical activities completed.

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak to be a pandemic, with governments taking stringent steps to contain and delay the spread of the virus. The ongoing and evolving COVID-19 pandemic, together with the adverse impacts on global economies and the shipyard business, have heightened the estimation uncertainties associated with these contract revenues, and project costs and related provisions on the Group's outstanding projects.

Further, with the continued difficult market conditions impacting the offshore and marine sector, significant judgement is involved in evaluating collectability of the contract consideration and recoverability of trade receivables and contract balances in relation to contracts with customers.

Our response:

We reviewed the Group's estimation process (including the approval of project budget, monitoring of project costs and activities, and management's review of project's stage of completion and milestones achieved with customers) used in determining the amounts of revenue recognised in the financial statements and the budgeted costs for projects.

We reviewed and challenged management's assessment of the outstanding projects' estimated costs to complete and the reasonableness of provisions for onerous contracts, where needed.

We reviewed the terms and conditions of contracts, including contract modifications, discussed with management, to assess if management's identification of performance obligations and timing of revenue recognition is fair.

We reviewed the contractual terms and work status of the projects, along with discussions with management and checked that contract revenue was recognised according to the percentage of completion of each project measured by the stage of completion of physical activities.

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We reviewed the credit review assessment prepared by management for customers with significant new contracts, and we analysed current on-going negotiations and settlements of significant contracts subject to modifications, to identify if the collectability of contract consideration is probable.

We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition in relation to long-term construction contracts with customers.

Our findings:

The Group has a process to determine the amounts of revenue recognised in the financial statements, the outstanding projects' estimated costs to complete and the reasonableness of provisions for onerous contracts.

We found the basis for identification of performance obligations and timing of satisfaction of performance obligations to be fair.

We found that the measurement of percentage of completion used by the Group for revenue recognition appropriately reflects the status and progress of the projects; and revenue was recognised when collectability of the amounts was assessed by management to be probable.

We found management's assessment of estimated costs to complete projects, and provisions for onerous contracts to be fair.

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

Recoverability of trade receivables and contract balances in relation to contracts with customers
(Refer to Notes 10, 12, 16 and 44 to the financial statements: Trade receivables of $1,508,447,000, Contract assets of $1,551,913,000 and Contract costs of $52,703,000)

Risk:

The Group has significant trade receivables, contract assets and contract costs in relation to contracts with customers. These include trade receivables balances with certain customers on deferred payment schemes, which provide the customers with credit terms of more than twelve months from the year end date, and where interest is charged on these outstanding balances.

In accordance with SFRS(I) 9 *Financial Instruments*, the Group is required to recognise loss allowances on expected credit losses on financial assets and contract assets. The determination of the loss allowances requires significant judgement and estimates to determine whether the financial asset is credit impaired, and the best estimate of the ultimate realisation of the amounts receivable from customers and contract assets from customer contracts.

Under SFRS(I) 15 *Revenue from Contracts with Customers*, contract costs are recognised up to amounts the Group expects to recover. Accordingly, judgement is required in assessing whether the customers will be able to fulfil their contractual obligations in regard to their purchase of the assets.

The assumptions about the risk of default and expected loss rates on these receivables and contract balances are highly judgemental. With the COVID-19 pandemic impacting many businesses globally including the Group's customers, any expected credit loss recognised could be subjected to significant changes recorded in profit or loss in future periods.

INDEPENDENT AUDITORS' REPORT

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Our response:

We reviewed the Group's estimation process used in determining the amounts of loss allowance recognised on expected credit losses on trade receivables and contract assets.

We reviewed the significant inputs to management's assessment of the amounts of loss allowance recognised on expected credit losses on trade receivables and contract assets, and considered the reasonableness of the inputs by reference to the recent credit review assessments prepared by management.

We reviewed the re-forecast of each significant contract and enquired with management on any current on-going negotiations that may impair the recoverability of significant receivables and contract balances.

We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving recoverability of receivables and contract balances in relation to contracts with customers.

Our findings:

The Group has a process to assess credit risk and to determine the amounts of loss allowance to recognise on expected credit losses on trade receivables and contract assets.

The judgements applied by management around the recovery of receivables and contract balances were fair under the facts and circumstances currently available to the Group.

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

Provision for restoration costs for Tanjong Kling Yard
(Refer to Note 22 to the financial statements: Provision for restoration costs of $145,848,000)

Risk:

The Group is scheduled to return the leasehold land at Tanjong Kling after restoration to the Singapore Government by 2025.

An additional provision of $58,570,000 had been made during the year based on management's judgement and estimate of the extent of work and costs required.

As at the reporting date, the Group remains in discussion with the Singapore Government on the extent of work required for the restoration of the leasehold land. Depending on the outcome of the Group's discussion with the Singapore Government, the provision required may vary significantly from the amount recorded.

Our response:

We enquired with management on the plans for restoration and reviewed the significant inputs to management's assessment of the provision required.

We enquired with management on the status of discussion with the Singapore Government.

We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving the provision for restoration costs.

Our findings:

The judgements applied by management around the provision for restoration costs were fair under the facts and circumstances currently available to the Group.

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

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Liquidity risk management
(Refer to Note 2.1 to the financial statements)

Risk:

The Group's financial statements are prepared on a going concern basis.

As at 31 December 2020, the Group is in a net current liability position of $259.4 million, mainly due to certain bank loans being due in 2021. The current economic uncertainties in the offshore and marine sector and government imposed measures due to the COVID-19 pandemic, and the continued challenging market conditions for the sector may pose a risk to the Group in its ability to generate sufficient operating cash flows to meet short term needs.

The Group is working on refinancing and re-profiling its current loans due with longer term maturities. The Group also has unutilised loan facilities to address short term liquidity needs.

Our response:

We evaluated management's assessment of the use of going concern basis of accounting based on the sources of liquidity and funding available to the Group.

We evaluated the cash flow forecasts prepared by management for the next 12 months from the reporting date, and assessed if these forecasts are reasonable.

We challenged the appropriateness of the key assumptions used by management in the cash flow forecasts.

We reviewed the financial statements for adequacy of disclosures on liquidity management.

Our findings:

We found management's assessment of the use of going concern basis of accounting in the preparation of the financial statements to be appropriate. Adequate disclosure has also been set out in Note 2.1 to the financial statements.

Litigation, claims and other contingencies (Refer to Note 41 to the financial statements)

Update in relation to Brazil (Refer to Note 48 to the financial statements)

Risk:

The Group is subject to operational, business and political risks in certain countries in which it operates. These risks could give rise to litigation, claims and other contingencies (collectively, the "contingencies") which could have a significant financial impact if the potential exposures were to materialise. Ad-hoc Committees, if formed for any specific purpose, may conduct independent investigations on allegations that have potential impact on the business and the Group's financial statements, and recommend decisions as considered appropriate in connection with the independent investigations.

The determination by management of whether, and how much, to provide and/or disclose for such contingencies is highly judgemental.

Update in relation to Brazil

In 2019 and 2020, the Company has made announcements in relation to ongoing investigations related to "Operacao Lava Jato" (Operation Car Wash) in Brazil.

These investigations involved allegations in Brazil of illegal payments made by Mr Guilherme Esteves De Jesus ("GDJ"), who is connected to the consultant engaged by the subsidiaries of the Company, and alleged acts of money laundering and corruption performed by GDJ and Mr Martin Cheah Kok Choon, former president of Estaleiro Jurong Aracruz Ltda, a subsidiary of the Company.

INDEPENDENT AUDITORS' REPORT

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Since 2015, the Company had formed a Special Committee to conduct independent investigations on the allegations for potential impact on the business and the Group's financial statements, and recommend decisions as considered appropriate in connection with the independent investigations.

As at the date of the financial statements, investigations are still ongoing and the directors of the Company have determined that it is premature to predict the eventual outcome of this matter.

Our response:

We assessed the Group's process for identifying and monitoring significant adverse developments arising from contingencies and where appropriate, legal, regulatory and political developments. We have also reviewed the terms of reference of the Special Committee formed.

We evaluated management's assessment of the likely outcome and potential exposures arising from all significant contingencies and allegations subject to on-going investigations; and considered the requirements for any provision and related disclosures. Our work included:

- Holding discussions with management, the Group's legal counsel, the Audit Committee and the Special Committee, and reviewing relevant documents;

- Assessment of the progress of all significant contingencies, including reviewing the Group's public announcements;

- Consideration of any evidence of legal disputes which we were made aware;

- Obtaining independent legal confirmation letters from and discussing with the Group's external lawyers to confirm the fact patterns which we have been advised;

- Inquiries with the Company's external legal counsel, together with our specialists, to understand the scope, approach and status of the investigations, and to confirm the fact patterns which we have been advised; and

- Assessed the adequacy of disclosures in the financial statements in respect of this matter.

Our findings:

We found that the Group has a process for identifying and monitoring potential exposures arising from legal, regulatory and political developments as well as determination of the appropriate measurement and/or disclosures of such contingencies in the Group's financial statements.

From our audit procedures performed and representations obtained from management and the Special Committee, we found the disclosures on contingencies in respect of this matter to be appropriate.

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 sections prior to the date of this auditors' report:

- Chairman and CEO's Joint Report
- Group Financial Review
- Operations Review
- Directors' Statement

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SEMBCORP MARINE LTD

The other sections in the annual report, as listed below, are expected to be made available to us after that date:

- 2020 Highlights
- Our Integrated Global Platform
- Significant Events, Awards and Accolades
- Board of Directors
- Senior Management
- Corporate Structure
- Corporate Directory
- Shareholders' Information
- Investor Relations
- Corporate Governance
- Risk Management
- Compliance
- Our Sustainability
- Supplementary Information
- Major Properties

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 when it becomes available 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 other information, 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.

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.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SEMBCORP MARINE LTD

- 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 Ang Fung Fung.

KPMG LLP

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
3 March 2021

BALANCE SHEETS

AS AT 31 DECEMBER 2020

	Note	Group 31 December 2020 $'000	Group 31 December 2019 $'000	Company 31 December 2020 $'000	Company 31 December 2019 $'000
Non-current assets					
Property, plant and equipment	4	4,114,919	4,250,971	5,720	11,287
Right-of-use assets	5	251,016	253,304	2,543	3,556
Investment properties	6	–	–	47,182	47,695
Investments in subsidiaries	7	–	–	3,586,155	1,786,269
Interests in associates and joint ventures	8	15,423	14,887	–	–
Other financial assets	9	4,570	11,342	–	–
Trade and other receivables	10	1,105,551	1,087,631	127,700	29,396
Intangible assets	13	220,999	246,341	122	122
Deferred tax assets	14	117,283	29,195	16,559	3,382
		5,829,761	5,893,671	3,785,981	1,881,707
Current assets					
Inventories	15	94,361	113,108	–	–
Trade and other receivables	10	618,103	483,300	31,719	208,442
Contract costs	16	52,703	88,640	–	–
Contract assets	12	1,551,913	1,462,340	–	–
Tax recoverable		17,117	11,658	–	–
Assets held for sale	17	–	985	–	–
Other financial assets	9	33,840	15,820	–	–
Cash and cash equivalents	18	772,426	389,250	499,024	40,233
		3,140,463	2,565,101	530,743	248,675
Total assets		8,970,224	8,458,772	4,316,724	2,130,382
Current liabilities					
Trade and other payables	19	1,052,269	1,341,010	20,614	32,020
Contract liabilities	21	154,288	60,186	–	–
Provisions	22	38,005	16,433	–	–
Other financial liabilities	23	4,742	7,703	–	–
Current tax payable		7,056	3,758	12,227	12,328
Interest-bearing borrowings	24	2,121,394	1,421,620	50,000	50,000
Lease liabilities	5	22,100	23,978	9,073	6,907
		3,399,854	2,874,688	91,914	101,255
Net current (liabilities)/assets		(259,391)	(309,587)	438,829	147,420
Non-current liabilities					
Deferred tax liabilities	14	26,852	28,989	–	–
Provisions	22	142,800	106,821	85,498	26,759
Other financial liabilities	23	722	2,204	–	–
Interest-bearing borrowings	24	1,428,400	1,479,172	–	–
Subordinated loan	24	–	1,500,000	–	–
Lease liabilities	5	269,467	254,120	51,773	38,678
Other long-term payables	19	5,982	6,000	4,002	4,002
		1,874,223	3,377,306	141,273	69,439
Total liabilities		5,274,077	6,251,994	233,187	170,694
Net assets		3,696,147	2,206,778	4,083,537	1,959,688
Equity attributable to owners of the Company					
Share capital	25	2,575,374	486,217	2,575,374	486,217
Other reserves	26	(57,555)	(44,996)	(22,861)	(22,223)
Revenue reserve		1,149,577	1,732,087	1,531,024	1,495,694
		3,667,396	2,173,308	4,083,537	1,959,688
Non-controlling interests	34	28,751	33,470	–	–
Total equity		3,696,147	2,206,778	4,083,537	1,959,688

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2020

	Note	Group 2020 $'000	2019 $'000
Turnover	27	1,510,280	2,882,560
Cost of sales		(2,000,743)	(2,974,378)
Gross loss		(490,463)	(91,818)
Other operating income		146,136	44,879
Other operating expenses		(143,931)	(6,325)
General and administrative expenses		(93,287)	(85,526)
Operating loss	28	(581,545)	(138,790)
Finance income	29	51,625	93,275
Finance costs	29	(141,802)	(130,027)
Non-operating income	30	501	185
Share of results of associates and joint ventures, net of tax	31	513	(1,603)
Loss before tax		(670,708)	(176,960)
Tax credit	32	83,500	36,773
Loss for the year		(587,208)	(140,187)
Loss attributable to:			
Owners of the Company		(582,510)	(137,174)
Non-controlling interests	34	(4,698)	(3,013)
Loss for the year		(587,208)	(140,187)
Earnings per share (cents)	35		
Basic		(10.88)	(6.32)*
Diluted		(10.88)	(6.32)*

* With the completion of the issuance of rights shares on 11 September 2020, prior year comparatives for earnings per share were restated per SFRS(I)1-33 through retrospective application of a bonus factor to the weighted average number of shares. The bonus factor is derived from the division of fair value per share immediately before the exercise of rights by the theoretical ex-rights fair value.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	Note	Group 2020 $'000	Group 2019 $'000
Loss for the year		(587,208)	(140,187)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(4,814)	(12,823)
Net change in fair value of cash flow hedges		(15,761)	12,783
Net change in fair value of cash flow hedges transferred to profit or loss		8,719	(5,749)
Realisation of reserve upon disposal of subsidiaries		–	(539)
Other comprehensive income for the year, net of tax	33	(11,856)	(6,328)
Total comprehensive income for the year		(599,064)	(146,515)
Total comprehensive income attributable to:			
Owners of the Company		(594,431)	(143,312)
Non-controlling interests	34	(4,633)	(3,203)
Total comprehensive income for the year		(599,064)	(146,515)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the Company									
	Share capital $'000	Reserve for own shares $'000	Capital reserves $'000	Currency translation reserve $'000	Share-based payments reserve $'000	Hedging reserve $'000	Revenue reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Group										
At 31 December 2019	486,217	(771)	(1,683)	(27,455)	(24,519)	9,432	1,732,087	2,173,308	33,470	2,206,778
Total comprehensive income for the year										
Loss for the year	–	–	–	–	–	–	(582,510)	(582,510)	(4,698)	(587,208)
Other comprehensive income										
Foreign currency translation differences for foreign operations	–	–	–	(4,879)	–	–	–	(4,879)	65	(4,814)
Net change in fair value of cash flow hedges	–	–	–	–	–	(15,761)	–	(15,761)	–	(15,761)
Net change in fair value of cash flow hedges transferred to profit or loss	–	–	–	–	–	8,719	–	8,719	–	8,719
Total other comprehensive income for the year	–	–	–	(4,879)	–	(7,042)	–	(11,921)	65	(11,856)
Total comprehensive income for the year	–	–	–	(4,879)	–	(7,042)	(582,510)	(594,431)	(4,633)	(599,064)
Transactions with owners of the Company, recognised directly in equity										
Contributions by and distributions to owners of the Company										
Issue of new shares	2,570	–	–	–	(2,104)	–	–	466	17	483
Rights issue (Note 25)	2,086,587	–	–	–	–	–	–	2,086,587	–	2,086,587
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(103)	(103)
Share-based payments	–	–	–	–	1,466	–	–	1,466	–	1,466
Total contributions by and distributions to owners of the Company	2,089,157	–	–	–	(638)	–	–	2,088,519	(86)	2,088,433
At 31 December 2020	2,575,374	(771)	(1,683)	(32,334)	(25,157)	2,390	1,149,577	3,667,396	28,751	3,696,147

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the Company									
	Share capital $'000	Reserve for own shares $'000	Capital reserves $'000	Currency translation reserve $'000	Share-based payments reserve $'000	Hedging reserve $'000	Revenue reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Group										
At 31 December 2018										
As previously stated	484,288	(2,151)	(13,011)	(13,577)	(24,686)	2,398	1,878,423	2,311,684	36,751	2,348,435
Adjustment on initial application of SFRS(I) 16, net of tax (Note 46)	–	–	–	–	–	–	980	980	–	980
Adjusted balance at 1 January 2019	484,288	(2,151)	(13,011)	(13,577)	(24,686)	2,398	1,879,403	2,312,664	36,751	2,349,415
Total comprehensive income for the year										
Loss for the year	–	–	–	–	–	–	(137,174)	(137,174)	(3,013)	(140,187)
Other comprehensive income										
Foreign currency translation differences for foreign operations	–	–	–	(12,788)	–	–	–	(12,788)	(35)	(12,823)
Net change in fair value of cash flow hedges	–	–	–	–	–	12,783	–	12,783	–	12,783
Net change in fair value of cash flow hedges transferred to profit or loss	–	–	–	–	–	(5,749)	–	(5,749)	–	(5,749)
Realisation of reserves upon disposal of subsidiaries	–	–	11,328	(149)	(480)	–	(11,083)	(384)	(155)	(539)
Realisation of reserves upon disposal of a joint venture	–	–	–	(941)	–	–	941	–	–	–
Total other comprehensive income for the year	–	–	11,328	(13,878)	(480)	7,034	(10,142)	(6,138)	(190)	(6,328)
Total comprehensive income for the year	–	–	11,328	(13,878)	(480)	7,034	(147,316)	(143,312)	(3,203)	(146,515)
Transactions with owners of the Company, recognised directly in equity										
Contributions by and distributions to owners of the Company										
Issue of new shares	1,929	–	–	–	(1,929)	–	–	–	–	–
Treasury shares transferred to employees	–	1,380	–	–	(896)	–	–	484	–	484
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(78)	(78)
Share-based payments	–	–	–	–	3,472	–	–	3,472	–	3,472
Total contributions by and distributions to owners of the Company	1,929	1,380	–	–	647	–	–	3,956	(78)	3,878
At 31 December 2019	486,217	(771)	(1,683)	(27,455)	(24,519)	9,432	1,732,087	2,173,308	33,470	2,206,778

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	Group	
	2020 $'000	**2019 $'000**
Cash flows from operating activities		
Loss for the year	(587,208)	(140,187)
Adjustments for:		
Finance income	(51,625)	(93,275)
Finance costs	141,802	130,027
Depreciation of property, plant and equipment, and right-of-use assets	173,800	214,938
Amortisation of intangible assets	27,929	27,530
Share of results of associates and joint ventures, net of tax	(513)	1,603
(Gain)/loss on disposal of property, plant and equipment, net	(947)	2,428
Loss on termination of lease liabilities	2	–
Gain on disposal of a joint venture	–	(185)
Gain on disposal of asset held for sale	(501)	–
Negative goodwill (Note 38)	–	(4,999)
Changes in fair value of financial instruments	(19,764)	(2,619)
Impairment losses on property, plant and equipment	48,989	541
Impairment losses on right-of-use assets	74,191	–
Share-based payment expenses	1,461	2,268
Property, plant and equipment written off	43	3,042
Inventories written down/(back), net	34,179	(651)
Allowance for/(write-back of) doubtful debts and bad debts, net	9,020	(338)
Tax credit	(83,500)	(36,773)
Operating (loss)/profit before working capital changes	(232,642)	103,350
Changes in working capital:		
Inventories	(15,432)	(32,286)
Contract costs	35,937	190,539
Contract assets	(89,573)	(463,674)
Contract liabilities	94,102	(79,545)
Trade and other receivables	(119,253)	272,328
Trade and other payables	(261,980)	(245,898)
Cash used in operations	(588,841)	(255,186)
Interest income received	9,135	68,555
Interest paid	(162,309)	(108,192)
Tax paid	(7,876)	(1,346)
Net cash used in operating activities	(749,891)	(296,169)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	Group	
	2020	**2019**
	$'000	**$'000**
Cash flows from investing activities		
Purchase of property, plant and equipment (Note (a))	(89,220)	(316,270)
Proceeds from sale of property, plant and equipment	2,025	1,919
Proceeds from disposal of asset held for sale	1,467	–
Proceeds from disposal of a joint venture	–	55
Purchase of intangible assets	(2,411)	–
Dividend received from associate	–	160
Dividend received from joint venture	–	2,404
Net cash used in investing activities	(88,139)	(311,732)
Cash flows from financing activities		
Proceeds from borrowings	2,397,351	2,732,839
Repayment of borrowings (Note (b))	(1,736,533)	(2,547,941)
Proceeds from rights issue, net (Note (b))	586,587	–
Payment of lease liabilities	(21,704)	(20,732)
Payment on termination of lease liabilities	(50)	–
Dividends paid to non-controlling interests of subsidiaries	(103)	(78)
Capital contribution by non-controlling interests of subsidiaries	17	–
Net cash generated from financing activities	1,225,565	164,088
Net increase/(decrease) in cash and cash equivalents	387,535	(443,813)
Cash and cash equivalents at beginning of the year	389,250	837,173
Effect of exchange rate changes on balances held in foreign currencies	(4,359)	(4,110)
Cash and cash equivalents at end of the year (Note 18)	772,426	389,250

Significant non-cash transactions

(a) In prior year, the Group acquired property, plant and equipment with an aggregate cost of $364,407,000, of which $47,483,000 was settled non-cash via an offset of payables to Pacific Workboats Pte Ltd ("PWPL") for the acquisition and dividends receivable from PWPL.

(b) During the year, the repayment of the subordinated loan of $1,500,000,000 was settled non-cash via offset against proceeds due from Sembcorp Industries Ltd relating to its subscription for rights shares of $1,500,000,000.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 3 March 2021.

1 DOMICILE AND ACTIVITIES

Sembcorp Marine Ltd (the "Company") is a company incorporated in the Republic of Singapore and has its registered office at 80 Tuas South Boulevard, Singapore 637051.

Following a demerger exercise via a distribution in specie of Sembcorp Industries Ltd's ("SCI") stake in the Company on 11 September 2020, the Company no longer considers SCI and Temasek Holdings (Private) Limited its immediate and ultimate holding companies respectively (Note 25).

The financial statements comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in associates and joint ventures.

The principal activities of the Company are the provision of management services and investment holding. The principal activities of the subsidiaries, associates and joint ventures are stated in Note 45.

2 BASIS OF PREPARATION

2.1 Going concern basis of accounting

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its debt obligations as and when they fall due within the next twelve months.

The outbreak of the COVID-19 pandemic and the measures adopted by the Singapore government to mitigate the pandemic's spread have impacted the Group. When the Singapore government imposed its COVID-19 "circuit breaker" measures during the financial year, in particular movement restrictions that disallowed migrant workers from leaving their dormitories for work, there was a substantial reduction in the Group's operating yard workforce (including sub-contractors). The Group's Singapore yards had to stand down and discontinue production activities, resulting in significant delays to projects execution. Such production activities gradually resumed from July 2020. This has negatively impacted the Group's financial performance for the year and also its liquidity position.

As at 31 December 2020, the Group recorded net current liabilities of $259,391,000 (2019: $309,587,000), and incurred a loss of $587,208,000 (2019: $140,187,000) and negative operating cash flows of $749,891,000 (2019: $296,169,000) for the year ended 31 December 2020. The Group is in talks with lenders to refinance and re-profile current loans with longer term maturities. The Group has adequate loan facilities to refinance current borrowings as they fall due.

There is uncertainty over how the future development of the COVID-19 pandemic will impact the Group's business including customers' demand for its products. The appropriateness of the going concern basis of accounting is dependent on the continued availability of borrowings or alternative sources of capital or liquidity to meet its financial obligations as they fall due.

Management of the Group is confident that the continuing use of the going concern assumption in the preparation of the financial statements is appropriate.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

2 BASIS OF PREPARATION (CONT'D)

2.2 Statement of compliance

The financial statements are prepared in accordance with the Singapore Financial Reporting Standards (International) (SFRS(I)s) and International Financial Reporting Standards (IFRSs). SFRS(I)s are issued by the Accounting Standards Council, which comprise standards and interpretations that are equivalent to IFRSs issued by the International Accounting Standards Board. All references to SFRS(I)s and IFRSs are subsequently referred to as SFRS(I)s in these financial statements unless otherwise specified.

Changes to significant accounting policies are described in Note 46.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the accounting policies below.

2.4 Functional and presentation currency

The financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand ($'000), unless otherwise stated.

2.5 Use of estimates and judgements

The preparation of the financial statements in conformity with SFRS(I) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is discussed in Note 44.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as explained in Note 46, which addresses changes in accounting policies.

The accounting policies have been applied consistently by Group entities.

3.1 Basis of consolidation

(i) Business combinations

Acquisitions from 1 January 2017

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Deferred consideration comprises obligations to pay specific amounts at future dates. Deferred consideration is recognised and measured at fair value at the acquisition date and included in the consideration transferred. The unwinding of any interest element of deferred consideration is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Basis of consolidation (cont'd)

(i) Business combinations (cont'd)

Acquisitions from 1 January 2017 (cont'd)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date and included in the consideration transferred. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions before 1 January 2017

As part of transition to SFRS(I), the Group elected not to restate those business combinations that occurred before the date of transition to SFRS(I), i.e. 1 January 2017. Goodwill arising from acquisitions before 1 January 2017 has been carried forward from the previous FRS framework as at the date of transition.

Acquisitions prior to 1 January 2010

All business combinations are accounted for using the purchase method. Under the purchase method, the cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to profit or loss in the period of the acquisition.

(ii) Non-controlling interests

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on a transaction-by-transaction basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value, unless another measurement basis is required by SFRS(I).

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their own capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of net assets of the subsidiary.

Prior to 1 January 2010, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Basis of consolidation (cont'd)

(iii) Subsidiaries

Subsidiaries are those entities that are controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary even if this results in the non-controlling interests having a deficit balance.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as financial asset at fair value through other comprehensive income depending on the level of influence retained.

(v) Associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies of these entities.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group has significant influence over another entity. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Associates are accounted for using the equity method of accounting from the date that significant influence commences until the date that significant influence ceases and are recognised initially at cost. The cost of investments includes transaction costs. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment (including any other unsecured receivables, that in substance, form part of the Group's net investment in the associate) is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or made payments on its behalf to satisfy obligations of the associate that the Group has guaranteed or otherwise committed on behalf of.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to profit or loss in the period of the acquisition. Where the audited financial statements are not available, the share of results is arrived at from unaudited management financial statements made up mainly to the end of the accounting year to 31 December.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Basis of consolidation (cont'd)

(vi) Joint ventures

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group has joint control over the entity.

Joint ventures are accounted for using the equity method of accounting from the date that joint control commences until the date that joint control ceases.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to profit or loss in the period of the acquisition. Where the audited financial statements are not available, the share of results is arrived at from unaudited management financial statements made up mainly to the end of the accounting year to 31 December.

(vii) Transactions eliminated on consolidation

All intra-group balances, transactions, and unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(viii) Accounting for subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are measured in the Company's balance sheet at cost less accumulated impairment losses.

3.2 Foreign currencies

(i) Foreign currency transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. At each reporting date:

- Foreign currency monetary assets and liabilities are retranslated to the functional currency using exchange rates at that date;
- Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using exchange rate at the date of the transaction; and
- Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at exchange rates at the date the fair value was determined.

Foreign currency differences arising from the settlement or from translation of monetary items are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Foreign currencies (cont'd)

(i) Foreign currency transactions and balances (cont'd)

Foreign currency differences arising on retranslation are recognised directly in profit or loss, except for the following differences which are recognised in other comprehensive income arising on the retranslation of:

- Equity instruments designated at fair value through other comprehensive income (FVOCI);
- A financial liability designated as a hedge of net investment in a foreign operation to the extent that the hedge is effective; or
- Qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

The results and financial positions of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at exchange rates ruling at the date of the balance sheet;
- Revenues and expenses are translated at average exchange rates; and
- All resulting foreign currency differences are taken to the foreign currency translation reserve in other comprehensive income.

Goodwill (except those relating to acquisitions of foreign operations prior to 1 January 2004) and fair value adjustments arising from the acquisition of foreign operations are translated to the presentation currency for consolidation at the rates of exchange ruling at the balance sheet date. Goodwill arising from the acquisition of foreign operations prior to 1 January 2004 are translated at foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented in the translation reserve in equity.

(iii) Net investment in a foreign operation

Foreign currency differences arising from monetary items that in substance form part of the Company's net investment in a foreign operation are recognised in the Company's profit or loss. Such differences are reclassified to the foreign currency translation reserve in the consolidated statement of comprehensive income and are released to the consolidated income statement upon disposal of the investment as part of the gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Property, plant and equipment

(i) Owned assets

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

Cost may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment is recognised in the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group and its costs can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised as an expense when incurred.

Certain items of property, plant and equipment are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the costs of the next overhaul and are separately depreciated in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to profit or loss.

(iii) Disposals

Gains or losses arising from the retirement or disposal of property, plant and equipment 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.

(iv) Finance lease assets

Finance leases are those leasing agreements with terms of which the Group assumes substantially all the risks and rewards of ownership. Property, plant and equipment acquired by way of such leases is capitalised at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly to profit or loss.

Capitalised leased assets are depreciated over the shorter of the economic useful life of the asset and the lease term.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Property, plant and equipment (cont'd)

(v) Provision for restoration costs

A provision is recognised for the costs expected to be incurred to dismantle, remove and restore the asset upon expiry of the lease agreement. The estimated costs form part of the cost of the property, plant and equipment and are depreciated over the useful life of the asset.

(vi) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognised as an expense in profit or loss on a straight-line basis over their estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset. Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

Leasehold land	Lease period of 3 to 60 years
Buildings	3 to 50 years
Quays and dry docks	6 to 60 years
Marine vessels	7 to 31 years
Cranes and floating docks	3 to 30 years
Plant, machinery and tools	3 to 30 years
Motor vehicles	3 to 10 years
Furniture and office equipment	3 to 10 years
Utilities and fittings	10 to 30 years
Computer equipment	1 to 5 years

The assets' depreciation methods, useful lives and residual values, if not insignificant, are reviewed annually and adjusted if appropriate.

No depreciation is provided on freehold land or construction-in-progress.

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

3.4 Investment properties

Investment properties are properties held for long-term rental yields or for capital appreciation, or both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. This includes properties that are held as right-of-use assets, as well as properties that are owned by the Group.

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 45 to 60 years or the lease period of 15 to 16 years. The assets' depreciation methods, useful lives and residual values are reviewed, if not insignificant, 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 property.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 Investment properties (cont'd)

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.

For properties held as right-of-use assets, refer to Note 3.21 for initial and subsequent measurement of cost.

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

3.5 Intangible assets

(i) Goodwill

Goodwill 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, negative goodwill is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses.

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Goodwill on acquisition of associates and joint ventures is included in investments in associates and joint ventures, respectively. An impairment loss on such investments is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investments.

Goodwill is tested for impairment on an annual basis in accordance with Note 3.12.

(ii) 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 lives ranging from 10 to 15 years.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Intangible assets (cont'd)

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials and direct labour that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) 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. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.6 Financial assets

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instruments.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, in the case of financial asset not carried at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Financial assets (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Financial assets (cont'd)

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments at FVOCI

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect on initial recognition to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis. The Group's equity investments are classified as FVOCI.

Financial assets at FVTPL

All other financial assets not classified as at amortised cost or FVOCI as described above are measured at FVTPL. This includes derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI, as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to Management. The information considered includes:

- the stated policies and objectives for the respective financial assets and the operation of those policies in practice;
- how the performance of the respective financial assets is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model and how those risks are managed; and
- the frequency, volume and timing of disposals of investments in prior periods, the reasons for such disposals and its expectations about future activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Financial assets (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing and amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- prepayment features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. For derivatives designated as hedging instruments, see Note 9.

Financial assets at amortised cost

The assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Financial assets (cont'd)

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its balance sheet, but retains either all or substantially all of its risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheets, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts which are repayable on demand. Bank overdrafts are shown within interest-bearing borrowings in current liabilities on the balance sheet.

3.7 Impairment of financial assets and contract assets

The Group recognises loss allowances for expected credit losses ("ECLs") on:

- financial assets measured at amortised cost; and
- contract assets (as defined in SFRS(I) 15).

Loss allowance of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected credit life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

Simplified Approach

The Group applies the simplified approach to provide for ECLs for all trade receivables and contract assets. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

General Approach

The Group applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.7 Impairment of financial assets and contract assets (cont'd)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without due costs or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information.

If the credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

- the financial asset remains outstanding for more than the reasonable range of past due days, taking into consideration historical payment track records, current macroeconomics situation as well as the general industry trend.

The Group considers a contract asset to be in default when the customer is unlikely to pay its contractual obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- breach of contract such as a default or past due outstanding for more than the reasonable range of past due days, taking into consideration historical payment track records, current macroeconomics situation as well as the general industry trend;

- the restructuring of a loan or advanced by the Group on terms that the Group would not consider otherwise;

- it is probable that the debtor will enter bankruptcy or other financial reorganisation or is having significant financial difficulty; or

- the disappearance of an active market for a security because of financial difficulties.

Presentation of loss allowance for ECLs in the balance sheet

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of these assets.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.7 Impairment of financial assets and contract assets (cont'd)

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3.8 Derivatives

Derivatives are used to manage exposures to foreign exchange and interest rate risks arising from operational, financing and investment activities. Derivatives are not used for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are re-measured at fair value and any changes in its fair value are recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant changes in the fair value depends on the nature of the item being hedged as described in Note 3.9.

3.9 Hedging activities

At inception or upon reassessment of the arrangement, the Group documents, at the inception of the transaction, the relationship between the hedging instruments and hedged items, together with the methods that will be used to assess the effectiveness of the hedge relationship as well as its risk management objective and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, the economic relationship between the hedged item and the hedging instrument, including whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

(i) Fair value hedges

Where a derivative hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), any gain or loss on the hedging instrument is recognised in profit or loss. The hedged item is also measured at fair value in respect of the risk being hedged, with any changes recognised in profit or loss.

(ii) Cash flow hedges

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised directly in other comprehensive income and presented in the hedging reserve in equity. The ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is reclassified from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated changes in fair value that were recognised directly in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.9 Hedging activities (cont'd)

(ii) Cash flow hedges (cont'd)

When the hedged item is a non-financial asset, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss. In other cases as well, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Hedges directly affected by interest rate benchmark reform

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark interest rate is not altered as a result of interest rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark interest rate will not be altered as a result of interest rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of interest rate benchmark reform.

The Group will cease to apply the amendments to its effectiveness assessment of the hedging relationship when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from interest rate benchmark reform about the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

3.10 Inventories

Inventories consist mainly of steel and other materials used for ship and rig repair, building and conversion and are measured at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any allowance for write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any allowance for write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.11 Government grants

Asset related grants are credited to a deferred asset grant account at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. These grants are then recognised in profit or loss as other income on the straight-line basis over the estimated useful lives of the relevant assets.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

3.12 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of cash generating units) and then, to reduce the carrying amount of the other assets in the cash generating unit (group of cash generating units) on a *pro rata* basis.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and as and when indicators of impairment occur.

(i) Calculation of recoverable amount

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, 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 cash generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units.

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units 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. Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed, even if it relates to an impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or balance sheet date. In respect of other assets, 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 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.12 Impairment of non-financial assets (cont'd)

(ii) Reversals of impairment (cont'd)

Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate or joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate or joint venture may be impaired.

3.13 Non-derivative financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group classifies financial liabilities as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantively different, in which case a new financial liability based on the modified terms is recognised at fair value.

Financial assets and liabilities are offset and the net amount presented in the balance sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3.14 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss as incurred. If the contribution payable to the scheme for service received before the balance sheet date exceeds the contribution already paid, the deficit payable to the scheme is recognised as a liability after deducting the contribution already paid. If the contribution already paid exceeds the contribution due for services received before the balance sheet date, then excess is recognised as an asset to the extent that the prepayment will lead to, for example, a reduction in future payment or a cash refund.

(ii) Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Long-term employee benefits are reported in "other long-term payables".

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 Employee benefits (cont'd)

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related employment service is provided.

The amount expected to be paid is accrued when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Staff retirement benefits

Retirement benefits payable to certain categories of employees upon their retirement are provided for in the financial statements based on their entitlement under the staff retirement benefit plan or, in respect of unionised employees of a subsidiary who joined on or before 31 December 1988, based on an agreement with the union.

The Group's net obligation in respect of retirement benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected future salary increase and is discounted to its present value and the fair value of any related assets is deducted.

(v) Equity and equity-related compensation benefits

Performance Share Plan

The fair value of equity-related compensation is measured using the Monte Carlo simulation method as at the date of the grant. The method involves projecting future outcomes using statistical distributions of key random variables including the share prices and volatility of returns. This model takes into account the probability of achieving the performance conditions in the future.

The fair value of the compensation cost is measured at grant date and amortised over the service period to which the performance criteria relates and the period during which the employees become unconditionally entitled to the shares. In estimating the fair value of the compensation cost, market-based performance conditions are taken into account. From 2014 onwards, awards granted have both market-based and non-market-based performance conditions. The compensation cost is charged to profit or loss with a corresponding increase in equity on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the service period to which the performance period relates, irrespective of whether this performance condition is satisfied.

The share-based payments reserve relating to the performance shares released is transferred to share capital when new shares are issued. When treasury shares are issued, the cost of treasury shares is transferred to share-based payments reserve.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 Employee benefits (cont'd)

(v) Equity and equity-related compensation benefits (cont'd)

Restricted Share Plan

Similar to the Performance Share Plan, the fair value of equity-related compensation is measured using the Monte Carlo simulation method as at the date of the grant. The method involves projecting future outcomes using statistical distributions of key random variables including the share prices and volatility of returns. This model takes into account the probability of achieving the performance conditions in the future.

The fair value of the compensation cost is measured at grant date and are then amortised over the service period to which the performance criteria relates and the period during which the employees become unconditionally entitled to the shares. Awards granted have non-market based performance conditions. The compensation cost is charged to profit or loss with a corresponding increase in equity on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the service period to which the performance period relates.

At the balance sheet date, the Company revises its estimates of the number of performance-based restricted shares that the employees are expected to receive based on the achievement of non-market performance conditions and the number of shares ultimately given. It recognises the impact of the revision of the original estimates in employee expense and in a corresponding adjustment to equity over the remaining vesting period.

The share-based payments reserve relating to the restricted shares released is transferred to share capital when new shares are issued. When treasury shares are issued, the cost of treasury shares is transferred to share-based payments reserve.

In the Company's separate financial statements, the fair value of performance shares and restricted shares granted to employees of its subsidiaries is recognised as an increase in the cost of the Company's investment in subsidiaries, with a corresponding increase in equity over the vesting period.

(vi) Cash-related compensation benefits

Sembcorp Marine Challenge Bonus

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the share price of the Company. The Group recognises a provision when contractually obliged to pay or where there is a past practice that has created a constructive obligation to pay.

