

Corporate Governance

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

The board and management of Sembcorp 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.

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 revised Singapore Code of Corporate Governance 2012 (2012 Code). Although the 2012 Code only takes effect in respect of annual reports relating to financial years commencing from November 1, 2012, the company is committed to high standards of corporate governance and believes in the early adoption of best practices. The board is pleased to report that the company has complied in all material aspects with the principles and guidelines set out in the 2012 Code. Deviations from the 2012 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 circumstances of the Group.

Board Matters

Board's Conduct of Affairs (Principle 1)

Effective board to lead and effect controls

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, Tham Kui Seng and Dr Teh Kok Peng, who joined the board on October 15, 2012.

Role of the board

The board is collectively responsible for the long-term success of the company. Each director exercises his independent judgement to act in good faith and in the best interest of the company for the creation of long-term value for shareholders.

The board oversees the business affairs of the Group. It provides leadership and guidance to management on the Group's overall strategy, taking into consideration sustainability issues and ensuring that the necessary financial and human resources are in place, and also reviews management performance. As part of its role, the board also ensures the adequacy of the Group's control and risk framework and standards including ethical standards, and that obligations to its shareholders and other identified key stakeholders are understood and met.

The board is responsible for the Group's overall performance objectives, key operational initiatives, financial plans and annual budget, major investments, divestment and funding proposals, quarterly and full year financial performance reviews, risk management and corporate governance practices. It also provides guidance on sustainability issues such as environmental and social factors, as part of its overall business strategy.

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). 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 Advisory Panel formed in early 2013 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 are explained in the Technology Advisory Panel 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, with its greater involvement in key businesses and executive decisions, and membership of the Audit and Risk Committees, with their respective oversight roles, are mutually exclusive.

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 approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to the Executive Committee and management to facilitate operational efficiency.

Executive Committee

The Executive Committee (ExCo) is chaired by Mr Ang and its members include Mr Goh, Mr Tang and Mrs Lui.

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.

Meetings and attendance

The schedule of all board and board committee meetings as well as the Annual General Meeting (AGM) for the next calendar year is planned in advance, and telephonic attendance and conference via audio-visual communication are allowed under the company's Articles of Association. Board meetings are scheduled on a quarterly basis to review and approve the release of the quarterly results and discuss reports prepared by management on the Group's 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. Further board meetings may also be held to specifically consider other issues arising. The board also sets aside time during its scheduled meetings without the presence of management to discuss, among other matters, management's performance. Decisions of the board and board committees may also be obtained via circular resolutions. A full day board and management strategy meeting was organised in November 2012 to review in depth the strategic direction of the Group. The directors' attendance at board and committee meetings held during the financial year is set out on page 43.

Board orientation and training

A formal letter of appointment is 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.

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.

As part of the training and professional development programmes for the board, the company ensures that directors are briefed on changes to regulations, guidelines and accounting standards from time to time. These are done 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. Facility visits to our subsidiaries' operation sites are also arranged to provide directors with an understanding of the Group's business operations. In 2012, briefing sessions by external lawyers were organised for the board to have an in-depth understanding of the 2012 Code and directors' obligations and responsibilities.

Board Composition and Guidance (Principle 2) Strong and independent board exercising objective judgement

Board composition

The current board comprises nine directors, of whom seven are independent directors. Excluding the Group President & CEO, all the directors are

non-executive. 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. The board is of the view that, 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 26 to 30.

Review of directors' independence

The independence of each non-executive director is assessed annually. This year, each director is required to complete a Director's Independence Checklist drawn up based on the guidelines provided in the 2012 Code. The checklist further requires each director to assess whether he considers himself independent despite not being involved in any of the relationships identified in the 2012 Code. Thereafter, the Nominating Committee reviews the completed checklists, assesses the independence of the directors and recommends its assessment to the board. Particular scrutiny is applied when assessing the continued independence of directors who have served more than nine years.

