FINANCIAL STATEMENTS

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DIRECTORS' STATEMENT

Year ended 31 December 2017

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2017.

In our opinion:

(a) the financial statements set out on pages 178 to 287 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 2017, 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 and Singapore 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 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
Ajaib Haridass	
Ron Foo Siang Guan	
Lim Ah Doo	
Koh Chiap Khiong	
Eric Ang Teik Lim	
Gina Lee-Wan	
Bob Tan Beng Hai	
Neil McGregor	(appointed on 20 April 2017)
William Tan Seng Koon	(appointed on 20 April 2017)

DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the "Act"), 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 in 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 21/01/2018	At beginning of the year	At end of the year	At 21/01/2018
Tan Sri Mohd Hassan Marican							
Sembcorp Marine Ltd	Ordinary shares (Note 1)	192,100	296,300	296,300	–	–	–
Sembcorp Industries Ltd	Ordinary shares (Note 1)	60,200	79,400	79,400	–	–	–

DIRECTORS' STATEMENT

Year ended 31 December 2017

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 21/01/2018	At beginning of the year	At end of the year	At 21/01/2018
Wong Weng Sun							
Sembcorp Marine Ltd	Ordinary shares	3,559,534	3,609,259	3,609,259	–	–	–
	Conditional award of 500,000 performance shares to be delivered after 2016 (Note 2a)	Up to 750,000	–	–	–	–	–
	Conditional award of 375,000 performance shares to be delivered after 2017 (Note 2b)	Up to 562,500	Up to 562,500	Up to 562,500	–	–	–
	Conditional award of 638,000 performance shares to be delivered after 2018 (Note 2c)	Up to 957,000	Up to 957,000	Up to 957,000	–	–	–
	Conditional award of 550,000 performance shares to be delivered after 2019 (Note 2d)	–	Up to 825,000	Up to 825,000	–	–	–

DIRECTORS' STATEMENT

Year ended 31 December 2017

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 21/01/2018	At beginning of the year	At end of the year	At 21/01/2018
Wong Weng Sun (cont'd)							
Sembcorp Marine Ltd (cont'd)	Conditional award of 85,000 restricted shares to be delivered after 2014 (Note 3a)	30,600	–	–	–	–	–
	Conditional award of 85,000 restricted shares to be delivered after 2015 (Note 3b)	25,500	12,750	12,750	–	–	–
	Conditional award of 127,500 restricted shares to be delivered after 2016 (Note 3c)	Up to 191,250	12,750	12,750	–	–	–
	Conditional award of 191,000 restricted shares to be delivered after 2017 (Note 3d)	Up to 286,500	Up to 286,500	Up to 286,500	–	–	–
	Conditional award of 181,000 restricted shares to be delivered after 2018 (Note 3e)	–	Up to 271,500	Up to 271,500	–	–	–

DIRECTORS' STATEMENT

Year ended 31 December 2017

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 21/01/2018	At beginning of the year	At end of the year	At 21/01/2018
Wong Weng Sun (cont'd)							
Sembcorp Industries Ltd	Ordinary shares	79,000	79,000	79,000	–	–	–
Ajaib Haridass							
Sembcorp Marine Ltd	Ordinary shares	805,510	854,510	854,510	–	–	–
Sembcorp Industries Ltd	Ordinary shares (Note 4)	24,600	44,400	44,400	–	–	–
Ron Foo Siang Guan							
Sembcorp Marine Ltd	Ordinary shares	210,480	254,780	254,780	28,000	28,000	28,000
Sembcorp Industries Ltd	Ordinary shares	82,820	82,820	82,820	–	–	–
Lim Ah Doo							
Sembcorp Marine Ltd	Ordinary shares	226,600	279,900	279,900	–	–	–
Sembcorp Industries Ltd	Ordinary shares	9,768	9,768	9,768	–	–	–
Koh Chiap Khiong							
Sembcorp Marine Ltd	Ordinary shares (Note 6)	82,400	123,200	123,200	–	–	–
Sembcorp Industries Ltd	Ordinary shares (Note 7)	423,649	509,433	509,433	–	–	–

DIRECTORS' STATEMENT

Year ended 31 December 2017

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 21/01/2018	At beginning of the year	At end of the year	At 21/01/2018
Koh Chiap Khiong (cont'd)							
Sembcorp Industries Ltd (cont'd)	Conditional award of 75,000 performance shares to be delivered after 2016 (Note 2a)	Up to 112,500	–	–	–	–	–
	Conditional award of 105,000 performance shares to be delivered after 2017 (Note 2b)	Up to 157,500	Up to 157,500	Up to 157,500	–	–	–
	Conditional award of 133,000 performance shares to be delivered after 2018 (Note 2c)	Up to 199,500	Up to 199,500	Up to 199,500	–	–	–
	Conditional award of 100,000 performance shares to be delivered after 2019 (Note 2d)	–	Up to 150,000	Up to 150,000	–	–	–
	Conditional award of 65,000 restricted shares to be delivered after 2014 (Note 5a)	24,700	–	–	–	–	–

DIRECTORS' STATEMENT

Year ended 31 December 2017

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 21/01/2018	At beginning of the year	At end of the year	At 21/01/2018
Koh Chiap Khiong (cont'd)							
Sembcorp Industries Ltd (cont'd)	Conditional award of 65,000 restricted shares to be delivered after 2015 (Note 5b)	54,166	27,082	27,082	–	–	–
	Conditional award of 85,000 restricted shares to be delivered after 2016 (Note 5c)	Up to 127,500	68,000	68,000	–	–	–
	Conditional award of 96,000 restricted shares to be delivered after 2017 (Note 5d)	Up to 144,000	Up to 144,000	Up to 144,000	–	–	–
	Conditional award of 100,000 restricted shares to be delivered after 2018 (Note 5e)	–	Up to 150,000	Up to 150,000	–	–	–
	Subordinated Perpetual Security issued on 21 Aug 2013 under the $2.5 Billion Multicurrency Debt Issuance Programme (Note 8)	Principal Amount: $250,000	Principal Amount: $250,000	Principal Amount: $250,000	–	–	–

DIRECTORS' STATEMENT

Year ended 31 December 2017

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 21/01/2018	At beginning of the year	At end of the year	At 21/01/2018
Gina Lee-Wan							
Sembcorp Marine Ltd	Ordinary shares	22,600	49,500	49,500	–	–	–
Bob Tan Beng Hai							
Sembcorp Marine Ltd	Ordinary shares	24,200	61,500	61,500	–	–	–
Neil McGregor							
Sembcorp Industries Ltd	Ordinary shares	20,000	33,900	33,900	–	–	–
	Conditional award of 429,553 performance shares to be delivered after 2019 (Note 2d)	–	Up to 644,330	Up to 644,330	–	–	–
	Conditional award of 416,667 restricted shares to be delivered after 2018 (Note 5e)	–	Up to 625,001	Up to 625,001	–	–	–

Note 1: The 296,300 Sembcorp Marine Ltd shares and 79,400 Sembcorp Industries Ltd 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 2014 to 2016*
(b) Period from 2015 to 2017
(c) Period from 2016 to 2018
(d) Period from 2017 to 2019

* 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 2017

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 2013 to 2014*
(b) Period from 2014 to 2015**
(c) Period from 2015 to 2016***
(d) Period from 2016 to 2017
(e) Period from 2017 to 2018

* For this period, 30,600 shares (the final release of 1/3 of the 91,800 shares) were vested under the award on 28 March 2017. The 1st and 2nd release of 30,600 shares each have been vested on 18 March 2015 and 28 March 2016 respectively.

** For this period, 12,750 shares (2nd release of 1/3 of the 38,250 shares) were vested under the award on 28 March 2017 and the remaining 12,750 shares will be vested in year 2018. The 1st release of 12,750 shares has been vested on 28 March 2016.

*** For this period, 6,375 shares (1st release of 1/3 of the 19,125 shares) were vested under the award on 28 March 2017 and the remaining 12,750 shares will be vested in year 2018/2019.

Note 4: Of the 44,400 Sembcorp Industries Ltd shares, 5,000 shares are held in the name of Bank of Singapore.

Note 5: 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 2013 to 2014*
(b) Period from 2014 to 2015**
(c) Period from 2015 to 2016***
(d) Period from 2016 to 2017
(e) Period from 2017 to 2018

* For this period, 24,700 shares (the final release of 1/3 of the 74,100 shares) were vested under the award on 28 March 2017. The 1st and 2nd release of 24,700 shares each have been vested in 2015 and 2016 respectively.

** For this period, 27,084 shares (2nd release of 1/3 of the 81,250 shares) were vested under the award on 28 March 2017 and the remaining 27,082 shares will be vested in year 2018. The 1st release of 27,084 shares has been vested on 28 March 2016.

*** For this period, 34,000 shares (1st release of 1/3 of the 102,000 shares) were vested under the award on 28 March 2017 and the remaining 68,000 shares will be vested in year 2018/2019.

Note 6: Of the 123,200 Sembcorp Marine Ltd shares, 21,400 shares are held in the name of DBS Nominees Pte Ltd and 50,000 shares are held in the name of Citibank Nominees Pte Ltd.

Note 7: Of the 509,433 Sembcorp Industries Ltd shares, 345,615 shares are held in the name of DBS Nominees Pte Ltd and 140,000 shares are held in the name of Citibank Nominees Pte Ltd.

Note 8: Subordinated Perpetual Security issued under the $2.5 Billion Multicurrency Debt Issuance Programme ("MDIP") of Sembcorp Industries Ltd and Sembcorp Financial Services Pte. Ltd., a related company of Sembcorp Industries Group. The programme limit of the MDIP was increased from S$2 Billion to S$2.5 Billion on 25 November 2016.

DIRECTORS' STATEMENT

Year ended 31 December 2017

DIRECTORS' INTERESTS (CONT'D)

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 date of appointment if later, 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 2018.

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 24(a) and 36 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

The Company's Performance Share Plan ("SCM PSP 2010") and Restricted Share Plan ("SCM RSP 2010") (collectively, the "2010 Share Plans") were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on 20 April 2010. The 2010 Share Plans replaced the Share Plans which were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on 31 May 2000 and expired in 2010.

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:

Tan Sri Mohd Hassan Marican	Chairman
Ajaib Haridass	
Eric Ang Teik Lim	
William Tan Seng Koon	(appointed on 27 April 2017)

The SCM RSP 2010 is the incentive scheme for directors and employees of the Company and its subsidiaries (the "Group") whereas the SCM PSP 2010 is aimed primarily at key executives of the Group.

The 2010 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 2010 Share Plans will strengthen the Company's competitiveness in attracting and retaining talented key senior management and senior executives.

The Company designates Sembcorp Industries Ltd as the Parent Group.

The SCM RSP 2010 is intended to apply a broad base of senior executives as well as to the non-executive directors, while the SCM PSP 2010 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 2010 and the SCM PSP 2010 will be different, with the latter emphasising stretched or strategic targets aimed at sustaining longer term growth.

DIRECTORS' STATEMENT

Year ended 31 December 2017

SHARE-BASED INCENTIVE PLANS (CONT'D)

The 2010 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 2010 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 2010 Share Plans aim to foster a greater ownership culture within the Group which align the interest of participants with the interest of shareholders, and to improve and achieve sustainable growth for the Company in the changing business environment.

The 2010 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 2010 Share Plans will be effective tools in motivating key senior management and senior executives to strive to deliver long-term shareholder value.

While the 2010 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 2010 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 2010 Share Plans and expired Share Plans is as follows:

(a) Share Option Plan

Under the rules of the Share Option Plan, participants who ceased to be employed by the Group, Parent Group or associate by reason of ill health, injury or disability, redundancy, retirement at or after the legal retirement age, retirement before the legal retirement age, death, etc., or any other event approved by the Committee, may be allowed by the Committee to retain their unexercised options. The Committee may determine the number of shares comprised in that option which may be exercised and the period during which such option shall be exercisable, being a period not later than the expiry of the exercise period in respect of that option. Such option may be exercised at any time notwithstanding that the date of exercise of such option falls on a date prior to the first day of the exercise period in respect of such option.

Other information regarding the Share Option Plan is as follows:

(i) The exercise price of the options can be set at market price or a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant. Market price is the volume-weighted average price for the shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") over the three consecutive trading days prior to grant date of that option. For all options granted to date, the exercise prices are set at market price.

(ii) After the first 12 months of lock-out period, the Group imposed a further vesting of 4 years for managers and above for retention purposes.

(iii) The options granted expire after 5 years for non-executive directors and employees of the Company's associates, and 10 years for the employees of Group and Parent Group. There are no outstanding share options for non-executive directors.

(iv) All options have expired on 2 October 2016.

DIRECTORS' STATEMENT
Year ended 31 December 2017

SHARE-BASED INCENTIVE PLANS (CONT'D)

(a) Share Option Plan (cont'd)

(v) At the end of the financial year, details of the options granted under the Share Option Plan on unissued ordinary shares of the Company are as follows:

Date of grant of options	Exercise price per share	Options outstanding at 1 January	Options exercised	Options cancelled/ lapsed/not accepted	Options outstanding at 31 December	Options exercisable at 1 January	Options exercisable at 31 December	Exercise period
2016								
02/10/2006	$2.38	973,312	–	(973,312)	–	973,312	–	03/10/2007 to 02/10/2016

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

In 2016, there was no option of the Company exercised.

SHARE-BASED INCENTIVE PLANS (CONT'D)

(a) Share Option Plan (cont'd)

Fair value of share options

The fair value of services received is measured by reference to the fair value of share options granted.

The details of options of the Company awarded/exercised since commencement of the Scheme (aggregate) to 31 December 2017 are as follows:

Option participants	Aggregate options granted	Aggregate options cancelled/ lapsed/ not accepted	Aggregate options exercised	Aggregate options outstanding
Directors of the Company				
Wong Weng Sun	1,208,500	–	(1,208,500)	–
Ajaib Haridass	403,000	–	(403,000)	–
Ron Foo Siang Guan	28,000	–	(28,000)	–
Former Directors of the Company	15,035,800	–	(15,035,800)	–
Other executives	115,977,395	(15,710,648)	(100,266,747)	–
At 31 December 2017	132,652,695	(15,710,648)	(116,942,047)	–

Since the commencement of the Share Option Plan, no options have been granted to the controlling shareholders of the Company or their associates. No participant under the Share Option Plan has been granted 5% or more of the total options available. No options have been offered at a discount.

The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any company.

(b) Performance Share Plan

Under the Performance Share Plan ("SCM PSP 2010"), 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.

The performance levels were calibrated based on Wealth Added and Total Shareholder Return. For awards granted from 2014 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, SCM PSP 2010 has in place a plan trigger. Under this trigger mechanism, the performance shares for the performance period 2017 to 2019 will be vested to the senior management participants only if the restricted shares for the performance period 2018 to 2019 are vested, subject to the achievement of the performance conditions for the respective performance periods.

DIRECTORS' STATEMENT

Year ended 31 December 2017

SHARE-BASED INCENTIVE PLANS (CONT'D)

(b) Performance Share Plan (cont'd)

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	Movements during the year: Performance shares lapsed arising from targets not met	At 31 December
2017				
Director of the Company				
Wong Weng Sun	1,513,000	550,000	(500,000)	1,563,000
Key executives of the Group	3,000,000	1,050,000	(880,000)	3,170,000
	4,513,000	1,600,000	(1,380,000)	4,733,000
2016				
Director of the Company				
Wong Weng Sun	1,125,000	638,000	(250,000)	1,513,000
Key executives of the Group	2,075,000	1,280,000	(355,000)	3,000,000
	3,200,000	1,918,000	(605,000)	4,513,000

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2014 to 2016 (2016: performance period 2013 to 2015), there were no (2016: nil) performance shares released via the issuance of treasury shares.

In 2017, there were 1,380,000 (2016: 605,000) performance shares that lapsed for under-achievement of the performance targets for the performance period 2014 to 2016 (2016: 2013 to 2015).

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 2017, was 4,733,000 (2016: 4,513,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 7,099,500 (2016: 6,769,500) performance shares.

DIRECTORS' STATEMENT

Year ended 31 December 2017

SHARE-BASED INCENTIVE PLANS (CONT'D)

(c) Restricted Share Plan

Under the Restricted Share Plan ("SCM RSP 2010"), the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria for the restricted shares are calibrated based on Return on Capital Employed and Earnings Before Interest and Taxes for awards granted in 2017 and 2016.

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 managerial participants of the Group will be awarded restricted shares under the SCM RSP 2010, 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 two-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset. There is a further vesting 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 two-year performance cycle, with no further vesting conditions.

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 2010.

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 2017 and 2016, 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.

The actual number of shares to be 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 Annual General Meeting ("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.

DIRECTORS' STATEMENT

Year ended 31 December 2017

SHARE-BASED INCENTIVE PLANS (CONT'D)

(c) Restricted Share Plan (cont'd)

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	Movements during the year: Restricted shares lapsed arising from targets not met	Movements during the year: Conditional restricted shares released	Movements during the year: Conditional restricted shares lapsed	At 31 December
2017						
Directors of the Company						
Tan Sri Mohd Hassan Marican	–	104,200	–	(104,200)	–	–
Wong Weng Sun	374,600	181,000	(108,375)	(49,725)	–	397,500
Ajaib Haridass	–	49,000	–	(49,000)	–	–
Ron Foo Siang Guan	–	44,300	–	(44,300)	–	–
Lim Ah Doo	–	53,300	–	(53,300)	–	–
Koh Chiap Khiong	–	40,800	–	(40,800)	–	–
Gina Lee-Wan	–	26,900	–	(26,900)	–	–
Bob Tan Beng Hai	–	37,300	–	(37,300)	–	–
Former director of the Company	–	44,300	–	(44,300)	–	–
Other executives	13,341,542	7,595,350	(3,814,942)	(1,337,117)	(798,920)	14,985,913
	13,716,142	8,176,450	(3,923,317)	(1,786,942)	(798,920)	15,383,413
2016						
Directors of the Company						
Tan Sri Mohd Hassan Marican	–	111,800	–	(111,800)	–	–
Wong Weng Sun	307,700	191,000	(46,750)	(77,350)	–	374,600
Ajaib Haridass	–	65,700	–	(65,700)	–	–
Tang Kin Fei	–	54,600	–	(54,600)	–	–
Ron Foo Siang Guan	–	50,000	–	(50,000)	–	–
Lim Ah Doo	–	143,300	–	(143,300)	–	–
Koh Chiap Khiong	–	44,100	–	(44,100)	–	–
Gina Lee-Wan	–	22,600	–	(22,600)	–	–
Bob Tan Beng Hai	–	24,200	–	(24,200)	–	–
Other executives	9,793,885	7,525,400	(1,425,217)	(2,078,148)	(474,378)	13,341,542
	10,101,585	8,232,700	(1,471,967)	(2,671,798)	(474,378)	13,716,142

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016, a total of 266,891 (2016: Nil) restricted shares were released. For awards in relation to the performance period 2014 to 2015, a total of 386,942 (2016: 461,541) restricted shares were released. For awards in relation to the performance period 2013 to 2014, a total of 733,009 (2016: 845,290) restricted shares were released. In 2016, 848,667 restricted shares were released for awards in relation to the performance period 2012 to 2013. In 2017, there were 400,100 (2016: 516,300) restricted shares released to non-executive directors. The restricted shares were released via the issuance of treasury shares.

DIRECTORS' STATEMENT
Year ended 31 December 2017

SHARE-BASED INCENTIVE PLANS (CONT'D)

(c) Restricted Share Plan (cont'd)

In 2017, there were 3,923,317 (2016: 1,471,967) restricted shares that lapsed for under-achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015).

The total number of restricted shares outstanding, including awards achieved but not released, as at 31 December 2017, was 15,383,413 (2016: 13,716,142). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 14,674,000 (2016: 12,239,840). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 22,011,000 (2016: 18,359,760) restricted shares.

Sembcorp Marine Challenge Bonus

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015), a total of $454,284 (2016: $766,416), equivalent to 248,950 (2016: 456,064) notional restricted shares, were paid.

A total of 3,074,000 (2016: 3,387,850) notional restricted shares were awarded on 26 May 2017 (2016: 27 May 2016) for the Sembcorp Marine Challenge Bonus.

The total number of notional restricted shares in awards for the Sembcorp Marine Challenge Bonus granted conditionally and representing 100% of targets to be achieved, but not released as at 31 December 2017, was 5,230,850 (2016: 4,827,393). Based on the multiplying factor, the number of notional restricted shares to be converted into the funding pool could range from zero to a maximum of 7,846,275 (2016: 7,241,090).

(d) 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 15% 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:

Ron Foo Siang Guan	Chairman
Lim Ah Doo	
Koh Chiap Khiong	
Bob Tan Beng Hai	

The Audit Committee held four 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 Singapore Companies Act, Chapter 50, the Listing Manual of the Singapore Exchange, and the Code of Corporate Governance.

DIRECTORS' STATEMENT

Year ended 31 December 2017

AUDIT COMMITTEE (CONT'D)

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the external and internal auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption;
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange);
- internal audit plans and internal audit reports; and
- whistle-blowers' disclosures.

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 and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting 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 of the Singapore Exchange.

AUDITORS

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

On behalf of the Board of Directors

Tan Sri Mohd Hassan Marican
Chairman

Wong Weng Sun
Director

Singapore
21 February 2018

INDEPENDENT AUDITORS' REPORT

Members of the Company
Sembcorp Marine Ltd

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 2017, 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 178 to 287.