The compensation cost is measured at the fair value of the liability at each balance sheet date and spread over the service period to which the performance criteria relates and the period during which the employees become unconditionally entitled to the bonus. The liability takes into account the probability of achieving the performance conditions in the future.

Until the liability is settled, the Group will re-measure the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.15 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.16 Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to business combinations, or to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred tax reflects the consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new ordinary shares and share options are deducted against the share capital account, net of any tax effects.

Where the Company's ordinary shares are repurchased (treasury shares), the consideration paid, excluding any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders and presented as reserve for own shares within equity, until they are cancelled, sold or reissued.

When treasury shares are cancelled, the cost of treasury shares is deducted against the share capital account, if the shares are purchased out of capital of the Company, or against the accumulated profits of the Company, if the shares are purchased out of profits of the Company.

When treasury shares are subsequently sold or reissued pursuant to the Share-based Incentive Plans, the cost of the treasury shares is reversed from the reserve for own shares account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related tax, is recognised as a change in equity of the Company. No gain or loss is recognised in profit or loss.

3.18 Dividends

Dividends on ordinary shares are recognised when they are approved for payments. Dividends on ordinary shares classified as equity are accounted for as movements in revenue reserve.

3.19 Revenue

(i) Contract revenue

The Group builds specialised assets for customers through fixed price contracts. Contracts relating to services for ship and rig repair, building, conversion and overhaul represents a single performance obligation ("PO"), due to the inter-dependence of services provided in these contracts.

Revenue is recognised when the control over the specialised asset has been transferred to the customer and performance obligations are fulfilled. At contract inception, the Group assesses whether the Group transfers control of the asset over time or at a point in time by determining if its performance creates an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date for ship and rig building and conversion, or where the Group's performance creates or enhances an asset that the customer controls as the asset is being created or enhanced for ship and rig repairs and overhaul.

The specialised asset has no alternative use for the Group due to contractual restriction, and the Group has enforceable rights to payment arising from the contractual terms. For these contracts, revenue is recognised over time by reference to the Group's progress towards completing the construction of the specialised asset. The stage of completion is typically assessed by reference to surveys of work performed (output method), which is commensurate with the pattern of transfer of control to the customer.

For certain contracts where the Group does not have enforceable right to payment, revenue is recognised only when the completed specialised asset is delivered to the customers and the customers have accepted it in accordance with the contract. On signing of the contract, customers are usually required to make an advance payment that is non-refundable if the contract is cancelled. The advance payment is presented as contract liability. No financing component has been recognised on these advance payments as the payment terms are for reasons other than financing. Where extended payment terms are granted to customers, interest is charged and recognised as finance income.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.19 Revenue (cont'd)

(i) Contract revenue (cont'd)

The period between the transfer of the promised goods and payment by the customer may exceed one year. For such contracts, the Group recognises a financing component using a discount rate that reflects this as a separate financing transaction with the customer at contract inception. If the period between transfer and payment is one year or less, the Group elects the practical expedient not to adjust for significant financing component.

Transaction price is the amount of consideration in the contract to which the Group expects to be entitled to in exchange for transferring the promised goods or services. The transaction price may be fixed or variable, and is adjusted for time value of money if the contract includes a significant financing component. When consideration is variable, the estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is resolved.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

Certain contracts include standard warranty terms as guarantee on the performance of the asset. The warranty is recognised as a provision, based on estimated claims made from historical data, from known and expected warranty work and contractual obligation for further work to be performed after completion. The warranty expense incurred could be higher or lower than the provision made.

The Group accounts for modifications to the scope and price of a contract as separate contracts if the modification adds distinct goods or services at their stand-alone selling prices. For contract modifications that add distinct goods or services but not at their stand-alone selling prices, the Group combines the remaining consideration in the original contract with the consideration promised in the modification to create a new transaction price that is then allocated to all remaining performance obligations to be satisfied. For contract modifications that do not add distinct goods or services, the Group accounts for the modifications as continuation of the original contract and recognises as a cumulative adjustment to revenue at the date of modification.

The customer is invoiced on a milestone payment schedule. If the value of the goods transferred by the Group exceeds the payments received, a contract asset is recognised. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional. If the payments received exceed the value of the goods transferred, a contract liability is recognised.

For costs incurred in fulfilling the contract which are within the scope of another SFRS(I) (e.g. Inventories), these have been accounted for in accordance with those other SFRS(I). If these are not within the scope of another SFRS(I), the Group will capitalise these as contract costs only if (a) these cost relate directly to a contract or an anticipated contract which the Group can specifically identify; (b) these costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (c) these costs are expected to be recovered. Otherwise, such costs are recognised as an expense immediately.

Capitalised contract costs are subsequently amortised on a systematic basis as the Group recognises the related revenue over time. An impairment loss is recognised in the profit or loss to the extent that the carrying amount of capitalised contract costs exceeds the expected remaining consideration less any directly related costs not yet recognised as expenses.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.19 Revenue (cont'd)

(ii) Income on goods sold and services rendered

Revenue from goods sold and services rendered in the ordinary course of business is recognised when the Group satisfies a performance obligation ("PO") by transferring control of a promised good or service to the customer. Revenue recognised is the amount of the transaction price allocated to the satisfied PO.

The transaction price is allocated to each PO on the basis of the relative stand-alone selling prices of the promised goods or services and excludes goods and services or other sales taxes. Trade discounts or variable considerations are allocated to one or more, but not all, of the POs if they relate specifically to those POs.

Transaction price is the amount of consideration in the contract to which the Group expects to be entitled to in exchange for transferring the promised goods or services. The transaction price may be fixed or variable, and is adjusted for time value of money if the contract includes a significant financing component. When consideration is variable, the estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is resolved.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue may be recognised at a point in time or over time following the satisfaction of the PO. If a PO is satisfied over time, revenue is recognised based on the percentage of completion reflecting the progress towards complete satisfaction of the PO.

(iii) Charter hire and rental income

Charter hire and rental income receivable under operating leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.20 Dividend and finance income

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance income is recognised in profit or loss as it accrues, using the effective interest rate method.

3.21 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.21 Leases (cont'd)

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(i) The Group as lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right-of-use assets are depreciated from the commencement date over the shorter of the asset's useful life and the lease term on a straight-line basis. The estimated useful lives of the assets are determined on the same basis as those of property, plant and equipment. In addition, the assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liabilities.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The Group determines the lessee's incremental borrowing rate by making certain adjustments to its interest rates on its issued notes to reflect the terms of the lease and security over the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments);
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and payments of penalties for early termination unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.21 Leases (cont'd)

(i) The Group as lessee (cont'd)

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

COVID-19-related rent concessions

The Group has applied *COVID-19-Related Rent Concessions – Amendment to SFRS(I) 16*. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions is $106,000.

(ii) The Group as lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Group applies SFRS(I) 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases in profit or loss on a straight-line basis over the lease term. Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

3.22 Finance costs

Finance costs comprise of interest expense on borrowings, amortisation of capitalised transaction costs and transaction costs written off. Interest expense and similar charges are expensed in profit or loss in the period using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of a qualifying asset. The interest component of finance lease payments is recognised in profit or loss using the effective interest method. Termination of interest rate swaps are recognised in profit or loss.

In calculating the interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to gross basis.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.23 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to owners of the Company and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.24 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's President & CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

3.25 Financial guarantee contracts

Financial guarantee contracts are accounted for as insurance contracts and treated as contingent liabilities until such time as they become probable that the Company will be required to make a payment under the guarantee. A provision is recognised based on the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the guarantee contract.

3.26 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Group has access at that date.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.27 Assets held for sale

Non-current assets are classified as assets held for sale and measured at the lower of carrying amount and fair value less costs to sell if they are expected to be recovered principally through a sale transaction rather than through continuing use.

Any impairment losses on initial classification and subsequent gains or losses on re-measurement are recognised in profit or loss. Subsequent increases in fair value less costs to sell are recognised in profit or loss (not exceeding the accumulated impairment loss that has been previously recognised).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

4 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings							
	Freehold $'000	Leasehold $'000	Construction-in-progress[1] $'000	Docks and quays $'000	Marine vessels[2] $'000	Plant, machinery and tools $'000	Others[3] $'000	Total $'000
Group								
Cost								
Balance at 1 January 2019	236,489	979,648	1,066,576	1,517,166	283,622	1,505,912	169,699	5,759,112
Adjustment on initial application of SFRS(I) 16	–	(62,878)	(4,210)	(41,545)	–	–	(2,328)	(110,961)
Adjusted balance at 1 January 2019	236,489	916,770	1,062,366	1,475,621	283,622	1,505,912	167,371	5,648,151
Translation adjustments	(3,468)	(1,926)	(8,043)	(4,817)	(3,091)	(3,290)	(356)	(24,991)
Additions	46	1,498	295,316	561	47,517	9,536	9,933	364,407
Reclassifications	84,734	167,124	(401,398)	92,765	–	41,495	15,280	–
Disposals	–	(3,740)	–	–	(1,263)	(7,941)	(964)	(13,908)
Transfer to assets held for sale	(2,054)	–	–	–	–	(224)	(88)	(2,366)
Balance at 31 December 2019	315,747	1,079,726	948,241	1,564,130	326,785	1,545,488	191,176	5,971,293
Balance at 1 January 2020	315,747	1,079,726	948,241	1,564,130	326,785	1,545,488	191,176	5,971,293
Translation adjustments	(4,733)	(2,043)	(7,931)	(5,135)	(3,050)	(3,210)	(324)	(26,426)
Additions	–	413	80,762	–	–	1,543	2,343	85,061
Reclassifications	25,354	9,934	(259,748)	6,610	(21,157)	230,620	8,387	–
Disposals	(1,349)	(599)	–	–	(1,131)	(506)	(329)	(3,914)
Balance at 31 December 2020	335,019	1,087,431	761,324	1,565,605	301,447	1,773,935	201,253	6,026,014

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Land and buildings							
	Freehold $'000	Leasehold $'000	Construction-in-progress[1] $'000	Docks and quays $'000	Marine vessels[2] $'000	Plant, machinery and tools $'000	Others[3] $'000	Total $'000
Group								
Accumulated depreciation and impairment losses								
Balance at 1 January 2019	17,199	330,074	–	312,690	76,545	718,446	124,901	1,579,855
Adjustment on initial application of SFRS(I) 16	–	(15,276)	–	(21,332)	–	1,287	(683)	(36,004)
Adjusted balance at 1 January 2019	17,199	314,798	–	291,358	76,545	719,733	124,218	1,543,851
Translation adjustments	(218)	(860)	–	(351)	(735)	(829)	(248)	(3,241)
Depreciation for the year	5,405	36,026	–	66,509	10,179	54,755	14,197	187,071
Reclassifications	24	(26)	–	–	–	2	–	–
Disposals	–	(810)	–	–	(492)	(4,280)	(937)	(6,519)
Impairment losses	541	–	–	–	–	–	–	541
Transfer to assets held for sale	(1,069)	–	–	–	–	(224)	(88)	(1,381)
Balance at 31 December 2019	21,882	349,128	–	357,516	85,497	769,157	137,142	1,720,322
Balance at 1 January 2020	21,882	349,128	–	357,516	85,497	769,157	137,142	1,720,322
Translation adjustments	(500)	(1,101)	–	(625)	(2,525)	(1,141)	(211)	(6,103)
Depreciation for the year	7,453	25,379	–	31,261	10,189	62,248	14,150	150,680
Reclassifications	–	–	–	–	(335)	335	–	–
Disposals	(579)	(559)	–	–	(929)	(417)	(309)	(2,793)
Impairment losses	–	–	–	–	48,989	–	–	48,989
Balance at 31 December 2020	28,256	372,847	–	388,152	140,886	830,182	150,772	1,911,095
Carrying amounts								
At 1 January 2019	219,290	649,574	1,066,576	1,204,476	207,077	787,466	44,798	4,179,257
At 31 December 2019	293,865	730,598	948,241	1,206,614	241,288	776,331	54,034	4,250,971
At 31 December 2020	306,763	714,584	761,324	1,177,453	160,561	943,753	50,481	4,114,919

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Docks $'000	Plant, machinery and tools $'000	Others[3] $'000	Total $'000
Company				
Cost				
Balance at 1 January 2019	160,505	2,240	39,158	201,903
Adjustment on initial application of SFRS(I) 16	(25,900)	–	(2,328)	(28,228)
Adjusted balance at 1 January 2019	134,605	2,240	36,830	173,675
Additions	–	–	675	675
Balance at 31 December 2019	134,605	2,240	37,505	174,350
Balance at 1 January 2020	134,605	2,240	37,505	174,350
Additions	–	–	90	90
Balance at 31 December 2020	134,605	2,240	37,595	174,440
Accumulated depreciation				
Balance at 1 January 2019	120,785	1,904	21,226	143,915
Adjustment on initial application of SFRS(I) 16	(20,148)	–	(683)	(20,831)
Adjusted balance at 1 January 2019	100,637	1,904	20,543	123,084
Depreciation for the year	33,968	330	5,681	39,979
Balance at 31 December 2019	134,605	2,234	26,224	163,063
Balance at 1 January 2020	134,605	2,234	26,224	163,063
Depreciation for the year	–	1	5,656	5,657
Balance at 31 December 2020	134,605	2,235	31,880	168,720
Carrying amounts				
At 1 January 2019	39,720	336	17,932	57,988
At 31 December 2019	–	6	11,281	11,287
At 31 December 2020	–	5	5,715	5,720

The property, plant and equipment comprise mainly shipyard assets attributable to the "rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding" operating segment. Within this operating segment, there are two key cash generating units in Singapore and Brazil. These property, plant and equipment, together with right-of-use assets and certain intangible assets, were tested for impairment and described in Note 44.

(1) During the year, interest charge of $28,510,000 (2019: $45,912,000) was capitalised as construction-in-progress.

(2) Due to the increasingly challenging and competitive market environment, worsened by the impact from the COVID-19 pandemic, management assessed that there were indicators of impairment for the vessel in the current year. As the Group expects to recover the value of the accommodation vessel through continuing use on a charter basis, the Group used the discounted cash flow projections to determine the recoverable amount. The cash flows projection considered different outcomes that took into account the expected renewal rates based on prevailing and foreseeable market conditions. The renewal rates (taking into consideration prevailing rates) have been adjusted downwards, assuming a certain level of discount from the contractual rates under the last long term charter contract, but factored a 2% inflationary adjustment till the end of the economic useful life of the vessel. The assumed operating cost is based on approved budget and adjusted for inflation at 2% per annum throughout the cash flow periods. The average utilisation rate is assumed to deteriorate from 95% (in 2019) to 85% throughout the cash flow periods; and the terminal value is based on expected scrap value at the end of the economic useful life of the vessel. These cash flows are then discounted using the pre-tax weighted average cost of capital determined to be at 9.13% (2019: 10.78%). Based on the Group's assessment of the recoverable amount of the marine vessel of $129,716,000 (2019: $267,006,000) using a range of probability-weighted possible outcomes in current year, an impairment loss of $48,989,000 (2019: $nil) was recognised in the current year's profit or loss. The above assumptions are inherently judgemental. The forecasted charter rates and utilisation assumed in the value in use is subject to estimation uncertainties. A further 5% decrease in charter rate and utilisation rate throughout the cash flow periods from the weighted outcomes would lead to additional impairment of $15,175,000 and $16,789,000 respectively.

(3) Others comprise motor vehicles, furniture and office equipment, utilities and fittings, and computer equipment.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Change in estimates

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

	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	Later $'000
Group						
(Decrease)/increase in depreciation expense and (increase)/decrease in profit before tax	(1,059)	(2,117)	(2,117)	(2,117)	(2,117)	9,527

5 RIGHT-OF-USE ASSETS AND LEASES

As a lessee

The Group leases many assets including land and buildings and tugboats. Information about leases for which the Group is a lessee is presented below:

Right-of-use assets	Land and buildings[1] $'000	Marine vessels[2] $'000	Others[3] $'000	Total $'000
Group				
Balance at 1 January 2019	203,513	55,144	1,728	260,385
Translation adjustments	(547)	–	(1)	(548)
Additions during the year	18,444	–	3,230	21,674
Depreciation charge for the year	(23,568)	(3,453)	(846)	(27,867)
Provision	(340)	–	–	(340)
Balance at 31 December 2019	197,502	51,691	4,111	253,304
Balance at 1 January 2020	197,502	51,691	4,111	253,304
Translation adjustments	(252)	–	–	(252)
Additions during the year	94,287	1,648	–	95,935
Depreciation charge for the year	(18,364)	(3,613)	(1,143)	(23,120)
Termination of lease	(660)	–	–	(660)
Impairment losses	(74,191)	–	–	(74,191)
Balance at 31 December 2020	198,322	49,726	2,968	251,016

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YEAR ENDED 31 DECEMBER 2020

5 RIGHT-OF-USE ASSETS AND LEASES (CONT'D)

	Others[3] $'000	Total $'000
Company		
Balance at 1 January 2019	1,645	1,645
Additions during the year	2,658	2,658
Depreciation charge for the year	(747)	(747)
Balance at 31 December 2019	3,556	3,556
Balance at 1 January 2020	3,556	3,556
Depreciation charge for the year	(1,013)	(1,013)
Balance at 31 December 2020	2,543	2,543

(1) The leases for land and buildings typically run for a period of 1 to 30 years with options to renew the lease for an additional period of the same duration after the end of the contract term. The Group had determined that it is reasonably certain to exercise the extension option for certain leases.

(2) The Group leases tugboats with lease terms of 8 years, and options to purchase the asset at the end of the lease term. The Group had determined that it is reasonably certain to exercise the purchase option.

(3) Others comprise furniture and office equipment.

During the year, right-of-use assets included additional provision for restoration costs amounting to $69,842,000 (2019: $1,659,000) (Note 22).

As part of the Group's transformation and yard consolidation strategy, the Group is scheduled to restore the yard at Tanjong Kling Road ("Tanjong Kling Yard") and return the land to the Singapore Government by 2025. Accordingly, an impairment loss of $74,191,000 (2019: $nil) was recognised as the lease is determined to be onerous once the restoration works commence.

	2020 $'000	2019 $'000
Group		
Amounts recognised in profit or loss		
Interest on lease liabilities	16,410	9,382
Expenses relating to short-term leases	2,223	3,471
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	987	1,317
Amounts recognised in the statement of cash flows		
Total cash outflow for leases	26,985	25,859

Extension options

Some leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. The extension options held are exercisable by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of $21,072,000 (2019: $16,844,000).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

5 RIGHT-OF-USE ASSETS AND LEASES (CONT'D)

As a lessor

The Group leases out its marine vessel and has classified these leases as operating leases, because they do not transfer substantially all the risk and rewards incidental to the ownership of the vessel.

The table below sets out the maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	2020 $'000	2019 $'000
Within 1 year	2,601	5,883

6 INVESTMENT PROPERTIES

	Company		
	Owned assets $'000	Right-of-use assets $'000	Total $'000
Cost			
Balance at 1 January 2019	60,669	78,609	139,278
Additions	–	–	–
Balance at 31 December 2019	60,669	78,609	139,278
Additions	–	82,771	82,771
Balance at 31 December 2020	60,669	161,380	222,049
Accumulated depreciation			
Balance at 1 January 2019	46,929	22,013	68,942
Depreciation for the year	7,707	14,934	22,641
Balance at 31 December 2019	54,636	36,947	91,583
Depreciation for the year	257	8,836	9,093
Impairment losses	–	74,191	74,191
Balance at 31 December 2020	54,893	119,974	174,867
Carrying amounts			
At 1 January 2019	13,740	56,596	70,336
At 31 December 2019	6,033	41,662	47,695
At 31 December 2020	5,776	41,406	47,182

Investment properties comprise owned assets and land leases held as right-of-use assets. The investment properties of the Company are used by the Group in carrying out its principal activities and are reclassified as property, plant and equipment or right-of-use assets at the Group.

As at the reporting date, an impairment loss of $74,191,000 was recognised relating to the yard at Tanjong Kling Road as described in Note 5.

The following amounts are recognised in profit or loss:

	Company	
	2020 $'000	2019 $'000
Rental income	(14,065)	(66,135)
Operating expenses arising from rental of investment properties	13,668	62,592

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

7 INVESTMENTS IN SUBSIDIARIES

	Company	
	2020 $'000	2019 $'000
Unquoted shares, at cost	3,586,155	1,786,269

Details of the Company's subsidiaries are set out in Note 45. Investments in subsidiaries were tested for impairment and described in Note 44.

8 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	Group	
	2020 $'000	2019 $'000
Interests in associates	733	695
Less: allowance for impairment loss	(342)	(342)
	391	353
Interests in joint ventures	15,032	14,534
	15,423	14,887

In 2020, the Group did not receive any dividends (2019: received dividends of $49,253,000) from its investments in associates and joint ventures.

Associates

The Group has a number of associates that are individually immaterial to the Group. All are equity accounted. Summarised financial information of associates presented in aggregate, representing the Group's share, is as follows:

	2020 $'000	2019 $'000
Carrying amount	391	353
Profit for the year	38	33
Other comprehensive income	–	–
Total comprehensive income	38	33

Joint ventures

The Group has a number of joint ventures that are individually immaterial to the Group. All are equity accounted. Summarised financial information of joint ventures presented in aggregate, representing the Group's share, is as follows:

	2020 $'000	2019 $'000
Carrying amount	15,032	14,534
Profit/(loss) for the year	475	(1,636)
Other comprehensive income	23	(44)
Total comprehensive income	498	(1,680)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

9 OTHER FINANCIAL ASSETS

		Group	
		2020 $'000	2019 $'000
(a)	**Non-current assets**		
	Financial assets at fair value through other comprehensive income:		
	– Unquoted equity shares	2,642	2,642
	Cash flow hedges:		
	– Forward foreign currency contracts	1,928	7,805
	Financial assets at fair value through profit or loss:		
	– Forward foreign currency contracts	–	895
		4,570	11,342
(b)	**Current assets**		
	Cash flow hedges:		
	– Forward foreign currency contracts	14,100	12,832
	Financial assets at fair value through profit or loss:		
	– Forward foreign currency contracts	19,740	2,988
		33,840	15,820

10 TRADE AND OTHER RECEIVABLES

		2020			2019		
	Note	Non-current $'000	Current $'000	Total $'000	Non-current $'000	Current $'000	Total $'000
Group							
Trade receivables		1,085,818	422,629	1,508,447	1,059,025	529,359	1,588,384
Amounts due from related parties	11	25,000	4,860	29,860	28,123	5,232	33,355
Staff loans	(a)	–	22	22	–	98	98
GST refundable		–	13,957	13,957	–	17,709	17,709
Interest receivable		–	1	1	–	138	138
Deposits		–	3,709	3,709	–	3,205	3,205
Grant receivables		–	22,800	22,800	–	–	–
Sundry receivables		–	15,526	15,526	–	17,396	17,396
Unbilled receivables		–	12,245	12,245	–	11,581	11,581
Recoverable		–	4,461	4,461	–	13,584	13,584
		1,110,818	500,210	1,611,028	1,087,148	598,302	1,685,450
Loss allowance		(5,267)	(9,902)	(15,169)	–	(156,047)	(156,047)
Financial assets at amortised cost		1,105,551	490,308	1,595,859	1,087,148	442,255	1,529,403
Prepayments and advances		–	127,795	127,795	483	41,045	41,528
		1,105,551	618,103	1,723,654	1,087,631	483,300	1,570,931

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

10 TRADE AND OTHER RECEIVABLES (CONT'D)

(a) Staff loans

Staff loans are unsecured and bear interest at 3.0% (2019: 3.0%) per annum.

The impairment losses on trade receivables are as follows:

	2020			2019		
	Gross $'000	Impairment $'000	Total $'000	Gross $'000	Impairment $'000	Total $'000
Group						
Trade receivables	1,508,447	(10,572)	1,497,875	1,588,384	(151,450)	1,436,934

Arising from the settlement agreement which was finalised during the year with the Group's customer who had undergone financial restructuring, the outstanding trade receivables of $145,120,000 had been written off.

	Note	2020			2019		
		Non-current $'000	Current $'000	Total $'000	Non-current $'000	Current $'000	Total $'000
Company							
Amounts due from related parties	11	127,700	20,327	148,027	29,396	194,436	223,832
GST refundable		–	19	19	–	–	–
Sundry deposits		–	1	1	–	–	–
Grant receivables		–	1,341	1,341	–	–	–
Sundry receivables		–	9,753	9,753	–	11,029	11,029
Financial assets at amortised cost		127,700	31,441	159,141	29,396	205,465	234,861
Prepayments and advances		–	278	278	–	2,977	2,977
		127,700	31,719	159,419	29,396	208,442	237,838

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

11 AMOUNTS DUE FROM RELATED PARTIES

	Note	Associates and joint ventures 2020 $'000	Associates and joint ventures 2019 $'000	Related companies 2020 $'000	Related companies 2019 $'000	Total 2020 $'000	Total 2019 $'000
Group							
Amounts due from:							
– Trade	(a)	194	510	69	125	263	635
– Loans and advances	(c)	25,000	28,123	–	–	25,000	28,123
		25,194	28,633	69	125	25,263	28,758
Amount due within 1 year	10	(194)	(510)	(69)	(125)	(263)	(635)
	10	25,000	28,123	–	–	25,000	28,123

	Note	Subsidiaries 2020 $'000	Subsidiaries 2019 $'000	Associates and joint ventures 2020 $'000	Associates and joint ventures 2019 $'000	Related companies 2020 $'000	Related companies 2019 $'000	Total 2020 $'000	Total 2019 $'000
Company									
Amounts due from:									
– Trade	(a)	7,015	137,376	21	10	8	8	7,044	137,394
– Non-trade	(b)	13,283	57,042	–	–	–	–	13,283	57,042
– Loans and advances	(c)	127,700	29,396	–	–	–	–	127,700	29,396
		147,998	223,814	21	10	8	8	148,027	223,832
Amount due within 1 year	10	(20,298)	(194,418)	(21)	(10)	(8)	(8)	(20,327)	(194,436)
	10	127,700	29,396	–	–	–	–	127,700	29,396

(a) The trade amounts due from related parties are unsecured, repayable on demand and interest-free.

(b) The non-trade amounts due from related parties comprise mainly payments made on their behalf which are unsecured, repayable on demand and interest-free.

(c) At the Group and Company level, the loans and advances to related parties are unsecured and interest-free, except for $25,000,000 (2019: $28,123,000) of loan to a joint venture that bears interest rates ranging from 0.18% to 1.53% (2019: 1.66% to 1.91%) per annum. The loans and advances to related parties are repayable on demand, and settlement of loans and advances to these related parties is neither planned nor likely to occur in the foreseeable future.

The impairment losses on amounts due from associates and joint ventures are as follows:

	2020 Gross $'000	2020 Impairment $'000	2020 Total $'000	2019 Gross $'000	2019 Impairment $'000	2019 Total $'000
Group						
Amounts due from associates and joint ventures	29,791	(4,597)	25,194	33,230	(4,597)	28,633

NOTES TO THE FINANCIAL STATEMENTS

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12 CONTRACT ASSETS

	Group 2020 $'000	Group 2019 $'000
Contract assets	1,552,526	1,462,340
Loss allowance	(613)	–
	1,551,913	1,462,340

The contract assets mainly relate to the Group's rights to consideration for work completed but not yet billed at reporting date on the long-term contracts for ship and rig building, conversion and repair. The contract assets are transferred to trade receivables when the rights become unconditional. Significant changes in the contract assets balances during the year are as follows:

	2020 $'000	2019 $'000
Transfer from contract assets recognised at the beginning of the year to receivables	(458,200)	(710,569)
Recognition of revenue, net of recognised in receivables	548,273	1,174,215
Impairment loss on contract assets	613	–

13 INTANGIBLE ASSETS

	Note	Goodwill $'000	Club memberships $'000	Intellectual property rights $'000	Designs under development $'000	Total $'000
Group						
Cost						
Balance at 1 January 2019		13,722	590	283,184	–	297,496
Translation adjustments		(37)	–	(295)	–	(332)
Additions		–	–	9,004	–	9,004
Reclassification	(a)	–	–	–	49,511	49,511
Acquisition of subsidiary and intellectual property rights	38	852	–	5,829	–	6,681
Balance at 31 December 2019		14,537	590	297,722	49,511	362,360
Balance at 1 January 2020		14,537	590	297,722	49,511	362,360
Translation adjustments		(38)	–	49	–	11
Additions		–	–	–	2,589	2,589
Balance at 31 December 2020		14,499	590	297,771	52,100	364,960
Accumulated amortisation and impairment losses						
Balance at 1 January 2019		2,563	468	85,531	–	88,562
Translation adjustments		(4)	–	(69)	–	(73)
Amortisation for the year		–	–	27,530	–	27,530
Balance at 31 December 2019		2,559	468	112,992	–	116,019
Balance at 1 January 2020		2,559	468	112,992	–	116,019
Translation adjustments		(5)	–	18	–	13
Amortisation for the year		–	–	27,929	–	27,929
Balance at 31 December 2020		2,554	468	140,939	–	143,961
Carrying amounts						
At 1 January 2019		11,159	122	197,653	–	208,934
At 31 December 2019		11,978	122	184,730	49,511	246,341
At 31 December 2020		11,945	122	156,832	52,100	220,999

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13 INTANGIBLE ASSETS (CONT'D)

(a) In prior year, engineering designs under development of $49,511,000 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 these relate to technical knowledge gained from development activities that are not contract specific and will give rise to future economic benefits.

	Club memberships	
	2020	**2019**
	$'000	**$'000**
Company		
Cost		
Balance at 1 January and 31 December	590	590
Accumulated impairment losses		
Balance at 1 January and 31 December	468	468
Carrying amounts		
At 1 January and 31 December	122	122

Amortisation

The amortisation of intangible assets amounting to $27,929,000 (2019: $27,530,000) is included in cost of sales.

Goodwill

Impairment testing for goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating segments. The aggregate carrying amounts of goodwill allocated to each segment are as follows:

	Group	
	2020	**2019**
	$'000	**$'000**
Rigs and floaters, repairs & upgrades, offshore platforms, and specialised shipbuilding	10,922	10,955
Others	1,023	1,023
Total	11,945	11,978

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 geostationary cylindrical hull design.

Impairment test assessment

The goodwill, intellectual property rights and designs under development are attributed to the "rigs and floaters, repairs & upgrades, offshore platforms and specialised shipbuilding" operating segment. Within this operating segment, there are two key cash generating units in Singapore and Brazil subject to impairment test described in Note 44. Such goodwill, intellectual property rights and designs under development are attributed to the Singapore cash generating unit.

14 DEFERRED TAX ASSETS AND LIABILITIES

	At 1 January 2019* $'000	Recognised in profit or loss (Note 32) $'000	Acquisition $'000	Recognised in other comprehensive income (Note 33) $'000	Translation adjustments/ Others $'000	At 31 December 2019 $'000	Recognised in profit or loss (Note 32) $'000	Recognised in other comprehensive income (Note 33) $'000	Translation adjustments/ Others $'000	At 31 December 2020 $'000
Group										
Deferred tax liabilities										
Property, plant and equipment	111,614	(22,829)	–	–	(3)	88,782	(16,055)	–	–	72,727
Other financial assets	1,649	(1)	–	641	–	2,289	–	(1,537)	–	752
Unutilised tax losses, capital and investment allowances	–	15	–	–	–	15	(15)	–	–	–
Intangible assets	35,607	(5,869)	600	–	1,034	31,372	(3,621)	–	–	27,751
Provisions	–	613	–	–	–	613	247	–	–	860
Other items	10	–	–	–	–	10	1,811	–	(57)	1,764
	148,880	(28,071)	600	641	1,031	123,081	(17,633)	(1,537)	(57)	103,854
Deferred tax assets										
Property, plant and equipment	(3,870)	746	–	–	34	(3,090)	468	–	9	(2,613)
Trade and other receivables	(810)	485	–	–	–	(325)	(1,271)	–	29	(1,567)
Trade and other payables	(13,112)	(4,056)	–	–	–	(17,168)	(10,216)	–	3	(27,381)
Unutilised tax losses, capital and investment allowances	(84,691)	(1,808)	–	–	30	(86,469)	(45,447)	–	229	(131,687)
Provisions	(14,770)	(1,236)	–	–	10	(15,996)	(8,860)	–	(4)	(24,860)
Other financial liabilities	(960)	–	–	960	–	–	–	(136)	–	(136)
Other items	(803)	566	–	(2)	–	(239)	(5,802)	–	–	(6,041)
	(119,016)	(5,303)	–	958	74	(123,287)	(71,128)	(136)	266	(194,285)
Net deferred tax (assets)/liabilities	29,864	(33,374)	600	1,599	1,105	(206)	(88,761)	(1,673)	209	(90,431)
Company										
Deferred tax liabilities										
Property, plant and equipment	9,185	(7,549)	–	–	–	1,636	(788)	–	–	848
Deferred tax assets										
Trade and other payables	(434)	(35)	–	–	–	(469)	(2,403)	–	–	(2,872)
Unutilised tax losses, capital and investment allowances	(340)	340	–	–	–	–	–	–	–	–
Provisions	(3,436)	(1,113)	–	–	–	(4,549)	(9,986)	–	–	(14,535)
	(4,210)	(808)	–	–	–	(5,018)	(12,389)	–	–	(17,407)
Net deferred tax (assets)/liabilities	4,975	(8,357)	–	–	–	(3,382)	(13,177)	–	–	(16,559)

* Included deferred tax assets of $279,000 arising from transitional adjustments on adoption of SFRS(I) 16 on 1 January 2019.

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14 DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

Deferred tax liabilities and assets are set off when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting included in the balance sheets are as follows:

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Deferred tax liabilities	26,852	28,989	–	–
Deferred tax assets	(117,283)	(29,195)	(16,559)	(3,382)
	(90,431)	(206)	(16,559)	(3,382)

As at 31 December 2020, a deferred tax liability of $6,042,000 (2019: $9,456,000) for temporary difference of $57,203,000 (2019: $92,847,000) related to investments in subsidiaries was not recognised because the Group can control the timing of reversal of the taxable temporary differences for all subsidiaries and the temporary differences are not expected to reverse in the foreseeable future.

Deferred tax assets have not been recognised by certain subsidiaries in respect of the following items:

	Group	
	2020 $'000	2019 $'000
Deductible temporary differences	263	277
Tax losses	805,115	524,109
Capital allowances	307	458
	805,685	524,844

The deductible temporary differences, the remaining tax losses and the capital allowances do not expire under current tax legislation.

Deferred tax assets have not been recognised in respect of the above in accordance with Note 3.16 and under the following circumstances:

(a) Where they qualify for offset against the tax liabilities of member companies within the Group under the Loss Transfer System of Group Relief but the terms of the transfer have not been ascertained as at year end; and

(b) Where it is uncertain that future taxable profit, subject to the tax provisions and agreement by the relevant tax authorities of the various jurisdictions, will be available against which certain subsidiaries of the Group can utilise the benefits.

The recognition of deferred tax assets on unutilised tax losses, capital and investment allowances of $45,447,000 (2019: $1,808,000) is presumed on the Group's ability to generate future taxable profits in the foreseeable future.

The Group has relied on its financial forecast for the next 5 years to estimate the future taxable profits against which the deferred tax assets recognised will be utilised. Key drivers of the forecast include the order book and the project margins forecasted. The Group has been in active discussions with customers on the resumption of activities, including final investment decisions on deferred projects. The Group has also been proactively diversifying and expanding into new markets, using its core capabilities in innovative engineering to perform early engineering design for the customers, and actively participating in the greener energy market segments, such as Renewable Energy and Gas Solutions, as well as in the Process Solutions market segment (including FPSOs and FPUs). With the resumption of activities at the yards in the second half of the year, the Group has also experienced an increase in enquiries and orders for repair and upgrade works. Based on the aforementioned, coupled with cost optimisation measures implemented, the Group forecasts it will generate future taxable profits in the foreseeable future.

These forecasts are however subject to significant estimation uncertainty. Information about the sources of estimation uncertainty are disclosed in Note 44(b) and Note 44(d).

NOTES TO THE FINANCIAL STATEMENTS

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15 INVENTORIES

	Group	
	2020 $'000	2019 $'000
Raw materials	93,895	112,813
Finished goods	466	295
	94,361	113,108

In 2020, raw materials and changes in finished goods included as cost of sales amounted to $661,626,000 (2019: $976,871,000). During the year, there was a net write-down of inventories to net realisable value of $34,179,000 (2019: write-back of $651,000) relating to raw materials, included in cost of sales.

16 CONTRACT COSTS

	Group	
	2020 $'000	2019 $'000
Current assets		
Contract costs		
– Fulfilment cost	52,703	88,640

Under SFRS(I) 15, costs incurred relating to ship and rig building that are to be sold upon completion had been capitalised as fulfilment cost for future performance obligations. These costs are expected to be recoverable and are amortised to the profit or loss when the related revenue is recognised. In 2020, $169,849,000 (2019: $559,250,000) was amortised and no impairment loss (2019: $nil) had been recognised.

In prior year, engineering designs under development of $49,511,000 was reclassified from contract costs to intangible assets.

17 ASSETS HELD FOR SALE

		Group	
	Note	2020 $'000	2019 $'000
Property, plant and equipment	(a)	–	985

In 2019, the Group's subsidiary, SES Engineering (M) Sdn Bhd reclassified a workshop in Malaysia from property, plant and equipment to assets held for sale. The sale was completed on 25 February 2020. A gain on disposal of $501,000 was recognised in profit or loss during the year.

NOTES TO THE FINANCIAL STATEMENTS

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18 CASH AND CASH EQUIVALENTS

	Note	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Fixed deposits	(a)	5,747	5,256	–	–
Cash and bank balances	(b)	766,679	383,994	499,024	40,233
Cash and cash equivalents		772,426	389,250	499,024	40,233

(a) Fixed deposits with banks of the Group earn interest at rates ranging from 1.20% to 4.38% (2019: 0.65% to 6.26%) per annum.

(b) Included in the Group's cash and bank balances at the balance sheet date are amounts of $512,605,150 (2019: $48,039,497) placed with a bank under the Group's cash pooling arrangement by the Company. During the year, the cash pooling balances earn interest rates ranging from 0.136% to 1.199% (2019: 1.21% to 1.61%) per annum, which are also the effective interest rates. The remaining bank balances during the year earn interest at floating rates based on daily bank deposit rates of up to 1.55% (2019: up to 2.35%) and up to 0.55% (2019: up to 0.55%) per annum, for the Group and the Company respectively, which are also the effective interest rates.

Included in the Group's cash and bank balances are amounts of $nil (2019: $204,628,000) placed with a related corporation. The Company's cash and bank balances of $nil (2019: $19,948,000) are also placed with a related corporation.

19 TRADE AND OTHER PAYABLES

		Note	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
(a)	**Current liabilities**					
	Trade and accrued payables[1]		1,000,300	1,268,085	6,258	10,783
	Advance payments from customers		–	463	–	–
	Amounts due to related parties – Trade	20	3,072	5,018	2,081	4,498
			1,003,372	1,273,566	8,339	15,281
	Deposits received		1,759	1,888	–	26
	GST payables		812	550	–	72
	Interest payable[2]		10,340	17,382	134	155
	Other creditors		10,317	13,195	437	474
	Deferred grant income[3]		18,666	–	1,892	–
	Accrued capital expenditure		6,646	8,003	–	–
	Amounts due to related parties – Non-trade	20	357	26,426	9,812	16,012
			48,897	67,444	12,275	16,739
	Total		1,052,269	1,341,010	20,614	32,020
(b)	**Non-current liabilities**					
	Other long-term payables[4]		5,982	6,000	4,002	4,002

(1) Included in the Group's accrued payables are amounts of $11,000,000 (2019: $11,000,000) relating to an assumption of liabilities on behalf of a joint venture.

