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27 June 2023

**The Independent Directors of  
Singapore Telecommunications Limited**

31 Exeter Road  
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Dear Sirs:

**THE PROPOSED PURCHASE OF ELECTRICITY UNDER THE CONDITIONAL POWER PURCHASE AGREEMENT (THE “PPA”) WITH SEMBCORP POWER PTE LTD (“SEMCORP POWER”), AS AN INTERESTED PERSON TRANSACTION**

**1 INTRODUCTION**

Singapore Telecommunications Limited (“**Singtel**” or the “**Company**”) has proposed Ordinary Resolution 11 (“**Resolution 11**”) under the notice dated 27 June 2023 convening the annual general meeting of the Company to be held on 28 July 2023 (the “**Notice**” and the annual general meeting, the “**2023 AGM**”).

Resolution 11 relates to the proposed purchase of electricity by the Company under the PPA with Sembcorp Power. On 25 May 2023, the Company announced that it had entered into the PPA with Sembcorp Power (the “**Announcement**”).

As at 28 April 2023, being the latest practicable date used by the Company for the purpose of the Letter to Shareholders dated 27 June 2023 to be issued to the shareholders of the Company (the “**Shareholders**”) in relation to, *inter alia*, Resolution 11 (the “**Letter to Shareholders**”) (the “**LTS Latest Practicable Date**”), Temasek Holdings (Private) Limited (“**Temasek**”) has a direct interest in 8,304,071,181 issued ordinary shares of the Company (the “**Shares**”) and a deemed interest (through interests of subsidiaries and associated companies) in 216,401,914 Shares, representing an aggregate of approximately 51.62% of the issued Shares (excluding Shares held in treasury) as at that date. Under the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Manual (the “**Listing Manual**”), Temasek is deemed to be a “controlling shareholder” of the Company as it has more than 15% interest in the issued Shares.

Sembcorp Power is a wholly-owned subsidiary of Sembcorp Industries Ltd (“**Sembcorp Industries**”). As at the LTS Latest Practicable Date, Temasek has a direct interest in 871,200,328 ordinary shares of Sembcorp Industries and a deemed interest (through interests of subsidiaries and associated companies) in 10,244,275 ordinary shares of Sembcorp Industries representing an aggregate of approximately 49.37% of Sembcorp Industries’ issued ordinary shares (excluding shares held in treasury) as at that date. Under the Listing Manual, Sembcorp Power is considered to be an “associate” of Temasek, as Temasek has more than 30% interest in the issued share capital of Sembcorp Power. Therefore, for the purposes of Chapter 9 of the Listing Manual, Sembcorp Power would be considered an “interested person” vis-à-vis the Company, which is regarded as an “entity at risk” for these purposes. Accordingly, the entry into the PPA constitutes an “interested person transaction” under Chapter 9 of the Listing Manual.



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Save as disclosed in the Letter to Shareholders, Temasek, as a majority Shareholder, does not have any other interest, direct or indirect, in the PPA.

As at 31 March 2023, the latest audited consolidated net tangible assets (“**NTA**”) of the Company and its subsidiaries (the “**Group**”) was S\$15.05 billion, 5% of which was S\$752.7 million.

As disclosed in paragraph 3.2(b) of the Letter to Shareholders, the annual contract sum under the PPA is estimated to be approximately S\$180 million. The estimated 10-year contract sum of approximately S\$1.8 billion thus represents approximately 12% of the latest audited consolidated NTA of the Group. As the estimated contract sum of approximately S\$1.8 billion under the PPA represents more than 5% of the latest audited consolidated NTA of the Group, the Company is seeking approval from the Shareholders at the 2023 AGM for the purchase of electricity under the PPA, in accordance with Chapter 9 of the Listing Manual.

Ernst & Young Corporate Finance Pte Ltd (“**EYCF**”) has been appointed as the independent financial adviser (“**IFA**”) as required under Rule 921(4)(a) of the Listing Manual as well as to advise the directors of the Company who are considered independent for the purposes of the purchase of electricity under the PPA (the “**Independent Directors**”), on whether the PPA is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders.

This letter sets out, *inter alia*, our evaluation of the PPA, and our opinion thereon. It forms part of the Letter to Shareholders which provides, *inter alia*, the details of the PPA and the recommendation of the Independent Directors in respect thereof.

Unless otherwise defined or the context otherwise requires, all terms in the Letter to Shareholders shall have the same meaning in this letter.

## 2 TERMS OF REFERENCE

EYCF has been appointed as required under Rule 921(4)(a) of the Listing Manual as well as to advise the Independent Directors in respect of whether the PPA is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders.