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") and Financial Reporting Standards in Singapore ("FRSs") 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 2017 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 and intangible assets (the "shipyard assets")
(Refer to Notes 4, 11 and 41 to the financial statements: Property, plant and equipment of $3,995,019,000 and Intangible assets of $179,201,000)

Risk:

The Group's shipyard assets were subject to impairment test assessments, owing to the continuing difficult market conditions impacting the offshore and marine sector.

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 (Brazil cash generating unit). Such shipyard assets are measured at cost less accumulated depreciation and impairment loss. An impairment loss exists when the net carrying amount of the shipyard assets is in excess of the fair value or recoverable amount. As the fair values of these shipyard assets are not readily determinable, the Group measures the recoverable amount using the discounted cash flow technique.

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. The forecast order book includes a diversified portfolio of long-term contracts whose initial contract pricing takes into account prevailing market conditions and the outlook of the oil and gas industry, which are inherently subject to estimation uncertainties.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Sembcorp Marine Ltd

As the Brazil cash generating unit is not yet fully operational, and 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 would 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, however, can also be significantly impacted by political risk.

The outcome of the shipyard assets impairment tests for the Singapore cash generating unit and Brazil cash generating unit reveals that the recoverable amounts are in excess of the net carrying amounts attributable to these cash generating units.

Our response:

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

We 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 built from the Group's past and actual experiences, prevailing industry trends, and industry analysts' reports. We compared the discount rates to market observable data including market and country risk premiums and any asset-specific risk premium.

We also reviewed available qualitative information from industry analysts, 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.

Our findings:

The Group has a process for identifying and reviewing the cash generating units for impairment testing. The impairment test assessments incorporated the relevant considerations. The disclosures describing the inherent degree of estimation uncertainty and the sensitivity of the assumptions applied are appropriate.

Recognition of revenue and recoverability of contract work-in-progress
(Refer to Notes 13, 23 and 41 to the financial statements: Revenue of $2,387,354,000 and Contract work-in-progress of $1,818,811,000)

Risk:

One of the Group's significant revenue streams is derived from long-term construction contracts. The accounting for long-term construction contracts and the determination of percentage of completion is complex. Revenue is recognised based upon management's estimation of the value of the project activities completed. There are also estimation uncertainties associated with the costs to complete the projects.

During the year, several contracts previously concluded with the original customers under modified terms (the "original contracts") were terminated, and re-sold to another customer (the "new contracts"), with relevant adjustments recorded. Such adjustments took into account the terms and conditions, including the contract prices and payment terms and delivery dates, stipulated in these new contracts.

As at the reporting date, there were also certain contracts subject to deferral in delivery or scope variations (the "contract modifications"). The contract provisions required involve management judgement.

In relation to certain contracts with customers that have filed for bankruptcy protection and are undergoing financial restructuring, revenues from these contracts continue to be suspended, with no additional adjustments recorded for the current year, following those contract provisions recorded in the previous years. As at the date of this report, the outcome arising from the bankruptcy protection filing and consequential restructuring remains a highly judgemental matter. Accordingly, there is a risk of a material adjustment to the carrying amounts of these contracts depending on events and circumstances that may occur in future periods.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Sembcorp Marine Ltd

The recoverability of amounts receivable from customers, contract work-in-progress on construction contracts, together with the corresponding contract revenues and costs recognised are therefore based on management's evaluation and best estimate of the ultimate realisation of these balances.

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 and customer's approval of project's stage of completion and milestones achieved) used in determining the amounts of revenue and costs recognised in the financial statements.
- We reviewed the original contracts and the reversal adjustments on revenue and cost of sales recorded on contract terminations.
- We reviewed the terms and conditions of new contracts, and the contract modifications to identify the relevant adjustments on revenue recognition and contract provisions.
- We reviewed the contractual terms and work status of the customer contracts, 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.
- We reviewed the re-forecast of each contract subject to any modifications and analysed current on-going negotiations and settlements that may impair the profitability of such contracts as well as the collectability of significant contracts by reference to the recent credit review assessment of each customer prepared by management.
- We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition and contract work-in-progress.

Our findings:

The Group has a process to determine the amounts of revenue and costs recognised in the financial statements.

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

The reversal adjustments on revenue and cost of sales on those terminated contracts were according to the terms of the original contracts.

The relevant adjustments on revenue and contract provisions for the new contracts and contracts with modifications were appropriately considered.

The judgements applied on those contracts belonging to customers undergoing financial restructuring were relevant under the facts and circumstances currently made available to the Group.

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

INDEPENDENT AUDITORS' REPORT

Members of the Company
Sembcorp Marine Ltd

Litigation, claims and other contingencies

Risk:

The Group is subject to operational, business and political risks in some of the 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.

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 reviewed the terms of reference of Ad-hoc Committees 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:

- Assessment of the progress of all significant contingencies, including reviewing the Group's public announcements and the underlying basis for the announcements made;

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

- Holding discussions with management, the Group's in-house legal counsel and Ad-hoc Committee, and reviewing pertinent correspondence between the parties involved and relevant reports issued by third parties;

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

- Involvement of specialists to look into any on-going investigation work commissioned by the Ad-hoc Committee to support management's conclusions.

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, we found the liabilities recognised and disclosures on contingencies to be appropriate.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Sembcorp Marine Ltd

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 Report
- Group Financial Review
- Operations Review
- Directors' Statement

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

- 2017 Highlights
- Our Integrated Global Platform
- Significant Events
- Awards and Accolades
- Board of Directors
- Senior Management
- Corporate Structure
- Corporate Directory
- Shareholders' Information
- Investor Relations
- Approach to Sustainability
- Board Statement on Sustainability Report
- Corporate Governance
- Risk Management
- Sustaining Competitiveness
- Environmental Sustainability
- Human Capital
- Total Workplace Safety and Health
- Community Engagement
- SGX Sustainability Reporting Index
- GRI Standards: Core option content index
- Independent Practitioner's Limited Assurance Report on Sustainability Information of Sembcorp Marine Ltd
- 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.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Sembcorp Marine Ltd

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 and FRSs, 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.

- 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.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Sembcorp Marine Ltd

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 Kenny Tan Choon Wah.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
21 February 2018

BALANCE SHEETS

As at 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Non-current assets					
Property, plant and equipment	4	3,995,019	3,986,667	79,418	90,497
Investment properties	5	–	–	17,190	19,006
Investments in subsidiaries	6	–	–	1,483,520	964,886
Interests in associates and joint ventures	7	67,965	74,816	–	–
Other financial assets	8	46,150	67,783	18,894	40,612
Trade and other receivables	9	168,740	53,095	31,725	36,605
Intangible assets	11	179,201	202,125	184	184
Deferred tax assets	12	5,889	12,042	–	–
		4,462,964	4,396,528	1,630,931	1,151,790
Current assets					
Inventories and work-in-progress	13	2,775,847	3,066,884	–	–
Trade and other receivables	9	566,874	491,968	117,283	61,099
Tax recoverable		11,192	8,530	846	5,536
Assets held for sale	14	–	182,215	–	107,369
Other financial assets	8	33,571	51,737	–	–
Cash and cash equivalents	15	1,301,000	1,216,971	55,126	24,482
		4,688,484	5,018,305	173,255	198,486
Total assets		9,151,448	9,414,833	1,804,186	1,350,276
Current liabilities					
Trade and other payables	16	2,061,446	2,120,447	26,433	23,890
Excess of progress billings over work-in-progress	13	174,356	193,403	–	–
Provisions	18	27,755	15,337	6,771	6,771
Other financial liabilities	19	1,449	18,317	–	–
Current tax payable		24,868	36,817	–	–
Interest-bearing borrowings	20	852,737	1,363,961	474	–
		3,142,611	3,748,282	33,678	30,661
Net current assets		1,545,873	1,270,023	139,577	167,825
Non-current liabilities					
Deferred tax liabilities	12	61,545	85,673	11,070	12,963
Provisions	18	70,014	65,279	18,036	18,036
Other financial liabilities	19	5,713	26,397	–	–
Interest-bearing borrowings	20	3,247,386	2,791,014	1,394	–
Other long-term payables	16	104,807	90,567	6,779	6,324
		3,489,465	3,058,930	37,279	37,323
Total liabilities		6,632,076	6,807,212	70,957	67,984
Net assets		2,519,372	2,607,621	1,733,229	1,282,292
Equity attributable to owners of the Company					
Share capital	21	484,288	484,288	484,288	484,288
Other reserves	22	(25,724)	54,905	(27,831)	(21,459)
Revenue reserve		2,019,609	2,022,796	1,276,772	819,463
		2,478,173	2,561,989	1,733,229	1,282,292
Non-controlling interests	30	41,199	45,632	–	–
Total equity		2,519,372	2,607,621	1,733,229	1,282,292

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Turnover	23	2,387,354	3,544,816
Cost of sales		(2,326,848)	(3,252,063)
Gross profit		60,506	292,753
Other operating income		63,705	55,623
Other operating expenses		(5,021)	(9,083)
General and administrative expenses		(98,737)	(113,987)
Operating profit	24	20,453	225,306
Finance income	25	11,548	7,922
Finance costs	25	(95,522)	(88,651)
Non-operating income	26	64,803	4,429
Non-operating expenses	26	(13,309)	(23,352)
Share of results of associates and joint ventures, net of tax	27	(3,617)	(35,134)
(Loss)/profit before tax		(15,644)	90,520
Tax credit/(expense)	28	25,592	(15,360)
Profit for the year		9,948	75,160
Profit attributable to:			
Owners of the Company		14,076	78,777
Non-controlling interests	30	(4,128)	(3,617)
Profit for the year		9,948	75,160
Earnings per share (cents)	31		
Basic		0.67	3.77
Diluted		0.67	3.77

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Profit for the year		9,948	75,160
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(62,451)	9,320
Net change in fair value of cash flow hedges		30,498	50,749
Net change in fair value of cash flow hedges transferred to profit or loss		(1,347)	2,632
Net change in fair value of available-for-sale financial assets		30,791	(20,011)
Change in fair value of available-for-sale financial assets transferred to profit or loss	8	(32,299)	8,978
Realisation of reserve upon disposal of assets held for sale		(20,484)	–
Realisation of reserve upon disposal of a subsidiary		(217)	–
Other comprehensive income for the year, net of tax	29	(55,509)	51,668
Total comprehensive income for the year		(45,561)	126,828
Total comprehensive income attributable to:			
Owners of the Company		(41,407)	134,854
Non-controlling interests	30	(4,154)	(8,026)
Total comprehensive income for the year		(45,561)	126,828

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	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	Fair value reserve $'000	Revenue reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Group											
At 1 January 2017	484,288	(566)	11,514	65,394	(30,158)	6,766	1,955	2,022,796	2,561,989	45,632	2,607,621
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	14,076	14,076	(4,128)	9,948
Other comprehensive income											
Foreign currency translation differences for foreign operations	–	–	–	(62,579)	–	–	–	–	(62,579)	128	(62,451)
Net change in fair value of cash flow hedges	–	–	–	–	–	30,498	–	–	30,498	–	30,498
Net change in fair value of cash flow hedges transferred to profit or loss	–	–	–	–	–	(1,347)	–	–	(1,347)	–	(1,347)
Net change in fair value of available-for-sale financial assets	–	–	–	–	–	–	30,791	–	30,791	–	30,791
Change in fair value of available-for-sale financial assets transferred to profit or loss	–	–	–	–	–	–	(32,299)	–	(32,299)	–	(32,299)
Realisation of reserve upon disposal of assets held for sale	–	–	–	(20,484)	–	–	–	–	(20,484)	–	(20,484)
Realisation of reserve upon disposal of a subsidiary (Note 34)	–	–	–	(63)	–	–	–	–	(63)	(154)	(217)
Total other comprehensive income for the year	–	–	–	(83,126)	–	29,151	(1,508)	–	(55,483)	(26)	(55,509)
Total comprehensive income for the year	–	–	–	(83,126)	–	29,151	(1,508)	14,076	(41,407)	(4,154)	(45,561)
Transactions with owners of the Company, recognised directly in equity											
Contributions by and distributions to owners of the Company											
Purchase of treasury shares	–	(5,942)	–	–	–	–	–	–	(5,942)	–	(5,942)
Issue of treasury shares	–	3,057	–	–	(2,370)	–	–	–	687	–	687
Dividends paid to											
– owners of the Company (Note 32)	–	–	–	–	–	–	–	(41,794)	(41,794)	–	(41,794)
– non-controlling interests	–	–	–	–	–	–	–	–	–	(279)	(279)
Unclaimed dividends	–	–	–	–	–	–	–	6	6	–	6
Share-based payments	–	–	–	–	4,634	–	–	–	4,634	–	4,634
Transfer of reserves	–	–	(24,525)	–	–	–	–	24,525	–	–	–
Total contributions by and distributions to owners of the Company	–	(2,885)	(24,525)	–	2,264	–	–	(17,263)	(42,409)	(279)	(42,688)
At 31 December 2017	484,288	(3,451)	(13,011)	(17,732)	(27,894)	35,917	447	2,019,609	2,478,173	41,199	2,519,372

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	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	Fair value reserve $'000	Revenue reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Group											
At 1 January 2016	484,288	(3,149)	25,574	50,903	(29,931)	(46,615)	12,988	2,017,147	2,511,205	153,074	2,664,279
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	78,777	78,777	(3,617)	75,160
Other comprehensive income											
Foreign currency translation differences for foreign operations	–	–	–	13,729	–	–	–	–	13,729	(4,409)	9,320
Net change in fair value of cash flow hedges	–	–	–	–	–	50,749	–	–	50,749	–	50,749
Net change in fair value of cash flow hedges transferred to profit or loss	–	–	–	–	–	2,632	–	–	2,632	–	2,632
Net change in fair value of available-for-sale financial assets	–	–	–	–	–	–	(20,011)	–	(20,011)	–	(20,011)
Change in fair value of available-for-sale financial assets transferred to profit or loss on impairment	–	–	–	–	–	–	8,978	–	8,978	–	8,978
Total other comprehensive income for the year	–	–	–	13,729	–	53,381	(11,033)	–	56,077	(4,409)	51,668
Total comprehensive income for the year	–	–	–	13,729	–	53,381	(11,033)	78,777	134,854	(8,026)	126,828
Transactions with owners of the Company, recognised directly in equity											
Contributions by and distributions to owners of the Company											
Purchase of treasury shares	–	(2,990)	–	–	–	–	–	–	(2,990)	–	(2,990)
Issue of treasury shares	–	5,573	–	–	(4,740)	–	–	–	833	–	833
Dividends paid to											
– owners of the Company (Note 32)	–	–	–	–	–	–	–	(73,140)	(73,140)	–	(73,140)
– non-controlling interests	–	–	–	–	–	–	–	–	–	(558)	(558)
Unclaimed dividends	–	–	–	–	–	–	–	12	12	–	12
Share-based payments	–	–	–	–	4,513	–	–	–	4,513	–	4,513
Acquisition of subsidiaries with non-controlling interests (Note 35)	–	–	–	–	–	–	–	–	–	44,897	44,897
Acquisition of non-controlling interests	–	–	(14,060)	762	–	–	–	–	(13,298)	(143,755)	(157,053)
Total contributions by and distributions to owners of the Company	–	2,583	(14,060)	762	(227)	–	–	(73,128)	(84,070)	(99,416)	(183,486)
At 31 December 2016	484,288	(566)	11,514	65,394	(30,158)	6,766	1,955	2,022,796	2,561,989	45,632	2,607,621

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Group	
	2017	2016
	$'000	$'000
Cash flows from operating activities		
Profit for the year	9,948	75,160
Adjustments for:		
Finance income	(11,548)	(7,922)
Finance costs	95,522	88,651
Depreciation of property, plant and equipment	170,048	140,591
Amortisation of intangible assets	22,868	18,354
Share of results of associates and joint ventures, net of tax	3,617	35,134
Loss/(gain) on disposal of property, plant and equipment, net	863	(28)
Loss on disposal of intangible assets	13	–
Gain on disposal of subsidiaries	(753)	–
Gain on disposal of an investment in a joint venture	–	(186)
Gain on disposal of assets held for sale	(46,816)	–
Gain on deemed disposal of available-for-sale financial asset	–	(4,243)
Gain on disposal of available-for-sale financial assets	(17,200)	–
Negative goodwill	–	(2,600)
Assumption of liabilities on behalf of a joint venture	11,000	–
Fair value adjustment on hedging instruments	(1,623)	(1,435)
Fair value adjustment on firm commitments under fair value hedge	3,454	(4,146)
Impairment losses on available-for-sale financial assets	2,275	21,232
Impairment losses on investment in associates	–	2,120
Share-based payment expenses	6,149	4,279
Property, plant and equipment written off	500	45
Inventories written back, net	–	(1,162)
Reversal of contract costs (net) on termination, net of write-down of inventories and foreseeable loss on contract work-in-progress	(19,622)	–
Allowance for doubtful debts and bad debts, net	167	5,231
Tax (credit)/expense	(25,592)	15,360
Operating profit before working capital changes	203,270	384,435
Changes in working capital:		
Inventories and work-in-progress	292,207	672,680
Trade and other receivables	(175,636)	101,284
Trade and other payables	(175,895)	(489,553)
Cash generated from operations	143,946	668,846
Investment and interest income received	11,392	7,867
Interest paid	(93,081)	(80,244)
Tax paid	(12,610)	(27,956)
Net cash generated from operating activities	49,647	568,513
Cash flows from investing activities		
Purchase of property, plant and equipment (Note (a))	(177,892)	(421,388)
Proceeds from sale of property, plant and equipment	1,482	103
Proceeds from sale of intangible assets	42	–
Acquisition of subsidiaries, net of cash acquired (Note 35)	–	(66,392)
Acquisition of a joint venture	–	(3,258)
Proceeds from divestment of asset held for sale	205,690	–
Proceeds from disposal of a subsidiary	50	–
Proceeds from disposal of a joint venture	–	450
Proceeds from disposal of available-for-sale financial assets	36,033	–
Net cash generated from/(used in) investing activities	65,405	(490,485)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Group	
	2017	**2016**
	$'000	**$'000**
Cash flows from financing activities		
Proceeds from borrowings	465,809	1,604,908
Repayment of borrowings	(441,039)	(836,847)
Repayment of finance lease	(512)	–
Purchase of treasury shares	(5,942)	(2,990)
Acquisition of non-controlling interests	–	(157,011)
Dividends paid to owners of the Company	(41,794)	(73,140)
Dividends paid to non-controlling interests of subsidiaries	(279)	(558)
Unclaimed dividends	6	12
Net cash (used in)/generated from financing activities	(23,751)	534,374
Net increase in cash and cash equivalents	91,301	612,402
Cash and cash equivalents at beginning of the year	1,216,971	627,282
Effect of exchange rate changes on balances held in foreign currencies	(7,272)	(22,713)
Cash and cash equivalents at end of the year (Note 15)	1,301,000	1,216,971

(a) During the year, purchase of property, plant and equipment includes payment of $1,373,000 on prior year's accrued capital expenditure for the Brazil yard (2016: includes payment of $1,509,000 on 2015's accrued capital expenditure for the Brazil yard).

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 21 February 2018.

1. DOMICILE AND ACTIVITIES

Sembcorp Marine Ltd (the "Company") is a company incorporated in the Republic of Singapore and has its registered office at 29 Tanjong Kling Road, Singapore 628054.

With the adoption of FRS 110 on 1 January 2014, the immediate holding company, Sembcorp Industries Ltd ("SCI"), a company incorporated in Singapore, has been assessed to be a subsidiary of Temasek Holdings (Private) Limited, a company incorporated in Singapore. As such, the Company's immediate holding company is SCI and the ultimate holding company is Temasek Holdings (Private) Limited.

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 42.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS").

2.2 Basis of measurement

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

2.3 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.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with FRS 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 41.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

2. BASIS OF PREPARATION (CONT'D)

2.5 Changes in accounting policies

The Group has applied the following amendments for the first time for the annual period beginning on 1 January 2017:

- *Disclosure Initiative (Amendments to FRS 7);*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to FRS 12); and*
- *Clarification of the scope of FRS 112 (Improvements to FRSs 2016).*

From 1 January 2017, as a result of the amendments to FRS 7, the Group has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the year ended 31 December 2017. Comparative information has not been presented (see Note 20).

Other than the amendments to FRS 7, the adoption of these amendments did not have any significant impact on the current or prior period and is not likely to affect future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these financial statements.

3.1 Basis of consolidation

(i) Business combinations

Acquisitions on or after 1 January 2010

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Basis of consolidation (cont'd)

(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 FRSs.

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.

(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 an available-for-sale financial asset depending on the level of influence retained.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Basis of consolidation (cont'd)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.
- 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.

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:

- Available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);
- 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Foreign currencies (cont'd)

(ii) Foreign operations (cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Property, plant and equipment (cont'd)

(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) Leasehold land

Operating leasehold land has been capitalised as part of property, plant and equipment and is depreciated over the lease period in which the future economic benefits embodied in the assets are expected to be consumed.

(v) 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.

(vi) 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Property, plant and equipment (cont'd)

(vii) 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 25 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.

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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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, a bargain purchase gain 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 life of 10 years.

(iii) 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.

(iv) 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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets 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 derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Financial assets (cont'd)

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 assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The designation of financial assets at fair value through profit or loss is irrevocable.

(i) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise unquoted securities that otherwise would have been classified as available-for-sale.

(ii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date for which they are classified as non-current assets. Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Receivables with a short duration are not discounted. Loans and receivables are included in trade and other receivables in the balance sheet.

Loans and receivables comprise cash and cash equivalents, work-in-progress due from customers on construction contracts, trade and other receivables excluding prepayments and advances to suppliers.

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.

