



SINGAPORE TELECOMMUNICATIONS LIMITED

(Incorporated in the Republic of Singapore)

Company Registration Number: 199201624D

Letter to Shareholders

Directors:

Lee Theng Kiat (*Non-executive Chairman*)
Yuen Kuan Moon (*Group CEO*)
John Arthur (*Independent Director*)
Gautam Banerjee (*Independent Director*)
Bradley Horowitz (*Independent Director*)
Gail Kelly (*Independent Director*)
Lim Swee Say (*Independent Director*)
Christina Ong (*Independent Director*)
Rajeev Suri (*Independent Director*)
Tan Tze Gay (*Independent Director*)
Teo Swee Lian (*Independent Director*)
Wee Siew Kim (*Independent Director*)
Yong Hsin Yue (*Independent Director*)
Yong Ying-I (*Independent Director*)

Registered Office:

31 Exeter Road
Comcentre
Singapore 239732

27 June 2023

To: The Shareholders of
Singapore Telecommunications Limited (the "**Company**")

Dear Sir/Madam

1. INTRODUCTION

1.1 Notice of AGM. We refer to:

- (a) the Notice of Annual General Meeting of the Company dated 27 June 2023 (the "**Notice**") convening the 31st Annual General Meeting of the Company to be held on 28 July 2023 (the "**2023 AGM**");
- (b) Resolution 10, being the Ordinary Resolution relating to the proposed renewal of the Share Purchase Mandate (as defined in paragraph 2.1 below), as proposed in the Notice; and
- (c) Resolution 11, being the Ordinary Resolution relating to the proposed purchase of electricity under the PPA (as defined in paragraph 3.1 below) with Sembcorp Power (as defined in paragraph 3.1 below), as proposed in the Notice.

1.2 **Letter to Shareholders.** The purpose of this Letter is to provide shareholders of the Company ("**Shareholders**") with information relating to Resolutions 10 and 11 proposed in the Notice (collectively, the "**Proposals**").

1.3 **SGX-ST.** The Singapore Exchange Securities Trading Limited (the "**SGX-ST**") takes no responsibility for the accuracy of any statements or opinions made or reports contained in this Letter.

1.4 **Legal Adviser.** Allen & Gledhill LLP is the legal adviser to the Company in relation to the Proposals.

1.5 **Advice to Shareholders.** If a Shareholder is in any doubt as to the course of action he should take, he should consult his stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

Letter to Shareholders

2. THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

- 2.1 **Background.** At the Annual General Meeting of the Company held on 29 July 2022 (the “**2022 AGM**”), Shareholders had approved, *inter alia*, the renewal of the mandate (the “**Share Purchase Mandate**”) to enable the Company to purchase or otherwise acquire its issued ordinary shares (“**Shares**”).

The rationale for, the authority and limits on, and the financial effects of, the Share Purchase Mandate were set out in the Letter to Shareholders dated 30 June 2022 (the “**2022 Letter**”) and Resolution 12 set out in the Notice of the 2022 AGM.

The Share Purchase Mandate was expressed to take effect on the date of the passing of Resolution 12 at the 2022 AGM and will expire on the date of the forthcoming 2023 AGM. Accordingly, the Directors propose that the Share Purchase Mandate be renewed at the 2023 AGM.

- 2.2 **Rationale for the Share Purchase Mandate.** The rationale for the Company to undertake the purchase or acquisition of its Shares is as follows:

- (a) In managing the business of the Company and its subsidiaries (the “**Group**”), management strives to increase Shareholders’ value by improving, *inter alia*, the return on equity of the Group. Share purchases are one of the ways through which the return on equity of the Group may be enhanced.
- (b) The Share Purchase Mandate is an expedient, effective and cost-efficient way for the Company to return surplus cash which is in excess of the financial and possible investment needs of the Group to Shareholders.
- (c) In addition, the Share Purchase Mandate will allow the Company to have greater flexibility over, *inter alia*, the Company’s share capital structure, balance sheet and its dividend policy.
- (d) Repurchased Shares which are held in treasury may, *inter alia*, be sold for cash or transferred for the purposes of or pursuant to employees’ share schemes implemented by the Company or potentially as currency for future merger and acquisition activities.

The approval of the renewal of the Share Purchase Mandate authorising the Company to purchase or acquire its Shares would give the Company the flexibility to undertake Share purchases or acquisitions at any time, subject to market conditions, during the period when the Share Purchase Mandate is in force.

While the Share Purchase Mandate would authorise a purchase or acquisition of Shares up to the 5% limit described in paragraph 2.3.1 below, it should be noted that purchases or acquisitions of Shares pursuant to the Share Purchase Mandate may not be carried out to the full 5% limit as authorised, and no purchases or acquisitions of Shares would be made in circumstances which would have or may have a material adverse effect on the financial condition of the Company.

- 2.3 **Authority and Limits on the Share Purchase Mandate.** The authority and limits placed on purchases or acquisitions of Shares by the Company under the proposed Share Purchase Mandate, if renewed at the 2023 AGM, are substantially the same as were previously approved by Shareholders at the 2022 AGM, and are summarised below for the benefit of Shareholders:

2.3.1 **Maximum Number of Shares**

The total number of Shares which may be purchased or acquired by the Company pursuant to the Share Purchase Mandate is limited to that number of Shares representing not more than 5% of the total number of issued Shares of the Company as at the date of the 2023 AGM. Treasury shares and subsidiary holdings (as defined in the Listing Manual of the SGX-ST (the “**Listing Manual**”) ⁽¹⁾) will be disregarded for purposes of computing the 5% limit.

⁽¹⁾ “Subsidiary holdings” is defined in the Listing Manual to mean shares referred to in Sections 21(4), 21(4B), 21(6A) and 21(6C) of the Companies Act 1967.

Letter to Shareholders

As at 28 April 2023 (the “**Latest Practicable Date**”), the Company had 10,676,472 treasury shares and no subsidiary holdings. The maximum number of Shares which can be purchased or acquired by the Company, being 5% of the total number of issued Shares (disregarding treasury shares and subsidiary holdings), based on this and certain other assumptions, is illustrated in paragraph 2.7.1 below.