Our views as set forth in this letter are based on the prevailing market conditions, economic conditions, and financial conditions, and our evaluation of the PPA, as well as information provided to us by the Company and the management of the Company (the “**Management**”), as at 19 June 2023, being the latest practicable date prior to the issuance of the Letter to Shareholders (the “**IFA Latest Practicable Date**”). Accordingly, we assume no responsibility to update, revise or reaffirm our opinion as a result of any subsequent development after the IFA Latest Practicable Date. Shareholders should take note of any announcement and/or event relevant to the proposed transaction which may be released by the Company after the IFA Latest Practicable Date.

We are not and were not involved in any aspect of the discussions and negotiations pertaining to the PPA nor were we involved in the deliberations leading up to the decision by the board of directors of the Company (the “**Directors**” or the “**Board**”) in connection with the PPA. We have not conducted a comprehensive review of the business, operations or financial condition of the Group. It is not within our terms of reference to assess the rationale for, legal, strategic, commercial and financial merits and/or risks of the PPA, and to comment on such merits and/or risks of the PPA. We have only expressed our opinion on whether the PPA is on normal commercial terms and



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is not prejudicial to the interests of the Company and its minority Shareholders. The assessment of the legal, strategic, commercial and financial merits and/or risks of the PPA remains the sole responsibility of the Directors, although we may draw upon their views in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at the opinion set out in this letter.

It is also not within our terms of reference to compare the relative merits of the PPA vis-à-vis any alternative previously considered by the Company (if any) or that the Company may consider in the future, and as such, we do not express an opinion thereon.

In the course of our evaluation of the PPA, we have held discussions with the Directors and the Management. We have also examined and relied on information in respect of the Company collated by us, as well as information provided and representations and assurances made to us, both written and verbal, by the Directors, the Management and/or professional advisers of the Company, including information contained in the Letter to Shareholders. We have not independently verified such information or any representation or assurance, whether written or verbal, and accordingly cannot and do not warrant or accept responsibility for the accuracy or completeness of such information, representation or assurance. Nevertheless, the Directors (including those who may have delegated supervision of the Letter to Shareholders) and the Management have confirmed to us, after making all reasonable enquiries that, to the best of their knowledge and belief, all material information relating to the Company and the PPA has been disclosed to us, that such information constitutes a full and true disclosure, in all material respects, of all material facts about the Company and the PPA, and there is no material information the omission of which would make any of the information contained herein or in the Letter to Shareholders misleading in any material respect.

We have also made reasonable enquiries and exercised our judgement on the reasonable use of such information and have found no reason to doubt the accuracy or the reliability of such information. We have further assumed that all statements of fact, belief, opinion and intention made by the Directors in relation to the PPA in the Letter to Shareholders have been reasonably made after due and careful enquiry. We have not conducted a comprehensive review of the business, operations and financial condition of the Company. We have also not made an independent evaluation or appraisal of the assets and liabilities of the Company.

In preparing this letter, we have not had regard to the specific investment objectives, financial situation, tax position and/or unique needs and constraints of any individual Shareholder or any specific group of Shareholders. As each Shareholder would have different investment objectives and profiles, any individual Shareholder or group of Shareholders who may require specific advice in relation to his or their Shares should consult his or their stockbroker, bank manager, solicitor, accountant or other professional advisers.

We were not involved and have not provided any advice, whether financial or otherwise, in the preparation, review and verification of the Letter to Shareholders (other than in connection with this letter). Accordingly, we do not take any responsibility for, and express no views (whether expressed or implied) on, the contents of the Letter to Shareholders (other than in connection with this letter).

This letter and our opinion are pursuant to Rule 921(4)(a) of the Listing Manual as well as addressed for the use and benefit of the Independent Directors in connection with and for the purpose of their consideration of the PPA, and the recommendations made by the Independent Directors to the Shareholders shall remain the sole responsibility of the Independent Directors.



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Our opinion in relation to the PPA should be considered in the context of the entirety of this letter and the Letter to Shareholders.

### 3 DETAILS OF THE PPA

The details of the PPA are set out in paragraph 3 of the Letter to Shareholders, and we have set out the salient information below.

#### 3.1 Background

On 25 May 2023, the Company announced that it had entered into the PPA with Sembcorp Power, which is a wholly-owned subsidiary of Sembcorp Industries.

The entry into the PPA with Sembcorp Power follows a tender process by the Company for the procurement of energy supply from 1 October 2023, as the existing electricity supply agreement (the “**ESA**”) (also with Sembcorp Power) will expire on 30 September 2023. Four electricity retailers out of six invited, with generation capacity, participated in the tender and submitted bids for fuel oil indexed<sup>1</sup> or fixed rate plans over 1-, 2-, 3-, 5- and 10- years, and these were evaluated based on factors including contract duration, cost competitiveness, flexibility in hedging and volume requirements (as elaborated on in greater detail in paragraph 3.4 of the Letter to Shareholders). Based on the tenders submitted and the evaluation factors, Sembcorp Power’s 10-year fuel oil indexed proposal was the most competitive. In particular, Sembcorp Power complied with Singtel’s critical terms for tender evaluation and its hedging and volume requirements, and also offered opportunities to tap on additional existing solar resources to support Singtel’s green journey. The 10-year proposal is preferred over the shorter-term contracts for which bids were submitted as it will provide a more stable energy price to support Singtel’s current and future energy needs over a longer duration amidst energy market instability.