The board, after taking into account the views of the Nominating Committee, determined that with the exception of Mr Tang, Group President & CEO and an executive director, and Mrs Lui, Chief Operating Officer of Pavilion Capital International, a related company of Temasek Holdings who holds more than 10% interest in the Group, all the other non-executive directors are independent.

Mr Goh and Tan Sri Mohd Hassan Marican sit on the board of Sembcorp Marine, a listed subsidiary of the company from which the company

has received payment in excess of S\$200,000 in aggregate for consultancy services and provision of utilities services to Sembcorp Marine.

The board has assessed and is of the view that the payment received from Sembcorp Marine is insignificant in the context of the Group's earnings. The board believes that Mr Goh and Tan Sri Mohd Hassan Marican's directorships on Sembcorp Marine will not interfere, or be reasonably perceived to interfere, with their ability to exercise independent judgement and act in the best interests of Sembcorp Industries.

Mr Goh has served on the board of the company since his appointment in 2000. The board established that despite serving as a director for more than nine years, Mr Goh continues to demonstrate the essential characteristics of independence expected by the board. His length of service and in-depth knowledge of Group's businesses are viewed by the board as especially valuable, particularly given the changes to the board in the recent years.

The board also determined that Tan Sri Mohd Hassan Marican, who is appointed a Senior International Advisor of Temasek International Advisors, a subsidiary of Temasek Holdings, is independent. The board 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)

Clear division of responsibilities between the board and management

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 manages the operations of the Group in accordance with the Group's strategies and policies and provides close oversight, guidance, advice and leadership to senior management.

Board Members for 2012

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 24, 2012*	Non-executive / Independent
Evert Henkes	Director	Apr 30, 2004	Apr 24, 2012	Non-executive / Independent
Bobby Chin Yoke Choong	Director	Dec 1, 2008	Apr 24, 2012	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	Apr 24, 2012	Non-executive / Independent
Dr Teh Kok Peng	Director	Oct 15, 2012	N.A.*	Non-executive / Independent

* Up for retirement at AGM

Composition of Board and Board Committees for 2012

Board Member	Executive Committee	Audit Committee	Risk Committee	Executive Resource & Compensation Committee	Nominating Committee
Ang Kong Hua	Chairman			Chairman	Chairman
Tang Kin Fei	Member				
Goh Geok Ling	Member			Member	Member
Evert Henkes		Member	Chairman		
Bobby Chin Yoke Choong		Chairman	Member		
Margaret Lui	Member			Member	Member
Tan Sri Mohd Hassan Marican		Member	Member		
Tham Kui Seng					
Dr Teh Kok Peng ¹					

Directors' Attendance at Board and Board Committee Meetings in 2012

Board Member	Board Meeting		Executive Committee Meeting	Audit Committee Meeting		Risk Committee Meeting	Executive Resource & Compensation Committee Meeting	Nominating Committee Meeting
	Scheduled	Ad-hoc		Scheduled	Ad-hoc			
Total No. of Meetings Held in 2012	4	2	6	4	1	4	3	1
Ang Kong Hua	4/4	2/2	6/6	–	–	–	3/3	1/1
Tang Kin Fei	4/4	2/2	6/6	–	–	–	–	–
Goh Geok Ling	4/4	2/2	5/6	–	–	–	3/3	0/1
Evert Henkes	4/4	2/2	–	4/4	1/1	4/4	–	–
Bobby Chin Yoke Choong	4/4	2/2	–	4/4	1/1	4/4	–	–
Margaret Lui	3/4	1/2	5/6	–	–	–	3/3	1/1
Tan Sri Mohd Hassan Marican	3/4	1/2	–	3/4	1/1	3/4	–	–
Tham Kui Seng	4/4	2/2	–	–	–	–	–	–
Dr Teh Kok Peng ¹	1/1	1/1	–	–	–	–	–	–

¹ Dr Teh Kok Peng was appointed an independent non-executive director on Oct 15, 2012.