2.3.2 **Duration of Authority**

Purchases or acquisitions of Shares may be made, at any time and from time to time, on and from the date of the 2023 AGM, at which the renewal of the Share Purchase Mandate is approved, up to:

- (a) the date on which the next Annual General Meeting of the Company is held or required by law to be held;
- (b) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied; or
- (c) the date on which purchases or acquisitions of Shares pursuant to the Share Purchase Mandate are carried out to the full extent mandated,

whichever is the earliest.

2.3.3 **Manner of Purchases or Acquisitions of Shares**

Purchases or acquisitions of Shares may be made by way of:

- (a) an on-market purchase of Shares by the Company (“**Market Purchase**”) effected on the SGX-ST, or on any other stock exchange on which the Shares may for the time being be listed and quoted, through one or more duly licensed dealers appointed by the Company for the purpose; and/or
- (b) an off-market purchase of Shares by the Company (“**Off-Market Purchase**”) effected otherwise than on a stock exchange, in accordance with an equal access scheme pursuant to Section 76C of the Companies Act 1967 (the “**Companies Act**”).

The Directors may impose such terms and conditions which are not inconsistent with the Share Purchase Mandate, the Listing Manual, the listing rules of any other stock exchange on which the Shares may for the time being be listed and quoted, and the Companies Act as they consider fit in the interests of the Company in connection with or in relation to any equal access scheme or schemes. An Off-Market Purchase must, however, satisfy all the following conditions:

- (i) offers for the purchase or acquisition of Shares shall be made to every person who holds Shares to purchase or acquire the same percentage of their Shares;
- (ii) all of those persons shall be given a reasonable opportunity to accept the offers made; and
- (iii) the terms of all the offers shall be the same, except that there shall be disregarded (1) differences in consideration attributable to the fact that offers may relate to Shares with different accrued dividend entitlements, and (2) differences in the offers introduced solely to ensure that each person is left with a whole number of Shares.

If the Company wishes to make an Off-Market Purchase in accordance with an equal access scheme, it will issue an offer document containing at least the following information:

- (1) terms and conditions of the offer;
- (2) period and procedures for acceptances;
- (3) reasons for the proposed Share purchases;

Letter to Shareholders

- (4) consequences, if any, of Share purchases by the Company that will arise under the Singapore Code on Take-overs and Mergers (the “**Take-over Code**”) or other applicable take-over rules;
- (5) whether the Share purchases, if made, could affect the listing of the Shares on the SGX-ST;
- (6) details of any Share purchases made by the Company in the previous 12 months (whether Market Purchases or Off-Market Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for the purchases, where relevant, and the total consideration paid for the purchases; and
- (7) whether the Shares purchased by the Company will be cancelled or kept as treasury shares.

2.3.4 **Purchase Price**

The purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) to be paid for a Share will be determined by the Directors. The maximum price to be paid for the Shares as determined by the Directors must not exceed, in the case of both a Market Purchase and an Off-Market Purchase, 105% of the Average Closing Price of the Shares, excluding related expenses of the purchase or acquisition (the “**Maximum Price**”).

For the above purposes:

“**Average Closing Price**” means the average of the last dealt prices of a Share for the five consecutive market days on which the Shares are transacted on the SGX-ST or, as the case may be, such other stock exchange on which the Shares are listed and quoted, immediately preceding the date of the Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted, in accordance with the listing rules of the SGX-ST, for any corporate action that occurs during the relevant five-day period and the date of the Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase; and

“**date of the making of the offer**” means the date on which the Company makes an offer for the purchase or acquisition of Shares from Shareholders, stating therein the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

- 2.4 **Source of Funds.** Under the Companies Act, the Company may purchase or acquire its Shares out of its distributable profits, as well as out of capital.

The Company intends to use internal and external sources of funds to finance its purchase or acquisition of Shares. The Directors do not propose to exercise the Share Purchase Mandate in a manner and to such extent that the financial condition of the Company would be materially adversely affected.

- 2.5 **Status of Purchased Shares.** Shares purchased or acquired by the Company are deemed cancelled immediately on purchase or acquisition (and all rights and privileges attached to those Shares will expire on such cancellation) unless such Shares are held by the Company as treasury shares. The total number of issued Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as treasury shares.

- 2.6 **Treasury Shares.** Under the Companies Act, Shares purchased or acquired by the Company may be held or dealt with as treasury shares. Some of the provisions on treasury shares under the Companies Act are summarised below:

2.6.1 **Maximum Holdings**

The number of Shares held as treasury shares ⁽²⁾ cannot at any time exceed 10% of the total number of issued Shares.

⁽²⁾ For these purposes, “treasury shares” shall be read as including shares held by a subsidiary under Sections 21(4B) or 21(6C) of the Companies Act 1967.

Letter to Shareholders

2.6.2 **Voting and Other Rights**

The Company cannot exercise any right in respect of treasury shares. In particular, the Company cannot exercise any right to attend or vote at meetings and for the purposes of the Companies Act, the Company shall be treated as having no right to vote and the treasury shares shall be treated as having no voting rights.

In addition, no dividend may be paid, and no other distribution of the Company's assets may be made, to the Company in respect of treasury shares. However, the allotment of shares as fully paid bonus shares in respect of treasury shares is allowed. A subdivision or consolidation of any treasury share is also allowed so long as the total value of the treasury shares after the subdivision or consolidation is the same as before.

2.6.3 **Disposal and Cancellation**

Where Shares are held as treasury shares, the Company may at any time (but subject always to the Take-over Code):

- (a) sell the treasury shares for cash;
- (b) transfer the treasury shares for the purposes of or pursuant to any share scheme, whether for employees, directors or other persons;
- (c) transfer the treasury shares as consideration for the acquisition of shares in or assets of another company or assets of a person;
- (d) cancel the treasury shares; or
- (e) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister for Finance.