#### 3.2 Principal Terms

Under the PPA, the Company will purchase electricity from Sembcorp Power for its Group<sup>2</sup> premises in Singapore. The contract duration is for a period of 10 years from 1 October 2023 to 30 September 2033 (the “**Contract Period**”).

The principal terms of the PPA, negotiated on an arm’s length basis, include the following:

- (a) *Shareholder approval.* The purchase of electricity under the PPA is conditional upon Shareholders’ approval being obtained. Please refer to paragraphs 3.5 and 3.6 of the Letter to Shareholders for details. Such Shareholders’ approval is accordingly being sought at the 2023 AGM.

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<sup>1</sup> A fuel oil indexed plan is an electricity pricing plan offered by electricity retailers that is pegged to a reference fuel price, e.g., HSFO (High Sulphur Fuel Oil), which is the reference fuel price for piped natural gas or Brent (Dated Brent), which is the reference fuel price for liquefied natural gas.

<sup>2</sup> For the purposes of the PPA, “Group” includes Singtel’s associated companies (in addition to its subsidiaries).



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- (b) *Pricing.* Subject to such Shareholders' approval being obtained, electricity will be sold to the Company under a fuel oil indexed plan whereby the price will be determined based on fixed components and variable components, subject to the terms of the PPA. The Company will be able to hedge fuel costs under the PPA. The annual contract sum is estimated at approximately S\$180 million, as calculated based on the current projected average annual electricity consumption over the Contract Period and using an indicative forward Brent reference price and current USD/SGD exchange rate<sup>1</sup>. Actual spend under the PPA over the Contract Period may be higher or lower, depending on actual consumption and fluctuations in the variable components of the fuel oil indexed plan such as fuel oil price and foreign exchange rates.
- (c) *Consumption load.* The PPA provides flexibility to cater to a range of the Group's electricity consumption levels. The Group's monthly consumption levels are declared under the PPA, and these can be adjusted (within the limits prescribed under the PPA) for each six-month period (except for the period from 1 October 2023 to 30 June 2024) by giving at least six months' prior written notice. The formula used to calculate the electricity charges payable under the PPA does not change depending on the declared monthly consumption levels, provided consumption levels do not fall below levels that would trigger take-or-pay charges.
- (d) *Access to green energy sources.* The Company will have a one-time option to request Sembcorp Power to supply a pre-agreed quantity of solar power and its associated Renewable Energy Certificates ("RECs") at a pre-agreed price each year throughout the Contract Period, and on other terms to be mutually agreed. If such option is exercised by the Company and a separate agreement is entered into, the quantity of electricity consumed (and the corresponding sum payable) under the PPA will be reduced by the quantity of solar power supplied pursuant to such agreement. The annual contract sum attributable to the purchase of the pre-agreed quantity of solar power and its associated RECs, if such option is exercised by the Company and a separate agreement is entered into, is approximately 5% of the estimated annual contract sum of S\$180 million, and is therefore not expected to be material as compared to the total contract sum under the PPA.

The Company will also have the opportunity to request to convert its prevailing consumption from brown energy to participate in Sembcorp Power's green initiatives once these become available, on terms to be mutually agreed. The estimated annual contract sum of S\$180 million under the PPA does not take into account the possible brown-to-green conversion of the Company's prevailing electricity consumption as the bulk of the relevant green initiatives have not yet been realised.

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<sup>1</sup> As mentioned in paragraph 3.1 of the Letter to Shareholders, the Company's existing ESA is also with Sembcorp Power, and this will expire on 30 September 2023. The estimated annual contract sum of approximately S\$180 million under the PPA is not comparable to the annual contract sum under the existing ESA, which is approximately S\$[124] million for the 12-month period from 1 May 2022 to 30 April 2023. This is due to lower electricity consumption levels under the existing ESA as compared to that projected over the Contract Period under the PPA, and also because some of the components used to calculate the electricity charge under the ESA are different from those used to calculate the estimated annual contract sum under the PPA (e.g., HSFO (High Sulphur Fuel Oil) is used as the reference fuel price in the former while Brent (Dated Brent) is used in the latter). Further, the energy market conditions were different when the existing ESA was negotiated and entered into in [2021], and electricity charges have generally increased since then.

The Company will make the necessary announcements (if required) and/or otherwise comply with the requirements of Chapter 9 of the Listing Manual, as and when agreements are entered into to effect the exercise of the option and/or the conversions as described in subparagraph 3.2(d) of the Letter to Shareholders.

