

GOVERNANCE AND SUSTAINABILITY

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CORPORATE GOVERNANCE STATEMENT

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

"In the best organisations, the practice of good governance is a living process, integrated into the business and embraced as part and parcel of the company's culture and DNA.

At Sembcorp, we believe that strong governance is necessary for us to achieve our fullest economic potential and secure our long-term sustainability. We are committed towards high standards of corporate conduct across our Group, and continually strive for the prudent management of risks and the alignment of our operations with international best practice."

ANG KONG HUA
Chairman

The board and management of Sembcorp recognise that well-defined corporate governance processes are essential in enhancing corporate accountability and long-term sustainability, and are committed to 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 Singapore Code of Corporate Governance 2012 (the Code). The board is pleased to report that the company has complied in all material aspects with the principles and guidelines set out in the Code, and any deviations are explained in this report.

The company continually reviews and refines its processes in light of best practice, consistent with the needs and circumstances of the Group, and we are encouraged that our efforts towards excellent governance have been recognised. At the 2014 Singapore Corporate Awards, Sembcorp Industries

won gold awards for Best Managed Board and Best Annual Report for companies with S\$1 billion and above in market capitalisation. Our Group President & CEO Tang Kin Fei was also named Best Chief Executive Officer in the same category. In addition, the company was ranked in the top three on Singapore's Governance and Transparency Index, an independent ranking exercise by the National University of Singapore's Centre for Governance, Institutions and Organisations, CPA Australia and The Business Times that assesses 644 Singapore-listed companies in terms of governance, ethics, transparency and rigour in financial reporting. Furthermore, the Securities Investors Association (Singapore) named Sembcorp the runner-up for the Singapore Corporate Governance Award at the 15th Investors' Choice Awards. The award was given under the category of companies with market capitalisation of S\$1 billion and above.

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 Mr Tang, Goh Geok Ling, Evert Henkes, Bobby Chin Yoke Choong, Margaret Lui, Tan Sri Mohd Hassan Marican, Tham Kui Seng, Dr Teh Kok Peng, as well as Ajaib Haridass and Neil McGregor who joined the board on May 1, 2014.

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 principal duties of the board are to:

- Provide leadership and guidance to management on the Group's overall strategy, taking into consideration sustainability issues and the need to ensure necessary financial and human resources are in place
- Ensure the adequacy of the Group's risk management and internal controls framework and standards, including ethical standards, and that its obligations to shareholders and other key stakeholders are met
- Review management performance and oversee the Group's overall performance objectives, key operational initiatives, financial plans and annual budget, major investments, divestments and funding proposals, quarterly and full-year financial performance reviews, risk management and corporate governance practices
- Provide guidance on sustainability issues, such as environmental and social factors, as part of the Group's overall business strategy

To assist the board in the efficient discharge of its responsibilities and provide independent oversight of management, the board has established the following board committees with written terms of reference:

- Executive Committee
- Audit Committee
- Risk Committee
- Executive Resource & Compensation Committee
- Nominating Committee
- Technology Advisory Panel

Special purpose committees are also established as dictated by business imperatives.

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 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. Significant investments and transactions exceeding threshold limits are approved by the board while transactions below the threshold limits are approved by the Executive Committee and management to facilitate operational efficiency, in accordance with applicable financial authority limits.

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 expenditure. The ExCo also evaluates and recommends larger investments, capital and operating expenditure, as well as divestments to the board for approval.

Technology Advisory Panel

The Technology Advisory Panel (TAP) comprises board members Mr Ang, Mr Tang and Dr Teh, as well as co-opted members Dr Josephine Kwa Lay Keng, Dr Ng How Yong and Prof Lui Pao Chuen. Their profiles may be found under the TAP chapter of this annual report.

The TAP provides guidance to the Group on its vision and strategy in leveraging technology to enhance Sembcorp's leadership in the energy and water industries. The panel advises on technologies for research and development as well as investment, oversees the application of significant emerging and potentially disruptive technologies in the energy and water sectors, and ensures the appropriate management of specialised research and development projects and systems for intellectual property creation and protection. In addition, the panel advises Sembcorp's board and management on technological trends and opportunities in line with the company's growth strategies.

The other 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 each committee's activities.

Meetings and attendance

The board meets on a quarterly basis to review and approve the release of the company's quarterly results, as well as to deliberate on key activities and business strategies, including significant acquisitions and disposals. At these board meetings, the Group President & CEO updates the board on the development and prospects of the Group's businesses and each board committee also reports an update of its activities. An additional board meeting is 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, and ad-hoc board meetings may also be convened as necessary to consider other specific matters. Time is also set aside at these scheduled meetings for the board to discuss management's performance; members of management are not present at or privy to such discussions.

Board and board committee meetings, as well as annual general meetings (AGMs) of the company are scheduled in consultation with the directors in advance of each year. Telephonic attendance and conference via audio-visual communication channels are allowed under the company's Articles of Association to enable the participation of directors who are unable to be present, and decisions of the board and board committees may be obtained at meetings or via circular resolution. Should a director be unable to attend a board or board committee meeting, he / she will still be sent the papers tabled for discussion and have the opportunity to separately convey any views to the chairman for consideration or further discussion with other directors. If necessary, a separate session may be organised for management to brief that director and obtain his / her comments and / or approval.

The directors' attendance at board and committee meetings held during the financial year 2014 is set out on page 103.

Board orientation and training

All new directors receive formal letters of appointment explaining the Group's governance policies and practices, as well as their duties and obligations as directors. New directors also receive an information pack which contains the Group's organisation structure, the contact details of members of senior management, the company's Memorandum and Articles of Association, respective committees' terms of reference, the Group's policy relating to disclosure of interests in securities and prohibition on dealings in Sembcorp securities, as well as guidelines on directors' fees.

The company conducts orientation programmes for new directors with comprehensive briefings on board policies and processes, as well as presentations by senior management on Sembcorp's overall strategic plans and direction, financial performance and activities in its various geographical markets.

As part of training and professional development for the board, the company ensures that directors are briefed from time to time on changes to regulations, guidelines and accounting standards, as well as other relevant trends or issues. These are done either during board meetings or at specially convened sessions, including training sessions and seminars conducted by external professionals.

Briefings and updates provided for directors in 2014

- Briefings on developments in accounting and governance standards presented by our external auditors at Audit Committee meetings
- Updates on the Group's business and strategic developments presented by the Group President & CEO to the board
- Insights on China and India markets presented by external advisors to the board

- Review of the Group's country risk framework with benchmarking against global best practices presented by an external advisor to the Risk Committee
- Quarterly overviews on the risk and controls environment of the Group and updates relating to other risk management and governance initiatives, such as the governance assurance framework, presented by the Group Risk and Governance departments to the Risk Committee
- Public forum discussions on boards and technology by eminent US and Asian practitioners

Besides such briefings, articles and reports relevant to the Group's businesses are also circulated to the directors for information. Furthermore, facility visits to the Group's operating sites are also arranged to enhance directors' understanding of the Group's businesses as well as meetings with key customers and government officials. In October 2014, a facility visit was conducted in conjunction with the official opening of the Sembcorp Cogen @ Banyan and the Sembcorp Technology & Innovation Centre on Jurong Island in Singapore.

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

The current board comprises eleven directors, eight of whom are independent directors. Excluding the Group President & CEO, all the directors are non-executive. The board members include business leaders and professionals with strong experience relevant to the Group's businesses, from engineering, petrochemicals, oil and gas and real estate industries to accountancy, finance and legal sectors. Best efforts have been made to ensure that in addition to contributing their valuable expertise and insight to

board deliberations, each director also 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 directors are non-executive and independent of management in terms of character and judgement, objectivity on issues deliberated is assured. Profiles of the directors may be found on pages 30 to 35.

Review of directors' independence

The independence of each non-executive director is assessed annually, with each director required to complete a Director's Independence Checklist drawn up based on the guidelines provided in the Code. The checklist also requires each director to assess whether he considers himself independent despite involvement in any of the relationships identified in the Code. Thereafter, the Nominating Committee reviews the completed checklists, assesses the independence of the directors and presents its recommendations to the board. Particular scrutiny is applied when assessing the continued independence of directors who have served more than nine years.

Taking into account the views of the Nominating Committee, the board determined in 2014 that with the exception of Mr Tang, Mrs Lui and Mr McGregor, all of Sembcorp Industries' directors are independent. Mr Tang is Group President & CEO and an executive director, while Mrs Lui is Chief Executive Officer of Azalea Asset Management, a related company of Temasek Holdings (Temasek) which holds more than 10% interest in the Group. Mr McGregor was regarded as an independent director at the time of his appointment to the board and prior to his employment as Senior Managing Director of Temasek's Enterprise Development Group on June 1, 2014. Thereafter he was deemed non-independent given his direct association with Temasek as defined in the Code.

