

## Executive Summary

Our principles of corporate governance prevalent across the Group reflect our strong belief in delivering results and growing the businesses from strength to strength, and at the same time protecting and enhancing shareholder value in a sustainable way. We firmly believe that the professionalism, integrity and commitment of our board members and employees of the Group, supported by a sound system of policies, practices and internal controls are the success elements that will help us create long-term value and returns for our shareholders.

We aim to build an organisation which our shareholders, employees, customers, suppliers and other stakeholders can be proud of. In all respects, we seek to operate with the highest standards of integrity. This includes ensuring that the Group's remuneration policy for both board members and key management executives are constantly matched against market norms, are adequate and highly effective in extracting only the finest performance.

In pursuit of this conviction, we ensure that the Company's Board as well as the boards of the Group's subsidiaries are effectively charged to steer, lead and control the respective businesses. These boards comprise members with the breadth and depth of business, financial and other relevant experience and knowledge and who participate actively in deliberations with clear independent minds. In the discharge of the board's duties, different sub-committees are formed to focus on specific areas, thus ensuring that key areas of financial and operational risks are appropriately dealt with.

In the course of the year, we have further enhanced our corporate governance by formalising the Enterprise Risk Management (ERM) framework across the Group. In addition, a Risk Committee was formed to assist the Board of Directors in fulfilling its oversight responsibilities of the ERM system, internal control processes and procedures of the Group.

This report outlines SembCorp's corporate governance processes and activities for the financial year.

## 1. Board of Directors

### **Effective Board to lead and effect controls**

The key responsibilities of the Board include:

- Providing entrepreneurial leadership and strategic directions to the Group, including approvals for major investments, divestments, restructurings, material contracts and matters of significance;
- Overseeing the businesses and affairs of the Group and monitoring the performance of the management against pre-agreed targets;
- Assuming full responsibility for the corporate governance framework of the Group and providing oversight in the proper conduct of the Group's businesses; and
- Being responsible to shareholders for the performance of the Group and ensuring adequate returns to shareholders.

The Board meets to review the business strategies and activities of the Group. Regular board meetings are held quarterly to deliberate on various matters of the Group, including significant acquisitions and disposals, significant transactions, contracts and projects, the annual budget, review the performance of the businesses and endorse the release of the quarterly results. Where necessary, additional board meetings are also held to deal with ad-hoc matters of significance. A total of six board meetings were held in the year and we achieved an average of 71.2% board attendances in the year.

The Board has adopted a set of internal controls which sets out approval limits for capital expenditure, investments and divestments, bank borrowings and cheque signatories arrangements at board level. Approval sub-limits are also provided at management levels to facilitate operational efficiency.

To give effect to the efficient discharge of its responsibilities and to provide independent oversight of Management, the Board has established a number of Board Committees, including an Executive Committee, Audit Committee, Executive Resource & Compensation Committee, Nominating Committee, Budget Committee and Risk Committee. These key committees are

made up of independent or non-executive directors. Other ad-hoc committees can be formed from time to time to look into specific areas as and when the need arises.

Membership in the different committees are carefully managed to ensure that there is equitable distribution of responsibilities among board members, to maximise the effectiveness of the Board and foster active participation and contribution from board members. Diversity of experiences and appropriate skills are also considered. There is a need to also ensure that there are appropriate checks and balances between the different committees. Hence, membership of Budget and Executive Committees, with more involvement in key businesses or executive decisions, and the membership of the Audit and Risk Committees with their respective oversight roles, are mutually exclusive.

### **Strong and independent Board exercising objective judgement**

The Board comprises 11 directors of whom ten are non-executive Directors. The Board's Chairman is Peter Seah Lim Huat. The executive Director is Wong Kok Siew who is the Board's Deputy Chairman and Chief Executive Officer.

The Board comprises business leaders, professionals with financial backgrounds, a practising lawyer and members of the public sector. Profiles of the Directors are found on page 8 of this Annual Report. The Board is favourably composed by a majority of non-executive directors, independent of management and independent in terms of character and judgement. This enables the Management to benefit from an external and objective perspective on issues that are brought before the Board.

The Board considers non-executive director, K Shanmugam, an independent non-executive director, although he has a relationship with the Company by virtue of his position as a senior partner of Allen & Gledhill rendering professional services to the Company. Notwithstanding this relationship, the Board assesses him as an independent director due to his manifest ability to exercise strong independent judgement in his deliberations in the interests of the Company.