- (e) *Termination prior to expiry of Contract Period.* The PPA may be terminated by either party upon the occurrence of certain events under the PPA, such as breach of specified provisions and insolvency. A termination sum may be payable in accordance with the terms of the PPA on the termination of the PPA. The quantum of the termination sum is based on a percentage of the electricity charge attributable to the unexpired term of the contract and varies depending on the duration of the remaining contract and the grounds of termination. We note the view of the Company that the termination terms under the PPA are on normal commercial terms and/or are not prejudicial to the interests of the Company and its minority shareholders.

### 3.3 Key Risks and Mitigants

The key risks and corresponding mitigants relating to the PPA include the following:

- (a) *Long-term nature and volume risks.* Sembcorp Power's 10-year proposal was the most competitive across contracts of all durations for which bids were submitted. While the long-term nature of the contract presents the risk that the pricing offered under the PPA may become less competitive relative to other electricity retailers over the Contract Period (e.g., due to changes in energy market conditions), there is a price review mechanism under the PPA which allows the Company to request for a review of the natural gas commodity price component in the formula used to determine electricity prices under the PPA from 1 January 2029, which mitigates this risk. There is also a risk that the minimum and maximum electricity consumption levels set out in the PPA turn out to be incompatible with the Company's energy needs in the future. In this regard, the volume band tolerance offered by Sembcorp Power is already the highest amongst the bids received from the other electricity retailers. Further, under the PPA, the Company has some flexibility to adjust the declared consumption by giving the requisite written notice and subject to the terms of the PPA. Additionally, under the PPA, there is some leeway (larger than the industry norm) for under-consumption of electricity below the declared consumption levels before take-or-pay charges are levied on the Company.
- (b) *Risk related to transition of brown energy volumes to renewable energy sources.* While the PPA provides for the option to transition to renewable energy supply by Sembcorp Power, this is dependent on the availability, timing and pricing of renewable energy from Sembcorp Power's renewable energy projects. Should Sembcorp Power not be able to supply the required amount of renewable energy, this may slow down the Company's ability to meet its sustainability target to convert its energy consumption from brown to green. However, as Sembcorp Power's maximum power load will not fully meet the Company's future projected energy needs over the next 10 years, there is some leeway to procure renewable energy from alternative electricity retailers even if Sembcorp Power's renewable energy projects do not materialise, and the Company can still work towards achieving its sustainability targets through other means (e.g., through the purchase of unbundled RECs from other electricity retailers). For the avoidance of doubt, the PPA does not restrict the Company from procuring renewable energy or unbundled RECs from alternative electricity retailers.



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## 4 EVALUATION OF THE PPA

In our analysis and evaluation of the PPA, and our opinion thereon, we have taken into consideration the following:

- (a) rationale for and benefits of the PPA;
- (b) assessment of the PPA; and
- (c) other relevant factors which we deem to be relevant in relation to the PPA.

The factors above are discussed in more detail in the following sections.

### 4.1 Rationale for and benefits of the PPA

The rationale for and benefits of the PPA with Sembcorp Power are set out in paragraph 3.4 of the Letter to Shareholders, and extracted below:

**“3.4 Rationale and Benefits.** *The rationale for the PPA to be entered into with Sembcorp Power, and its benefits to the Company, include the following:*

- (a) *Price competitiveness. Sembcorp Power’s proposal offers the most competitive pricing across all durations based on bids received following the tender process. In particular, as compared with the other bids received, the formula proposed by Sembcorp Power for the cost of electricity had the lowest fixed components, representing the lowest mark-ups in fixed costs (e.g., operational costs and expenses) expected for an electricity generation company in the long-run. By locking in the fixed components in the formula for the cost of electricity under the PPA, the Company is able to enjoy a stable price on the cost of electricity generation even if Sembcorp Power’s operational costs and expenses were to increase over the Contract Period.*
- (b) *Volume flexibility. Amongst the bids received following the tender process, Sembcorp Power’s proposal was also the most competitive in terms of the volume flexibility afforded for electricity consumption levels, in that the Company is able to vary its declared consumption every six months within the minimum and maximum consumption load thresholds, subject to the terms of the PPA. This will support the Company’s current and future energy needs over a longer duration amidst energy market instability.*
- (c) *Hedging flexibility. As compared with the other bids received following the tender process, Sembcorp Power’s proposal was the most competitive in terms of providing the Company with the greatest flexibility to continue with its current hedging process to lock-in the fuel cost of electricity when market conditions are favourable.*
- (d) *Access to green energy sources. Sembcorp Power’s proposal supports the Company’s progress towards its Scope 2 emission reduction targets. The Company will be given opportunities to participate in Sembcorp Power’s renewable energy projects, including local RECs and other green alternatives, subject to further commercial negotiations.”*



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## **4.2 Assessment of the PPA**

The details of the PPA are set out in paragraph 3 of the Letter to Shareholders.