In addition, under Rule 704(28) of the Listing Manual, an immediate announcement must be made of any sale, transfer, cancellation and/or use of treasury shares. Such announcement must include details such as the date of the sale, transfer, cancellation and/or use of such treasury shares, the purpose of such sale, transfer, cancellation and/or use of such treasury shares, the number of treasury shares which have been sold, transferred, cancelled and/or used, the number of treasury shares before and after such sale, transfer, cancellation and/or use, the percentage of the number of treasury shares against the total number of issued shares (of the same class as the treasury shares) which are listed before and after such sale, transfer, cancellation and/or use and the value of the treasury shares if they are used for a sale or transfer, or cancelled.

2.7 **Financial Effects.** The financial effects on the Company and the Group arising from purchases or acquisitions of Shares which may be made pursuant to the proposed Share Purchase Mandate will depend on, *inter alia*, whether the Shares are purchased or acquired out of profits and/or capital of the Company, the number of Shares purchased or acquired, the price paid for such Shares and whether the Shares purchased or acquired are held in treasury or cancelled.

Under the Companies Act, purchases or acquisitions of Shares by the Company may be made out of the Company's profits and/or capital so long as the Company is solvent. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of profits, such consideration will correspondingly reduce the amount available for the distribution of cash dividends by the Company. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced.

Letter to Shareholders

The financial effects on the Company and the Group, based on the audited financial statements of the Company and the Group for the financial year ended 31 March 2023, are based on the assumptions set out below.

2.7.1 Number of Shares Purchased or Acquired

Purely for illustrative purposes, on the basis of 16,514,634,755 Shares in issue as at the Latest Practicable Date and disregarding the 10,676,472 Shares held in treasury as at the Latest Practicable Date, and assuming that on or prior to the 2023 AGM (i) no further Shares are issued, (ii) no further Shares are purchased or acquired by the Company, or held as treasury shares, and (iii) no Shares are held as subsidiary holdings, the purchase or acquisition by the Company of 5% of its issued Shares will result in the purchase or acquisition of 825,197,914 Shares.

2.7.2 Maximum Price Paid for Shares Purchased or Acquired

In the case of both Market Purchases and Off-Market Purchases by the Company and assuming that the Company purchases or acquires the 825,197,914 Shares at the maximum price of S\$2.6439 for one Share (being the price equivalent to 5% above the Average Closing Price of the Shares for the five consecutive market days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of the 825,197,914 Shares is S\$2,181,740,764.82.

2.7.3 Illustrative Financial Effects

For illustrative purposes only and on the basis of the assumptions set out in paragraphs 2.7.1 and 2.7.2 above, and further assuming that the purchase or acquisition of the 825,197,914 Shares by the Company pursuant to the Share Purchase Mandate by way of Market Purchases or Off-Market Purchases is made as to half out of profits and as to half out of capital and cancelled or held in treasury, the financial effects of the purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate on the audited financial statements of the Group and the Company for the financial year ended 31 March 2023 are set out below.

Scenario A

Market Purchases or Off-Market Purchases of up to 5% made as to 2.5% out of profits and as to 2.5% out of capital and cancelled

	Group		Company	
	Before Market/ Off-Market Purchase S\$'million	After Market/ Off-Market Purchase S\$'million	Before Market/ Off-Market Purchase S\$'million	After Market/ Off-Market Purchase S\$'million
As at 31 March 2023				
Shareholders' Funds	25,021.5	22,839.8	19,489.1	17,307.4
Treasury Shares Held/Purchased by the Company	(29.2)	(29.2)	(29.2)	(29.2)
Total Shareholders' Funds	24,992.3	22,810.6	19,459.9	17,278.2
Perpetual Securities	1,012.6	1,012.6	-	-
	26,004.9	23,823.2	19,459.9	17,278.2
Net Assets	26,014.3	23,832.6	19,459.9	17,278.2
Current Assets	8,582.8	8,354.2	2,205.2	1,976.6
Current Liabilities	8,299.1	8,299.1	3,506.6	3,506.6
Total Borrowings	10,893.3	12,846.4	1,100.2	3,053.3
Cash and Cash Equivalents	1,667.9	1,439.3	228.6	-
Number of Shares ('000)	16,503,958.3	15,678,760.4	16,503,958.3	15,678,760.4
Financial Ratios				
Net Assets per Share (S\$)	1.58	1.52	1.18	1.10
Gearing* (%)	43.59	56.32	5.65	17.67
Current Ratio (times)	1.03	1.01	0.63	0.56

Letter to Shareholders

Scenario B

Market Purchases or Off-Market Purchases of up to 5% made as to 2.5% out of profits and as to 2.5% out of capital and held in treasury

	Group		Company	
	Before Market/Off-Market Purchase S\$'million	After Market/Off-Market Purchase S\$'million	Before Market/Off-Market Purchase S\$'million	After Market/Off-Market Purchase S\$'million
<u>As at 31 March 2023</u>				
Shareholders' Funds	25,021.5	25,021.5	19,489.1	19,489.1
Treasury Shares Held/Purchased by the Company	(29.2)	(2,210.9)	(29.2)	(2,210.9)
Total Shareholders' Funds	24,992.3	22,810.6	19,459.9	17,278.2
Perpetual Securities	1,012.6	1,012.6	-	-
	26,004.9	23,823.2	19,459.9	17,278.2
Net Assets	26,014.3	23,832.6	19,459.9	17,278.2
Current Assets	8,582.8	8,354.2	2,205.2	1,976.6
Current Liabilities	8,299.1	8,299.1	3,506.6	3,506.6
Total Borrowings	10,893.3	12,846.4	1,100.2	3,053.3
Cash and Cash Equivalents	1,667.9	1,439.3	228.6	-
Number of Shares ('000)	16,503,958.3	15,678,760.4	16,503,958.3	15,678,760.4
<u>Financial Ratios</u>				
Net Assets per Share (S\$)	1.58	1.52	1.18	1.10
Gearing* (%)	43.59	56.32	5.65	17.67
Current Ratio (times)	1.03	1.01	0.63	0.56

* "Gearing" means total borrowings divided by total shareholders' funds.