(2) Included in the Group's interest payable are amounts of $nil (2019: $3,901,000) payable to a related corporation.

(3) The Group has been awarded government grants under the Jobs Support Scheme and Enhanced Wage Credit Scheme, which provide wage support to the Group employees to help the Group retain local employees as part of the COVID-19 Government Relief Measure. Grant income from the Jobs Support Scheme is recognised in profit or loss on a systematic basis over the 17-month period from April 2020 to August 2021 in which the Group recognises the related salary costs.

(4) Other long-term payables include deferred grants and long-term employee benefits.

20 AMOUNTS DUE TO RELATED PARTIES

	Note	Immediate holding company 2020 $'000	Immediate holding company 2019 $'000	Associates and joint ventures 2020 $'000	Associates and joint ventures 2019 $'000	Related companies 2020 $'000	Related companies 2019 $'000	Total 2020 $'000	Total 2019 $'000
Group									
Amounts due to:									
– Trade		–	514	1,037	2,022	2,035	2,482	3,072	5,018
– Non-trade		–	–	357	21	–	26,405	357	26,426
	19	–	514	1,394	2,043	2,035	28,887	3,429	31,444

	Note	Immediate holding company 2020 $'000	Immediate holding company 2019 $'000	Subsidiaries 2020 $'000	Subsidiaries 2019 $'000	Related companies 2020 $'000	Related companies 2019 $'000	Total 2020 $'000	Total 2019 $'000
Company									
Amounts due to:									
– Trade		–	514	2,081	3,872	–	112	2,081	4,498
– Non-trade		–	–	9,812	16,012	–	–	9,812	16,012
	19	–	514	11,893	19,884	–	112	11,893	20,510

The trade and non-trade amounts due to related parties are unsecured, repayable on demand and interest-free.

NOTES TO THE FINANCIAL STATEMENTS

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21 CONTRACT LIABILITIES

	Group 2020 $'000	Group 2019 $'000
Current liabilities		
Contract liabilities	154,288	60,186

The contract liabilities primarily relate to the advance consideration received from customers amounting to $109,124,000 (2019: $36,479,000) for which revenue is recognised over time, and $45,164,000 (2019: $23,707,000) for which revenue is recognised at point in time.

Significant changes in the contract liabilities balances during the year are as follows:

	2020 $'000	2019 $'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	(36,432)	(123,987)
Increases due to cash received, excluding amounts recognised as revenue during the year	131,827	44,896

22 PROVISIONS

	Retirement gratuities $'000	Warranty $'000	Restoration costs $'000	Onerous contract $'000	Total $'000
Group					
2020					
Balance at 1 January	1,242	42,104	79,908	–	123,254
Translation adjustments	(34)	(12)	(86)	–	(132)
Provision made during the year	115	3,889	69,842	1,811	75,657
Provision reversed during the year	(97)	(11,548)	(1,676)	–	(13,321)
Provision utilised during the year	(159)	(2,062)	(3,287)	(292)	(5,800)
Unwind of discount on restoration costs	–	–	1,147	–	1,147
Balance at 31 December	1,067	32,371	145,848	1,519	180,805
Provisions due:					
– within 1 year	155	32,371	4,510	969	38,005
– after 1 year but within 5 years	149	–	101,642	550	102,341
– after 5 years	763	–	39,696	–	40,459
	1,067	32,371	145,848	1,519	180,805
2019					
Balance at 1 January	935	57,916	78,885	–	137,736
Translation adjustments	4	53	12	–	69
Provision made during the year	480	8,989	1,659	–	11,128
Provision reversed during the year	–	(23,893)	–	–	(23,893)
Provision utilised during the year	(177)	(961)	(2,203)	–	(3,341)
Unwind of discount on restoration costs	–	–	1,555	–	1,555
Balance at 31 December	1,242	42,104	79,908	–	123,254
Provisions due:					
– within 1 year	151	14,568	1,714	–	16,433
– after 1 year but within 5 years	311	27,536	47,401	–	75,248
– after 5 years	780	–	30,793	–	31,573
	1,242	42,104	79,908	–	123,254

22 PROVISIONS (CONT'D)

	Restoration costs 2020 $'000	Restoration costs 2019 $'000
Company		
Balance at 1 January	26,759	26,094
Provision made during the year	58,570	–
Unwind of discount	169	665
Balance at 31 December	85,498	26,759
Provisions due:		
– after 1 year but within 5 years	85,498	26,759
– after 5 years	–	–
	85,498	26,759

Warranty

Provision for warranties relate to contracts with contractual warranty terms. The provision for warranty is based on estimates made from historical warranty data associated with similar projects and adjusted by weighting all possible outcomes by their associated probabilities.

The non-current portion of the provision for warranty is for contracts with contractual warranty periods that will lapse within 2 to 3 years from the reporting date.

Restoration costs

Restoration costs relate to cost of dismantling and removing assets and restoring the premises to its original condition as stipulated in the operating lease agreements. The Group expects to incur the liability upon termination of the leases.

23 OTHER FINANCIAL LIABILITIES

		Group 2020 $'000	Group 2019 $'000
(a)	**Current liabilities**		
	Cash flow hedges:		
	– Forward foreign currency contracts	3,235	2,332
	– Interest rate swaps	819	5,371
	Financial liabilities at fair value through profit or loss:		
	– Forward foreign currency contracts	688	–
		4,742	7,703
(b)	**Non-current liabilities**		
	Cash flow hedges:		
	– Forward foreign currency contracts	–	1,209
	– Interest rate swaps	–	995
	Financial liabilities at fair value through profit or loss:		
	– Forward foreign currency contracts	722	–
		722	2,204

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24 INTEREST-BEARING BORROWINGS AND SUBORDINATED LOAN

	Note	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Current liabilities					
Unsecured term loans					
– Floating rate		1,295,746	1,371,620	–	–
– Fixed rate		825,648	50,000	50,000	50,000
		2,121,394	1,421,620	50,000	50,000
Non-current liabilities					
Unsecured term loans	(a)				
– Floating rate		1,103,400	879,172	–	–
– Fixed rate		325,000	600,000	–	–
Subordinated loan	(b)	–	1,500,000	–	–
		1,428,400	2,979,172	–	–
		3,549,794	4,400,792	50,000	50,000

Of the Group's interest-bearing borrowings, $nil (2019: $556,000,000) were borrowed from a related corporation.

Effective interest rates and maturity of liabilities

	Group 2020 %	Group 2019 %
Floating rate loans	1.26 – 4.66	2.33 – 6.43
Fixed rate loans	0.25 – 3.02	2.06 – 5.53
Notes	2.95 – 3.85	2.95 – 3.85

	Group 2020 $'000	Group 2019 $'000
Within 1 year	2,121,394	1,421,620
After 1 year but within 5 years	1,103,400	2,654,172
After 5 years	325,000	325,000
Total borrowings	3,549,794	4,400,792

(a) Unsecured term loans

Included in the unsecured term loans are the following notes of the Group:

On 18 August 2014, the Company updated its $2,000,000,000 Multicurrency Multi-issuer Debt Issuance Programme (the "Programme") to include perpetual securities as one of the debt instruments under the Programme.

Under the updated Programme, the Company, together with its subsidiaries - Jurong Shipyard Pte Ltd, Sembcorp Marine Repairs and Upgrades Pte Ltd and Sembcorp Marine Offshore Platforms Pte Ltd ("Issuing Subsidiaries"), may from time to time issue notes (the "Notes") and/or perpetual securities (the "Perpetual Securities", and together with the Notes, the "Securities") denominated in Singapore dollars and/or any other currency as the relevant Issuer and the relevant dealer may agree. The obligations in respect of Securities issued by the Issuing Subsidiaries will be unconditionally and irrevocably guaranteed by the Company.

NOTES TO THE FINANCIAL STATEMENTS

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24 INTEREST-BEARING BORROWINGS AND SUBORDINATED LOAN (CONT'D)

(a) Unsecured term loans (cont'd)

In 2014, Jurong Shipyard Pte Ltd issued the following medium term notes under the Programme:

	Nominal interest rate	Year of issue	Year of maturity	Principal amount $'000
S$ medium term notes	2.95%	2014	2021	275,000
S$ medium term notes	3.85%	2014	2029	325,000
				600,000

As at 31 December 2020, an amount of $nil (2019: $167,500,000) for the medium term notes maturing in 2021 was subscribed by a related corporation.

(b) Subordinated loan

On 21 June 2019, the Company's subsidiary, Sembcorp Marine Financial Services Pte. Ltd., secured a five-year subordinated loan facility from Sembcorp Financial Services Pte. Ltd., a subsidiary of Sembcorp Industries Ltd of $2,000,000,000, of which $1,500,000,000 was drawn down on 8 July 2019 to retire short term borrowings and re-profile the remaining borrowings with longer term maturities.

The details of the loan facility are as follows:

Borrower	:	Sembcorp Marine Financial Services Pte. Ltd.
Guarantor	:	Sembcorp Marine Ltd
Lender	:	Sembcorp Financial Services Pte. Ltd.
Loan amount	:	Facility A: $1,500,000,000 Facility B: $500,000,000
Maturity dates	:	Facility A: 8 July 2024 Facility B: 5 years from drawdown
Interest payment dates	:	Facility A: Payable semi-annually in arrear Facility B: One, three or six months
Interest rate	:	Facility A: Fixed rate @ 3.55% per annum Facility B: SOR + 1.91% per annum
Undertakings	:	Customary undertakings such as negative pledge with agreed carve outs, restrictions in borrowings and dividend payments, while not restricting its ability to conduct its business efficiently

During the year, the Company carried out a recapitalisation via a rights issue exercise. The gross proceeds from the rights issue was $2,092,538,000, of which $1,500,000,000 had been used to settle the outstanding principal under the subordinated loan. The amount was settled through set-off of loan against receivable from Sembcorp Industries Ltd for the rights shares subscribed by it, and the five-year subordinated loan facility lapsed upon completion of the rights issue.

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24 INTEREST-BEARING BORROWINGS AND SUBORDINATED LOAN (CONT'D)

(b) Subordinated loan (cont'd)

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Interest-bearing borrowings $'000	Lease liabilities $'000	Total $'000
Group			
Balance at 1 January 2020	4,400,792	278,098	4,678,890
Cash flows			
Cash payments	(1,736,533)	(26,985)	(1,763,518)
Cash payments on termination	–	(50)	(50)
Cash proceeds	2,397,351	–	2,397,351
Non-cash items			
Settled by issue of rights shares	(1,500,000)	–	(1,500,000)
Additions	–	25,237	25,237
Capitalised borrowing cost	–	16,410	16,410
Termination	–	(658)	(658)
Foreign exchange movement	(11,816)	(485)	(12,301)
Balance at 31 December 2020	3,549,794	291,567	3,841,361
Balance at 1 January 2019	4,227,445	274,057	4,501,502
Cash flows			
Cash payments	(2,547,941)	(25,859)	(2,573,800)
Cash proceeds	2,732,839	–	2,732,839
Non-cash items			
Additions	–	21,674	21,674
Capitalised borrowing cost	–	9,382	9,382
Foreign exchange movement	(11,551)	(1,156)	(12,707)
Balance at 31 December 2019	4,400,792	278,098	4,678,890

NOTES TO THE FINANCIAL STATEMENTS

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25 SHARE CAPITAL

	Group and Company No. of ordinary shares 2020	2019
Issued and fully paid, with no par value:		
Balance at 1 January	2,090,904,569	2,089,760,107
Restricted shares released	2,050,445	1,144,462
Rights issue	10,462,690,870	–
Balance at 31 December	12,555,645,884	2,090,904,569

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares (excluding treasury shares) rank equally with regard to the Company's residual assets.

The Company did not issue (2019: issued 745,644) treasury shares during the year pursuant to its share based incentive plans (Note 37).

On 11 September 2020, the Company issued 5 rights shares for every 1 existing ordinary share in the capital of the Company at $0.20 per rights share held by the shareholders of the Company. The Company raised gross proceeds of $2,092,538,000 from the rights issue, with SCI subscribing $1,500,000,000 of rights shares from the rights issue which was settled via set off against the $1,500,000,000 outstanding under its subordinated loan extended to the Company.

After the completion of rights issue, SCI distributed its stake in the Company to its shareholders on a *pro rata* basis as dividends, resulting in a demerger of the Company from SCI.

26 OTHER RESERVES

		Group		Company	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Distributable					
Reserve for own shares	(a)	(771)	(771)	(771)	(771)
Non-distributable					
Currency translation reserve	(b)	(32,334)	(27,455)	–	–
Share-based payments reserve	(c)	(25,157)	(24,519)	(23,050)	(22,412)
Hedging reserve	(d)	2,390	9,432	–	–
Capital reserves	(e)	(1,683)	(1,683)	960	960
		(57,555)	(44,996)	(22,861)	(22,223)

(a) Reserve for own shares comprises the cost of the Company's shares held by the Company. As at 31 December 2020, the Company holds 416,840 (2019: 416,840) of its own shares as treasury shares.

(b) The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the presentation currency of the Group.

(c) Share-based payments reserve comprises the cumulative value of services received from employees recorded on grant of equity-settled share options, performance shares and performance based restricted shares. The expense for service received is recognised over the performance period and/or vesting period.

(d) Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

(e) Capital reserves comprise mainly reserves arising from acquisition and disposals of non-controlling interests that do not result in a change of control.

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27 TURNOVER

Turnover represents sales from the various activities described in Note 1 and Note 45, including the revenue recognised on contracts relating to rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding.

	Group 2020 $'000	Group 2019 $'000
Contract revenue	1,485,290	2,871,362
Charter hire income	22,492	2,224
Services rendered	–	4,441
Sale of goods	2,498	4,533
	1,510,280	2,882,560

(a) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical markets, major product and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 43).

	Reportable segments			
	Rigs & floaters, Repairs & upgrades, Offshore platforms and Specialised shipbuilding $'000	Ship chartering $'000	Others $'000	Total $'000
Primary geographical markets				
2020				
Singapore	228,101	7,111	2,498	237,710
United Kingdom	120,678	–	–	120,678
Norway	207,971	–	–	207,971
France	47,022	–	–	47,022
The Netherlands	8,084	15,381	–	23,465
Brazil	148,484	–	–	148,484
U.S.A.	274,357	–	–	274,357
Other countries	450,593	–	–	450,593
Total	1,485,290	22,492	2,498	1,510,280
2019				
Singapore	160,665	–	8,974	169,639
United Kingdom	175,200	–	–	175,200
Norway	667,640	–	–	667,640
France	350,015	–	–	350,015
The Netherlands	71,396	2,224	–	73,620
Brazil	358,604	–	–	358,604
U.S.A.	823,732	–	–	823,732
Other countries	264,110	–	–	264,110
Total	2,871,362	2,224	8,974	2,882,560

NOTES TO THE FINANCIAL STATEMENTS

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27 TURNOVER (CONT'D)

(a) Disaggregation of revenue from contracts with customers (cont'd)

	Rigs & floaters, Repairs & upgrades, Offshore platforms and Specialised shipbuilding $'000	Ship chartering $'000	Others $'000	Total $'000
2020				
Major product and service lines				
Ship and rig building or conversion	673,763	–	–	673,763
Repair, maintenance and related services	424,639	–	–	424,639
Offshore platforms	310,067	–	–	310,067
Specialised shipbuilding	55,481	–	–	55,481
Charter hire	–	22,492	–	22,492
Sale of goods	–	–	2,498	2,498
Others	21,340	–	–	21,340
Total	1,485,290	22,492	2,498	1,510,280
Timing of revenue recognition				
Control transferred over time	1,440,072	22,492	–	1,462,564
Control transferred at a point in time	45,218	–	2,498	47,716
Total	1,485,290	22,492	2,498	1,510,280
2019				
Major product and service lines				
Ship and rig building or conversion	2,103,752	–	–	2,103,752
Repair, maintenance and related services	605,431	–	–	605,431
Offshore platforms	130,538	–	–	130,538
Charter hire	–	2,224	–	2,224
Services rendered	–	–	4,441	4,441
Sale of goods	–	–	4,533	4,533
Others	31,641	–	–	31,641
Total	2,871,362	2,224	8,974	2,882,560
Timing of revenue recognition				
Control transferred over time	2,608,475	2,224	4,441	2,615,140
Control transferred at a point in time	262,887	–	4,533	267,420
Total	2,871,362	2,224	8,974	2,882,560

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

27 TURNOVER (CONT'D)

(b) Transaction price allocated to remaining performance obligation

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at reporting date:

Reportable segments	Estimated based on expected project progress Within the next 12 months $'000	Between 1 to 5 years $'000	More than 5 years $'000	Total $'000
2020				
Rigs & floaters, Repairs & upgrades, Offshore platforms and Specialised shipbuilding	1,313,110	193,337	–	1,506,447
2019				
Rigs & floaters, Repairs & upgrades, Offshore platforms and Specialised shipbuilding	1,787,480	648,773	–	2,436,253

The Group applies the practical expedient in paragraph 121 of SFRS(I) 15 and does not disclose information about remaining performance obligations that have an original expected duration of one year or less, as allowed by SFRS(I) 15.

28 OPERATING LOSS

Detailed below are the key amounts recognised in arriving at operating loss:

	Note	Group 2020 $'000	2019 $'000
Amortisation of intangible assets	13	27,929	27,530
Audit fees paid/payable			
– auditors of the Company		656	579
– other member firms of KPMG International		369	355
Non-audit fees paid/payable			
– auditors of the Company		35	83
– other member firms of KPMG International		42	16
Allowance for/(write-back of) doubtful debts and bad debts, net		9,020	(338)
Depreciation of property, plant and equipment, and right-of-use assets	4, 5	173,800	214,938
Negative goodwill		–	(4,999)(1)
Changes in fair value of financial instruments		(19,764)	(2,619)
Foreign currency exchange loss, net		20,579	3,357
(Gain)/loss on disposal of property, plant and equipment, net		(947)	2,428
Impairment losses on property, plant and equipment	4	48,989	541
Impairment losses on right-of-use assets	5	74,191	–
Inventories written down/(back), net	15	34,179	(651)
Property, plant and equipment written off		43	3,042
Government grants		(95,685)	(710)
Staff costs	(a)	353,812	415,677

(1) Arose mainly due to fair value adjustments on completion of valuation and final allocation of purchase price for acquisitions of subsidiary and intellectual property rights in 2018. Purchase price adjustments, which are non-cash in nature, made during the measurement period had not been applied retrospectively as these adjustments, which relate mainly to balance sheet effects and certain consequential income statement effects, were immaterial to the Group.

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28 OPERATING LOSS (CONT'D)

		Group	
		2020 $'000	2019 $'000
(a)	**Staff costs**		
	Salaries and bonus	284,203	342,679
	Defined contribution plan	28,689	37,947
	Equity-settled share-based payments	1,466	3,472
	Cash-settled share-based payments	(5)	(1,204)
	Directors' fee	1,970	2,010
	Other employee benefits	37,489	30,773
		353,812	415,677

29 FINANCE INCOME AND FINANCE COSTS

	Group	
	2020 $'000	2019 $'000
Finance income		
Interest income from:		
– Trade receivables and contracts with customers	49,466	85,508
– Fixed deposits and bank balances	1,957	7,021
– Joint venture	202	531
	51,625	93,060
Net dividend from unquoted investment	–	215
	51,625	93,275
Finance costs		
Interest expense on lease liabilities	16,410	9,382
Interest paid and payable to:		
– Bank and others	113,298	113,838
– Commitment and facility fee	10,947	5,252
Unwind of discount on restoration costs	1,147	1,555
	141,802	130,027

30 NON-OPERATING INCOME

	Group	
	2020 $'000	2019 $'000
Non-operating income:		
– Gain on disposal of a joint venture	–	185
– Gain on disposal of asset held for sale	501	–
	501	185

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31 SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

	Note	Group 2020 $'000	Group 2019 $'000
Share of loss before tax for the year		948	(1,130)
Share of tax for the year		(435)	(473)
	32	513	(1,603)

32 TAX CREDIT

	Note	Group 2020 $'000	Group 2019 $'000
Current tax expense/(credit)			
Current year		4,028	4,168
Under/(over) provided in prior years		1,233	(7,567)
		5,261	(3,399)
Deferred tax expense/(credit)			
Movements in temporary differences		(89,709)	(31,028)
Under/(over) provided in prior years		948	(2,346)
		(88,761)	(33,374)
Tax credit		(83,500)	(36,773)

Reconciliation of effective tax rate

	Note	Group 2020 $'000	Group 2019 $'000
Loss for the year		(587,208)	(140,187)
Tax credit		(83,500)	(36,773)
Share of results of associates and joint ventures	31	(513)	1,603
Loss before share of results of associates and joint ventures, and tax credit		(671,221)	(175,357)
Tax calculated using Singapore tax rate of 17% (2019: 17%)		(114,108)	(29,811)
Exempt income, capital gains and tax incentives/concessions		(15,258)	(13,779)
Effect of different tax rates in foreign jurisdictions		(11,268)	1,284
Tax adjustment on changes in undistributed profits from foreign entities		(82,767)	(12,013)
Effect on utilisation of deferred tax assets not previously recognised		(103)	(601)
Non-deductible expenses		30,814	6,978
Under/(over) provision in respect of prior years		2,181	(9,913)
Deferred tax assets not recognised		106,990	21,036
Others		19	46
Tax credit		(83,500)	(36,773)

As at 31 December 2020, certain subsidiaries have unutilised tax losses and capital and investment allowances of $805,422,000 (2019: $524,567,000) and other deductible temporary differences of $263,000 (2019: $277,000) that have not been recognised and are available for set-off against future taxable income subject to the tax provisions and agreement by the relevant tax authorities of the various jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

33 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income are set out below:

	2020			2019		
	Before tax $'000	Tax expense $'000	Net of tax $'000	Before tax $'000	Tax expense $'000	Net of tax $'000
Group						
Items that may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	(4,814)	–	(4,814)	(12,823)	–	(12,823)
Net change in fair value of cash flow hedges	(19,220)	3,459	(15,761)	15,559	(2,776)	12,783
Net change in fair value of cash flow hedges transferred to profit or loss	10,505	(1,786)	8,719	(6,926)	1,177	(5,749)
Realisation of reserve upon disposal of subsidiaries	–	–	–	(539)	–	(539)
Other comprehensive income	(13,529)	1,673	(11,856)	(4,729)	(1,599)	(6,328)

34 NON-CONTROLLING INTERESTS

The following subsidiaries have material non-controlling interests:

Name of company	Country of incorporation	Operating segment	Ownership interests held by non-controlling interests 2020 %	2019 %
Gravifloat AS	Norway	Engineering and related services	44	44

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

34 NON-CONTROLLING INTERESTS (CONT'D)

The following summarises the financial information of each of the Group's subsidiaries with material non-controlling interest, based on their respective (consolidated) financial statements prepared in accordance with SFRS(I), modified for fair value adjustments on acquisition and differences in the Group's accounting policies.

	Gravifloat AS $'000	Other individually immaterial subsidiaries $'000	Intra-group elimination $'000	Total $'000
31 December 2020				
Revenue	–			
Loss for the year	(10,481)			
Other comprehensive income	1			
Total comprehensive income	(10,480)			
Attributable to non-controlling interests:				
Loss for the year	(4,612)	(86)	–	(4,698)
Other comprehensive income	–*	65	–	65
Total comprehensive income	(4,612)	(21)	–	(4,633)
Non-current assets	69,450			
Current assets	46			
Non-current liabilities	(15,293)			
Current liabilities	(59)			
Net assets	54,144			
Net assets attributable to non-controlling interests	23,824	4,927	–	28,751
Cash flows from operating activities	–*			
Cash flows from investing activities	–*			
Cash flows from financing activities	–*			
Net decrease in cash and cash equivalents	–*			
31 December 2019				
Revenue	–			
Loss for the year	(7,667)			
Other comprehensive income	(40)			
Total comprehensive income	(7,707)			
Attributable to non-controlling interests:				
Loss for the year	(3,374)	361	–	(3,013)
Other comprehensive income	(18)	(172)	–	(190)
Total comprehensive income	(3,392)	189	–	(3,203)
Non-current assets	82,906			
Current assets	13			
Non-current liabilities	(18,253)			
Current liabilities	(80)			
Net assets	64,586			
Net assets attributable to non-controlling interests	28,418	5,052	–	33,470
Cash flows from operating activities	–*			
Cash flows from investing activities	–*			
Cash flows from financing activities	–*			
Net decrease in cash and cash equivalents	–*			

* Amount is immaterial to meaningfully disclose it.

NOTES TO THE FINANCIAL STATEMENTS

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35 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to owners of the Company of $582,510,000 (2019: $137,174,000) by the weighted average number of ordinary shares outstanding of 5,353,182,000 (2019: 2,169,699,000) as follows:

	Group 2020 $'000	Group 2019* $'000
Loss attributable to owners of the Company	(582,510)	(137,174)

	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	2,169,699	2,089,760
Effect of performance shares and restricted shares released	1,025	419
Effect of own shares held	(417)	(1,162)
Effect of rights issue	2,615,673	–
Effect of bonus factor	567,202	80,682
Weighted average number of ordinary shares during the year	5,353,182	2,169,699

* With the completion of the issuance of rights shares on 11 September 2020, prior year comparatives for earnings per share were restated per SFRS(I)1-33 through retrospective application of a bonus factor to the weighted average number of shares. The bonus factor is derived from the division of fair value per share immediately before the exercise of rights by the theoretical ex-rights fair value.

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the loss attributable to owners of the Company of $582,510,000 (2019: $137,174,000) by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 5,353,182,000 (2019: 2,169,699,000) as follows:

	Group 2020 $'000	Group 2019 $'000
Loss attributable to owners of the Company	(582,510)	(137,174)

	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	5,353,182	2,169,699
Effect of dilutive shares	–*	–*
Weighted average number of ordinary shares during the year	5,353,182	2,169,699

* Effect of dilutive shares is immaterial to meaningfully disclose it.

For the purpose of calculating diluted earnings per ordinary share, the weighted average number of ordinary shares outstanding is adjusted for the effects of dilutive potential ordinary shares.

36 DIVIDENDS

No dividends had been declared or proposed in respect of the year ended 31 December 2020 and 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

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37 SHARE-BASED INCENTIVE PLANS

Following the expiry of the Company's Performance Share Plan 2010 ("SCM PSP 2010") and Restricted Share Plan ("SCM RSP 2010"), the Company's Performance Share Plan ("SCM PSP 2020") and Restricted Share Plan ("SCM RSP 2020") (collectively, the "2020 Share Plans") were approved and adopted by the shareholders at the Annual General Meeting of the Company held on 20 May 2020.

The SCM RSP 2020 is the incentive scheme for directors and employees of the Company and its subsidiaries (the "Group") whereas the SCM PSP 2020 is aimed primarily at key executives of the Group.

The 2020 Share Plans are intended to increase the Company's flexibility and effectiveness in its continuing efforts to attract, retain and incentivise participants to higher standards of performance and encourage greater dedication and loyalty by enabling the Company to give recognition to past contributions and services; as well as motivating participants to contribute to the long-term prosperity of the Group. The 2020 Share Plans will strengthen the Company's competitiveness in attracting and retaining talented key senior management and senior executives.

The SCM RSP 2020 is intended to apply to a broad base of senior executives as well as to the non-executive directors, while the SCM PSP 2020 is intended to apply to a select group of key senior management. Generally, it is envisaged that the range of performance targets to be set under the SCM RSP 2020 and the SCM PSP 2020 will be different, with the latter emphasising stretched or strategic targets aimed at sustaining longer term growth.

The 2020 Share Plans will provide incentives to high performing key senior management and senior executives to excel in their performance and encourage greater dedication and loyalty to the Company. Through the 2020 Share Plans, the Company will be able to motivate key senior management and senior executives to continue to strive for the Group's long-term shareholder value. In addition, the 2020 Share Plans aim to foster a greater ownership culture within the Group which align the interests of participants with the interests of shareholders, and to improve performance and achieve sustainable growth for the Company in the changing business environment.

The 2020 Share Plans use methods fairly common among major local and multinational companies to incentivise and motivate key senior management and senior executives to achieve pre-determined targets which create and enhance economic value for shareholders. The Company believes that the 2020 Share Plans will be effective tools in motivating key senior management and senior executives to strive to deliver long-term shareholder value.

While the 2020 Share Plans cater principally to Group executives, it is recognised that there are other persons who can make significant contributions to the Group through their close working relationship with the Group. Such persons include employees of associates over which the Company has operational control.

A participant's awards under the 2020 Share Plans will be determined at the sole discretion of the Committee. In considering an award to be granted to a participant, the Committee may take into account, *inter alia*, the participant's performance during the relevant period, and his capability, entrepreneurship, scope of responsibility and skill set.

Other information regarding the 2020 Share Plans is as follows:

(a) Performance Share Plan

During the year, the Group charged $756,000 (2019: $1,529,000) to profit or loss based on the fair value of the performance shares at the grant date being expensed over the vesting period.

(b) Restricted Share Plan

During the year, the Group charged $710,000 (2019: $1,943,000) to profit or loss based on the fair value of restricted shares at the grant date being expensed over the vesting period.

(c) Sembcorp Marine Challenge Bonus

During the year, the Group wrote-back charges of $5,000 (2019: $1,204,000) to profit or loss based on the market values of the shares at the balance sheet date. The fair value of the compensation cost is based on the notional number of restricted shares awarded for the Sembcorp Marine Challenge Bonus and the market price at the vesting date.

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38 ACQUISITION OF SUBSIDIARY AND INTELLECTUAL PROPERTY RIGHTS

In 2018, the Company's wholly-owned subsidiary, Sembcorp Marine Integrated Yard Pte. Ltd. ("SMIY"), acquired the title to all of Sevan Marine ASA ("Sevan Marine")'s intellectual property, and 95% of the shares of HiLoad LNG AS ("HiLoad"), a Sevan Marine subsidiary. The intellectual property acquired relates mainly to patents for the geostationary cylindrical hull design. In addition, SMIY acquired the balance 5% equity interest in HiLoad from a minority shareholder. Consequently, the intangible asset and financial statements of HiLoad were consolidated into the Group's financial statements.

Consideration transferred

The final allocation of the purchase price to the identifiable assets acquired and liabilities assumed in the business combination was completed in 2019.

The following table summarises the estimated fair value of the assets acquired and liabilities assumed as at the date of acquisition and has been updated for the finalisation of the purchase equation:

		2018 $'000
(a)	**Effect on cash flows of the Group**	
	Cash paid	54,619
	Less: Cash and cash equivalents in subsidiary acquired	(25)
	Cash outflow on acquisition	54,594

		Note	As reported 2018 $'000	Fair value Adjustment[1] $'000	Final purchase equation in 2019 $'000
(b)	**Identifiable assets acquired and liabilities assumed**				
	Intangible assets	13	54,604	5,829	60,433
	Trade and other receivables		5	–	5
	Cash and cash equivalents		25	–	25
	Total assets		54,634	5,829	60,463
	Trade and other payables		15	48	63
	Deferred tax liabilities		–	1,634	1,634
	Total liabilities		15	1,682	1,697
	Net identifiable assets		54,619	4,147	58,766
	Add: Goodwill		–	852	852
	Less: Negative goodwill		–	(4,999)	(4,999)
	Consideration transferred for the business		54,619	–	54,619

In 2019, negative goodwill of $4,999,000 is recognised within other operating income in profit or loss. It arose mainly due to fair value adjustments on completion of valuation and final allocation of purchase price for the acquisition.

(1) Purchase price adjustments, which are non-cash in nature, made during the measurement period have not been applied retrospectively as these adjustments, which relate mainly to balance sheet effects and certain consequential income statement effects, are immaterial to the Group.

NOTES TO THE FINANCIAL STATEMENTS

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39 RELATED PARTIES

(a) Related party transactions

In addition to those disclosed elsewhere in the financial statements, the Group had the following outstanding balances and significant transactions with related parties during the year:

	Outstanding balances Group		Significant transactions Group	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Immediate holding company				
Management fee payable	–	(500)	–	(250)
Others	–	(135)	–	(286)
Related corporations				
Sales	71	125	583	111
Purchases	(2,035)	(2,482)	(27,692)	(40,390)
Payment on behalf	–	–	–	30
Rental income	–	–	–	3
Finance income	–	–	484	875
Finance costs	–	(30,306)	(55,173)	(49,783)
Others	–	–	(121)	–
Associates and joint ventures				
Sales	194	218	5	40
Purchases	(1,037)	(2,022)	(6,400)	(7,878)
Finance income	–	292	202	531
Others	(357)	(21)	51	40

(b) Compensation of key management personnel

During the year and in prior year, the Group considers the directors of the Company (including the President & Chief Executive Officer of the Company), the Executive Vice President & Head of Singapore Yard Operations, the Group Finance Director, the Executive Vice President & Head of Rigs & Floaters, the Chief Financial Officer and the Chief Human Resource Officer of the Company to be key management personnel in accordance with SFRS(I) 1-24 *Related Party Disclosures*.

These persons have the authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation is as follows:

	Group	
	2020 $'000	2019 $'000
Directors' fees and remuneration	2,978	3,794
Other key management personnel remuneration	2,348	2,673
	5,326	6,467
Fair value of share-based compensation	742	1,461

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39 RELATED PARTIES (CONT'D)

(b) Compensation of key management personnel (cont'd)

Remuneration includes salary (which includes allowances, fees and other emoluments) and bonuses (which includes AWS, discretionary bonus and performance targets bonus).

In addition to the above, the Company provides medical benefits to all employees including key management personnel.

The Group adopts an incentive compensation plan, which is tied to the creation of Economic Value Added ("EVA"), as well as to attainment of individual and Group performance goals for its key executives. A "bonus bank" is used to hold incentive compensation credited in any year. Typically, one-third of the available balance is paid out in cash each year, with the balance being carried forward to the following year. The balances of the bonus bank in future will be adjusted by the yearly EVA performance of the Group and its subsidiaries and the payouts made from the bonus bank.

The fair value of share-based compensation relates to performance shares and restricted shares granted that were charged to profit or loss.

40 FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's activities expose it to market risk (including interest rate risk, foreign currency risk and price risk), credit risk and liquidity risk.

As part of the Group's Enterprise Risk Management framework, the Group's treasury policies and financial authority limits are documented and reviewed periodically. The policies set out the parameters for management of Group liquidity, counterparty risk, foreign exchange and derivative transactions and financing.

The Group utilises foreign exchange contracts, interest rate swaps and various financial instruments to manage exposures to interest rate and foreign exchange risks arising from operating, financing and investment activities. Exposures to foreign currency risks are also hedged naturally by a matching sale or purchase of a matching asset or liability of the same currency and amount where possible. All such transactions must involve underlying assets or liabilities and no speculative transactions are allowed.

The financial authority limits seek to limit and mitigate transactional risks by setting out the threshold of approvals required for the entry into contractual obligations and investments.

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and reduce market risk exposures within acceptable parameters.

(i) Interest rate risk

The Group's exposure to market risk for changes in interest rate environment relates mainly to its debt obligations.

The Group's policy is to maintain an efficient and optimal interest cost structure using a mix of fixed and variable rate debts and long-term and short-term borrowings.

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40 FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(i) Interest rate risk (cont'd)

The Group's risk management policy is to ensure that at least 50% of its debt portfolio is at fixed interest rates. This is achieved partly by entering into fixed-rate instruments and partly by borrowing at a floating rate and using interest rate swaps to hedge the variability in cash flows attributable to the floating interest rates.

The Group designates the interest rate swaps in their entirety to hedge its interest rate risk and applies a hedge ratio of 1:1. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item by looking at the critical terms.

In these hedge relationships, the main source of ineffectiveness is the effect of the counterparties' and the Group's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates.

Hedging relationships that are impacted by IBOR reform may experience ineffectiveness because of a timing mismatch between the hedged item and the hedging instrument regarding IBOR transition. For further details, see 'Managing interest rate benchmark reform and associated risks' below.

At 31 December 2020, the Group had interest rate swaps with an aggregate notional amount of $283,680,000 (2019: $1,010,330,000). The Group receives a variable interest rate and pays a fixed rate interest ranging from 2.05% to 3.02% (2019: 2.95% to 5.53%) per annum on the notional amount. Interest rate swaps with notional amounts of $nil (2019: $225,000,000) were entered with a related corporation. Of the Group's interest-bearing borrowings, over 50% (2019: over 50%) are not subjected to interest rate repricing risk.

Sensitivity analysis

It is estimated that 50 basis points ("bp") change in interest rate at the reporting date would increase/(decrease) equity and profit before tax by the following amounts. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit before tax		Equity	
	50 bp Increase $'000	50 bp Decrease $'000	50 bp Increase $'000	50 bp Decrease $'000
Group				
31 December 2020				
Variable rate financial instruments	(1,439)	1,439	534	(540)
31 December 2019				
Variable rate financial instruments	(2,315)	2,315	1,807	(1,827)
Company				
31 December 2020				
Variable rate financial instruments	2,477	(2,477)	–	–
31 December 2019				
Variable rate financial instruments	101	(101)	–	–

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(ii) Foreign currency risk

The Group operates globally and is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company and its subsidiaries. The currencies in which these transactions are primarily denominated in are Singapore dollars ("SGD"), United States dollars ("USD"), Euros ("EUR"), Pounds sterling ("GBP") and Brazilian Real ("BRL"). Such risks are hedged either by forward foreign currency contracts in respect of actual or forecasted currency exposures which are reasonably certain or hedged naturally by a matching sale or purchase of a matching asset or liability of the same currency and amount. Forward foreign currency contracts with notional amounts of $nil (2019: $664,260,000) were entered with a related corporation.

The Group's risk management policy is to hedge 50% to 100% of its estimated net foreign currency exposure in respect of its forecasted project cash inflows and outflows over the lifespans of the projects.

The Group designates the forward foreign currency contracts in their entirety to hedge its foreign currency risk and applies a hedge ratio of 1:1. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item by looking at the critical terms.