Tan Sri Mohd Hassan Marican sits on the board of Sembcorp Marine, a listed subsidiary from which the company has received payment in excess of S\$200,000 in aggregate for consultancy services and provision of utilities services, as did Mr Goh prior to April 22, 2014. The board has assessed this matter 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 Tan Sri Mohd Hassan Marican and Mr Goh's directorships in Sembcorp Marine have not and will not interfere, or be reasonably perceived to interfere, with their abilities to exercise independent judgement and act in the best interest of Sembcorp Industries.

Mr Goh and Mr Henkes have served on our board since their appointments in 2000 and 2004 respectively. The board has established that despite serving as directors for more than nine years, Mr Goh and Mr Henkes continue to demonstrate the essential characteristics of independence expected by the board and furthermore, their length of service and in-depth knowledge of the Group's businesses are viewed by the board as especially valuable.

The board has determined that Mr Chin, who was appointed a director to the board of Temasek on June 10, 2014, and Tan Sri Mohd Hassan Marican and Mr Tham, who respectively hold the positions of Senior International Advisor and Corporate Advisor at Temasek International Advisors, a subsidiary of Temasek, are independent. The board believes that the three directors have consistently exercised strong independent judgement in their deliberations and that they act in the best interest of the company as they are not accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of Temasek.

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. Their roles are kept separate to ensure a clear division of responsibilities, increased accountability and a greater capacity of the board for independent decision-making.

The Chairman, who is non-executive, chairs the board, ExCo, Executive Resource & Compensation Committee, Nominating Committee and the TAP. He leads and ensures effective and comprehensive board discussion on matters brought to the board, including strategic issues as well as business planning. The Chairman promotes an open environment for deliberation and ensures that board and board committee meetings are conducted in a manner that allows non-executive directors to participate

in meaningful and active discussion. He also monitors follow-up to the board's decisions to ensure that such decisions are translated into executive action and provides advice to management. In addition, the Chairman provides leadership and guidance to management, particularly with regard to its global growth strategy and project investments. He also helps to oversee the Group's talent management, and works with the Group President & CEO to ensure that robust succession plans are in place for key management positions.

The Group President & CEO makes strategic proposals to the board, develops the Group's businesses in accordance with strategies, policies, budgets and business plans as approved by the board and provides close oversight, guidance and leadership to senior management.

Board Members for 2014

Board member	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 24, 2014*	Non-executive / Independent
Tang Kin Fei	Director	May 1, 2005	Apr 25, 2013	Executive / Non-independent
Goh Geok Ling	Director	May 3, 2000	Apr 24, 2014*	Non-executive / Independent
Evert Henkes	Director	Apr 30, 2004	Apr 24, 2014*	Non-executive / Independent
Bobby Chin Yoke Choong	Director	Dec 1, 2008	Apr 24, 2012*	Non-executive / Independent
Margaret Lui	Director	Jun 1, 2010	Apr 25, 2013	Non-executive / Non-independent
Tan Sri Mohd Hassan Marican	Director	Jun 16, 2010	Apr 24, 2014	Non-executive / Independent
Tham Kui Seng	Director	Jun 1, 2011	Apr 24, 2014	Non-executive / Independent
Dr Teh Kok Peng	Director	Oct 15, 2012	Apr 25, 2013*	Non-executive / Independent
Ajaib Haridass	Director	May 1, 2014	N.A.*	Non-executive / Independent
Neil McGregor	Director	May 1, 2014	N.A.*	Non-executive / Non-independent

* Up for retirement at AGM

Composition of Board Committees for 2014

Board member	Executive Committee	Audit Committee	Risk Committee	Executive Resource & Compensation Committee	Nominating Committee	Technology Advisory Panel
Ang Kong Hua	Chairman			Chairman	Chairman	Chairman
Tang Kin Fei	Member					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 ¹				Member	Member	
Tham Kui Seng		Member				
Dr Teh Kok Peng ²		Member				Member
Ajaib Haridass ³			Member			
Neil McGregor ⁴			Member			

Directors' Attendance at Board and Board Committee Meetings in 2014

Board member	Board meeting	Executive Committee meeting	Audit Committee meeting	Risk Committee meeting	Executive Resource & Compensation Committee meeting	Nominating Committee meeting	Technology Advisory Panel meeting
Total Number of Meetings Held in 2014							
	4	4	5	4	2	3	3
Ang Kong Hua	4/4	4/4	–	–	2/2	3/3	3/3
Tang Kin Fei	4/4	4/4	–	–	–	–	3/3
Goh Geok Ling	4/4	3/4	–	–	2/2	3/3	–
Evert Henkes	4/4	–	5/5	4/4	–	–	–
Bobby Chin Yoke Choong	4/4	–	5/5	4/4	–	–	–
Margaret Lui	4/4	4/4	–	–	2/2	3/3	–
Tan Sri Mohd Hassan Marican ¹	4/4	–	1/1	1/1	1/1	2/2	–
Tham Kui Seng	4/4	–	5/5	–	–	–	–
Dr Teh Kok Peng ²	4/4	–	4/4	1/1	–	–	3/3
Ajaib Haridass ³	3/3	–	–	3/3	–	–	–
Neil McGregor ⁴	2/3	–	–	2/3	–	–	–

¹ Tan Sri Mohd Hassan Marican relinquished his membership of the Audit Committee and Risk Committee and was appointed a member of the Executive Resource & Compensation Committee and Nominating Committee with effect from May 1, 2014.

² Dr Teh relinquished his membership of the Risk Committee and was appointed a member of the Audit Committee with effect from May 1, 2014.

³ Mr Haridass was appointed a member of the Risk Committee with effect from May 1, 2014.

⁴ Mr McGregor was appointed a member of the Risk Committee with effect from May 1, 2014.

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, Mrs Lui and Tan Sri Mohd Hassan Marican. Three out of four directors in the NC (including the Chairman) are independent.

The NC is responsible to review Sembcorp's board to ensure strong, independent and sound leadership for the continued success of the company and its businesses.

The key responsibilities of the NC are to:

- Ensure that the board has the right balance of skills, attributes, knowledge and experience in business, finance and related industries, as well as management skills critical to the company's businesses
- Review the composition and size of the board and its committees and recommend new appointments, re-appointments and re-elections to the board and board committees as appropriate
- Review the directors' independence and succession plans for the board
- Develop a process to evaluate board and board committee performance
- Review training and professional development programmes for the board

Succession planning, appointment and re-appointment of directors

The NC seeks to refresh board membership progressively and in an orderly manner. All appointments to the board are made on merit and measured 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 contributions of directors who have, over time, developed deep insight into the Group's businesses and exercises its discretion to retain the services of such directors where appropriate to avoid an abrupt loss of experienced directors with a valuable understanding of the Group.

With reference to the Group's strategies and business plans, the NC reviews the skills mix of board members to ensure that the board has the required diversity including gender, as well as the competencies to support our growth. When the need for a new director is identified, the NC consults with management and identifies a list of candidates sourced through an extensive network of contacts, based on the skill sets, experience, knowledge and attributes required to position the board to lead the growth of the company. Thereafter, the NC will interview the candidates and make its recommendation to the board for approval. In accordance with the company's Articles of Association, the new director will hold office until the next AGM and, if eligible, 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 for re-election by shareholders at every AGM (one-third rotation rule).

In addition, all newly-appointed directors submit themselves for retirement and re-election at the

AGM immediately following their appointment. Thereafter, these directors are 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 Chin and Dr Teh will retire and submit themselves for re-election at the forthcoming AGM. Mr Haridass and Mr McGregor, who were newly appointed to the board on May 1, 2014, will also submit themselves for retirement and re-election by shareholders at the forthcoming AGM.

In addition, Mr Ang, Mr Goh and Mr Henkes, who are above the age of 70, will submit their retirement at the coming AGM in accordance with the statutory requirement. The board has been informed that Mr Ang will offer himself for re-appointment, while Mr Goh and Mr Henkes have decided not to seek re-appointment.

The board does not encourage the appointment of alternate directors. No alternate director has been or is currently being appointed to the board.

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 of our directors for involvement in Sembcorp's board and board committees and for their other appointments outside our company, the board has determined that the maximum number of listed company board representations held by any Sembcorp Industries director should not exceed six.

For 2014, the board is satisfied that all directors have given sufficient time and attention to the affairs of the company and have discharged their duties adequately.

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. Each year, in consultation with the NC, the board assesses 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, board committees and directors' contribution and performance.

The evaluation considers factors such as the size and composition of the board and board committees, board processes and accountability, board and board committees' development and effectiveness, information management, decision-making processes, risk and crisis management, succession planning, communication with senior management and stakeholder management. 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.

In 2014, the NC reviewed and improved the questionnaire to further enhance assessment of board and board committee effectiveness.

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 ongoing basis. This is to enable them to make informed decisions, discharge their duties and keep abreast of the Group's operational and financial performance, key issues, challenges and opportunities. Sembcorp's management furnishes 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 and the Group President & CEO, Group Chief Financial Officer and members of senior management attend board and board committee meetings to provide insight into matters under discussion and address any queries which the directors may have.