Board Membership (Principle 4) Formal and transparent process for the appointment and re-appointment of directors Nominating Committee

The Nominating Committee (NC) comprises non-executive directors, namely Mr Ang, Mr Goh and Mrs Lui. Two out of three directors in the NC (including the Chairman) are independent.

The NC is charged with the responsibility of ensuring that Sembcorp's board is reviewed to ensure strong, independent and sound leadership for the continuous success of the company and its businesses. It ensures that the board has a balance of skills, attributes, background, knowledge and experience in business, finance and related industries, as well as management skills critical

to the company's businesses.

The NC reviews and makes recommendations to the board on independence of the directors, new appointments, re-appointments and re-elections to the board and board committees to ensure the board maintains at an appropriate size. The NC is also responsible for reviewing the succession plans for the board, developing a process for performance evaluation of the board and board committees, and reviewing training and professional development programmes for the board.

Appointment & re-appointment of directors

All 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. 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.

When the need for a new director is identified, the NC will prepare a shortlist of candidates with the appropriate profile and qualities for nomination. The board reviews the recommendation of the NC and appoints the new director. In accordance with the company's Articles of Association, the new director will hold office until the next AGM, and if eligible, the director can stand for re-appointment.

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 require a third of its directors to retire and subject themselves to re-election by shareholders at every AGM (one-third rotation rule).

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 Ang, Mr Tang and Mrs Lui will retire and submit themselves for re-election at the forthcoming AGM. Dr Teh, who was newly appointed to the board on October 15, 2012, will also submit himself for retirement and re-election by shareholders at the forthcoming AGM.

Mr Goh, who is above the age of 70, will also submit his retirement and offer himself for re-appointment pursuant to the Companies Act.

Review of directors' time commitments

While reviewing the re-appointment and re-election of directors, the NC also considers the directors' other board directorship representations and principal commitments to ensure they have sufficient time to discharge their responsibilities adequately. Taking into consideration the total time commitment required at the board and committee level of Sembcorp and the other directorships and committee duties of all its board members, the board has determined that the maximum number of listed company board representations which any director may hold should not exceed six.

Board Performance (Principle 5)

Active participation and valuable contributions are key to overall effectiveness of the board
Board evaluation process and performance criteria

The board believes that board performance is ultimately reflected in the long-term performance of the Group. In consultation with the NC, the board assesses its performance annually 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,

board committees and directors' contribution and performance. The evaluation considers factors such as the size and composition of the board and board committees, directors' access to information, board processes, communication with senior management and accountability. The evaluation and feedback are then consolidated and presented to the board for discussion on areas of strengths and weaknesses to improve the effectiveness of the board and its committees.

Access to Information (Principle 6)

Directors have complete, adequate and timely information and resources

Complete, adequate and timely information

The company recognises that directors should be provided with complete, adequate and timely information on an on-going basis and prior to board meetings. This is to enable the board to make informed decisions to discharge 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. 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 board meetings to address any queries which the board may have.

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.

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 to request for additional information.

Company Secretary

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.

Independent professional advice

In the furtherance of its duties, the board exercises its discretion to seek independent professional advice at the company's expense, if deemed necessary.

Remuneration Matters

Procedures for Developing Remuneration Policies (Principle 7)

Remuneration of directors adequate and not excessive

With the assistance of the Executive Resource & Compensation Committee (ERCC), the board ensures that a formal and transparent procedure for developing a policy on remuneration of executives and directors is in place.

Executive Resource & Compensation Committee

The ERCC is chaired by Mr Ang, an independent non-executive director, and is joined on the

committee by Mr Goh and Mrs Lui.

The ERCC is responsible for developing, reviewing and recommending to the board the framework of remuneration for the board and key management personnel. It assists the board to ensure that competitive remuneration policies and practices are in place. The ERCC also reviews and recommends to the board the specific remuneration packages for each director as well as for key management personnel. The ERCC's recommendations are submitted to the entire board for endorsement. 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. In addition, 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.