In these hedge relationships, the main sources of ineffectiveness may be due to:

- the effect of the counterparties' and the Group's own credit risk on the fair value of the forward foreign currency contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

40 FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(ii) *Foreign currency risk* (cont'd)

The summary of quantitative data about the Group's exposure to foreign currency risk as provided to the management of the Group based on its risk management policy is as follows:

	SGD $'000	USD $'000	EUR $'000	GBP $'000	BRL $'000	Others $'000	Total $'000
Group							
31 December 2020							
Financial assets							
Cash and cash equivalents	8,941	51,770	4,765	11,848	5,751	4,492	87,567
Trade and other receivables	277,322	2,065,363	60,059	24,967	45,234	13,000	2,485,945
	286,263	2,117,133	64,824	36,815	50,985	17,492	2,573,512
Financial liabilities							
Trade and other payables	(114,658)	(389,775)	(87,750)	(12,015)	(66,940)	(25,653)	(696,791)
Interest-bearing borrowings	(120,001)	(379,651)	–	–	–	–	(499,652)
Lease liabilities	(17,352)	(42,987)	–	–	(13)	–	(60,352)
	(252,011)	(812,413)	(87,750)	(12,015)	(66,953)	(25,653)	(1,256,795)
Net financial assets/(liabilities)	34,252	1,304,720	(22,926)	24,800	(15,968)	(8,161)	1,316,717
Add: Contract assets	–	1,074,761	107,998	–	–	16,527	1,199,286
Add: Firm commitments and highly probable forecast transactions in foreign currencies	621	371,170	(83,918)	1,991	–	(47,184)	242,680
Less: Foreign currency forward contracts	(133,680)	(1,708,104)	(112,612)	–	–	–	(1,954,396)
Net currency exposure	(98,807)	1,042,547	(111,458)	26,791	(15,968)	(38,818)	804,287
31 December 2019							
Financial assets							
Cash and cash equivalents	4,989	56,330	5,215	179	4,766	2,018	73,497
Trade and other receivables	36,909	2,087,413	14,625	24	20,460	21,366	2,180,797
	41,898	2,143,743	19,840	203	25,226	23,384	2,254,294
Financial liabilities							
Trade and other payables	(93,421)	(498,174)	(60,561)	(2,541)	(69,532)	(25,035)	(749,264)
Interest-bearing borrowings	(20)	(392,796)	–	–	–	–	(392,816)
Lease liabilities	(21,721)	(48,085)	–	–	(183)	–	(69,989)
	(115,162)	(939,055)	(60,561)	(2,541)	(69,715)	(25,035)	(1,212,069)
Net financial (liabilities)/assets	(73,264)	1,204,688	(40,721)	(2,338)	(44,489)	(1,651)	1,042,225
Add: Contract assets	–	1,139,919	76,958	–	–	13,753	1,230,630
Add: Firm commitments and highly probable forecast transactions in foreign currencies	(1,149)	176,880	(122,116)	(8,786)	–	(40,963)	3,866
Less: Foreign currency forward contracts	–	(1,775,912)	(100,774)	–	–	–	(1,876,686)
Net currency exposure	(74,413)	745,575	(186,653)	(11,124)	(44,489)	(28,861)	400,035

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(ii) Foreign currency risk (cont'd)

The Company's gross exposure to foreign currencies is as follows:

	USD $'000	Others $'000	Total $'000
Company			
31 December 2020			
Financial assets			
Cash and cash equivalents	2	–	2
Trade and other receivables	537	9,626	10,163
	539	9,626	10,165
Financial liabilities			
Trade and other payables	(1,550)	–	(1,550)
Net financial (liabilities)/assets	(1,011)	9,626	8,615
31 December 2019			
Financial assets			
Cash and cash equivalents	352	–	352
Trade and other receivables	113	9,637	9,750
	465	9,637	10,102
Financial liabilities			
Trade and other payables	(1,383)	(19)	(1,402)
Net financial (liabilities)/assets	(918)	9,618	8,700

Sensitivity analysis

A 10% strengthening of the following currencies against the functional currencies of the Company and its subsidiaries at the balance sheet date would have increased/(decreased) equity and profit before tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of firm commitments (not subject to fair value hedges) and highly probable forecast transactions in foreign currencies. The analysis is performed on the same basis for 2019.

	Group		Company	
	Equity $'000	Profit before tax $'000	Equity $'000	Profit before tax $'000
2020				
SGD	–	(10,003)	–	–
USD	(90,791)	179,962	–	(101)
EUR	(9,567)	8,507	–	–
GBP	–	2,479	–	–
BRL	–	(1,597)	–	–
Others	–	836	–	963
2019				
SGD	–	(7,326)	–	–
USD	(93,129)	170,723	–	(92)
EUR	(7,991)	3,624	–	–
GBP	–	(235)	–	–
BRL	–	(4,449)	–	–
Others	–	1,211	–	962

A 10% weakening of the above currencies against the functional currencies of the Company and its subsidiaries at the balance sheet date would have equal but opposite effects on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(iii) Price risk

As at 31 December 2018, the Group is not exposed to significant price risk as its quoted equity securities and unit trust was disposed during the year. No acquisition of equity instruments was done during the year.

(iv) Cash flow hedges

At the reporting date, the Group held the following instruments to hedge exposures to changes in foreign currency and interest rates:

	Forward contract rate $	Interest rate %	Maturity Within 1 year $'000	Between 1 to 5 years $'000	More than 5 years $'000
2020					
Foreign currency risk					
Forward foreign currency contracts (Buy/Sell)					
– SGD/USD	1.33 – 1.43	–	1,638,348	202,675	–
– USD/SGD	0.75	–	266,599	–	–
– SGD/EUR	1.54 – 1.64	–	112,612	–	–
Interest rate risk					
Interest rate swaps					
– Float-to-fixed	–	2.05 – 3.02	150,000	133,680	–
2019					
Foreign currency risk					
Forward foreign currency contracts (Buy/Sell)					
– SGD/USD	1.32 – 1.38	–	1,122,421	653,492	–
– SGD/EUR	1.58 – 1.63	–	66,158	34,616	–
Interest rate risk					
Interest rate swaps					
– Float-to-fixed	–	2.95 – 5.53	785,330	225,000	–

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(iv) Cash flow hedges (cont'd)

The amounts at the reporting date relating to items designated as hedged items were as follows:

	Cash flow hedge reserve for continuing hedges $'000
2020	
Foreign currency risk	
Highly probable sales	3,490
Sales receipts	(355)
Interest rate risk	
Variable rate borrowings	(745)
2019	
Foreign currency risk	
Highly probable sales	11,581
Sales receipts	3,376
Interest rate risk	
Variable rate borrowings	(5,525)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(iv) Cash flow hedges (cont'd)

The amounts related to items designated as hedging instruments and hedge ineffectiveness were as follows:

	2020				During the year 2020				
	Nominal amount $'000	Assets $'000	Liabilities $'000	Line item in the balance sheet where the hedging instrument is included	Change in value of hedging instrument recognised in OCI $'000	Hedge ineffective-ness recognised in profit or loss $'000	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from hedging reserve to profit or loss $'000	Line item affected in profit or loss because of the reclassification
Foreign currency risk									
Forward foreign currency contracts	1,221,926	16,028	3,235	Other financial assets, Other financial liabilities	(18,879)	9,069	Other operating income, Other operating expenses	(2,012)	Other operating income, Other operating expenses
Interest rate risk									
Interest rate swaps	283,680	–	819	Other financial assets, Other financial liabilities	3,118	–	Other operating income, Other operating expenses	1,662	Other operating income, Other operating expenses

	2019				During the year 2019				
	Nominal amount $'000	Assets $'000	Liabilities $'000	Line item in the balance sheet where the hedging instrument is included	Change in value of hedging instrument recognised in OCI $'000	Hedge ineffective-ness recognised in profit or loss $'000	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from hedging reserve to profit or loss $'000	Line item affected in profit or loss because of the reclassification
Foreign currency risk									
Forward foreign currency contracts	1,235,421	20,637	3,541	Other financial assets, Other financial liabilities	13,154	3,777	Other operating income, Other operating expenses	(9,526)	Other operating income, Other operating expenses
Interest rate risk									
Interest rate swaps	1,010,330	–	6,366	Other financial assets, Other financial liabilities	(371)	–	Other operating income, Other operating expenses	–	Other operating income, Other operating expenses

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(iv) Cash flow hedges (cont'd)

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting:

	$'000
Cash flow hedge reserve	
Balance at 1 January 2020	9,432
Changes in fair value:	
Foreign currency risk	(22,747)
Interest rate risk	3,527
Amount reclassified to profit or loss:	
Foreign currency risk	10,505
Tax on movements on reserves during the year	1,673
Balance at 31 December 2020	2,390
Balance at 1 January 2019	2,398
Changes in fair value:	
Foreign currency risk	15,848
Interest rate risk	(289)
Amount reclassified to profit or loss:	
Foreign currency risk	(6,926)
Tax on movements on reserves during the year	(1,599)
Balance at 31 December 2019	9,432

(b) Credit risk

The Group monitors its exposure to credit risks arising from sales to trade customers on an on-going basis, and credit evaluations are done on customers that require credit. The credit quality of customers is assessed after taking into account its financial position and past experience with the customers.

The Group only deals with pre-approved customers and financial institutions with good credit rating. To minimise the Group's counterparty risk, the Group enters into derivative transactions only with creditworthy institutions. Cash and fixed deposits are placed in banks and financial institutions with good credit rating.

The Group assumes that credit risk of a financial asset has increased significantly when the financial asset remains outstanding for more than the reasonable range of past due days, taking into consideration historical payment track records, current macroeconomics situation as well as the general industry trend.

The Group's and the Company's maximum exposure to credit risk, before taking into account any collateral held, is the carrying amount of each financial asset, including derivatives, in the balance sheets.

The carrying amount of receivables from the Group's most significant customer was $1,086,652,000 as at 31 December 2020 (2019: $1,073,249,000).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(b) Credit risk (cont'd)

Prior to 2020, payment on the outstanding receivables for the assets delivered to this customer was deferred and due only between November 2022 to January 2024. Interest is charged on the principal amount deferred. The receivable is secured over a right to repossess and to re-sell the assets delivered in the event of default by the customer.

During the year, the Group entered into an amendment agreement with this customer to defer certain portions of the interest payments to January 2022, with interest being charged on the deferred interest payments.

Post year end, a second amendment was entered into to further defer certain portions of the interest payments to March 2023, with the principal amount to be paid on May 2023 instead of the original agreed period of November 2022 to January 2024. Interest continues to be charged on the deferred principal and interest payments and all amounts due from the customer continue to be secured by first priority mortgages with legal rights to repossess and to re-sell the assets delivered in the event of default by this customer.

The above amendments to the outstanding receivables with this customer are not expected to have a detrimental impact on the estimated future cash flows of the receivables.

In 2020, the credit risk ratings of the customer has increased. Accordingly, an impairment loss of $5,266,000 (2019: $nil) was recognised on the receivable from this customer. There is no concentration of customer's credit risk at the Company level.

The Group's and the Company's maximum exposure to credit risk for financial assets at amortised cost and contract assets at the balance sheet date is as follows:

		Group		Company	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
By business activity					
Rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding		3,133,583	2,978,526	–	–
Ship chartering		4,874	2,175	–	–
Others		9,315	11,042	159,141	234,861
		3,147,772	2,991,743	159,141	234,861
Financial assets at amortised cost and contract assets					
Non-current*	10	1,105,551	1,087,148	127,700	29,396
Current	10, 12	2,042,221	1,904,595	31,441	205,465
		3,147,772	2,991,743	159,141	234,861

* Not past due.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(b) Credit risk (cont'd)

The age analysis of financial assets at amortised cost and contract assets for the Group is as follows:

	Gross 2020 $'000	Impairment 2020 $'000	Gross 2019 $'000	Impairment 2019 $'000
Group				
Not past due	3,075,448	5,880	2,948,451	94
Past due 0 to 3 months	39,859	2	22,221	31
Past due 3 to 6 months	17,974	1,666	6,716	329
Past due 6 to 12 months	9,963	393	3,084	6
More than 1 year	20,310	7,841	167,318	155,587
	3,163,554	15,782	3,147,790	156,047
Company				
Not past due	159,141	–	234,861	–

Expected credit loss (ECL) assessment for customers with credit ratings (or equivalent)

The Group allocates exposure from key customers to a credit risk grade based on data that is determined to be indicative of the risk of loss (including but not limited to external ratings if available, audited financial statements to calculate the internal risk rating using the Altman Z-score method, and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from Standards and Poor's.

ECL rate is calculated based on probabilities of default and loss given default. Lifetime probabilities of default for individual customers are based on external ratings from Bloomberg L.P. adjusted for time horizon of the credit exposure, or historical data supplied by Standards and Poor's for each credit rating. The Group monitors changes in credit risk through on-going review of customer credit worthiness and by tracking published external credit ratings.

Loss rates are adjusted for current conditions and the Group's view of economic conditions over the expected lives of the receivables only if these factors have a significant impact to the credit loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(b) Credit risk (cont'd)

The following table provides information about the exposure to credit risk and ECLs for financial assets at amortised cost and contract assets for customers with credit ratings (or equivalent):

	Credit impaired	Gross carrying amount $'000	Loss allowance $'000	Net carrying amount $'000
2020				
Group				
Receivables measured at lifetime ECL				
– Trade receivables	Yes	–	–	–
Receivables measured at lifetime ECL				
– Trade receivables and contract assets	No	3,031,906	7,777	3,024,129
Company				
Receivables measured at lifetime ECL				
– Trade receivables	No	–	–	–
2019				
Group				
Receivables measured at lifetime ECL				
– Trade receivables	Yes	154,916	154,916	–
Receivables measured at lifetime ECL				
– Trade receivables and contract assets	No	2,678,823	220	2,678,603
Company				
Receivables measured at lifetime ECL				
– Trade receivables	No	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(b) Credit risk (cont'd)

Expected credit loss assessment for customers (allowance matrix)

The Group uses an allowance matrix to measure the ECLs of trade receivables for customers not allocated specific credit ratings, which comprises large number of small balances.

Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through succession stages of delinquency to write-off.

Loss rates are based on actual credit loss experience over the past 5 years adjusted for current conditions and the Group's view of economic conditions over the expected lives of the receivables only if these factors have a significant impact to the credit loss.

The following table provides information about the exposure to credit risk and ECLs for financial assets at amortised cost and contract assets for customers with no credit rating or no representative credit rating or equivalent:

	Credit impaired	Weighted average loss rate %	Gross carrying amount $'000	Loss allowance $'000	Net carrying amount $'000
2020					
Group					
Not past due	No	0.01	110,224	10	110,214
Past due 0 to 3 months	No	–	2,770	–	2,770
Past due 3 to 6 months	No	–	948	–	948
Past due 6 to 12 months	No	14.01	2,763	387	2,376
More than 1 year	No	50.91	14,943	7,608	7,335
Total			131,648	8,005	123,643
Company					
Not past due	No	–	159,141	–	159,141
2019					
Group					
Not past due	No	–	299,638	–	299,638
Past due 0 to 3 months	No	–	2,343	–	2,343
Past due 3 to 6 months	No	11.87	2,299	273	2,026
Past due 6 to 12 months	No	–	1,751	–	1,751
More than 1 year	No	7.96	8,020	638	7,382
Total			314,051	911	313,140
Company					
Not past due	No	–	234,861	–	234,861

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YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(b) Credit risk (cont'd)

Movements in the allowance for impairment of financial assets at amortised cost and contract assets are as follows:

	Group Lifetime ECL $'000
Balance at 1 January 2020	156,047
Currency translation difference	(1,919)
Impairment loss recognised:	
– Financial assets for which credit risk has increased significantly since initial recognition but that are not credit-impaired	9,767
– Remaining financial assets	79
Loss allowance written back	(213)
Allowance utilised	(147,979)
Balance at 31 December 2020	15,782
Balance at 1 January 2019	161,648
Currency translation difference	(4,717)
Impairment loss recognised:	
– Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired)	550
– Remaining financial assets	1,694
Loss allowance written back	(2,742)
Allowance utilised	(386)
Balance at 31 December 2019	156,047

The total net impairment loss of $9,633,000 (2019: net write back of impairment loss of $498,000) have been recognised in the general and administrative expenses.

Arising from the COVID-19 pandemic, many businesses globally, including the Group's customers, have been impacted. This has resulted in increased credit risks ratings on the Group's customers. The customers are not considered credit impaired as the Group does not expect the increased credit risk ratings to have a detrimental impact on the estimated future cash flows of the receivables.

Non-trade amounts due from subsidiaries

The Company held non-trade receivables from its subsidiaries of $13,283,000 (2019: $57,042,000). These balances are amounts lent to subsidiaries to satisfy short-term funding requirements. The Company uses a similar approach for assessment of ECLs for these receivables to those used for debt investments. Impairment on these balances has been measured on the lifetime ECL basis which reflects the low credit risk of the exposures. The amount of the allowance on these balances is insignificant.

(c) Liquidity risk

The Group manages its liquidity risk with the view to maintaining a healthy level of cash and cash equivalents appropriate to the operating environment and expected cash flows of the Group. Liquidity requirements are maintained within the credit facilities established and are adequate and available to the Group to meet its obligations. The Group will continue to take steps to manage cost, cash flows and gearing to address its financial position. While the majority of contracts and new orders are secured on progressive payment terms, future new orders may result in increased working capital needs.

NOTES TO THE FINANCIAL STATEMENTS

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40 FINANCIAL INSTRUMENTS (CONT'D)

(c) Liquidity risk (cont'd)

The table below analyses the maturity profile of the Group's and Company's financial instruments (including derivatives) based on contractual undiscounted cash inflows/(outflows), including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount $'000	Cash flows Contractual cash flows $'000	Less than 1 year $'000	Between 1 and 5 years $'000	Over 5 years $'000
Group					
31 December 2020					
Derivative financial liabilities					
Interest rate swaps	(819)	(828)	(828)	–	–
Forward foreign currency contracts	(4,645)				
– Inflow		588,187	468,715	119,472	–
– Outflow		(592,832)	(472,638)	(120,194)	–
Derivative financial assets					
Forward foreign currency contracts	35,768				
– Inflow		1,632,791	1,549,588	83,203	–
– Outflow		(1,597,023)	(1,515,748)	(81,275)	–
Non-derivative financial liabilities					
Trade and other payables*#	(1,020,692)	(1,020,692)	(1,020,692)	–	–
Interest-bearing borrowings#	(3,560,134)	(3,729,371)	(2,168,488)	(1,185,799)	(375,084)
Lease liabilities	(291,567)	(693,644)	(26,550)	(101,250)	(565,844)
	(4,842,089)	(5,413,412)	(3,186,641)	(1,285,843)	(940,928)
31 December 2019					
Derivative financial liabilities					
Interest rate swaps	(6,366)	(5,757)	(5,036)	(721)	–
Forward foreign currency contracts	(3,541)				
– Inflow		387,766	163,393	224,373	–
– Outflow		(391,307)	(165,725)	(225,582)	–
Derivative financial assets					
Forward foreign currency contracts	24,520				
– Inflow		1,488,919	1,025,186	463,733	–
– Outflow		(1,464,399)	(1,009,365)	(455,034)	–
Non-derivative financial liabilities					
Trade and other payables*#	(1,294,322)	(1,294,322)	(1,294,322)	–	–
Interest-bearing borrowings#	(2,918,174)	(3,115,662)	(1,502,587)	(1,225,478)	(387,597)
Subordinated loan#	(1,526,405)	(1,772,548)	(54,599)	(1,717,949)	–
Lease liabilities	(278,098)	(687,524)	(25,224)	(112,125)	(550,175)
	(6,002,386)	(6,854,834)	(2,868,279)	(3,048,783)	(937,772)

* Excludes deposits received, advance payment from customers, Goods and Services Tax, deferred grants and long-term employee benefits.

The carrying amount of trade and other payables excludes finance costs payable while the interest-bearing borrowings and subordinated loan include finance costs payable, for the purposes of presentation of this liquidity table.

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40 FINANCIAL INSTRUMENTS (CONT'D)

(c) Liquidity risk (cont'd)

	Carrying amount $'000	Contractual cash flows $'000	Cash flows Less than 1 year $'000	Between 1 and 5 years $'000	Over 5 years $'000
Company					
31 December 2020					
Non-derivative financial liabilities					
Trade and other payables*#	(18,588)	(18,588)	(18,588)	–	–
Interest-bearing borrowings#	(50,134)	(50,367)	(50,367)	–	–
Lease liabilities	(60,846)	(70,471)	(11,275)	(38,005)	(21,191)
	(129,568)	(139,426)	(80,230)	(38,005)	(21,191)
31 December 2019					
Non-derivative financial liabilities					
Trade and other payables*#	(31,767)	(31,767)	(31,767)	–	–
Interest-bearing borrowings#	(50,155)	(50,414)	(50,414)	–	–
Lease liabilities	(45,585)	(55,509)	(7,354)	(48,155)	–
	(127,507)	(137,690)	(89,535)	(48,155)	–

* Excludes deposits received, Goods and Services Tax, deferred grant income and long-term employee benefits.

\# The carrying amount of trade and other payables excludes finance costs payable while the interest-bearing borrowings include finance costs payable, for the purposes of presentation of this liquidity table.

The following table indicates the periods in which the cash flow associated with derivatives that are cash flow hedges are expected to impact profit or loss and the fair value of the related hedging instruments:

	Carrying amount $'000	Contractual cash flows $'000	Cash flows Less than 1 year $'000	Between 1 and 5 years $'000
Group				
31 December 2020				
Derivative financial liabilities				
Interest rate swaps	(819)	(828)	(828)	–
Forward foreign currency contracts	(3,235)			
– Inflow		321,764	321,764	–
– Outflow		(324,999)	(324,999)	–
Derivative financial assets				
Forward foreign currency contracts	16,028			
– Inflow		900,161	816,958	83,203
– Outflow		(884,133)	(802,858)	(81,275)
	11,974	11,965	10,037	1,928
31 December 2019				
Derivative financial liabilities				
Interest rate swaps	(6,366)	(5,757)	(5,036)	(721)
Forward foreign currency contracts	(3,541)			
– Inflow		387,766	163,393	224,373
– Outflow		(391,307)	(165,725)	(225,582)
Derivative financial assets				
Forward foreign currency contracts	20,637			
– Inflow		847,654	532,377	315,277
– Outflow		(827,017)	(519,544)	(307,473)
	10,730	11,339	5,465	5,874

NOTES TO THE FINANCIAL STATEMENTS

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40 FINANCIAL INSTRUMENTS (CONT'D)

(d) Estimation of fair values

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 – Fair values are measured based on quoted prices (unadjusted) from active markets for identical financial instruments.
- Level 2 – Fair values are measured using inputs, other than those used for Level 1, that are observable for the financial instruments either directly (prices) or indirectly (derived from prices).
- Level 3 – Fair values are measured using inputs which are not based on observable market data (unobservable input).

Securities

The fair value of financial assets at fair value through profit or loss, and fair value through other comprehensive income, is based on quoted market prices (bid price) in an active market at the balance sheet date without any deduction for transaction costs. If the market for a quoted financial asset is not active, and for unquoted financial assets, the Group establishes fair value by using other valuation techniques.

Derivatives

The fair value of forward exchange contracts is accounted for based on the difference between the contractual price and the current market price.

The fair value of interest rate swaps is the indicative amount that the Group is expected to receive or pay to terminate the swap with the swap counterparties at the balance sheet date.

Non-derivative non-current financial assets and liabilities

Fair values determined for non-derivative non-current financial assets and liabilities are calculated based on discounted expected future principal and interest cash flows at the market rate of interest at the reporting date. This includes determination for fair value disclosure purpose as well.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

For financial instruments that are not actively traded in the market, the fair value is determined by independent third party or using valuation techniques where applicable. The Group may use a variety of methods and make assumptions that are based on existing market conditions at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used to estimate the fair value for medium term notes for disclosure purpose. Other techniques, such as estimated discounted cash flows, are used to determine the fair value for the remaining financial instruments. Where discounted cash flow techniques are used, the management will estimate the future cash flows and use relevant market rate as the discount rate at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

40 FINANCIAL INSTRUMENTS (CONT'D)

(d) Estimation of fair values (cont'd)

Non-current amount due from related parties

Fair values are calculated based on discounted expected future principal and interest cash flows at the market rate of interest at the reporting date.

Fair value hierarchy

The following table sets forth by level within the fair value hierarchy of the financial assets and liabilities that were accounted for at fair value on a recurring basis as of 31 December 2020. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

Financial assets and liabilities carried at fair value

	Fair value measurement using: Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group				
At 31 December 2020				
Financial assets at fair value through other comprehensive income				
– Unquoted equity shares	–	–	2,642	2,642
Derivative financial assets	–	35,768	–	35,768
Derivative financial liabilities	–	(5,464)	–	(5,464)
Total	–	30,304	2,642	32,946
At 31 December 2019				
Financial assets at fair value through other comprehensive income				
– Unquoted equity shares	–	–	2,642	2,642
Derivative financial assets	–	24,520	–	24,520
Derivative financial liabilities	–	(9,907)	–	(9,907)
Total	–	14,613	2,642	17,255

In 2020 and 2019, there were no transfers between the different levels of the fair value hierarchy.

*Assets and liabilities not carried at fair value but for which fair values are disclosed**

	Fair value measurement using: Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group				
At 31 December 2020				
Interest-bearing borrowings	–	(1,417,688)	–	(1,417,688)
At 31 December 2019				
Interest-bearing borrowings	–	(2,994,947)	–	(2,994,947)

* Excludes financial assets and liabilities whose carrying amounts measured on the amortised cost basis that approximate their fair values due to their short-term nature, frequent repricing, and/or where the effect of discounting is immaterial.

40 FINANCIAL INSTRUMENTS (CONT'D)

(e) Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheets are as follows:

	Note	Mandatorily at FVTPL $'000	Fair value – hedging instruments $'000	FVOCI – Unquoted equity shares $'000	Financial assets at amortised cost $'000	Other financial liabilities $'000	Total carrying amount $'000	Fair value $'000
Group								
At 31 December 2020								
Cash and cash equivalents	18	–	–	–	772,426	–	772,426	772,426
Trade and other receivables*	10	–	–	–	1,581,902	–	1,581,902	1,581,902
Financial assets at fair value through other comprehensive income								
– Unquoted equity shares	9(a)	–	–	2,642	–	–	2,642	2,642
Cash flow hedges								
– Forward foreign currency contracts	9(a)&(b)	–	16,028	–	–	–	16,028	16,028
Financial assets at fair value through profit or loss								
– Forward foreign currency contracts	9(a)&(b)	19,740	–	–	–	–	19,740	19,740
		19,740	16,028	2,642	2,354,328	–	2,392,738	2,392,738
Trade and other payables**	19	–	–	–	–	1,031,032	1,031,032	1,031,032
Cash flow hedges								
– Forward foreign currency contracts	23(a)&(b)	–	3,235	–	–	–	3,235	3,235
– Interest rate swaps	23(a)&(b)	–	819	–	–	–	819	819
Financial liabilities at fair value through profit or loss								
– Forward foreign currency contracts	23(a)&(b)	1,410	–	–	–	–	1,410	1,410
Interest-bearing borrowings								
– Short-term borrowings	24	–	–	–	–	2,121,394	2,121,394	2,121,394
– Long-term borrowings	24	–	–	–	–	1,428,400	1,428,400	1,417,688
		1,410	4,054	–	–	4,580,826	4,586,290	4,575,578

* Excludes Goods and Services Tax.

** Excludes deposits received, advance payment from customers, Goods and Services Tax, deferred grants and long-term employee benefits.

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40 FINANCIAL INSTRUMENTS (CONT'D)

(e) Fair value versus carrying amounts (cont'd)

	Note	Mandatorily at FVTPL $'000	Fair value – hedging instruments $'000	FVOCI – Unquoted equity shares $'000	Financial assets at amortised cost $'000	Other financial liabilities $'000	Total carrying amount $'000	Fair value $'000
Group								
At 31 December 2019								
Cash and cash equivalents	18	–	–	–	389,250	–	389,250	389,250
Trade and other receivables*	10	–	–	–	1,511,694	–	1,511,694	1,511,694
Financial assets at fair value through other comprehensive income								
– Unquoted equity shares	9(a)	–	–	2,642	–	–	2,642	2,642
Cash flow hedges								
– Forward foreign currency contracts	9(a)&(b)	–	20,637	–	–	–	20,637	20,637
Financial assets at fair value through profit or loss								
– Forward foreign currency contracts	9(a)&(b)	3,883	–	–	–	–	3,883	3,883
		3,883	20,637	2,642	1,900,944	–	1,928,106	1,928,106
Trade and other payables**	19	–	–	–	–	1,338,109	1,338,109	1,338,109
Cash flow hedges								
– Forward foreign currency contracts	23(a)&(b)	–	3,541	–	–	–	3,541	3,541
– Interest rate swaps	23(a)&(b)	–	6,366	–	–	–	6,366	6,366
Interest-bearing borrowings								
– Short-term borrowings	24	–	–	–	–	1,421,620	1,421,620	1,421,620
– Long-term borrowings	24	–	–	–	–	1,479,172	1,479,172	1,481,089
– Subordinated loan	24	–	–	–	–	1,500,000	1,500,000	1,513,858
		–	9,907	–	–	5,738,901	5,748,808	5,764,583

* Excludes Goods and Services Tax.
** Excludes deposits received, advance payment from customers, Goods and Services Tax, deferred grants, accrued land lease and long-term employee benefits.

NOTES TO THE FINANCIAL STATEMENTS

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40 FINANCIAL INSTRUMENTS (CONT'D)

(e) Fair value versus carrying amounts (cont'd)

	Note	Financial assets at amortised cost $'000	Other financial liabilities $'000	Total carrying amount $'000	Fair value $'000
Company					
At 31 December 2020					
Cash and cash equivalents	18	499,024	–	499,024	499,024
Trade and other receivables*	10	159,122	–	159,122	159,122
		658,146	–	658,146	658,146
Trade and other payables**	19	–	18,722	18,722	18,722
At 31 December 2019					
Cash and cash equivalents	18	40,233	–	40,233	40,233
Trade and other receivables*	10	234,861	–	234,861	234,861
		275,094	–	275,094	275,094
Trade and other payables**	19	–	31,922	31,922	31,922

* Excludes Goods and Services Tax.
** Excludes deposits received, Goods and Services Tax, deferred grant income and long-term employee benefits.

(f) Capital management

The Group aims to maintain a sound capital base so as to maintain investor, creditor and market confidence and to sustain future development and growth of its businesses, while at the same time maintaining an appropriate dividend policy to reward shareholders. The Group monitors Economic Value Added attributable to shareholders, which the Group defines as net operating profit after tax less capital charge excluding non-controlling interests. Management also monitors the level of dividends paid to ordinary shareholders.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Capital is defined as equity attributable to the equity holders. The Group's debt to capitalisation ratio as at the balance sheet date was as follows:

	Group	
	2020 $'000	2019 $'000
Unsecured term loans	3,549,794	2,900,792
Subordinated loan	–	1,500,000
Debt	3,549,794	4,400,792
Total equity	3,696,147	2,206,778
Total debt and equity	7,245,941	6,607,570
Debt-to-capitalisation ratio	0.49	0.67

There were no changes in the Group's approach to capital management during the year.

The Group is required to maintain consolidated net borrowings to consolidated net assets (less dividends, goodwill and other intangible assets) ratio of not more than 1.75.

In 2019, the Group had obtained the consent of its bondholders to revise the definition of its debt covenant to exclude the $2 billion subordinated loan facility from the Group's net debt to improve its financial flexibility. This externally imposed capital requirement has been complied with at each quarter in the financial year ended 31 December 2020. During the year, the $1.5 billion subordinated loan was settled by issuance of rights shares.

NOTES TO THE FINANCIAL STATEMENTS

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40 FINANCIAL INSTRUMENTS (CONT'D)

(g) Managing interest rate benchmark reform and associated risks

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates. In Singapore, the fundamental review and reform of the two key Singapore Dollar interest rate benchmarks that are widely referenced in financial contracts, namely Singapore interbank offered rates (SIBORs) and Singapore swap offer rates (SORs), and the transition from SOR to the Singapore Overnight Rate Average (SORA), is also ongoing. The Group anticipates that IBOR reform may have some impact on its risk management and hedge accounting.

The Group monitors and manages the risks associated with the Group's transition to alternative rates. This includes evaluation of the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

Derivatives

The Group holds interest rate swaps for risk management purposes which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to either SOR or LIBOR. The Group's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA)'s master agreements. ISDA is currently reviewing its standardised contracts in the light of IBOR reform. No derivative instruments have been modified as at 31 December 2020.

Hedge accounting

The Group's LIBOR and SOR cash flow hedging relationships extend beyond the anticipated cessation date for IBOR. However, there is uncertainty about when and how replacement may occur with respect to the relevant hedged items and hedging instruments. Such uncertainty may impact the hedging relationship. The Group applies the amendments to SFRS(I) 9 issued in December 2019 to those hedging relationships directly affected by IBOR reform.

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participants' expectations of when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and hedging instrument, which may lead to hedge ineffectiveness. The Group has measured its hedging instruments indexed to USD-LIBOR or SOR using available quoted market rates for LIBOR-based and SOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in the present value of hedged cash flows attributable to changes in LIBOR and SOR on a similar basis.

The Group's exposure to LIBOR and SOR designated in a hedging relationship that may be affected by the interest rate benchmark reform approximates nominal amount of $283,680,000 at 31 December 2020 (2019: $1,010,330,000) attributable to the interest rate swaps hedging LIBOR and SOR cash flows on the Group's bank loans maturing between 2021 to 2022. The Group is managing the transition to new benchmark rates for affected financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

41 CONTINGENT LIABILITIES

The Group is subject to various litigation, regulatory and arbitration matters in the normal course of business.

The Group rigorously defends the claims and, in the opinion of management, the resolution of these matters will not have a material effect on the financial position of the Group.

	Corporate guarantees	
	2020	2019
	$'000	$'000
Company		
Unsecured corporate guarantees granted in respect of:		
– Performance of subsidiaries	4,287,145	4,442,296
– Unsecured term loans by subsidiaries	655,052	800,599
– Unsecured revolving credit facilities by subsidiaries	1,612,236	1,450,192
– Unsecured bonds issued by a subsidiary	600,000	600,000
– Subordinated loan	–	1,500,000

The Company has provided guarantees to banks to secure banking facilities provided to wholly-owned subsidiaries, Jurong Shipyard Pte Ltd, Estaleiro Jurong Aracruz Ltda and Sembcorp Marine Financial Services Pte. Ltd.. These financial guarantee contracts are accounted for as insurance contracts.

The principal risk to which the Company is exposed is credit risk in connection with guarantee contracts it has issued. The credit risk represents the loss that would be recognised upon a default by the parties to which the guarantees were given on behalf of. To mitigate these risks, management continually monitors the risks and has established processes including performing credit evaluations of the parties it is providing the guarantee on behalf of.

There are no terms and conditions attached to the guarantee contracts that would have a material effect on the amount, timing and uncertainty of the Company's future cash flows.

Estimates of the Company's obligation arising from financial guarantee contracts may be affected by future events, which cannot be predicted with any certainty. The assumptions made may well vary from actual experience so that the actual liability may vary considerably from the best estimates. As of balance sheet date, there is no provision made in respect of the obligations as the Company believes it is remote that these corporate guarantees will be called upon.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

42 COMMITMENTS

Commitments not provided for in the financial statements are as follows:

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Approved capital commitment:				
– Approved capital expenditure commitment	32,574	66,523	17	–

43 OPERATING SEGMENTS

(a) Business segments

The Group has two reportable segments, which are the Group's strategic business units. They are: (i) rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding; and (ii) ship chartering. The strategic business units are managed separately because of their different business activities. The results of all projects related to shipbuilding and repairs are reviewed as a whole and form the basis for resource allocation decisions of the shipyard activities.

The accounting policies are described in Note 3. Inter-segment sales and transfers are carried out on an arm's length basis. Segment assets consist primarily of property, plant and equipment, intangible assets, current assets and exclude inter-segment balances. Segment liabilities comprise mainly operating liabilities and exclude inter-segment balances. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's President & CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Other operations include bulk trading in marine engineering related products; provision of harbour tug services to port users; collection and treatment of used copper slag, and the processing and distribution of copper slag for blast cleaning purposes.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

43 OPERATING SEGMENTS (CONT'D)

(a) Business segments (cont'd)

	Rigs & floaters, Repairs & upgrades, Offshore platforms and Specialised shipbuilding $'000	Ship chartering $'000	Others $'000	Eliminations $'000	Total $'000
31 December 2020					
Turnover					
Sales to external parties	1,485,290	22,492	2,498	–	1,510,280
Inter-segment sales	–	–	74,032	(74,032)	–
Total	1,485,290	22,492	76,530	(74,032)	1,510,280
Results					
Segment results	(519,985)	(57,252)	(4,308)	–	(581,545)
Finance income	79,208	–	99,310	(126,893)	51,625
Finance costs	(184,386)	(1,935)	(82,374)	126,893	(141,802)
Non-operating income	501	–	–	–	501
Share of results of associates and joint ventures, net of tax	102	–	411	–	513
(Loss)/profit before tax	(624,560)	(59,187)	13,039	–	(670,708)
Tax credit/(expense)	85,998	25	(2,523)	–	83,500
(Loss)/profit for the year	(538,562)	(59,162)	10,516	–	(587,208)
Assets					
Segment assets	9,493,478	240,673	2,134,105	(3,047,855)	8,820,401
Investments in associates and joint ventures	4,209	–	11,214	–	15,423
Deferred tax assets	116,578	705	–	–	117,283
Tax recoverable	17,117	–	–	–	17,117
Total assets	9,631,382	241,378	2,145,319	(3,047,855)	8,970,224
Liabilities					
Segment liabilities	6,212,052	53,514	2,022,458	(3,047,855)	5,240,169
Deferred tax liabilities	25,952	900	–	–	26,852
Current tax payable	3,448	609	2,999	–	7,056
Total liabilities	6,241,452	55,023	2,025,457	(3,047,855)	5,274,077
Capital expenditure	79,087	8,549	14	–	87,650
Significant non-cash items					
Depreciation and amortisation	186,985	14,115	629	–	201,729
Changes in fair value of financial instruments	(3,253)	–	(16,511)	–	(19,764)
Impairment losses on property, plant and equipment	–	48,989	–	–	48,989
Impairment losses on right-of-use assets	74,191	–	–	–	74,191
Property, plant and equipment written off	1	42	–	–	43
Inventories written down, net	34,148	–	31	–	34,179
Allowance for doubtful debts and bad debts, net	9,020	–	–	–	9,020

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43 OPERATING SEGMENTS (CONT'D)

(a) Business segments (cont'd)

	Rigs & floaters, Repairs & upgrades, Offshore platforms and Specialised shipbuilding $'000	Ship chartering $'000	Others $'000	Eliminations $'000	Total $'000
31 December 2019					
Turnover					
Sales to external parties	2,871,362	2,224	8,974	–	2,882,560
Inter-segment sales	–	–	109,823	(109,823)	–
Total	2,871,362	2,224	118,797	(109,823)	2,882,560
Results					
Segment results	(122,824)	(21,176)	5,210	–	(138,790)
Finance income	116,571	–	63,853	(87,149)	93,275
Finance costs	(153,512)	(597)	(63,067)	87,149	(130,027)
Non-operating income	–	–	185	–	185
Share of results of associates and joint ventures, net of tax	(368)	(1,814)	579	–	(1,603)
(Loss)/profit before tax	(160,133)	(23,587)	6,760	–	(176,960)
Tax credit/(expense)	38,286	–	(1,513)	–	36,773
(Loss)/profit for the year	(121,847)	(23,587)	5,247	–	(140,187)
Assets					
Segment assets	8,963,831	188,900	2,906,927	(3,656,626)	8,403,032
Investments in associates and joint ventures	4,084	–	10,803	–	14,887
Deferred tax assets	29,195	–	–	–	29,195
Tax recoverable	10,996	–	662	–	11,658
Total assets	9,008,106	188,900	2,918,392	(3,656,626)	8,458,772
Liabilities					
Segment liabilities	7,007,805	4,855	2,863,213	(3,656,626)	6,219,247
Deferred tax liabilities	28,329	–	660	–	28,989
Current tax payable	1,928	–	1,830	–	3,758
Total liabilities	7,038,062	4,855	2,865,703	(3,656,626)	6,251,994
Capital expenditure	375,380	–	59	–	375,439
Significant non-cash items					
Depreciation and amortisation	229,745	7,947	4,776	–	242,468
Changes in fair value of financial instruments	1,042	–	(3,661)	–	(2,619)
Impairment losses on property, plant and equipment	541	–	–	–	541
Property, plant and equipment written off	2,928	–	114	–	3,042
Inventories written back, net	(558)	–	(93)	–	(651)
Write-back of doubtful debts and bad debts, net	(338)	–	–	–	(338)

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43 OPERATING SEGMENTS (CONT'D)

(b) Geographical segments

The Group operates in 12 (2019: 12) countries and principally in the Republic of Singapore.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Turnover from external customers $'000	Non-current assets[1] $'000	Total assets $'000	Capital expenditure $'000
31 December 2020				
Singapore	237,710	3,874,972	6,959,615	51,900
Rest of Asia, Australia & India	214,233	122,299	157,200	704
Middle East & Africa	62,711	–	–	–
United Kingdom	120,678	2,315	4,345	5
Norway	207,971	46,050	55,848	13
France	47,022	127	2,268	90
The Netherlands	23,465	128,179	134,147	–
Rest of Europe	170,085	34	802	–
Brazil	148,484	1,533,461	1,654,327	34,938
U.S.A.	274,357	471	1,672	–
Other countries	3,564	–	–	–
Total	1,510,280	5,707,908	8,970,224	87,650
31 December 2019				
Singapore	169,639	3,864,558	6,230,080	310,080
Rest of Asia, Australia & India	155,954	134,092	170,689	3,624
Middle East & Africa	15,225	–	–	–
United Kingdom	175,200	3,963	6,293	–
Norway	667,640	121,615	135,901	48
France	350,015	87	2,071	66
The Netherlands	73,620	186,183	191,744	–
Rest of Europe	85,161	57	963	3
Brazil	358,604	1,541,626	1,718,283	61,552
U.S.A.	823,732	953	2,748	66
Other countries	7,770	–	–	–
Total	2,882,560	5,853,134	8,458,772	375,439

(1) Non-current assets presented consist of property, plant and equipment, right-of-use assets, investments in associates and joint ventures, trade and other receivables and intangible assets.