(iii) Available-for-sale financial assets

Other financial assets held by the Group that are either designated in this category or not classified in any other category, are classified as being available-for-sale. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. They are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences, are recognised directly in other comprehensive income. When these investments are derecognised, the cumulative gain or loss previously recognised directly in other comprehensive income, or part thereof, is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Available-for-sale financial assets comprise equity shares and unit trusts.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.7 Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the value of the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the excess of acquisition cost less any impairment loss on that financial asset previously recognised in profit or loss, over its current fair value.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The decrease in impairment loss is reversed through profit or loss.

An impairment loss once recognised in profit or loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. Any subsequent increase in fair value of such assets is recognised directly in other comprehensive income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 as trading instruments.

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 is 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

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, of 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 values 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.

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. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.10 Inventories and work-in-progress

(i) *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.

(ii) *Long-term contracts*

The accounting policy for recognition of contract revenue is set out in Note 3.19(i).

Long-term contracts-in-progress at the balance sheet date are recorded in the balance sheet at cost plus attributable profit less recognised losses, net of progress billings and allowance for foreseeable losses, and are presented in the balance sheet as 'inventories and work-in-progress' (as an asset) or 'excess of progress billings over work-in-progress' (as a liability), as applicable. Work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work completed to date. This comprises mainly uncompleted ship and rig repair, building and conversion jobs. It is measured at cost plus profit recognised to date less progress billings and recognised losses. The amount due from customers on construction contracts are classified as financial assets. Long-term contract costs includes the cost of direct materials, direct labour, sub-contractors' costs and an appropriate allocation of fixed and variable production overheads. Allowance is made for anticipated losses, if any, on work-in-progress when the possibility of loss is ascertained. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Progress billings not yet paid by the customer are included in the balance sheet under 'trade and other receivables'.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

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.

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".

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 Employee benefits (cont'd)

(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

Share Option Plan

The share option programme allows the Group's employees to acquire shares of the Group companies. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in employee expense and in a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when new shares are issued. The amount in the share-based payments reserve is retained when the option is exercised or expires.

Where treasury shares are issued, the difference between the cost of treasury shares and the proceeds received net of any directly attributable costs are transferred to share-based payments reserve.

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 2017

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 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 options, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 recognition

(i) Contract revenue

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

Revenue from ship and rig repair, building, conversion and offshore is recognised on the percentage of completion method, provided the outcome of the contract can be reliably estimated. The percentage of completion is assessed by reference to surveys of work performed.

When the outcome of a contract can be estimated reliably, contract revenue and costs are recognised as income and expense respectively using the percentage of completion method. When the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that can probably be recovered and contract costs are recognised as an expense in the period in which they are incurred. An expected loss on a contract is recognised immediately in profit or loss when it is foreseeable.

(ii) Income on goods sold and services rendered

Revenue from goods sold is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue on other service work is recognised when the work is completed. Revenue excludes goods and services or other sales taxes and is after deduction of any trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.21 Leases

(i) Operating lease

When entities within the Group are lessees of an operating lease

Where the Group has the use of assets under operating leases, payments made under the leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments made.

When entities within the Group are lessors of an operating lease

Assets subject to operating leases are included in investment properties and are measured at cost less accumulated depreciation and impairment losses. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(ii) Finance lease

When entities within the Group are lessors of a finance lease

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.

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, which comprise awards of share options granted to employees.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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).

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Year ended 31 December 2017

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[4] $'000
Group								
Cost								
Balance at 1 January 2016	343,276	890,042	975,759	1,174,580	287,169	884,403	110,179	4,665,408
Translation adjustments	33,306	2,646	90,037	22,063	4,924	18,609	1,112	172,697
Additions	130	20,496	366,145	4,317	336	22,173	6,282	419,879
Reclassifications	(229,581)	5,692	(196,919)	19,103	1,035	352,940	47,730	–
Disposals/write-offs	–	(2)	–	(21)	(171)	(10,653)	(1,827)	(12,674)
Acquisition of subsidiaries	321	15	–	–	–	7	138	481
Balance at 31 December 2016	147,452	918,889	1,235,022	1,220,042	293,293	1,267,479	163,614	5,245,791
Balance at 1 January 2017	147,452	918,889	1,235,022	1,220,042	293,293	1,267,479	163,614	5,245,791
Translation adjustments	580	(9,144)	4,968	3,011	(14,364)	(4,553)	(1,358)	(20,860)
Additions	451	15,230	166,770	–	29	5,779	5,196	193,455
Reclassifications	18,749	52,273	(568,451)	283,777	8	211,329	2,315	–
Transfer to prepayment	–	–	(595)	–	–	–	–	(595)
Disposals/write-offs	–	(179)	–	(2,302)	–	(3,360)	(1,791)	(7,632)
Disposal of subsidiaries	(1,688)	(1,335)	–	–	–	(2,264)	(233)	(5,520)
Balance at 31 December 2017	165,544	975,734	837,714	1,504,528	278,966	1,474,410	167,743	5,404,639

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Land and buildings		Construction-in-progress[1]	Docks and quays	Marine vessels[2]	Plant, machinery and tools	Others[3]	Total[4]
	Freehold $'000	Leasehold $'000	$'000	$'000	$'000	$'000	$'000	$'000
Group								
Accumulated depreciation and impairment losses								
Balance at 1 January 2016	7,296	229,505	–	354,003	38,682	413,355	82,012	1,124,853
Translation adjustments	728	1,121	–	692	744	2,476	473	6,234
Depreciation for the year	11,234	28,742	–	25,149	11,628	51,564	12,274	140,591
Reclassifications	(9,627)	(254)	–	(150,853)	–	157,730	3,004	–
Disposals/write-offs	–	(2)	–	(2)	(162)	(10,574)	(1,814)	(12,554)
Balance at 31 December 2016	9,631	259,112	–	228,989	50,892	614,551	95,949	1,259,124
Balance at 1 January 2017	9,631	259,112	–	228,989	50,892	614,551	95,949	1,259,124
Translation adjustments	(66)	(3,554)	–	(71)	(1,996)	(3,965)	(1,130)	(10,782)
Depreciation for the year	5,404	38,245	–	38,482	11,388	59,068	17,461	170,048
Reclassifications	160	(160)	–	–	(205)	221	(16)	–
Disposals/write-offs	–	(87)	–	(476)	–	(2,504)	(1,720)	(4,787)
Disposal of subsidiaries	(611)	(1,237)	–	–	–	(1,948)	(187)	(3,983)
Balance at 31 December 2017	14,518	292,319	–	266,924	60,079	665,423	110,357	1,409,620
Carrying amounts								
At 1 January 2016	335,980	660,537	975,759	820,577	248,487	471,048	28,167	3,540,555
At 31 December 2016	137,821	659,777	1,235,022	991,053	242,401	652,928	67,665	3,986,667
At 31 December 2017	151,026	683,415	837,714	1,237,604	218,887	808,987	57,386	3,995,019

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Year ended 31 December 2017

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 2016	160,505	2,240	32,110	194,855
Additions	–	–	4,609	4,609
Disposals	–	–	(123)	(123)
Balance at 31 December 2016	160,505	2,240	36,596	199,341
Balance at 1 January 2017	160,505	2,240	36,596	199,341
Additions	–	–	2,540	2,540
Balance at 31 December 2017	160,505	2,240	39,136	201,881
Accumulated depreciation				
Balance at 1 January 2016	91,633	1,636	7,096	100,365
Depreciation for the year	7,098	67	1,437	8,602
Disposals	–	–	(123)	(123)
Balance at 31 December 2016	98,731	1,703	8,410	108,844
Balance at 1 January 2017	98,731	1,703	8,410	108,844
Depreciation for the year	6,927	67	6,625	13,619
Balance at 31 December 2017	105,658	1,770	15,035	122,463
Carrying amounts				
At 1 January 2016	68,872	604	25,014	94,490
At 31 December 2016	61,774	537	28,186	90,497
At 31 December 2017	54,847	470	24,101	79,418

The property, plant and equipment comprise mainly shipyards 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 certain intangible assets were tested for impairment and described in Note 41.

(1) During the year, interest charge of $53,288,000 (2016: $117,250,000) was capitalised as construction-in-progress.

(2) The existing 5-year time charter contract of the Group's marine accommodation vessel expires within the next 12 months. 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 took into account: (i) the existing charter rates over the remaining contractual period through 2018; and (ii) the expected renewal rates based on on-going discussions with existing charterer and prevailing market conditions. The renewal rates have been adjusted assuming a certain level of discount from the current contractual rates but factored another 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 utilisation rate is assumed to be at 95% 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 weighted average cost of capital determined to be at 9.55% (2016: 9.55%). Based on the Group's assessment of the recoverable amount of the marine accommodation vessel, no additional impairment loss (2016: Nil) was recognised in the current year's profit or loss.

(3) Others comprise motor vehicles, furniture and office equipment, utilities and fittings, and computer equipment.

(4) Includes provision for restoration costs amounting to $75,988,000 (2016: $61,049,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

5. INVESTMENT PROPERTIES

	Company 2017 $'000	Company 2016 $'000
Cost		
Balance at 1 January and 31 December	62,664	62,664
Accumulated depreciation		
Balance at 1 January	43,658	41,931
Depreciation for the year	1,816	1,727
Balance at 31 December	45,474	43,658
Carrying amounts		
At 31 December	17,190	19,006

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 at the Group.

The following amounts are recognised in profit or loss:

	Company 2017 $'000	Company 2016 $'000
Rental income	(27,299)	(27,546)
Operating expenses arising from rental of investment properties	21,939	23,248

6. INVESTMENTS IN SUBSIDIARIES

	Company 2017 $'000	Company 2016 $'000
Unquoted shares, at cost	1,498,771	980,137
Allowance for impairment loss	(15,251)	(15,251)
	1,483,520	964,886

Details of the Company's subsidiaries are set out in Note 42.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

7. INTERESTS IN ASSOCIATES AND JOINT VENTURES

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Interests in associates	4,922	5,425	–	–
Less: allowance for impairment loss	(2,120)	(2,120)	–	–
	2,802	3,305	–	–
Interests in joint ventures	65,163	71,511	–	–
	67,965	74,816	–	–

The impairment loss on investment in associates relates to one of the Group's associates whereby the Group independently and separately from the associate, performed an impairment analysis in accordance with FRS 28 *Investments in Associates and Joint Ventures* and FRS 36 *Impairment of Assets*. As at the reporting date, the Group continues to record an allowance of impairment loss of $1,778,000 (2016: $1,778,000) on this associate. The recoverable amount was estimated based on its value in use calculation. The Group applied the relief from royalty method to value the existing intellectual properties owned by the associate, and discounted the related cash flows at pre-tax discount rates of 20% to 22% (2016: 20% to 21%), depending on the life cycle of each intellectual property. These cash flows cover the projection periods ranging from 12 to 16 years, based on the remaining estimated useful life of the intellectual properties.

In 2017 and 2016, the Group did not receive dividends from its associates and joint ventures.

Associates

Subsequent to the disposal of Cosco Shipyard Group Co., Ltd (which was completed in January 2017), no individual associates are considered to be material to the Group as at 31 December 2017. All are equity accounted. The following table summarises, in aggregate, the carrying amount and share of profit or loss and other comprehensive income of individually immaterial associates that are accounted for using the equity method:

	2017 $'000	2016 $'000
Carrying amount of interests in immaterial associates	2,802	3,305
Group's share of:		
– Loss from continuing operations	(503)	(32,771)
– Other comprehensive income	–	–
Total comprehensive income	(503)	(32,771)

Joint ventures

The Group has a number of joint ventures that are individually immaterial to the Group. All are equity accounted. The following summarises the financial information of the Group's interest in immaterial joint ventures based on the financial statements prepared in accordance with FRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies.

Summarised financial information of joint ventures is as follows:

	2017 $'000	2016 $'000
Carrying amount	65,163	71,511
Loss for the year	(3,114)	(2,363)
Other comprehensive income	(3,234)	1,137
Total comprehensive income	(6,348)	(1,226)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

8. OTHER FINANCIAL ASSETS

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
(a) Non-current assets				
Available-for-sale financial assets:				
– Quoted equity shares, at fair value	18,200	51,667	18,200	40,075
– Unit trusts, at fair value	694	537	694	537
– Unquoted equity shares, at cost[1]	2,642	2,642	–	–
	21,536	54,846	18,894	40,612
Cash flow hedges:				
– Forward foreign currency contracts	24,614	12,514	–	–
– Interest rate swaps	–	423	–	–
	46,150	67,783	18,894	40,612
(b) Current assets				
Fair value hedges:				
– Firm commitments	692	4,146	–	–
Financial assets at fair value through profit or loss:				
– Forward foreign currency contracts	–	18,829	–	–
Cash flow hedges:				
– Forward foreign currency contracts	32,423	27,160	–	–
– Interest rate swaps	456	1,602	–	–
	33,571	51,737	–	–

(1) Unquoted equity securities which have no market prices and whose fair value cannot be reliably measured using other valuation techniques are stated at cost less impairment losses.

In 2016, the cumulative fair value loss of available-for-sale financial assets of $8,978,000, previously resided in equity was reclassified to profit or loss, when the available-for-sale financial assets were impaired.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

9. TRADE AND OTHER RECEIVABLES

	Note	Group 2017 Non-current $'000	Group 2017 Current $'000	Group 2017 Total $'000	Group 2016 Non-current $'000	Group 2016 Current $'000	Group 2016 Total $'000	Company 2017 Non-current $'000	Company 2017 Current $'000	Company 2017 Total $'000	Company 2016 Non-current $'000	Company 2016 Current $'000	Company 2016 Total $'000
Trade receivables		117,643	622,446	740,089	–	569,684	569,684	–	–	–	–	–	–
Amounts due from related parties	10	35,127	8,276	43,403	36,560	11,369	47,929	31,725	102,833	134,558	36,605	56,117	92,722
Staff loans	(a)	–	83	83	–	197	197	–	–	–	–	–	–
GST refundable		–	19,420	19,420	–	23,380	23,380	–	–	–	–	–	–
Interest receivable		–	374	374	–	218	218	–	17	17	–	9	9
Deposits		–	1,116	1,116	–	2,553	2,553	–	–	–	–	–	–
Sundry receivables		–	27,352	27,352	–	8,398	8,398	–	11,202	11,202	–	2,115	2,115
Unbilled receivables		–	22,344	22,344	–	15,869	15,869	–	–	–	–	–	–
Recoverable		–	8,873	8,873	–	13,262	13,262	–	–	–	–	–	–
		152,770	710,284	863,054	36,560	644,930	681,490	31,725	114,052	145,777	36,605	58,241	94,846
Allowance for doubtful receivables		–	(165,581)	(165,581)	–	(172,689)	(172,689)	–	–	–	–	–	–
		152,770	544,703	697,473	36,560	472,241	508,801	31,725	114,052	145,777	36,605	58,241	94,846
Prepayments and advances		15,970	22,171	38,141	16,535	19,727	36,262	–	3,231	3,231	–	2,858	2,858
		168,740	566,874	735,614	53,095	491,968	545,063	31,725	117,283	149,008	36,605	61,099	97,704

(a) Staff loans

Staff loans are unsecured and bear interest at 3.0% (2016: 3.0%) per annum.

The impairment losses on trade receivables are as follows:

	Gross 2017 $'000	Impairment 2017 $'000	Total 2017 $'000	Gross 2016 $'000	Impairment 2016 $'000	Total 2016 $'000
Group						
Trade receivables	740,089	(160,786)	579,303	569,684	(168,852)	400,832

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

10. AMOUNTS DUE FROM RELATED PARTIES

	Note	Associates and joint ventures 2017 $'000	Associates and joint ventures 2016 $'000	Related companies 2017 $'000	Related companies 2016 $'000	Total 2017 $'000	Total 2016 $'000
Group							
Amounts due from:							
– Trade	(a)	1,354	1,864	1,893	4,825	3,247	6,689
– Non-trade	(b)	255	843	–	–	255	843
– Loans and advances	(c)	35,127	36,560	–	–	35,127	36,560
		36,736	39,267	1,893	4,825	38,629	44,092
Amount due within 1 year	9	(1,609)	(2,707)	(1,893)	(4,825)	(3,502)	(7,532)
	9	35,127	36,560	–	–	35,127	36,560

	Note	Subsidiaries 2017 $'000	Subsidiaries 2016 $'000	Associates and joint ventures 2017 $'000	Associates and joint ventures 2016 $'000	Related companies 2017 $'000	Related companies 2016 $'000	Total 2017 $'000	Total 2016 $'000
Company									
Amounts due from:									
– Trade	(a)	23,382	20,286	–	32	8	8	23,390	20,326
– Non-trade	(b)	79,443	35,791	–	–	–	–	79,443	35,791
– Loans and advances	(c)	31,725	36,605	–	–	–	–	31,725	36,605
		134,550	92,682	–	32	8	8	134,558	92,722
Amount due within 1 year	9	(102,825)	(56,077)	–	(32)	(8)	(8)	(102,833)	(56,117)
	9	31,725	36,605	–	–	–	–	31,725	36,605

(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 $33,090,000 (2016: $34,460,000) of loan to a joint venture that bears interest rates ranging from 0.75% to 0.97% (2016: 0.67% to 1.19%) per annum. The settlement of loans and advances to these related parties is neither planned nor likely to occur in the foreseeable future. As these are, in substance, a part of the Company's net investment in these entities, they are stated at cost.

The impairment losses on amounts due from associates and joint ventures are as follows:

	Gross 2017 $'000	Impairment 2017 $'000	Total 2017 $'000	Gross 2016 $'000	Impairment 2016 $'000	Total 2016 $'000
Group						
Amounts due from associates and joint ventures	41,510	(4,774)	36,736	43,104	(3,837)	39,267

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Year ended 31 December 2017

11. INTANGIBLE ASSETS

	Goodwill $'000	Club memberships $'000	Intellectual property rights $'000	Total $'000
Group				
Cost				
Balance at 1 January 2016	8,512	916	60,072	69,500
Translation adjustments	7	–	1	8
Acquisition of subsidiaries	5,219	–	168,652	173,871
Balance at 31 December 2016	13,738	916	228,725	243,379
Balance at 1 January 2017	13,738	916	228,725	243,379
Translation adjustments	(21)	–	(1)	(22)
Disposals	–	(264)	–	(264)
Balance at 31 December 2017	13,717	652	228,724	243,093
Accumulated amortisation and impairment losses				
Balance at 1 January 2016	2,572	677	19,644	22,893
Translation adjustments	7	–	–	7
Amortisation for the year	–	–	18,354	18,354
Balance at 31 December 2016	2,579	677	37,998	41,254
Balance at 1 January 2017	2,579	677	37,998	41,254
Translation adjustments	(21)	–	–	(21)
Amortisation for the year	–	–	22,868	22,868
Disposals	–	(209)	–	(209)
Balance at 31 December 2017	2,558	468	60,866	63,892
Carrying amounts				
At 1 January 2016	5,940	239	40,428	46,607
At 31 December 2016	11,159	239	190,727	202,125
At 31 December 2017	11,159	184	167,858	179,201

	Club memberships 2017 $'000	Club memberships 2016 $'000
Company		
Cost		
Balance at 1 January and 31 December	652	652
Accumulated impairment losses		
Balance at 1 January and 31 December	468	468
Carrying amounts		
At 1 January and 31 December	184	184

11. INTANGIBLE ASSETS (CONT'D)

Amortisation

The amortisation of intangible assets amounting to $22,868,000 (2016: $18,354,000) 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	
	2017 **$'000**	**2016** **$'000**
Rigs and floaters, repairs & upgrades, offshore platforms, and specialised shipbuilding	10,136	10,136
Others	1,023	1,023
Total	11,159	11,159

Intellectual property rights

Intellectual property rights relate to acquired patents for the Jurong Espadon Drillship, Satellite Services Platform offshore designs and re-deployable modularised LNG and LPG solutions.

Impairment test assessment

The goodwill and intellectual property rights 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 41. Such goodwill and intellectual property rights are attributed to the Singapore cash generating unit.

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Year ended 31 December 2017

12. DEFERRED TAX ASSETS AND LIABILITIES

	At 1 January 2016 $'000	Recognised in profit or loss (Note 28) $'000	Recognised in other comprehensive income (Note 29) $'000	Acquisition of subsidiaries $'000	Translation adjustments $'000	At 31 December 2016 $'000	Recognised in profit or loss (Note 28) $'000	Recognised in other comprehensive income (Note 29) $'000	Disposal of subsidiaries $'000	Translation adjustments $'000	At 31 December 2017 $'000
Group											
Deferred tax liabilities											
Property, plant and equipment	154,632	(20,292)	–	–	2	134,342	(13,828)	–	(54)	(42)	120,418
Interests in associates	1,954	(1,534)	–	–	–	420	(420)	–	–	–	–
Other financial assets	1,399	(8)	5,361	–	–	6,752	–	677	–	–	7,429
Intangible assets	4,168	(2,020)	–	42,152	–	44,300	(4,344)	–	–	–	39,956
Other items	1,253	(920)	–	–	–	333	(313)	–	–	–	20
	163,406	(24,774)	5,361	42,152	2	186,147	(18,905)	677	(54)	(42)	167,823
Deferred tax assets											
Property, plant and equipment	(1)	(983)	–	(70)	–	(1,054)	(1,999)	–	–	33	(3,020)
Trade and other receivables	(127)	(300)	–	–	–	(427)	(1,614)	–	–	–	(2,041)
Trade and other payables	(4,884)	(3,798)	–	–	–	(8,682)	558	–	–	–	(8,124)
Unutilised tax losses, capital and investment allowances	(123,142)	31,055	–	–	(302)	(92,389)	(1,856)	–	–	89	(94,156)
Provisions	(4,528)	166	–	–	8	(4,354)	(81)	–	–	–	(4,435)
Other financial liabilities	(10,866)	–	5,574	–	–	(5,292)	–	5,292	–	–	–
Other items	(635)	317	–	–	–	(318)	(73)	–	–	–	(391)
	(144,183)	26,457	5,574	(70)	(294)	(112,516)	(5,065)	5,292	–	122	(112,167)
Net deferred tax liabilities	19,223	1,683	10,935	42,082	(292)	73,631	(23,970)	5,969	(54)	80	55,656
Company											
Deferred tax liabilities											
Property, plant and equipment	14,690	(10)	–	–	–	14,680	(2,148)	–	–	–	12,532
Deferred tax assets											
Capital and investment allowances	(2,740)	2,032	–	–	–	(708)	203	–	–	–	(505)
Provisions	(1,409)	400	–	–	–	(1,009)	52	–	–	–	(957)
	(4,149)	2,432	–	–	–	(1,717)	255	–	–	–	(1,462)
Net deferred tax liabilities	10,541	2,422	–	–	–	12,963	(1,893)	–	–	–	11,070

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Year ended 31 December 2017

12. 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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Deferred tax liabilities	61,545	85,673	11,070	12,963
Deferred tax assets	(5,889)	(12,042)	–	–
	55,656	73,631	11,070	12,963

As at 31 December 2017, a deferred tax liability of $12,455,000 (2016: $13,298,000) for temporary differences of $121,707,000 (2016: $129,202,000) 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 in respect of the following items:

	Group	
	2017 $'000	2016 $'000
Deductible temporary differences	495	2,222
Tax losses	396,631	325,901
Capital allowances	355	354
	397,481	328,477

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 will be available against which certain subsidiaries of the Group can utilise the benefits.