### **Formal and transparent appointment and re-election of Directors**

SembCorp believes that all directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The CEO, while he is also a board member, is also subject to retirement and re-election by shareholders as part of board renewal. Nominations and election of board members are the prerogatives and proper rights of all shareholders and the Board ensures the planned and progressive refreshing of its members.

The Company's Articles of Association require one-third of directors to retire and subject themselves to re-election by shareholders at every Annual General Meeting (AGM) (one-third rotation rule). In other words, no director stays in office for more than three years without being re-elected by shareholders.

In addition, a newly-appointed director will submit himself for retirement and election at the AGM immediately following his appointment. Thereafter, he is subject to the "one-third rotation rule".

The Board, through the delegation of its authority to the Nominating Committee, has used its best efforts to ensure that directors appointed to the Board possess the background, experience and knowledge in technology, business, finance and management skills critical to the Company's businesses and that each director with his special contribution brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

Our Boards are periodically renewed to ensure strong and sound leadership at the board level to enable a refreshing of talent as well as encourage dynamics of an independent and balanced board composition.

### **Clear division of responsibilities at the top**

There is a clear separation of the roles and responsibilities between the Chairman and the CEO of the Company.

The Chairman, who is a non-executive, is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. He acts independently in the best interests of the Company and shareholders. The CEO is charged with the executive responsibility of the running of the Company's business. The Chairman facilitates the contribution of non-executive directors in particular and ensures constructive relations between executive and non-executive directors. He also ensures that the members of the board work together with the Management in constructive debate on various matters, including strategic and operational issues.

### **Board performance and conduct of its affairs**

#### **Active participation and valuable contributions key to overall effectiveness of the Board**

To ensure that our directors are well-equipped and trained, directors' training needs are addressed by Management. Newly-appointed directors are given briefings by the Management on the business activities of the Group and its strategic directions, and these may include facility visits, where necessary.

Changes to regulations and accounting standards are monitored closely by Management. To keep pace with regulatory changes, where these changes have an important bearing on the company's or directors' disclosure obligations, directors are briefed either during board meetings, or at specially-convened sessions, including trainings and seminars conducted by external professionals.

Where necessary, further external advice and consultations are made available to directors to ensure that full information and advice are available before important decisions are made by the Board. All the issues are actively debated by the Board and properly recorded.

Informal reviews of a board's performance are undertaken on a continual basis by the Nominating Committee with inputs from the other board members and CEO. The Boards are constantly renewed to ensure strong, independent and sound leadership at the board level for the continued success of the business and the Company.

### **Full access to information and resources**

#### **Directors have complete, adequate and timely information and resources**

Management provides adequate and timely information to the Board on board affairs and business issues that require the Board's decision as well as on-going reports relating to operational and financial performance of the Group. Where a physical board meeting is not possible, timely communication with members of the Board is effected through electronic means which include electronic mail, teleconferencing and videoconferencing. Alternatively, Management will arrange to personally meet and brief each director before seeking the Board's approval.

The Board has separate and independent access to the CEO, members of senior management and the Group Company Secretary at all times. The Board also has access to independent professional advice where appropriate.

Likewise, the Audit Committee must also meet the external and internal auditors separately at least once a year, without the presence of the CEO and other senior management members, in order to have free and unfiltered access to information that it may require.

The Group Company Secretary assists the Chairman with the preparation of meeting agenda, attends and prepares minutes of board proceedings, ensuring good information flow within the Board and its Committees. She assists the Board on the compliance by the Company with its Memorandum and Articles of Association, laws and regulations, including requirements of the Companies Act, Securities Futures Act and the Singapore Exchange Securities Trading Limited (SGX-ST). She is also the primary channel of communication between the Company and the SGX-ST, the Registry of Companies and Businesses and shareholders. The Group Company Secretary actively assists the Board to upkeep and implement corporate governance best practices across the Group.

## **2. Board Committees**

The Company has six board committees:-

- (a) Executive Committee;
- (b) Audit Committee;
- (c) Budget Committee;
- (d) Executive Resource & Compensation Committee;
- (e) Nominating Committee; and
- (f) Risk Committee

### **The Executive Committee (ExCo)**

The ExCo provides overall strategic direction to the management and approves policies and detailed strategies for the Group. It reviews and approves major investments recommended by Management and recommends larger investments to the Board in accordance with the internal financial authority limits stipulated by the Board. The Committee also reviews and monitors the financial performance and progress of the Group.