In line with Sembcorp's strong commitment towards environmental responsibility, directors are provided with electronic tablets to enable them to access board and board committee papers prior to and during meetings. As a general rule, board and board committee papers are disseminated to directors at least three working days prior to meetings to provide sufficient time to review and consider matters at hand, and so that discussions at the meetings can be focused on the directors' questions arising from these matters. 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, should it need to request for additional information.

Company Secretary

The Company Secretary assists the Chairman to ensure good information flow within the board and its committees and between the board and senior management. In addition, the Company Secretary attends to corporate secretarial matters, such as arranging orientations for new directors and assisting with their professional development as required. In consultation with the Chairman and the Group President & CEO, the Company Secretary assists the board with scheduling of board and board committee meetings and the preparation of meeting agendas, and also administers, attends and minutes board proceedings. The Company Secretary assists the board on the Group's compliance with the Memorandum and Articles of Association and applicable regulations, including requirements of the Companies Act, Securities & Futures Act and the SGX-ST. Moreover, the Company Secretary liaises on behalf of the company 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, the board ensures that a formal policy and transparent procedure for determining remuneration of executives and directors are in place.

Executive Resource & Compensation Committee

The Executive Resource & Compensation Committee (ERCC) is chaired by Mr Ang, an independent non-executive director, and he is joined on the committee by Mr Goh, Mrs Lui and Tan Sri Mohd Hassan Marican.

The ERCC is responsible for developing, reviewing and recommending to the board the framework of remuneration for the board and key management personnel as defined in the Code. To this end, it:

- Assists the board to ensure that competitive remuneration policies and practices are in place and aligned with the prevailing economic environment
- Reviews and recommends to the board for endorsement each director and member of key management's specific remuneration package
- 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 key management personnel with those of shareholders
- Reviews succession planning for key management personnel and the leadership pipeline for the organisation

In its deliberations, the ERCC takes into consideration industry practices and compensation norms. 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 / herself.

The ERCC has access to expert professional advice on human resource matters whenever there is a need for such external consultation. In 2014, Mercer (Singapore) was engaged as external consultants to provide such advice. In engaging external consultants, the company takes care to ensure that the relationship, if any, between the company and these external consultants will not affect the independence and objectivity of the external consultants. In 2014, the ERCC undertook a review of the independence and objectivity of Mercer (Singapore) and has confirmed that it has no relationships with the company which would affect its independence.

In reviewing succession planning and the Group's leadership pipeline, the ERCC 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. On an annual basis, the ERCC conducts a succession planning review of the Group President & CEO, officers reporting directly to him, as well as other selected key positions in the company. 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 talent.

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 performance targets are available in the Directors' Report and Note 36 in the Notes to the Financial Statements.

Non-executive directors' fees

In 2014, the ERCC reviewed and updated the directors' fee framework to include a new all-in chairman's fee. This reflects the greater commitment required of the Chairman in spending time outside regular board and board committee meetings to guide and provide oversight to the company and its management where this is needed, such as in the Group's expansion into new markets. With the introduction of the all-in chairman's fee, the Chairman will not receive further fees or allowances as a director on our board or for involvement in any of the board's committees, such as membership fees.

The framework below adopted by the company is based on a scale of fees divided into basic retainer fees, attendance fees and allowances for travel and service on board committees:

Directors' Fee Framework for FY2014

	S\$
Chairman's fee (all-in)*	750,000
Director's basic retainer fee	75,000
Executive Committee	
Chairman's allowance	50,000
Member's allowance	30,000
Audit Committee	
Chairman's allowance	50,000
Member's allowance	30,000
Executive Resource & Compensation Committee	
Chairman's allowance	35,000
Member's allowance	20,000
Risk Committee	
Chairman's allowance	35,000
Member's allowance	20,000
Nominating Committee	
Chairman's allowance	25,000
Member's allowance	15,000
Technology Advisory Panel / Others	
Chairman's allowance	25,000
Member's allowance	15,000
Attendance fees	
Board meeting	5,000
Committee meeting	2,500
Teleconference (board meeting)	2,000
Teleconference (committee meeting)	1,000
Travel allowance for overseas directors	
≤ 4 hours (to and fro air travel time)	2,500
> 4 to 15 hours (to and fro air travel time)	5,000
> 15 hours (to and fro air travel time)	10,000

Notes:

* With effect from January 1, 2014, the Chairman of our board will only receive one all-in chairman's fee. He will not receive the directors' basic fee, nor any further fees or allowances for serving as a chairman or member of any of our board committees.

¹ As an executive director, Mr Tang does not receive directors' fees.

² The attendance fee for committee meetings also applies to attendance at general meetings.

The directors' fees payable to non-executive directors are paid in cash and in 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. Directors' cash fees and share awards will only be paid and granted upon approval by shareholders at the AGM of the company. Directors and their associates also abstain from voting on any resolution(s) relating to their remuneration.

Share awards granted under the Sembcorp Industries Restricted Share Plan 2010 to directors as part of directors' fees will consist of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. This however does not apply to Mr Tang, as he does not receive directors' fees given that he is Group President & CEO of the company. Non-executive directors are required to hold shares in the company (including shares obtained by other means) worth at least the value of their annual basic retainer fee (currently S\$75,000); any excess may be disposed of as desired. A non-executive director may only dispose of all of his shares one year after leaving the board. Subject to shareholders' approval at the forthcoming AGM, the cash component of the directors' fees for FY2015 is intended to be paid half-yearly in arrears.

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 from (and including) the day on which the shares are first quoted ex-dividend after the AGM (or, if the resolution to approve the final dividend is not approved, 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 share component of the directors' fees for FY2015 is intended to be paid after the AGM in 2016 has been held.

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

Remuneration for key management personnel

Sembcorp's remuneration and reward system for key management personnel is designed to ensure a competitive level of compensation to attract, retain and motivate employees to deliver high-level performance in accordance with the company's established risk policies. The remuneration of our key management personnel comprises three primary components:

- **Fixed remuneration**

Fixed remuneration includes an annual basic salary, and where applicable, fixed allowances, an annual wage supplement and other emoluments. Base salaries of key management personnel are determined based on the scope, criticality and complexity of each role, equity against peers with similar responsibilities, experience and competencies, individual performance and market competitiveness.

- **Annual variable bonuses**

The annual variable bonus is intended to recognise the performance and contributions of the individual, while driving the achievement of key business results for the company. The annual variable bonus includes two components. The first is linked to the achievement of pre-agreed financial and non-financial performance targets, while the second is linked to the creation of economic value added (EVA).

The EVA-linked bonus component is held in a "bonus bank". Typically, one-third of the balance in the bonus bank is paid out in cash each year, while the balance two-thirds is 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 balances in the bonus bank in exceptional circumstances of misstatement of financial results or misconduct resulting in financial loss to the company.

- **Share-based incentives**

The company's performance share plan and restricted share plan were approved and adopted by the shareholders at an Extraordinary General Meeting of the company held on April 22, 2010. Through our share-based incentives, we motivate key management personnel to continue to strive for the Group's long-term shareholder value. In addition, our share-based incentive plans aim to align the interests of participants with the interests of shareholders, so as to improve performance and achieve sustainable growth for the company.

Pay for performance

As in prior years, a pay-for-performance study was conducted in 2014 by our external consultants, Mercer (Singapore), to review the alignment between the Group's executive pay programme, shareholder returns and business results. The Group benchmarked itself with established global energy and utilities firms and comparably-sized local listed companies with which the Group competes for talent and capital.

The study benchmarked different elements of senior executive pay, namely fixed remuneration, total cash remuneration and total compensation including long-term incentives, against that of peer companies. It found senior executive pay to be positioned competitively vis-à-vis the Group's

relative size and performance. Executive compensation for the year had a robust correlation to the Group's profit from operations and EVA. In the longer term, there was also a strong relationship between executives' total compensation (which includes share awards for the Group President & CEO and senior executives) and the Group's three-year earnings per share growth, wealth added and total shareholder return. Overall, the study showed a strong correlation between the Group's executive pay and its business results and shareholder returns, indicating strong pay-for-performance alignment.

Disclosure on Remuneration (Principle 9)

The computation of non-executive directors' fees totalled S\$2,165,833 in 2014 (2013: S\$1,583,728). This comprised S\$1,516,083 in cash and S\$649,750 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.

In 2014, the company had no employees who were immediate family members of a director or the Group President & CEO.

ACCOUNTABILITY AND AUDIT

Accountability (Principle 10)

The board is accountable to 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 the Group's risk management and internal controls. The company's board and management are fully committed to maintaining sound risk management and internal control systems to safeguard shareholders' interests and the Group's assets.