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Year ended 31 December 2017

13. INVENTORIES AND WORK-IN-PROGRESS

	Note	Group 2017 $'000	Group 2016 $'000
Raw materials		5,599	7,947
Finished goods		951,437	655
Work-in-progress	(a)	1,818,811	3,058,282
		2,775,847	3,066,884

In 2017, raw materials and changes in finished goods included as cost of sales amounted to $51,713,000 (2016: $47,742,000).

(a) Work-in-progress

	Note	Group 2017 $'000	Group 2016 $'000
Costs and attributable profits		10,169,322	9,554,102
Less: Allowance for foreseeable losses		(200,697)	(189,806)
Progress billings		(8,324,170)	(6,499,417)
		1,644,455	2,864,879
Comprising:			
Due from customers on construction contracts	37	1,654,771	2,242,882
Work-in-progress		164,040	815,400
		1,818,811	3,058,282
Excess of progress billings over work-in-progress		(174,356)	(193,403)
		1,644,455	2,864,879

During the financial year, certain construction contracts were terminated, and the contract revenue and related costs of sales, including contract price adjustments from contract modifications, previously recognised according to the stage of completion, were reversed through profit or loss. The amount of payment received to date on these contracts, which the Group is contractually entitled to, however continues to be recognised in revenue and is not reversed. The effect of these contract reversals of $63,524,000 is corrected through current year's profit or loss. Work-in-progress related to these contracts have been transferred to finished goods on termination of the construction contracts.

At 31 December 2017, inventories and work-in-progress are stated after deducting $69,448,000 (2016: $2,953,000) of allowance for inventories obsolescence.

During the year, the Group conducted a review of all inventory and work-in-progress, and considered a need to adjust the carrying value to reflect an expected lower net realisable value. This resulted in a net write-down of $10,661,000 (2016: $314,000). Utilisation during the year on sale of goods was $11,251,000 (2016: Nil).

The write-downs and reversals are included in cost of sales.

The Group conducted a review of all its long term construction contracts. Based on the Group's re-evaluation as at the reporting date, the Group concluded that certain contracts with a few customers were loss-making, resulting in an allowance at reporting date of $200,697,000 (2016: $189,806,000). Such losses took into account of the expected contract price adjustments from modifications to the original contract terms and deterioration in credit risk assessments on these customers. Other consideration includes the total costs to complete these construction contracts where the costs are expected to exceed the revised contract revenue.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

14. ASSETS HELD FOR SALE

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Cosco Shipyard Group Co., Ltd (CSG)	–	182,215	–	107,369

On 15 November 2016, the Company entered into a sale and purchase agreement with China Ocean Shipping (Group) Company to dispose of its 30% equity interest in Cosco Shipyard Group Co., Ltd (CSG), which was previously accounted for as an investment in associate. The interest in CSG had been reclassified as assets held for sale and measured at lower of the carrying amount and fair value less costs to sell. The sale was completed on 19 January 2017.

There is cumulative translation reserve of $20,484,000 recognised in other comprehensive income relating to CSG. Accordingly, a gain of disposal of $46,816,000 was recognised in profit or loss in 2017.

15. CASH AND CASH EQUIVALENTS

		Group		Company	
	Note	2017	2016	2017	2016
		$'000	$'000	$'000	$'000
Fixed deposits	(a)	153,081	145,306	–	–
Cash and bank balances	(b)	1,147,919	1,071,665	55,126	24,482
Cash and cash equivalents		1,301,000	1,216,971	55,126	24,482

(a) Fixed deposits of the Group placed with financial institutions have maturity periods ranging from 2 to 148 days (2016: 3 to 149 days) from the financial year-end and interest rates ranging from 0.01% to 6.95% (2016: 0.01% to 14.14%) per annum, which are also the effective interest rates.

(b) Included in the Group's cash and bank balances at the balance sheet date are amounts of $452,212,032 (2016: $103,997,795) 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 0.66% to 1.09% (2016: 0.71% to 1.26%) 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 1.25% (2016: up to 0.99%) and up to 0.50% (2016: up to 0.50%) 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 $374,517,000 (2016: $542,658,000) placed with a related corporation. The Company's cash and bank balances of $23,245,000 (2016: $14,084,000) are also placed with a related corporation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

16. TRADE AND OTHER PAYABLES

		Note	Group		Company	
			2017 $'000	2016 $'000	2017 $'000	2016 $'000
(a)	**Current liabilities**					
	Trade and accrued payables[1]		1,631,093	2,049,775	14,446	10,644
	Advance payments from customers		377,487	–	–	–
	Amounts due to related parties	17	3,888	4,572	666	1,261
			2,012,468	2,054,347	15,112	11,905
	Deposits received		1,869	2,163	26	26
	GST payables		413	147	22	–
	Interest payable[2]		28,788	33,949	–	–
	Other creditors[3]		14,874	26,932	353	8,092
	Accrued capital expenditure		894	1,290	–	–
	Amounts due to related parties	17	2,140	1,619	10,920	3,867
			48,978	66,100	11,321	11,985
	Total		2,061,446	2,120,447	26,433	23,890
(b)	**Non-current liabilities**					
	Other long-term payables[4]		104,807	90,567	6,779	6,324

(1) Included in the Group's accrued payables are amounts of $11,000,000 (2016: nil) relating to an assumption of liabilities on behalf of a joint venture.

(2) Included in the Group's interest payable are amounts of $1,641,000 (2016: $3,629,000) payable to a related corporation.

(3) Included in the Group's other creditors are amounts of $7,977,000 (2016: $7,977,000) payable arising from the acquisitions of subsidiaries in 2016.

(4) Other long-term payables include deferred grants, accrued land lease and long-term employee benefits.

17. AMOUNTS DUE TO RELATED PARTIES

	Note	Immediate holding company		Associates and joint ventures		Related companies		Total	
		2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Group									
Amounts due to:									
– Trade		250	250	2,836	3,617	802	705	3,888	4,572
– Non-trade		–	–	2,140	1,619	–	–	2,140	1,619
	16	250	250	4,976	5,236	802	705	6,028	6,191

	Note	Immediate holding company		Subsidiaries		Related companies		Total	
		2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Company									
Amounts due to:									
– Trade		250	250	305	900	111	111	666	1,261
– Non-trade		–	–	10,920	3,867	–	–	10,920	3,867
	16	250	250	11,225	4,767	111	111	11,586	5,128

The trade and non-trade amounts due to related parties are unsecured, repayable on demand and interest-free.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

18. PROVISIONS

	Retirement gratuities $'000	Warranty $'000	Restoration costs $'000	Total $'000
Group				
2017				
Balance at 1 January	1,183	18,384	61,049	80,616
Translation adjustments	(23)	(24)	(158)	(205)
Provision made during the year	171	10,795	14,608	25,574
Provision reversed during the year	(18)	(8,302)	–	(8,320)
Provision utilised during the year	(385)	–	–	(385)
Disposal of subsidiaries	–	–	(280)	(280)
Unwind of discount on restoration costs	–	–	769	769
Balance at 31 December	928	20,853	75,988	97,769
Provisions due:				
– within 1 year	131	20,853	6,771	27,755
– after 1 year but within 5 years	470	–	21,990	22,460
– after 5 years	327	–	47,227	47,554
	928	20,853	75,988	97,769
2016				
Balance at 1 January	1,173	17,257	57,097	75,527
Translation adjustments	10	(106)	71	(25)
Provision made during the year	113	27,354	3,881	31,348
Provision reversed during the year	–	(16,505)	–	(16,505)
Provision utilised during the year	(113)	(9,700)	–	(9,813)
Acquisition of subsidiaries	–	84	–	84
Balance at 31 December	1,183	18,384	61,049	80,616
Provisions due:				
– within 1 year	182	8,384	6,771	15,337
– after 1 year but within 5 years	975	–	6,815	7,790
– after 5 years	26	10,000	47,463	57,489
	1,183	18,384	61,049	80,616

	Restoration costs 2017 $'000	Restoration costs 2016 $'000
Company		
Balance at 1 January and 31 December	24,807	24,807
Provisions due:		
– within 1 year	6,771	6,771
– after 5 years	18,036	18,036
	24,807	24,807

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

18. PROVISIONS (CONT'D)

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.

19. OTHER FINANCIAL LIABILITIES

		Group	
		2017	**2016**
		$'000	**$'000**
(a)	**Current liabilities**		
	Financial liabilities at fair value through profit or loss:		
	– Forward foreign currency contracts	–	11,595
	Cash flow hedges:		
	– Forward foreign currency contracts	–	6,722
	– Interest rate swaps	1,449	–
		1,449	18,317
(b)	**Non-current liabilities**		
	Cash flow hedges:		
	– Forward foreign currency contracts	–	23,305
	– Interest rate swaps	5,713	3,092
		5,713	26,397

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

20. INTEREST-BEARING BORROWINGS

	Note	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Current liabilities					
Unsecured term loans		852,263	1,363,961	–	–
Finance lease liabilities		474	–	474	–
		852,737	1,363,961	474	–
Non-current liabilities					
Unsecured term loans	(a)	3,245,992	2,791,014	–	–
Finance lease liabilities		1,394	–	1,394	–
		3,247,386	2,791,014	1,394	–
		4,100,123	4,154,975	1,868	–

Of the Group's interest-bearing borrowings, $677,060,000 (2016: $764,472,000) were borrowed from a related corporation.

Effective interest rates and maturity of liabilities

	Group 2017 %	Group 2016 %
Floating rate loans	1.70 – 12.40	1.59 – 16.05
Fixed rate loans	1.68 – 5.62	1.55 – 16.09
Notes	2.95 – 3.85	2.95 – 3.85

	Group 2017 $'000	Group 2016 $'000
Within 1 year	852,737	1,363,961
After 1 year but within 5 years	2,922,386	2,466,014
After 5 years	325,000	325,000
Total borrowings	4,100,123	4,154,975

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

20. INTEREST-BEARING BORROWINGS (CONT'D)

(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.

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 2017, an amount of $167,500,000 (2016: $167,500,000) for the medium term notes maturing in 2021 was subscribed by a related corporation.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Interest-bearing borrowings* $'000	Finance lease liabilities $'000	Total $'000
Group			
Balance at 1 January 2017	4,154,975	–	4,154,975
Cash flows			
Cash payments	(441,039)	(512)	(441,551)
Cash proceeds	465,809	–	465,809
Non-cash items			
Capitalised borrowing cost	–	52	52
New finance lease	–	2,328	2,328
Foreign exchange movement	(81,490)	–	(81,490)
Balance at 31 December 2017	4,098,255	1,868	4,100,123

* Excluding finance lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

21. SHARE CAPITAL

	Group and Company No. of ordinary shares 2017	2016
Issued and fully paid, with no par value:		
Balance at 1 January and 31 December	2,089,760,107	2,089,760,107

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 issued 1,786,942 (2016: 2,671,798) treasury shares during the year pursuant to its share based incentive plans (Note 33).

22. OTHER RESERVES

	Note	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Distributable					
Reserve for own shares	(a)	(3,451)	(566)	(3,451)	(566)
Non-distributable					
Currency translation reserve	(b)	(17,732)	65,394	–	–
Share-based payments reserve	(c)	(27,894)	(30,158)	(25,787)	(28,051)
Fair value reserve	(d)	447	1,955	447	6,198
Hedging reserve	(e)	35,917	6,766	–	–
Capital reserves	(f)	(13,011)	11,514	960	960
		(25,724)	54,905	(27,831)	(21,459)

(a) Reserve for own shares comprises the cost of the Company's shares held by the Company. As at 31 December 2017, the Company holds 1,850,187 (2016: 437,029) 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) Fair value reserve includes the cumulative net change in fair value of available-for-sale investments until the investments are derecognised.

(e) 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.

(f) Capital reserves comprise mainly reserves arising from acquisition and disposals of non-controlling interests that do not result in a change of control.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

23. TURNOVER

Turnover represents sales from the various activities described in Note 1 and Note 42, including the revenue recognised on contracts relating to rigs & floaters, repairs & upgrades and offshore platforms.

	Group	
	2017 $'000	2016 $'000
Contract revenue	2,319,672	3,474,179
Charter hire income	57,437	58,962
Services rendered	3,717	3,515
Sale of goods	6,528	8,160
	2,387,354	3,544,816

24. OPERATING PROFIT

The following items have been included in arriving at operating profit:

	Note	Group	
		2017 $'000	2016 $'000
Amortisation of intangible assets	11	22,868	18,354
Audit fees paid/payable			
– auditors of the Company		555	627
– other member firms of KPMG International		272	194
– other auditors		44	31
Non-audit fees paid/payable			
– auditors of the Company		56	89
– other member firms of KPMG International		23	–
– other auditors		557	593
Allowance for doubtful debts and bad debts, net		167	1,394
Negative goodwill		–	2,600
Depreciation of property, plant and equipment	4	170,048	140,591
Fair value adjustment on hedging instruments		(1,623)	(1,435)
Change in fair value of firm commitments under fair value hedge		3,454	(4,146)
Foreign currency exchange (gain)/loss, net		(20,719)	7,436
Loss/(gain) on disposal of property, plant and equipment, net		863	(28)
Inventories written back, net		–	(1,162)
Reversal of contract costs (net) on termination, net of write-down of inventories and foreseeable loss on contract work-in-progress		(19,622)	–
Operating lease expenses		45,111	56,060
Property, plant and equipment written off		500	45
Staff costs	(a)	460,717	490,211

(a) Staff costs

	2017 $'000	2016 $'000
Salaries and bonus	372,916	411,623
Defined contribution plan	26,709	24,715
Equity-settled share-based payments	4,634	4,513
Cash-settled share-based payments	1,515	(234)
Directors' fee	2,260	2,523
Other employee benefits	52,683	47,071
	460,717	490,211

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

25. FINANCE INCOME AND FINANCE COSTS

	Group	
	2017 $'000	2016 $'000
Finance income		
Interest income from:		
– Trade receivables and contracts work-in-progress	5,523	3,255
– Fixed deposits and bank balances	5,732	4,352
– Joint venture	293	315
	11,548	7,922
Finance costs		
Interest paid and payable to:		
– Bank and others	92,312	86,289
– Commitment and facility fee	2,441	2,362
Unwind of discount on restoration costs	769	–
	95,522	88,651

26. NON-OPERATING INCOME AND NON-OPERATING EXPENSES

	Group	
	2017 $'000	2016 $'000
Non-operating income:		
– Gain on disposal of assets held for sale	46,816	–
– Gain on disposal of a subsidiary	787	–
– Gain on disposal of a joint venture	–	186
– Gain on deemed disposal of available-for-sale financial asset	–	4,243
– Gain on disposal of available-for-sale financial asset	17,200	–
	64,803	4,429
Non-operating expenses:		
– Loss on disposal of a subsidiary	34	–
– Impairment losses on available-for-sale financial assets	2,275	21,232
– Impairment losses on investment in associates	–	2,120
– Assumption of liabilities on behalf of a joint venture	11,000	–
	13,309	23,352

27. SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

		Group	
	Note	2017 $'000	2016 $'000
Share of loss before tax for the year		(3,221)	(41,748)
Share of tax for the year		(396)	6,614
	28	(3,617)	(35,134)

NOTES TO THE FINANCIAL STATEMENTS
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28. TAX (CREDIT)/EXPENSE

	Note	Group 2017 $'000	Group 2016 $'000
Current tax expense			
Current year		25,613	36,441
Over provided in prior years		(27,235)	(22,764)
		(1,622)	13,677
Deferred tax expense			
Movements in temporary differences		(33,211)	(12,097)
Under provided in prior years		9,241	13,780
		(23,970)	1,683
Tax (credit)/expense		(25,592)	15,360
Reconciliation of effective tax rate			
Profit for the year		9,948	75,160
Tax (credit)/expense		(25,592)	15,360
Share of results of associates and joint ventures	27	3,617	35,134
(Loss)/profit before share of results of associates and joint ventures, and tax expense		(12,027)	125,654
Tax calculated using Singapore tax rate of 17% (2016: 17%)		(2,045)	21,361
Exempt income, capital gains and tax incentives/concessions		(40,747)	(23,469)
Effect of different tax rates in foreign jurisdictions		243	(15,923)
Tax adjustment on changes in undistributed profits from foreign entities		(56)	(1,534)
Effect on utilisation of deferred tax assets not previously recognised		(1,525)	–
Non-deductible expenses		10,661	9,575
Over provision in respect of prior years		(17,994)	(8,984)
Deferred tax assets not recognised		25,864	35,660
Others		7	(1,326)
Tax (credit)/expense		(25,592)	15,360

As at 31 December 2017, certain subsidiaries have unutilised tax losses and capital and investment allowances of $396,986,000 (2016: $326,255,000) and other deductible temporary differences of $495,000 (2016: $2,222,000) 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 2017

29. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income are set out below:

	2017			2016		
	Before tax $'000	Tax expense $'000	Net of tax $'000	Before tax $'000	Tax expense $'000	Net of tax $'000
Group						
Foreign currency translation differences for foreign operations	(62,451)	–	(62,451)	9,320	–	9,320
Net change in fair value of cash flow hedges	36,743	(6,245)	30,498	61,145	(10,396)	50,749
Net change in fair value of cash flow hedges transferred to profit or loss	(1,623)	276	(1,347)	3,171	(539)	2,632
Net change in fair value of available-for-sale financial assets	30,791	–	30,791	(20,011)	–	(20,011)
Change in fair value of available-for-sale financial assets transferred to profit or loss	(32,299)	–	(32,299)	8,978	–	8,978
Realisation of reserve upon disposal of assets held for sale	(20,484)	–	(20,484)	–	–	–
Realisation of reserve upon disposal of a subsidiary	(217)	–	(217)	–	–	–
Other comprehensive income	(49,540)	(5,969)	(55,509)	62,603	(10,935)	51,668

30. 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 2017 %	2016 %
Gravifloat AS	Norway	Engineering and related services	44	44

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 FRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies.

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30. NON-CONTROLLING INTERESTS (CONT'D)

	Gravifloat AS $'000	Other individually immaterial subsidiaries $'000	Intra-group elimination $'000	Total $'000
2017				
Revenue	–			
Loss for the year	(10,090)			
Other comprehensive income	(36)			
Total comprehensive income	(10,126)			
Attributable to non-controlling interests:				
Loss for the year	(4,440)	312	–	(4,128)
Other comprehensive income	(16)	(10)	–	(26)
Total comprehensive income	(4,456)	302	–	(4,154)
Non-current assets	109,879			
Current assets	10			
Non-current liabilities	(27,467)			
Current liabilities	–			
Net assets	82,422			
Net assets attributable to non-controlling interests	36,265	4,934	–	41,199
Cash flows from operating activities	–*			
Cash flows from investing activities	–*			
Cash flows from financing activities	–*			
Net decrease in cash and cash equivalents	–*			

	Gravifloat AS $'000	Other individually immaterial subsidiaries $'000	Intra-group elimination $'000	Total $'000
2016				
Revenue	–			
Loss for the year	(8,408)			
Other comprehensive income	–			
Total comprehensive income	(8,408)			
Attributable to non-controlling interests:				
Loss for the year	(3,700)	20	63	(3,617)
Other comprehensive income	–	(4,409)	–	(4,409)
Total comprehensive income	(3,700)	(4,389)	63	(8,026)
Non-current assets	123,368			
Current assets	10			
Non-current liabilities	(30,830)			
Current liabilities	–			
Net assets	92,548			
Net assets attributable to non-controlling interests	40,721	4,911	–	45,632
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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31. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of $14,076,000 (2016: profit attributable to owners of the Company of $78,777,000) by the weighted average number of ordinary shares outstanding of 2,089,523,000 (2016: 2,089,177,000) as follows:

	Group	
	2017 $'000	2016 $'000
Profit attributable to owners of the Company	14,076	78,777
	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	2,089,760	2,089,760
Effect of share options exercised, performance shares and restricted shares released	937	1,387
Effect of own shares held	(1,174)	(1,970)
Weighted average number of ordinary shares during the year	2,089,523	2,089,177

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to owners of the Company of $14,076,000 (2016: profit attributable to owners of the Company of $78,777,000) by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 2,089,523,000 (2016: 2,089,177,000) as follows:

	Group	
	2017 $'000	2016 $'000
Profit attributable to owners of the Company	14,076	78,777
	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	2,089,523	2,089,177
Effect of dilutive share options	–	–
Weighted average number of ordinary shares during the year	2,089,523	2,089,177

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, which comprise awards of share options granted to employees. All share options have expired on 2 October 2016.