### **4.2.1 Terms of the PPA**

We note the following key terms and our assessment of the PPA:

- (a) with the Company's existing ESA (also with Sembcorp Power) expiring in September 2023, the Company has carried out a tender process to procure electricity supply for the Group's premises in Singapore starting from 1 October 2023. We note that the tender and selection process for the electricity supplier followed the usual procurement and tender policies and guidelines of the Company. A request for proposal was sent out to potential bidders, setting out the requirements of the Company and the parameters for the bid submissions. Four electricity retailers out of six invited, with generation capacity, participated in the tender and submitted bids for fuel oil indexed or fixed rate plans over 1-, 2-, 3-, 5- and 10- years. The evaluation of the bids, which included the internal review and approval process, resulted in the selection of Sembcorp Power as the electricity supplier based on, among others, contract duration, cost competitiveness, and flexibility in hedging and volume requirements. Sembcorp Power's 10-year fuel oil indexed proposal was the most competitive. In particular, Sembcorp Power complied with the Company's critical terms for tender evaluation and its hedging and volume requirements, and also offered opportunities to tap on additional existing solar resources to support the Company's green journey;
- (b) the PPA sets out the terms and conditions of the purchase of electricity by the Company from Sembcorp Power for the Group's premises in Singapore. We note that the terms and conditions of the PPA were agreed between the Company and Sembcorp Power following a negotiation process once Sembcorp Power was selected from the tender process carried out by the Company;
- (c) the annual contract sum under the PPA is estimated to be approximately S\$180 million, as calculated based on the current projected average annual electricity consumption over the Contract Period and using an indicative forward Brent reference price and current USD/SGD exchange rate. The actual spend by the Company under the PPA over the Contract Period may be higher or lower than the estimated annual contract sum, depending on actual consumption and fluctuations in the variable components of the fuel oil indexed plan such as fuel oil price and foreign exchange rates;
- (d) the electricity to be purchased by the Company from Sembcorp Power is under a fuel oil indexed plan. The PPA sets out that the price will be determined based on a formula with fixed components (which include overhead energy costs) and variable components (which include the reference fuel cost and foreign exchange rate). We note that the formula proposed by Sembcorp Power and the other bidders are comparable in terms of having both fixed components and variable components. We also understand that the formula may be considered to be a standard formula used in the market in terms of having both fixed components and variable components. While bidders may have varying inputs used in the formula (e.g., inputs representing operational costs and overhead), certain inputs for the formula (such as the reference fuel price and foreign exchange rates) are objectively-sourced, widely available and verifiable. Based on the information provided to us by the Company, the formula proposed by Sembcorp Power for the cost of electricity had the lowest





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fixed components, representing the lowest mark-ups in fixed costs (e.g., operational costs and expenses) expected for an electricity generation company in the long-run;

- (e) the PPA also allows the Company a degree of volume flexibility as well as the flexibility to continue with its current hedging process to lock-in the fuel cost of electricity when market conditions are favourable. We also note that, as part of its evaluation process, the Company has carried out sensitivity analyses for various factors used in determining the electricity price under the PPA, including fuel prices and foreign exchange rates;
- (f) the PPA provides flexibility to cater to a range of the Company's electricity consumption levels. The Group's monthly consumption levels are declared under the PPA, and these can be adjusted (within the limits prescribed under the PPA) for each six-month period (except for the period from 1 October 2023 to 30 June 2024) by giving at least six months' prior written notice. The formula used to calculate the electricity charges payable under the PPA does not change depending on the declared monthly consumption levels, provided consumption levels do not fall below levels that would trigger take-or-pay charges. In negotiating for the aggregate consumption levels, we note that the Company has taken into consideration its historical consumption as well as expected consumption based on future plans and certain assumptions. One of the factors the Company has also taken into account is the capability of Sembcorp Power to deliver the Company's energy requirements throughout the Contract Period;
- (g) the PPA provides for a one-time option to request Sembcorp Power to supply a pre-agreed quantity of solar power and its associated RECs at a pre-agreed price each year throughout the Contract Period, and on other terms to be mutually agreed. If such option is exercised by the Company and a separate agreement is entered into, the quantity of electricity consumed (and the corresponding sum payable) under the PPA will be reduced by the quantity of solar power supplied pursuant to such agreement. The PPA also provides the Company the opportunity to request to convert its prevailing consumption from brown energy to participate in Sembcorp Power's green initiatives once these become available, on terms to be mutually agreed. We note that the PPA would allow the Company to benefit from Sembcorp Power having one of the strongest renewable power portfolio in Singapore, including a local solar power portfolio. At the same time, the PPA does not restrict the Company to source for renewable energy from alternative retailers if Sembcorp Power is not able to fully meet the Company's projected energy needs;
- (h) the estimated annual contract sum of S\$180 million under the PPA does not take into account the possible brown-to-green conversion of the Company's prevailing electricity consumption as the bulk of the relevant green initiatives have not yet been realised. The Company will make the necessary announcements (if required) and/or otherwise comply with the requirements of Chapter 9 of the Listing Manual, as and when agreements are entered into to effect the exercise of the option to request Sembcorp Power to supply solar power and its associated RECs and/or the brown-to-green conversions; and
- (i) the PPA may be terminated by either the Company or Sembcorp Power upon the occurrence of certain events under the PPA, such as breach of specified provisions and insolvency. A termination sum may be payable in accordance with the terms of the PPA on the termination of the PPA. The quantum of the termination sum is based on a percentage of the electricity charge attributable to the unexpired term of the PPA and varies depending on the duration of the remaining contract and the grounds for termination.