SHAREHOLDERS SHOULD NOTE THAT THE FINANCIAL EFFECTS SET OUT ABOVE ARE FOR ILLUSTRATION PURPOSES ONLY (BASED ON THE ABOVEMENTIONED ASSUMPTIONS). Although the Share Purchase Mandate would authorise the Company to purchase or acquire up to 5% of the issued Shares (excluding treasury shares and subsidiary holdings), the Company may not necessarily purchase or acquire or be able to purchase or acquire the entire 5% of the issued Shares (excluding treasury shares and subsidiary holdings). In addition, the Company may cancel all or part of the Shares repurchased or hold all or part of the Shares repurchased in treasury.

- 2.8 **Reporting Requirements.** Rule 886(1) of the Listing Manual specifies that a listed company shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9.00 a.m. (i) in the case of a Market Purchase, on the market day following the day of purchase or acquisition of any of its shares, and (ii) in the case of an Off-Market Purchase under an equal access scheme, on the second market day after the close of acceptances of the offer. Such announcement (which must be in the form of Appendix 8.3.1 to the Listing Manual) must include, *inter alia*, details of the date of the purchase, the total number of shares purchased, the number of shares cancelled, the number of shares held as treasury shares, the purchase price per share or the highest and lowest prices paid for such shares, as applicable, the total consideration (including stamp duties and clearing charges) paid or payable for the shares, the number of shares purchased as at the date of announcement (on a cumulative basis), the number of issued shares excluding treasury shares and subsidiary holdings after the purchase, the number of treasury shares held after the purchase and the number of subsidiary holdings after the purchase.

Letter to Shareholders

- 2.9 **No Purchases During Price or Trade Sensitive Developments.** While the Listing Manual does not expressly prohibit any purchase of shares by a listed company during any particular time or times, because the listed company would be regarded as an “insider” in relation to any proposed purchase or acquisition of its issued shares, the Company will not undertake any purchase or acquisition of Shares pursuant to the proposed Share Purchase Mandate at any time after a price or trade sensitive development has occurred or has been the subject of a decision until the price or trade sensitive information has been publicly announced. The Company will continue to comply with the best practices on dealings in securities set out in Rule 1207(19)(c) of the Listing Manual.
- 2.10 **Listing Status of the Shares.** The Listing Manual requires a listed company to ensure that at least 10% of equity securities (excluding treasury shares, preference shares and convertible equity securities) in a class that is listed is at all times held by the public. As at the Latest Practicable Date, Temasek Holdings (Private) Limited (“**Temasek**”) had an interest (both direct and deemed) in 8,520,473,095 Shares representing approximately 51.62% of the issued Shares (excluding Shares held in treasury) as at that date. Approximately 48.37% of the issued Shares (excluding Shares held in treasury) were held by public Shareholders as at that date. Assuming the Company had purchased or acquired Shares from the public up to the full 5% limit pursuant to the proposed Share Purchase Mandate on the Latest Practicable Date, approximately 45.64% of the issued Shares (excluding Shares held in treasury) would have been held by public Shareholders as at that date.

The Company will ensure that there is a sufficient number of Shares in issue held by public Shareholders which would permit the Company to undertake purchases or acquisitions of its Shares through Market Purchases up to the full 5% limit pursuant to the proposed Share Purchase Mandate without affecting the listing status of the Shares on the SGX-ST, causing market illiquidity or affecting orderly trading.

- 2.11 **Shareholding Limits.** The Constitution of the Company prescribes a limit of 15% of the issued Shares (excluding treasury shares) in which any person or related group of persons (other than a person or persons approved by the Directors) may have an interest, whether directly or indirectly (the “**Individual Shareholding Limit**”). The Constitution also empowers the Directors to require the sale of Shares, if it shall come to their notice that the Individual Shareholding Limit is exceeded.

The Company holds various broadcasting and telecommunications licences, and is regulated under the Broadcasting Act 1994 (the “**Broadcasting Act**”) and the Telecommunications Act 1999 (the “**Telecommunications Act**”).

The Broadcasting Act provides that no person may become:

- (a) a substantial shareholder (as defined under the Companies Act);
- (b) a 12% controller (as defined under the Broadcasting Act); or
- (c) an indirect controller (as defined under the Broadcasting Act),

of a broadcasting company (as defined under the Broadcasting Act) without first obtaining the approval of the Minister for Communications and Information (the “**Minister**”).

In addition, under the Broadcasting Act, the Company shall not, unless the Minister otherwise approves, be granted or hold a relevant licence (as defined under the Broadcasting Act) if the Minister is satisfied that any foreign source (as defined under the Broadcasting Act), alone or together with one or more other foreign sources, holds not less than 49% of the Shares, or is in a position to control voting power of not less than 49%, in the Company or its holding company (as defined under the Companies Act).

The Telecommunications Act provides that:

- (a) no person shall, whether through a series of transactions over a period of time or otherwise, become a 12% controller (as defined under the Telecommunications Act) or a 30% controller (as defined under the Telecommunications Act) of a designated telecommunication licensee (as defined under the Telecommunications Act); and

Letter to Shareholders

- (b) no person shall obtain effective control (as defined under the Telecommunications Act) over a designated telecommunication licensee,

without obtaining the prior written approval of the Info-communications Media Development Authority of Singapore (the “**IMDA**”).

The Code of Practice for Competition in the Provision of Telecommunication and Media Services 2022 (the “**Telecom Competition Code**”) provides that:

- (a) for the purposes of the Telecommunications Act:
 - (i) every Acquiring Party (as defined under the Telecom Competition Code) and the Designated Telecommunication Licensee (as defined under the Telecom Competition Code) must seek the IMDA’s approval in connection with such Acquiring Party acquiring Voting Shares (as defined under the Telecom Competition Code) or Voting Power (as defined under the Telecom Competition Code) in the Designated Telecommunication Licensee that would result in such Acquiring Party becoming a 12% Controller (as defined under the Telecom Competition Code) of the Designated Telecommunication Licensee; and
 - (ii) every Acquiring Party and the Designated Telecommunication Licensee must seek the IMDA’s approval in connection with such Acquiring Party acquiring Voting Shares or Voting Power in the Designated Telecommunication Licensee that would result in such Acquiring Party becoming a 30% Controller (as defined under the Telecom Competition Code) of the Designated Telecommunication Licensee or entering into any other transaction that constitutes a Consolidation (as defined under the Telecom Competition Code) with the Designated Telecommunication Licensee;
- (b) the term “Consolidation” includes any transaction that results in a person:
 - (i) becoming a 30% Controller of a Designated Telecommunication Licensee; or
 - (ii) obtaining Effective Control (as defined under the Telecom Competition Code) over a Designated Telecommunication Licensee; and
- (c) every Acquiring Party and the Designated Telecommunication Licensee must jointly file a Consolidation Application (as defined under the Telecom Competition Code) in respect of such Acquiring Party becoming a 30% Controller of the Designated Telecommunication Licensee or otherwise entering into a Consolidation with the Designated Telecommunication Licensee.