(c) Major customers

In 2020, turnover from two (2019: four) customers of the Group's rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding segment represents approximately 20 per cent (2019: 55 per cent) of the Group's total turnover.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

44 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Information on other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Information about the assumptions and their risk factors relating to goodwill impairment are disclosed in Note 44(d).

(b) Taxes

Current tax

The Group is subject to taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for taxes. In determining the amount of current and deferred taxes, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due.

There are certain transactions and computation for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. The Group believes that its accruals for tax liabilities are adequate for all open years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the taxes and deferred tax provisions in the period in which such determination is made. The tax expense is disclosed in Note 32.

Deferred tax assets

Certain subsidiaries of the Group have tax benefits arising from unutilised tax losses, tax credits and deductible temporary differences, which are available for set-off against future taxable profits. Of these, the utilisation of these tax benefits, for which deferred tax asset was recognised, is presumed on the Group's ability to generate taxable profits in the foreseeable future. This is, however, highly dependent on macroeconomic conditions impacting the offshore and marine sector, expected movements and recovery of oil prices, and financial strength of the Group's customers, which would then significantly affect the realisability of these deferred tax assets. Information about the assumptions and their risk factors relating to the profit forecasts are disclosed in Note 44(d).

44 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Key sources of estimation uncertainty (cont'd)

(c) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 1 to 60 years. The carrying amounts of the Group's property, plant and equipment are set out in Note 4. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets; therefore future depreciation charges could be revised.

In 2019, the Group revised its estimate for the useful life of a marine vessel. The effects of the changes are presented in Note 4.

(d) Impairment assessment of property, plant and equipment and intangible assets

Impairment assessment of the Group's shipyards

Owing to the continuing difficult market conditions impacting the offshore and marine sector, and the negative impact to the Group's financial performance and liquidity arising from the outbreak of the COVID-19 pandemic and the measures adopted by the Singapore government to mitigate the pandemic's spread, there were indications that the Group's shipyards (the "cash generating units") might be impaired. Under the Group's formal impairment assessment of the individual cash generating units 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 cash generating units were determined using the value in use calculations.

The value in use calculation for the Group's cash generating units 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). The value in use calculations are updated to reflect the most recent developments on the economic impacts of the COVID-19 pandemic on gross domestic product and inflation as at the reporting date. Due to the high level of uncertainty, it was very challenging to predict the full extent and duration of the COVID-19 pandemic's impact on the Group's operations. Key drivers supporting the recoverable amounts include: forecasted order book, project margins which are projected with reference to historical experience and taking into account planned recoveries, 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. As the Group pivots to also support the energy transition to renewable energy, the cash flow projections included forecast orders in renewable solutions, of which projections are based on the Group's past experience in this area, market developments on financial support for renewable energy infrastructure, and other analysts' forecast reports on renewable energy demand and growth. These cash flows are then discounted using the applicable discount rates based on their pre-tax weighted average cost of capital of 7.40% (2019: 9.43%) and 12.46% (2019: 11.82%) for the Singapore cash generating unit and Brazil cash generating unit respectively; and the Group assessed that no impairment loss is required for these individual cash generating units.

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

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44 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Key sources of estimation uncertainty (cont'd)

(d) Impairment assessment of property, plant and equipment and intangible assets (cont'd)

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 cash generating unit 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. The recoverable amount of the Brazil cash generating unit 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.

For the Singapore cash generating unit, a 10% decrease in order book or 1% decrease in forecasted project margins throughout the cash flow periods would significantly reduce the recoverable amount but not likely to cause the recoverable amount to be below carrying amount.

For the Brazil cash generating unit, a 9.2% decrease in order book or 0.9% decrease in forecasted project margins throughout the cash flow periods would be required for the recoverable amount to equal the carrying amount.

(e) Provisions and contingent liabilities

Estimates of the Group's obligations arising from contracts that exist as at balance sheet date may be affected by future events, which cannot be predicted with any certainty. The assumptions and estimates are made based on the management's knowledge and experience and may vary from actual experience so that the actual liability may vary considerably from the best estimates.

Warranty

The provision for warranty is based on estimates from known and expected warranty work and contractual obligation for further work to be performed after completion. The warranty expense incurred could be higher or lower than the provision made. Movements in provision for warranty are detailed in Note 22.

Site restoration costs

The provision for site restoration costs arising from operating leases is based on the best estimate of the costs to be incurred beyond the 12 months period provided by external consultants and the scope of works to be agreed with the lessors. Given the complexities involved in carrying out the restoration work on certain sites in the longer run, the actual costs may vary from the estimate.

At the reporting date, the Group remains in discussion with the Singapore Government on the extent of work required for the restoration of land at Tanjong Kling Yard. Depending on the outcome of the discussion, the provision required may vary significantly from amounts recorded.

44 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Key sources of estimation uncertainty (cont'd)

(e) Provisions and contingent liabilities (cont'd)

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Disclosure of contingent liabilities is detailed in Note 41.

(f) Determination of net realisable value of inventories

The net realisable value of inventories is estimated by reference to contract prices. However, such net realisable value may not be the actual realisable value, arising from contract modifications, if any, which may result in other variable considerations. Such contract modifications may significantly affect the eventual realisable value of inventories; and there is a significant risk of resulting in a material adjustment to the carrying amounts of inventories in future periods.

(g) Determination of the appropriate rate to discount lease payments

The Group is required to exercise considerable judgement in determining the discount rate by taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of any lease modification.

(h) Impairment assessment of the Company's investment in subsidiaries

Determining whether investments in subsidiaries are impaired requires an estimate of the value-in-use ("VIU") of the subsidiaries. Estimating the VIU requires the Company to make an estimate of the future cash flows expected from the cash generating unit and appropriate discount rate in order to calculate the present value of these cash flows. The forecasts used to estimate the future cash flows are subject to the risks noted in the impairment assessments of the Group's shipyards. Information about the assumptions and risk factors are disclosed in Note 44(d).

Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made certain judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

(a) Revenue recognition and assessment of risk of foreseeable losses on long term construction contracts

The Group has assessed its contracts relating to services for ship and rig repair, building, conversion and overhaul as a single performance obligation due to the inter-dependence of services provided in these contracts.

Significant judgement is required in determining whether the performance obligations are distinct. Such considerations include the Group's assessment of whether the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customers and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

44 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Critical accounting judgements in applying the Group's accounting policies (cont'd)

(a) Revenue recognition and assessment of risk of foreseeable losses on long term construction contracts (cont'd)

For contracts with variable considerations (such as liquidated damages and discounts), the Group has applied judgement in determining the transaction price for the recognition of revenue. Such judgement includes assessment of the evaluation of any potential risks and factors which may affect the timely completion of the project as well as the quality of the output delivered to the customer.

The Group has recognised revenue on construction contracts, rigs & floaters, repairs & upgrades and offshore platforms based on the percentage of completion method in proportion to the stage of completion. The percentage of completion is assessed by reference to surveys of work performed. Significant judgement is required in determining the appropriate stage of completion for revenue recognition; and likewise, judgement is required in determining the triggering point of suspension of revenue recognition when it is no longer probable that inflow of economic benefits associated with the contracts will occur. Such considerations include the Group's assessment of the credit-worthiness of customers and an evaluation of the contract performance obligations discharged by the customers.

The Group conducts critical review of all its long term construction contracts regularly. Allowance is made where necessary to account for onerous contracts. To determine the total costs, the Group monitors and reviews constantly the progress of all long term construction contracts taking into consideration all inputs from both internal project managers and external customers. The review includes evaluating any potential risks and factors which may affect the contract price and timely completion of the construction contracts. The review also encompasses the cost analysis process whereby both actual costs incurred and future costs to complete are critically examined.

(b) Contract costs – fulfilment costs

For ship and rig building contracts with customers where revenue is recognised at a point in time (i.e. upon delivery to customer), the costs incurred during the construction phase are recognised as an asset (i.e. contract costs – fulfilment). Upon fulfilment of the performance obligation and recognition of revenue, these costs will be recognised in profit or loss. Significant judgement is required to determine if the contract costs recognised are expected to be recovered. Such judgement includes assessment of the evaluation of any potential risks and factors which may affect the customer ability to take delivery of the ship and rig. The review also encompasses the analysis of the industry outlook and the customers' financial health.

(c) Impairment of financial assets and contract assets

The Group follows the guidance of SFRS(I) 9 *Financial Instruments* in recognising loss allowances for expected credit losses on financial assets and contract assets.

The loss allowances for financial assets and contract assets are based on assumptions about risk of default and expected loss rates to be applied for the respective category of the financial assets and contract assets. The Group uses judgement in making these assumptions and selecting the input to the impairment calculation including credit default ratings, evaluation of the Group's past history of loss rate, existing market conditions as well as forward looking estimates at the end of each reporting period. The Group also evaluates, among other factors, financial restructuring (where relevant), credit-worthiness and financial health of and near-term business outlook of its customers, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

For certain financial assets and contract assets, the Group has a right to repossess or retain title, and to re-sell the assets delivered in the event of default by the customer. The Group has assessed and considered the value of the repossessed assets and applied a range of probability weighted possible outcomes in determining the expected credit loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

44 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Critical accounting judgements in applying the Group's accounting policies (cont'd)

(c) Impairment of financial assets and contract assets (cont'd)

In assessing the segmenting of the customers for the loss allowance, judgement is involved in determining the credit-worthiness and financial health of its customers whose conditions are subject to changes, which may require changes in the customers' segmentation, which in turn may affect the level of loss allowance in future periods.

The carrying amounts of financial assets and contract assets are disclosed in the following notes:

- Note 9 – Other financial assets
- Note 10 – Trade and other receivables
- Note 12 – Contract assets

(d) Exercise of extension option, purchase option and termination option

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, purchase option or option to terminate. Extension options (or periods after an optional termination date) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows are not included in the lease liability if it is not reasonably certain that the leases will be extended (or not terminated) or that purchase options will be exercised. The assessment is reviewed if a significant event or a significant change in circumstances that is within the control of the lessee occurs and affects this assessment.

(e) Hedging accounting relationships

The Group determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate or foreign currency. For cash flow hedging relationships directly impacted by IBOR reform (i.e. hedges of SOR and LIBOR), the Group assumes that the cash flows of the hedged item and hedging instrument will not be altered as a result of IBOR reform. The Group further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item.

Significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability of interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2019. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. In Singapore, SIBOR and SOR continue to be used as reference rates in financial markets and are used in the valuation of instruments with maturities that exceed the expected end date for SIBOR and SOR. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at 31 December 2019.

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participants' expectations for when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and hedging instrument, which may lead to hedge ineffectiveness. The Group has applied its best judgement to analyse market expectations when determining the fair value of the hedging instrument and present value of estimated cash flows of the hedged item.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

44 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Critical accounting judgements in applying the Group's accounting policies (cont'd)

(f) Capitalisation of development costs

Significant managerial judgement and detailed evaluation is required to determine whether it is appropriate to capitalise or to continue to carry costs associated with the development of engineering designs for offshore solutions on the balance sheet. Such costs remain on the balance sheet while additional review and feasibility studies are performed on the designs. All such carried costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop. Where there is no longer an intention to continue the development, the costs are immediately expensed. The Group remains committed to developing the engineering designs and expects to carry the capitalised costs on its balance sheet.

The carrying amount of engineering designs under development is included in Note 13. When available for use, the costs capitalised will be reclassified within intangible assets and commence amortisation.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

45 GROUP ENTITIES

Details of the Group's subsidiaries, associates and joint ventures are as follows:

Name of company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2020 %	Effective equity held by the Group 2019 %
Subsidiaries				
Dolphin Shipping Company Private Limited[1]	Singapore	Ship owning and chartering	100	100
Gravifloat AS[2]	Norway	Engineering and related services	56	56
Jurong Shipbuilders Private Limited[1]	Singapore	Investment holding	100	100
Jurong Shipyard Pte Ltd[1]	Singapore	Ship and rig repair, building, conversion and related services	100	100
PPL Shipyard Pte Ltd[1]	Singapore	Rig building, repair and related services	100	100
Sembcorp Holdings, LLC.[4]	United States of America	Dissolved	–	100
Sembcorp Marine Financial Services Pte. Ltd.[1]	Singapore	Acting as the finance and treasury centre for the Group	100	100
Sembcorp Marine Integrated Yard Pte. Ltd.[1]	Singapore	Ship and rig repair, building, conversion, offshore engineering and related services	100	100
SML Shipyard Pte Ltd[1]	Singapore	Ship repair and related services	100	100
Subsidiaries of Jurong Shipyard Pte Ltd				
Dolphin Rig 1 Pte. Ltd.[1]	Singapore	Provision of marine/offshore engineering and shipbuilding services	100	100
Dolphin Rig 2 Pte. Ltd.[1]	Singapore	Provision of marine/offshore engineering and shipbuilding services	100	100
Dolphin Rig 3 Pte. Ltd.[1]	Singapore	Provision of marine/offshore engineering and shipbuilding services	100	100
Dolphin Rig 4 Pte. Ltd.[1]	Singapore	Provision of marine/offshore engineering and shipbuilding services	100	100
Dolphin Rig 5 Pte. Ltd.[1]	Singapore	Provision of marine/offshore engineering and shipbuilding services	100	100
Dolphin Rig 6 Pte. Ltd.[1]	Singapore	Provision of marine/offshore engineering and shipbuilding services	100	100
Dolphin Rig 7 Pte. Ltd.[1]	Singapore	Provision of marine/offshore engineering and shipbuilding services	100	100
Estaleiro Jurong Aracruz Ltda[2]	Brazil	Ship and rig repair, building, conversion and related services	100	100
JED Centre Sdn. Bhd.[2]	Malaysia	Render services for engineering	100	100
Jurong do Brasil Prestacao de Servicos Ltda[2]	Brazil	Ship and rig repair, building, conversion and related services	100	100
Jurong Marine Contractors Private Limited[1]	Singapore	Provision of contract services	100	100
Jurong Netherlands B.V.[4]	Netherlands	Investment holding	100	100
Jurong Offshore Pte. Ltd.[1]	Singapore	Investment holding	100	100
Sembmarine SSP Inc[4]	United States of America	In the business of engineering design, research and development, marketing and client services support centre	100	100

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

45 GROUP ENTITIES (CONT'D)

Name of company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2020 %	2019 %
Subsidiaries of PPL Shipyard Pte Ltd				
Baker Marine Pte Ltd[(1)]	Singapore	Rig enhancement and upgrading services, engineering consultancy and project management, and supply of rig equipment and parts	100	100
Baker Marine Services (HK) Limited[(2)]	Hong Kong	Provision of rig designs	100	100
Baker Marine Technology Inc.[(4)]	United States of America	Engineering design, research and development, marketing and client services support centre	100	100
Subsidiaries of Sembcorp Holdings, LLC.				
Sabine Offshore Service, Inc.[(4), a]	United States of America	Merged and dissolved	–	100
Sembcorp-Sabine Industries, Inc.[(4), a]	United States of America	Merged and dissolved	–	100
Sembcorp-Sabine Shipyard, Inc.[(4), a]	United States of America	Merged and dissolved	–	100
Subsidiaries, associates and joint ventures of Sembcorp Marine Integrated Yard Pte. Ltd.				
Aquarius Brasil B.V.[(3)]	Netherlands	Shipowner	100	100
Aragon AS[(2)]	Norway	Process design and engineering	50	50
Bulk Trade Pte Ltd[(1)]	Singapore	Bulk trading	100	100
HiLoad LNG AS[(2)]	Norway	Design, development and engineering of LNG related offshore solutions	100	100
Joint Shipyard Management Services Pte Ltd[(1)]	Singapore	Managing dormitories	32	32
JPL Concrete Products Pte Ltd[(1)]	Singapore	Production of concrete products	85.8	85.8
JPL Industries Pte Ltd[(1)]	Singapore	Processing and distribution of copper slag	85.8	85.8
Jurong Marine Services Pte Ltd[(1)]	Singapore	Provision of tugging and sea transportation services	100	100
Karimun Shiprepair and Engineering Pte Ltd[(1)]	Singapore	Investment holding	100	100
LMG Marin AS[(2)]	Norway	Ship design and engineering	100	100
LMG Marin France[(3)]	France	Ship design and engineering	60	60
LMG Oilcraft AS[(4)]	Norway	Ship design and engineering	100	100
Marine Housing Services Pte. Ltd.[(3)]	Singapore	Provision of dormitory housing services	50	50
Midcon Designer Sp. Z.o.o.[(4)]	Poland	Ship design and engineering	72.4	72.4
Pegasus Marine & Offshore Pte. Ltd.[(1)]	Singapore	Marine services	100	100
P.T. Karimun Sembawang Shipyard[(3)]	Indonesia	Ship repair and related services	100	100
PT SMOE Indonesia[(2)]	Indonesia	Engineering, construction and fabrication of offshore structures	90	90
Semb-Eco Pte. Ltd.[(1), b]	Singapore	Investment holding	100	100
Semb-Eco R&D Pte. Ltd.[(1), b]	Singapore	Research and development, holding of patents	100	100
Semb-Eco Technology Pte. Ltd.[(1), b]	Singapore	Manufacturing and commercialisation of patents	100	100

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YEAR ENDED 31 DECEMBER 2020

45 GROUP ENTITIES (CONT'D)

Name of company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2020 %	2019 %
Subsidiaries, associates and joint ventures of Sembcorp Marine Integrated Yard Pte. Ltd. (cont'd)				
Sembawang Shipyard Project Services Pte Ltd(1)	Singapore	Amalgamated with Sembcorp Marine Integrated Yard Pte. Ltd. on 1 September 2020	–	100
Sembawang Shipyard (S) Pte Ltd(1)	Singapore	Investment holding	100	100
Sembmarine Kakinada Limited(3)	India	Ship repair, conversion, building and related services	35.8	35.8
Sembcorp Marine Contractors Pte. Ltd.(1)	Singapore	Provision of contract services	100	100
Sembcorp Marine Offshore Platforms Pte. Ltd.(1)	Singapore	Engineering, construction and fabrication of offshore structures	100	100
Sembcorp Marine Repairs & Upgrades Pte. Ltd.(1)	Singapore	Ship repair and related services	100	100
Sembcorp Marine Rigs & Floaters Pte. Ltd.(1)	Singapore	Ship and rig building, conversion and related services	100	100
Sembcorp Marine Solutions Pte. Ltd.(1)	Singapore	Provision of management and technical services	100	100
Sembcorp Marine Specialised Shipbuilding Pte. Ltd.(1)	Singapore	Shipbuilding, ship repair and related services	100	100
Sembmarine SLP Limited(2)	United Kingdom	Design, engineering, fabrication and installation of offshore platforms, modules and structures for the oil, gas and renewable energy industry	100	100
SES Engineering (M) Sdn Bhd(2)	Malaysia	In process of being struck off	100	100
SES Marine Services (Pte) Ltd(1)	Singapore	Marine services	100	100
Sevan SSP AS(2)	Norway	Design, development, engineering and consulting related to offshore solutions	100	100
Shenzhen Chiwan Offshore Petroleum Engineering Company Ltd(3)	People's Republic of China	Equipment inspection, repair and maintenance services for oil reconnoiter and exploitation in South China Sea	35	35
Straits Offshore Pte. Ltd.(1)	Singapore	In process of being struck off	100	100
Straits Overseas Pte. Ltd.(1)	Singapore	Investment holding and engineering, construction and fabrication of offshore marine structures	100	100

(1) Audited by KPMG LLP, Singapore
(2) Audited by member firms of KPMG International in the respective countries
(3) Audited by other firms and not significant
(4) These companies are not required to be audited under the laws of their country of incorporation and not significant

a On 25 February 2020, the Company announced that its indirect wholly-owned subsidiaries, Sabine Offshore Service, Inc., Sembcorp-Sabine Industries, Inc. ("SSIC") and Sembcorp-Sabine Shipyard, Inc., were merged under the Texas Business Organizations Code (the "Merger"). SSIC, which was the entity surviving the Merger, was also subsequently dissolved by way of voluntary winding up.

b On 15 January 2019, the Company, and together with its subsidiaries entered into a share swap agreement with Ecospec Global Technology Pte. Ltd. ("EGT") and their shareholders to exchange 20% interest in EGT for 45% interest in Semb-Eco Pte. Ltd. (Semb-Eco). In consequence, Semb-Eco, Semb-Eco R&D Pte. Ltd. and Semb-Eco Technology Pte. Ltd. became the Company's wholly-owned subsidiaries, while EGT ceased to be an associate.

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YEAR ENDED 31 DECEMBER 2020

46 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following SFRS(I)s, interpretations of SFRS(I) and requirement of SFRS(I) which are mandatorily effective from 1 January 2020:

- *Definition of a Business* (Amendments to SFRS(I) 3)
- *Definition of Material* (Amendments to SFRS(I) 1-1 and SFRS(I) 1-8)
- *Amendments to References to the Conceptual Framework in SFRS(I) Standards* (Amendments to SFRS(I) Standards)

The Group has early adopted Amendment to SFRS(I) 16: *Covid-19-Related Rent Concessions* issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Group is a lessee – i.e. for leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Group applied the practical expedient not to assess a rent concession occurring as a direct consequence of the COVID-19 pandemic as a lease modification.

The application of these amendments to standards and interpretations does not have a material effect on the financial statements.

47 NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED

A number of new standards and interpretations and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements.

The new SFRS(I)s, amendments to and interpretations of SFRS(I)s are not expected to have a significant impact on the Group's consolidated financial statements and the Company's statement of financial position, except for the *Interest Rate Benchmark Reform – Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

(i) *Interest Rate Benchmark Reform – Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and

- hedge accounting.

(a) *Change in basis for determining cash flows*

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

At 31 December 2020, the Group has $2,999,145,600 bank loans that will be subject to IBOR reform. The Group expects that the interest rate benchmark for these loans will be changed to Singapore Overnight Rate Average ("SORA") or Secured Overnight Financing rate ("SOFR") and that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

47 NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED (CONT'D)

(i) *Interest Rate Benchmark Reform – Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (cont'd)

(b) *Hedge accounting*

The amendments provide exceptions to the hedge accounting requirements in the following areas.

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to subgroups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

At 31 December 2020, the Group has cash flow hedges of LIBOR and SOR risk. The Group expects that indexation of the hedged items and hedging instruments to SOR and LIBOR will be replaced with SORA and SOFR respectively when SOR and LIBOR phase out. Whenever the replacement occurs, the Group expects to apply the amendments related to hedge accounting. However, there is uncertainty about when and how replacement may occur. When the change occurs to the hedged item or the hedging instrument, the Group will remeasure the cumulative change in fair value of the hedged item or the fair value of the interest rate swap, respectively, based on SORA and SOFR. Hedging relationships may experience hedge ineffectiveness if there is a timing or other mismatch between the transition of the hedged item and that of the hedging instrument. The Group does not expect that amounts accumulated in the cash flow hedge reserve will be immediately reclassified to profit or loss because of IBOR transition.

(c) *Disclosure*

The amendments will require the Group to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

(d) *Transition*

The Group plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

47 NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED (CONT'D)

The following new SFRS(I)s, amendments to and interpretations of SFRS(I)s are effective for annual periods beginning after 1 January 2020:

Applicable to 2021 financial statements

- *Interest Rate Benchmark Reform – Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Applicable to 2022 financial statements

- *Reference to the Conceptual Framework* (Amendments to SFRS(I) 3)
- *Property, Plant and Equipment – Proceeds before Intended Use* (Amendments to SFRS(I) 1-16)
- *Onerous Contracts – Cost of Fulfilling a Contract* (Amendments to SFRS(I) 1-37)
- Annual Improvements to SFRS(I)s 2018-2020

Applicable to 2023 financial statements

- SFRS(I) 17 *Insurance Contracts*
- *Classification of Liabilities as Current or Non-current* (Amendments to SFRS(I) 1-1)
- Amendments to SFRS(I) 17 *Insurance Contracts*

Mandatory effective date deferred

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to SFRS(I) 10 and SFRS(I) 1-28)

48 UPDATE IN RELATION TO BRAZIL

The Company refers to its earlier announcements on 3 July 2019, 8 July 2019, 3 February 2020, 21 February 2020 and 4 June 2020 in relation to ongoing investigations related to Operacao Lava Jato ("Operation Car Wash") in Brazil.

Charges have been filed against Mr Guilherme Esteves de Jesus ("GDJ") for money laundering and ex-employee Mr Martin Cheah Kok Choon ("MCKC") for money laundering and corruption in connection with certain drilling rig construction contracts entered into in 2012 by subsidiaries of the Company with subsidiaries of Sete Brasil ("Contracts"). GDJ has been convicted by the Federal Courts of Curitiba of the crimes of corruption, money laundering and participation in a criminal organisation.

MCKC is the former President of Estaleiro Jurong Aracruz Ltda ("EJA"), the Company's Brazilian subsidiary. MCKC's employment with the Group was terminated in June 2015. Companies connected to GDJ were engaged by the Company's subsidiaries as consultants, with all such consultancy contracts having been suspended, and remain suspended, by the SCM group indefinitely.

The above charges filed against MCKC and GDJ by the Ministerio Publico Federal ("MPF") are in their personal capacities and not against EJA.

The Group continues to cooperate fully with the Brazilian authorities investigating the above matter.

As at the date of these financial statements, proceedings are ongoing and it is premature to predict and the Group cannot reliably determine the eventual outcome to this matter. The time line for resolution of this matter also cannot be determined presently.

APPENDIX E

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2021

SEMBCORP MARINE LTD
Registration Number: 196300098Z

CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 & RELATED ANNOUNCEMENT

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SEMBCORP MARINE LTD
Registration Number: 196300098Z

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

A. CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

		Group		
	Note	1H 2021 $'000	1H 2020 $'000	+ / (-) %
Turnover	3	**844,186**	**906,199**	**(6.8)**
Cost of sales	4	(1,432,433)	(1,100,784)	30.1
Gross loss		**(588,247)**	**(194,585)**	**n.m.**
Other operating income	5	68,163	93,150	(26.8)
Other operating expenses	5	(143,950)	(24,511)	n.m.
General and administrative expenses	6	(44,898)	(46,827)	(4.1)
Operating loss		**(708,932)**	**(172,773)**	**n.m.**
Finance income	7	22,882	29,909	(23.5)
Finance costs	7	(42,133)	(79,000)	(46.7)
Non-operating income	8	-	501	n.m.
Share of results of associates and joint ventures, net of tax		663	550	20.5
Loss before tax		**(727,520)**	**(220,813)**	**n.m.**
Tax credit	10	78,013	26,476	n.m.
Loss for the period		**(649,507)**	**(194,337)**	**n.m.**
Loss attributable to:				
Owners of the Company		**(647,242)**	**(192,146)**	**n.m.**
Non-controlling interests		(2,265)	(2,191)	3.4
Loss for the period		**(649,507)**	**(194,337)**	**n.m.**
Earnings per ordinary share (cents)	12			
Basic		(5.16)	(8.83)	(41.6)
Diluted		(5.16)	(8.83)	(41.6)

n.m.: not meaningful

B. CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Group		
	1H 2021 $'000	**1H 2020 $'000**	**+ / (-) %**
Loss for the period	**(649,507)**	**(194,337)**	**n.m.**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	(6,692)	30,778	n.m.
Net change in fair value of cash flow hedges	4,592	(32,254)	n.m.
Net change in fair value of cash flow hedges transferred to profit or loss	(1,429)	2,200	n.m.
Realisation of reserve upon disposal of subsidiaries	4	-	n.m.
Other comprehensive income for the period, net of tax	(3,525)	724	n.m.
Total comprehensive income for the period	**(653,032)**	**(193,613)**	**n.m.**
Total comprehensive income attributable to:			
Owners of the Company	(650,756)	(191,464)	n.m.
Non-controlling interests	(2,276)	(2,149)	5.9
Total comprehensive income for the period	**(653,032)**	**(193,613)**	**n.m.**

C. CONDENSED INTERIM BALANCE SHEETS

	Note	Group As at 30-Jun-2021 $'000	Group As at 31-Dec-2020 $'000	Company As at 30-Jun-2021 $'000	Company As at 31-Dec-2020 $'000
Non-current assets					
Property, plant and equipment	13	4,005,308	4,114,919	3,249	5,720
Right-of-use assets	14	247,436	251,016	2,036	2,543
Investment properties		-	-	42,670	47,182
Investments in subsidiaries	15	-	-	3,586,152	3,586,155
Interests in associates and joint ventures		16,142	15,423	-	-
Other financial assets		2,791	4,570	-	-
Trade and other receivables		1,123,955	1,105,551	324,700	127,700
Contract assets		431,812	-	-	-
Intangible assets		209,782	220,999	133	122
Deferred tax assets		205,004	117,283	28,490	16,559
		6,242,230	5,829,761	3,987,430	3,785,981
Current assets					
Inventories		94,852	94,361	-	-
Trade and other receivables		282,717	618,103	39,689	31,719
Contract costs		51,870	52,703	-	-
Contract assets		1,338,953	1,551,913	-	-
Tax recoverable		18,549	17,117	-	-
Other financial assets		13,611	33,840	-	-
Cash and cash equivalents		788,293	772,426	305,836	499,024
		2,588,845	3,140,463	345,525	530,743
Total assets		8,831,075	8,970,224	4,332,955	4,316,724
Current liabilities					
Trade and other payables		1,426,063	1,052,269	43,228	20,614
Contract liabilities		169,305	154,288	-	-
Provisions		37,493	38,005	-	-
Other financial liabilities		4,064	4,742	-	-
Current tax payable		10,654	7,056	1,694	12,227
Interest-bearing borrowings	17	1,614,037	2,121,394	50,000	50,000
Lease liabilities		21,714	22,100	9,232	9,073
		3,283,330	3,399,854	104,154	91,914
Net current (liabilities)/assets		(694,485)	(259,391)	241,371	438,829
Non-current liabilities					
Deferred tax liabilities		30,231	26,852	-	-
Provisions		229,565	142,800	152,077	85,498
Other financial liabilities		-	722	-	-
Interest-bearing borrowings	17	1,977,767	1,428,400	-	-
Lease liabilities		263,364	269,467	47,658	51,773
Other long-term payables		3,703	5,982	1,731	4,002
		2,504,630	1,874,223	201,466	141,273
Total liabilities		5,787,960	5,274,077	305,620	233,187
Net assets		**3,043,115**	**3,696,147**	**4,027,335**	**4,083,537**
Equity attributable to owners of the Company					
Share capital	18	2,575,374	2,575,374	2,575,374	2,575,374
Other reserves		(60,794)	(57,555)	(22,861)	(22,861)
Revenue reserve		502,060	1,149,577	1,474,822	1,531,024
		3,016,640	3,667,396	4,027,335	4,083,537
Non-controlling interests		26,475	28,751	-	-
Total equity		**3,043,115**	**3,696,147**	**4,027,335**	**4,083,537**

D. CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

i. Statements of Changes in Equity of the Group

	Attributable to owners of the Company								
	Share capital $'000	Reserve for own shares $'000	Capital reserves $'000	Currency translation reserve $'000	Other reserves $'000	Revenue reserve $'000	Total $'000	Non-controlling interests $'000	Total Equity $'000
1H 2021									
At 1 January 2021	**2,575,374**	**(771)**	**(1,683)**	**(32,334)**	**(22,767)**	**1,149,577**	**3,667,396**	**28,751**	**3,696,147**
Total comprehensive income									
Loss for the period	-	-	-	-	-	(647,242)	(647,242)	(2,265)	(649,507)
Other comprehensive income									
Foreign currency translation differences for foreign operations	-	-	-	(6,681)	-	-	(6,681)	(11)	(6,692)
Net change in fair value of cash flow hedges	-	-	-	-	4,592	-	4,592	-	4,592
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	-	(1,429)	-	(1,429)	-	(1,429)
Realisation of reserves upon disposal of subsidiaries	-	-	-	260	19	(275)	4	-	4
Total other comprehensive income	-	-	-	(6,421)	3,182	(275)	(3,514)	(11)	(3,525)
Total comprehensive income	**-**	**-**	**-**	**(6,421)**	**3,182**	**(647,517)**	**(650,756)**	**(2,276)**	**(653,032)**
Transactions with owners of the Company, recognised directly in equity									
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 30 June 2021	**2,575,374**	**(771)**	**(1,683)**	**(38,755)**	**(19,585)**	**502,060**	**3,016,640**	**26,475**	**3,043,115**
1H 2020									
At 1 January 2020	**486,217**	**(771)**	**(1,683)**	**(27,455)**	**(15,087)**	**1,732,087**	**2,173,308**	**33,470**	**2,206,778**
Total comprehensive income									
Loss for the period	-	-	-	-	-	(192,146)	(192,146)	(2,191)	(194,337)
Other comprehensive income									
Foreign currency translation differences for foreign operations	-	-	-	30,736	-	-	30,736	42	30,778
Net change in fair value of cash flow hedges	-	-	-	-	(32,254)	-	(32,254)	-	(32,254)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	-	2,200	-	2,200	-	2,200
Total other comprehensive income	-	-	-	30,736	(30,054)	-	682	42	724
Total comprehensive income	**-**	**-**	**-**	**30,736**	**(30,054)**	**(192,146)**	**(191,464)**	**(2,149)**	**(193,613)**
Transactions with owners of the Company, recognised directly in equity									
Issue of new shares	2,570	-	-	-	(2,104)	-	466	-	466
Share-based payments	-	-	-	-	733	-	733	-	733
Total transactions with owners	**2,570**	**-**	**-**	**-**	**(1,371)**	**-**	**1,199**	**-**	**1,199**
At 30 June 2020	**488,787**	**(771)**	**(1,683)**	**3,281**	**(46,512)**	**1,539,941**	**1,983,043**	**31,321**	**2,014,364**

D. CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (Cont'd)

ii. Statements of Changes in Equity of the Company

	Share capital $'000	Reserve for own shares $'000	Capital reserves $'000	Other reserves $'000	Revenue reserve $'000	Total Equity $'000
1H 2021						
At 1 January 2021	**2,575,374**	**(771)**	**960**	**(23,050)**	**1,531,024**	**4,083,537**
Total comprehensive income						
Loss for the period	-	-	-	-	(56,202)	(56,202)
Other comprehensive income						
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**(56,202)**	**(56,202)**
Transactions with owners of the Company, recognised directly in equity						
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**
At 30 June 2021	**2,575,374**	**(771)**	**960**	**(23,050)**	**1,474,822**	**4,027,335**
1H 2020						
At 1 January 2020	**486,217**	**(771)**	**960**	**(22,412)**	**1,495,694**	**1,959,688**
Total comprehensive income						
Profit for the period	-	-	-	-	1,164	1,164
Other comprehensive income						
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**1,164**	**1,164**
Transactions with owners of the Company, recognised directly in equity						
Issue of new shares	2,570	-	-	(2,104)	-	466
Share-based payments	-	-	-	484	-	484
Cost of share-based payment issued to employees of subsidiaries	-	-	-	249	-	249
Total transactions with owners	**2,570**	**-**	**-**	**(1,371)**	**-**	**1,199**
At 30 June 2020	**488,787**	**(771)**	**960**	**(23,783)**	**1,496,858**	**1,962,051**

E. CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Group 1H 2021 $'000	Group 1H 2020 $'000
Cash flows from operating activities:		
Loss for the period	(649,507)	(194,337)
Adjustments for:		
Finance income	(22,882)	(29,909)
Finance costs	42,133	79,000
Depreciation of property, plant and equipment, and right-of-use assets	84,869	86,633
Amortisation of intangible assets	12,863	13,970
Share of results of associates and joint ventures, net of tax	(663)	(550)
(Gain)/loss on disposal of property, plant and equipment	(2,425)	119
Loss on termination of lease liabilities	-	14
Gain on disposal of asset held for sale	-	(501)
Changes in fair value of financial instruments	19,850	24,270
Impairment losses on property, plant and equipment	45,776	-
Impairment losses on right-of-use assets	66,477	-
Share-based payment expenses	-	733
Property, plant and equipment written off	5	-
Inventories written down, net	88	1
Allowance for doubtful debts and bad debts, net	2,039	214
Tax credit	(78,013)	(26,476)
Operating loss before working capital changes	(479,390)	(46,819)
Changes in working capital:		
Inventories	(579)	(19,056)
Contract costs	833	(5,394)
Contract assets	(218,852)	(188,568)
Contract liabilities	15,017	36,918
Trade and other receivables	330,340	158,688
Trade and other payables	300,085	16,260
Provisions	86,176	(3,985)
Cash generated from/(used in) operations	33,630	(51,956)
Interest income received	1,259	1,332
Interest paid	(31,907)	(70,490)
Tax paid	(4,937)	(858)
Net cash used in operating activities	(1,955)	(121,972)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(23,712)	(57,801)
Proceeds from sale of property, plant and equipment	2,727	103
Proceeds from disposal of asset held for sale	-	1,467
Purchase of intangible assets	(1,523)	(196)
Dividend received from joint venture	32	-
Net cash used in investing activities	(22,476)	(56,427)
Cash flows from financing activities:		
Proceeds from borrowings	1,052,887	2,018,582
Repayment of borrowings	(1,001,636)	(1,110,201)
Payment of lease liabilities	(10,384)	(9,352)
Payment on termination of lease liabilities	-	(49)
Net cash generated from financing activities	40,867	898,980
Net increase in cash and cash equivalents	16,436	720,581
Cash and cash equivalents at beginning of the period	772,426	389,250
Effect of exchange rate changes on balances held in foreign currencies	(569)	(2,800)
Cash and cash equivalents at end of the period	**788,293**	**1,107,031**

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Domicile and activities

Sembcorp Marine Ltd (the "Company") is a company incorporated in the Republic of Singapore and has its registered office at 80 Tuas South Boulevard, Singapore 637051, and whose shares are publicly traded on the Mainboard of the Singapore Exchange. These condensed interim financial statements as at and for the six months ended 30 June 2021 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and joint ventures.

The principal activities of the Company are the provision of management services and investment holding.

The principal activities of the Group are the provision of innovative engineering solutions to the global offshore, marine and energy industries.

2. Basis of preparation

2.1. Going concern basis of accounting

The condensed interim financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its debt obligations as and when they fall due within the next twelve months.

The outbreak of the COVID-19 pandemic and the measures adopted by the Singapore Government to mitigate the pandemic's spread have impacted the Group. The onset of the COVID-19 pandemic in 2020 delayed the industry recovery and created severe disruptions, including reductions in capital expenditure by oil majors and disruptions in global supply chains. These disruptions have extended into 2021 with the re-imposition of COVID-19 restrictions to combat new waves of localised infections, including tighter border controls which exacerbated the shortages of skilled manpower for the Group. As a result, disruptions to yard operations have impacted the execution and completion of projects, along with deferrals of deliveries and payments by customers. This has adversely affected the Group's working capital position.