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31. EARNINGS PER SHARE (CONT'D)

(b) Diluted earnings per share (cont'd)

For share options, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from the exercise of all outstanding share options granted to employees where such shares would be issued at a price lower than the fair value (average share price during the year). The difference between the weighted average number of shares to be issued at the exercise prices under the options and the weighted average number of shares that would have been issued at the fair value based on assumed proceeds from the issue of these shares are treated as ordinary shares issued for no consideration. The number of such shares issued for no consideration is added to the number of ordinary shares outstanding in the computation of diluted earnings per share. No adjustment is made to the profit attributable to owners of the Company. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

32. DIVIDENDS

Subject to the approval by the shareholders at the next Annual General Meeting, the directors have proposed a final ordinary one-tier tax-exempt dividend of 1.0 cent per share (2016: final ordinary one-tier tax-exempt dividend of 1.0 cent per share) amounting to an estimated net dividend of $20,879,000 (2016: $20,893,000) in respect of the year ended 31 December 2017, based on the number of issued shares as at 31 December 2017.

The proposed dividend of 1.0 cent (2016: 1.0 cent) per share has not been included as a liability in the financial statements.

	Group and Company	
	2017	**2016**
	$'000	**$'000**
Dividends paid		
Interim one-tier tax-exempt dividend of 1.0 cent per share in respect of year 2017 (2016: 1.5 cents per share in respect of year 2016)	20,897	31,345
Final one-tier tax-exempt dividend of 1.0 cent per share in respect of year 2016 (2016: 2.0 cents per share in respect of year 2015)	20,897	41,795
	41,794	73,140

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33. SHARE-BASED INCENTIVE PLANS

The Company's Performance Share Plan ("SCM PSP 2010") and Restricted Share Plan ("SCM RSP 2010") (collectively, the "2010 Share Plans") were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on 20 April 2010. The 2010 Share Plans replaced the Share Plans which were approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on 31 May 2000 and expired in 2010.

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:

Tan Sri Mohd Hassan Marican	Chairman
Ajaib Haridass	
Eric Ang Teik Lim	
William Tan Seng Koon	(appointed on 27 April 2017)

The SCM RSP 2010 is the incentive scheme for directors and employees of the Company and its subsidiaries (the "Group") whereas the SCM PSP 2010 is aimed primarily at key executives of the Group.

The 2010 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 2010 Share Plans will strengthen the Company's competitiveness in attracting and retaining talented key senior management and senior executives.

The Company designates Sembcorp Industries Ltd as the Parent Group.

The SCM RSP 2010 is intended to apply a broad base of senior executives as well as to the non-executive directors, while the SCM PSP 2010 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 2010 and the SCM PSP 2010 will be different, with the latter emphasising stretched or strategic targets aimed at sustaining longer term growth.

The 2010 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 2010 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 2010 Share Plans aim to foster a greater ownership culture within the Group which align the interest of participants with the interest of shareholders, and to improve and achieve sustainable growth for the Company in the changing business environment.

The 2010 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 2010 Share Plans will be effective tools in motivating key senior management and senior executives to strive to deliver long-term shareholder value.

While the 2010 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 2010 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.

NOTES TO THE FINANCIAL STATEMENTS

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33. SHARE-BASED INCENTIVE PLANS (CONT'D)

Other information regarding the 2010 Share Plans and expired Share Plans is as follows:

(a) Share Option Plan

Under the rules of the Share Option Plan, participants who ceased to be employed by the Group, Parent Group or associate by reason of ill health, injury or disability, redundancy, retirement at or after the legal retirement age, retirement before the legal retirement age, death, etc., or any other event approved by the Committee, may be allowed by the Committee to retain their unexercised options. The Committee may determine the number of shares comprised in that option which may be exercised and the period during which such option shall be exercisable, being a period not later than the expiry of the exercise period in respect of that option. Such option may be exercised at any time notwithstanding that the date of exercise of such option falls on a date prior to the first day of the exercise period in respect of such option.

Other information regarding the Share Option Plan is as follows:

(i) The exercise price of the options can be set at market price or a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant. Market price is the volume-weighted average price for the shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") over the three consecutive trading days prior to grant date of that option. For all options granted to date, the exercise prices are set at market price.

(ii) After the first 12 months of lock-out period, the Group imposed a further vesting of 4 years for managers and above for retention purposes.

(iii) The options granted expire after 5 years for non-executive directors and employees of the Company's associates, and 10 years for the employees of Group and Parent Group. There are no outstanding share options for non-executive directors.

(iv) All options have expired on 2 October 2016.

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33. SHARE-BASED INCENTIVE PLANS (CONT'D)

(a) Share Option Plan (cont'd)

(v) At the end of the financial year, details of the options granted under the Share Option Plan on unissued ordinary shares of the Company are as follows:

Date of grant of options	Exercise price per share	Options outstanding at 1 January	Options exercised	Options cancelled/ lapsed/not accepted	Options outstanding at 31 December	Options exercisable at 1 January	Options exercisable at 31 December	Exercise period
2016								
02/10/2006	$2.38	973,312	–	(973,312)	–	973,312	–	03/10/2007 to 02/10/2016

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

In 2016, there was no option of the Company exercised.

Fair value of share options

The fair value of services received is measured by reference to the fair value of share options granted.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

33. SHARE-BASED INCENTIVE PLANS (CONT'D)

(b) Performance Share Plan

Under the Performance Share Plan ("SCM PSP 2010"), 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.

The performance levels were calibrated based on Wealth Added and Total Shareholder Return. For awards granted from 2014 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, SCM PSP 2010 has in place a plan trigger. Under this trigger mechanism, the performance shares for the performance period 2017 to 2019 will be vested to the senior management participants only if the restricted shares for the performance period 2018 to 2019 are vested, subject to the achievement of the performance conditions for the respective performance periods.

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:

	2017	2016
At 1 January	4,513,000	3,200,000
Conditional performance shares awarded	1,600,000	1,918,000
Performance shares lapsed arising from targets not met	(1,380,000)	(605,000)
At 31 December	4,733,000	4,513,000

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2014 to 2016 (2016: performance period 2013 to 2015), there were no (2016: nil) performance shares released via the issuance of treasury shares.

In 2017, there were 1,380,000 (2016: 605,000) performance shares that lapsed for under-achievement of the performance targets for the performance period 2014 to 2016 (2016: 2013 to 2015).

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 2017, was 4,733,000 (2016: 4,513,000). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 7,099,500 (2016: 6,769,500) performance shares.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

33. SHARE-BASED INCENTIVE PLANS (CONT'D)

(b) Performance Share Plan (cont'd)

Fair value of Performance Shares

The fair values of the performance shares are estimated using a Monte Carlo simulation methodology at the grant dates.

The fair values of performance shares granted during the year are as follows:

Date of grant	26 May 2017	27 May 2016
Fair value at measurement date	$1.45	$0.85
Assumptions under the Monte Carlo model		
Share price	$1.69	$1.56
Expected volatility:		
Sembcorp Marine Ltd	35.1%	29.2%
Morgan Stanley Capital International ("MSCI") AC Asia Pacific excluding Japan Industrials Index	14.0%	13.4%
Correlation with MSCI	44.0%	43.2%
Risk-free interest rate	1.3%	1.2%
Expected dividend	2.9%	2.9%

The expected volatility is based on the historical volatility over the most recent period that is close to the expected life of the performance shares.

During the year, the Group charged $1,921,000 (2016: $1,774,000) to profit or loss based on the fair value of the performance shares at the grant date being expensed over the vesting period.

(c) Restricted Share Plan

Under the Restricted Share Plan ("SCM RSP 2010"), the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria for the restricted shares are calibrated based on Return on Capital Employed and Earnings Before Interest and Taxes for awards granted in 2017 and 2016.

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 managerial participants of the Group will be awarded restricted shares under the SCM RSP 2010, 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 two-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset. There is a further vesting 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 two-year performance cycle, with no further vesting conditions.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

33. SHARE-BASED INCENTIVE PLANS (CONT'D)

(c) Restricted Share Plan (cont'd)

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 2010.

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 2017 and 2016, 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.

The actual number of shares to be 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 Annual General Meeting ("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:

	2017	2016
At 1 January	13,716,142	10,101,585
Conditional restricted shares awarded	8,176,450	8,232,700
Restricted shares lapsed arising from targets not met	(3,923,317)	(1,471,967)
Conditional restricted shares released	(1,786,942)	(2,671,798)
Conditional restricted shares lapsed	(798,920)	(474,378)
At 31 December	15,383,413	13,716,142

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016, a total of 266,891 (2016: Nil) restricted shares were released. For awards in relation to the performance period 2014 to 2015, a total of 386,942 (2016: 461,541) restricted shares were released. For awards in relation to the performance period 2013 to 2014, a total of 733,009 (2016: 845,290) restricted shares were released. In 2016, 848,667 restricted shares were released for awards in relation to the performance period 2012 to 2013. In 2017, there were 400,100 (2016: 516,300) restricted shares released to non-executive directors. The restricted shares were released via the issuance of treasury shares.

In 2017, there were 3,923,317 (2016: 1,471,967) restricted shares that lapsed for under-achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015).

The total number of restricted shares outstanding, including awards achieved but not released, as at 31 December 2017, was 15,383,413 (2016: 13,716,142). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 14,674,000 (2016: 12,239,840). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 22,011,000 (2016: 18,359,760) restricted shares.

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Year ended 31 December 2017

33. SHARE-BASED INCENTIVE PLANS (CONT'D)

(c) Restricted Share Plan (cont'd)

Sembcorp Marine Challenge Bonus

With the Committee's approval on the achievement factor for the achievement of the performance targets for the performance period 2015 to 2016 (2016: performance period 2014 to 2015), a total of $454,284 (2016: $766,416), equivalent to 248,950 (2016: 456,064) notional restricted shares, were paid.

A total of 3,074,000 (2016: 3,387,850) notional restricted shares were awarded on 26 May 2017 (2016: 27 May 2016) for the Sembcorp Marine Challenge Bonus.

The total number of notional restricted shares in awards for the Sembcorp Marine Challenge Bonus granted conditionally and representing 100% of targets to be achieved, but not released as at 31 December 2017, was 5,230,850 (2016: 4,827,393). Based on the multiplying factor, the number of notional restricted shares to be converted into the funding pool could range from zero to a maximum of 7,846,275 (2016: 7,241,090).

Fair value of Restricted Shares

The fair values of the restricted shares are estimated using a Monte Carlo simulation methodology at the grant dates.

The fair values of restricted shares granted during the year are as follows:

Date of grant	26 May 2017	27 May 2016
Fair value at measurement date	$1.50	$1.40
Assumptions under the Monte Carlo model		
Share price	$1.69	$1.56
Expected volatility:		
Sembcorp Marine Ltd	35.1%	29.2%
Risk-free interest rate	1.1% – 1.4%	1.0% – 1.4%
Expected dividend	2.9%	2.9%

The expected volatility is based on the historical volatility over the most recent period that is close to the expected life of the restricted shares.

During the year, the Group charged $2,713,000 (2016: $2,739,000) to profit or loss based on the fair value of restricted shares at the grant date being expensed over the vesting period.

Fair value of Sembcorp Marine Challenge Bonus

During the year, the Group charged $1,515,000 (2016: wrote-back charges of $234,000) 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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34. DISPOSAL OF SUBSIDIARIES AND JOINT VENTURE

2017

(i) On 7 April 2017, the Company's wholly owned subsidiary, Jurong Shipyard Pte Ltd divested its 70% interest in Shanghai Guofeng Marine Engineering & Technology Co. Ltd. to the remaining individual shareholders, Zhao Wei Ming and Zhao Gang, for a cash consideration of RMB 5,800,000 ($1,177,100); and recognised a gain of $787,000 in non-operating income.

(ii) On 1 November 2017, the Company's wholly owned subsidiary, Jurong Shipyard Pte Ltd divested its 100% interest in Jurong Autoblast Services Pte. Ltd. to Zingametall (S) Pte Ltd, for a cash consideration of $349,943; and recognised a loss of $34,000 in non-operating expenses.

2016

(i) On 29 February 2016, the Company's wholly owned subsidiary, Dolphin Shipping Company Private Limited divested its 50% interest in Dolphin Workboats Pte Ltd to Entraco Venture Corporation Pte Ltd, for a consideration of $450,000; and recognised a gain of $186,000 in non-operating income.

35. ACQUISITION OF SUBSIDIARIES, JOINT VENTURE AND NON-CONTROLLING INTERESTS

Acquisition of Subsidiaries

(i) On 9 March 2016, the Company acquired an additional 44% equity stake in Gravifloat AS (Gravifloat), a marine engineering and naval architecture company. With this acquisition, the Group's equity stake was increased to 56% and Gravifloat became a subsidiary of the Group. Consequently, the financial statements of Gravifloat were consolidated into the Group's financial statements.

The principal activity of Gravifloat is to design and hold patents for re-deployable modularised LNG and LPG solutions.

Effect of acquisitions

Revenue and profit contribution

The revenue and profit contribution from this new acquisition were not material.

Had the acquired businesses been consolidated from 1 January 2016, the contribution to the Group's consolidated revenue and consolidated profit for the year ended 31 December 2016 would not have been significantly impacted.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred:

		2016 $'000
(a)	**Effect on cash flows of the Group**	
	Cash paid	47,258
	Less: Cash and cash equivalents in subsidiaries acquired	(7)
	Cash outflow on acquisition	47,251

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35. ACQUISITION OF SUBSIDIARIES, JOINT VENTURE AND NON-CONTROLLING INTERESTS (CONT'D)

Acquisition of Subsidiaries (cont'd)

		Note	At fair value $'000
(b)	**Identifiable assets acquired and liabilities assumed**		
	Intangible assets	11	134,575
	Trade and other receivables		8
	Cash and cash equivalents		7
	Total assets		134,590
	Deferred tax liabilities	12	(33,633)
	Total liabilities		(33,633)
	Total net identifiable assets		100,957
	Less: Non-controlling interests		(44,421)
	Add: Goodwill	11	5,219
	Less: Amount previously accounted for as available-for-sale financial asset		(5,004)
	Less: Gain on deemed disposal of available-for-sale financial asset	26	(4,243)
	Consideration transferred for the businesses		52,508
	Amount reflected as other payables		(5,250)
	Cash paid		47,258

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique	Key assumptions
Intangible assets	Relief-from-royalty method	– Royalty rates based on existing patents – Useful life of 10 years – Discount rate of 24.5%

Non-controlling interests

The Group had elected to measure the non-controlling interest (NCI) of Gravifloat at fair value at the date of acquisition, which amounted to $44,421,000.

Goodwill

The goodwill of $5,219,000 recognised on acquisition is primarily attributed to the control premium to acquire a controlling stake in Gravifloat. This goodwill recognised is not expected to be deductible for tax purpose.

The re-measurement to fair value of the Group's previously held 12% interest in Gravifloat resulted in a gain of $4,243,000 recorded in profit or loss on deemed disposal. This amount has been recognised in non-operating income (see Note 26).

Acquisition-related costs

The acquisition-related costs incurred in relation to the acquisition were immaterial, but charged to profit or loss.

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35. ACQUISITION OF SUBSIDIARIES, JOINT VENTURE AND NON-CONTROLLING INTERESTS (CONT'D)

Acquisition of Subsidiaries (cont'd)

(ii) On 26 August 2016, the Company's wholly-owned subsidiary, Sembcorp Marine Integrated Yard Pte. Ltd. acquired a 100% stake in LMG Marin AS (LMG). Consequently, the financial statements of LMG were consolidated into the Group's financial statements.

LMG is a naval architecture as well as ship design and engineering house headquartered in Bergen, Norway, with offices in Poland and France.

Effect of acquisitions

Revenue and profit contribution

The revenue and profit contribution from this new acquisition were not material.

Had the acquired businesses been consolidated from 1 January 2016, the contribution to the Group's consolidated revenue and consolidated profit for the year ended 31 December 2016 would not have been significantly impacted.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred:

		2016 $'000
(a)	**Effect on cash flows of the Group**	
	Cash paid	24,541
	Less: Cash and cash equivalents in subsidiaries acquired	(5,400)
	Cash outflow on acquisition	19,141

		Note	At fair value $'000
(b)	**Identifiable assets acquired and liabilities assumed**		
	Property, plant and equipment	4	481
	Intangible assets	11	34,077
	Trade and other receivables		7,507
	Cash and cash equivalents		5,400
	Total assets		47,465
	Trade and other payables		(8,672)
	Deferred tax liabilities	12	(8,449)
	Total liabilities		(17,121)
	Total net identifiable assets		30,344
	Less: Non-controlling interests		(476)
	Less: Negative goodwill	24	(2,600)
	Consideration transferred for the businesses		27,268
	Amount reflected as other payables		(2,727)
	Cash paid		24,541

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35. ACQUISITION OF SUBSIDIARIES, JOINT VENTURE AND NON-CONTROLLING INTERESTS (CONT'D)

Acquisition of Subsidiaries (cont'd)

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique	Key assumptions
Intangible assets	Relief-from-royalty method	– Royalty rates based on existing ship design – Useful life of 10 years – Discount rates range from 26.4% to 34.2%

Acquired receivables

Included in trade and other receivables are trade receivables stated at fair value of $5,466,000. The gross contractual amount for the trade receivables was $5,634,000, of which $168,000 was expected to be uncollectible at the date of acquisition.

Negative goodwill

A gain from bargain purchase of $2,600,000 was recognised as a result of the difference between consideration transferred and the fair value of the identifiable net assets.

Acquisition-related costs

The acquisition-related costs incurred in relation to the acquisition were immaterial, but charged to profit or loss.

Acquisition of joint venture

On 28 June 2016, the Company's wholly-owned subsidiary, Sembcorp Marine Integrated Yard Pte. Ltd. (SMIY) acquired 50% of the issued and fully paid-up share capital of Aragon AS (formerly known as KANFA Aragon AS) for a cash consideration of NOK20,000,000 (equivalent to SGD3,258,000). Following the acquisition, Aragon AS became a joint venture of the Group. Goodwill of NOK9,347,000 (equivalent to SGD1,523,000) was recognised.

Acquisition of non-controlling interests

(i) On 29 August 2016, the Company acquired the remaining 15% in the issued and fully paid-up share capital of PPL Shipyard Pte Ltd (PPLS) for an aggregate cash consideration of USD115,059,000 (equivalent to SGD156,778,000). Following the acquisition, PPLS became a wholly-owned subsidiary of the Company.

(ii) On 21 October 2016, the Company's wholly-owned subsidiary, Sembcorp Marine Offshore Platforms Pte. Ltd. (SMOP) acquired the remaining 30% in the issued and fully paid-up share capital of Sembmarine North Sea Limited (SNS) for an aggregate cash consideration of GBP137,500 (equivalent to SGD275,000). Following the acquisition, SNS became a wholly-owned subsidiary of SMOP.

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35. ACQUISITION OF SUBSIDIARIES, JOINT VENTURE AND NON-CONTROLLING INTERESTS (CONT'D)

Acquisition of non-controlling interests (cont'd)

The following summarises the effect of changes in the Group's ownership interest:

	PPLS $'000	SNS $'000	Total $'000
Group's ownership interest at beginning	866,130	(21,388)	844,742
Effect of increase/(decrease) in Group's ownership interest	152,921	(9,166)	143,755
Share of comprehensive income and capital injection during the year	(61,568)	(2,279)	(63,847)
Group's ownership interest at 31 December 2016	957,483	(32,833)	924,650

36. RELATED PARTIES

(a) Related party transactions

The Group had the following outstanding balances and significant transactions with related parties during the year:

	Outstanding balances Group		Significant transactions Group	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Immediate holding company				
Management fee payable	(250)	(250)	(250)	(250)
Others	–	–	253	7
Related corporations				
Sales	1,893	4,825	286	5,603
Purchases	(802)	(7,374)	(36,636)	(26,139)
Payment on behalf	–	–	97	–
Finance income	–	–	1,275	1,638
Finance costs	(1,641)	(3,629)	(18,482)	(18,383)
Others	–	–	(7)	–
Associates and joint ventures				
Sales	1,354	1,864	2	25
Purchases	(2,836)	(3,617)	(4,428)	(13,987)
Finance income	–	–	293	315
Payment on behalf	–	–	2	(1,145)
Loans and advances	35,127	36,560	–	–
Others	(1,885)	(776)	30	(760)

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Year ended 31 December 2017

36. RELATED PARTIES (CONT'D)

(b) Compensation of key management personnel

During the year, the Group considers the directors of the Company (including the President & Chief Executive Officer of the Company), the Chief Operating Officer of the Company, the Executive Vice President & Head of Singapore Yard Operations, the Director of Group Finance, the Executive Vice President & Head of Rigs & Floaters and the Chief Financial Officer of the Company to be key management personnel in accordance with FRS 24 *Related Party Disclosures*.

In 2016, the Group considered the directors of the Company (including the President & Chief Executive Officer of the Company), the Chief Operating Officer of the Company, the Executive Vice President & Head of Singapore Yard Operations, the Executive Vice President & Head of Offshore Platforms, the Executive Vice President & Head of Repairs & Upgrades and the Chief Financial Officer of the Company to be key management personnel in accordance with FRS 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	
	2017	**2016**
	$'000	**$'000**
Directors' fees and remuneration	4,533	4,861
Other key management personnel remuneration	3,333	4,149
	7,866	9,010
Fair value of share-based compensation	1,651	1,355

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. 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 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.