If the Minister and/or the applicable regulatory authority, as the case may be, is satisfied that a person and/or his associates (as the case may be) have reached or exceeded the limits applicable in relation to the holding of or having an interest in Shares, or the controlling of voting power in the Company, in each case as defined in and as prescribed by the Broadcasting Act, the Telecommunications Act and/or any other legislation to which the Company is subject from time to time and/or any regulations, directives, guidelines, notices and/or codes of practice promulgated or issued thereunder from time to time, as the case may be (the “**Prescribed Limits**”), or in other specified circumstances, the Minister and/or the applicable regulatory authority, as the case may be, may make certain directions, including but not limited to requiring such person and/or his associates to transfer or dispose of all or part of the Shares which such person and/or his associates may have acquired in the Company, or restricting the voting rights or dividend rights that such person and/or his associates has obtained through the acquisition of such Shares.

As a result of a purchase or acquisition of Shares by the Company, the shareholding percentage of a holder of Shares (whose Shares were not the subject of a share purchase or acquisition by the Company) in the issued Shares of the Company immediately following any purchase or acquisition of Shares by the Company may increase correspondingly.

Letter to Shareholders

The Company wishes to draw the attention of Shareholders to the following consequences of a purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate, if the renewal of the Share Purchase Mandate is approved by Shareholders:

A PURCHASE OR ACQUISITION OF SHARES BY THE COMPANY MAY INADVERTENTLY CAUSE ANY PERSON TO REACH OR EXCEED THE PRESCRIBED LIMITS AND/OR THE INDIVIDUAL SHAREHOLDING LIMIT, AS THE CASE MAY BE (IN PARTICULAR, A PERSON WHO IS CURRENTLY CLOSE TO ANY OF THE PRESCRIBED LIMITS AND/OR THE INDIVIDUAL SHAREHOLDING LIMIT, AS THE CASE MAY BE).

IN RELATION TO THE PRESCRIBED LIMITS AND/OR THE INDIVIDUAL SHAREHOLDING LIMIT, THE DIRECTORS ARE EMPOWERED TO SERVE NOTICE ON SUCH PERSON REQUIRING A DISPOSAL OF THE INTEREST IN THE AFFECTED SHARES WITHIN 21 DAYS OF THE GIVING OF SUCH NOTICE OR SUCH SHORTER OR LONGER PERIOD AS THE DIRECTORS CONSIDER REASONABLE TO A PERSON QUALIFIED TO HAVE AN INTEREST IN THE AFFECTED SHARES. IF SUCH NOTICE IS NOT COMPLIED WITH TO THE SATISFACTION OF THE DIRECTORS, THE DIRECTORS MAY ARRANGE FOR THE COMPANY TO SELL THE AFFECTED SHARES.

IN RELATION TO THE PRESCRIBED LIMITS, PERSONS WHO (AT ANY TIME DURING THE PERIOD WHEN THE SHARE PURCHASE MANDATE IS IN FORCE) ARE CLOSE TO AND MAY REACH OR EXCEED ANY OF THE PRESCRIBED LIMITS BY REASON OF A PURCHASE OR ACQUISITION OF SHARES BY THE COMPANY, ARE ADVISED TO NOTIFY THE COMPANY AND TO CONSIDER SEEKING THE PRIOR APPROVAL OF THE MINISTER (OR, AS THE CASE MAY BE, THE APPLICABLE REGULATORY AUTHORITY) TO REACH OR EXCEED THE PRESCRIBED LIMITS, ON SUCH TERMS AS MAY BE IMPOSED BY THE MINISTER (OR, AS THE CASE MAY BE, THE APPLICABLE REGULATORY AUTHORITY), AS A CONSEQUENCE OF SUCH PURCHASE OR ACQUISITION.

THE COMPANY WILL, TO THE EXTENT REQUIRED, PRIOR TO A PURCHASE OR ACQUISITION OF SHARES PURSUANT TO THE SHARE PURCHASE MANDATE, CALCULATE THE INTERESTS OF EACH SHAREHOLDER TO DETERMINE WHETHER SUCH INTERESTS MAY, FOLLOWING SUCH PURCHASE OR ACQUISITION, REACH OR EXCEED THE PRESCRIBED LIMITS. IF, FOLLOWING SUCH CALCULATION, THE COMPANY BELIEVES THAT THE SHAREHOLDER MAY, FOLLOWING SUCH PURCHASE OR ACQUISITION, REACH OR EXCEED ANY OF THE PRESCRIBED LIMITS REQUIRING THE PRIOR APPROVAL OF THE MINISTER (OR, AS THE CASE MAY BE, THE APPLICABLE REGULATORY AUTHORITY), THE COMPANY WILL NOTIFY SUCH SHAREHOLDER AND SUCH SHAREHOLDER MAY BE ADVISED TO EITHER (1) ESTABLISH TO THE COMPANY'S SATISFACTION THAT SUCH SHAREHOLDER WILL NOT REACH OR EXCEED SUCH PRESCRIBED LIMITS, OR (2) SUBMIT AN APPLICATION FOR APPROVAL (TOGETHER WITH THE COMPANY, IF SO REQUIRED) TO THE MINISTER (OR, AS THE CASE MAY BE, THE APPLICABLE REGULATORY AUTHORITY), TO REACH OR EXCEED THE PRESCRIBED LIMITS, ON SUCH TERMS AS MAY BE IMPOSED BY THE MINISTER (OR, AS THE CASE MAY BE, THE APPLICABLE REGULATORY AUTHORITY), AS A CONSEQUENCE OF SUCH PURCHASE OR ACQUISITION.