The Group's $2.1 billion rights issue completed in September 2020 had strengthened the Group's financial position and allowed the Group to continue to pursue its strategic expansion towards the renewable and clean energy segments. The proceeds were used to reduce the Group's leverage and debt servicing obligations by converting the $1.5 billion Subordinated Loan owing to Sembcorp Industries Ltd into equity in Sembcorp Marine with the balance of approximately $0.6 billion to fund ongoing operations. However, the prolonged disruptions from COVID-19 have created further near-term liquidity challenges for the Group.

On 24 June 2021, the Group announced a renounceable underwritten rights issue to raise proceeds of approximately $1.5 billion to meet immediate funding needs, strengthen the Group's balance sheet, replenish temporary working capital depletion amidst continuing COVID-19 disruptions, and enhance the Group's liquidity position.

As at 30 June 2021, the Group recorded net current liabilities of $694,485,000 and incurred a loss of $649,507,000 and negative operating cash flows of $1,955,000 for the six months ended 30 June 2021. The Group is in talks with lenders to refinance and re-profile current loans with longer term maturities. For certain loans due, proceeds from the rights issue announced in June 2021 will be utilised to repay them.

There is uncertainty over how the future development of the COVID-19 pandemic will impact the Group's business including customers' demand for its products. The appropriateness of the going concern basis of accounting is dependent on the continued availability of borrowings or alternative sources of capital or liquidity to meet its financial obligations as they fall due.

Management of the Group is confident that the continuing use of the going concern assumption in the preparation of the financial statements is appropriate.

2.2. Statement of compliance

The condensed interim financial statements are prepared in accordance to Singapore Financial Reporting Standards (International) (SFRS(I)s) and International Financial Reporting Standards (IFRSs). All references to SFRS(I)s and IFRSs are referred to as SFRS(I)s in these condensed interim financial statements unless otherwise specified.

The condensed interim financial statements for the six months ended 30 June 2021 have been prepared in accordance with SFRS(I) 1-34 *Interim Financial Reporting*. The condensed interim financial statements do not include all the information required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance of the Group since the last annual financial statements for the year ended 31 December 2020.

Except as disclosed in Note 2.3. below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current period as the most recent audited financial statements for the year ended, and as at, 31 December 2020.

The condensed interim financial statements are presented in Singapore dollars which is the Company's functional currency.

2.3. New and amended standards

The Group has applied the following SFRS(I)s, interpretations of SFRS(I) and requirement of SFRS(I) which are mandatorily effective from 1 January 2021:

- *Interest Rate Benchmark Reform – Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The adoption of the above standards do not have any significant impact on the financial statements.

2.4. Use of estimates and judgements

In preparing the condensed interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements as at and for the year ended 31 December 2020.

3. Segment and revenue information

The Group has two reportable segments, which are the Group's strategic business units. They are: (i) rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding; and (ii) ship chartering. The strategic business units are managed separately because of their different business activities. The results of all projects related to shipbuilding and repairs are reviewed as a whole and form the basis for resource allocation decisions of the shipyard activities.

Inter-segment sales and transfers are carried out on an arm's length basis. Segment assets consist primarily of property, plant and equipment, intangible assets, current assets and exclude inter-segment balances. Segment liabilities comprise mainly operating liabilities and exclude inter-segment balances. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's President & CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Other operations include bulk trading in marine engineering related products, collection and treatment of used copper slag, and the processing and distribution of copper slag for blast cleaning purposes.

The Group operates principally in the Republic of Singapore. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and total assets are based on the geographical location of the assets.

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Cont'd)

3.1. Operating segments

(i) Business segments:

1H 2021	Rigs & floaters, Repairs & upgrades, Offshore platforms, and Specialised shipbuilding $'000	Ship chartering $'000	Others $'000	Elimination $'000	Total $'000
Turnover					
Sales to external parties	832,926	9,267	1,993	-	844,186
Inter-segment sales	-	-	17,303	(17,303)	-
Total	**832,926**	**9,267**	**19,296**	**(17,303)**	**844,186**
Results					
Segment results	(660,172)	(47,838)	(922)	-	(708,932)
Finance income	27,501	-	26,777	(31,396)	22,882
Finance costs	(54,053)	(847)	(18,629)	31,396	(42,133)
Share of results of associates and joint ventures, net of tax	31	-	632	-	663
(Loss)/profit before tax	(686,693)	(48,685)	7,858	-	(727,520)
Tax credit/(expense)	79,300	(857)	(430)	-	78,013
(Loss)/profit for the period	**(607,393)**	**(49,542)**	**7,428**	**-**	**(649,507)**
Capital expenditure	19,369	3,785	56	-	**23,210**
Significant non-cash items					
Depreciation and amortisation	91,667	5,788	277	-	**97,732**
Changes in fair value of financial instruments	(2,319)	-	22,169	-	**19,850**
Inventories written down, net	88	-	-	-	**88**
Allowance for doubtful debts and bad debts, net	2,039	-	-	-	**2,039**
Impairment losses on property, plant and equipment	-	45,718	58	-	**45,776**
Impairment losses on right-of-use assets	66,477	-	-	-	**66,477**
Property, plant and equipment written off	5	-	-	-	**5**
As at 30-Jun-2021					
Assets					
Segment assets	9,221,822	185,405	2,415,843	(3,231,690)	8,591,380
Interests in associates and joint ventures	4,296	-	11,846	-	16,142
Deferred tax assets	204,312	692	-	-	205,004
Tax recoverable	18,549	-	-	-	18,549
Total assets	**9,448,979**	**186,097**	**2,427,689**	**(3,231,690)**	**8,831,075**
Liabilities					
Segment liabilities	6,398,420	49,361	2,099,172	(2,799,878)	5,747,075
Deferred tax liabilities	29,331	900	-	-	30,231
Current tax payable	5,736	1,453	3,465	-	10,654
Total liabilities	**6,433,487**	**51,714**	**2,102,637**	**(2,799,878)**	**5,787,960**

(ii) Geographical segments:

	1H 2021 Turnover from external customers $'000	%	1H 2021 Capital expenditure $'000	%	As at 30-Jun-2021 Non-current assets [1] $'000	%	As at 30-Jun-2021 Total assets $'000	%
Singapore	102,245	12	9,158	40	4,268,103	71	6,932,322	78
Rest of Asia, Australia & India	87,677	10	297	1	116,299	2	145,021	2
Qatar	113,215	13	-	-	-	-	-	-
Rest of Middle East & Africa	1,066	-	-	-	-	-	-	-
United Kingdom	117,621	14	13	-	2,209	-	3,973	-
Norway	81,687	10	-	-	37,493	1	49,956	1
The Netherlands	22,300	3	-	-	79,532	1	83,112	1
Rest of Europe	93,843	11	5	-	133	-	3,594	-
Brazil	40,076	5	13,737	59	1,530,416	25	1,612,657	18
U.S.A.	184,351	22	-	-	250	-	440	-
Other countries	105	-	-	-	-	-	-	-
Total	**844,186**	**100**	**23,210**	**100**	**6,034,435**	**100**	**8,831,075**	**100**

[1] *Non-current assets presented consist of property, plant and equipment, right-of-use assets, interests in associates and joint ventures, trade and other receivables, contract assets and intangible assets.*

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Cont'd)

3.1. Operating segments (Cont'd)

(i) Business segments:

1H 2020	Rigs & floaters, Repairs & upgrades, Offshore platforms, and Specialised shipbuilding $'000	Ship chartering $'000	Others $'000	Elimination $'000	Total $'000
Turnover					
Sales to external parties	893,110	11,863	1,226	-	906,199
Inter-segment sales	-	-	40,955	(40,955)	-
Total	**893,110**	**11,863**	**42,181**	**(40,955)**	**906,199**
Results					
Segment results	(161,674)	(7,536)	(3,563)	-	(172,773)
Finance income	45,488	-	52,460	(68,039)	29,909
Finance costs	(97,233)	(991)	(48,815)	68,039	(79,000)
Non-operating income	501	-	-	-	501
Share of results of associates and joint ventures, net of tax	300	-	250	-	550
(Loss)/profit before tax	(212,618)	(8,527)	332	-	(220,813)
Tax credit/(expense)	26,531	757	(812)	-	26,476
Loss for the period	**(186,087)**	**(7,770)**	**(480)**	**-**	**(194,337)**
Capital expenditure	52,978	-	-	-	**52,978**
Significant non-cash items					
Depreciation and amortisation	93,353	6,929	321	-	**100,603**
Gain on disposal of asset held for sale	(501)	-	-	-	**(501)**
Changes in fair value of financial instruments	(1,492)	-	25,762	-	**24,270**
Inventories written down, net	1	-	-	-	**1**
Allowance for doubtful debts and bad debts, net	214	-	-	-	**214**
As at 31-Dec-2020					
Assets					
Segment assets	9,493,478	240,673	2,134,105	(3,047,855)	8,820,401
Interests in associates and joint ventures	4,209	-	11,214	-	15,423
Deferred tax assets	116,578	705	-	-	117,283
Tax recoverable	17,117	-	-	-	17,117
Total assets	**9,631,382**	**241,378**	**2,145,319**	**(3,047,855)**	**8,970,224**
Liabilities					
Segment liabilities	6,212,052	53,514	2,022,458	(3,047,855)	5,240,169
Deferred tax liabilities	25,952	900	-	-	26,852
Current tax payable	3,448	609	2,999	-	7,056
Total liabilities	**6,241,452**	**55,023**	**2,025,457**	**(3,047,855)**	**5,274,077**

(ii) Geographical segments:

	1H 2020 Turnover from external customers $'000	%	1H 2020 Capital expenditure $'000	%	As at 31-Dec-2020 Non-current assets [(1)] $'000	%	As at 31-Dec-2020 Total assets $'000	%
Singapore	112,417	12	33,412	63	3,874,972	68	6,959,615	78
Rest of Asia, Australia & India	131,734	15	456	1	122,299	2	157,200	2
Middle East & Africa	24,083	3	-	-	-	-	-	-
United Kingdom	48,162	5	5	-	2,315	-	4,345	-
Norway	102,580	11	13	-	46,050	1	55,848	1
France	74,349	8	37	-	127	-	2,268	-
The Netherlands	13,799	2	-	-	128,179	2	134,147	1
Rest of Europe	80,872	9	-	-	34	-	802	-
Brazil	87,530	10	19,055	36	1,533,461	27	1,654,327	18
U.S.A.	228,478	25	-	-	471	-	1,672	-
Other countries	2,195	-	-	-	-	-	-	-
Total	**906,199**	**100**	**52,978**	**100**	**5,707,908**	**100**	**8,970,224**	**100**

[(1)] *Non-current assets presented consist of property, plant and equipment, right-of-use assets, interests in associates and joint ventures, trade and other receivables and intangible assets.*

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Cont'd)

3.2. Disaggregation of revenue

	Rigs & floaters, Repairs & upgrades, Offshore platforms and Specialised shipbuilding $'000	Ship chartering $'000	Others $'000	Elimination $'000	Total $'000
1H 2021					
Turnover					
Sales to external parties	832,926	9,267	1,993	-	844,186
Inter-segment sales	-	-	17,303	(17,303)	-
Total	**832,926**	**9,267**	**19,296**	**(17,303)**	**844,186**
Major product and service lines					
Ship and rig building or conversion	269,216	-	-	-	269,216
Repair, maintenance and related services	237,935	-	-	-	237,935
Offshore platforms	295,540	-	-	-	295,540
Specialised shipbuilding	13,944	-	-	-	13,944
Charter hire	-	9,267	-	-	9,267
Sale of goods	-	-	1,993	-	1,993
Others	16,291	-	-	-	16,291
Total	**832,926**	**9,267**	**1,993**	**-**	**844,186**
Timing of revenue recognition					
Control transferred over time	820,143	9,267	-	-	829,410
Control transferred at a point in time	12,783	-	1,993	-	14,776
Total	**832,926**	**9,267**	**1,993**	**-**	**844,186**
1H 2020					
Turnover					
Sales to external parties	893,110	11,863	1,226	-	906,199
Inter-segment sales	-	-	40,955	(40,955)	-
Total	**893,110**	**11,863**	**42,181**	**(40,955)**	**906,199**
Major product and service lines					
Ship and rig building or conversion	458,684	-	-	-	458,684
Repair, maintenance and related services	258,063	-	-	-	258,063
Offshore platforms	130,261	-	-	-	130,261
Specialised shipbuilding	35,421	-	-	-	35,421
Charter hire	-	11,863	-	-	11,863
Sale of goods	-	-	1,226	-	1,226
Others	10,681	-	-	-	10,681
Total	**893,110**	**11,863**	**1,226**	-	**906,199**
Timing of revenue recognition					
Control transferred over time	853,908	11,863	-	-	865,771
Control transferred at a point in time	39,202	-	1,226	-	40,428
Total	**893,110**	**11,863**	**1,226**	-	**906,199**

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Cont'd)

4. Cost of Sales

	Group 1H 2021 $'000	Group 1H 2020 $'000
Cost of sales	(1,432,433)	(1,100,784)
Included in cost of sales:		
Depreciation and amortisation	(93,298)	(95,856)
Inventories written down, net	(88)	(1)
Property, plant and equipment written off	(5)	-

5. Other operating income/(expenses)

	Note	Group 1H 2021 $'000	Group 1H 2020 $'000
Other operating income		68,163	93,150
Other operating expenses		(143,950)	(24,511)
		(75,787)	68,639
Included in other operating income/(expenses):			
Changes in fair value of financial instruments		(19,850)	(24,270)
Foreign exchange gain, net		23,354	36,962
Gain/(loss) on disposal of property, plant and equipment, net		2,425	(119)
Impairment losses on property, plant and equipment	13	(45,776)	-
Impairment losses on right-of-use assets	14	(66,477)	-
Restoration costs		(11,806)	-
Rental income		5,392	5,311
Grant income		22,851	42,191
Other income		14,141	8,686
Other expenses		(41)	(122)
		(75,787)	68,639

6. General and administrative expenses

	Group 1H 2021 $'000	Group 1H 2020 $'000
General and administrative expenses	(44,898)	(46,827)
Included in general and administrative expenses:		
Depreciation and amortisation	(4,434)	(4,747)
Allowance for doubtful debts and bad debts, net	(2,039)	(214)

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Cont'd)

7. Finance income and finance costs

	Group	
	1H 2021	1H 2020
	$'000	$'000
Finance income	22,882	29,909
Finance costs	(42,133)	(79,000)
	(19,251)	(49,091)
Included in finance income/(costs):		
Interest income	22,882	29,909
Interest paid and payable to bank and others	(29,712)	(65,784)
Amortisation of capitalised transaction costs	(5,177)	(2,763)
Unwind of discount on restoration costs	(758)	(664)
Interest expense on lease liabilities	(6,486)	(9,789)
	(19,251)	(49,091)

8. Non-operating income

The non-operating income in 1H 2020 relates to a gain on disposal of a workshop in Malaysia.

9. Seasonality of operations

The Group's businesses are not affected significantly by seasonal or cyclical factors during the financial period.

10. Tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim consolidated income statement are:

	Group	
	1H 2021	1H 2020
	$'000	$'000
Current tax expense	(7,192)	(7,109)
Over/(under) provided in prior years	186	(42)
Deferred tax credit	85,235	33,499
(Under)/over provided in prior years	(216)	128
Tax credit	78,013	26,476

Sources of estimation uncertainty on current tax

The Group is subject to taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for taxes. In determining the amount of current and deferred taxes, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. There are certain transactions and computation for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. The Group believes that its accruals for tax liabilities are adequate for all open years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the taxes and deferred tax provisions in the period in which such determination is made.

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Cont'd)

10. Tax (Cont'd)

Sources of estimation uncertainty on deferred tax assets

Certain subsidiaries of the Group have tax benefits arising from unutilised tax losses, tax credits and deductible temporary differences, which are available for set-off against future taxable profits. Of these, the utilisation of these tax benefits, for which deferred tax asset was recognised, is presumed on the Group's ability to generate taxable profits in the foreseeable future. This is, however, highly dependent on macroeconomic conditions impacting the offshore and marine sector, expected movements and recovery of oil prices, and financial strength of the Group's customers, which would then significantly affect the realisability of these deferred tax assets. Information about the assumptions and their risk factors relating to the profit forecasts are disclosed in Note 13.

11. Dividend

There is no dividend recommended for the period ended 30 June 2021 (30 June 2020: Nil).

12. Earnings per ordinary share

	Group	
	1H 2021	**1H 2020***
(i) Based on the weighted average number of shares (cents)	(5.16)	(8.83)
- Weighted average number of shares ('000)	12,555,229	2,176,872
(ii) On a fully diluted basis (cents)	(5.16)	(8.83)
- Adjusted weighted average number of shares ('000)	12,555,229	2,176,872

* *With the completion of the issuance of rights shares on 11 September 2020, prior period comparatives for earnings per share were restated per SFRS(I)1-33 through retrospective application of a bonus factor to the weighted average number of shares. The bonus factor is derived from the division of fair value per share immediately before the exercise of rights by the theoretical ex-rights fair value.*

13. Property, Plant and Equipment

During the six months ended 30 June 2021, the Group acquired property, plant and equipment with an aggregate cost of $21,687,000 (30 June 2020: $52,761,000).

The property, plant and equipment comprise mainly marine vessels and shipyard assets attributable to the "rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding" operating segment. Within this operating segment, there are two key cash generating units in Singapore and Brazil. These property, plant and equipment, together with right of-use assets and certain intangible assets, were tested for impairment.

Impairment assessment of the Group's accommodation vessel

Due to the increasingly challenging and competitive market environment, worsened by the impact from the COVID-19 pandemic, management assessed that there were indicators of impairment for the vessel in the current period.

As the Group expects to recover the value of the accommodation vessel through continuing use on a charter basis, the Group used the discounted cash flow projections to determine the recoverable amount. The cash flows projection considered different outcomes that took into account the expected renewal rates based on prevailing and foreseeable market conditions. The renewal rates (taking into consideration prevailing rates) have been adjusted downwards, assuming a certain level of discount from the contractual rates under the last long term charter contract, but factored a 2% inflationary adjustment till the end of the economic useful life of the vessel. The assumed operating cost is based on approved budget and adjusted for inflation at 2% per annum throughout the cash flow periods. The average utilisation rate is assumed at 85% (per assessment performed as at 31 December 2020); and the terminal value is based on expected scrap value at the end of the economic useful life of the vessel. These cash flows are then discounted using the pre-tax weighted average cost of capital determined to be at 8.14% (31 December 2020: 9.13%).

13. Property, Plant and Equipment (Cont'd)

Impairment assessment of the Group's accommodation vessel *(Cont'd)*

Based on the Group's assessment of the recoverable amount of the marine vessel of $79,919,000 (31 December 2020: $129,716,000) using a range of probability-weighted possible outcomes at period end, an impairment loss of $45,718,000 (1H 2020: $nil) was recognised in the current period's profit or loss. An impairment loss of $48,989,000 was recognised in the financial year ended 31 December 2020.

The above assumptions are inherently judgemental. The forecasted charter rates and utilisation assumed in the value in use is subject to estimation uncertainties. A further 5% decrease in charter rate and utilisation rate throughout the cash flow periods from the weighted outcomes would lead to additional impairment of $15,959,000 and $12,687,000 respectively.

Impairment assessment of the Group's shipyard assets

Owing to the continuing difficult market conditions impacting the offshore and marine sector, and the negative impact to the Group's financial performance and liquidity arising from the resurgence of COVID-19 infections and the re-introduction of COVID-19 measures adopted by the Singapore Government to mitigate the pandemic's spread, there were indications that the Group's shipyards (the "cash generating units") might be impaired. Under the Group's impairment assessment of the individual cash generating units 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 cash generating units were determined using the value in use calculations.

The value in use calculation for the Group's cash generating units 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). The value in use calculations are updated to reflect the most recent developments on the economic impacts of the COVID-19 pandemic on gross domestic product and inflation as at the review date. Due to the high level of uncertainty, it was very challenging to predict the full extent and duration of the COVID-19 pandemic's impact on the Group's operations. Key drivers supporting the recoverable amounts include: forecasted order book, project margins which are projected with reference to historical experience and taking into account planned recoveries, 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. As the Group pivots to also support the energy transition to renewable energy, the cash flow projections included forecast orders in renewable solutions, of which projections are based on the Group's past experience in this area, market developments on financial support for renewable energy infrastructure, and other analysts' forecast reports on renewable energy demand and growth. These cash flows are then discounted using the applicable discount rates based on their pre-tax weighted average cost of capital of 6.18% (31 December 2020: 7.40%) and 8.97% (31 December 2020: 12.46%) for the Singapore cash generating unit and Brazil cash generating unit respectively.

Based on the Group's assessment, no impairment loss is required for these individual cash generating units as at 30 June 2021 and 31 December 2020 as the recoverable amounts assessed were in excess of the carrying amounts of the cash generating units.

The forecasted order book and the forecasted margins assumed in the value in use 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 cash generating unit 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. The recoverable amount of the Brazil cash generating unit is further subject to political risk and will be reviewed at regular intervals.

F. **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS** (Cont'd)

13. Property, Plant and Equipment (Cont'd)

Impairment assessment of the Group's shipyard assets *(Cont'd)*

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.

For the Singapore cash generating unit, a 10% (31 December 2020: 10%) decrease in order book or 1% (31 December 2020:1%) decrease in forecasted project margins throughout the cash flow periods would significantly reduce the recoverable amount but not likely to cause the recoverable amount to be below carrying amount.

For the Brazil cash generating unit, a 33.5% (31 December 2020: 9.2%) decrease in order book or 5.6% (31 December 2020: 0.9%) decrease in forecasted project margins throughout the cash flow periods would be required for the recoverable amount to equal the carrying amount.

14. Right-of-use assets and leases

The Group leases many assets including land and buildings and tugboats.

During the six months ended 30 June 2021, the Group recognised right-of-use assets amounting to $74,666,000 (30 June 2020: $23,901,000), which included additional provision for restoration costs of $74,655,000 (30 June 2020: $nil).

As part of the Group's transformation and yard consolidation strategy, the Group is scheduled to restore the yard at Tanjong Kling Road ("Tanjong Kling Yard") and return the land to the Singapore Government by 2025. Accordingly, an impairment loss of $66,477,000 (30 June 2020: $nil) was recognised as the lease is determined to be onerous once the restoration works commence.

15. Investments in subsidiaries

Impairment assessment of the Company's investment in subsidiaries

Determining whether investments in subsidiaries are impaired requires an estimate of the value-in-use ("VIU") of the subsidiaries. Estimating the VIU requires the Company to make an estimate of the future cash flows expected from the cash generating unit and appropriate discount rate in order to calculate the present value of these cash flows. The forecasts used to estimate the future cash flows are subject to the risks noted in the impairment assessments of the Group's shipyards. Information about the assumptions and risk factors are disclosed in Note 13.

Based on the Company's assessment, no impairment loss is required as at 30 June 2021 and 31 December 2020 as the recoverable amounts assessed were in excess of the carrying amounts of the cash generating unit.

16. Net asset value

	Group		Company	
	30-Jun-2021	**31-Dec-2020**	**30-Jun-2021**	**31-Dec-2020**
Net asset value per ordinary share based on issued share capital at the end of the financial period/year (cents)	24.03	29.21	32.08	32.52

17. Group's borrowings and debt securities

Interest-bearing borrowings:	**As at 30-Jun-2021 $'000**	**As at 31-Dec-2020 $'000**
(i) Amount repayable in one year or less, or on demand		
Unsecured	1,614,037	2,121,394
(ii) Amount repayable after one year		
Unsecured	1,977,767	1,428,400

18. Share capital

(i) Issued and Paid Up Capital

As at 30 June 2021, the Company's issued and paid up capital, excluding treasury shares, comprises 12,555,229,044 (31 December 2020: 12,555,229,044) ordinary shares.

(ii) Treasury Shares

	Number of shares	
	2021	**2020**
At 1 January and 30 June	416,840	416,840

As at 30 June 2021, 416,840 (30 June 2020: 416,840) treasury shares were held that may be issued upon the vesting of performance shares and restricted shares under the Company's Performance Share Plan ("PSP") and Restricted Share Plan ("RSP") respectively.

(iii) Performance Shares

	Number of shares	
	2021	**2020**
At 1 January	1,168,000	2,618,000
Performance shares lapsed arising from targets not met	(911,040)	(1,450,000)
At 30 June	256,960	1,168,000

During 1H 2021, there were 911,040 (1H 2020: 1,450,000) performance shares that lapsed due to the under achievement of performance targets.

The total number of performance shares in awards granted conditionally and representing 100% of targets to be achieved, but not released as at 30 June 2021 was 256,960 (30 June 2020: 1,168,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 385,440 (30 June 2020: 1,752,000) performance shares.

(iv) Restricted Shares

	Number of shares	
	2021	**2020**
At 1 January	956,036	2,372,975
Conditional restricted shares awarded	-	757,800
Conditional restricted shares released	-	(2,050,445)
Conditional restricted shares lapsed	(47,123)	(99,625)
At 30 June	908,913	980,705

During 1H 2021, there were no (1H 2020: 757,800) restricted shares awarded under the RSP, no (1H 2020: 2,050,445) restricted shares released and 47,123 (1H 2020: 99,625) restricted shares that lapsed. The restricted shares released during 1H 2020 were settled by way of issuance of new shares.

The total number of restricted shares outstanding, including awards achieved but not released, as at 30 June 2021 was 908,913 (30 June 2020: 980,705).

19. Related parties

19a. Related party transactions

The Group had the following outstanding balances and significant transactions with related parties during the period/year:

	Outstanding balances		Significant transactions	
	30-Jun-2021	**31-Dec-2020**	**30-Jun-2021**	**30-Jun-2020**
	$'000	**$'000**	**$'000**	**$'000**
Related corporations				
Sales	29	71	-	39
Purchases	(1,356)	(2,035)	(15,525)	(14,552)
Finance income	-	-	-	377
Finance costs	-	-	-	(38,108)
Others	-	-	-	(3)
Associates and joint ventures				
Sales	224	194	3	-
Purchases	(876)	(1,037)	(2,898)	(3,461)
Rental income	-	-	4	-
Finance income	14	-	33	176
Others	(240)	(357)	25	20

19b. Compensation of key management personnel

There were no changes to the key management personnel in 1H 2021. There were no changes to the compensation scheme in 1H 2021.

20. Fair value measurements

The Group classifies financial assets and liabilities measured at fair value using a fair value hierarchy that prioritises the inputs used to measure fair value. The three levels of the fair value input hierarchy are as follows:

- Level 1 – Fair values are measured based on quoted prices (unadjusted) from active markets for identical financial instruments.
- Level 2 – Fair values are measured using inputs, other than those used for Level 1, that are observable for the financial instruments either directly (prices) or indirectly (derived from prices).
- Level 3 – Fair values are measured using inputs which are not based on observable market data (unobservable input).

Securities

The fair value of financial assets at fair value through profit or loss, and fair value through other comprehensive income, is based on quoted market prices (bid price) in an active market at the balance sheet date without any deduction for transaction costs. If the market for a quoted financial asset is not active, and for unquoted financial assets, the Group establishes fair value by using other valuation techniques.

Derivatives

The fair value of forward exchange contracts is accounted for based on the difference between the contractual price and the current market price.

The fair value of interest rate swaps is the indicative amount that the Group is expected to receive or pay to terminate the swap with the swap counterparties at the balance sheet date.

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Cont'd)

20. Fair value measurements (Cont'd)

Non-derivative non-current financial assets and liabilities

Fair values determined for non-derivative non-current financial assets and liabilities are calculated based on discounted expected future principal and interest cash flows at the market rate of interest at the reporting date. This includes determination for fair value disclosure purpose as well.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

For financial instruments that are not actively traded in the market, the fair value is determined by independent third party or using valuation techniques where applicable. The Group may use a variety of methods and make assumptions that are based on existing market conditions at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used to estimate the fair value for medium term notes for disclosure purpose. Other techniques, such as estimated discounted cash flows, are used to determine the fair value for the remaining financial instruments. Where discounted cash flow techniques are used, the management will estimate the future cash flows and use relevant market rate as the discount rate at the balance sheet date.

Financial assets and liabilities carried at fair value

	Fair value measurement using:			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Group				
At 30 June 2021				
Financial assets at fair value through other comprehensive income				
- Unquoted equity shares	-	-	2,642	2,642
Derivative financial assets	-	13,760	-	13,760
Derivative financial liabilities	-	(4,064)	-	(4,064)
Total	-	9,696	2,642	12,338
At 31 December 2020				
Financial assets at fair value through other comprehensive income				
- Unquoted equity shares	-	-	2,642	2,642
Derivative financial assets	-	35,768	-	35,768
Derivative financial liabilities	-	(5,464)	-	(5,464)
Total	-	30,304	2,642	32,946

In 30 June 2021 and 31 December 2020, there were no transfers between the different levels of the fair value hierarchy.

Assets and liabilities not carried at fair value but for which fair values are disclosed*

	Fair value measurement using:			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Group				
At 30 June 2021				
Interest-bearing borrowings	-	(1,984,284)	-	(1,984,284)
At 31 December 2020				
Interest-bearing borrowings	-	(1,417,688)	-	(1,417,688)

* *Excludes financial assets and liabilities whose carrying amounts measured on the amortised cost basis that approximate their fair values due to their short-term nature, frequent repricing, and/or where the effect of discounting is immaterial.*

F. NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Cont'd)

20. Fair value measurements (Cont'd)

The fair values of financial assets and liabilities measured on amortised cost basis, together with the carrying amounts shown in the balance sheets are as follows:

	Financial assets at amortised cost $'000	Other financial liabilities $'000	Total carrying amount $'000	Fair value $'000
Group				
At 30 June 2021				
Cash and cash equivalents	788,293	-	788,293	788,293
Trade and other receivables*	1,346,301	-	1,346,301	1,346,301
	2,134,594	-	2,134,594	2,134,594
Trade and other payables**	-	1,414,293	1,414,293	1,414,293
Interest-bearing borrowings				
- Short-term borrowings	-	1,614,037	1,614,037	1,614,335
- Long-term borrowings	-	1,977,767	1,977,767	1,984,284
	-	5,006,097	5,006,097	5,012,912
Group				
At 31 December 2020				
Cash and cash equivalents	772,426	-	772,426	772,426
Trade and other receivables*	1,581,902	-	1,581,902	1,581,902
	2,354,328	-	2,354,328	2,354,328
Trade and other payables**	-	1,031,032	1,031,032	1,031,032
Interest-bearing borrowings				
- Short-term borrowings	-	2,121,394	2,121,394	2,121,394
- Long-term borrowings	-	1,428,400	1,428,400	1,417,688
	-	4,580,826	4,580,826	4,570,114
Company				
At 30 June 2021				
Cash and cash equivalents	305,836	-	305,836	305,836
Trade and other receivables*	361,763	-	361,763	361,763
	667,599	-	667,599	667,599
Trade and other payables**	-	42,568	42,568	42,568
Interest-bearing borrowings				
- Short-term borrowings	-	50,000	50,000	50,000
	-	92,568	92,568	92,568
Company				
At 31 December 2020				
Cash and cash equivalents	499,024	-	499,024	499,024
Trade and other receivables*	159,122	-	159,122	159,122
	658,146	-	658,146	658,146
Trade and other payables**	-	18,722	18,722	18,722
Interest-bearing borrowings				
- Short-term borrowings	-	50,000	50,000	50,000
	-	68,722	68,722	68,722

* *Excludes Goods and Services Tax.*

** *Excludes deposits received, advance payment from customers, Goods and Services Tax, deferred grants and long-term employee benefits.*

21. Electoral Suit in Brazil

The Brazilian Public Prosecutors filed a complaint before the Electoral Courts in Aracruz, Espirito Santo, against the Company's subsidiary in Brazil, Estaleiro Jurong Aracruz Ltda ("EJA") in 2015 alleging that political donations were made in 2014 (in total BRL 1.75 million or equivalent to approximately SGD 470,000 as at June 2021) which exceeded the threshold permitted by law.

The dispute arises from the interpretation of the Art. 81, paragraph 1, of the Brazilian Law n. 9,504/97 (effective as the time of the donation) that prescribed that the donation was subject to a limit of two percent of the Company's gross revenue in the year preceding the elections. As the definition of "gross revenue" is not clearly defined under the Electoral Code, there was disagreement as to whether a narrow definition of the "gross revenue" for tax purposes, or a broad definition of total revenue should apply as has already been decided by the Superior Electoral Tribunal (TSE) (the highest court in Brazilian electoral justice system) in similar cases.

In late June 2021, EJA was notified of a decision rendered by the local court of Aracruz where the judge took the narrow interpretation and applied a fine of an amount which corresponds to half of the Prosecutor's request. The fine was BRL 8.57 million, equivalent to SGD2.33 million as at June 2021.

EJA denies all allegations that it has breached the relevant laws and will appeal against the decision, which contradicts precedents from the Superior Electoral Tribunal (TSE).

G. OTHER INFORMATION REQUIRED BY LISTING RULE APPENDIX 7.2

1. Review by KPMG LLP

The condensed interim financial statements, comprising the condensed interim balance sheets of Sembcorp Marine Ltd ("the Company") and its Subsidiaries ("the Group") as at 30 June 2021, the condensed interim consolidated income statement, condensed interim consolidated statement of comprehensive income, condensed interim statements of changes in equity and condensed interim consolidated statement of cash flows for the six-month period then ended and certain explanatory notes, as set out on pages 1 to 21 of this announcement, have been reviewed by KPMG LLP in Singapore in accordance with the Singapore Standard on Review Engagement 2410 – *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

The comparative information for the condensed interim balance sheets are based on the audited financial statements as at 31 December 2020. The comparative information for the condensed interim consolidated income statement, condensed interim consolidated statement of comprehensive income, condensed interim statements of changes in equity and condensed interim consolidated statement of cash flows and certain explanatory notes for the six-month period ended 30 June 2020 has not been audited or reviewed.

2. Review of performance of the Group

Condensed interim consolidated income statement

(a) Turnover

	1H 2021 $'m	1H 2020 $'m	+ / (-) $'m	+ / (-) %
Rigs & floaters	269.2	458.7	(189.5)	(41.3)
Repairs & upgrades	237.9	258.1	(20.2)	(7.8)
Offshore platforms	295.6	130.3	165.3	n.m.
Specialised shipbuilding	13.9	35.4	(21.5)	(60.7)
Other activities	27.6	23.7	3.9	16.5
	844.2	**906.2**	**(62.0)**	**(6.8)**

Turnover for 1H 2021 decreased mainly due to lower revenue recognition from Rigs & floaters, Repairs & upgrades and Specialised shipbuilding projects, mitigated by higher revenue recognition from Offshore platforms projects. The lower revenue recognition was mainly attributed to the ongoing COVID-19 disruptions that caused delays in the execution and completion of existing projects.

(b) Gross loss

Gross loss for 1H 2021 was higher mainly due to the significant impact of ongoing COVID-19 disruptions causing further delays and increase in manpower and other related costs to complete existing projects.

(c) Other operating income/(expenses)

(i) Changes in fair value of financial instruments were due to mark-to-market adjustments of foreign currency forward contracts used for managing the Group's foreign currency exposures.

(ii) Lower foreign exchange gain in 1H 2021 was mainly due to the revaluation of assets and liabilities denominated in United States dollar to Singapore dollar.

(iii) Impairment losses on property, plant and equipment for 1H 2021 was mainly due to impairment of a marine vessel.

(iv) Impairment losses on right-of-use assets for 1H 2021 mainly relates to right-of-use assets from the additional restoration costs of land and building at Tanjong Kling Yard.

(v) Restoration costs for 1H 2021 mainly relates to additional restoration costs of land and building at Shipyard Road.

(vi) Lower grant income in 1H 2021 was mainly due to lower government grants for COVID-19 pandemic.

(vii) Higher other income in 1H 2021 was mainly due to higher sales of scrap.

2. Review of performance of the Group (Cont'd)

Condensed interim consolidated income statement (Cont'd)

(d) General and administrative expenses

Higher allowance for doubtful and bad debts was mainly due to the expected credit loss for receivables.

(e) Finance income and finance costs

(i) Lower finance income in 1H 2021 was mainly due to lower interest income from customers on deferred payment arrangement.

(ii) Lower finance costs in 1H 2021 was mainly due to lower average borrowings and lower interest expense on lease liabilities compared to 1H 2020, offset by higher amortisation of capitalised transaction costs.

(f) Loss attributable to Owners of the Company ("Net loss")

Net loss for 1H 2021 was higher mainly due to higher gross loss, increase in restoration cost and impairment loss on a marine vessel; offset by net foreign exchange gain, lower net finance costs and higher tax credit.

Condensed interim consolidated statement of comprehensive income

The movement in foreign currency translation differences for foreign operations arose primarily from the consolidation of entities whose functional currencies are United States dollars.

Net change in fair value of cash flow hedges were due to the mark-to-market adjustments of foreign currency forward contracts and interest rate swaps.

Net change in fair value of cash flow hedges transferred to profit or loss relates to reclassification to profit or loss upon realisation of cash flow hedges.

Condensed interim balance sheets

(a) Group

Non-current assets

'Other financial assets' decreased mainly due to fair value adjustments on foreign currency forward contracts.

'Contract assets' increased mainly due to reclassification from current contract assets arising from deferred delivery payment terms agreed with a customer.

'Deferred tax assets' increased mainly due to tax credit on unutilised tax losses.

Current assets

'Trade and other receivables' decreased mainly due to receipts from customers for completed projects.

'Contract assets' decreased mainly due to reclassification to non-current assets arising from deferred delivery payment terms agreed with a customer, offset by revenue recognised during the period and timing of billings to customers.

'Other financial assets' decreased mainly due to fair value adjustments on foreign currency forward contracts.

Current liabilities

'Trade and other payables' increased mainly due to higher payables during the period.

'Other financial liabilities' decreased mainly due to fair value adjustments on interest rate swaps.

'Current tax payable' increased mainly due to provision made during the period, offset by tax paid.

'Interest-bearing borrowings' decreased mainly due to refinancing of current borrowings that fell due into longer term maturities.

2. Review of performance of the Group (Cont'd)

Condensed interim balance sheets (Cont'd)

(a) Group (Cont'd)

Net current liabilities

As at 30 June 2021, the Group had net current liabilities totalling $694 million arising mainly from term loans maturing in the next twelve months. The Group is in talks with lenders to refinance and re-profile current loans with longer term maturities. For certain loans due, proceeds from the rights issue announced in June 2021 will be utilised to repay them.

Non-current liabilities

'Deferred tax liabilities' increased mainly due to the movements in temporary differences.

'Provisions' increased mainly due to provision for additional restoration costs.

'Other financial liabilities' decreased mainly due to fair value adjustments on foreign currency forward contracts and interest rate swaps.

'Interest-bearing borrowings' increased mainly due to refinancing of current borrowings that fell due into longer term maturities.

'Other long-term payables' decreased mainly due to lower provision for long-term employee benefits.

(b) Company

Non-current assets

'Property, plant and equipment' decreased mainly due to depreciation charge for the period.

'Right-of-use assets' decreased mainly due to depreciation charge for the period.

'Investment properties' decreased mainly due to depreciation charge for the period.

'Trade and other receivables' increased mainly due to non-current loan to a subsidiary.

'Deferred tax assets' increased mainly due to the movements in temporary differences.

Current assets

'Trade and other receivables' increased mainly due to higher receivables from subsidiaries.

'Cash and cash equivalents' decreased mainly due to loan to a subsidiary.

Current liabilities

'Trade and other payables' increased mainly due to higher payables due to subsidiaries.

'Current tax payable' decreased mainly due to tax paid, offset by provision made during the period.

Non-current liabilities

'Provisions' increased mainly due to provision for additional restoration costs.