The Group enters into interest rate swaps to reduce its exposure to interest rate volatility. In accordance with the Group's policy, the duration of such interest rate swaps must not exceed the tenor of the underlying debt.

At 31 December 2017, the Group had interest rate swaps with an aggregate notional amount of $678,474,000 (2016: $1,000,163,000). The Group receives a variable interest rate and pays a fixed rate interest ranging from 2.19% to 3.10% (2016: 0.98% to 3.10%) per annum on the notional amount. Interest rate swaps with notional amounts of $nil (2016: $300,000,000) were entered with a related corporation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(i) Interest rate risk (cont'd)

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 2017				
Variable rate financial instruments	(6,893)	6,893	4,969	(5,046)
31 December 2016				
Variable rate financial instruments	(3,840)	3,840	9,148	(9,315)
Company				
31 December 2017				
Variable rate financial instruments	274	(274)	–	–
31 December 2016				
Variable rate financial instruments	121	(121)	–	–

(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 exchange 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 exchange contracts with notional amounts of $159,819,000 (2016: $302,682,000) were entered with a related corporation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. 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							
2017							
Financial assets							
Cash and cash equivalents	6,349	173,016	14,166	127,059	2,192	5,458	328,240
Trade and other receivables	24,630	634,169	3,916	4,097	9,109	2,192	678,113
Due from customers on construction contracts	4,626	853,244	–	–	156,030	–	1,013,900
Other financial assets	–	–	–	–	–	18,200	18,200
	35,605	1,660,429	18,082	131,156	167,331	25,850	2,038,453
Financial liabilities							
Trade and other payables	(74,796)	(222,330)	(55,899)	(9,334)	(67,173)	(11,046)	(440,578)
Interest-bearing borrowings	–	(140,982)	–	–	(95,094)	–	(236,076)
	(74,796)	(363,312)	(55,899)	(9,334)	(162,267)	(11,046)	(676,654)
Net financial (liabilities)/assets	(39,191)	1,297,117	(37,817)	121,822	5,064	14,804	1,361,799
Add: Firm commitments and highly probable forecast transactions in foreign currencies	(135)	515,386	(245,588)	30,931	(28,402)	(43,048)	229,144
Less: Foreign currency forward contracts	–	(814,308)	3,664	(166,887)	–	–	(977,531)
Net currency exposure	(39,326)	998,195	(279,741)	(14,134)	(23,338)	(28,244)	613,412
2016							
Financial assets							
Cash and cash equivalents	4,357	290,671	32,933	240,962	–	17,239	586,162
Trade and other receivables	7,839	640,794	27,316	19,655	–	3,883	699,487
Due from customers on construction contracts	1,359	1,028,923	8,833	14,026	156,030	29,798	1,238,969
Other financial assets	–	–	–	–	–	20,475	20,475
	13,555	1,960,388	69,082	274,643	156,030	71,395	2,545,093
Financial liabilities							
Trade and other payables	(84,367)	(209,341)	(56,228)	(19,285)	(36,690)	(49,505)	(455,416)
Interest-bearing borrowings	–	(970,863)	–	–	–	–	(970,863)
	(84,367)	(1,180,204)	(56,228)	(19,285)	(36,690)	(49,505)	(1,426,279)
Net financial (liabilities)/assets	(70,812)	780,184	12,854	255,358	119,340	21,890	1,118,814
Add: Firm commitments and highly probable forecast transactions in foreign currencies	(1,138)	506,218	(350,732)	389,118	(79,316)	(85,834)	378,316
Less: Foreign currency forward contracts	–	(960,869)	44,728	(688,229)	–	–	(1,604,370)
Net currency exposure	(71,950)	325,533	(293,150)	(43,753)	40,024	(63,944)	(107,240)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

37. 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			
2017			
Financial assets			
Cash and cash equivalents	2,110	–	2,110
Other financial assets	–	18,200	18,200
	2,110	18,200	20,310
2016			
Financial assets			
Cash and cash equivalents	57	–	57
Other financial assets	–	20,475	20,475
	57	20,475	20,532

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 2016.

	Group		Company	
	Equity $'000	Profit before tax $'000	Equity $'000	Profit before tax $'000
2017				
SGD	–	(3,919)	–	–
USD	(63,855)	129,712	–	211
EUR	–	(3,416)	–	–
GBP	(5,382)	3,183	–	–
BRL	–	506	–	–
Others	1,820	(339)	1,820	–
	(67,417)	125,727	1,820	211
2016				
SGD	–	(7,081)	–	–
USD	(90,004)	87,368	–	6
EUR	2,408	2,857	–	–
GBP	(38,718)	9,210	–	–
BRL	–	11,934	–	–
Others	2,048	141	2,048	–
	(124,266)	104,429	2,048	6

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, except for amounts of $1,820,000 (2016: $2,048,000) relating to other currency which would be recognised in profit before tax instead of equity, on the basis of impairment found on the equity securities.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(a) Market risk (cont'd)

(iii) Price risk

The Group is exposed to equity securities and unit trusts price risk because of the investments held by the Group which are classified on the consolidated balance sheet as available-for-sale.

Sensitivity analysis

If prices for equity securities and unit trusts increase by 10%, assuming all other variables are held constant, the equity and profit before tax would have increased by the amounts shown below:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Equity	1,889	5,220	1,889	4,061
Profit before tax	–	–	–	–

If prices for equity securities and unit trusts decrease by 10%, assuming all other variables are held constant, the equity and profit before tax would have decreased by the amounts shown below (on the basis of impairment found on the equity securities):

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Equity	(69)	(1,725)	(69)	(2,013)
Profit before tax	(1,820)	(3,495)	(1,820)	(2,048)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(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.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk is the carrying amount of each financial asset, including derivatives, in the balance sheets.

The Group's and the Company's maximum exposure to credit risk for loans and receivables at the balance sheet date is as follows:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
By business activity				
Rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding	2,287,844	2,696,950	–	–
Ship chartering	9,171	10,573	–	–
Others	20,102	7,600	114,052	58,241
	2,317,117	2,715,123	114,052	58,241

		Group		Company	
	Note	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Loans and receivables					
Non-current trade and other receivables*	9	117,643	–	–	–
Current trade and other receivables	9	544,703	472,241	114,052	58,241
Due from customers on construction contracts	13	1,654,771	2,242,882	–	–
		2,317,117	2,715,123	114,052	58,241

* Not past due.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(b) Credit risk (cont'd)

The age analysis of loans and receivables for the Group is as follows:

	Gross 2017 $'000	Impairment 2017 $'000	Gross 2016 $'000	Impairment 2016 $'000
Group				
Not past due	2,100,922	–	2,607,184	–
Past due 0 to 3 months	27,769	68	29,659	2,170
Past due 3 to 6 months	38,651	53	47,090	364
Past due 6 to 12 months	24,849	483	29,652	406
More than 1 year	172,864	164,977	174,227	169,749
	2,365,055	165,581	2,887,812	172,689
Company				
Not past due	114,052	–	58,241	–

Movements in the allowance for impairment of loans and receivables are as follows:

	Group 2017 $'000	Group 2016 $'000
Balance at beginning of the year	172,689	158,315
Currency translation difference	(6,921)	10,066
Allowance made	1,285	5,373
Allowance utilised	(316)	(1,091)
Allowance written back	(1,118)	(142)
Acquisition of subsidiaries	–	168
Disposal of subsidiaries	(38)	–
Balance at end of the year	165,581	172,689

The allowance account in respect of loans and receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset. As at the reporting date, the impairment allowance relates mainly to one customer whose creditworthiness has deteriorated and is currently undergoing financial restructuring. Accordingly, the outstanding past due receivables owing from this customer have been fully provided for.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(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 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:

		Cash flows			
	Carrying amount $'000	Contractual cash flows $'000	Less than 1 year $'000	Between 1 and 5 years $'000	Over 5 years $'000
Group					
2017					
Derivative financial liabilities					
Interest rate swaps	(7,162)	(6,913)	(4,010)	(2,903)	–
Derivative financial assets					
Interest rate swaps	456	715	468	247	–
Forward foreign currency contracts	57,037				
– Inflow		981,195	453,762	527,433	–
– Outflow		(924,158)	(421,339)	(502,819)	–
Non-derivative financial liabilities					
Trade and other payables*#	(1,652,889)	(1,652,889)	(1,652,889)	–	–
Interest-bearing borrowings#	(4,128,911)	(4,426,787)	(1,137,663)	(2,880,273)	(408,851)
	(5,731,469)	(6,028,837)	(2,761,671)	(2,858,315)	(408,851)
2016					
Derivative financial liabilities					
Interest rate swaps	(3,092)	(2,498)	(3,237)	739	–
Forward foreign currency contracts	(41,622)				
– Inflow		1,132,401	318,093	814,308	–
– Outflow		(1,174,023)	(336,410)	(837,613)	–
Derivative financial assets					
Interest rate swaps	2,025	466	216	250	–
Forward foreign currency contracts	58,503				
– Inflow		688,228	521,530	166,698	–
– Outflow		(629,725)	(475,541)	(154,184)	–
Non-derivative financial liabilities					
Trade and other payables*#	(2,084,188)	(2,084,188)	(2,084,188)	–	–
Interest-bearing borrowings#	(4,188,924)	(4,504,950)	(1,465,426)	(2,618,161)	(421,363)
	(6,257,298)	(6,574,289)	(3,524,963)	(2,627,963)	(421,363)

* Excludes deposits received, advance payment from customers, Goods and Services Tax, deferred grants, accrued land lease 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(c) Liquidity risk (cont'd)

	Carrying amount $'000	Cash flows: Contractual cash flows $'000	Cash flows: Less than 1 year $'000	Cash flows: Between 1 and 5 years $'000	Cash flows: Over 5 years $'000
Company					
2017					
Non-derivative financial liabilities					
Trade and other payables*	(26,385)	(26,385)	(26,385)	–	–
Interest-bearing borrowings	(1,868)	(1,868)	(474)	(1,394)	–
	(28,253)	(28,253)	(26,859)	(1,394)	–
2016					
Non-derivative financial liabilities					
Trade and other payables*	(23,864)	(23,864)	(23,864)	–	–

* Excludes deposits received, Goods and Services Tax and long-term employee benefits.

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	Cash flows: Contractual cash flows $'000	Cash flows: Less than 1 year $'000	Cash flows: Between 1 and 5 years $'000
Group				
2017				
Derivative financial liabilities				
Interest rate swaps	(7,162)	(6,913)	(4,010)	(2,903)
Derivative financial assets				
Interest rate swaps	456	715	468	247
Forward foreign currency contracts	57,037			
– Inflow		981,195	453,762	527,433
– Outflow		(924,158)	(421,339)	(502,819)
	50,331	50,839	28,881	21,958
2016				
Derivative financial liabilities				
Interest rate swaps	(3,092)	(2,498)	(3,237)	739
Forward foreign currency contracts	(30,027)			
– Inflow		1,055,509	241,201	814,308
– Outflow		(1,085,536)	(247,923)	(837,613)
Derivative financial assets				
Interest rate swaps	2,025	466	216	250
Forward foreign currency contracts	39,674			
– Inflow		506,151	339,453	166,698
– Outflow		(466,477)	(312,293)	(154,184)
	8,580	7,615	17,417	(9,802)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(d) Estimation of fair values

FRS 107 establishes a fair value hierarchy that prioritises the inputs used to measure fair value. The three levels of the fair value input hierarchy defined by FRS 107 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 available-for-sale financial assets, 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 2017

37. 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 2017. 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 2017				
Available-for-sale financial assets	18,200	694	–	18,894
Derivative financial assets	–	58,185	–	58,185
	18,200	58,879	–	77,079
Derivative financial liabilities	–	(7,162)	–	(7,162)
Total	18,200	51,717	–	69,917
At 31 December 2016				
Available-for-sale financial assets	51,667	537	–	52,204
Derivative financial assets	–	64,674	–	64,674
	51,667	65,211	–	116,878
Derivative financial liabilities	–	(44,714)	–	(44,714)
Total	51,667	20,497	–	72,164
Company				
At 31 December 2017				
Available-for-sale financial assets	18,200	694	–	18,894
At 31 December 2016				
Available-for-sale financial assets	40,075	537	–	40,612

In 2017 and 2016, there were no transfers between the different levels of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(d) Estimation of fair values (cont'd)

*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 2017				
Due from customers on construction contracts	–	1,637,441	–	1,637,441
Interest-bearing borrowings	–	(3,218,321)	–	(3,218,321)
At 31 December 2016				
Due from customers on construction contracts	–	2,236,715	–	2,236,715
Interest-bearing borrowings	–	(2,725,253)	–	(2,725,253)

* 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 and where the effect of discounting is immaterial.

37. 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	Designated at fair value $'000	Fair value – hedging instruments $'000	Available-for-sale $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
Group								
At 31 December 2017								
Cash and cash equivalents	15	–	–	–	1,301,000	–	1,301,000	1,301,000
Trade and other receivables	9	–	–	–	662,346	–	662,346	662,346
Due from customers on construction contracts	13	–	–	–	1,654,771	–	1,654,771	1,637,441
Available-for-sale financial assets								
– Equity shares	8(a)	–	–	18,200	–	–	18,200	18,200
– Unit trusts	8(a)	–	–	694	–	–	694	694
Fair value hedges								
– Firm commitments	8(b)	–	–	–	692	–	692	692
Cash flow hedges								
– Forward foreign currency contracts	8(a)&(b)	–	57,037	–	–	–	57,037	57,037
– Interest rate swaps	8(b)	–	456	–	–	–	456	456
		–	57,493	18,894	3,618,809	–	3,695,196	3,677,866
Trade and other payables*		–	–	–	–	1,681,677	1,681,677	1,681,677
Cash flow hedges								
– Interest rate swaps	19(a)&(b)	–	7,162	–	–	–	7,162	7,162
Interest-bearing borrowings								
– Short-term borrowings	20	–	–	–	–	852,737	852,737	852,737
– Long-term borrowings	20	–	–	–	–	3,247,386	3,247,386	3,218,321
		–	7,162	–	–	5,781,800	5,788,962	5,759,897

* 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

Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(e) Fair value versus carrying amounts (cont'd)

	Note	Designated at fair value $'000	Fair value – hedging instruments $'000	Available-for-sale $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
Group								
At 31 December 2016								
Cash and cash equivalents	15	–	–	–	1,216,971	–	1,216,971	1,216,971
Trade and other receivables	9	–	–	–	472,241	–	472,241	472,241
Due from customers on construction contracts	13	–	–	–	2,242,882	–	2,242,882	2,236,715
Available-for-sale financial assets								
– Equity shares	8(a)	–	–	51,667	–	–	51,667	51,667
– Unit trusts	8(a)	–	–	537	–	–	537	537
Financial assets at fair value through profit or loss								
– Forward foreign currency contracts	8(b)	–	18,829	–	–	–	18,829	18,829
Fair value hedges								
– Firm commitments	8(b)	–	–	–	4,146	–	4,146	4,146
Cash flow hedges								
– Forward foreign currency contracts	8(a)&(b)	–	39,674	–	–	–	39,674	39,674
– Interest rate swaps	8(a)&(b)	–	2,025	–	–	–	2,025	2,025
		–	60,528	52,204	3,936,240	–	4,048,972	4,042,805
Trade and other payables*		–	–	–	–	2,118,137	2,118,137	2,118,137
Financial liabilities at fair value through profit or loss								
– Forward foreign currency contracts	19(a)	–	11,595	–	–	–	11,595	11,595
Cash flow hedges								
– Forward foreign currency contracts	19(a)&(b)	–	30,027	–	–	–	30,027	30,027
– Interest rate swaps	19(b)	–	3,092	–	–	–	3,092	3,092
Interest-bearing borrowings								
– Short-term borrowings	20	–	–	–	–	1,363,961	1,363,961	1,363,961
– Long-term borrowings	20	–	–	–	–	2,791,014	2,791,014	2,725,253
		–	44,714	–	–	6,273,112	6,317,826	6,252,065

* 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
Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(e) Fair value versus carrying amounts (cont'd)

	Note	Available-for-sale $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
Company						
At 31 December 2017						
Cash and cash equivalents	15	–	55,126	–	55,126	55,126
Trade and other receivables	9	–	114,052	–	114,052	114,052
Available-for-sale financial assets						
– Equity shares	8(a)	18,200	–	–	18,200	18,200
– Unit trusts	8(a)	694	–	–	694	694
		18,894	169,178	–	188,072	188,072
Trade and other payables*		–	–	26,385	26,385	26,385
At 31 December 2016						
Cash and cash equivalents	15	–	24,482	–	24,482	24,482
Trade and other receivables	9	–	58,241	–	58,241	58,241
Available-for-sale financial assets						
– Equity shares	8(a)	40,075	–	–	40,075	40,075
– Unit trusts	8(a)	537	–	–	537	537
		40,612	82,723	–	123,335	123,335
Trade and other payables*		–	–	23,864	23,864	23,864

* Excludes deposits received, Goods and Services Tax and long-term employee benefits.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

37. FINANCIAL INSTRUMENTS (CONT'D)

(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	
	2017 **$'000**	**2016** **$'000**
Debt	4,100,123	4,154,975
Total equity	2,519,372	2,607,621
Total debt and equity	6,619,495	6,762,596
Debt-to-capitalisation ratio	0.62	0.61

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. This externally imposed capital requirement has been complied with at each quarter in the financial year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

38. CONTINGENT ASSET AND LIABILITIES

(i) Group – Claims and contingencies

In 2015, a customer, Marco Polo Drilling (I) Pte. Ltd. ("MPD"), alleged that a subsidiary of the Group has not complied with certain of its material contractual obligations and purported to terminate the contract and consequently sought refund of 50% of the initial instalment being the sum of S$30,094,000 (US$21,430,000) from the subsidiary and related interest charges. The subsidiary terminated the contract after MPD continued not to make payment of this balance 50% of the initial instalment, due since February 2014. The subsidiary continues to disagree with MPD's allegations and strongly believes its contractual right of payment extends to the full initial instalment received and receivable from MPD. No provision for refund has been recognised because the subsidiary believes it has the contractual entitlement to retain 50% of the initial instalment. The remaining 50% of the initial instalment due has not been recognised since the "virtually certain" threshold in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets* has not been met. The Group views this as a "contingent asset".

In 2017, the subsidiary, MPD and Marco Polo Marine Ltd ("MPM"), guarantor to perform MPD's obligations in full under the contract, have entered into a settlement agreement on a without admission of fault or liability basis on the terms that a Consent Award be entered into in favour of the subsidiary for part of the subsidiary's claim and interest in the arbitration proceedings, and with MPD and MPM withdrawing their respective claims. The settlement amount of approximately $1,600,000 had been received in January 2018.

(ii) Company – Corporate guarantees

	Company	
	2017 $'000	2016 $'000
Unsecured corporate guarantees granted in respect of:		
– Performance of subsidiaries	3,692,999	4,593,666
– Unsecured term loans by a subsidiary	650,000	650,000
– Unsecured short term loans by a subsidiary	82,533	115,128
– Unsecured revolving credit facilities by subsidiaries	1,483,755	1,364,932
– Unsecured bonds issued by a subsidiary	600,000	600,000

The Company has provided guarantees to banks to secure banking facilities provided to wholly-owned subsidiaries, Jurong Shipyard Pte Ltd and Estaleiro Jurong Aracruz Ltda. 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 2017

39. COMMITMENTS

Commitments not provided for in the financial statements are as follows:

		Group		Company	
		2017 $'000	2016 $'000	2017 $'000	2016 $'000
(a)	*Approved capital commitment:*				
	– Approved capital expenditure commitment	53,248	156,295	–	–
(b)	*Minimum lease rental payable in respect of land and buildings:*				
	– Within 1 year	17,994	20,930	10,622	11,127
	– After 1 year but within 5 years	49,520	58,283	38,326	40,189
	– After 5 years	340,658	355,826	46,934	49,647
		408,172	435,039	95,882	100,963

The leases do not provide for contingent rents and lease terms do not contain restrictions on the Group activities concerning dividends, additional debt or further leasing. Certain leases contain escalation clauses to reflect market rentals.

Certain leases include renewal options for additional lease period of 10 to 30 years and at rental rates based on prevailing market rates.

The Group leases out its marine vessel. The initial lease term is 5 years, with an option to extend for another 5 years. The lease agreement provides for additional lease payments annually based on changes to a price index. The future minimum lease receivables under non-cancellable leases are as follows:

	Group	
	2017 $'000	2016 $'000
Within 1 year	38,933	68,277
After 1 year but within 5 years	–	39,657
	38,933	107,934

40. OPERATING SEGMENTS

(a) Business segments

The Group has two reportable segments, which are the Group's strategic business units. The strategic business units are managed separately because of their different business activities. The two reportable segments are: (i) rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding; and (ii) ship chartering.

