

### Sembcorp's corporate governance principles are built on our core value of integrity and reflect our commitment to protect and enhance shareholder value.

Sembcorp aspires to attain the highest standards of corporate governance. The board and management recognise that well-defined corporate governance processes are essential in enhancing corporate accountability and long-term sustainability and remain committed to ensuring high standards of corporate governance to preserve and maximise shareholder value.

In recognition of the company's continuous efforts towards excellent financial reporting and extensive disclosures beyond the minimum regulatory requirements, we were awarded Gold for Best Annual Report (for companies with market capitalisation of S\$1 billion and above) at the Singapore Corporate Awards 2011. We were also named the Most Transparent Company (Multi-industry / Conglomerates) at the Securities Investors Association (Singapore) Investors' Choice Awards 2011.

This report sets out the company's corporate governance processes and activities for the financial year with reference to the principles set out in the Singapore Code of Corporate Governance 2005 (Code). The board is pleased to report that the company has substantially complied with the principles and guidelines set out in the Code. Deviations from the Code, if any, are explained under the respective sections. The company continually reviews and refines its processes in light of the best practice, consistent with the needs and the circumstances of the Group.

#### Board of Directors

##### Effective board to lead and effect controls (Principle 1)

Sembcorp is led by an effective board comprising mainly independent non-executive directors. The board is headed by Ang Kong Hua. He is joined on the board by Tang Kin Fei, Goh Geok Ling, Evert Henkes, Bobby Chin Yoke Choong, Margaret Lui, Tan Sri Mohd

Hassan Marican and Tham Kui Seng, who joined the board on June 1, 2011. Richard Hale, OBE and Lee Suet Fern were also directors of the company until their retirement from the board at the last Annual General Meeting (AGM) held on April 21, 2011.

The fundamental responsibility of the directors is to exercise their independent judgement to act in good faith in what they reasonably believe to be the best interest of the company, for the creation of long-term value for shareholders. The board also relies on the integrity and due diligence of senior management, external auditors and advisors to oversee the Group's overall performance objectives, key operational initiatives, financial plans and annual budget, major investments, divestment and funding proposals, financial performance reviews, risk management and corporate governance practices.

To assist the board in the efficient discharge of its responsibilities and provide independent oversight of management, several board committees, including the Executive Committee, Audit Committee, Executive Resource & Compensation Committee, Nominating Committee and Risk Committee, have been established with written Terms of Reference (TOR). Primarily made up of independent non-executive directors, each committee makes decisions on matters within its TOR and applicable limits of authority, and recommends the course of action for the board's consideration on such matters. The committees' respective composition, roles and responsibilities are further explained in this report. Minutes of board committee meetings are circulated to the board to keep directors updated on the activities of each committee. Special purpose committees are also established as dictated by business imperatives. For instance, the Technology Committee, which is not a board committee,

is chaired by Mr Ang to lead the Group in setting up a framework to better manage existing and new technologies and research and development activities relating to the businesses of the Group. More details about the Technology Committee are explained in the Sustainability section of this annual report.

The composition of the board committees is structured to ensure an equitable distribution of responsibilities among board members, maximise the effectiveness of the board and foster active participation and contribution. Diversity of experience and appropriate skills are considered along with the need to maintain appropriate checks and balances between the different committees. Hence, membership of the Executive Committee (ExCo), with its greater involvement in key business and executive decisions, and membership of the Audit and Risk Committees, with their respective oversight roles, are mutually exclusive.

Board meetings are scheduled on a quarterly basis to review and approve the release of the quarterly results and discuss reports by management on the Group's financial performance, business development plans and prospects. A board meeting is also held at the end of each financial year to review the Group's strategy going forward and to consider and approve the Group's budget for the following year. Twice a year, the board also sets aside time during its scheduled meetings without the presence of management to discuss management's performance. Further board meetings may also be held to specifically consider other issues arising. Decisions of the board and board committees may also be obtained via circular resolutions. A two-day offsite board and management strategy meeting was organised in July 2011 to discuss in depth the strategic issues and direction of the Group. This also gave non-executive directors a better understanding of the Group and its businesses, and provided an opportunity for the non-executive directors to familiarise themselves with the management team.