The ERCC also establishes guidelines on share-based incentives and other long-term incentive plans and approves the grant of such incentives to key management personnel. These incentives serve to motivate executives to maximise operating and financial performance and shareholder value, and are aimed at aligning the interests of the key management personnel 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 2012, external consultants Carrots Consulting and Mercer were engaged to provide such advice. In engaging external consultants, the company ensures that the relationship, if any, between the company and its external consultants will not affect the independence and objectivity of the external consultants.

The ERCC reviews succession planning for key management personnel 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. In addition, the ERCC also reviews the company's obligation arising in the event of termination of the Group President & CEO and key management personnel's contracts of service to ensure that such contracts contain fair and reasonable termination clauses.

Level and Mix of Remuneration (Principle 8) Competitive reward system to ensure highest performance and retention of directors and key management personnel

Sembcorp believes that its remuneration and reward system is aligned with the long-term interest and risk policies of the company and that a competitive remuneration and reward system based on individual performance is important to attract, retain and incentivise the best talents.

The Group President & CEO, as an executive director, does not receive director's fees from Sembcorp. 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 36 in the Notes to the Financial Statements.

Non-executive directors' fees

The directors' fees payable to non-executive directors are paid in cash and in the form of share awards under the Sembcorp Industries Restricted Share Plan 2010. The ERCC has determined that 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. The directors' cash fees and share awards will only be paid and granted upon approval by shareholders at the AGM of the company.

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\$
Board of Directors	
■ Basic fee	65,000
■ Chairman's allowance	80,000
Executive Committee	
■ Chairman's allowance	40,000
■ Member's allowance	25,000
Audit Committee	
■ Chairman's allowance	40,000
■ Member's allowance	25,000
Executive Resource & Compensation Committee / Nominating Committee	
■ Chairman's allowance	25,000
■ Member's allowance	15,000
Risk Committee	
■ Chairman's allowance	25,000
■ Member's allowance	15,000
Attendance Fees	
■ Board	4,500
■ Committee	2,200
■ Teleconference (Board meeting)	2,000
■ Teleconference (Committee meeting)	1,000
Travel Allowance for Overseas Directors	
■ ≤ 4 hours (to and fro air travel time)	2,000
■ > 4 to 15 hours (to and fro air travel time)	5,000
■ > 15 hours (to and fro air travel time)	10,000

Notes:

- Tang Kin Fei, as an executive director, does not receive director's fees.*
- The Executive Resource & Compensation Committee and the Nominating Committee have the same members, who each receives one payment for service on both committees.*
- Attendance fee for committee meetings also applies to attendance at general meetings.*

For the year 2012, the share 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 management personnel's remuneration

Key management personnel 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 36 in the Notes

to the Financial Statements.

The Group has an incentive compensation plan for key management personnel 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 in the bonus bank is paid out in cash each year and the balance two-thirds 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. There are provisions in the EVA incentive plan to allow for forfeiture of the outstanding bonus bank in exceptional circumstances of misstatement of financial results or misconduct resulting in financial loss to the company.

In 2012, a pay-for-performance alignment study was commissioned to review if the Group's executive pay programme is aligned with actual business results and shareholder returns on a relative basis against a pre-selected set of comparator companies. The study shows that there is strong alignment between the Group's executive pay programme and business results and shareholder returns.

Disclosure on Remuneration (Principle 9)

The computation of non-executive directors' fees totalled S\$1,198,842 in 2012, (2011: S\$1,280,613) comprising S\$839,189 in cash derived using the compensation structure above and S\$359,653 to be paid in the form of restricted share awards under the Sembcorp Industries Restricted Share Plan 2010. More information on directors and key management personnel's remuneration may be found under the related item in the Supplementary Information section of the Financial Statements.

Accountability and Audit

Accountability (Principle 10)

The board is accountable to the shareholders

Sembcorp is committed to open and honest communication with shareholders at all times. The company presents a balanced and clear 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.