The board determines the company's levels of risk tolerance and risk policies, and oversees management in the design, implementation and monitoring of 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, as well as Mr Haridass and

Mr McGregor who joined the RC on May 1, 2014. Dr Teh and Tan Sri Mohd Hassan Marican, who served as RC members for the first four months of the year, relinquished their seats on the RC on May 1, 2014; Dr Teh then joined the Audit Committee whilst Tan Sri Mohd Hassan Marican joined the ERCC and NC. The RC's principal functions are to:

- Review and endorse the risk management plans of the Group
- Review and approve group-wide risk policies, guidelines and limits
- Review the adequacy and effectiveness of the risk management systems, processes and procedures of the Group
- Review risk-related reports submitted to it by management. These include updates on the Group's risk portfolio, reports on major risk exposure and any other risk-related issues as well as actions taken to monitor and manage such exposure / issues
- Review infrastructure and resources in place to support the management of risk, including for instance human resources, information technology systems, reporting structure and procedures

Adequate and effective system of internal controls

The Group has implemented a comprehensive enterprise risk management (ERM) framework where key risks identified are deliberated by management with the support of the risk management function, and reported regularly to the RC. Supporting the ERM framework is a system of internal controls, comprising a code of business conduct, group-wide governance and internal control policies, procedures and guidelines dictating the segregation of duties, approval authorities and limits, and checks and balances embedded in business processes. The Group has also considered the various financial risks, details of which are found

on page 121 of the annual report. For more information on the company's ERM framework, please refer to the Risk Management and Internal Controls chapter of this annual report.

Our ERM framework is complemented by a governance assurance framework and a risk-based control self-assessment programme. During the year, the Group's risk profile was reviewed and updated. The effectiveness of our internal controls was also assessed and enhanced through a combination of management control self-assessments, certifications and internal audits, as well as actions taken in follow up to these exercises.

For the financial year under review, the board has been assured by the Group President & CEO and Group Chief Financial Officer that financial records have been properly maintained, that 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 were adequate and effective as at December 31, 2014 to address the financial, operational, compliance and information technology risks of the Group. 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 should any significant internal control failings or weaknesses arise, necessary remedial actions will be swiftly taken.

Audit Committee (Principle 12)

The Audit Committee (AC) comprises directors who are both independent and non-executive. The AC is chaired by Mr Chin and its members are Mr Henkes, Mr Tham and Dr Teh, who joined the AC on May 1, 2014. Tan Sri Mohd Hassan Marican served as a member of the AC for the first four months of the year, before relinquishing his seat on the committee on May 1, 2014.

Authority and duties of the AC

The AC assists the board in fulfilling its fiduciary responsibilities relating to the internal controls, financial accounting and reporting practices of the Group. Its main responsibilities are to:

- Review the company's policies and control procedures and accounting practices with external auditors, internal auditors and management
- Review 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
- Review the quarterly, half-year and full-year results announcements, accompanying press releases and presentation slides, as well as the financial statements of the Group and the 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 terms of reference. It has full access to and co-operation from management and full discretion to invite any director or executive officer to attend its meetings, as well as reasonable resources to enable it to discharge its function properly.

Where relevant, the AC is guided by the recommended best practice for audit committees as set out in the revised Guidebook for Audit Committees issued by Singapore's Audit Committee Guidance Committee in August 2014.

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 the audit scope. It also reviews the external auditors' management letter and monitors the timely implementation of required corrective or improvement measures. The AC meets external and internal auditors at least once a year without the presence of management. It 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. Accordingly, the AC has recommended the re-appointment of the external auditors at the forthcoming AGM. 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 oversees the whistle-blowing policy implemented by the Group to strengthen corporate governance and ethical business practices across all business units. Employees are provided with accessible channels to report suspected fraud, corruption, dishonest practices or other misdemeanours to the Group's internal auditors and are protected from reprisal to the extent possible. This aims to encourage the reporting of such matters in good faith. For more information on our whistle-blowing policy, please refer to the Risk Management and Internal Controls chapter in this annual report.

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 drawing up 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. Internal audits aim to ensure that the Group maintains a sound system of internal controls and that our 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 provides training and development opportunities for them so that their technical knowledge remains current and relevant. GIA is guided by and has met standards for the professional practice of internal audit promulgated by the Institute of Internal Auditors (IIA). An external assessment of GIA affirmed that its internal audit activity conforms on the whole to the standards set by IIA.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights (Principle 14)

Sembcorp treats all shareholders 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 advocates 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 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 is disseminated via SGXNET on a non-selective basis and in a timely and consistent manner. The company's announcements 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 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 to cater to the specific information needs of shareholders, investors, analysts and the financial community. Designed to provide a convenient repository 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 briefing 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 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 its 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. In line with the company's commitment towards environmental responsibility, the company's annual reports and circulars are sent to shareholders in the form of a CD-ROM. The annual reports and circulars may also be viewed on the company website. However, we are mindful that some shareholders may prefer to receive a printed copy and this will be provided upon request.

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.

The Group President & CEO delivers a short presentation at each AGM to shareholders to update them on the performance of Sembcorp's businesses. Every matter requiring approval at a general meeting 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 in attendance to address these queries or concerns and obtain feedback from shareholders. External auditors and legal advisors are also present to assist the board as necessary.

The company conducts electronic poll voting at shareholder meetings for greater transparency in the voting process. The total number of votes cast for or against each resolution is tallied and displayed live on-screen to shareholders immediately after the vote has been cast and is also 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, and are reminded not to deal in the company's securities on short-term considerations.

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 staff intranet. All business units are required to be familiar with the IPT mandate and report any interested person transactions to the company, to be reviewed by the AC. 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 2014 may be found in the related item under the Supplementary Information section of the Financial Statements in this annual report.

Governance Disclosure Guide

In line with Sembcorp's commitment towards high standards of corporate governance and disclosure, the company has completed the Disclosure Guide developed by the Singapore Exchange in 2015. The company's responses to the Disclosure Guide can be found on pages 336 to 347 of this annual report.



Sembcorp Woodchip Boiler Plant on Singapore's Jurong Island

RISK MANAGEMENT AND INTERNAL CONTROLS

Sembcorp's risk management frameworks and internal controls safeguard our people and assets and protect and enhance shareholder value.

Managing risk is an integral part of our business activities and is performed to create value for the Group.

The Group manages risk under an overall strategy determined by the board of directors and supported by the board's Risk Committee and Audit Committee. The Risk Committee reviews and enhances the effectiveness of the Group's risk management and health, safety and environment (HSE) plans, systems, processes and procedures. It also regularly reviews group-wide risk and HSE policies, guidelines and limits, as well as significant risk exposures relating to foreign exchange rates, commodity prices and major investment projects and corresponding risk mitigation plans. Oversight responsibility for risk management within the Group's listed entities lies with their respective boards.

ENTERPRISE RISK MANAGEMENT

The Group is committed to ensuring that we have an effective and practical enterprise risk management (ERM) framework in place to safeguard our people and assets, protect shareholders' interests, make informed decisions for intrinsic value creation and ultimately uphold and enhance our brand and reputation amongst our stakeholders. In designing our ERM framework, the Group has adapted and made reference to various industry risk management standards, such as ISO 31000 and the COSO framework, to ensure

that we are in line with best practice. To sustain a successful ERM programme, we believe in having the right processes and tools, as well as instilling and embedding the right risk awareness culture. Our ERM framework specifically sets out a systematic and structured approach towards risk management through the following activities:

- Awareness trainings and workshops
- Risk identification and assessment
- Formulation of key risk management strategies
- Design and implementation of risk mitigation controls (preventive, detective and responsive controls)
- Monitoring and timely reporting of risk management performance and risk exposure levels
- Continuous improvement of risk management mitigation measures and capabilities

Our ERM framework is supported by the following key pillars:

- a. Fraud risk management
- b. Operational risk management
- c. Financial, market and credit risk management
- d. Investment risk management

a. Fraud Risk Management

The risk of fraud is an inherent risk within any organisation. To manage this, the Group has established a fraud risk management policy which was approved by the board's Risk Committee. The

fraud risk management policy provides a framework and comprehensive guidance on anti-fraud measures to pro-actively manage the risk of fraud, bribery and corruption. All subsidiaries are required to have a fraud control plan in place and we actively influence and encourage our joint ventures and associates to adopt our fraud risk management framework. The Group adopts a zero tolerance policy on fraud, which we take to include corruption and bribery, and this policy stance is regularly communicated to employees.

The following key activities and complementary policies and procedures are part of our holistic approach towards fraud risk management and also address the risk of bribery and corruption:

Preventive anti-fraud measures

- Employee code of conduct
- Conflict of interest policy
- Corporate gift policy
- Fraud risk assessments
- Employee and third party due diligence

Detective anti-fraud measures

- Whistle-blowing policy
- Forensic data analysis
- Compliance and monitoring
- Pre-employment screening

Responsive anti-fraud measures

- Fraud reporting procedures
- Fraud investigation procedures
- Grievance handling procedures

Whistle-blowing policy

Since 2005, Sembcorp has maintained a whistle-blowing policy and procedure which provides employees with well-defined and accessible channels within the Group through

which they may, in confidence, raise concerns about possible improprieties in the conduct of business activities, financial reporting or other matters to the Audit Committee. This arrangement facilitates independent investigation of such matters for appropriate resolution. The policy is communicated to all employees and is subject to review on a regular basis.