To assist directors in planning for their attendance, board and board committee meetings as well as the AGM are scheduled one year in advance,

and telephonic attendance and conference via audio-visual communication are allowed under the company's Articles of Association. The company recognises that to focus on a director's attendance at formal meetings alone may lead to a narrow view of his contribution. Directors' contributions may be made in many other forms, such as bringing strategic relationships to the Group, providing guidance to management or offering an exchange of views outside the formal environment of the board or board committee meetings. Notwithstanding this, the company encourages active participation at formal meetings of the board.

The Group has adopted a set of internal controls and guidelines that set out financial authorisation and approval limits for borrowings, including off-balance sheet commitments, investments, acquisitions, disposals, capital and operating expenditures, requisitions and expenses. The board or ExCo approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to management so as to facilitate operational efficiency.

The ExCo is chaired by Mr Ang and its members include Mr Goh, Mr Tang and Mrs Lui, who joined the ExCo in January 2011.

Within the limits of authority delegated by the board, the ExCo reviews and approves business opportunities, strategic investments, divestments, and major capital and operating expenditures. The ExCo also evaluates and recommends larger investments, capital and operating expenditures, as well as divestments to the board for approval.

Directors are briefed on changes to regulations, guidelines and accounting standards from time to time either during board meetings or at specially convened sessions, including sponsored training sessions and seminars conducted by external professionals. Articles and reports relevant to the Group's businesses are also circulated to the directors for information. The company conducts orientation programmes for newly-appointed directors where comprehensive presentations on Sembcorp's strategic

plans and direction, financial performance as well as business activities in the various geographical markets are given by senior management. In addition, the Group President & CEO briefs the board at each meeting on the business and project developments. A formal letter is also sent to newly-appointed directors upon their appointment explaining the Group's governance policies and practices, as well as their duties and obligations as directors. The newly-appointed director also receives an information pack which contains the Group's organisation structure, senior management's contact details, the company's Memorandum & Articles of Association, respective committees' TORs, Group Policy relating to disclosure of interests in securities and prohibition on dealings in Sembcorp securities, and guidelines on directors' fees. Further, facility visits to our subsidiaries' operation sites are arranged to provide newly-appointed directors an understanding of the Group's business operations. Existing directors are also invited to participate in such facility visits and orientation programmes.

## Strong and independent board exercising objective judgement (Principle 2)

The current board comprises eight directors, of whom six are independent directors. Excluding the Group President & CEO, all the directors are non-executive, including the Chairman.

The board members comprise business leaders and professionals with strong relevant experience in the Group's businesses. Best efforts have been made to ensure that, in addition to contributing their valuable expertise and insight to board deliberations, each director brings to the board an independent and objective perspective to enable balanced and well-considered decisions to be made. Given that the majority of the board comprises non-executive directors who are independent of management and independent in terms of character and judgement, objectivity on issues deliberated is assured. Profiles of the directors may be found on pages 60 to 63.

The Nominating Committee (NC) ensures that the board maintains at an appropriate size and comprises

members with a balance of skill, attributes, knowledge and experience. While reviewing the re-appointment and re-election of directors, the NC also considers the directors' other board directorship representations and ensures that directors have sufficient time to devote to their duties. Through the delegation of its authority to the NC, the board has applied its best efforts to ensure that the directors appointed possess the background, experience and knowledge in business, finance and related industries, as well as management skills critical to the company's businesses.

The NC is chaired by Mr Ang, who is joined on the committee by Mr Goh and Mrs Lui. In line with the Code, Mr Ang is not a substantial shareholder of the company, nor is he directly associated with Temasek Holdings, a substantial shareholder of the company.

Every year, the NC reviews the independence of directors. To this end, each director is required to complete a Director's Independence Checklist on an annual basis to confirm his independence. The checklist is drawn up based on the assessment guidelines provided in the Code and further requires each director to assess whether he considers himself independent despite not being involved in any of the relationships identified in the Code. The NC will then review the checklist completed by each director to determine whether that director is independent. For the year under review, with the exception of Mr Tang, who is Group President & CEO and an executive director, and Mrs Lui who is the Chief Operating Officer of Seatown Holdings International, a related company of Temasek Holdings, the NC has ascertained that all the other non-executive directors, including Tan Sri Mohd Hassan Marican who is appointed a Senior International Advisor of Temasek International Advisors, a subsidiary of Temasek Holdings, are independent. The NC believes that Tan Sri Mohd Hassan Marican is able to exercise strong independent judgement in his deliberations and act in the best interest of the company as his appointment is non-executive in nature and does not entail involvement in the day-to-day conduct of Temasek Holdings' businesses.