The ExCo is chaired by Peter Seah Lim Huat and its members are Wong Kok Siew, Goh Geok Ling and S Iswaran. It generally meets once a month with full attendances of the Committee Members.

### **The Audit Committee (AC)**

The AC consists of all independent directors, comprising Lua Cheng Eng as Chairman, K Shanmugam and Richard Hale OBE as members. During the year under review, the Committee held six meetings. All members of the AC participated actively at all the meetings either by attendances or through teleconferencing.

The main responsibility of the AC is to review with the external auditor, internal auditor and Management, the Company's general policies and control procedures, interested persons transactions, as well as any matters or issue that affect the performance of the Group. The AC reviews the quarterly, half-yearly and annual results announcements as well as the financial statements of the Group and Company before they are submitted to the Board for approval. The AC may direct matters to be included for special review by the external and internal auditors.

It may, as necessary, discuss other matters that the Committee or auditors wish to bring up. The Committee also recommends the appointment or re-appointment of the company's external auditors.

The AC meets with the external and internal auditors, without the presence of Management, at least once a year to review the co-operation and assistance given by Management to them.

The AC has reviewed the non-audit services provided by its external auditors to the Group, excluding its listed subsidiaries SembCorp Logistics and SembCorp Marine, who have their respective audit committees and is satisfied with the independence and objectivity regarding the provision of non-audit services by the external auditors.

#### ***The Executive Resource & Compensation Committee (ERCC)***

The ERCC is chaired by Peter Seah Lim Huat and its members are Goh Geok Ling, K Shanmugam and S Iswaran. The ERCC oversees executive compensation and development with the aim of building capable and committed senior management through focused management and progressive policies which can attract, motivate and retain talented executives to meet the current and future needs of the Company.

The ERCC reviews and approves remuneration and promotion of key executives as well as to decide on issues pertaining to their development and succession. The Committee also establishes guidelines on share options and other long-term incentive plans and approves the grant of such incentives to key executives. The underlying philosophy is to motivate executives to maximise operating and financial performance and shareholder value.

The ERCC conducts, on an annual basis, a succession planning review of the CEO, all his direct reports, and selected key positions in the Company. Potential internal and external candidates for succession are reviewed for different time horizons of immediate, medium-term and long term needs.

The ERCC reviews the remuneration of its non-executive directors, executive director and senior executives, as well as major human resource management and compensation policies and practices for the rest of the Group.

While the Chairman of the ERCC is not regarded as independent within the context of the definition of "independence" in the Code, he is a non-executive director independent of Management with a clear separation of his role from Management in deliberations of the ERCC. The ERCC has access to expert professional advice on human resource matters whenever there is a need to consult externally. In its deliberations, the ERCC takes into consideration industry practices and norms in compensation. The CEO is not present during the discussions relating to his own compensation, terms and conditions of service, and the review of his performance.

The ERCC meets among its members without the presence of Management, at least once a year. The ERCC held three meetings in the year and achieved an average of 75% attendance.

#### ***Nominating Committee (NC)***

The NC is chaired by Peter Seah Lim Huat and its members are Goh Geok Ling, K Shanmugam and S Iswaran.

The primary purpose of the NC is to support and advise the Company, its major subsidiaries and, where applicable, associated companies by nominating suitable candidates who are best able to discharge their responsibilities as directors having regard to the law and the high standards of governance practised by the Group and evaluating the balance of skills,

knowledge and experience of these Boards. Appointments to these boards are made on merit and against objective criteria. The NC takes care to ensure that appointees have enough time available to devote to their directorship roles.

#### ***Budget Committee (BC)***

The BC comprises Yong Ying-I as Chairman, Tay Siew Choon as Deputy Chairman and Wong Kok Siew as a member.

The Budget Committee implemented a planning cycle focusing on different initiatives in each quarter. Activities involved the quarterly and half-yearly review of financial results in relation to the budget, strategic initiatives and a five-year outlook of each main subsidiary, as well as the annual budget plans and initiatives.

#### ***Risk Committee (RC)***

The RC was formed in August 2003 as part of SembCorp's effort to formalise and strengthen its risk management framework and processes. Prior to the RC being formed, its role and functions were carried out by the AC.

The RC comprises three members, namely Lua Cheng Eng as the Chairman, and Richard Hale OBE and K Shanmugam as members.