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 2017

40. 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
2017					
Turnover					
Sales to external parties	2,319,672	57,437	10,245	–	2,387,354
Inter-segment sales	–	–	88,381	(88,381)	–
Total	2,319,672	57,437	98,626	(88,381)	2,387,354
Results					
Segment results	9,255	13,230	(2,032)	–	20,453
Finance income	11,398	–	150	–	11,548
Finance costs	(93,473)	(2,049)	–	–	(95,522)
Non-operating income	–	–	64,803	–	64,803
Non-operating expenses	–	–	(13,309)	–	(13,309)
Share of results of associates and joint ventures, net of tax	(914)	(3,669)	966	–	(3,617)
(Loss)/profit before tax	(73,734)	7,512	50,578	–	(15,644)
Tax credit	25,273	–	319	–	25,592
(Loss)/profit for the year	(48,461)	7,512	50,897	–	9,948
Assets					
Segment assets	8,748,453	246,025	71,924	–	9,066,402
Investments in associates and joint ventures	5,181	53,085	9,699	–	67,965
Deferred tax assets	5,263	–	626	–	5,889
Tax recoverable	11,192	–	–	–	11,192
Total assets	8,770,089	299,110	82,249	–	9,151,448
Liabilities					
Segment liabilities	6,437,968	81,551	26,144	–	6,545,663
Deferred tax liabilities	61,390	–	155	–	61,545
Current tax payable	24,335	–	533	–	24,868
Total liabilities	6,523,693	81,551	26,832	–	6,632,076
Capital expenditure	193,295	–	160	–	193,455
Significant non-cash items					
Depreciation and amortisation	182,627	9,230	1,059	–	192,916
Gain on disposal of assets held for sale	–	–	(46,816)	–	(46,816)
Gain on disposal of subsidiaries, net	–	–	(753)	–	(753)
Gain on disposal of available-for-sale financial asset	–	–	(17,200)	–	(17,200)
Assumption of liabilities on behalf of a joint venture	–	–	11,000	–	11,000
Fair value adjustment on hedging instruments	(1,623)	–	–	–	(1,623)
Fair value adjustment on firm commitments under fair value hedge	3,454	–	–	–	3,454
Property, plant and equipment written off	470	–	30	–	500
Impairment losses on available-for-sale financial assets	–	–	2,275	–	2,275
Reversal of contract costs (net) on termination, net of write-down of inventories and foreseeable loss on contract work-in-progress	(19,622)	–	–	–	(19,622)
Allowance for doubtful debts and bad debts, net	148	–	19	–	167

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

40. 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
2016					
Turnover					
Sales to external parties	3,474,179	58,962	11,675	–	3,544,816
Inter-segment sales	–	–	144,795	(144,795)	–
Total	3,474,179	58,962	156,470	(144,795)	3,544,816
Results					
Segment results	208,894	11,981	4,431	–	225,306
Finance income	7,775	–	147	–	7,922
Finance costs	(86,222)	(2,429)	–	–	(88,651)
Non-operating income	4,243	–	186	–	4,429
Non-operating expenses	(2,120)	–	(21,232)	–	(23,352)
Share of results of associates and joint ventures, net of tax	(32,918)	(3,391)	1,175	–	(35,134)
Profit/(loss) before tax	99,652	6,161	(15,293)	–	90,520
Tax expense	(14,839)	–	(521)	–	(15,360)
Profit/(loss) for the year	84,813	6,161	(15,814)	–	75,160
Assets					
Segment assets	8,960,627	270,423	88,395	–	9,319,445
Investments in associates and joint ventures	6,139	59,944	8,733	–	74,816
Deferred tax assets	12,042	–	–	–	12,042
Tax recoverable	8,530	–	–	–	8,530
Total assets	8,987,338	330,367	97,128	–	9,414,833
Liabilities					
Segment liabilities	6,551,425	104,706	28,591	–	6,684,722
Deferred tax liabilities	85,438	–	235	–	85,673
Current tax payable	34,805	–	2,012	–	36,817
Total liabilities	6,671,668	104,706	30,838	–	6,807,212
Capital expenditure	419,506	–	373	–	419,879
Significant non-cash items					
Depreciation and amortisation	148,662	9,141	1,142	–	158,945
Fair value adjustment on hedging instruments	(1,435)	–	–	–	(1,435)
Fair value adjustment on firm commitments under fair value hedge	(4,146)	–	–	–	(4,146)
Gain on deemed disposal of available-for-sale financial asset	(4,243)	–	–	–	(4,243)
Negative goodwill	(2,600)	–	–	–	(2,600)
Impairment losses on available-for-sale financial assets	–	–	21,232	–	21,232
Impairment losses on investment in associates	2,120	–	–	–	2,120
Property, plant and equipment written off	45	–	–	–	45
Inventories written back, net	(1,195)	–	33	–	(1,162)
Allowance for doubtful debts and bad debts, net	5,230	–	1	–	5,231

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

40. OPERATING SEGMENTS (CONT'D)

(b) Geographical segments

The Group operates in 12 (2016: 12) countries and principally in the Republic of Singapore. Pricing of inter-segment sales and transfers are carried out on an arm's length basis.

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
2017				
Singapore	243,764	2,342,455	6,820,153	94,694
China	2,401	342	342	–
Malaysia[2]	(257,648)	1,132	1,481	–
Rest of ASEAN, Australia & India	98,900	151,967	233,983	1,779
Middle East & Africa	65,340	–	–	–
United Kingdom	744,752	5,121	83,777	727
Norway	750,816	147,865	153,172	–
The Netherlands	594,553	207,575	246,058	–
Rest of Europe	284,090	–	–	–
Brazil	213,192	1,432,718	1,604,585	96,213
U.S.A.	185,176	4,018	5,567	4
Mexico[2]	(603,506)	–	–	–
Other countries	65,524	89	2,330	38
Total	2,387,354	4,293,282	9,151,448	193,455
2016				
Singapore	317,392	2,392,497	7,084,769	214,065
China	330	1,462	193,483	–
Rest of ASEAN, Australia & India	313,140	172,088	289,722	12,104
Middle East & Africa	14,315	–	–	–
United Kingdom	635,460	5,141	8,393	310
Norway	284,142	165,170	174,880	30
The Netherlands	495,649	229,014	270,445	–
Austria	357,547	–	–	–
Rest of Europe	345,169	–	–	–
Brazil	83,942	1,346,954	1,385,236	193,331
U.S.A.	697,665	4,289	6,299	8
Other countries	65	88	1,606	31
Total	3,544,816	4,316,703	9,414,833	419,879

(1) Non-current assets presented consist property, plant and equipment, investments in associates and joint ventures, trade and other receivables and intangible assets.

(2) During the financial year, certain construction contracts were terminated, and the contract revenue previously recognised were reversed through profit or loss. Refer to Note 13.

(c) Major customers

In 2017, turnover from three (2016: three) customers of the Group's rigs & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding segment represents approximately 60 per cent (2016: 39 per cent) of the Group's total turnover.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

41. 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 41(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 28.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

41. 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.

During the year, there were no revisions to the useful lives and residual values found on the Group's property, plant and equipment.

(d) Impairment assessment of property, plant and equipment, intangible assets and associates

Impairment assessment of the Group's shipyards

Owing to the continuing difficult market conditions impacting the offshore and marine sector, 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 and 10 years for Singapore and Brazil (the "projection periods"), respectively, with applicable growth rates for Singapore and Brazil beyond the projection periods (up to a maximum of 40 years). The forecasted order book and the related project margins are the key drivers supporting the recoverable amounts. The projected cash flows are supported by the Group's historical experience, market observable data surrounding the state-owned and international oil majors' capital commitment and projected capital expenditures in oil and gas production and exploration activities, regulations relating to local content requirements in Brazil, market expectations and developments for contract order prices, and other external analysts' forecast reports in oil price movements and demands for drilling and production solutions. These cash flows are then discounted using the applicable discount rates based on their pre-tax weighted average cost of capital of 9.5% (2016: 9.7%) and 10.0% (2016: 15.9%) 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 is, 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 and accordingly, prepared a 10 year projection period. 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 significantly 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

41. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Key sources of estimation uncertainty (cont'd)

(d) Impairment assessment of property, plant and equipment, intangible assets and associates (cont'd)

Impairment assessment of the Group's associate

The recoverable amount of the interest in an associate was estimated based on its value in use. In estimating the recoverable amount, the Group applied the relief from royalty method to value the existing intellectual properties owned by the associate. As the associate is a start-up owning various intellectual properties at different stages of their business life cycles, the discount rates applied by the Group range from 20% to 22%, to reflect the higher risks inherent in the forecasted cash flows. Any significant changes to these forecasted cash flows, caused by changes in the risk of returns of the intellectual properties may result in material adjustments on the associate's recoverable amounts in future periods.

(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 18.

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. 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.

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 38.

NOTES TO THE FINANCIAL STATEMENTS

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41. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Key sources of estimation uncertainty (cont'd)

(f) Determination of net realisable value of inventories and work-in-progress

The net realisable value of inventories and work-in-progress 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 work-in-progress; and there is a significant risk of resulting in a material adjustment to the carrying amounts of inventories and work-in-progress in future periods.

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 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 and estimating a reasonable contribution margin for revenue and costs 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 foreseeable losses where total costs to complete the construction contracts exceed the contract revenue. 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

41. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Critical accounting judgements in applying the Group's accounting policies (cont'd)

(b) Impairment of investments and financial assets

The Group follows the guidance of FRS 39 *Financial Instruments: Recognition and Measurement* in determining whether there is any objective evidence that an investment or financial asset is impaired. This determination requires significant judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of an investment and financial asset is less than its cost; and the financial health of and near-term business outlook for the investment or financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The carrying amounts of investments and financial assets are disclosed in the following notes:

- Note 7 – Interests in associates and joint ventures
- Note 8 – Other financial assets
- Note 9 – Trade and other receivables

In assessing whether there is any objective evidence that its investments in associates and available-for-sale financial assets are impaired, the Group takes into consideration whether there is a significant or prolonged decline in the fair value of its investment, alongside with other considerations such as volatility of the share price relative to general stock indices, analysts' reports on outlook of the underlying security, and other qualitative factors such as the financial performance of the investment.

In assessing the level of impairment allowance required on the Group's trade and other receivables, the Group considers the financial restructuring (where relevant), credit-worthiness and financial health of its customers whose conditions are subject to changes, which may require changes in the level of impairment allowance in future periods.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

42. 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 2017 %	Effective equity held by the Group 2016 %
Subsidiaries				
Bulk Trade Pte Ltd[(1)]	Singapore	Bulk trading	100	100
Dolphin Shipping Company Private Limited[(1)]	Singapore	Ship owning and chartering	100	100
Gravifloat AS[(2), a]	Norway	Engineering and related services	56	56
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
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
Karimun Shiprepair and Engineering Pte Ltd[(1)]	Singapore	Investment holding	100	100
PPL Shipyard Pte Ltd[(1), b]	Singapore	Rig building, repair and related services	100	100
SCM Investment Holdings Pte Ltd[(1)]	Singapore	Investment holding	100	100
Sembcorp Holdings, LLC.[(4)]	United States of America	Investment holding	100	100
Sembcorp Marine Integrated Yard Pte. Ltd.[(1)]	Singapore	Ship and rig repair, building, conversion, offshore engineering and related 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 Specialised Shipbuilding Pte. Ltd.[(1)]	Singapore	Shipbuilding, ship repair and related services	100	100
Sembcorp Marine Technology Pte Ltd[(1)]	Singapore	Research & development in offshore and marine technology	100	100
SembMarine Investment Pte Ltd[(1)]	Singapore	Investment holding	100	100
SML Shipyard Pte Ltd[(1)]	Singapore	Ship repair and related services	100	100
Associate				
Joint Shipyard Management Services Pte Ltd[(1)]	Singapore	Managing dormitories	32	32

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

42. GROUP ENTITIES (CONT'D)

Name of company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2017 %	Effective equity held by the Group 2016 %
Joint venture of Dolphin Shipping Company Private Limited				
Pacific Workboats Pte Ltd[3]	Singapore	Ship leasing and marine surveying services	50	50
Subsidiary of JPL Industries Pte Ltd				
JPL Concrete Products Pte Ltd[1]	Singapore	Production of concrete products	85.8	85.8
Subsidiaries and joint venture 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, c]	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 Autoblast Services Pte. Ltd.[1, d]	Singapore	Surface preparation of steel plates, structures and marine engineering services	–	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
Marine Housing Services Pte. Ltd.[3]	Singapore	Provision of dormitory housing services	50	50
Sembcorp Marine Solutions Pte. Ltd.[1]	Singapore	Provision of management and technical services	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
Shanghai Guofeng Marine Engineering & Technology Co. Ltd.[3, e]	People's Republic of China	Research and development of technologies for civil ships and equipment for oceanics industries and provision of related technical consultation services	–	70

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

42. GROUP ENTITIES (CONT'D)

Name of company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2017 %	Effective equity held by the Group 2016 %
Subsidiary of Karimun Shiprepair and Engineering Pte Ltd				
P.T. Karimun Sembawang Shipyard[(3)]	Indonesia	Ship repair and related services	100	100
Subsidiaries of PPL Shipyard Pte Ltd				
Baker Marine Pte Ltd[(1), b]	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), b]	Hong Kong	Provision of rig designs	100	100
Baker Marine Technology Inc.[(4), b]	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)]	United States of America	Inactive	100	100
Sembcorp-Sabine Industries, Inc.[(4)]	United States of America	Investment holding	100	100
Sembcorp-Sabine Shipyard, Inc.[(4)]	United States of America	Rig and vessel enhancement and upgrading services	100	100
Subsidiaries and joint venture of Sembcorp Marine Integrated Yard Pte. Ltd.				
Aragon AS[(2), f]	Norway	Process design and engineering	50	50
LMG Marin AS[(2), g]	Norway	Ship design and engineering	100	100
Sembcorp Marine Contractors Pte. Ltd.[(1)]	Singapore	Provision of contract services	100	100
Sembcorp Marine Rigs & Floaters Pte. Ltd.[(1)]	Singapore	Ship and rig building, conversion and related services	100	100

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

42. GROUP ENTITIES (CONT'D)

Name of company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2017 %	Effective equity held by the Group 2016 %
Subsidiaries, associate and joint venture of Sembcorp Marine Repairs & Upgrades Pte. Ltd.				
Aquarius Brasil B.V. (formerly known as Equinox Offshore ARV3 B.V.)[2]	Netherlands	Shipowner	100	100
Ecospec Global Technology Pte. Ltd.[3]	Singapore	Provision of environmental engineering services	20	20
Pegasus Marine & Offshore Pte. Ltd.[1]	Singapore	Marine services	100	100
Semb-Eco Pte. Ltd.[1]	Singapore	Investment holding	55	55
Semb-Eco R&D Pte. Ltd.[1]	Singapore	Research and development, holding of patents	55	55
Semb-Eco Technology Pte. Ltd.[1]	Singapore	Manufacturing and commercialisation of patents	55	55
Sembawang Shipyard Project Services Pte Ltd[1]	Singapore	Marine services and rental of premises	100	100
Sembawang Shipyard (S) Pte Ltd[1]	Singapore	Investment holding	100	100
Sembmarine Kakinada Limited[3]	India	Ship repair, conversion, building and related activities	40	40
SES Engineering (M) Sdn Bhd[2]	Malaysia	Fabrication of metal structures	100	100
SES Marine Services (Pte) Ltd[1]	Singapore	Marine services	100	100
Subsidiaries and associate of Sembcorp Marine Offshore Platforms Pte. Ltd.				
PT SMOE Indonesia[2]	Indonesia	Engineering, construction and fabrication of offshore structures	90	90
PT SMOE Singgar Mulia Engineering[2]	Indonesia	Engineering and construction consultation services	55	55
Sembmarine North Sea Limited[2], h	United Kingdom	Investment holding	100	100
Sembmarine SLP Limited[2], h	United Kingdom	Design, engineering, fabrication and installation of offshore platforms, modules and structures for the oil, gas and renewable energy industry	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	Hook-up, commissioning and maintenance of offshore oil and gas production facilities	100	100
Straits Overseas Pte. Ltd.[1]	Singapore	Investment holding and engineering, construction and fabrication of offshore marine structures	100	100

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

42. GROUP ENTITIES (CONT'D)

(1) Audited by KPMG LLP, Singapore

(2) Audited by member firms of KPMG International in the respective countries

(3) Audited by other firms

(4) These companies are not required to be audited under the laws of their country of incorporation

a On 9 March 2016, the Company acquired an additional 44% equity stake in Gravifloat AS (Gravifloat), a marine engineering and naval architecture company, increasing its stake to 56% and Gravifloat became subsidiary of the Group.

b On 29 August 2016, the Company acquired the remaining 15% in the issued and fully paid-up share capital of PPL Shipyard Pte Ltd (PPLS). Following the acquisition, PPLS became a wholly-owned subsidiary of the Company.

c During the year, the Company's wholly-owned subsidiary, Estaleiro Jurong Aracruz Ltda, changed its functional currency from the Brazilian Real to United States Dollar, in order to reflect the primary economic environment that the subsidiary currently operates in.

d On 1 November 2017, the Company's wholly owned subsidiary, Jurong Shipyard Pte Ltd divested its 100% interest in Jurong Autoblast Pte. Ltd. to Zingametall (S) Pte Ltd.

e On 7 April 2017, the Company's wholly owned subsidiary, Jurong Shipyard Pte Ltd divested its 70% interest in Shanghai Guofeng Marine Engineering & Technology Co. Ltd. to Zhao Wei Ming and Zhao Gang.

f On 28 June 2016, the Company's wholly-owned subsidiary, Sembcorp Marine Integrated Yard Pte. Ltd. acquired 50% of the issued and fully paid-up share capital of Aragon AS.

g On 26 August 2016, the Company's wholly-owned subsidiary, Sembcorp Marine Integrated Yard Pte. Ltd. acquired a 100% stake in LMG Marin AS (LMG). Consequently, LMG's financials were consolidated into the Group's financial statements.

h On 21 October 2016, the Company's wholly-owned subsidiary, Sembcorp Marine Offshore Platforms Pte. Ltd. (SMOP) acquired the remaining 30% in the issued and fully paid-up share capital of Sembmarine North Sea (SNS). Following the acquisition, SNS became a wholly-owned subsidiary of SMOP.

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) at 31 December 2017 that are applicable for annual period beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS(I). As a result, this will be the last set of financial statements prepared under the current FRS.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*.

In addition to the adoption of the new framework, the Group will also concurrently apply the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

- SFRS(I) 15 *Revenue from Contracts with Customers* which includes clarifications to IFRS 15 *Revenue from Contracts with Customers* issued by the IASB in April 2016;
- SFRS(I) 9 *Financial Instruments* which includes amendments arising from IFRS 4 *Insurance Contracts* issued by the IASB in September 2016;
- Requirements in SFRS(I) 2 *Share-based Payment* arising from the amendments to IFRS 2 – *Classification and measurement of share-based payment transactions* issued by the IASB in June 2016;

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

- Requirements in SFRS(I) 1-40 *Investment Property* arising from the amendments to IAS 40 – *Transfers of investment property* issued by the IASB in December 2016;
- Requirements in SFRS(I) 1 arising from the amendments to IFRS 1 – *Deletion of short-term exemptions for first-time adopters* issued by the IASB in December 2016;
- Requirements in SFRS(I) 1-28 *Investments in Associates and Joint Ventures* arising from the amendments to IAS 28 – *Measuring an associate or joint venture at fair value* issued by the IASB in December 2016; and
- SFRS(I) INT 22 *Foreign Currency Transactions and Advance Consideration.*

The Group does not expect the application of the above standards and interpretations to have a significant impact on the financial statements, except for SFRS(I) 15 and SFRS(I) 9.

(i) SFRS(I) 1

When the Group adopts SFRS(I) in 2018, the Group will apply SFRS(I) 1 with 1 January 2017 as the date of transition for the Group and the Company. SFRS(I) 1 generally requires that the Group applies SFRS(I) on a retrospective basis, as if such accounting policy had always been applied. If there are changes to accounting policies arising from new or amended standards effective in 2018, restatement of comparatives may be required because SFRS(I) 1 requires both the opening balance sheet and comparative information to be prepared using the most current accounting policies. SFRS(I) 1 provides mandatory exceptions and optional exemptions from retrospective application, but these are often different from those specific transition provisions in individual FRSs applied to the FRS financial statements. The Group does not expect the application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 to have any significant impact on the financial statements.

(ii) SFRS(I) 15

SFRS(I) 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

The Group plans to adopt SFRS(I) 15 in its financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of SFRS(I) 15 retrospectively, except as described below, and the comparative period presented in the 2018 financial statements will be restated.

The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as completed contracts at the beginning of the earliest period presented, are not restated.

The Group plans to use the practical expedients for variable considerations. This means that for contracts with variable consideration that were completed on or before the initial application date, the transaction price at the date of completion is used, rather than estimating the amount of variable consideration.

The Group plans to use the practical expedients for contract modifications. This means that for contracts that were modified before the beginning of the earliest period presented, the aggregate effect of all contract modifications when identifying separate performance obligations and determining and allocating the transaction price on transition are reflected.

The Group plans to use the practical expedients for performance obligation disclosures. This means that for periods presented before the initial application date, the amount of the transaction price allocated to the remaining performance obligations and an explanation of when that revenue was recognised are not disclosed.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

(ii) SFRS(I) 15 (cont'd)

The expected impact upon the adoption of SFRS(I) 15 are described below.

Long-term contracts

(a) Timing of revenue and cost recognition

The Group currently recognises revenue from long-term contracts using the percentage of completion method, provided the outcome of the contract can be reliably estimated. Under SFRS(I) 15, the Group expects most of its long-term contracts from its rig & floaters, repairs & upgrades, offshore platforms and specialised shipbuilding under the Group's operating segment, to constitute a single performance obligation, due to the inter-dependence of services provided in these contracts.

The Group does not have an alternative use for the specialised assets which are built to customer order.

When the Group has an enforceable right to payment for performance completed to date or where the Group's performance creates or enhances an asset that the customer controls as the asset is being created or enhanced, the Group expects to continue to recognise revenue on these long-term contracts over time. The costs associated to fulfil the performance obligation are expensed as control of goods or services is transferred to the customer over time.