## Chairman and Chief Executive Officer (Principle 3)

The Chairman and the Group President & CEO are not related to each other. The roles of Chairman and the Group President & CEO are kept separate to ensure an appropriate balance of power, increased accountability and greater capacity of the board for independent decision making.

The Chairman, who is non-executive, leads and ensures effective and comprehensive board discussion on matters brought to the board including strategic issues as well as business planning. The Chairman monitors that the board's decisions are translated into executive action. The Group President & CEO's primary role is to effectively manage the operations of the Group in accordance with the Group's strategies and policies and provide close oversight, guidance, advice and leadership to senior management.

## Formal appointment and re-election of directors (Principle 4)

Sembcorp's board is periodically reviewed to ensure strong, independent and sound leadership for the continuous success of the company and its businesses. The board also recognises the

contribution of directors who, over time, have developed deep insights into the Group's businesses and exercises its discretion to retain the services of such directors where appropriate.

The NC supports and advises the company by nominating suitable board candidates to maintain the board's balance of skills, attributes, knowledge and experience. Appointments to the board are made on merit and against objective criteria. Candidates must be able to discharge their responsibilities as directors while upholding the highest standards of governance practised by the Group. While the directors may have several directorships in other companies, the NC takes care to ensure and is satisfied that appointees have contributed adequate time to meet the expectations of their role as directors.

The company subscribes to the principle that all directors including the Group President & CEO should retire and submit themselves for re-election at regular intervals, subject to their continued satisfactory performance. The company's Articles of Association requires a third of its directors to retire and subject themselves to re-election by shareholders at every AGM (one-third rotation rule).

### Board Members for 2011

Director	Position held on the board	Date of first appointment to the board	Date of last re-election / re-appointment as director	Nature of appointment
Ang Kong Hua	Chairman	Feb 26, 2010	Apr 22, 2010	Non-executive & Independent
Tang Kin Fei	Director	May 1, 2005	Apr 21, 2011	Executive & Non-independent
Goh Geok Ling	Director	May 3, 2000	Apr 22, 2010*	Non-executive & Independent
Evert Henkes	Director	Apr 30, 2004	Apr 22, 2010*	Non-executive & Independent
Bobby Chin Yoke Choong	Director	Dec 1, 2008	Apr 20, 2009*	Non-executive & Independent
Margaret Lui	Director	Jun 1, 2010	Apr 21, 2011	Non-executive & Non-independent
Tan Sri Mohd Hassan Marican	Director	Jun 16, 2010	Apr 21, 2011	Non-executive & Independent
Tham Kui Seng	Director	Jun 1, 2011	N.A.*	Non-executive & Independent
Richard Hale, OBE	Director (Retired on Apr 21, 2011)	Sep 1, 2000	Apr 22, 2010	Non-executive & Independent
Lee Suet Fern	Director (Retired on Apr 21, 2011)	Jul 1, 2005	Apr 20, 2009	Non-executive & Independent

\* Up for retirement at the upcoming AGM

## Composition of Board and Board Committees for 2011

Board Member	Executive Committee (ExCo)	Audit Committee (AC)	Risk Committee (RC)	Executive Resource & Compensation Committee (ERCC)	Nominating Committee (NC)
Ang Kong Hua	Chairman			Chairman	Chairman
Tang Kin Fei	Member				
Goh Geok Ling	Member			Member	Member
Evert Henkes <sup>1</sup>		Member	Chairman		
Bobby Chin Yoke Choong <sup>2</sup>		Chairman	Member		
Margaret Lui <sup>3</sup>	Member			Member	Member
Tan Sri Mohd Hassan Marican <sup>4</sup>		Member	Member		
Tham Kui Seng <sup>5</sup>					
Richard Hale, OBE <sup>6</sup> (Retired on Apr 21, 2011)		Chairman	Chairman		
Lee Suet Fern <sup>7</sup> (Retired on Apr 21, 2011)		Member	Member		