'Other long-term payables' decreased mainly due to lower provision for long-term employee benefits.

G. **OTHER INFORMATION REQUIRED BY LISTING RULE APPENDIX 7.2** (Cont'd)

2. **Review of performance of the Group** (Cont'd)

Condensed interim consolidated statement of cash flows

Cash and cash equivalents in the consolidated statement of cash flows comprise the following balance sheet amounts:

	30-Jun-2021 $'000	30-Jun-2020 $'000
Fixed deposits	5,612	6,681
Cash and bank balances	782,681	1,100,350
Cash and cash equivalents	788,293	1,107,031

Half year

Cash flows used in operating activities before changes in working capital were $479 million in 1H 2021. Net cash used in operating activities for 1H 2021 at $2 million was mainly due to working capital for ongoing projects and net interest paid, offset by receipts from completed projects.

Net cash used in investing activities for 1H 2021 was $22 million, mainly due to purchase of property, plant and equipment.

Net cash generated from financing activities for 1H 2021 was $41 million. It relates mainly to net proceeds from borrowings, offset by payment on lease liabilities.

3. **Variance from prospect statement**

Please refer to paragraph 4.

4. **Prospects**

The Group still faces uncertainties arising from the COVID-19-led measures of border controls, as well as workforce supply and quarantine restraints. Continuing efforts to resolve the skilled manpower shortage on a timely basis is a key priority to address the risk of further project delays or terminations. The Group has also actively undertaken measures to improve project execution, replenish temporary working capital depletion and enhance the Group's liquidity position. However the Group expects to incur losses in 2H2021 because of insufficient revenues to cover overhead costs.

This release may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, exchange rate movement, cost of capital and capital availability, competition from other companies and venues for the sale and distribution of goods and services, shifts in customer demands, customers and partners, changes in operating expenses, including employee wages, benefits and training, governmental and public policy changes. You are cautioned not to place undue reliance on these forward-looking statements, which are based on current view of management on future events.

5. **Dividend**

There is no dividend recommended for the period ended 30 June 2021.

G. OTHER INFORMATION REQUIRED BY LISTING RULE APPENDIX 7.2 (Cont'd)

6. Interested person transactions

Name of Interested Person	Nature of Relationship	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual (excluding transactions less than $100,000)	
		1H 2021 $'000	1H 2020 $'000	1H 2021 $'000	1H 2020 $'000
Transaction for the Purchase of Goods and Services					
SembWaste Pte. Ltd.	Associate of Temasek Holdings (Private) Limited, the largest shareholder of the Company.	-	-	-	341
Total Interested Person Transactions		**-**	**-**	**-**	**341**

7. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1)

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1) of the Listing Manual.

BY ORDER OF THE BOARD

TAN YAH SZE / KEM HUEY LEE SHARON
JOINT COMPANY SECRETARIES

29 July 2021

Confirmation by the Board

On behalf of the Board of Directors of Sembcorp Marine Ltd ("the Company"), we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial statements for the six months ended 30 June 2021 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Tan Sri Mohd Hassan Marican
Chairman

Wong Weng Sun
Director

Singapore
29 July 2021

KPMG LLP
16 Raffles Quay #22-00
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Report on review of Condensed Interim Financial Information

The Board of Directors
Sembcorp Marine Ltd

Introduction

We have reviewed the accompanying condensed interim balance sheets of Sembcorp Marine Ltd ("the Company") and its Subsidiaries ("the Group") as at 30 June 2021 and the related condensed interim consolidated income statement, condensed interim consolidated statement of comprehensive income, condensed interim statements of changes in equity and condensed interim consolidated statement of cash flows for the six-month period then ended and certain explanatory notes (the "Condensed Interim Financial Information") as set out on pages 1 to 21. Management is responsible for the preparation and presentation of this Condensed Interim Financial Information in accordance with Singapore Financial Reporting Standard (International) ("SFRS(I)") 1-34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this Condensed Interim Financial Information based on our review.

Scope of review

We conducted our review in accordance with Singapore Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Singapore Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Financial Information is not prepared, in all material respects, in accordance with SFRS(I) 1-34 *Interim Financial Reporting.*

Emphasis of Matter

We draw attention to Note 10, 13 and 15 of the Condensed Interim Financial Information. The Group's shipyard assets were subject to impairment test by management owing to the continued difficult market conditions impacting the offshore and marine sector. The ongoing and evolving COVID-19 pandemic, together with the adverse impacts on global economies and the shipyard business, have also heightened the estimation uncertainties around timing of recovery. The recent fast spreading Delta variant of COVID-19 is now the dominant strain and has been accompanied by a surge in infections worldwide. This has led to further delays in the recovery of the global economies. Consequently, the Group's operations continued to be impacted by the ongoing COVID-19 disruptions that resulted in skilled manpower shortage and supply chain constraints.

The forecasts used to assess the valuation of the Company's investments in subsidiaries and the recoverability of the Group's deferred tax assets are similarly subject to the risks noted in the impairment assessments of the Group's shipyard assets.

Management has assessed that there is no impairment loss on the shipyard assets, and the related cost of investments in its subsidiaries, on the basis of projected recovery in the foreseeable future and the long term growth prospects in the sectors that the Group is operating in.

The recognition of deferred tax assets is also assessed by management to be appropriate based on similar assumptions of the growth trajectory in the foreseeable future.

The evolution of the COVID-19 pandemic has resulted in operational disruptions, a delay in new contracts being put out for tender and consequently limited contract wins by the Group in the last 18 months. The determination of the timing and quantum of new orders at forecasted project margins therefore involves a high degree of judgement and is subject to significant estimation uncertainties.

Actual results are likely to be different from the forecasted financial information since anticipated events frequently do not occur as expected and the variation could be material. Unfavorable changes to any of management's assumptions could lead to lower operating cash flows and material impairment outcomes which might in turn adversely affect the financial position and performance of the Group. Our conclusion is not modified in respect of this matter.

Other matter

The comparative information for the condensed interim balance sheets are based on the audited financial statements as at 31 December 2020. The comparative information for the condensed interim consolidated income statement, condensed interim consolidated statement of comprehensive income, condensed interim statements of changes in equity and condensed interim consolidated statement of cash flows and other explanatory notes, for the six-month period ended 30 June 2020 has not been audited or reviewed.

Restriction on use

Our report is provided in accordance with the terms of our engagement. Our work was undertaken so that we might report to you on the Condensed Interim Financial Information for the purpose of assisting the Company to meet the requirements of paragraph 3 of Appendix 7.2 of the Singapore Exchange Limited Listing Manual and comply with the requirements of Rule 25 of the Singapore Code of Take-Overs and Mergers, and for no other purpose. Our report is included in the Company's announcement of its interim financial information for the information of its members. We do not assume responsibility to anyone other than the Company for our work, for our report, or for the conclusions we have reached in our report.

KPMG LLP

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
29 July 2021

APPENDIX F

BASES AND ASSUMPTIONS FOR THE 1H2021 STATEMENT OF PROSPECTS

The following statement set out in italics below (the "**1H2021 Statement of Prospects**") was made in the Group's Condensed Interim Financial Statements for the Six Months Ended 30 June 2021 & Related Announcement, including its related press release statement, released on 29 July 2021:

"*However the Group expects to incur losses in 2H2021 because of insufficient revenues to cover overhead costs.*"

Bases and Assumptions

The 1H2021 Statement of Prospects was not made in connection with the Offer. The 1H2021 Statement of Prospects, for which the Directors are solely responsible, was arrived at on the bases consistent with the accounting policies adopted by the Group for the preparation of the audited financial statements of the Group for the year ended 31 December 2020 and the unaudited condensed interim financial statements of the Group for the six months ended 30 June 2021.

The 1H2021 Statement of Prospects was based on the information available as at 29 July 2021 and is subject to the following bases and assumptions:

(a) The expected revenue for 2H2021 is based primarily on management's best estimates of the projected revenue from its projects under execution, taking into account estimated execution progress.

(b) The expected overhead costs for 2H2021 is based primarily on management's best estimates of the overhead amount needed to support the execution of its projects and overall business operations.

(c) There will be no material changes to the costs of labour in the jurisdictions from which the Group expects to source labour.

(d) There will be no material changes in the existing political, regulatory, legal or economic conditions or competitive environment (including any material changes to the COVID-19 restrictions) affecting the activities of the Group, the industry and the countries in which the Group operates, except those that have been announced publicly.

(e) There will be no material changes to the principal activities, management and organisation structure of the Group.

(f) There will be no material changes in the relationships the Group has with major suppliers, customers and financial institutions which may affect the Group's financial performance.

(g) There will be no material changes to the tax legislation, bases or rates of taxation, government levy or duty in the jurisdictions where the Group conducts its business.

(h) There will be no material changes to major foreign currency exchange rates that will adversely impact the Group.

(i) There will be no significant changes to the accounting policies of the Group.

(j) There will be no material impairment charge against the carrying value of the Group's assets.

(k) There will be no legal litigation that will result in material claims against the Group.

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The Board of Directors
Sembcorp Marine Ltd
80 Tuas South Boulevard
Singapore 637051

4 August 2021

Dear Sirs

Independent auditor's letter in relation to the Statement of Prospects

Our Reference: TKB/EW

This letter has been prepared in connection with the Circular dated 4 August 2021 (the "Circular") to be issued to the shareholders of the Sembcorp Marine Ltd (the "Company") in relation to the Company's proposed renounceable underwritten rights issue of up to 18,833,468,826 new ordinary shares in the capital of the Company.

On 24 June 2021, the Company and its subsidiaries (collectively the "Group") announced a proposal to raise approximately S$1.5 billion through a fully committed, renounceable rights issue of up to 18,833,468,826 new ordinary shares in the capital of the Company (the "Rights Issue"). The fulfilment by Startree Investments Pte. Ltd. of its obligations under the Undertaking Agreement may result in Temasek Holdings (Private) Limited and its concert parties incurring an obligation to make a mandatory general offer for all the shares in the Company which Temasek Holdings (Private) Limited and its concert parties do not already own or control in accordance with Rule 14.1 of the Singapore Code on Take-overs and Mergers (the "Code") issued by the Monetary Authority of Singapore.

As disclosed in Appendix 5 to the Circular, the directors of the Company have made the statement set out below (herein defined as "the Statement of Prospects") in the Condensed Interim Financial Statements for the Six Months Ended 30 June 2021 & Related Announcement of the Group announced on 29 July 2021:

"However the Group expects to incur losses in 2H2021 because of insufficient revenues to cover overhead costs."

We have been engaged by the Board of Directors of the Company as required under Rule 25 of the Code to report on the Statements of Prospects about whether the Company has prepared the Statement of Prospects in accordance with the basis and assumptions as set out in Appendix 5 of the Circular, and that the basis of accounting used is consistent with the accounting policies of the Group (the "Accounting Policies").

Management of the Company is responsible for the preparation of the Statement of Prospects in accordance with the basis and assumptions as determined by them and the use of a basis of accounting that is consistent with the Accounting Policies. In preparing the Statement of Prospects, management is responsible for ensuring the accuracy and appropriateness of the unaudited financial information used in the preparation of the Statement of Prospects, and the appropriateness of the basis, assumptions and accounting policies used in the preparation and presentation of the Statement of Prospects.

We have examined the Statement of Prospects as set out in Appendix 5 of the Circular in accordance with Singapore Standard on Assurance Engagements 3400 *The Examination of Prospective Financial Information*.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the Statement of Prospects. Further, in our opinion, in all material respects, the Statement of Prospects, in so far as the accounting policies and calculations are concerned, is properly prepared on the basis of the assumptions, and is consistent with the accounting policies adopted by the Group which are in accordance with Singapore Financial Reporting Standards (International) and International Financial Reporting Standards.

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.

Our letter is provided in accordance with the terms of our engagement. Our work was undertaken so that we may report to you on those matters in the first four paragraphs of this letter and for no other purpose. Our letter is included in the Company's Circular dated 4 August 2021 to be issued to shareholders of the Company in relation to the Company's proposed renounceable underwritten rights issue. We do not assume responsibility to anyone other than the Company for our work, for our letter or for the conclusions in this letter.

Yours faithfully

KPMG LLP

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
4 August 2021

APPENDIX H

LETTER FROM THE IFA IN RELATION TO THE 1H2021 RESULTS AND THE 1H2021 STATEMENT OF PROSPECTS

PROVENANCE CAPITAL PTE. LTD.
(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

20 October 2021

The Board of Directors
Sembcorp Marine Ltd
80 Tuas South Boulevard
Singapore 637051

Dear Sirs/Mdm,

IFA LETTER ON THE PROFIT FORECAST AND THE STATEMENT OF PROSPECTS

*Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to shareholders of Sembcorp Marine Ltd ("**Shareholders**") dated 20 October 2021 ("**Circular**") and in our IFA Letter dated 20 October 2021 in relation to the Offer.*

This letter has been prepared for inclusion in the Circular in connection with the Offer pursuant to Rule 25 of The Singapore Code on Take-overs and Mergers ("**Code**").

Profit Forecast

The Company had released its results announcement for the half year ended 30 June 2021 ("**1H2021**") on 29 July 2021. As such, under Rule 25.6(c) of the Code, the unaudited results for 1H2021 constitutes a profit forecast ("**Profit Forecast**") and, except with the SIC's consent, must be reported on by the auditor and financial adviser in accordance with Rule 25 of the Code.

The Company's independent auditors, KPMG LLP ("**Auditors**"), had on 29 July 2021 issued its report on the review of the unaudited results for 1H2021 in compliance with Rule 25 of the Code, and had made the following conclusion:

"*Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Financial Information is not prepared in all material respects, in accordance with SFRS(I) 1-34 Interim Financial Reporting.*"

Statement of Prospects

In addition, the Company had in the results announcement for 1H2021, included a commentary on the Group's prospects which is deemed as a profit forecast under Rule 25.6 of the Code ("**Statement of Prospects**"). Such Statement of Prospects point to an expectation by the Company that the Group will incur losses in the second half of the financial year ended 31 December 2021. Extract of the Statement of Prospects is set out below:

> *"However the Group expects to incur losses in 2H2021 because of insufficient revenues to cover overhead costs."*

Pursuant to Rule 25.3 of the Code, the Statement of Prospects is also required to be examined and reported on by the Auditors and the financial adviser.

The Auditors had examined the Statement of Prospects in accordance with the Singapore Standard on Assurance Engagements 3400 – *The Examination of Prospective Financial Information*, and had issued their letter dated 4 August 2021 in relation to the Statement of Prospects attached as Appendix 6 to the

Circular to Shareholders in relation to the Company's Rights Issue dated 4 August 2021 ("**Rights Issue Circular**").

The Auditors had made the following opinion:

"*Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the Statement of Prospects. Further, in our opinion, in all material respects, the Statement of Prospects, in so far as the accounting policies and calculations are concerned, is properly prepared on the basis of assumptions, and is consistent with the accounting policies adopted by the Group which are in accordance with Singapore Financial Reporting Standards (International) and International Financial Reporting Standards.*"

Our opinion

We have considered the above reports issued by the Auditors and discussed with Management the key bases and assumptions underlying the Statement of Prospects as set out in Appendix 5 to the Rights Issue Circular.

We have relied on the accuracy and completeness of all financial and other information provided to us and assumed such accuracy and completeness for the purposes of providing this letter. We have not independently verified the information both written and verbal, and accordingly cannot and do not make any representation or warranty, expressly or impliedly, in respect of, and do not accept any responsibility for, the accuracy, completeness or adequacy of such information. Save as provided in this letter, we do not express any other opinion on the Profit Forecast and the Statement of Prospects.

Based on the above discussions with Management and having considered the reports dated 29 July 2021 and 4 August 2021 from the Auditors, we are of the view that the Profit Forecast and the Statement of Prospects (for which the Directors are solely responsible) had been issued by the Board of Directors after due and careful enquiry.

This letter is addressed to the Board of Directors for the sole purpose of complying with Rule 25 of the Code, and we do not accept any responsibility to any other person (other than the Board of Directors) in respect of, arising from or in connection with this letter.

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.

Wong Bee Eng
Chief Executive Officer

APPENDIX I

VALUATION LETTER

Deloitte.

Deloitte & Touche Financial
Advisory Services Pte Ltd
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6 Shenton Way #33-00
OUE Downtown 2
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20 October 2021

The Board of Directors
Sembcorp Marine Ltd
80 Tuas South Boulevard
Singapore 637051

Dear Sirs,

Unless otherwise defined or the context otherwise requires, all terms defined in the circular to shareholders of Sembcorp Marine Ltd dated 20 October 2021 (the "Offeree Circular") shall have the same meaning herein.

1. Introduction

Deloitte & Touche Financial Advisory Services Pte Ltd ("Deloitte") has been engaged by Sembcorp Marine Ltd ("SCM" or "Client") to perform valuation services ("Services" or the "Valuation") in connection with the valuation of the following Subject Assets:

a) Singapore Cash Generating Unit, comprising:
   i. Tuas Boulevard Yard, at 80 Tuas South Boulevard, Singapore;
   ii. Admiralty Yard, at 50, 60 and 80 Admiralty Road West, Singapore;
   iii. Pandan Yard, at 21 Pandan Road, Singapore;
   iv. Batam Yard, at Integrated Industrial Area (Kawasan Industri Terpadu) of Kabil, Batam Municipality, Riau Island, Indonesia;
   v. Karimun Yard, at Jl. Teluk Paku, Kel. Pasir Panjang, Kec. Meral Barat, Kab. Karimun, Prop. Kepulauan Riau, Indonesia; and
   vi. Sembawang SLP Yard, at Hamilton Road, Lowestoft, Suffolk, NR32 1XF, United Kingdom;

b) Brazil Cash Generating Unit, comprising Estaleiro Jurong Aracruz, Yard, at Rodovia ES-010, S/N, Km 58, Barra do Sahy, Aracruz, State of Espirito Santo, Brazil, CEP: 29198-025;

c) Non-current trade receivables from Borr Drilling Limited (the "Borr Receivables"); and

d) Contract assets from Transocean Ltd (the "Transocean Contract Assets").

The Valuation as at 30 June 2021 ("the "Valuation Date") is for inclusion in the Offeree Circular to SCM's shareholders (the "Shareholders") in relation to the Compliance Offer (as defined below).

SCM had on 24 June 2021 announced ("Rights Announcement") that SCM proposes to undertake a renounceable underwritten rights issue to raise gross proceeds of approximately S$1.5 billion (the "Rights Issue"). Pursuant to the Rights Issue, Startree Investments Pte. Ltd. ("Startree"), a wholly-owned subsidiary of Temasek Holdings (Private) Limited ("Temasek") had, among other things, committed to an undertaking agreement to subscribe for its pro-rata entitlement and excess rights such that its total subscription will be up to 67.0% of the Rights Issue (the "Undertaking Agreement").

As stated in the Rights Announcement, the fulfilment by Startree of the Undertaking Agreement may result in the Temasek and its Concert Parties ("Teamsek Concert Party Group") incurring an obligation to make a mandatory general offer (the "Compliance Offer") for the remaining shares in SCM, in compliance with Rule 14 of the Singapore Code on Take-overs and Mergers (the "Code").

On 16 September 2021, SCM announced the results of the Rights Issue and, pursuant to the fulfilment by Startree of its obligations under the Undertaking Agreement, the Temasek Concert Party Group had incurred an obligation to make the Compliance Offer for the remaining Shares not already owned or controlled by the Temasek Concert Party Group, in accordance with Rule 14 of the Take-over Code. Accordingly, Startree announced the Compliance Offer on 22 September 2021.

Under the Code, when the Compliance Offer was made on 22 September 2021, SCM was obligated to issue the Offeree Circular to its Shareholders. The Offeree Circular will include, *inter alia*, this valuation letter (the "Valuation Letter") which discloses the conclusion of the Valuation and certain key assumptions and terms.

For the avoidance of doubt, the Valuation of the Subject Assets is not an opinion on the value of SCM as a group.

2. Terms of Reference and Limiting Conditions

This Valuation Letter has been prepared for inclusion in the Offeree Circular and is addressed to the Board of Directors of SCM (the "Directors" or "Board") solely for its use in connection with, and limited to, the Compliance Offer. Other than for this intended purpose, this Valuation Letter cannot be used or relied upon for any other purpose and/or by any other person including, without limitation, any of the Shareholders, or SCM's employees or any of the Directors as individuals, Startree, the Temasek Concert Party Group or and investors or any other persons.

The estimates of the market values of the Subject Assets will not form the sole basis on whether the Compliance Offer is fair and reasonable (or otherwise) and recommending to Shareholders whether to accept or reject the Compliance Offer. SCM and Provenance Capital Pte. Ltd., the independent financial advisor (the "IFA") appointed by SCM for the Compliance Offer, are responsible for concluding whether the Compliance Offer is fair and reasonable (or otherwise) and recommending to Shareholders whether to accept or reject the Compliance Offer.

Other than our engagement as set out above, Deloitte has had no involvement in any other aspect pertaining to the Compliance Offer including, without limitation, the negotiations, the deliberations or the decision by the respective parties to enter into the Compliance Offer. We do not, by this Valuation Letter or otherwise, advise, recommend, evaluate, comment or form any judgement or opinion on the legal, commercial or financial rationale, merits or risks in relation to the Compliance Offer or the relative merits of the Compliance Offer as compared to any alternative transaction considered by SCM and/or the Subject Assets or that otherwise may be available to SCM and/or the Subject Assets in the future or on the future growth prospects or earnings potential of SCM and/or the Subject Assets. Such advice, recommendation, evaluations, comments, judgement or opinion are and remain the sole responsibility of the Board, the IFA and SCM's other advisers engaged for the Compliance Offer.

This Valuation Letter does not constitute and cannot be construed as advice, a recommendation or any form of judgement or opinion to any person in connection with the Compliance Offer and, accordingly, it may not be relied upon as such by any person and, in particular, by any Shareholder and any potential investors. Such person or Shareholder should seek his/her own professional advice in connection with the Compliance Offer and the Offeree Circular.

The managements of SCM and/or the Subject Assets (collectively as "Management") have confirmed to us that, to the best of their knowledge and belief, the information contained in this Valuation Letter and the data on which this Valuation Letter is prepared constitute a full and true disclosure of all relevant and material facts on the Subject Assets and there is no other information or fact, the omission of which would cause any of the information disclosed to us or relied by us or any information contained herein and in the data on which this Valuation Letter is prepared to be untrue, incomplete or misleading in any material respect.

Deloitte does not guarantee or warrant the achievability of the financial projections as to the Subject Assets provided by SCM and/or the Subject Assets. Financial projections are inherently uncertain and are based on estimations of future events that cannot be assured and could be based on certain assumptions that may not materialise. Accordingly, actual results can be significantly different from those projected. Hence, the valuation may be materially or adversely affected should the actual results differ from the bases and assumptions upon which the Valuation was based upon.

In connection with our engagement, we held discussions with the Management and the IFA, and relied on information provided and representations made to us by or on behalf of SCM and/or the Subject Assets and such information and representations are the sole responsibility of SCM and/or the Subject Assets, as the case may be. Our scope of work excludes, *inter alia*, (i) providing a view on the reasonableness of any historical financials or any prospective information, and/or (ii) undertaking any independent market study for the industry in which the Subject Assets operate. In addition, we examined certain publicly available information which we consider to be pertinent to the Valuation. We have not independently verified such information, whether written or verbal, and accordingly, we cannot and do not warrant, opine or accept any responsibility for the accuracy, completeness or adequacy of such information we received from or on behalf of SCM and/or the Subject Assets, as the case may be. We have not carried out any work which constitutes an audit in accordance with generally accepted auditing standards including any in-depth investigation into the Subject Assets and affairs of the Subject Assets. In performing our engagement herein, we relied upon and have assumed that all information provided to us is true, accurate, not misleading and complete in all material respects as at the date hereof and that all information which is or may be relevant to our engagement has been duly provided to us and drawn to our attention by the Management. We do not express any opinion on and we do not take any responsibility for or in relation to and have further assumed that all bases and assumptions, statements of fact, beliefs, opinions and intentions made by the Management in preparing the information and representations made to us.

The estimates of the market values of the Subject Assets are based on generally accepted valuation procedures and practices that rely on the use of assumptions and the consideration of uncertainties not all of which can be easily quantified or ascertained. The final analysis leading to our estimates of the range of market values of the Subject Assets presents an assessment based on our best professional judgement and experience predicated on all relevant and available references and resources. You should also note that by its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived in many cases will of necessity be subjective and dependent on the exercise of individual judgement. There is therefore, no indisputable single value. Whilst we consider the estimates of range of market values of the Subject Assets to be both reasonable and defensible based on our scope and the information available to us, others may place a different range of market values on the Subject Assets.

The estimates of the range of market values of the Subject Assets are based on the market, economic, industry and other conditions prevailing at the time when the Valuation was conducted and the information made available to us by or on behalf of the Management. We assume no responsibility to update, revise or reaffirm our evaluation or assumptions in light of any subsequent events or circumstances that may affect the estimate of the range of market values of the Subject Assets or any factors or assumptions contained herein.

3. Valuation Basis and Approach

We have used the market value standard for the Valuation, presuming the application of existing use basis and incumbent-management control basis. Market value is defined for this purpose by the International Valuation Standards 2020 as follows:

"Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

We performed the Valuation of the Subject Assets based on the Income Approach's Discounted Cash Flow ("DCF") method. With the recent Rights Issue, SCM is of the opinion that there will be sufficient cash and cash equivalent to fund any cash deficit in the short term. As such, the DCF method is appropriate for the valuation of the Subject Assets as the owner or prospective owner expects to continue to operate the Subject Assets on a going concern basis. The application of the DCF method based on future cash flows will therefore better reflect the intrinsic value of the Subject Assets and is used to determine the market value of the Subject Assets.

In undertaking the Valuation, we considered, *inter alia*, the following:

a. The management accounts, projections and supporting information as provided by Management in respect of the Subject Assets. The management accounts cover the financial years ended 31 December 2016 to 31 December 2020 and the 6 month financial period ended 30 June 2021 (the "Management Accounts"), and the projections cover the period from 1 July 2021 to 31 December 2031 (the "Projections").

b. Other relevant information provided by Management includes, *inter alia*, the order book as at 30 June 2021, results guidance for the 6 month financial period ending 31 December 2021, visible project pipelines, potential orders from addressable market segments, industries information/data, and pertinent contractual terms between SCM and Borr Drilling Limited as well as SCM and Transocean Ltd.

c. Pertinent information, such as size of land area and remaining lease periods, of the shipyards within the Singapore Cash Generating Unit and Brazil Cash Generating Unit.

d. Discussions and correspondences with Management and other representatives from SCM's financial and commercial units.

e. The Valuation of the Subject Assets has not taken into consideration or taken into account the potential combination with Keppel Offshore & Marine Limited.

f. Our assessment of the discount rates applicable to the Subject Assets.

g. Our assessment of the long term growth rates applicable to Singapore Cash Generating Unit and Brazil Cash Generating Unit.

h. Market and industry research reports from reputable sources covering the addressable markets of SCM.

4. Key assumptions and risk factors

The estimated range of market values of the Subject Assets is based on the following key assumptions and management representations:

a. Valuation Date is 30 June 2021.

b. Where applicable, forecast periods take into consideration of the remaining lease periods of each of the Singapore Cash Generating Unit yards from the Valuation Date, as these yards are on leasehold, while the Brazil Cash Generating Unit yard is freehold in nature.

c. The cash flows are projected based on SCM's historical experience, order backlogs, visible pipelines, 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 (for the Brazil Cash Generating Unit), market expectations and developments for contract order prices, and other external analysts' forecast reports on oil price movements and demands for drilling and production solutions. As SCM undertakes strategic expansion to also support the energy transition to renewable energy, the cash flow projections include forecast orders in renewable solutions, of which projects are based on SCM's past experience in this area, market development on financial support for renewable energy infrastructure and other external analysts' forecast reports on renewable energy demand and growth.

d. The timing of the cash recovery of the Borr Receivables and Transocean Contract Assets is based on current contractual agreements.

e. Net order book as at 30 June 2021 of S$1.78 billion comprising of 16 projects under execution and ongoing repairs & upgrades projects with firm deliveries in 2021.

f. The forecasted project margins are based on the nature of projects, historical experience and taking into account planned contribution margins.

g. Tax rate of 17% for Singapore Cash Generating Unit and 34% for Brazil Cash Generating Unit based on Singapore and Brazil corporate tax rates, respectively.

h. These cash flows are then discounted using the applicable discount rates reflecting the risks associated with the cash flow ranging from 8% to 9% for Brazil Cash Generating Unit, and 7% to 8% for Singapore Cash Generating Unit, Borr Receivables and Transocean Contract Assets.

i. Mid-point discounting convention is adopted.

j. There will be no material changes, after the date of this Valuation, in the market conditions under which the business of the Subject Assets operates.

k. There are no undisclosed information in the opinion of SCM that would have a material impact on value of the Subject Assets.

l. The other assumptions used in this Valuation hold true.

5. Conclusion

Based upon and subject to the foregoing and other information used in the preparation of this Valuation Letter, we have estimated the range of market values of the Subject Assets to be SGD 7.7 billion to SGD 8.8 billion (for the Brazil Cash Generating Unit, based on exchange rate of SGD1.35 = USD1.00 as of the Valuation Date).

The estimate of the range of market values of the Subject Assets should be considered in the context of the entirety of this Valuation Letter. Save for the purposes of the Offeree Circular to be dispatched to the Shareholders, this Valuation Letter may not be reproduced, disseminated or quoted for any other purpose without Deloitte's prior written consent. This Valuation Letter is governed by, and should be construed in accordance with, the laws of Singapore, and are strictly limited to the matters stated therein and do not apply by implication to any other matter.

Yours faithfully,
DELOITTE & TOUCHE FINANCIAL ADVISORY SERVICES PTE LTD

Keoy Soo Earn
Executive Director

APPENDIX J

BASES AND ASSUMPTIONS FOR THE 2H2021 STATEMENT OF PROSPECTS

The following statement set out in italics below (the "**2H2021 Statement of Prospects**") was made in the Group's 2H2021 Results Guidance:

"As of the date of this Announcement and based on information currently available to the Group, the Group expects that the increased costs to complete the projects, as well as the losses arising from the added delays, will result in significant losses for 2H2021, which could potentially be in the range of the losses reported for 1H2021."

Bases and Assumptions

The 2H2021 Statement of Prospects, for which the Directors are solely responsible, was arrived at on the bases consistent with the accounting policies adopted by the Group for the preparation of the audited financial statements of the Group for the year ended 31 December 2020 and the unaudited condensed interim financial statements of the Group for the six months ended 30 June 2021.

The 2H2021 Statement of Prospects was based on the information available as at 15 October 2021 and is subject to the following bases and assumptions:

(a) The expected revenue for 2H2021 is based primarily on management's best estimates of the projected revenue from its projects under execution, taking into account estimated execution progress.

(b) The expected overhead costs for 2H2021 is based primarily on management's best estimates of the overhead amount needed to support the execution of its projects and overall business operations.

(c) There will be no material changes to the costs of labour in the jurisdictions from which the Group expects to source labour.

(d) There will be no material changes in the existing political, regulatory, legal or economic conditions or competitive environment (including any material changes to the COVID-19 restrictions) affecting the activities of the Group, the industry and the countries in which the Group operates, except those that have been announced publicly.

(e) There will be no material changes to the principal activities, management and organisation structure of the Group.

(f) There will be no material changes in the relationships the Group has with major suppliers, customers and financial institutions which may affect the Group's financial performance.

(g) There will be no material changes to the tax legislation, bases or rates of taxation, government levy or duty in the jurisdictions where the Group conducts its business.

(h) There will be no material changes to major foreign currency exchange rates that will adversely impact the Group.

(i) There will be no significant changes to the accounting policies of the Group.

(j) There will be no material impairment charge against the carrying value of the Group's assets.

(k) There will be no legal litigation that will result in material claims against the Group.

(l) Due to the high level of uncertainty, it is challenging to predict the full extent and duration of the COVID-19 pandemic's impact on the Group's operations and to forecast the expected losses for 2H2021. Based on the historical experience of the Group since the commencement of the pandemic in 2020, management considers that there is a potential for 2H2021 losses to be within a variance of 15 per cent. (higher or lower) from the reported losses for 1H2021.

INDEPENDENT AUDITOR'S LETTER IN RELATION TO THE 2H2021 STATEMENT OF PROSPECTS

KPMG

KPMG LLP
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

Telephone +65 6213 3388
Fax +65 6225 0984
Internet kpmg.com.sg

The Board of Directors
Sembcorp Marine Ltd
80 Tuas South Boulevard
Singapore 637051

19 October 2021

Dear Sirs

Independent auditor's letter in relation to the Statement of Prospects

Our Reference: TKB/EW

This letter has been prepared in connection with the Mandatory Conditional General Cash Offer (the "Offer") by Morgan Stanley Asia (Singapore) Pte. for and on behalf of Startree Investments Pte. Ltd. ("Offeror") for all the Offer Shares as defined in the Offer Document of the Offeror dated 6 October 2021.

The Rights Issue of Sembcorp Marine Ltd (the "Company") which was completed on 22 September 2021 had resulted in Temasek Holdings (Private) Limited and its concert parties incurring an obligation to make a mandatory general offer for all the shares in the Company which Temasek Holdings (Private) Limited and its concert parties do not already own or control in accordance with Rule 14.1 of the Singapore Code on Take-overs and Mergers (the "Code") issued by the Monetary Authority of Singapore.

The directors of the Company have made the statement set out below (herein defined as "the Statement of Prospects") in the Results Guidance announcement of the Group to be released on 19 October 2021 (the "Results Guidance") that will also be included in the Company's circular to its shareholders in relation to the Offer:

"As of the date of this Announcement and based on information currently available to the Group, the Group expects that the increased costs to complete the projects, as well as the losses arising from the added delays, will result in significant losses for 2H2021, which could potentially be in the range of the losses reported for 1H2021."

We have been engaged by the Board of Directors of the Company as required under Rule 25 of the Code to report on the Statements of Prospects about whether the Company has prepared the Statement of Prospects in accordance with the basis and assumptions as set out in Appendix A to this letter, and that the basis of accounting used is consistent with the accounting policies of the Group (the "accounting Policies").

Management of the Company is responsible for the preparation of the Statement of Prospects in accordance with the basis and assumptions as determined by them and the use of a basis of accounting that is consistent with the Accounting Policies. In preparing the Statement of Prospects, management is responsible for ensuring the accuracy and appropriateness of the unaudited financial information used in the preparation of the Statement of Prospects, and the appropriateness of the basis, assumptions and accounting policies used in the preparation and presentation of the Statement of Prospects.

We have examined the Statement of Prospects as set out in Appendix A in accordance with Singapore Standard on Assurance Engagements 3400 *The Examination of Prospective Financial Information*.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the Statement of Prospects. Further, in our opinion, in all material respects, the Statement of Prospects, in so far as the accounting policies and calculations are concerned, is properly prepared on the basis of the assumptions, and is consistent with the accounting policies adopted by the Group which are in accordance with Singapore Financial Reporting Standards (International) and International Financial Reporting Standards.

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.

Our letter is provided in accordance with the terms of our engagement. Our work was undertaken so that we may report to you on those matters in the first four paragraphs of this letter and for no other purpose. Our letter will be included in the Company's circular to its shareholders in relation to the Offer. We do not assume responsibility to anyone other than the Company for our work, for our letter or for the conclusions in this letter.

Yours faithfully

KPMG LLP

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
19 October 2021

Enclosure: Appendix A - Bases and Assumptions

Appendix A

The following statement sets out in italics below (the "**Statement of Prospects**") was made in the Group's Results Guidance released on 19 October 2021:

As of the date of this Announcement and based on information currently available to the Group, the Group expects that the increased costs to complete the projects, as well as the losses arising from the added delays, will result in significant losses for 2H2021, which could potentially be in the range of the losses reported for 1H2021.

Bases and Assumptions

The Statement of Prospects, for which the Directors are solely responsible, was arrived at on the bases consistent with the accounting policies adopted by the Group for the preparation of the audited financial statements of the Group for the year ended 31 December 2020 and the unaudited condensed interim financial statements of the Group for the six months ended 30 June 2021.

The Statement of Prospects was based on the information available as at 15 October 2021 and is subject to the following bases and assumptions:

(a) The expected revenue for 2H2021 is based primarily on management's best estimates of the projected revenue from its projects under execution, taking into account estimated execution progress.

(b) The expected overhead costs for 2H2021 is based primarily on management's best estimates of the overhead amount needed to support the execution of its projects and overall business operations.

(c) There will be no material changes to the costs of labour in the jurisdictions from which the Group expects to source labour.

(d) There will be no material changes in the existing political, regulatory, legal or economic conditions or competitive environment (including any material changes to the COVID-19 restrictions) affecting the activities of the Group, the industry and the countries in which the Group operates, except those that have been announced publicly.

(e) There will be no material changes to the principal activities, management and organisation structure of the Group.

(f) There will be no material changes in the relationships the Group has with major suppliers, customers and financial institutions which may affect the Group's financial performance.

(g) There will be no material changes to the tax legislation, bases or rates of taxation, government levy or duty in the jurisdictions where the Group conducts its business.

(h) There will be no material changes to major foreign currency exchange rates that will adversely impact the Group.

(i) There will be no significant changes to the accounting policies of the Group.

(j) There will be no material impairment charge against the carrying value of the Group's assets.

(k) There will be no legal litigation that will result in material claims against the Group.

(l) Due to the high level of uncertainty, it is challenging to predict the full extent and duration of the COVID-19 pandemic's impact on the Group's operations and to forecast the expected losses for 2H 2021. Based on the historical experience of the Group since the commencement of the pandemic in 2020, management considers that there is a potential for 2H2021 losses to be within a variance of 15 per cent (higher or lower) from the reported losses for 1H2021.

APPENDIX L

LETTER FROM THE IFA IN RELATION TO THE 2H2021 STATEMENT OF PROSPECTS

PROVENANCE CAPITAL PTE. LTD.
(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

19 October 2021

The Board of Directors
Sembcorp Marine Ltd
80 Tuas South Boulevard
Singapore 637051

Dear Sirs/Mdm,

IFA LETTER ON THE STATEMENT OF PROSPECTS IN CONNECTION WITH THE RESULTS GUIDANCE FOR 2H2021

Statement of Prospects

Sembcorp Marine Ltd ("**Company**" and together with its subsidiaries, "**Group**") had, on 19 October 2021, announced its results guidance for the second half of the financial year ending 31 December 2021 ("**2H2021**"), which included a commentary on the Group's expected losses for 2H2021. Such commentary points to an expectation by the Company that the Group's losses for 2H2021 could potentially be in the range of the losses reported for the first half of the financial year ended 30 June 2021 ("**1H2021**").

The above is deemed as a profit forecast ("**Statement of Prospects**") under Rule 25.6 of The Singapore Code on Take-overs and Mergers ("**Code**") in relation to the mandatory conditional general cash offer for the Company by Morgan Stanley Asia (Singapore) Pte., as Financial Adviser to Startree Investments Pte. Ltd., an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited.

Extract of the paragraph containing the Statement of Prospects is set out below:

> *"As of the date of this Announcement and based on information currently available to the Group, the Group expects that the increased costs to complete the projects, as well as the losses arising from the added delays, will result in significant losses for 2H2021, which could potentially be in the range of the losses reported for 1H2021."*

Pursuant to Rule 25.3 of the Code, the Statement of Prospects is required to be examined and reported on by the auditor and the financial adviser.

The Company's independent auditors, KPMG LLP ("**Auditors**"), had examined the Statement of Prospects in accordance with the Singapore Standard on Assurance Engagements 3400 – *The Examination of Prospective Financial Information*, and had issued their letter dated 19 October 2021 in relation to the Statement of Prospects.