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#### 4.2.2 Evaluation of the electricity pricing plan under the PPA

Based on a search on publicly available databases and sources for Singapore electricity tariff and our discussions with the Management, we recognise that there is no particular electricity supply agreement that we may consider to be directly comparable to the PPA in respect of electricity requirement, contracted capacity, duration of contract, volume flexibility, hedging flexibility, ability to switch to green energy, profile of supplier and other relevant factors.

We have extracted publicly available information on electricity prices for non-residential consumers or businesses in Singapore, and have included summarised information in the following table.

Purchasing Option <sup>1</sup>	Basis of Electricity Price <sup>1</sup>	Electricity Supplier <sup>1</sup>	Electricity Price
(a) Buying at Regulated Tariff	Reviewed quarterly, with the breakdown of electricity tariff including power system operation and market administration fees, market support services fees, network costs and energy costs (includes fuel cost and power generation cost)	SP Group	<p><u>For the 3-year period from June 2020 to May 2023<sup>2</sup>:</u></p> <p>Low        S\$209.7 MWh  High        S\$322.8 MWh  Average    S\$267.5 MWh  Median     S\$258.0 MWh</p>
(b) Buying at Wholesale Electricity Prices	Half-hourly wholesale electricity prices, varying depending on the demand and supply situation in the market	SP Group	<p><u>For the 3-year period from June 2020 to May 2023<sup>2</sup>:</u></p> <p>Low        S\$ 47.3 MWh  High        S\$488.7 MWh  Average    S\$220.3 MWh  Median     S\$217.4 MWh</p>
(c) Buying from an electricity retailer	Purchase of electricity under retail electricity contracts, with quoted fixed price plans and discount-off-tariff plans	Electricity retailers	<p><u>Published rates for fixed price plan<sup>3</sup>:</u></p> <p>Sembcorp Power:  12-month: S\$455.2 MWh  24-month: S\$377.3 MWh</p> <p>Keppel Electric:  12-month: S\$455.2 MWh  24-month: <i>Not available</i></p>

Source: Information from Energy Market Authority (“EMA”), Energy Market Company Pte Ltd, SP Group, Electricity retailers websites

Note:

- (1) Information extracted from the EMA website.
- (2) Figures are based on the average monthly Wholesale Electricity Prices.
- (3) Published rates available on electricity retailer websites for non-residential customers for less than 50 MWh (inclusive of GST). Only Sembcorp Power and Keppel Electric have published / publicly-available rates and only for fixed rate plans (i.e., no rates for discount-off-tariff plans are published / publicly-available).



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Based on the table above, we note that:

- (a) there are three electricity supply options available to the Company for the Group's Singapore premises, namely (i) buying at the Regulated Tariff, (ii) buying at Wholesale Electricity Prices, and (iii) buying from an electricity retailer. The Company has opted to continue with purchasing from an electricity retailer under a negotiated supply contract as the Company has currently been doing. Among the three options, we understand from the Company that buying from an electricity retailer under a negotiated long-term supply contract is the most appropriate method for the Company given its electricity requirements; and
- (b) for the purpose of evaluating Sembcorp Power's pricing proposal and for illustrative purposes only, we note that the resulting electricity rate after applying the formula under the PPA to current reference points is more competitive when compared with (i) the electricity rates for the 3-year period from June 2020 to May 2023 based on the Regulated Tariff, (ii) the electricity rates for the 3-year period from June 2020 to May 2023 based on Wholesale Electricity Prices (save for the average wholesale electricity price in June 2020), and (iii) the available published fixed-rate plans for certain electricity retailers. We wish to highlight that the electricity rate to be paid by the Company is not fixed under the PPA, but will follow the formula set out in the PPA.