Employees are encouraged to report suspected wrongdoing, in confidence and without fear of reprisal, in relation to the following:

- Mail or wire fraud, bank fraud, or fraudulent acts
- Violations of laws, rules or regulations applicable to the company and related to accounting, internal accounting controls and auditing matters
- Intentional error or fraud in the preparation, review or audit of any financial statement of the company
- Significant deficiencies in or intentional non-compliance with the company's internal accounting controls
- Any reportable conduct, defined to mean any one of the following:
 - Unlawful, unethical, corrupt or improper conduct
 - Conduct that is in breach of any policy of the company
 - Misuse of funds or assets of the company
 - Conduct that jeopardises the safety of the company's employees, the environment in which they are working, or the public
 - Abuse of authority
 - Any other conduct which may cause financial or non-financial loss to the company or damage to the company's reputation
 - Suppression or concealment of any information relating to any of the above types of actions

- Acts to mislead, deceive, manipulate, coerce or fraudulently influence any internal or external accountant or auditor in connection with the preparation, examination, audit or review of any financial statement or record of the company or the Group
- Criminal acts, including theft, the sale or use of drugs, money laundering, violence or threatened violence and criminal damage against property
- Detrimental actions taken in reprisal against a whistle-blower

A whistle-blower may submit his / her allegations or concerns either by telephone, email or through other written forms or existing communication channels. The company will protect the confidentiality and anonymity of the whistle-blower. The whistle-blowing case will be received by the head of Group Internal Audit and an investigation will be conducted in compliance with the requirements set out in the company's whistle-blowing policy. If an employee who uses whistle-blowing channels is found to have wilfully done so in bad faith, disciplinary action will be taken against him / her. A copy of our whistle-blowing policy is available on our company website, www.sembcorp.com.

b. Operational Risk Management

Crisis management and business continuity

With operations extending across the globe, the Group monitors for emerging threats that may disrupt its operations, and formulates and updates its strategies and mitigation measures accordingly. Focus is placed on establishing a robust and effective crisis management framework that is relevant to the current business environment and risk landscape, and on improving existing emergency response protocols and business continuity plans across our business

entities to strengthen operational readiness. Crisis communication procedures are also embedded as part of the Group's crisis management framework. The Group's crisis management, emergency response and business continuity procedures and plans are regularly tested and fine-tuned to ensure that the Group can respond effectively to crises and emergencies. The Group also addresses crises and emergencies through the implementation of appropriate prevention, preparedness, response and recovery programmes. In addition, the Group adopts key standards and practices set out by ISO 22301:2012 under Societal Security – Business Continuity Management Systems – Requirements and by SS540 Singapore Standard for Business Continuity Management. This approach enables us to build resilience and enhance our capability in managing and responding to emergencies. It also helps to minimise the impact of incidents on people and the environment, prevent loss of assets and mitigate disruption to business operations while safeguarding the company's reputation.

Health, Safety and Environment

The Group HSE department is guided by our Group President & CEO and the board-level Risk Committee, reflecting the high priority accorded to HSE issues at Sembcorp. The department has formalised a Group HSE management system and promotes global HSE efforts to ensure effective and timely management of HSE issues across the Group. This management system is aligned with ISO 14001 and OHSAS 18001 standards and provides guidance to business units in actively managing HSE risks associated with our activities and services in a systematic manner. For more information on the company's HSE management, please refer to the relevant section in the Sustainability Report contained in this annual report.

Insurance

The Group actively reviews its insurable and uninsurable risks, and identifies comprehensive and cost-effective risk management tools to manage such risks. As a risk transfer mechanism, the Group has purchased a comprehensive set of insurance policies to protect itself against financial loss resulting from property damage, machinery breakdown, business interruption and general liability. The Group has also engaged a panel of top-tier insurance consultants to leverage their technical expertise and resources to negotiate for competitive pricing and comprehensive coverage with commercial insurance companies. To balance the cost of risk transfer, the Group focuses on insuring catastrophic events while maintaining its emphasis on improving internal controls over operations and maintenance. Sembcorp Captive Insurance, a wholly-owned captive insurance subsidiary, provides first layer coverage against property damage and business interruption losses for the Group's operations in Singapore and on the Wilton International site in the UK. Sembcorp Captive Insurance serves not only as an internal risk transfer mechanism, but also showcases the efforts of the Group in promoting greater accountability and responsibility in the operations and maintenance of each business unit. Over the years, Sembcorp Captive Insurance has successfully built up a strong capital surplus, allowing it to extend its insurance reach to other operations and broaden its scope of coverage.

c. Financial, Market and Credit Risk Management

The Group actively manages its financial, market and credit risk exposure with respect to foreign exchange rates, commodity prices and interest rates via established policies, including the Group's treasury policies, financial authority limits and

system of financial discipline. These policies set out the parameters for management of the Group's exposure to counterparty, liquidity, foreign exchange and other material transaction risks.

Financial and market risk

The Group defines and utilises approved financial instruments to manage exposure to foreign exchange, commodity prices and interest rate fluctuations arising from operational, financing and investment activities. The commodities include fuel oil, coal and natural gas. Transactions such as foreign exchange forwards, interest rate swaps, commodities swaps, purchase of options and contracts for differences are used to manage these risks as appropriate. Under the Group's overall treasury policy, transactions for speculative purposes are strictly not allowed. Transactions are allowed only for hedging purposes based on the underlying business and operating requirements. Exposure to foreign currency risk is also hedged naturally where possible. In addition, the Group has financial authority limits, which seek to limit and mitigate operational risk by setting out the threshold of approvals required for entering into contractual obligations and investments.

Default and credit risks

Default and credit risks arise when counterparties fail to fulfill their contractual obligations. The Group generally deals with counterparties with satisfactory creditworthiness and this is achieved by evaluating and monitoring default and credit risks of trade customers, suppliers, contractors, off-takers, joint venture partners and financial institutions. Credit evaluations are performed on counterparties from time to time based on an appropriate methodology. On a case-by-case basis, additional securities and shorter payment terms will be required as risk mitigation measures when

dealing with counterparties of weaker credit standing. The Group also reviews material concentration risk with individual counterparties or geographically.

d. Investment Risk Management

To ensure that the necessary prudence is exercised in all investment decisions, the Group has in place an investment approval process whereby a disciplined approach is taken to review the key risks and opportunities presented by potential investments. As part of our investment approval process, all new investments and transactions are reviewed by a cross-functional project team that provides risk assessments, mitigation measures and recommendations to the respective authorised persons for approval in accordance with applicable financial authority limits.

In addition, to ensure that Sembcorp maintains appropriate diversification across different geographies, the Group has put in place a country risk framework to monitor and report its investment exposure globally. Countries are classified into high, medium and low risk categories based on their macroeconomic and sovereign risks, political and corruption risks, regulatory and transfer risks, as well as social and environmental risks. Furthermore, our investment exposure under each country is regularly reported to the board's Risk Committee. This framework also defines limits that have been approved by the board and stipulates that any deviation from these country limits requires board approval according to a set procedure. In reviewing any request for deviations from the country limits, the board will consider the key risk drivers at hand, in terms of investment size, duration and economic life of the project, as well as the level of residual risk after the implementation of mitigation plans.

With this country risk framework, the board has currently set the limit of the Group's investment

exposure in countries deemed to be of high and medium risk to be no more than 65% of its total investment exposure, and has also set appropriate single country limits to prevent concentration risk.

As at December 31, 2014, the countries outside of Singapore in which the Group (excluding the Marine business) holds the largest shareholders' invested capital are China (S\$1.1 billion), the UK (S\$711 million) and India (S\$534 million).

INTERNAL CONTROLS

The Group adopts a governance assurance framework that is integrated with its ERM framework, under which a logical and systematic approach is used to identify, analyse, treat and monitor key risks. The effectiveness of key controls is rated, and the rationale for ratings documented, to enable management to better identify and manage key control gaps or weaknesses.

Sembcorp's governance assurance framework comprises four lines of defence to manage key risks identified:

i. Business Governance / Policy Management

As a first line of defence, business units establish a risk management and control environment in their day-to-day operations and operate within the parameters of policies established for operational and financial governance. Group governance and functional policies are developed to communicate corporate governance culture and to set principles and guidelines for business operations. Business units, in turn, develop operating procedures and manuals aligned with the Group's governance policies to operate effectively and efficiently and to ensure legal, regulatory and contractual compliance.

ii. Management Assurance

The second line of defence is a system of self-review and assessment by the management of the Group's key businesses. This system of financial discipline is a comprehensive compliance self-review process to ensure that transactions are in compliance with Singapore accounting standards, and that internal controls are adequate and effective. Fines and sanctions arising from non-compliance to laws and regulations are also reported. In addition, an annual self-assessment is conducted by key businesses, under which significant risk areas are assessed, mitigating controls are reviewed for effectiveness and action plans are identified to further address key areas of risk.

iii. Independent Assurance

Reviews by internal auditors of our system of internal controls provide independent assurance on the adequacy and effectiveness of these controls in addressing the financial, operational and compliance risks of the company. In the course of performing the full-year audit, our external auditors also consider internal controls relevant to the preparation of financial statements that give a true and fair view in order to design the appropriate audit procedures.