The Auditors had made the following opinion:

"*Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the Statement of Prospects. Further, in our opinion, in all material respects, the Statement of Prospects, in so far as the accounting policies and calculations are concerned, is properly prepared on the basis of assumptions, and is consistent with the accounting policies adopted by the Group which are in accordance with Singapore Financial Reporting Standards (International) and International Financial Reporting Standards.*"

Our opinion

We have considered the above report issued by the Auditors and discussed with Management the key bases and assumptions underlying the above Statement of Prospects.

We have relied on the accuracy and completeness of all financial and other information provided to us and assumed such accuracy and completeness for the purposes of providing this letter. We have not independently verified the information both written and verbal, and accordingly cannot and do not make any representation or warranty, expressly or impliedly, in respect of, and do not accept any responsibility for, the accuracy, completeness or adequacy of such information. Save as provided in this letter, we do not express any other opinion on the Statement of Prospects.

Based on the above discussions with Management and having considered the report dated 19 October 2021 from the Auditors, we are of the view that the Statement of Prospects (for which the Directors are solely responsible) had been issued by the Board of Directors after due and careful enquiry.

This letter is addressed to the Board of Directors for the sole purpose of complying with Rule 25 of the Code, and we do not accept any responsibility to any other person (other than the Board of Directors) in respect of, arising from or in connection with this letter.

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.

Wong Bee Eng
Chief Executive Officer

APPENDIX M

SELECTED TEXTS OF THE CONSTITUTION

All capitalised terms used in the following extracts shall have the same meanings given to them in the Constitution, a copy of which is available for inspection at the registered office of the Company at 80 Tuas South Boulevard, Singapore 637051, during normal business hours until the Closing Date.

The rights of Shareholders in respect of capital, dividends and voting as set out in the Constitution are as follows:

(a) The rights of Shareholders in respect of capital

ISSUE OF SHARES

6. (A) The rights attaching to shares of a class other than ordinary shares shall be expressed in this Constitution.

(B) The Company issue shares for which no consideration is payable to the Company

7. Subject to the Statutes and this Constitution, no shares may be issued by the Directors without the prior approval of the Company in General Meeting but subject thereto and to article 11, and to any special rights attached to any shares for the time being issued, the Directors may allot and issue shares or grant options over or otherwise dispose of the same to such persons on such terms and conditions and for such consideration (if any) and at such time and subject or not to the payment of any part of the amount (if any) thereof in cash as the Directors may think fit, and any shares may be issued with such preferential, deferred, qualified or special rights, privileges or conditions as the Directors may think fit, and preference shares may be issued which are or at the option of the Company are liable to be redeemed, the terms and manner of redemption being determined by the Directors, Provided always that:

(a) (subject to any direction to the contrary that may be given by the Company in General Meeting) any issue of shares for cash to members holding shares of any class shall be offered to such members in proportion as nearly as may be to the number of shares of such class then held by them and the provisions of the second sentence of article 11(A) with such adaptations as are necessary shall apply; and

(b) any other issue of shares, the aggregate of which would exceed the limits referred to in article 11(B), shall be subject to the approval of the Company in General Meeting.

8. (A) Preference shares may be issued subject to such limitation thereof as may be prescribed by the Stock Exchange. Preference shareholders shall have the same rights as ordinary shareholders as regards receiving of notices, reports and balance sheets and attending General Meetings of the Company, and preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing the capital or winding-up or sanctioning a sale of the undertaking of the Company or where the proposal to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrear.

(B) The Company has power to issue further preference capital ranking equally with, or in priority to, preference shares already issued.

VARIATION OF RIGHTS

9. Whenever the share capital of the Company is divided into different classes of shares, subject to the provisions of the Statutes, preference capital, other than redeemable preference capital, may be repaid and the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of three-quarters of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of the class (but not otherwise) and may be so repaid, varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate General Meeting all the provisions of this Constitution relating to General Meetings of the Company and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be two persons at least holding or representing by proxy at least one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him, Provided always that where the necessary majority for such a Special Resolution is not obtained at such General Meeting, consent in writing if obtained from the holders of three-quarters of the issued shares of the class concerned within two months of such General Meeting shall be as valid and effectual as a Special Resolution carried at such General Meeting. The foregoing provisions of this article shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the special rights whereof are to be varied.

10. The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects pari passu therewith but in no respect in priority thereto.

ALTERATION OF SHARE CAPITAL

11. (A) Subject to any direction to the contrary that may be given by the Company in General Meeting or except as permitted under the listing rules of the Stock Exchange, all new shares shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of General Meetings in proportion, as far as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this article 11(A).

(B) Notwithstanding article 11(A), the Company may by Ordinary Resolution in General Meeting give to the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the Ordinary Resolution, to:

(a) (i) issue shares of the Company whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares; and

(b) (notwithstanding the authority conferred by the Ordinary Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the Ordinary Resolution was in force,

Provided always that:

(1) *the aggregate number of shares to be issued pursuant to the Ordinary Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to the Ordinary Resolution) shall be subject to such limits and manner of calculation as may be prescribed by the Stock Exchange.*

(2) *in exercising the authority conferred by the Ordinary Resolution, the Company shall comply with the listing rules of the Stock Exchange for the time being in force (unless such compliance is waived by the Stock Exchange) and this Constitution; and*

(3) *(unless revoked or varied by the Company in General Meeting) the authority conferred by the Ordinary Resolution shall not continue in force beyond the conclusion of the Annual General Meeting of the Company next following the passing of the Ordinary Resolution, or the date by which such Annual General Meeting of the Company is required by law to be held, or the expiration of such other period as may be prescribed by the Statutes (whichever is the earliest).*

(C) *Except so far as otherwise provided by the conditions of issue or by this Constitution, all new shares shall be subject to the provisions of the Statutes and of this Constitution with reference to allotment, payment of calls, lien, transfer, transmission, forfeiture and otherwise.*

12. (A) *The Company may by Ordinary Resolution:*

(a) *consolidate and divide all or any of its shares;*

(b) *sub-divide its shares, or any of them (subject, nevertheless, to the provisions of the Statutes and this Constitution), and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights, or be subject to any such restrictions, as the Company has power to attach to new shares; and*

(c) *subject to the provisions of the Statutes, convert its share capital or any class of shares from one currency to another currency.*

(B) *The Company may by Special Resolution, subject to and in accordance with the Statutes, convert one class of shares into another class of shares.*

13. (A) *The Company may reduce its share capital or any undistributable reserve in any manner and with and subject to any incident authorised and consent required by law.*

(B) *The Company may, subject to and in accordance with the Act, purchase or otherwise acquire its issued shares on such terms and in such manner as the Company may from time to time think fit. If required by the Act, any share which is so purchased or acquired by the Company shall, unless held in treasury in accordance with the Act, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with, the Act. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to this Constitution, the number of issued shares of the Company shall be diminished by the number of the shares so cancelled, and, where any such cancelled share was purchased or acquired out of the capital of the Company, the amount of share capital of the Company shall be reduced accordingly.*

(C) *The Company shall not exercise any right in respect of treasury shares other than as provided by the Act. Subject thereto, the Company may hold or deal with its treasury shares in the manner authorised by, or prescribed pursuant to, the Act.*

SHARES

14. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognise any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by this Constitution or by law otherwise provided) any other right in respect of any share, except an absolute right to the entirety thereof in the person (other than the Depository or its nominee (as the case may be)) entered in the Register of Members as the registered holder thereof or (as the case may be) the person whose name is entered in the Depository Register in respect of that share.

15. Without prejudice to any special rights previously conferred on the holders of any shares or class of shares for the time being issued, any share in the Company may be issued with such preferred, deferred or other special rights, or subject to such restrictions, whether as regards dividend, return of capital, voting or otherwise, as the Company may from time to time by Ordinary Resolution or, if required by the Statutes, by Special Resolution determine (or, in the absence of any such determination, but subject to the Statutes, as the Directors may determine) and subject to the provisions of the Statutes, the Company may issue preference shares which are, or at the option of the Company are, liable to be redeemed.

16. Subject to the provisions of this Constitution and of the Statutes relating to authority, pre-emption rights and otherwise and of any resolution of the Company in General Meeting passed pursuant thereto, all new shares shall be at the disposal of the Directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

17. The Company may pay commissions or brokerage on any issue of shares at such rate or amount and in such manner as the Directors may deem fit. Such commissions or brokerage may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other.

18. Subject to the terms and conditions of any application for shares, the Directors shall allot shares applied for within ten Market Days of the closing date (or such other period as may be approved by the Stock Exchange) of any such application. The Directors may, at any time after the allotment of any share but before any person has been entered in the Register of Members as the holder or (as the case may be) before that share is entered against the name of a Depositor in the Depository Register, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose.

SHARE CERTIFICATES

19. Every share certificate shall be issued under the Seal and shall specify the number and class of shares to which it relates, whether the shares are fully or partly paid up, and the amount (if any) unpaid thereon and shall bear the autographic or facsimile signatures of one Director and the Secretary or a second Director or some other person appointed by the Directors. The facsimile signatures may be reproduced by mechanical, electronic or other method approved by the Directors. No certificate shall be issued representing shares of more than one class.

20. (A) The Company shall not be bound to register more than three persons as the registered holders of a share except in the case of executors or administrators (or trustees) of the estate of a deceased member.

(B) In the case of a share registered jointly in the names of several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to any one of the registered joint holders shall be sufficient delivery to all.

21. Every person whose name is entered as a member in the Register of Members shall be entitled to receive, within ten Market Days (or such other period as may be approved by the Stock Exchange) of the closing date of any application for shares or, as the case may be, the date of lodgement of a registrable transfer, one certificate for all his shares of any one class or several certificates in reasonable denominations each for a part of the shares so allotted or transferred. Where such a member transfers part only of the shares comprised in a certificate, the old certificate shall be cancelled and a new certificate or certificates for the balance of such shares issued in lieu thereof and such member shall pay a maximum fee of S$2 for each new certificate or such other fee as the Directors may from time to time determine having regard to any limitation thereof as may be prescribed by the Stock Exchange.

22. (A) Any two or more certificates representing shares of any one class held by any person whose name is entered in the Register of Members may at his request be cancelled and a single new certificate for such shares issued in lieu without charge.

(B) If any person whose name is entered in the Register of Members shall surrender for cancellation a share certificate representing shares held by him and request the Company to issue in lieu two or more share certificates representing such shares in such proportions as he may specify, the Directors may, if they think fit, comply with such request. Such person shall (unless such fee is waived by the Directors) pay a maximum fee of S$2 for each share certificate issued in lieu of a share certificate surrendered for cancellation or such other fee as the Directors may from time to time determine having regard to any limitation thereof as may be prescribed by the Stock Exchange.

(C) In the case of shares registered jointly in the names of several persons any such request may be made by any one of the registered joint holders.

23. Subject to the provisions of the Statutes, if any share certificate shall be defaced, worn out, destroyed, lost or stolen, it may be renewed on such evidence being produced and a letter of indemnity (if required) being given by the shareholder, transferee, person entitled, purchaser, member firm or member company of the Stock Exchange or on behalf of its or their client or clients as the Directors of the Company shall require, and (in case of defacement or wearing out) on delivery up of the old certificate and in any case on payment of such sum not exceeding S$2 as the Directors may from time to time require. In the case of destruction, loss or theft, a shareholder or person entitled to whom such renewed certificate is given shall also bear the loss and pay to the Company all expenses incidental to the investigations by the Company of the evidence of such destruction or loss.

CALLS ON SHARES

24. The Directors may from time to time make calls upon the members in respect of any moneys unpaid on their shares but subject always to the terms of issue of such shares. A call shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed and may be made payable by instalments.

25. Each member shall (subject to receiving at least 14 days' notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof. A call may be revoked or postponed as the Directors may determine.

26. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding ten per cent. per annum) as the Directors may determine but the Directors shall be at liberty in any case or cases to waive payment of such interest wholly or in part.

27. Any sum which by the terms of issue of a share becomes payable upon allotment or at any fixed date shall for all the purposes of this Constitution be deemed to be a call duly made and payable on the date on which by the terms of issue the same becomes payable. In case of non-payment all the relevant provisions of this Constitution as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

28. The Directors may on the issue of shares differentiate between the holders as to the amount of calls to be paid and the times of payment.

29. The Directors may if they think fit receive from any member willing to advance the same, all or any part of the moneys uncalled and unpaid upon the shares held by him and such payment in advance of calls shall extinguish pro tanto the liability upon the shares in respect of which it is made and upon the money so received (until and to the extent that the same would but for such advance become payable) the Company may pay interest at such rate (not exceeding eight per cent. per annum) as the member paying such sum and the Directors may agree. Capital paid on shares in advance of calls shall not, while carrying interest, confer a right to participate in profits.

FORFEITURE AND LIEN

30. If a member fails to pay in full any call or instalment of a call on the due date for payment thereof, the Directors may at any time thereafter serve a notice on him requiring payment of so much of the call or instalment as is unpaid together with any interest which may have accrued thereon and any expenses incurred by the Company by reason of such non-payment.

31. The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which and the place where the payment required by the notice is to be made, and shall state that in the event of non-payment in accordance therewith the shares on which the call has been made will be liable to be forfeited.

32. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls and interest and expenses due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited share and not actually paid before forfeiture. The Directors may accept a surrender of any share liable to be forfeited hereunder.

33. A share so forfeited or surrendered shall become the property of the Company and may be sold, re-allotted or otherwise disposed of either to the person who was before such forfeiture or surrender the holder thereof or entitled thereto or to any other person upon such terms and in such manner as the Directors shall think fit and at any time before a sale, re-allotment or disposition the forfeiture or surrender may be cancelled on such terms as the Directors think fit. The Directors may, if necessary, authorise some person to transfer or effect the transfer of a forfeited or surrendered share to any such other person as aforesaid.

34. A member whose shares have been forfeited or surrendered shall cease to be a member in respect of the shares but shall notwithstanding the forfeiture or surrender remain liable to pay to the Company all moneys which at the date of forfeiture or surrender were presently payable by him to the Company in respect of the shares with interest thereon at eight per cent. per annum (or such lower rate as the Directors may determine) from the date of forfeiture or surrender until payment and the Directors may at their absolute discretion enforce payment without any allowance for the value of the shares at that time of forfeiture or surrender or waive payment in whole or in part.

35. *The Company shall have a first and paramount lien on every share (not being a fully paid share) and dividends from time to time declared in respect of such shares. Such lien shall be restricted to unpaid calls and instalments upon the specific shares in respect of which such moneys are due and unpaid, and to such amounts as the Company may be called upon by law to pay in respect of the shares of the member or deceased member. The Directors may waive any lien which has arisen and may resolve that any share shall for some limited period be exempt wholly or partially from the provisions of this article.*

36. *The Company may sell in such manner as the Directors think fit any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable nor until the expiration of 14 days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell in default shall have been given to the holder for the time being of the share or the person entitled thereto by reason of his death or bankruptcy.*

37. *The net proceeds of such sale after payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debts or liabilities and any residue shall be paid to the person entitled to the shares at the time of the sale or to his executors, administrators or assigns, or as he may direct. For the purpose of giving effect to any such sale the Directors may authorise some person to transfer or effect the transfer of the shares sold to the purchaser.*

38. *A statutory declaration in writing that the declarant is a Director or the Secretary of the Company and that a share has been duly forfeited or surrendered or sold to satisfy a lien of the Company on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. Such declaration and the receipt of the Company for the consideration (if any) given for the share on the sale, re-allotment or disposal thereof together (where the same be required) with the share certificate delivered to a purchaser (or where the purchaser is a Depositor, to the Depository or its nominee (as the case may be)) or allottee thereof shall (subject to the execution of a transfer if the same be required) constitute good title to the share and the share shall be registered in the name of the person to whom the share is sold, re-allotted or disposed of or, where such person is a Depositor, the Company shall procure that his name be entered in the Depository Register in respect of the share so sold, re-allotted or disposed of. Such person shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings relating to the forfeiture, surrender, sale, re-allotment or disposal of the share.*

TRANSFER OF SHARES

39. *All transfers of the legal title in shares may be effected by the registered holders thereof by transfer in writing in the form for the time being approved by the Stock Exchange or in any other form acceptable to the Directors. The instrument of transfer of any share shall be signed by or on behalf of both the transferor and the transferee and be witnessed, Provided always that an instrument of transfer in respect of which the transferee is the Depository or its nominee (as the case may be) shall be effective although not signed or witnessed by or on behalf of the Depository or its nominee (as the case may be). The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register of Members in respect thereof.*

40. *The Register of Members may be closed at such times and for such period as the Directors may from time to time determine, Provided always that such Register shall not be closed for more than 30 days in any calendar year, Provided always that the Company shall give prior notice of such closure as may be required to the Stock Exchange, stating the period and purpose or purposes for which the closure is made.*

41. (A) *There shall be no restriction on the transfer of fully paid-up shares (except where required by law or the listing rules of, or bye-laws and rules governing, the Stock Exchange) but the Directors may, in their sole discretion, decline to register any transfer of shares upon which the Company has a lien and in the case of shares not fully paid-up may refuse to register a transfer to a transferee of whom they do not approve, Provided always that in the event of the Directors refusing to register a transfer of shares, they shall within ten Market Days beginning with the date on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.*

(B) *The Directors may in their sole discretion refuse to register any instrument of transfer of shares unless:*

(a) *such fee not exceeding S$2 as the Directors may from time to time require, is paid to the Company in respect thereof;*

(b) *the amount of proper duty (if any) with which each instrument of transfer is chargeable under any law for the time being in force relating to stamps is paid;*

(c) *the instrument of transfer is deposited at the Office or at such other place (if any) as the Directors may appoint accompanied by a certificate of payment of stamp duty (if any), the certificates of the shares to which the transfer relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person so to do; and*

(d) *the instrument of transfer is in respect of only one class of shares.*

42. *If the Directors refuse to register a transfer of any shares, they shall within ten Market Days after the date on which the transfer was lodged with the Company send to the transferor and the transferee notice of the refusal as required by the Statutes.*

43. *All instruments of transfer which are registered may be retained by the Company.*

44. *There shall be paid to the Company in respect of the registration of any instrument of transfer or probate or letters of administration or certificate of marriage or death or stop notice or power of attorney or other document relating to or affecting the title to any shares or otherwise for making any entry in the Register of Members affecting the title to any shares such fee not exceeding S$2 as the Directors may from time to time require or prescribe.*

45. *The Company shall be entitled to destroy all instruments of transfer which have been registered at any time after the expiration of six years from the date of registration thereof and all dividend mandates and notifications of change of address at any time after the expiration of six years from the date of recording thereof and all share certificates which have been cancelled at any time after the expiration of six years from the date of the cancellation thereof and it shall conclusively be presumed in favour of the Company that every entry in the Register of Members purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and every share certificate so destroyed was a valid and effective certificate duly and properly cancelled and every other document hereinbefore mentioned so destroyed was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company; Provided always that:*

(a) the provisions aforesaid shall apply only to the destruction of a document in good *faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant;*

(b) *nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstances which would not attach to the Company in the absence of this article; and*

(c) *references herein to the destruction of any document include references to the disposal thereof in any manner.*

TRANSMISSION OF SHARES

46. (A) *In the case of the death of a member whose name is entered in the Register of Members, the survivors or survivor where the deceased was a joint holder, and the executors or administrators of the deceased where he was a sole or only surviving holder, shall be the only person(s) recognised by the Company as having any title to his interest in the shares.*

(B) *In the case of the death of a member who is a Depositor, the survivors or survivor where the deceased is a joint holder, and the executors or administrators of the deceased where he was a sole or only surviving holder and where such executors or administrators are entered in the Depository Register in respect of any shares of the deceased member, shall be the only person(s) recognised by the Company as having any title to his interest in the shares.*

(C) *Nothing in this article shall release the estate of a deceased holder (whether sole or joint) from any liability in respect of any share held by him.*

47. *Any person becoming entitled to the legal title in a share in consequence of the death or bankruptcy of a person whose name is entered in the Register of Members may (subject as hereinafter provided) upon supplying to the Company such evidence as the Directors may reasonably require to show his legal title to the share either be registered himself as holder of the share upon giving to the Company notice in writing of such desire or transfer such share to some other person. All the limitations, restrictions and provisions of this Constitution relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the person whose name is entered in the Register of Members had not occurred and the notice or transfer were a transfer executed by such person.*

48. *Save as otherwise provided by or in accordance with this Constitution, a person becoming entitled to a share pursuant to article 46(A) or (B) or article 47 (upon supplying to the Company such evidence as the Directors may reasonably require to show his title to the share) shall be entitled to the same dividends and other advantages as those to which he would be entitled if he were the member in respect of the share except that he shall not be entitled in respect thereof (except with the authority of the Directors) to exercise any right conferred by membership in relation to meetings of the Company until he shall have been registered as a member in the Register of Members or his name shall have been entered in the Depository Register in respect of the share.*

STOCK

49. *The Company may from time to time by Ordinary Resolution convert any paid-up shares into stock and may from time to time by like resolution reconvert any stock into paid-up shares.*

50. *The holders of stock may transfer the same or any part thereof in the same manner and subject to the same articles as and subject to which the shares from which the stock arose might previously to conversion have been transferred (or as near thereto as circumstances admit) but no stock shall be transferable except in such units as the Directors may from time to time determine.*

51. The holders of stock shall, according to the number of stock units held by them, have the same rights, privileges and advantages as regards dividend, return of capital, voting and other matters, as if they held the shares from which the stock arose; but no such privilege or advantage (except as regards participation in the profits or assets of the Company) shall be conferred by the number of stock units which would not, if existing in shares, have conferred such privilege or advantage; and no such conversion shall affect or prejudice any preference or other special privileges attached to the shares so converted.

(b) The rights of Shareholders in respect of dividends

RESERVES

123. The Directors may from time to time set aside out of the profits of the Company and carry to reserve such sums as they think proper which, at the discretion of the Directors, shall be applicable for any purpose to which the profits of the Company may properly be applied and pending such application may either be employed in the business of the Company or be invested. The Directors may divide the reserve into such special funds as they think fit and may consolidate into one fund any special funds or any parts of any special funds into which the reserve may have been divided. The Directors may also, without placing the same to reserve, carry forward any profits. In carrying sums to reserve and in applying the same the Directors shall comply with the provisions (if any) of the Statutes.

DIVIDENDS

124. The Company may by Ordinary Resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.

125. If and so far as in the opinion of the Directors the profits of the Company justify such payments, the Directors may declare and pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the half-yearly or other dates prescribed for the payment thereof and may also from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.

126. Subject to any rights or restrictions attached to any shares or class of shares and except as otherwise permitted under the Act:

(a) all dividends in respect of shares must be paid in proportion to the number of shares held by a member but where shares are partly paid all dividends must be apportioned and paid proportionately to the amounts paid or credited as paid on the partly paid shares; and

(b) all dividends must be apportioned and paid proportionately to the amounts so paid or credited as paid during any portion or portions of the period in respect of which the dividend is paid.

For the purposes of this article, an amount paid or credited as paid on a share in advance of a call is to be ignored.

127. No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes.

128. No dividend or other moneys payable on or in respect of a share shall bear interest as against the Company.

129. (A) The Directors may retain any dividend or other moneys payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

(B) The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmission of shares hereinbefore contained entitled to become a member, or which any person is under those provisions entitled to transfer, until such person shall become a member in respect of such shares or shall transfer the same.

130. The waiver in whole or in part of any dividend on any share by any document (whether or not under seal) shall be effective only if such document is signed by the shareholder (or the person entitled to the share in consequence of the death or bankruptcy of the holder) and delivered to the Company and if or to the extent that the same is accepted as such or acted upon by the Company.

131. The payment by the Directors of any unclaimed dividends or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof. All dividends and other moneys payable on or in respect of a share that are unclaimed after first becoming payable may be invested or otherwise made use of by the Directors for the benefit of the Company and any dividend or any such moneys unclaimed after a period of six years from the date they are first payable shall be forfeited and shall revert to the Company but the Directors may at any time thereafter at their absolute discretion annul any such forfeiture and pay the moneys so forfeited to the person entitled thereto prior to the forfeiture. If the Depository returns any such dividend or moneys to the Company, the relevant Depositor shall not have any right or claim in respect of such dividend or moneys against the Company if a period of six years has elapsed from the date such dividend or other moneys are first payable.

132. The Company may upon the recommendation of the Directors by Ordinary Resolution direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company) and the Directors shall give effect to such resolution. Where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional certificates, may fix the value for distribution of such specific assets or any part thereof, may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees as may seem expedient to the Directors.

133. Any dividend or other moneys payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address appearing in the Register of Members or (as the case may be) the Depository Register of a member or person entitled thereto (or, if two or more persons are registered in the Register of Members or (as the case may be) entered in the Depository Register as joint holders of the share or are entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons) or to such person at such address as such member or person or persons may by writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or to such person as the holder or joint holders or person or persons entitled to the share in consequence of the death or bankruptcy of the holder may direct and payment of the cheque or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.

134. Notwithstanding the provisions of article 133 and the provisions of article 136, the payment by the Company to the Depository of any dividend payable to a Depositor shall, to the extent of the payment made to the Depository, discharge the Company from any liability to the Depositor in respect of that payment.

135. If two or more persons are registered in the Register of Members or (as the case may be) the Depository Register as joint holders of any share, or are entitled jointly to a share in consequence of the death or bankruptcy of the holder, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable on or in respect of the share.

136. Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in General Meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares in the Register of Members or (as the case may be) the Depository Register at the close of business on a particular date and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares

BONUS ISSUES AND CAPITALISATION OF PROFITS AND RESERVES

137. (A) The Directors may, with the sanction of an Ordinary Resolution of the Company, including any Ordinary Resolution passed pursuant to article 11(B):

(a) issue bonus shares for which no consideration is payable to the Company to the persons registered as holders of shares in the Register of Members or (as the case may be) in the Depository Register at the close of business on:

(i) the date of the Ordinary Resolution (or such other date as may be specified therein or determined as therein provided); or

(ii) (in the case of an Ordinary Resolution passed pursuant to article 11(B)) such other date as may be determined by the Directors,

in proportion to their then holdings of shares; and/or

(b) capitalise any sum standing to the credit of any of the Company's reserve accounts or other undistributable reserve or any sum standing to the credit of profit and loss account by appropriating such sum to the persons registered as holders of shares in the Register of Members or (as the case may be) in the Depository Register at the close of business on:

(i) the date of the Ordinary Resolution (or such other date as may be specified therein or determined as therein provided); or

(ii) (in the case of an Ordinary Resolution passed pursuant to article 11(B)) such other date as may be determined by the Directors,

in proportion to their then holdings of shares and applying such sum on their behalf in paying up in full new shares (or, subject to any special rights previously conferred on any shares or class of shares for the time being issued, new shares of any other class not being redeemable shares) for allotment and distribution credited as fully paid up to and amongst them as bonus shares in the proportion aforesaid.

(B) The Directors may do all acts and things considered necessary or expedient to give effect to any such bonus issue and/or capitalisation under article 137(A), with full power to the Directors to make such provisions as they think fit for any fractional entitlements which would arise on the basis aforesaid (including provisions whereby fractional entitlements are disregarded or the benefit thereof accrues to the Company rather than to the members concerned). The Directors may authorise any person to enter on behalf of all the members interested into an agreement with the Company providing for any such bonus issue or capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

138. In addition and without prejudice to the powers provided for by article 137, the Directors shall have power to issue shares for which no consideration is payable and/or to capitalise any undivided profits or other moneys of the Company not required for the payment or provision of any dividend on any shares entitled to cumulative or non-cumulative preferential dividends (including profits or other moneys carried and standing to any reserve or reserves) and to apply such profits or other moneys in paying up in full new shares, in each case on terms that such shares shall, upon issue:

(a) be held by or for the benefit of participants of any share incentive or option scheme or plan implemented by the Company and approved by shareholders in General Meeting and on such terms as the Directors shall think fit; or

(b) be held by or for the benefit of non-executive Directors as part of their remuneration under article 82 and/or article 83(A) approved by shareholders in General Meeting in such manner and on such terms as the Directors shall think fit.

The Directors may do all such acts and things considered necessary or expedient to give effect to any of the foregoing.

(c) The rights of Shareholders in respect of voting

GENERAL MEETINGS

52. Save as otherwise permitted under the Act, an Annual General Meeting shall be held once in every year, at such time (within a period of not more than 15 months after the holding of the last preceding Annual General Meeting) and place as may be determined by the Directors. All other General Meetings shall be called Extraordinary General Meetings.

53. The Directors may whenever they think fit, and shall on requisition in accordance with the Statutes, proceed with proper expedition to convene an Extraordinary General Meeting.

NOTICE OF GENERAL MEETINGS

54. Any General Meeting at which it is proposed to pass a Special Resolution or (save as provided by the Statutes) a resolution of which special notice has been given to the Company, shall be called by 21 days' notice in writing at the least and an Annual General Meeting and any other Extraordinary General Meeting by 14 days' notice in writing at the least. The period of notice shall in each case be exclusive of the day on which it is served or deemed to be served and of the day on which the meeting is to be held and shall be given in the manner hereinafter mentioned to all members other than such as are not under the provisions of this Constitution and the Act entitled to receive such notices from the Company; Provided always that a General Meeting notwithstanding that it has been called by a shorter notice than that specified above shall be deemed to have been duly called if it is so agreed:

(a) in the case of an Annual General Meeting by all the members entitled to attend and vote thereat; and

(b) in the case of an Extraordinary General Meeting by a majority in number of the members having a right to attend and vote thereat, being a majority together holding not less than 95 per cent. of the total voting rights of all the members having a right to vote at that meeting,

Provided also that the accidental omission to give notice to or the non-receipt of notice by any person entitled thereto shall not invalidate the proceedings at any General Meeting. So long as the shares in the Company are listed on any Stock Exchange, at least 14 days' notice of any General Meeting shall be given by advertisement in the daily press and in writing to the Stock Exchange.

55. (A) Every notice calling a General Meeting shall specify the place and the day and hour of the meeting, and there shall appear with reasonable prominence in every such notice a statement that a member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him and that a proxy need not be a member of the Company.

(B) In the case of an Annual General Meeting, the notice shall also specify the meeting as such.

(C) In the case of any General Meeting at which business other than routine business is to be transacted, the notice shall specify the general nature of such business; and if any resolution is to be proposed as a Special Resolution, the notice shall contain a statement to that effect.

56. Routine business shall mean and include only business transacted at an Annual General Meeting of the following classes, that is to say:

(a) declaring dividends;

(b) receiving and adopting the financial statements, the Directors' statement, the Auditor's report and other documents required to be attached to the financial statements;

(c) appointing or re-appointing Directors to fill vacancies arising at the meeting on retirement whether by rotation or otherwise;

(d) appointing or re-appointing the Auditor;

(e) fixing the remuneration of the Auditor or determining the manner in which such remuneration is to be fixed; and

(f) fixing the remuneration of the Directors proposed to be paid in respect of their office as such under article 82 and/or article 83(A).

57. Any notice of a General Meeting to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution on the Company in respect of such special business.

PROCEEDINGS AT GENERAL MEETINGS

58. The Chairman of the Board of Directors, failing whom the Deputy Chairman, shall preside as chairman at a General Meeting. If there be no such Chairman or Deputy Chairman, or if at any meeting neither be present within fifteen minutes after the time appointed for holding the meeting and willing to act, the Directors present shall choose one of their number (or, if no Director be present or if all the Directors present decline to take the chair, the members present shall choose one of their number) to be chairman of the meeting.

59. No business other than the appointment of a chairman shall be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Save as herein otherwise provided, the quorum at any General Meeting shall be two or more members present in person or by proxy. Provided always that (i) a proxy representing more than one member shall only count as one member for the purpose of determining the quorum; and (ii) where a member is represented by more than one proxy such proxies shall count as only one member for the purpose of determining the quorum.

60. If within 30 minutes from the time appointed for a General Meeting (or such longer interval as the chairman of the meeting may think fit to allow) a quorum is not present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week (or if that day is a public holiday then to the next business day following that public holiday) at the same time and place or such other day, time or place as the Directors may by not less than ten days' notice appoint. At the adjourned meeting any one or more members present in person or by proxy shall be a quorum.

61. *The chairman of any General Meeting at which a quorum is present may with the consent of the meeting (and shall if so directed by the meeting) adjourn the meeting from time to time (or sine die) and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place. Where a meeting is adjourned sine die, the time and place for the adjourned meeting shall be fixed by the Directors. When a meeting is adjourned for 30 days or more or sine die, not less than seven days' notice of the adjourned meeting shall be given in like manner as in the case of the original meeting.*

62. *Save as hereinbefore expressly provided, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.*

63. *If an amendment shall be proposed to any resolution under consideration but shall in good faith be ruled out of order by the chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a Special Resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.*

64. *(A) If required by the listing rules of the Stock Exchange, all resolutions at General Meetings shall be voted by poll (unless such requirement is waived by the Stock Exchange).*

(B) Subject to article 64(A), at any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

(a) the chairman of the meeting; or

(b) not less than two members present in person or by proxy and entitled to vote at the meeting; or

(c) a member present in person or by proxy and representing not less than five per cent. of the total voting rights of all the members having the right to vote at the meeting; or

(d) a member present in person or by proxy and holding shares conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than five per cent. of the total sum paid up on all the shares conferring that right.

A demand for a poll made pursuant to this article 64(B) may be withdrawn only with the approval of the chairman of the meeting, and any such demand shall not prevent the continuance of the meeting for the transaction of any business other than the question on which the poll has been demanded. Unless a poll is demanded, a declaration by the chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded for or against such resolution.

65. *Where a poll is taken, it shall be taken in such manner (including the use of ballot or voting papers) as the chairman of the meeting may direct, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was taken. The chairman of the meeting may (and, if required by the listing rules of the Stock Exchange or if so directed by the meeting, shall) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.*

66. *A poll on the choice of a chairman or on a question of adjournment shall be taken immediately. A poll on any other question shall be taken either immediately or at such subsequent time (not being more than 30 days from the date of the meeting) and place as the chairman may direct. No notice need be given of a poll not taken immediately.*

67. In the case of an equality of votes, whether on a poll or on a show of hands, the chairman of the meeting at which the poll or show of hands takes place shall be entitled to a casting vote.

VOTES OF MEMBERS

68. Subject and without prejudice to any special privileges or restrictions as to voting for the time being attached to any special class of shares for the time being forming part of the capital of the Company and to article 13(C), each member entitled to vote may vote in person or by proxy. Every member who is present in person or by proxy shall:

(a) on a poll, have one vote for every share which he holds or represents; and

(b) on a show of hands, have one vote, Provided always that:

(i) in the case of a member who is not a relevant intermediary and who is represented by two proxies, only one of the two proxies as determined by that member or, failing such determination, by the chairman of the meeting (or by a person authorised by him) in his sole discretion shall be entitled to vote on a show of hands; and

(ii) in the case of a member who is a relevant intermediary and who is represented by two or more proxies, each proxy shall be entitled to vote on a show of hands.

For the purpose of determining the number of votes which a member, being a Depositor, or his proxy may cast at any General Meeting on a poll, the reference to shares held or represented shall, in relation to shares of that Depositor, be the number of shares entered against his name in the Depository Register as at 72 hours before the time of the relevant General Meeting as certified by the Depository to the Company.

69. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members or (as the case may be) the Depository Register in respect of the share.

70. Where in Singapore or elsewhere a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any member on the ground (however formulated) of mental disorder, the Directors may in their absolute discretion, upon or subject to production of such evidence of the appointment as the Directors may require, permit such receiver or other person on behalf of such member to vote in person or by proxy at any General Meeting or to exercise any other right conferred by membership in relation to meetings of the Company.

71. No member shall, unless the Directors otherwise determine, be entitled in respect of shares held by him to vote at a General Meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum presently payable by him to the Company in respect of such shares remains unpaid.

72. No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to is or may be given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the chairman of the meeting whose decision shall be final and conclusive.

73. On a poll, votes may be given either personally or by proxy and a personentitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

74. (A) Save as otherwise provided in the Act:

(a) a member who is not a relevant intermediary may appoint not more than two proxies to attend, speak and vote at the same General Meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy; and

(b) a member who is a relevant intermediary may appoint more than two proxies to attend, speak and vote at the same General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such members form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

(B) In any case where a member is a Depositor, the Company shall be entitled and bound:

(a) to reject any instrument of proxy lodged by that Depositor if he is not shown to have any shares entered against his name in the Depository Register as at 72 hours before the time of the relevant General Meeting as certified by the Depository to the Company; and

(b) to accept as the maximum number of votes which in aggregate the proxy or proxies appointed by that Depositor is or are able to cast on a poll a number which is the number of shares entered against the name of that Depositor in the Depository Register as at 72 hours before the time of the relevant General Meeting as certified by the Depository to the Company, whether that number is greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor.

(C) The Company shall be entitled and bound, in determining rights to vote and other matters in respect of a completed instrument of proxy submitted to it, to have regard to the instructions (if any) given by and the notes (if any) set out in the instrument of proxy.

(D) A proxy need not be a member of the Company.

75. (A) An instrument appointing a proxy shall be in writing in any usual or common form or in any other form which the Directors may approve and:

(a) in the case of an individual, shall be:

(i) signed by the appointor or his attorney if the instrument is delivered personally or sent by post; or

(ii) authorised by that individual through such method and in such manner as may be approved by the Directors, if the instrument is submitted by electronic communication; and

(b) in the case of a corporation, shall be:

(i) either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation if the instrument is delivered personally or sent by post; or

(ii) authorised by that corporation through such method and in such manner as may be approved by the Directors, if the instrument is submitted by electronic communication.

The Directors may, for the purposes of articles 75(A)(a)(ii) and 75(A)(b)(ii), designate procedures for authenticating any such instrument, and any such instrument not so authenticated by use of such procedures shall be deemed not to have been received by the Company.

(B) The signature on, or authorisation of, such instrument need not be witnessed. Where an instrument appointing a proxy is signed or authorised on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy pursuant to article 76(A), failing which the instrument may be treated as invalid.

(C) The Directors may, in their absolute discretion:

(a) approve the method and manner for an instrument appointing a proxy to be authorised; and

(b) designate the procedure for authenticating an instrument appointing a proxy,

as contemplated in articles 75(A)(a)(ii) and 75(A)(b)(ii) for application to such members or class of members as they may determine. Where the Directors do not so approve and designate in relation to a member (whether of a class or otherwise), article 75(A)(a)(i) and/or (as the case may be) article 75(A)(b)(i) shall apply.

76. (A) An instrument appointing a proxy:

(a) if sent personally or by post, must be left at such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified, at the Office); or

(b) if submitted by electronic communication, must be received through such means as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting,

and in either case, not less than 72 hours before the time appointed for the holding of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used, and in default shall not be treated as valid. The instrument shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates; Provided always that an instrument of proxy relating to more than one meeting (including any adjournment thereof) having once been so delivered in accordance with this article 76 for the purposes of any meeting shall not be required again to be delivered for the purposes of any subsequent meeting to which it relates.

(B) The Directors may, in their absolute discretion, and in relation to such members or class of members as they may determine, specify the means through which instruments appointing a proxy may be submitted by electronic communications, as contemplated in article 76(A)(b). Where the Directors do not so specify in relation to a member (whether of a class or otherwise), article 76(A)(a) shall apply.

77. An instrument appointing a proxy shall be deemed to include the right to demand or join in demanding a poll, to move any resolution or amendment thereto and to speak at the meeting.

78. A vote cast by proxy shall not be invalidated by the previous death or mental disorder of the principal or by the revocation of the appointment of the proxy or of the authority under which the appointment was made, Provided always that no intimation in writing of such death, mental disorder or revocation shall have been received by the Company at the Office at least one hour before the commencement of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) the time appointed for the taking of the poll at which the vote is cast.