2.12 **Take-over Implications.** Appendix 2 of the Take-over Code contains the Share Buy-Back Guidance Note. The take-over implications arising from any purchase or acquisition by the Company of its Shares are set out below.

2.12.1 *Obligation to make a Take-over Offer*

If, as a result of any purchase or acquisition by the Company of its Shares, the proportionate interest in the voting capital of the Company of a Shareholder and persons acting in concert with him increases, such increase will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code. Consequently, a Shareholder or a group of Shareholders acting in concert with a Director could obtain or consolidate effective control of the Company and become obliged to make an offer under Rule 14 of the Take-over Code.

2.12.2 *Persons Acting in Concert*

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of shares in a company to obtain or consolidate effective control of that company.

Letter to Shareholders

Unless the contrary is established, the Take-over Code presumes, *inter alia*, the following individuals and companies to be persons acting in concert with each other:

- (a) the following companies:
 - (i) a company;
 - (ii) the parent company of (i);
 - (iii) the subsidiaries of (i);
 - (iv) the fellow subsidiaries of (i);
 - (v) the associated companies of any of (i), (ii), (iii) or (iv);
 - (vi) companies whose associated companies include any of (i), (ii), (iii), (iv) or (v); and
 - (vii) any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the companies referred to above for the purchase of voting rights; and
- (b) a company with any of its directors (together with their close relatives, related trusts as well as companies controlled by any of the directors, their close relatives and related trusts).

The circumstances under which Shareholders (including Directors) and persons acting in concert with them, will incur an obligation to make a take-over offer under Rule 14 of the Take-over Code after a purchase or acquisition of Shares by the Company are set out in Appendix 2 of the Take-over Code.

2.12.3 **Effect of Rule 14 and Appendix 2**

In general terms, the effect of Rule 14 and Appendix 2 of the Take-over Code is that, unless exempted, Directors and persons acting in concert with them will incur an obligation to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring Shares, the voting rights of such Directors and their concert parties would increase to 30% or more, or in the event that such Directors and their concert parties hold between 30% and 50% of the Company's voting rights, if the voting rights of such Directors and their concert parties would increase by more than 1% in any period of six months. In calculating the percentages of voting rights of such Directors and their concert parties, treasury shares shall be excluded.

Under Appendix 2 of the Take-over Code, a Shareholder not acting in concert with the Directors will not be required to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring its Shares, the voting rights of such Shareholder would increase to 30% or more, or, if such Shareholder holds between 30% and 50% of the Company's voting rights, the voting rights of such Shareholder would increase by more than 1% in any period of six months. Such Shareholder need not abstain from voting in respect of the resolution authorising the Share Purchase Mandate.

Based on the interests of substantial Shareholders as at the Latest Practicable Date as set out in paragraph 4.2 below, the substantial Shareholder would not become obliged to make a take-over offer for the Company under Rule 14 of the Take-over Code as a result of the purchase or acquisition by the Company of the maximum limit of 5% of its issued Shares (excluding treasury shares) as at the Latest Practicable Date.

SHAREHOLDERS WHO ARE IN DOUBT AS TO THEIR OBLIGATIONS, IF ANY, TO MAKE A MANDATORY TAKE-OVER OFFER UNDER THE TAKE-OVER CODE AS A RESULT OF ANY PURCHASE OR ACQUISITION OF SHARES BY THE COMPANY SHOULD CONSULT THE SECURITIES INDUSTRY COUNCIL AND/OR THEIR PROFESSIONAL ADVISERS AT THE EARLIEST OPPORTUNITY.

Letter to Shareholders

2.13 **Previous Purchases.** The following are details of purchases or acquisitions of Shares made by the Company via Market Purchases during the period from 29 July 2022, being the date of the 2022 AGM, to 30 May 2023:

Date of purchase or acquisition	Number of Shares purchased or acquired	Highest price paid per Share	Lowest price paid per Share	Total consideration paid
25 Aug 2022	1,302,791	S\$2.67	S\$2.66	S\$3,480,535.82
26 Aug 2022	1,180,000	S\$2.68	S\$2.66	S\$3,156,266.27
29 Aug 2022	1,180,000	S\$2.64	S\$2.63	S\$3,115,998.13
11 Nov 2022	413,100	S\$2.68	S\$2.66	S\$1,104,175.19
16 Nov 2022	1,499,762	S\$2.79	S\$2.79	S\$4,187,470.05
17 Nov 2022	1,498,000	S\$2.82	S\$2.78	S\$4,201,289.41
26 May 2023	970,612	S\$2.54	S\$2.44	S\$2,409,811.76
29 May 2023	968,000	S\$2.47	S\$2.45	S\$2,391,314.47
30 May 2023	968,000	S\$2.51	S\$2.50	S\$2,428,998.14

As at 30 May 2023, the Company had not purchased or acquired any of its Shares by way of Off-Market Purchases pursuant to the Share Purchase Mandate approved by Shareholders at the 2022 AGM.

3. THE PROPOSED PURCHASE OF ELECTRICITY UNDER THE PPA WITH SEMBCORP POWER

3.1 **Background.** On 25 May 2023, the Company announced that it had entered into a conditional power purchase agreement (the “PPA”) with Sembcorp Power Pte Ltd (“Sembcorp Power”) (the “Announcement”). Sembcorp Power is a wholly-owned subsidiary of Sembcorp Industries Ltd (“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 (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⁽³⁾ 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 (these are elaborated on in greater detail in paragraph 3.4 below). 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 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. 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 the Company’s current and future energy needs over a longer duration amidst energy market instability.

A copy of the Announcement is available on the SGX website at the URL <https://www.sgx.com/securities/company-announcements>.