Internal audit

The Group Internal Audit department assists the board's Audit Committee in promoting a sound system of internal controls and good corporate governance across the Group. Using a risk-based methodology, our internal auditors perform periodic audits to assess the effectiveness of the Group's internal controls in addressing financial, operational and compliance risks, as well as our information technology controls and risk management system. For more information on the company's independent internal audit function, please refer to the Corporate Governance Statement in this annual report.

iv. Board Oversight

The board and its Audit Committee endorse Sembcorp's governance assurance framework and provide oversight on the effectiveness of internal controls and risk management processes.

SUSTAINABILITY REPORT

Sustainability at Sembcorp is about striving for excellence and continuous improvement in identifying, understanding and responding to evolving environmental, social and governance challenges facing our businesses.

MANAGING SUSTAINABILITY

At Sembcorp, we believe in building sustainable businesses that deliver long-term shareholder value and growth. We believe that a truly sustainable business not only creates economic value, but does so in a way that creates benefit for its stakeholders.

Environmental, social and governance (ESG) considerations are embedded in our business decisions and processes. We believe that taking ESG considerations into account helps us to understand our risks and responsibilities in a holistic manner, and that when our strategy and business decisions are informed by ESG concerns, we are better prepared to respond to the challenges we face.

Sembcorp's management of its sustainability issues is centred on five focus areas (see Focus Areas and Material Issues table on page 129). Sembcorp's key sustainability principles are set out in our Sustainability Policy. These principles are applied through the management systems and processes of Sembcorp's operations. We aim for continuous improvement of our sustainability management systems, and evaluate our management approach by benchmarking it against industry best practice. We adopt a precautionary approach to avoid or minimise negative impacts through preventive measures and tracking of leading indicators. A list of our policies, certified facilities as well as memberships and participation in external initiatives is available in the Sustainability section of our website.

Sembcorp's Board of Directors oversees the business affairs of the Group and is collectively responsible for the long-term success of the company. The principal duties of the board include providing leadership on the Group's overall strategy, taking into consideration sustainability issues. The board also ensures the adequacy of the Group's framework for risk management and internal controls, including ethical standards.

Sembcorp's Sustainability Steering Committee (SSC) provides strategic direction for the management of sustainability-related risks and opportunities and guides the development and improvement of frameworks, policies, guidelines and processes for the effective management of sustainability issues. The SSC is a high-level committee chaired by the Group Chief Financial Officer, and comprises senior executives across various functions, including asset management, human resources, health, safety and environment (HSE) and corporate relations.

At the business unit level, economic, operational, as well as health and safety issues and other risks are reviewed by the operations head at bi-monthly business unit management meetings, and performance in these areas is evaluated against internal targets.

Sustainability contact

Sembcorp welcomes feedback on our sustainability issues and reporting at sustainability@sembcorp.com.

Sustainability Performance Snapshot

The table below shows quantitative data that reflects our performance in areas that have been identified as material to our businesses and stakeholders.

More performance data, including qualitative data, is available in the individual sections for each focus area in this report, as well as in the Sustainability section of our website.

	2014	2013	2012
Economic			
Capital and Portfolio Management¹			
Turnover (\$ million)	10,895	10,798	10,189
Net profit (\$ million)	801	820	753
Return on equity (%)	15.2	17.1	17.5
Return on total assets (%)	7.5	9.1	9.5
Total debt-to-capitalisation ratio	0.40	0.23	0.30
Total debt-to-capitalisation ratio (less cash and cash equivalents)	0.26	Net cash	0.05
Total shareholder returns ² (%)	(15.6)	7.7	33.7
People			
People Development			
Employee turnover (voluntary and non-voluntary) (%)	18.4	12.4	10.8
Training cost per employee (\$)	706	520	366
Health, Safety and Environment			
Occupational Health and Safety^{3,4}			
Number of fatalities ⁵	0	0	0
Injury rate per 200,000 man-hours ⁶	0.47	0.27	0.53
Lost day rate per 200,000 man-hours ⁶	9.38	4.54	9.36
Climate Change			
Direct greenhouse gas emissions ⁷ (million tonnes of CO ₂ equivalent)	5.7	5.8	5.3
Environmental Protection			
Water withdrawal (million m ³)	1,593.0	1,502.2	1,588.5
Waste disposal ⁸ (thousand tonnes)	43.1	31.7	30.8
Hazardous waste (thousand tonnes)	12.6	9.4	9.4
Non-hazardous waste (thousand tonnes)	30.5	22.4	21.4
Community			
Community contributions (\$ million)	2.4 ⁹	1.8	0.9

Notes:

Please refer to the section on Reporting Framework and Scope on page 127 for details on our scope.

¹ Financial figures reported are for the Group, including Sembcorp Marine, as per audited financial statements.

² Source: Bloomberg

³ Occupational health and safety data from our solid waste management operations in Singapore and Zhumadian China Water Co are excluded in this summary. Data from our Singapore solid waste management operations, which have a different risk profile, can be found on page 147. We were unable to include data from our Zhumadian operations due to unavailability of data.

⁴ Occupational health and safety data excludes data from projects under development / in construction.

⁵ Health and safety data covers employees and contractors engaged to work on our sites. In 2014, there were three fatalities involving members of the public who were involved in road traffic accidents with company vehicles. These are reported on page 146.

⁶ 200,000 man-hours is roughly equivalent to the total number of hours worked by 100 full-time employees in a calendar year.

⁷ Data covers operations that produce direct greenhouse gas emissions from the combustion of fossil fuel.

⁸ Waste disposal data excludes waste that is collected and incinerated for our customers.

⁹ Figure excludes contributions by Sembcorp Marine. Contributions including Sembcorp Marine amount to S\$5.7 million.

Materiality

Materiality analysis is a key process enabling Sembcorp to define the sustainability issues that are of greatest significance to our businesses and our stakeholders over the long term. We believe our focus on materiality is vital as we seek to make progress on our sustainability journey, drive performance and transparency, and embed sustainability into the Group's culture.

Sembcorp focuses our reporting on 11 material issues, grouped into five focus areas. Each focus area is owned by an appointed SSC member. The five focus areas and 11 material issues are recognised by both internal and external stakeholders, and are listed on page 129. For each material issue, we report the sustainability context, the relevance to Sembcorp, and our management approach and performance.

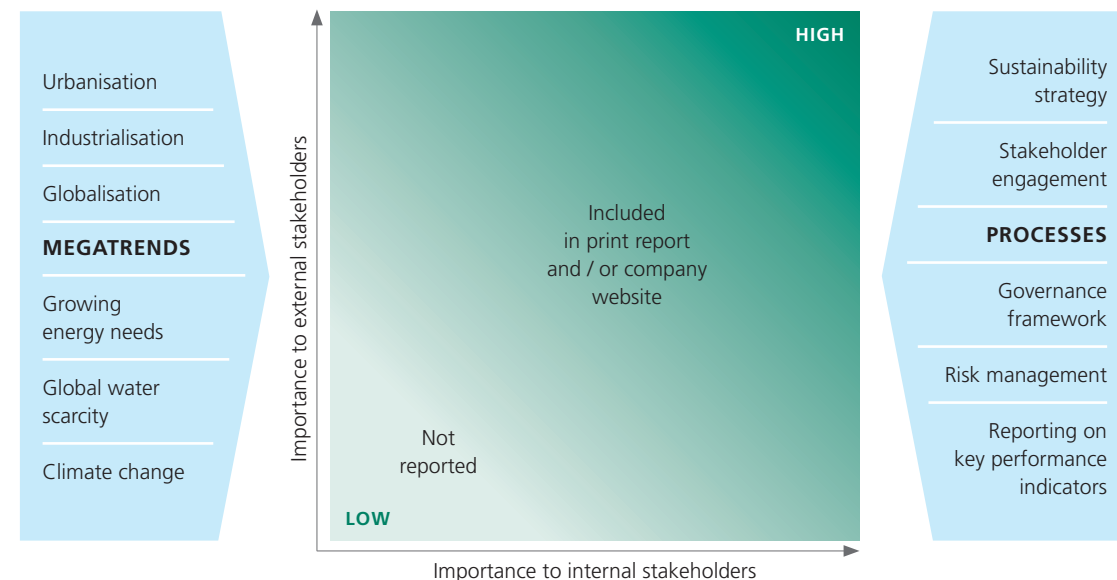
Sembcorp conducted a materiality review in 2013, building on our first formal materiality assessment in 2011. Sustainability issues were identified in line with Global Reporting Initiative (GRI) guidelines. The materiality review took into account GRI's Electric Utilities Sector Supplement, the Dow Jones Sustainability Index and other relevant frameworks and peer reviews. These issues

were prioritised using a materiality matrix, charting their level of significance to Sembcorp and our stakeholders according to clearly defined criteria based on the AA1000AS five-part materiality process.