## Directors' Attendance at Board and Board Committee Meetings in 2011

Board Member	Board Meeting		Executive Committee (ExCo) Meeting	Audit Committee (AC) Meeting	Risk Committee (RC) Meeting	Executive Resource & Compensation Committee (ERCC) Meeting	Nominating Committee (NC) Meeting*
	Scheduled	Ad-hoc					
<b>Total No. of Meetings Held in 2011</b>	<b>5</b>	<b>3</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>-</b>
Ang Kong Hua	5/5	3/3	6/6	-	-	3/3	*
Tang Kin Fei	5/5	3/3	6/6	-	-	-	-
Goh Geok Ling	5/5	3/3	6/6	-	-	2/3	*
Evert Henkes <sup>1</sup>	5/5	2/3	-	3/3	4/4	-	-
Bobby Chin Yoke Choong <sup>2</sup>	5/5	3/3	-	4/4	4/4	-	-
Margaret Lui <sup>3</sup>	5/5	3/3	5/6	-	-	3/3	*
Tan Sri Mohd Hassan Marican <sup>4</sup>	5/5	3/3	-	4/4	3/3	-	-
Tham Kui Seng <sup>5</sup>	3/3	1/1	-	-	-	-	-
Richard Hale, OBE <sup>6</sup> (Retired on Apr 21, 2011)	0/1	0/1	-	0/1	0/1	-	-
Lee Suet Fern <sup>7</sup> (Retired on Apr 21, 2011)	1/1	1/1	-	1/1	1/1	-	-

<sup>1</sup> Evert Henkes was appointed Chairman of RC and a member of AC on Apr 21, 2011 and May 1, 2011 respectively.

<sup>2</sup> Bobby Chin was appointed Chairman of AC on Apr 21, 2011.

<sup>3</sup> Margaret Lui was appointed a member of ExCo on Jan 1, 2011.

<sup>4</sup> Tan Sri Mohd Hassan Marican was appointed a member of AC and RC on Jan 1, 2011 and May 1, 2011 respectively.

<sup>5</sup> Tham Kui Seng was appointed an independent non-executive director on Jun 1, 2011.

<sup>6</sup> Richard Hale, OBE retired as an independent non-executive director and Chairman of AC and RC on Apr 21, 2011.

<sup>7</sup> Lee Suet Fern retired as an independent non-executive director and member of AC and RC on Apr 21, 2011.

\* Decisions by NC were made via circular resolution.

Prior to seeking shareholders' approval at the AGM, the NC reviews and considers the retirement and re-election of directors. In addition, a newly-appointed director submits himself for retirement and re-election at the AGM immediately following his appointment. Thereafter, he is subject to the one-third rotation rule. Directors who are above the age of 70 are also statutorily required to seek re-appointment at each AGM.

Pursuant to the one-third rotation rule, Mr Henkes and Mr Chin will retire and submit themselves for re-election at the forthcoming AGM. Mr Tham, who was newly appointed to the board on June 1, 2011, will also submit himself for retirement and re-election by shareholders at the forthcoming AGM.

In addition, Mr Goh, who has turned 70 years old in September 2011, will also submit his retirement and offer himself for re-appointment pursuant to the Companies Act. Although Mr Goh has served on the board since 2000, the board considers his contribution significant and valuable as he possesses in-depth knowledge of the businesses of the Group. The board believes that Mr Goh's tenure would not materially interfere with his ability to exercise independent judgement in his deliberations and act in the best interests of the Group and its shareholders.

## Board Performance and Conduct of Its Affairs

### Active participation and valuable contributions are key to overall effectiveness of the board (Principle 5)

Each year, the board undertakes an informal assessment of its performance to identify key areas for improvement and requisite follow-up actions. To provide feedback to aid in this assessment, each director is required to complete a questionnaire on the effectiveness of the board as a whole. This questionnaire considers factors such as the size and composition of the board, directors' access to information, board processes and accountability, committee effectiveness as well as board performance in relation to its principal functions and

communication with senior management. The collective evaluation and feedback is then consolidated and presented to the board for discussion to highlight areas of strength and weakness for continuous improvement of the board and its committees.