Risk Management and Internal Controls (Principle 11)

The board has overall responsibility for the governance of risk of the Group. The board and management of the company are fully committed to maintaining sound risk management and internal control systems to safeguard shareholders' interests and the Group's assets.

The board also determines the company's levels of risk tolerance and risk policies, and oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Risk Committee

The Risk Committee (RC) assists the board in overseeing risk management for the Group. The RC is chaired by Mr Henkes and its other members include Mr Chin and Tan Sri Mohd Hassan Marican. The RC's main role is to appraise

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.

Adequate and effective system of internal controls

Sembcorp strives to maintain and improve its risk management and internal control systems to ensure that they remain sound and relevant. During the year under review, the board was assured by the Group President & CEO and Group Chief Financial Officer that financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances, and that the risk management and internal control systems of the Group are adequate and effective.

Based on the internal controls established and maintained by the Group, work performed by external and internal auditors, and reviews performed by senior management, the board, with the concurrence of the Audit Committee, is of the opinion that the company's internal controls are adequate and effective in addressing the financial, operational and compliance risks of the company. 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.

A dedicated Enterprise Risk Management (ERM) function has been set up to facilitate the implementation of the ERM framework. Through this framework, risk capabilities and competencies are continuously enhanced. The Group has engaged KPMG Risk Consulting Services to further assist in enhancing the ERM framework

over the identification, prioritisation, assessment, management and monitoring of key risks. The risk management process in place covers, *inter alia*, financial, operational and compliance risks faced by the Group. The key risks identified are deliberated by management, with the support of the ERM function, and reported to the RC. The RC reviews the adequacy and effectiveness of the ERM programme and process against leading practices in risk management and vis-à-vis the external and internal environment which the Group operates in.

Complementing the ERM programme is a group-wide system of internal controls, which includes the Code of Conduct, documented policies and procedures, proper segregation of duties, approval procedures and authorities, as well as checks-and-balances built into the business processes. The Group has also considered the various financial risks, details of which are found on page 59 of the annual report.

For more information on the company's enterprise risk management system, please refer to the Risk Management & Mitigation Strategies section of this annual report.

Audit Committee (Principle 12)

The Audit Committee (AC) comprises directors who are both independent and non-executive. During the year under review, the AC was chaired by Mr Chin. The other members are Tan Sri Mohd Hassan Marican and Mr Henkes.

Authority and duties of the AC

The AC assists the board in fulfilling its fiduciary responsibilities relating to the internal controls, audit, 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 for adequacy and accuracy of information disclosed prior to submission to the board for approval.

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.

External auditors

Each year, the AC 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 reviews and approves the external audit plan to ensure the adequacy of audit scope. It also reviews the external auditors' management letter and monitors the timely implementation of the required corrective or improvement measures. The AC meets the external and internal auditors at least once a year without the presence of management. 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 33(a) in the Notes to the Financial Statements.

Whistle-blowing policy

The AC also oversees the Group's whistle-blowing policy implemented by the company to strengthen corporate governance and ethical business practices across the Group. Employees are provided with accessible channels to the Group Internal Audit department to report suspected fraud, corruption, dishonest practices or other misdemeanours. 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 56.

Internal Audit (Principle 13)

Independent internal audit function

The Group Internal Audit department (GIA) is an independent function of the Group. The AC approves the hiring, termination, evaluation and compensation of the Head of GIA, who reports directly to the AC on audit matters and to the Group President & CEO on administrative matters.

Adequacy of the internal audit function

The AC reviews the effectiveness of the internal audit function on an annual basis, including the adequacy of audit resources. GIA adopts a risk-based methodology in defining its annual internal audit plan, which is reviewed and approved by the AC. 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. 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 control framework. Internal audit reports issued are reviewed by the AC.

Professional standards and competency

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 (IIA). In 2012, an external assessment of GIA was conducted and the results affirmed that the internal audit activity generally conformed to the standards set by IIA.