The materiality assessment and review were conducted with input from an independent sustainability consultant. To enhance the robustness of our materiality assessment, feedback from our stakeholders, including shareholders, financial institutions, the investment community, regulators, customers, suppliers and non-governmental organisations, was incorporated. The survey, commissioned in 2012, was conducted by an independent firm to ensure anonymity for respondents. Respondents agreed on the whole with the issues identified as material for Sembcorp. Survey responses also helped to refine aspects of the material issues that our key stakeholders were interested in, and gave us input on how we could better communicate the issues.

In 2014, we integrated sustainability considerations into our approach to risk management, in order to create a more robust materiality and risk assessment process.

Sembcorp's Materiality Matrix



Reporting Framework and Scope

This report was prepared in accordance with GRI G4 Core requirements. Our GRI content index is available in the Sustainability section of our website.

Sembcorp operates across six continents. Our three key businesses comprise Utilities, Marine and Urban Development. As our Marine business is separately listed in Singapore and reports its activities separately, it is excluded from this report.

The period under review pertains to January 1 to December 31, 2014, and the information provided in this report relates to subsidiaries of Sembcorp. It excludes joint ventures, partnerships and associates for which Sembcorp does not have management and / or operational control. Data reported in the Governance, Risk and Compliance, People, HSE and Community sections is specific to businesses in operation, and excludes projects in construction.

Environmental data provided is specific to Sembcorp's Utilities businesses only. New acquisitions and subsidiaries are given one year, or more where required, to integrate their reporting systems with that of the Group. Thereafter, their sustainability data will be reported externally upon the collection of a full calendar year of data. Data pertaining to entities divested during the year is excluded from this report. We aim to work towards external assurance of the report.

Data Measurement and Quality

All data measurements are in line with GRI G4 recommendations for our chosen indicators. Greenhouse gas (GHG) emission factors are based on the 2006 Intergovernmental Panel for Climate Change (IPCC) guidelines, except for those relating to our operations on Teesside, UK, which use emission

factors adapted from the US Environmental Protection Agency and the 2013 and 2014 Government Greenhouse Gas Conversion Factors for Company Reporting issued by the UK's Department for Environment, Food & Rural Affairs and Department of Energy & Climate Change.

While there are inherent limitations to the accuracy of data, Sembcorp seeks to minimise errors and irregularities through the strengthening of internal controls.

Stakeholder Engagement

We recognise the importance of engaging our stakeholders to encourage open communication and build relationships, and employ a range of platforms to this end. The frequency of ongoing engagement with our stakeholders varies with their concerns and needs as well as with the topics of engagement.

In 2012, we conducted a stakeholder mapping exercise to review and define our stakeholder groups. This was done in accordance with the AA1000 Stakeholder Engagement Standard by an independent consultant. Stakeholders were mapped based on their level of influence and interest, using a structured approach. The level of stakeholder interest against each material issue was also reviewed and a survey was conducted to invite feedback on our material issues from selected key stakeholders.

More information on the platforms we use to regularly engage our stakeholders can be found in the Sustainability section of our website.

HIGHLIGHT

Engaging Our Stakeholders

Sembcorp actively participated in Singapore International Water Week 2014, using this industry event as a platform to engage peers, partners, customers and governments through forum and roundtable discussions. Topics ranged from water solutions for the chemical and refining sector and industrial parks, to approaches to solving the future water challenges of industries. Sembcorp also hosted China's Minister for Water Resources, Chen Lei, at our facilities on Jurong Island, and discussed with him the advanced water management solutions that will support China's growth and sustainable development. For more insights on our participation in Singapore International Water Week, please go to the Events section under News and Multimedia of our website.

MATERIAL ISSUES

We group our material issues into five focus areas, aligned with how we drive success for the company. Under each focus area, we discuss our management

approach to the relevant material issues and our performance against each issue.

A snapshot of Sembcorp's quantitative sustainability performance data is presented on page 125.

Focus Areas	Material Issues
Economic	
<ul style="list-style-type: none"> To deliver long-term value and growth 	<ul style="list-style-type: none"> Capital and portfolio management Operational reliability Innovation New income streams
Governance, Risk and Compliance	
<ul style="list-style-type: none"> To maintain high standards of behaviour and integrity and be best in class for governance practices 	<ul style="list-style-type: none"> Governance and ethical business Risk and regulatory compliance
People	
<ul style="list-style-type: none"> To provide a fair, diverse and inclusive workplace, and continually improve our human resource management and people development 	<ul style="list-style-type: none"> People development
Health, Safety and Environment	
<ul style="list-style-type: none"> To instil sound and practical health and safety management as part of our workplace culture, and protect the environment in the conduct of our business activities and generation of our products and services through good environmental practices 	<ul style="list-style-type: none"> Occupational health and safety Climate change Environmental protection
Community	
<ul style="list-style-type: none"> To be a responsible business, making a positive contribution to our communities 	<ul style="list-style-type: none"> Community integration

Economic To deliver long-term value and growth

Why this is material

Long-term economic viability is at the core of Sembcorp's approach to building sustainable businesses. The Group drives its economic sustainability by monitoring and managing the following key facets of its business: capital and portfolio management, operational reliability of assets, innovation and business development for new income streams.

Capital and portfolio management

Sembcorp's businesses often involve large-scale, long-term projects requiring significant initial capital outlay. Strong financial health and a disciplined approach to investment are therefore necessary for us to succeed. At the same time, as Sembcorp continues to grow, we believe it is important for us to maintain a balanced portfolio of businesses across various geographical regions and business segments with the appropriate level of risk. Capital allocation, including the geographical distribution of our investments, is hence managed from this perspective.

Operational reliability

The reliability of our assets is vital not only for our reputation, but also for our long-term profitability. Our Group is heavily invested in the Utilities business, which involves the sustained operation of energy and water facilities for prolonged periods. The business is committed to long-term customer contracts and its products and services, such as power, steam, water and wastewater treatment, are essential to its customers. Proper care and maintenance of our assets ensure that their useful life, and therefore their ability to generate stable recurring income and a reliable supply of products and services, is sustained throughout our long investment horizon.

Innovation

We recognise the importance of technology and innovation in maintaining and enhancing our relevance, profitability and competitive advantage. This includes applied research and development and improvements to optimise our operations and enhance our efficiency, as well as the adoption of new technologies and methodologies with wider sustainability benefits.

New income streams

To deliver long-term growth, the company continuously explores new business opportunities and maintains a pipeline of upcoming projects, including both greenfield and brownfield investments.

HIGHLIGHT

Developing World-class Capabilities

In late 2014, we announced the development of the Sembcorp Global Asset Management System. The system will allow Sembcorp to centralise the management of its energy and water plants from around the world and will put Sembcorp at the forefront of using predictive analytics in the operation of utility plants.

The system will comprise a process optimisation module, which will benchmark plant performance data and provide automatic alerts for any abnormalities; a troubleshooting module using predictive analytics to help Sembcorp's technical experts address operational issues the minute they occur; and a predictive maintenance module to identify potential equipment problems, prevent unexpected shutdowns and allow for more optimised scheduling of maintenance.

The advanced system will allow Sembcorp to better harness its collective global expertise, drive operational excellence and optimise asset performance for enhanced reliability, availability and cost effectiveness.

Management approach

Capital and portfolio management

The Group has put in place robust frameworks and processes to ensure our investment and business decisions take into account long-term considerations. Since 2003, we have implemented a system of financial discipline across all subsidiaries, joint ventures and associates. Potential acquisitions and growth opportunities are evaluated based on strict investment guidelines. Depending on criteria such as project value and country risk, approval for projects may involve the Senior Management Committee, the board and / or its Executive Committee or Risk Committee.

The Group actively manages its risk portfolio. This includes monitoring balance sheet liquidity ratios and country risk profiles. For more information on risk management at Sembcorp, please refer to the Risk Management and Internal Controls chapter of this annual report.

Operational reliability

Reliability is of foremost importance in the management of our assets, from the design phase to the operation and maintenance phases. In the design and construction phases, consideration is given to installing sufficient operational flexibility and selecting quality equipment. In the operation and maintenance of assets, regulatory and manufacturers' standards are adhered to. Efforts are continually made to optimise use of the equipment. The reliability of our plants is monitored through monthly performance indicators for which senior management has oversight. Technical audits and checks are also conducted on our plants.

Supply Chain Management

We recognise that our supply chain has a material impact on the efficiency and effectiveness of our operations. From our engineering, procurement and construction contractors to fuel and spare parts suppliers, Sembcorp's procurement policy guides our assessment of suppliers and contractors to ensure that they are chosen for their ability to deliver over the long term and operate in a responsible manner.

Requirements for suppliers

Sembcorp has stringent requirements for its suppliers. In Singapore for instance, our suppliers go through an extensive pre-qualification process which vets their ability to sustain their business. This includes checks on areas such as their financial viability, human resource policy and litigation history. The vendors' capabilities are also reviewed, taking into account the qualifications and experience of their personnel and track records. Suppliers' HSE records and processes, as well as their labour conditions and community impact, are also considered. We value the opportunity to positively influence our suppliers for greater HSE awareness and social responsibility, and believe that securing a pool of suppliers with a shared commitment to sustainability will mitigate operational and reputational risk.