The NC feels that the financial indicators set out in the Code as guidelines for the evaluation of the board are more a measure of management's performance and therefore less applicable to directors. The NC believes that board performance is ultimately reflected in the long-term performance of the Group.

## Full Access to Information and Resources

### Directors have complete, adequate and timely information and resources (Principle 6)

To assist the board in discharging its duties and to keep abreast of the Group's operational and financial performance, key issues, challenges and opportunities, Sembcorp's management furnishes adequate management and operation reports as well as financial statements to the board on a regular basis. As a general rule, board and board committee papers are submitted to directors at least three working days before each meeting so that they may better understand the matters prior to the meeting and discussions may be focused on questions that the directors have on these matters. Members of senior management who may provide insight into the matters to be discussed are also called on to be present during the relevant discussions.

Financial highlights of the Group's performance and key developments are presented on a quarterly basis at board meetings. The Group President & CEO, Group Chief Financial Officer and members of senior management are present at these presentations to address any queries which the board may have.

The Company Secretary facilitates good information flow between the board and its committees and senior management, in addition to attending to corporate secretarial matters such as arranging orientation for newly-appointed directors.

In consultation with the Chairman and the Group President & CEO, the Company Secretary assists the board with the preparation of meeting agendas, and administers, attends and prepares minutes of board proceedings. She also assists the board on the compliance of the Group with the Memorandum and Articles of Association and regulations, including requirements of the Companies Act, Securities & Futures Act and the SGX-ST. She liaises with the SGX-ST, the Accounting and Corporate Regulatory Authority and, when necessary, shareholders.

The board has ready and independent access to the Group President & CEO, senior management, the Company Secretary and internal and external auditors at all times. The board exercises its discretion to seek independent professional advice at the company's expense, if deemed necessary, to ensure that full information is available before important decisions are made.

## Competitive Remuneration System Remuneration of directors adequate and not excessive (Principle 7)

The Executive Resource & Compensation Committee (ERCC) is chaired by Mr Ang and its members include Mr Goh and Mrs Lui.

The ERCC is responsible for ensuring a formal procedure for developing and reviewing policies on compensation and development of the Group's senior management. It assists the board to ensure that competitive remuneration policies and practices are in place to attract, motivate and retain talented executives. The ERCC also reviews the remuneration of the board members.

The ERCC reviews succession planning for key positions in the Group and the leadership pipeline for the organisation. It reviews the development of senior staff and assesses their strengths and development needs based on the Group's leadership competencies framework, with the aim of building talent and maintaining strong and sound leadership for the Group. The ERCC conducts a succession planning review of the Group President & CEO, officers

reporting directly to him, as well as selected key positions in the company on an annual basis. Potential internal and external candidates for succession are reviewed for different time horizons according to immediate, medium-term and long-term needs.

The ERCC also establishes guidelines on share-based incentives and other long-term incentive plans and approves the grant of such incentives to key executives. These incentives aim to motivate executives to maximise operating and financial performance and shareholder value, and are aimed at aligning the interests of the executives with those of shareholders.

The ERCC has access to expert professional advice on human resource matters whenever there is a need for such external consultations. In its deliberations, the ERCC takes into consideration industry practices and norms of compensation. The Group President & CEO does not attend discussions relating to his own compensation, terms and conditions of service, or the review of his performance. No ERCC member or any director is involved in deliberations in respect of any remuneration, compensation, share-based incentives or any form of benefits to be granted to himself.

## Competitive reward system to ensure highest performance and retention of best talents and key executives (Principle 8)

Sembcorp believes that a competitive remuneration and reward system based on individual performance is important in order to retain and incentivise the best talents. Sembcorp's remuneration and reward system is also responsive to the economic climate as well as the performance of the Group and its business units.

The Group President & CEO, as an executive director, does not receive director's fees. As a lead member of management, his compensation consists of his salary, allowances, bonuses and share-based incentives conditional upon meeting certain performance targets. Details on the share-based incentives and the performance targets are available in the Directors' Report and Note 4 in the Notes to the Financial Statements.