When the right to payment for performance completed to date cannot be enforced due to non-enforceability of right to payment for performance completed to date, the revenue and related costs of sales are recognised only when the constructed assets are delivered to customers.

(b) Contract costs

For long term contracts where the stage of completion is determined by reference to surveys of work done, contract costs are recognised as an expense in profit or loss using the percentage of completion method prior to the adoption of SFRS(I) 15.

On adoption of SFRS(I) 15, the costs incurred to fulfil the satisfied performance obligation are recognised in profit or loss as control of goods or services to the customer is transferred over time. As there is no direct linkage between the costs being expensed and the output measure used to determine revenue, this may result in volatile contract margin over the life cycle of the contracts for the long term contracts.

Where the control of goods and services to the customer is transferred at a future point in time, the costs incurred to fulfil the future performance obligation are capitalised as they are recoverable, and presented as "Contract Costs" within the balance sheet. The costs capitalised are recognised in profit or loss when the performance obligation is satisfied.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

(ii) SFRS(I) 15 (cont'd)

Contract modifications and variable considerations

Prior to the adoption of SFRS(I) 15, contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When a claim or variation is recognised, the measure of contract progress or contract price is revised and the cumulative contract position is reassessed at each reporting date.

Upon the adoption of SFRS(I) 15, claims and variations would be considered as contract modifications, and will be included within contract accounting when they are approved. This is because any contract modification is not likely to result in a separate contract, as the services within a long term contract are integrated.

Where there is variable consideration, the Group estimates the amount only to the extent that it is highly probable that a significant reversal of the amount will not occur in the future. This amount is included in the transaction price.

Based on its assessment, the Group does not expect the current practice on contract modifications and variable considerations to require any significant change on adoption of SFRS(I) 15.

Consideration payable to customer

The Group currently offsets certain payments made to customers for purchase of goods against revenue. Upon the adoption of SFRS(I) 15, such payments are treated as consideration payable to customer, and are recognised as an expense when payment to the customer is in exchange for a distinct good or service.

Significant financing component

The Group has certain contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. In such cases, contract revenue contains a financing component. For contracts where financing components are determined to be significant, the transaction price is adjusted for the time value of money of the contracts.

The Group is currently in the process of finalising the effects of SFRS(I) 15, and the quantum of the final transition adjustments may be different upon finalisation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

(iii) SFRS(I) 9

SFRS(I) 9 contains new requirements for classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements.

Changes in accounting policies resulting from the adoption of SFRS(I) 9 will generally be applied by the Group retrospectively, except as described below.

- The Group plans to take advantage of the exemption in SFRS(I) 1 allowing it not to restate comparative information in the 2018 SFRS(I) financial statements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 9 are recognised in retained earnings and reserves as at 1 January 2018.

- The following assessments have to be made on the basis of facts and circumstances that existed at 1 January 2018.

  - The determination of the business model within which a financial asset is held.

  - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  - The designation of investment in equity instruments that is not held for trading as at fair value through other comprehensive income (FVOCI).

  - The designation of investments in unit trusts and funds as at fair value through profit or loss.

New hedge accounting requirements are applied prospectively. All hedging relationships designated under FRS 39 *Financial Instruments: Recognition and Measurement* at 31 December 2017 that meet the criteria for hedge accounting under SFRS(I) 9 at 1 January 2018 will be regarded as continuing hedging relationships.

The expected impact on adoption of SFRS(I) 9 are described below. The information below reflects the Group's expectation of the implications arising from changes in the accounting treatment, however, the actual tax effect may change when the transition adjustments are finalised.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

(iii) SFRS(I) 9 (cont'd)

(a) Classification and measurement: financial assets

For financial assets currently held at amortised cost and at fair value, the Group expects to continue measuring these assets at fair value under SFRS(I) 9. The Group plans to elect to present in OCI the changes in fair value of the AFS equity securities that are held by the Group and the Company because these investments are not held for trading. The changes in fair value recognised in OCI will not be reclassified to profit or loss upon disposal of the AFS equity. The Group does not expect any significant impact on the financial statements from the Group's election to present in OCI the changes in fair value of its AFS equity securities. The Group's investments in unit trusts and funds, which is currently classified as available-for-sale financial assets, will be classified as fair value through profit and loss upon the adoption of SFRS(I) 9 and the fair value reserve relating to the fair value changes of the unit trusts and funds will be reclassified to revenue reserves. The amount to be reclassified as at 1 January 2018 is approximately $447,000.

(b) Impairment

SFRS(I) 9 replaces the current 'incurred loss' model with a forward-looking expected credit loss (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI (except for investments in equity instruments).

The Group plans to apply the simplified approach and record lifetime ECL on its trade receivables and any contract assets arising from the application of SFRS(I) 15. The Group expects an increase in impairment loss for trade and other receivables, and contract assets of $860,000 (net of tax) as at 1 January 2018.

The Group does not expect any material tax impact on the increase in impairment loss arising from SFRS(I) 9 adoption.

The Group is currently in the process of testing its expected credit loss model and the quantum of the final transition adjustments may be different upon finalisation.

Summary of Quantitative Impact

The Group is currently finalising the transition adjustments. The following reconciliations provide a preliminary estimate of the expected impacts on initial application of SFRS(I) 1, SFRS(I) 15 and SFRS(I) 9 on the Group's and the Company's financial position as at 31 December 2017 and 1 January 2018 and the Group's profit or loss and other comprehensive income for the year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

Balance Sheet

	31 December 2017			1 January 2018	
	Current framework $'000	SFRS(I) 15 $'000	SFRS(I) framework $'000	SFRS(I) 9 $'000	SFRS(I) framework $'000
Group					
Non-current assets					
Property, plant and equipment	3,995,019	–	3,995,019	–	3,995,019
Trade and other receivables	168,740	–	168,740	–	168,740
Others	299,205	–	299,205	–	299,205
	4,462,964	–	4,462,964	–	4,462,964
Current assets					
Inventories and work-in-progress	2,775,847	(2,678,828)	97,019	–	97,019
Trade and other receivables	566,874	261,931	828,805	(1,036)	827,769
Contract costs	–	2,460,313	2,460,313	–	2,460,313
Contract assets	–	656,933	656,933	–	656,933
Others	1,345,763	–	1,345,763	–	1,345,763
	4,688,484	700,349	5,388,833	(1,036)	5,387,797
Total assets	9,151,448	700,349	9,851,797	(1,036)	9,850,761
Current liabilities					
Trade and other payables	2,061,446	(447,024)	1,614,422	–	1,614,422
Excess of progress billings over work-in-progress	174,356	(174,356)	–	–	–
Contract liabilities	–	1,368,956	1,368,956	–	1,368,956
Others	906,809	(8,029)	898,780	–	898,780
	3,142,611	739,547	3,882,158	–	3,882,158
Non-current liabilities					
Deferred tax liabilities	61,545	–	61,545	(176)	61,369
Others	3,427,920	–	3,427,920	–	3,427,920
	3,489,465	–	3,489,465	(176)	3,489,289
Total liabilities	6,632,076	739,547	7,371,623	(176)	7,371,447
Net assets	2,519,372	(39,198)	2,480,174	(860)	2,479,314
Equity attributable to owner of the Company					
Share capital	484,288	–	484,288	–	484,288
Other reserves	(25,724)	(4,981)	(30,705)	(447)	(31,152)
Revenue reserve	2,019,609	(34,217)[1]	1,985,392	(413)	1,984,979
	2,478,173	(39,198)	2,438,975	(860)	2,438,115
Non-controlling interests	41,199	–	41,199	–	41,199
Total equity	2,519,372	(39,198)	2,480,174	(860)	2,479,314

(1) Amount relates to the reversal of cumulative profits of certain contracts, recognised in prior years according to existing policy in Note 3.19, where such revenue and related costs of sales would be recognised on delivery to customers upon adoption of SFRS(I) 15.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

Consolidated Income Statement

	Year ended 31 December 2017		
	Current framework $'000	SFRS(I) 15 $'000	SFRS(I) framework $'000
Group			
Turnover	2,387,354	625,512[2]	3,012,866
Cost of sales	(2,326,848)	(340,255)[2]	(2,667,103)
Gross profit	60,506	285,257	345,763
Other operating income	63,705	–	63,705
Other operating expenses	(5,021)	–	(5,021)
General and administrative expenses	(98,737)	–	(98,737)
Operating profit	20,453	285,257	305,710
Finance income	11,548	11,259	22,807
Finance costs	(95,522)	–	(95,522)
Non-operating income	64,803	–	64,803
Non-operating expenses	(13,309)	–	(13,309)
Share of results of associates and joint ventures, net of tax	(3,617)	–	(3,617)
(Loss)/profit before tax	(15,644)	296,516	280,872
Tax credit/(expense)	25,592	(50,408)	(24,816)
Profit for the year	9,948	246,108	256,056
Attributable to:			
Owner of the Company	14,076	246,108	260,184
Non-controlling interests	(4,128)	–	(4,128)
Profit for the year	9,948	246,108	256,056

(2) Amount relates mainly to the reversal of adjustments (in relation to contract terminations) recorded in 2017 set-off partially by reversal of revenue and related costs of sales for other contracts, recognised in 2017 according to existing policy in Note 3.19, which would be recognised on delivery to customers upon adoption of SFRS(I) 15.

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2017		
	Current framework $'000	SFRS(I) 15 $'000	SFRS(I) framework $'000
Group			
Profit for the year	9,948	246,108	256,056
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	(62,451)	–	(62,451)
Others	6,942	–	6,942
Other comprehensive income for the year, net of tax	(55,509)	–	(55,509)
Total comprehensive income for the year	(45,561)	246,108	200,547
Total comprehensive income attributable to:			
Owner of the Company	(41,407)	246,108	204,701
Non-controlling interests	(4,154)	–	(4,154)
Total comprehensive income for the year	(45,561)	246,108	200,547

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

Balance Sheet

	31 December 2017			1 January 2018	
	Current framework $'000	SFRS(I) 15 $'000	SFRS(I) framework $'000	SFRS(I) 9 $'000	SFRS(I) framework $'000
Company					
Non-current assets					
Property, plant and equipment	79,418	–	79,418	–	79,418
Investment properties	17,190		17,190		17,190
Trade and other receivables	31,725	–	31,725	–	31,725
Others	1,502,598	–	1,502,598	–	1,502,598
	1,630,931	–	1,630,931	–	1,630,931
Current assets					
Trade and other receivables	117,283	–	117,283	–	117,283
Others	55,972	–	55,972	–	55,972
	173,255	–	173,255	–	173,255
Total assets	1,804,186	–	1,804,186	–	1,804,186
Current liabilities					
Trade and other payables	26,433	–	26,433	–	26,433
Others	7,245	–	7,245	–	7,245
	33,678	–	33,678	–	33,678
Non-current liabilities					
Deferred tax liabilities	11,070	–	11,070	–	11,070
Others	26,209	–	26,209	–	26,209
	37,279	–	37,279	–	37,279
Total liabilities	70,957	–	70,957	–	70,957
Net assets	1,733,229	–	1,733,229	–	1,733,229
Equity attributable to owner of the Company					
Share capital	484,288	–	484,288	–	484,288
Other reserves	(27,831)	–	(27,831)	(447)	(28,278)
Revenue reserve	1,276,772	–	1,276,772	447	1,277,219
Total equity	1,733,229	–	1,733,229	–	1,733,229

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

Applicable to financial statements for the year 2019 and thereafter

The following new SFRS(I)s, amendments to and interpretations of SFRS(I)s are effective for annual periods beginning after 1 January 2018:

Applicable to 2019 financial statements

- SFRS(I) 16 *Leases*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures* (Amendments to SFRS(I) 1-28)
- *Prepayment Features with Negative Compensation* (Amendments to SFRS(I) 9)

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).

The Group is still in the process of assessing the impact of the new SFRS(I)s, amendments to and interpretations of SFRS(I)s on the financial statements. The Group's preliminary assessment of SFRS(I) 16, which is expected to have a more significant impact on the Group, is as described below.

SFRS(I) 16

SFRS(I) 16 replaces existing lease accounting guidance. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if SFRS(I) 15 is also applied. SFRS(I) 16 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group also expects the ROU assets recognised at date of initial application to be equal to their lease liabilities.

The Group has performed a preliminary assessment of the impact on its financial statements based on its existing operating lease arrangements (refer to Note 39).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

43. FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (SFRS(I)) AND ADOPTION OF NEW STANDARDS (CONT'D)

Until 2018, the approximate financial impact of the standard is unknown due to factors that impact calculation of lease liabilities such as discount rate, expected term of leases including renewal options and exemptions for short-term leases. The Group will continue to assess its portfolio of leases to calculate the impending impact of transition to the new standard.

(i) The Group as lessee

The Group expects its existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under SFRS(I) 16. The operating lease commitments on an undiscounted basis amount to approximately 4.5% of the consolidated total assets and 6.2% of consolidated total liabilities. Under the new standard, remaining lease payments of the operating leases will be recognised at their present value discounted using appropriate discount rate. In addition, the nature of expenses related to those leases will now change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge of ROU assets and interest expense on lease liabilities.

(ii) The Group as lessor

SFRS(I) 16 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the existing operating lease and finance lease accounting models respectively. However, SFRS(I) 16 requires more extensive disclosures to be provided by a lessor.

SUPPLEMENTARY INFORMATION

Year ended 31 December 2017

(UNDER SGX-ST LISTING MANUAL REQUIREMENTS)

A. DIRECTORS' AND KEY EXECUTIVES' REMUNERATION EARNED FOR THE YEAR

Summary compensation table for the year ended 31 December 2017

Name of Director	Salary[1] $'000	Bonus Earned $'000	Fair value of share-based compensation granted for the year[2] $'000	Directors' Fees Cash-based[3] $'000	Directors' Fees Share-based[4] $'000	Brought Forward Bonus Bank[5] $'000
Payable by the Company:						
Tan Sri Mohd Hassan Marican	–	–	–	378	162	–
Wong Weng Sun	867	852	1,069	–	–	2,676
Ajaib Haridass	–	–	–	172	73	–
Ron Foo Siang Guan	–	–	–	140	60	–
Lim Ah Doo	–	–	–	152	65	–
Koh Chiap Khiong[3]	–	–	–	128	55	–
Eric Ang Teik Lim[3]	–	–	–	184	–	–
Gina Lee-Wan	–	–	–	102	44	–
Bob Tan Beng Hai	–	–	–	151	64	–
Neil McGregor[3]	–	–	–	79	34	–
William Tan Seng Koon	–	–	–	86	36	–
Tang Kin Fei[3]	–	–	–	74	–	–

Name of Key Executive	Salary[1] $'000	Bonus Earned $'000	Fair value of share-based compensation granted for the year[2] $'000	Directors' Fees Cash-based $'000	Directors' Fees Share-based $'000	Brought Forward Bonus Bank[5] $'000
Ong Poh Kwee	471	–	308	–	–	475
Wang Zijian	374	265	308	–	–	52
Goh Khor Boon William	396	138	308	–	–	317
William Gu	302	331	308	–	–	(138)
Tan Cheng Tat	360	197	173	–	–	(23)

Notes:

1. The amount shown is inclusive of basic salary, fixed allowances, AWS and other emoluments.
2. The fair value of the share plans granted for the year is disclosed. The shares granted to key executives are contingent upon meeting performance measures. If these performance measures are not met, the key executive will not be vested with any shares.
3. Cash portion of the Directors' fees for Mr Koh Chiap Khiong and Mr Neil McGregor, nominee Directors from Sembcorp Industries Ltd ("SCI"), will be paid to SCI. Mr Eric Ang Teik Lim's Director's fee will be paid entirely in cash to his employer, DBS Bank Ltd. Mr Tang Kin Fei had retired on 18 April 2017 and will receive his Director's fee entirely in cash.

SUPPLEMENTARY INFORMATION

Year ended 31 December 2017

(UNDER SGX-ST LISTING MANUAL REQUIREMENTS)

A. DIRECTORS' AND KEY EXECUTIVES' REMUNERATION EARNED FOR THE YEAR (CONT'D)

4. 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 Sembcorp Marine Restricted Share Plan 2010.

   For year 2017, the awards granted under the Sembcorp Marine Restricted Share Plan 2010 to all Directors as part of their Directors' fees (except for (i) Mr Wong Weng Sun, who is the President & CEO, and who does not receive any Directors' fees, and (ii) Mr Eric Ang Teik Lim) will consist of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. These non-executive Directors are required to hold shares (including shares obtained by other means) worth at least one-time the annual base retainer (currently S$75,000), any excess may be sold as desired. These non-executive Directors can dispose of all of the shares one year after leaving the Board.

   The actual number of shares to be awarded to each non-executive Director, (other than Mr Eric Ang Teik Lim) will be determined by reference to the volume-weighted average price of a share on the Singapore Exchange Securities Trading Limited (SGX-ST) over the 14 trading days immediately following the date of the Annual General Meeting. The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash.

5. The Brought Forward Bonus Bank is the outstanding balance of bonus as at 31 December 2017 (incorporating any adjustment made to the bank balance but excluding the bonus earned during the financial year). Typically, one-third of the accumulated bonus comprising Bonus Earned in the financial year and the Brought Forward Bonus is paid out in cash each year, with the balance being carried forward to the following year. The balances of the bonus bank will be adjusted by the yearly EVA performance of the Group and its subsidiaries and the payouts made from the Bonus Bank.

Details on the share options, performance shares and restricted shares granted to the directors are set out in the Share-based Incentive Plans of the Directors' Report.

B. INTERESTED PERSON TRANSACTIONS

	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)	
	2017 $'000	**2016 $'000**
Transaction for the Sales of Goods and Services		
PSA International Pte Ltd and its associates	3,996	1,981
Transaction for the Purchase of Goods and Services		
Sembcorp Industries Limited and its associates	106	235
Singapore Technologies Engineering Ltd and its associates	–	327
Management and Support Services		
Sembcorp Industries Limited	250	250
Total Interested Person Transactions	4,352	2,793

MAJOR PROPERTIES

Location	Description & Approximate Land Area	Tenure	Usage
SINGAPORE YARDS			
• Tanjong Kling Road	Land area: 491,056 m^2 Buildings, workshops, drydocks and quays	10 years leasehold 10 years renewal (JTC Land)	Ship repairs, ship conversion, offshore engineering, shipbuilding and rig building including drydocks, berthage and workshops
• Admiralty Road East/ Admiralty Road West	Land area: 860,716 m^2 Buildings, workshops, drydocks and quays	22 years leasehold	Ship repairs, ship conversion, offshore engineering and rig building including drydocks, berthage and workshops
• Pandan Road	Land area: 141,791 m^2	15 years leasehold (JTC Land)	Rig building, repairs, upgrading and fabrication including berthage and workshops
• Pandan Road	Land area: 9,182 m^2	30 years leasehold (JTC Land)	Steel fabrication and precision machining of components for offshore jack-up oil rigs
• Tuas Crescent	Land area: 58,226 m^2	9.5 years leasehold (JTC Land)	Fabrication of jack-up oil rigs and associated sub-structure modules
• Shipyard Road*	Land area: 63,300 m^2 Buildings, workshops and drydocks	22 months tenancy (JTC Land)	Ship repairs and shipbuilding including drydocks, berthage and workshops
• Tuas Road*	Land area: 59,942 m^2 Buildings, workshops, docks and quays	14 years leasehold (JTC Land)	Shipbuilding and fabrication including berthage and workshops
• Tuas South Boulevard Phase 1	Land area: 733,104 m^2 Docks, quays, workshops, buildings and berthage	30 plus 30 years leasehold (JTC land)	Ship repairs, ship conversion, offshore engineering, shipbuilding and rig building including drydocks, berthage and workshops
• Tuas South Boulevard Phase II	Land area: 345,600 m^2	30 plus 30 years leasehold (JTC land)	Ship repairs, ship conversion, offshore engineering, shipbuilding and rig building including drydocks, berthage and workshops

* The properties are being prepared to be handed back to JTC following expiry of tenure.

MAJOR PROPERTIES

Location	Description & Approximate Land Area	Tenure	Usage
OVERSEAS YARDS			
P.T. Karimun Sembawang Shipyard			
• Karimun Island, Indonesia	Land area: 307,650 m^2 Buildings, workshops and wharves	30 years leasehold with option for 20 years plus another option for 30 years	Ship repair and fabrication including berthage and workshop
Estaleiro Jurong Aracruz			
• Municipality of Aracruz, State of Espirito Santo, Brazil	Land area: 825,000 m^2 Slipways, berthing quays, drydock, ancillary steel and piping facilities	Freehold	Drillship construction, building of semi-submersible rigs, FPSO integration, fabrication of topside modules, PSVs construction, drilling rig repairs and modification works
P.T. SMOE Indonesia			
• Batam Island, Indonesia	Land area: 685,300 m^2 Workshops, office buildings and 547 metres of jetty for modules load out	30 years leasehold	Workshops and fabrication facilities
MISCELLANEOUS			
JPL Industries			
• Jurong Pier Road	Land area: 27,783 m^2	20 years leasehold (JTC Land)	Copper slag recycling
SES Engineering Sdn Bhd			
• Perindustrian Taman Johor, Johor Bahru	Land area: 5,235 m^2 Workshop and a 3-storey office building	Freehold	Metal fabrication workshop
Sembmarine SLP Ltd			
• Lowestoft, Suffolk, UK	Land area: 55,000 m^2 Workshops and office building	Freehold and leasehold land ranging from 22 years to 99 years	Workshops and fabrication facilities
Mendon Spring			
• Pasir Panjang	9 units of 3-room apartment with built-in area of 99 m^2 per unit	Freehold	Residential properties