In comparison with the existing ESA, we note that while the formula for calculating the electricity charge under the ESA and PPA both have fixed and variable components, some of the inputs/components used to calculate the electricity charge under the existing ESA are different from those used to calculate the estimated annual contract sum under the PPA. For example, HSFO (High Sulphur Fuel Oil) is used as the reference fuel price under the existing ESA while Brent (Dated Brent) is used under the PPA. The energy market conditions were also different when the existing ESA was negotiated and entered into in [2021], and electricity charges have generally increased since then. We also note that the estimated contract sum of approximately S\$180 million under the PPA is not comparable to the annual contract sum under the existing ESA of approximately S\$[124] million for the 12-month period from 1 May 2022 to 30 April 2023 due to the lower electricity consumption levels under the existing ESA as compared to the projected consumption levels over the Contract Period under the PPA.

#### 4.2.3 Evaluation of the PPA with Sembcorp Power against the proposals of the other bidders

Based on the tenders submitted and the evaluation factors of the Company, Sembcorp Power's 10-year fuel oil indexed proposal was the most competitive due to the following factors:

- (a) **Price competitiveness.** As compared with the other bids received, the formula proposed by Sembcorp Power for the cost of electricity had the lowest fixed components, representing the lowest mark-ups in fixed costs (e.g., operational costs and expenses) expected for an electricity generation company in the long-run. By locking in the fixed components in the formula for the cost of electricity under the PPA, the Company is able to enjoy a stable price on the cost of electricity generation even if Sembcorp Power's operational costs and expenses were to increase over the Contract Period;
- (b) **Volume flexibility.** As compared with the other bids received, Sembcorp Power's proposal provided the most volume flexibility for electricity consumption levels. Under the PPA, the Company is able to vary its declared consumption every six months within the minimum and maximum consumption load thresholds, subject to the terms of the PPA. Thus, the PPA will



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be able to support the Company's current and future energy needs over a longer duration amidst energy market instability;

- (c) **Hedging flexibility.** As compared with the other bids received, Sembcorp Power's proposal provided the most flexibility for the Company to continue with its current hedging process in order to lock-in the fuel cost of electricity when market conditions are favourable; and
- (d) **Access to green energy sources.** Sembcorp Power also offered opportunities to tap on additional existing solar resources to support the Company's green journey. Sembcorp Power's proposal supports the Company's progress towards its Scope 2 emission reduction targets. Under the PPA, the Company will be given opportunities to participate in Sembcorp Power's renewable energy projects, including local RECs and other green alternatives, subject to further commercial negotiations.

The Company will have a one-time option to request Sembcorp Power to supply a pre-agreed quantity of solar power and its associated RECs at a pre-agreed price each year throughout the Contract Period, and on other terms to be mutually agreed. If such option is exercised by the Company and a separate agreement is entered into, the quantity of electricity consumed (and the corresponding sum payable) under the PPA will be reduced by the quantity of solar power supplied pursuant to such agreement.

The Company will also have the opportunity to request to convert its prevailing consumption from brown energy to participate in Sembcorp Power's green initiatives once these become available, on terms to be mutually agreed.

Based on a search on publicly available sources for Singapore's green energy price plans and our discussions with the Management, we recognise that there is no particular green energy supply agreement that we may consider to be directly comparable to the green energy option under the PPA in respect of, among others, agreed quantity, associated RECs, duration of contract, volume flexibility, hedging flexibility, profile of supplier and other relevant factors. Based on publicly available information on the green energy price plans being offered by electricity retailers for non-residential consumers or businesses in Singapore, namely Sembcorp Power and Flo Energy Singapore Pte Ltd, we note that the pre-agreed price for solar power under the PPA is comparable to available published green energy price plans by Singapore electricity retailers. We wish to highlight that the comparison is for illustrative purposes only given that the pre-agreed quantity under the PPA is substantially higher than the usage contemplated under the published green energy price plans by Singapore electricity retailers.

### 4.3 Other relevant factors

#### 4.3.1 Profile and track record of Sembcorp Power

Sembcorp Power is a wholly-owned subsidiary of Sembcorp Industries, a leading energy and urban solutions provider which has sector expertise and global track record. Sembcorp Power has the experience, capacity and reliability to provide the electricity requirements of the Group throughout the Contract Period. Being the existing electricity supplier of the Company, the implementation of the PPA is also expected to be seamless and there is no adjustment period that may be required with a new electricity supplier.



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The green plan of Sembcorp Power and Sembcorp Industries, with a focus on growing the renewables and integrated urban solutions businesses, is aligned with the Company's objective to transition to green energy. With Sembcorp Power's pipeline of green energy projects and the provisions under the PPA allowing the Company access to Sembcorp Power's new green energy projects, the PPA provides the opportunity for the Company to transition to green energy once the supply becomes available.