In its yearly review, the ERCC, with the advice and assistance from compensation consultant, updated the compensation framework of non-executive directors. To align the interests of the non-executive directors with the interests of shareholders, up to 30% of the aggregate directors' fees approved by shareholders for a particular financial year may be paid out in the form of restricted share awards under the Sembcorp Industries Restricted Share Plan 2010.

The following Directors' Compensation Framework is based on a scale of fees divided into basic retainer fees, attendance fees, fees for service on board committees and travel allowance:

### Directors' Compensation by Type of Appointment

	S\$
<b>Board of Directors</b>	
■ Basic fee	65,000
■ Chairman's allowance	80,000
<b>Executive Committee</b>	
■ Chairman's allowance	40,000
■ Member's allowance	25,000
<b>Audit Committee</b>	
■ Chairman's allowance	40,000
■ Member's allowance	25,000
<b>Executive Resource &amp; Compensation Committee / Nominating Committee</b>	
■ Chairman's allowance	25,000
■ Member's allowance	15,000
<b>Risk Committee</b>	
■ Chairman's allowance	25,000
■ Member's allowance	15,000

#### Notes:

- 1 Tang Kin Fei, as an executive director, does not receive director's fees.
- 2 The Executive Resource & Compensation Committee and the Nominating Committee have the same members, who each receives one payment for service on both committees.
- 3 The directors also receive attendance fees of S\$4,500 for each board meeting; and S\$2,200 for each committee meeting.
- 4 The directors receive additional travel allowance for travelling out-country to attend board and / or committee meetings:  
Duration of travel (to and fro) ≤4 hrs: S\$2,000; >4 to 15 hrs: S\$5,000;  
>15 hrs: S\$10,000

The directors' cash fees and share awards will only be paid and granted upon approval by shareholders at the forthcoming AGM of the company.

For the year 2011, the awards granted under the Sembcorp Industries Restricted Share Plan 2010 to all directors as part of their directors' fees (except for Mr Tang, who is the Group President & CEO and does not receive any directors' fees) will consist of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. Non-executive directors are required to hold shares (including shares obtained by other means) worth at least one-time the annual base retainer (currently S\$65,000); any excess may be sold as desired. A non-executive director can dispose of all of his shares one year after leaving the board.

The actual number of shares to be awarded to each non-executive director will be determined by reference to the volume-weighted average price of a share on the SGX-ST over the 14 trading days immediately following the date of the AGM. The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash.

The company does not have a retirement remuneration plan for non-executive directors.

Key executives are rewarded based on actual performance relative to pre-agreed performance targets, which include financial and non-financial performance indicators such as economic value added (EVA), total shareholder return and promoting and maintaining health, safety and environmental standards. The Group believes that the current reward systems are in line with market norms and formulated to motivate executives to give their best to the Group. Rewards include long-term share-based incentives, which would further ensure the retention of the most talented and high-performing executives in the Group. For further details on the share-based incentives and performance targets, please refer to the Directors' Report and Note 4 in the Notes to the Financial Statements.

The Group has an incentive compensation plan for key executives that is tied to the creation of EVA, as well as to the achievement of individual and Group performance goals. 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 and the balance 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 its subsidiaries.

### Disclosure on remuneration (Principle 9)

The directors' fees totalled S\$1,280,613 in 2011, comprising S\$896,429 in cash (2010: S\$937,626) derived using the compensation structure above and S\$384,184 to be paid in the form of restricted share awards under Sembcorp Industries Restricted Share Plan 2010.

More information on directors and key executives' remuneration may be found under the related item in the Supplementary Information section of the Financial Statements.

### The board is accountable to the shareholders (Principle 10)

Sembcorp is committed to open and honest communication with shareholders at all times. The company presents a balanced, clear and coherent assessment of the Group's performance, position and prospects to shareholders through the timely release of its quarterly and annual financial reports.

The company believes that prompt compliance with statutory reporting requirements is imperative to maintaining shareholders' confidence and trust in the company. In line with stock exchange requirements, negative assurance statements were issued by the board to accompany the company's quarterly financial results announcements, confirming that to the best of its knowledge, nothing had come to its attention which would render the company's quarterly results false or misleading.