The primary role and function of the RC is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:-

- The adequacy and effectiveness of the risk management plans, systems, processes and procedures of the Group;
- Group-wide risk policies, guidelines and limits; and
- The risk portfolio and risk levels including the treatment of identified risks.

The RC held its first meeting in December 2003.

## Board Composition and Committees

Board Members	Executive Committee	Audit Committee	Executive Resource & Compensation Committee	Nominating Committee	Budget Committee	Risk Committee
Peter Seah Lim Huat	Chairman		Chairman	Chairman		
Wong Kok Siew	Member				Member	
Tay Siew Choon					Deputy Chairman	
Lua Cheng Eng		Chairman				Chairman
K Shanmugam		Member	Member	Member		Member
Tetsuro Kawakami						
Goh Geok Ling	Member		Member	Member		
Richard Hale OBE		Member				Member
S Iswaran	Member		Member	Member		
Yong Ying-I					Chairman	
Dr Vichit Suraphongchai						

### 3. Senior Management Committee

The Deputy Chairman and CEO, Wong Kok Siew chairs a monthly Management Committee Meeting comprising all the CEOs and senior management executives in the Group. At these meetings, the CEO reviews the operating and financial performance of each of the businesses and gives direction to the relevant management for follow up action. Such forums provide the discursive platform to gather feedback and discuss market trends, specific developments in the competitive landscape affecting the Group's businesses, including areas of synergies and collaborations and dissemination of new policy matters.

The respective functional Divisional Heads in the Company also chair regular discussion forums for their respective key functional staff across the Group. The Chief Financial Officers Forum by the Group Chief Financial Officer, the Group Legal Counsel Forum by the General Counsel, the Group Human Resource Forum by the Director, Group Human Resource and the Chief Risk Officers Forum by the Group Chief Risk Officer are examples of such discussion groups aimed at ensuring consistency of policies and sharing of developments in the relevant areas of discipline across the Group.

### 4. Communication with Shareholders Regular, effective and equal treatment of shareholders

We believe that our shareholders must be given a fair and accurate view on the affairs of our company on an ongoing basis. They should be entitled to timely and complete information on financial data, material developments as well as an understanding of our business directions and prospects.

All SembCorp Industries' price-sensitive information is disseminated publicly so as to be available to all shareholders at the same time and not on a selective basis. Financial and other performance data is given for the Group as well by business unit or division where appropriate. This allows our shareholders better insight into the earnings drivers within SembCorp Industries.

During the release of earnings results, the press release on the results announcement is first released by MASNET onto the SGX website. Thereafter a briefing or teleconference by Management is held jointly for the media and analysts. All materials used at the briefing, including the presentation slides, are made available on MASNET as well as the Company website at [www.sembcorp.com.sg](http://www.sembcorp.com.sg).

Following any release of earnings or price-sensitive developments, our Investor Relations staff are available by email or telephone to the answer questions from shareholders and the media as long as the information requested does not conflict with the SGX's rules of fair disclosure.

### Greater shareholder participation at General Meetings

We encourage shareholder participation at company meetings. Information on meetings of shareholders are made through notices published in the newspaper and reports or circulars sent to all shareholders. If any shareholder is unable to attend, he is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance.

The Chairman, CEO as well as the chairman of Audit Committee are also present together with the Group COO, Group CFO, the Group Company Secretary and our external auditors and legal advisor to answer questions raised by shareholders. Minutes of shareholder meetings are available on request by registered shareholders.

For further details on SembCorp Industries communications with its shareholders, see the "Investor Relations" section of the Annual Report.

### 5. Dealings in Securities

The Company has adopted a Code of Compliance on Dealing in Securities, which prohibit dealings in the Company's securities by its officers during the period commencing two weeks prior to the announcement of the Company's quarterly results. Directors and executives are also expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

### 6. Interested person transactions

Shareholders have adopted a shareholders mandate (Mandate) in respect of interest person transactions of the Company. The Mandate sets out the levels and procedures to obtain approval for such transactions. Information regarding the Mandate are available on the Company's website, [www.sembcorp.com.sg](http://www.sembcorp.com.sg). All SBUs are required to be familiar with the Mandate and report any such transactions to the Company's Group Finance. Group Finance keeps a register of the Company's interested person transactions. Information on interested person transactions for 2003 is found on page 175.