Shareholder Rights and Responsibilities

Shareholder Rights (Principle 14)

Sembcorp ensures that all shareholders are treated fairly and equitably. The company recognises, protects and facilitates the exercise of shareholders' rights and continually reviews and updates such governance arrangements.

The company is committed to ensuring that all shareholders have easy access to clear, reliable and meaningful information in order to make informed investment decisions. The company regularly communicates major developments in its business operations via SGXNET, press releases, circulars to shareholders and other appropriate channels.

The company also encourages shareholder participation and voting at general meetings of shareholders.

Communication with Shareholders

(Principle 15)

Regular, effective and fair communication with shareholders

Sembcorp is committed to upholding high standards of corporate transparency and disclosure. This commitment is embodied in the company's Investor Relations policy which adheres to fair disclosure principles and emphasises active dialogue and engagement with shareholders, investors and analysts.

Disclosure of information on timely basis

Sembcorp makes every effort to ensure that shareholders and all capital market players have easy access to clear, meaningful and timely information on the company in order to make informed investment decisions. To do this, various channels including announcements, press releases, shareholder circulars and annual reports are utilised. All price-sensitive and material information are disseminated via SGXNET on a non-selective basis and in a timely and consistent manner. The company's press releases are also uploaded on the corporate website, www.sembcorp.com, after dissemination on SGXNET.

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 and on the company website. 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. Investor relations officers are also available by email 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.

The company also maintains a dedicated Investor Relations section on its corporate website which caters to the specific information needs of shareholders, investors, analysts and the financial community. Designed to provide a convenient location for investors' information needs, the site includes filings on the company's results announcements since the company's listing in 1998, an archive of the company's results briefings webcasts, downloadable five-year financial data,

a calendar of upcoming events as well as pertinent stock information such as dividend history, share price charts and analyst coverage. Investor relations contact information is also displayed on the website for direct shareholder enquiries.

Establishing and maintaining regular dialogue with shareholders

Sembcorp employs multiple communication platforms to engage with its shareholders. In addition to its results briefings, the company also maintains regular dialogue with its shareholders through investor-targeted events such as AGMs, roadshows, conferences, site visits, group briefings as well as one-to-one meetings. These platforms offer opportunities for senior management and directors to interact first-hand with the shareholders, understand their views, gather feedback as well as address concerns.

To keep senior management and the board abreast of market perception and concerns, the Investor Relations team provides regular updates on analyst consensus estimates and views. On an annual basis, a more comprehensive update is presented, which includes updates and analysis of the shareholder register, highlights of key shareholder engagements for the year as well as market feedback.

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

Dividend policy

Sembcorp is committed to achieving sustainable income and growth to enhance total shareholder return. The Group's policy aims to balance cash return to shareholders and investment for sustaining growth, while aiming for an efficient capital structure. The company strives to provide consistent and sustainable ordinary dividend payments to its shareholders on an annual basis.

Conduct of Shareholder Meetings (Principle 16)

Greater shareholder participation at general meetings

All shareholders are invited to participate in the company's general meetings.

The company disseminates information on general meetings through notices in the annual reports or circulars. These notices are also released via SGXNET, published in local newspapers as well as posted on the company website ahead of the meetings to give ample time for shareholders to review the documents.

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.

Voting in absentia by mail, facsimile or email 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 each AGM, the Group President & CEO delivers a short presentation to shareholders to update them on the performance of Sembcorp's businesses. 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.

To ensure greater transparency of the voting process, the company conducts electronic poll voting at the shareholder meetings for all the resolutions to be put to vote to allow shareholders present or represented at the meetings to vote

on a one share, one vote basis. The total number of votes cast for or against each resolution is announced after the meetings via SGXNET.

Minutes of shareholder meetings are available upon request by shareholders.

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. 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 2012 may be found in the related item under the Supplementary Information section of the Financial Statements in this annual report.