### Audit Committee (Principle 11)

The Audit Committee (AC) comprises directors who are both independent and non-executive. The AC was chaired by Mr Hale until his retirement from the board at the AGM on April 21, 2011. Mr Chin, an existing member of the AC, took over as Chairman with effect from April 21, 2011. The other members are Tan Sri Mohd Hassan Marican and Mr Henkes, who joined the AC in January and May 2011 respectively. Mrs Lee was also a member of the AC until her retirement from the board in April 2011.

The AC assists the board in fulfilling its fiduciary responsibilities relating to the internal controls, audit and accounting and reporting practices of the Group. Its main responsibilities are to review the company's policies and control procedures with the external auditors, internal auditors and management and act in the interest of the shareholders in respect of interested person transactions as well as any matters or issues that affect the financial performance of the Group. The AC reviews the quarterly, half-yearly and full-year results announcements, accompanying press releases and presentation slides as well as the financial statements of the Group and company before they are submitted to the board for approval.

Each year, the AC also reviews the independence of the company's external auditors and makes recommendations to the board on the re-appointment of the company's external auditors. The AC meets the external and internal auditors at least once a year without the presence of management.

The AC has explicit authority to investigate any matter within its TOR and enjoys full access to and co-operation from management to enable it to discharge its function properly.

Where relevant, the AC is guided by the recommended best practices for audit committees as set out in the Guidebook for Audit Committees issued by Singapore's Audit Committee Guidance Committee in October 2008.

The AC has reviewed the nature and extent of non-audit services provided by the external auditors

to the Group for the year, excluding services provided to Sembcorp Marine, a listed subsidiary that has its own audit committee. The AC is satisfied that the independence of the external auditors has not been impaired by their provision of non-audit services. Details of non-audit fees payable to the external auditors are found in Note 35(b) in the Notes to the Financial Statements.

The AC also oversees the Group's whistle-blowing policy.

### Internal control and risk management (Principle 12)

The board and management of the company are fully committed to a robust system of internal controls, procedures and risk management to safeguard shareholders' interests and the Group's assets, and to manage risks. The company seeks to improve internal control and risk management on an ongoing basis to ensure that they remain sound and relevant. The board, with the concurrence of the AC and Risk Committee (RC), is of the opinion that the operational, financial and compliance controls are adequate to meet the needs of the Group in the current business environment. This assessment is based on risk mitigating measures taken by management, work done by the company's Group Internal Audit and Group Risk Management departments, as well as the statutory audit(s) conducted by external auditors. Internal controls, because of their inherent limitations, can provide reasonable but not absolute assurance regarding the achievement of their intended control objectives. In this regard, the board will ensure that if any significant internal control failings or weaknesses were to arise, necessary remedial actions would be swiftly taken.

During the year under review, the RC was chaired by Mr Hale until his retirement in April 2011. Mr Henkes took over as Chairman of the RC with effect from April 21, 2011. The other members include Mr Chin and Tan Sri Mohd Hassan Marican, who joined the RC in May 2011. Mrs Lee was a

member of the RC until she retired from the board in April 2011. The RC's main role and function is to assist the board in overseeing risk management for the Group. It appraises the adequacy and effectiveness of the Group's risk management plans, systems, processes and procedures, Group-wide risk policies, guidelines and limits, as well as its risk portfolio, risk levels, and risk mitigation strategies.

For more information on the company's enterprise risk management system, please refer to page 80.

### Internal Audit

#### Independent internal audit function (Principle 13)

The internal audit function of the Group is performed by the Group Internal Audit department (GIA), which reports directly to the AC on audit matters and to the Group President & CEO on administrative matters.

GIA adopts a risk-based methodology in defining its annual internal audit plan, which is reviewed and approved by the AC. The internal audits performed are aimed at ensuring that the Group maintains a sound system of internal controls and that the operations comply with the internal controls framework. GIA also assists the board and management in the discharge of their corporate governance responsibilities as well as in improving and promoting effective and efficient business processes within the Group. To ensure that the internal audits are performed by competent professionals, GIA employs qualified staff and identifies and provides training and development opportunities for them so that their technical knowledge remains current and relevant. GIA is guided by and has met the standards for the professional practice of internal audit promulgated by the Institute of Internal Auditors.