#### **4.3.2 Duration of the PPA for 10-year period**

The 10-year term of the PPA is longer than previous electricity supply contracts that the Company had entered into. We note that Sembcorp Power's 10-year proposal was the most competitive across contracts of all duration for which bids were submitted. While the long-term nature of the PPA presents the risk that the pricing offered under the PPA may become less competitive relative to other electricity retailers over the Contract Period (e.g., due to changes in energy market conditions), there is a price review mechanism under the PPA which allows the Company to request for a review of the natural gas commodity price component in the formula used to determine electricity prices under the PPA from 1 January 2029, which mitigates this risk. The 10-year proposal is preferred by the Company over the shorter-term contracts for which bids were submitted, as it will provide a more stable energy price to support the Company's current and future energy needs over a longer duration amidst energy market instability. While there is a risk that the minimum and maximum electricity consumption levels set out in the PPA turn out to be incompatible with the Company's energy needs in the future, the volume band tolerance offered by Sembcorp Power is already the highest among the bids received from the other electricity retailers. In addition, the Company has some flexibility under the PPA to adjust the declared consumption by giving the requisite written notice and subject to the terms of the PPA. There is also some leeway under the PPA (larger than the industry norm) for under-consumption of electricity below the declared consumption levels before take-or-pay charges are levied on the Company.

We also note that the longer-term period of the PPA, coupled with the track record of Sembcorp Power as the chosen electricity supplier, secures the electricity needs of the Company for the Contract Period. The PPA also has provisions for the Company to take advantage of future green energy sources, with the flexibility to convert brown energy to Sembcorp Power's green power projects, on terms to be mutually agreed.

The longer term of the PPA as compared to previous electricity supply contracts would also free up Management time and resources as the Company would not need to carry out a tender process and negotiate terms with the supplier during the Contract Period of 10 years.

Further, we note a comparable power purchase agreement with a long-term duration. On 27 February 2023, Sembcorp Industries announced that Sembcorp Power secured an 18-year power purchase agreement with Micron Semiconductor Asia Operations Pte Ltd, a wholly-owned subsidiary of Micron Technology, Inc., to supply up to 450MW of power.

#### **4.3.3 Abstention from voting on the PPA**

We note that Temasek, Sembcorp Industries and Mr Lee Theng Kiat, who is the Chairman of the Board, serves on the board of Temasek and is therefore not considered to be independent in relation to the proposed purchase of electricity under the PPA with Sembcorp Power, will abstain from voting on Resolution 11, being the Ordinary Resolution relating to the proposed purchase of electricity under the PPA with Sembcorp Power at the 2023 AGM.



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## **5 OUR OPINION ON THE PPA**

In arriving at our advice to the Independent Directors on the PPA, we have reviewed and deliberated on the factors which we consider to be relevant and to have a significant bearing on our assessment of the PPA. The factors we have considered in our evaluation, which are based on, among others, representations made by the Company, the Directors and the Management and discussed in detail in the earlier sections of this letter and which we have relied upon, are as follows:

- (a) rationale for and benefits of the PPA;
- (b) the terms of the PPA;
- (c) the evaluation of the electricity pricing plan under the PPA;
- (d) evaluation of the PPA with Sembcorp Power against the proposals of the other bidders;
- (e) the profile and track record of the electricity supplier under the PPA, being Sembcorp Power;
- (f) the duration of the PPA for 10-year period; and
- (g) the parties who are not considered independent in relation to the proposed purchase of electricity under the PPA with Sembcorp Power abstaining from voting on Resolution 11 in relation to the proposed purchase of electricity under the PPA with Sembcorp Power at the 2023 AGM.

Having considered the factors and the assumptions set out in this letter, and subject to the qualifications set out herein, we are of the opinion that the PPA is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders.

Accordingly, we advise the Independent Directors to recommend that Shareholders vote in favour of the PPA.

The Independent Directors should note that we have arrived at our opinion based on information made available to us prior to, and including, the IFA Latest Practicable Date. Our opinion on the PPA cannot and does not take into account any subsequent developments after the IFA Latest Practicable Date as these are governed by factors beyond the scope of our review, and would not fall within our terms of reference in connection with our evaluation of the PPA.

We have prepared this letter as required under Rule 921(4)(a) of the Listing Manual, as well as for the use of the Independent Directors in connection with and for the purposes of their consideration of the PPA, but any recommendation made by the Independent Directors in respect of the PPA shall remain their responsibility.

While a copy of this letter may be reproduced in the Letter to Shareholders, no other person may reproduce, disseminate or quote this letter (or any part thereof) for any purpose (other than the intended purpose in relation to the PPA) at any time and in any manner without our prior written consent in each specific case. For the avoidance of doubt, nothing in this letter prevents the Company or the Directors from reproducing, disseminating or quoting this letter without our prior consent for the purpose of any matter relating to the PPA.



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

Yours faithfully  
For and on behalf of  
**Ernst & Young Corporate Finance Pte Ltd**

Mah Kah Loon  
Chief Executive Officer

Elisa Montano  
Associate Partner