3.2 **Principal Terms.** Under the PPA, the Company will purchase electricity from Sembcorp Power for its Group⁽⁴⁾ 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 (see, further, paragraphs 3.5 and 3.6 below). Such Shareholders’ approval is accordingly being sought at the 2023 AGM.

⁽³⁾ 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.

⁽⁴⁾ For the purposes of the PPA, “Group” includes Singtel’s associated companies (in addition to its subsidiaries).

Letter to Shareholders

- (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 ⁽⁵⁾. 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.

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 this sub-paragraph (d).

- (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 for termination. 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.

⁽⁵⁾ As mentioned in paragraph 3.1 above, the Company's existing electricity supply agreement (the "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.

Letter to 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.

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.

Letter to Shareholders

3.5 Interested Person Transaction. Chapter 9 of the Listing Manual governs transactions by a listed company, as well as transactions by its subsidiaries and associated companies that are considered to be at risk, with the listed company's interested persons. When this Chapter applies to a transaction and the value of that transaction alone or on aggregation with other transactions conducted with the same interested person during the financial year reaches, or exceeds, 5% of the listed company's latest audited consolidated net tangible assets ("**NTA**"), the listed company is required to seek its shareholders' approval for that transaction.

As at the Latest Practicable Date, Temasek has a direct interest in 8,304,071,181 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 Listing Manual, Temasek is deemed to be a "controlling shareholder" of the Company as it has a more than 15% interest in the issued Shares.

Sembcorp Power is a wholly-owned subsidiary of Sembcorp Industries. As at the 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 a 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.

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

3.6 Shareholders' Approval. As at 31 March 2023, the latest audited consolidated NTA of the Group was S\$15.05 billion, 5% of which was S\$752.7 million.

As disclosed in paragraph 3.2(b) above, 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, approval of the Shareholders will be required for the purchase of electricity under the PPA, in accordance with Chapter 9 of the Listing Manual.

3.7 Total Value of Interested Person Transactions. For the period from the beginning of the current financial year, 1 April 2023, to 30 April 2023:

- (a) the total value of all transactions with Sembcorp Industries and its associates (as defined in the Listing Manual) (the "**Sembcorp Group**") (excluding transactions less than S\$100,000) was approximately S\$9.9 million, which represents approximately 0.066% of the latest audited consolidated NTA of the Group; and
- (b) the total value of all interested person transactions with Temasek and its associates (as defined in the Listing Manual) (excluding (i) transactions less than S\$100,000 and (ii) transactions entered into with the Sembcorp Group) was approximately S\$1.4 million, which represents approximately 0.009% of the latest audited consolidated NTA of the Group.

Save for the above, there have been no other interested person transactions since the beginning of the current financial year, 1 April 2023, to 30 April 2023.

Letter to Shareholders

3.8 **Independent Financial Adviser.** Ernst & Young Corporate Finance Pte Ltd (“EYCF”) has been appointed as the independent financial adviser in relation to the PPA. Shareholders should consider carefully the recommendation of the Directors who are considered independent for the purposes of the purchase of electricity under the PPA, namely, Mr Yuen Kuan Moon, Mr John Arthur, Mr Gautam Banerjee, Mr Bradley Horowitz, Mrs Gail Kelly, Mr Lim Swee Say, Mrs Christina Ong, Mr Rajeev Suri, Ms Tan Tze Gay, Ms Teo Swee Lian, Mr Wee Siew Kim, Ms Yong Hsin Yue and Ms Yong Ying-I (the “Independent Directors”), and the opinion of EYCF to the Independent Directors contained in the letter from EYCF to the Independent Directors dated 27 June 2023 (the “IFA Letter”). Having considered the factors and the assumptions set out in the IFA Letter, and subject to the qualifications set out therein, EYCF is 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, EYCF advises the Independent Directors to recommend that Shareholders vote in favour of the PPA.

The IFA Letter is set out in the Appendix to this Letter. The Independent Directors advise the minority Shareholders to read this Letter carefully and in its entirety.

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

3.9 **Audit Committee Statement.** The Audit Committee (comprising Mr Gautam Banerjee, Mrs Gail Kelly, Mr John Arthur and Ms Tan Tze Gay) has considered the terms of the PPA, and the opinion of EYCF set out in the IFA Letter, and is of the view that the PPA is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders.

4. DIRECTORS’ AND SUBSTANTIAL SHAREHOLDERS’ INTERESTS

4.1 **Directors’ Interests.** The interests of the Directors in Shares, as extracted from the Register of Directors’ Shareholdings, as at the Latest Practicable Date, are set out below:

	Number of Shares				Number of Shares comprised in outstanding awards granted by the Company
	Direct Interest	Deemed Interest	Total Interest	Total Percentage Interest ⁽¹⁾	
Ordinary Shares					
Lee Theng Kiat	122,048	-	122,048	nm ⁽⁷⁾	-
Yuen Kuan Moon	1,536,151	6,360 ⁽²⁾	1,542,511	nm ⁽⁷⁾	5,811,489 ⁽³⁾
John Arthur	-	-	-	-	-
Gautam Banerjee	-	-	-	-	-
Bradley Horowitz	-	-	-	-	-
Gail Kelly	-	-	-	-	-
Lim Swee Say	1,490	-	1,490	nm ⁽⁷⁾	-
Christina Ong	-	-	-	-	-
Rajeev Suri	-	-	-	-	-
Tan Tze Gay	13,755	61,360 ⁽⁴⁾	75,115	nm ⁽⁷⁾	-
Teo Swee Lian	1,550	-	1,550	nm ⁽⁷⁾	-
Wee Siew Kim	533,438 ⁽⁵⁾	190 ⁽⁶⁾	533,628	nm ⁽⁷⁾	-
Yong Hsin Yue	1,360	-	1,360	nm ⁽⁷⁾	-
Yong Ying-I	-	-	-	-	-

Letter to Shareholders

Notes:

- (1) Based on the total number of issued Shares as at the Latest Practicable Date, less Shares held in treasury.
(2) Held by spouse of Mr Yuen Kuan Moon.
(3) As at the Latest Practicable Date, Mr Yuen Kuan Moon has been granted awards in respect of 5,811,489 Shares pursuant to the Singtel Performance Share Plan 2012, subject to certain performance criteria being met and other terms and conditions. Depending on the extent of the satisfaction of the relevant performance criteria, up to an aggregate of 8,168,945 Shares may be released pursuant to the conditional awards granted.
(4) Held by spouse of Ms Tan Tze Gay.
(5) 228,278 Shares held in the name of UBS AG and 305,160 Shares held in the name of Bank of Singapore.
(6) Held by spouse of Mr Wee Siew Kim.
(7) "nm" means not meaningful.