The board has been kept informed of the AC's review of GIA's reports and the management controls in place, and is satisfied that GIA is adequately resourced and given appropriate authority and support within the company to carry out its audits.

## Whistle-blowing Policy

To strengthen corporate governance and ethical business practices across the Group, the company has implemented a whistle-blowing policy and procedures which provide employees with accessible channels to GIA to report suspected fraud, corruption, dishonest practices or other misdemeanors. The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will, to the extent possible, be protected from reprisal.

For more information on the whistle-blowing policy, please refer to page 81.

## Communication with Shareholders

### Regular, effective and equal treatment of shareholders (Principle 14)

Sembcorp remains committed to upholding high standards of corporate transparency and disclosure. The company disseminates all price-sensitive and material information to its shareholders via SGXNET on a non-selective basis and keeps all stakeholders informed of its corporate activities in a timely and consistent manner. Financial and other performance data is given for the Group as well as business units where appropriate, to provide shareholders with a better insight into the Group's performance. The date of the release of quarterly results is disclosed at least two weeks prior to the date of announcement via SGXNET. On the day of announcement, the financial statements as well as the accompanying press release and presentation slides are released via SGXNET as well as on the company website at [www.sembcorp.com](http://www.sembcorp.com). Thereafter, a briefing or teleconference by management is jointly held for the media and analysts. For first half and full year results announcements, results briefings are concurrently broadcast live via webcast.

Following the release of financial statements or price-sensitive developments, investor relations officers are available by e-mail or telephone to answer questions from shareholders, analysts and the

media as long as the information requested does not conflict with the SGX-ST's rules of fair disclosure.

### Greater shareholder participation at general meetings (Principle 15)

The company encourages shareholder participation at general meetings of shareholders. Information on general meetings is disseminated through notices in the annual reports or circulars sent to all shareholders. The notices are also released via SGXNET and published in local newspapers, as well as posted on the company website. All registered shareholders are invited to participate in the company's general meetings.

The company's Articles of Association allow all shareholders the right to appoint up to two proxies to attend general meetings and vote on their behalf. The company also allows Central Provident Fund investors to attend general meetings as observers.

To ensure greater transparency of the voting process, the company is considering electronic poll voting at the upcoming general meetings to allow shareholders present or represented at the meetings to vote on a one share, one vote basis. Voting in absentia by mail, facsimile or e-mail is currently not permitted as such voting methods would need to be cautiously evaluated for feasibility to ensure that there is no compromise to the integrity of the information and the authenticity of the shareholders' identity.

At general meetings, every matter requiring approval is proposed as a separate resolution. Shareholders present are given an opportunity to clarify or direct questions on issues pertaining to the proposed resolutions before the resolutions are voted on. The board and management are present to address these questions and obtain feedback from shareholders. The external auditors and legal advisors (if necessary) are also present to assist the board. Minutes of shareholder meetings are available upon request by registered shareholders.

At each AGM, the Group President & CEO delivers a short presentation to shareholders to update them on the performance of Sembcorp's businesses.

For further details on Sembcorp's communications with its shareholders, please see the Investor Relations chapter of this annual report.

## Dealings in Securities

The company has adopted a Code of Compliance on Dealing in Securities, which prohibits dealings in the company's securities by its directors and senior management within two weeks prior to the announcement of the company's financial statements for each of the first three quarters of its financial year and within one month prior to the announcement of the company's full-year financial statements. Directors and employees are also expected to observe insider trading laws at all times, even when dealing in the company's securities outside the prohibited trading period.

## Interested Person Transactions

Shareholders have adopted an Interested Person Transaction (IPT) Mandate in respect of interested person transactions of the company. The IPT Mandate defines the levels and procedures to obtain approval for such transactions. Information regarding the IPT Mandate is available on the company website, [www.sembcorp.com](http://www.sembcorp.com). All business units are required to be familiar with the IPT Mandate and report any interested person transactions to the company. The Group maintains a register of the company's interested person transactions in accordance with the reporting requirements stipulated by Chapter 9 of the SGX-ST Listing Manual. Information on interested person transactions for 2011 may be found in the related item under the Supplementary Information section of the Financial Statements in this report.