## 7. Independent Internal Audit

### *Independent Internal Audit function*

The internal audit function of the Group is supported by the Group Internal Audit Department (GIA). GIA directly reports to the AC Chairman on audit matters and administratively to the CEO. GIA plans its internal audit schedules in consultation with, but independent of Management and its plan is submitted to the AC for approval at the beginning of each year.

To ensure that the internal audits are performed by competent professionals, GIA recruits and employs suitably qualified staff. In order that their technical knowledge remains current and relevant, GIA identifies and provides training and development opportunities to the staff. In summary, the internal audit function provided by GIA meets with the standards set by the Institute of Internal Auditors.

## 8. Effective Internal Control and Risk Management

### *A sound system of internal controls and a robust enterprise risk management framework*

The Company's external and internal auditors review the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management.

An ERM framework was developed and rolled out to the Group. The key business units aligned to this common ERM framework are in their various stages of implementation. ERM workshops were conducted at SembCorp Industries and the key business units to raise awareness and embed the risk management culture throughout the group. Significant risks were identified and treatment plans were drawn up to manage such risks. The Group Risk Management Oversight and Reporting structure were formalised and the various Committees established to oversee group risk management matters and implementation of ERM group-wide. A formal communication channel or risk forum was kicked off at Group level. This is to enable regular review and discussion of risk management matters with the Chief Risk Officers of the business units and to drive the development of ERM group-wide. For details on SembCorp Industries' ERM, see the "Enterprise Risk Management" section of the Annual Report.

## 9. Competitive Remuneration System

### *Remuneration of Directors adequate and not excessive*

#### *Competitive reward system to ensure highest performance and retention of best talents and key executives*

The Deputy Chairman & CEO, as executive director, does not receive director's fees. He is a lead member of Management. His compensation consists of his salary, allowances, bonuses, restricted stocks, performance share awards conditional upon his meeting certain performance targets (details are available on page 84 of the Annual Report) and share options. Details on share options granted and its fair value are available on pages 83 to 85 and page 95 of the Annual Report, respectively.

Non-executive Directors have remuneration packages which consist of a directors' fee component pursuant to the Company's Directors' Fee policy, an attendance fee component and a share options component pursuant to the Company's Employee Share Option Plan. The Directors' Fee policy is based on a scale of fees divided into basic retainer fees as director and additional fees for attendance and serving on board committees (details are available on page 174 of the Annual Report). Details on share options granted and its fair value are available on pages 82 to 93 and page 95 of the Annual Report, respectively.

The basis of allocation of the number of share options takes into account a director's contributions and additional responsibilities at board committees. The report on Directors' Remuneration is found on page 174 of the Annual Report. We believe that our directors are adequately compensated and in line with market norms.

As for the key executives, they are rewarded based on actual performance achieved relative to the pre-agreed performance targets which include financial and non-financial performance indicators. We believe that the current reward systems in the Group are in line with market norms formulated to motivate executives to give their best to the company. Rewards include both short-term and long-term share-based awards which will further ensure the retention of the best talents and high performing executives in the Group.

The Company adopts an incentive compensation plan which ties to the creation of economic value add (EVA), as well as to attainment of individual performance goals for its key executives. Individual's incentive compensation is linked to the EVA created by the Group and its subsidiaries.

A "bonus bank" is used to hold incentive compensation credited in any year. Typically, one-third of the available balance is paid out in cash each year, with the balance being carried forward to the following year. Such carried-forward balances of the bonus bank may either be reduced or increased in future, based on the yearly EVA performance of the Group and subsidiary.

The Board has decided not to prepare a separate Remuneration Report as most of the information is found in the Directors' Report. We have indicated in this Report where the information required to be disclosed can be found.

Rather than set out the names of the top key executives who are not also directors of the Company, we have shown the number of key employees in remuneration bands of S\$250,000 from S\$100,000 onwards, of the CEO of the Company, five Key Businesses' CEOs, CEO of Singapore Precision Industries, the Company's Group COO and Group CFO. This should give a macro perspective of the remuneration pattern in the Group, while maintaining the confidentiality of staff remuneration matters.

### **Remuneration Band for Key Executives**

<b>Remuneration Band (S\$)</b>	<b>No. of employees</b>
1,500,000 to 1,749,999	–
1,250,000 to 1,499,999	–
1,000,000 to 1,249,999	2
750,000 to 999,999	1
500,000 to 749,999	5
250,000 to 499,999	–
100,000 to 249,999	–