4.2 **Substantial Shareholders' Interests.** The interests of the substantial Shareholder in Shares as at the Latest Practicable Date are set out below:

	Number of Shares		
	Direct Interest	Deemed Interest	Total Percentage Interest ⁽¹⁾
Temasek Holdings (Private) Limited	8,304,071,181	216,401,914 ⁽²⁾	51.62

Notes:

- (1) Based on the total number of issued Shares as at the Latest Practicable Date, less Shares held in treasury.
(2) Deemed through interests of subsidiaries and associated companies.

5. DIRECTORS' RECOMMENDATIONS

5.1 **Proposed Renewal of the Share Purchase Mandate.** The Directors are of the opinion that the proposed renewal of the Share Purchase Mandate is in the best interests of the Company. Accordingly, they recommend that Shareholders vote in favour of Resolution 10, being the Ordinary Resolution relating to the proposed renewal of the Share Purchase Mandate to be proposed at the 2023 AGM.

5.2 **Proposed Purchase of Electricity under the PPA with Sembcorp Power.** Having considered the terms, and the rationale and benefits, of the PPA, as well as the opinion of EYCF set out in the IFA Letter that the PPA is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders, the Independent Directors are of the opinion that the proposed purchase of electricity under the PPA with Sembcorp Power is in the best interests of the Company. Accordingly, the Independent Directors recommend that Shareholders vote in favour of Resolution 11, being the Ordinary Resolution relating to the proposed purchase of electricity under the PPA with Sembcorp Power. In giving this recommendation, the Independent Directors have not had regard to any general or specific investment objectives, financial situations, risk profiles, tax positions or particular needs or constraints of any individual Shareholder or any specific group of Shareholders. As different Shareholders have different investment profiles and objectives, the Independent Directors recommend that any Shareholder who may require specific advice in relation to his or her investment portfolio should consult their stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Mr Lee Theng Kiat, 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. Mr Lee has recused himself from participation in discussions and decisions relating to the PPA, and has also abstained from making any recommendation to Shareholders relating to the PPA.

Save as disclosed in this Letter and save for any Shares which they may hold, none of the Directors has any interest, direct or indirect, in the PPA.

Letter to Shareholders

6. ABSTENTION FROM VOTING

Temasek, Sembcorp Industries and Mr Lee Theng Kiat will abstain from voting, and each has undertaken to ensure that its/his associates will abstain from voting, on Resolution 11, being the Ordinary Resolution relating to the proposed purchase of electricity under the PPA with Sembcorp Power. The Company will disregard any votes cast by Temasek, Sembcorp Industries and Mr Lee Theng Kiat, and their respective associates, in respect of their holdings of Shares (if any) on Resolution 11. Mr Lee Theng Kiat will also decline to accept appointment as proxy for any other Shareholder to vote in respect of Resolution 11, unless the Shareholder concerned shall have given instructions in a validly completed and submitted Proxy Form as to voting, or abstentions from voting, in respect of Resolution 11.

7. INSPECTION OF DOCUMENTS

The following documents may be accessed at the URL <https://www.singtel.com/about-us/investor-relations/annual-reports>, and are also available for inspection at the registered office of the Company at 31 Exeter Road, Comcentre, Singapore 239732 during normal business hours from the date of this Letter up to the date of the 2023 AGM:

- (a) the Annual Report of the Company for the financial year ended 31 March 2023;
- (b) the 2022 Letter;
- (c) the IFA Letter; and
- (d) the written consent from EYCF referred to in paragraph 3.8 above.

8. DIRECTORS' RESPONSIBILITY STATEMENT

Save for the IFA Letter, the Directors collectively and individually accept full responsibility for the accuracy of the information given in this Letter and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Letter constitutes full and true disclosure of all material facts about the Proposals, and the Company and its subsidiaries which are relevant to the Proposals, and the Directors are not aware of any facts the omission of which would make any statement in this Letter misleading. Where information in this Letter has been extracted from published or otherwise publicly available sources or obtained from a named source (including the IFA Letter), the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Letter in its proper form and context.

Yours faithfully
for and on behalf of
the Board of Directors of
SINGAPORE TELECOMMUNICATIONS LIMITED

LEE THENG KIAT
Chairman

The Appendix

Letter from Ernst & Young Corporate Finance Pte Ltd to the Independent Directors of Singapore Telecommunications Limited

27 June 2023

The Independent Directors of
Singapore Telecommunications Limited
31 Exeter Road
Comcentre
Singapore 239732

Dear Sirs:

THE PROPOSED PURCHASE OF ELECTRICITY UNDER THE CONDITIONAL POWER PURCHASE AGREEMENT (THE "PPA") WITH SEMBCORP POWER PTE LTD ("SEMBCORP 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 a 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 a 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.

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.

The Appendix

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 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.

The Appendix

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.

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

The Appendix

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 ⁽¹⁾ 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 ⁽²⁾ 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.
- (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 ⁽³⁾. 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.

⁽¹⁾ 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.

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

⁽³⁾ 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 Appendix

- (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.

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 sub-paragraph 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.

The Appendix

- (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.

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."

The Appendix

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 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;

The Appendix

- (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.

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.

The Appendix

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 ⁽¹⁾	Basis of Electricity Price ⁽¹⁾	Electricity Supplier ⁽¹⁾	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:</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 ⁽²⁾:</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 ⁽³⁾:</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 : Not available</p>

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

Notes:

⁽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).

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

The Appendix

- (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 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.

The Appendix

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.

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.

The Appendix

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, and who 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.

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.

The Appendix

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.

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

This page has been intentionally left blank