Supplier diversification

Our efforts to ensure supply chain security include diversifying supply to mitigate concentration risk. For instance, Sembcorp's operations in Singapore maintain at least one primary and one secondary supplier for key spare parts and consumables wherever possible.

Fuel procurement

Fuel comprises a significant cost component for Sembcorp's power and steam generation operations. Security of fuel supply is also essential to the sustained performance of our assets. In view of this, we established a Fuel Management department to focus on issues such as security of supply, price fluctuations and fuel mix. To further diversify our fuel mix and tap sustainable sources, Sembcorp has increased our use of alternative fuels and renewables. For instance, in Singapore, our solid waste management operations provide a reliable supply of waste wood for our woodchip boiler plant, while in our biomass power plant in the UK, waste wood from sustainably-managed forests, sawmills and arboricultural residues is used as fuel. A case study on how we deliver value across the energy and water value chain is available in the Economic portion in the Sustainability section of our website.

Innovation

Sembcorp's Technology Advisory Panel, comprising our Chairman, Group President & CEO and other invited experts, provides strategic direction for Sembcorp's technology and innovation programmes. It oversees the application of significant emergent technologies in the energy and water sectors, and provides guidance to Sembcorp's leadership on technological trends and opportunities. The panel is supported by an in-house Group Technology department.

Headed by our Chief Technology Officer, our Group Technology department oversees our research and development as well as innovation efforts. Besides tracking our investment in innovation and the corresponding returns, we also track indicators such as number of projects screened, to ensure that we have a pipeline of innovation projects for development and implementation in a timely manner.

To further encourage innovation from the bottom up, Sembcorp's !DEA Awards programme also recognises innovative ideas and efforts across the Group. Past winning entries have included process innovations resulting in cost savings and improved HSE performance, and innovations in the development of new products and services.

Ongoing engagement with venture capitalists, technology companies and tertiary research institutes enables us to keep abreast of the latest technological advancements. In looking at new technology, we prioritise innovations for our operations' identified needs, while also considering more general proposals.

New income streams

Sembcorp's Group Business Development & Commercial department is structured and resourced to pursue new business opportunities with agility and focus. Dedicated teams look into growing our businesses in both existing as well as new markets.

To provide a platform for future growth, we identify and develop a healthy pipeline of projects. We also seek to grow through strategic partnerships with our customers, by continuously developing innovative and competitive solutions to meet their evolving needs.

We actively invest in sustainable and green business lines which will give us an edge in an increasingly resource-scarce world. Applying a disciplined approach, we employ a stringent evaluation process for all our projects and investments.

2014 performance

Sembcorp's financial performance and key economic indicators can be found in our Group Financial Review chapter and Financial Statements in this annual report.

We officially opened the Sembcorp Technology & Innovation Centre in Singapore, which serves as a focal point for our testing, optimisation and research and development activities in both energy and water. We announced the development of the Sembcorp Global Asset Management System, which will enhance our management of our global portfolio of facilities and lead to greater reliability, availability, optimisation, as well as cost savings. In addition, we are strengthening our team of technical specialists who will be employed to troubleshoot technical issues for our plants worldwide. We expanded our team to continue the development of Virtual Brain, the system we are developing for predictive maintenance and optimisation of our operations. We successfully implemented equalisation-hydrolysis (EQ-H), a wastewater treatment technology we developed in-house, which offers commercial and environmental benefits through improving effluent quality while reducing power and chemical consumption as well as biosludge production. The technology was applied in a full-scale pilot project at our facilities in Zhangjiagang, China.

Two patents were filed to protect our innovations in Virtual Brain and EQ-H.

We announced the formation of the Sembcorp-EMA Energy Technology Partnership, a S\$10 million research and development fund by Sembcorp and Singapore's Energy Market Authority (EMA) to support the translation of innovative energy solutions from laboratory to market, benefitting the power industry and our operations. We strengthened and re-launched the IDEA Award to reward not only implemented solutions, but also ideas and suggestions that could potentially create sustainable value for Sembcorp's businesses and operations. We also earmarked seven research and development projects in areas related to our businesses to be jointly explored with the National University of Singapore over the next few years.

New projects added to our growth pipeline in 2014 include the acquisition and upgrade of an existing wastewater treatment plant in Lianyungang Lingang Chemical Industrial Park in China's Jiangsu Province. Sembcorp was selected by the Jiangsu Environmental Protection Department to improve industrial wastewater treatment operations at the industrial park, with the potential for the project to serve as a model to be replicated at other industrial parks in Jiangsu. We also acquired a stake in NCC Power Projects, which is currently building a 1,320-megawatt supercritical coal-fired plant in Andhra Pradesh, India. This project will double our thermal power generation capacity in India and increase our footprint in the country's growing power market.

Going forward

The Group will continue to maintain a disciplined approach towards managing its financial position and portfolio. We will further deepen our asset management as well as business development and commercial capabilities, optimise plant performance and grow our asset portfolio for a greater recurring

income base. We will also review our global supply chain, and aim to harmonise our procurement principles globally.

We will continue to identify and develop new and innovative technologies and build on our culture of innovation through recognition and implementation of IDEA Awards projects and other ad-hoc innovation proposals. In the near future, we expect to implement further phases of the Virtual Brain project and develop it for application in other water treatment processes. We target to launch the first joint call for proposals seeking funding under the Sembcorp-EMA Energy Technology Partnership in 2015.

Governance, Risk and Compliance
To maintain high standards of behaviour and integrity and be best in class for governance practices

Why this is material

Governance and ethical business

Responsible business conduct ensures the long-term viability of our business, and builds trust and confidence with stakeholders. We commit to high standards of behaviour and integrity in everything we do and comply with all laws and regulations wherever we operate. We believe in conducting business legally, fairly, honestly and with integrity, and expect the same of those with whom we do business. Sembcorp has zero tolerance towards fraud, bribery and corruption.

Risk and regulatory compliance

Risk management is integral to Sembcorp's approach to operating sustainably. We actively equip our management with tools to manage and control risks arising from existing business activities and investment decisions. Risk management helps to preserve our bottom line by reducing the likelihood and impact of potential losses, while

providing a common platform for the evaluation of new business opportunities. In addition, risk management provides our board and shareholders the assurance that key enterprise and business risks faced by the organisation have been identified, assessed and managed via appropriate risk mitigation and controls.

Sembcorp is committed to high standards of regulatory compliance, as non-compliance with applicable laws and regulations may subject us to statutory and regulatory fines and even result in material litigation with severe negative impact on our reputation, financials and licence to operate.

HIGHLIGHT

Strengthening Governance

In 2014, we formulated a new policy and manual covering internal controls for the Group and its businesses. These documents provide a clear framework for what constitutes an effective and adequate system of controls. It also provides guidelines on the appropriate segregation of duties and a checklist of internal controls for our business units to put in place.

Management approach

Governance and ethical business

Sembcorp is led by an effective board mainly comprising independent non-executive directors. The board is collectively responsible for the long-term success of the company. Part of its role is to ensure the adequacy of the Group's control and risk framework and standards, including ethical standards, and that obligations to key stakeholders are understood and met. Several board committees have been established with written terms of reference to assist the board in the efficient discharge of its responsibilities and provide independent oversight of management.

Sembcorp complies with the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore and reports our governance processes and activities with reference to principles set out in the Code.

Risk and regulatory compliance

Enterprise risk management

The Group has an enterprise risk management (ERM) framework in place. The Group's risks are managed through reviews of major occurrences and key risk areas at management meetings, risk assessments at the investment appraisal and due diligence stages, monitoring of key risks through a quarterly System of Financial Discipline submission or as required, and reporting of departmental and business unit level risks by all employees via the ERM reporting process and risk committee meetings.

Governance assurance framework

Sembcorp adopts a governance assurance framework, which comprises four lines of defence:

- i. Business governance / policy management
- ii. Management assurance
- iii. Independent assurance
- iv. Board oversight

For more information on Sembcorp's governance and risk management systems, please refer to the Corporate Governance Statement and Risk Management and Internal Controls chapter in this annual report.

Training and performance management

The Group provides awareness training and workshops on ERM, fraud risk management and business continuity management on a periodic basis. Desktop exercises for crisis management, emergency response drills and business continuity exercises are

also conducted regularly to validate and fine-tune our procedures and plans, so as to ensure that the Group can respond effectively to crises and emergencies.

Remuneration for senior management is tied to risk management and governance performance indicators relevant to their roles. More details on senior management remuneration and reward can be found in the Corporate Governance Statement in this annual report.

2014 performance

This year, we continued to make progress in the global implementation of our fraud risk management framework. All our subsidiaries have completed fraud risk assessments for their respective cash-handling and procurement processes where applicable. We also continued to communicate our policy of zero tolerance towards bribery and corruption through our fraud awareness sessions for employees.

In 2014, we continued to roll out our group-wide governance assurance framework to promote a consistent approach and understanding with regard to our risk and controls assessment process and methodology. This aims to strengthen the risk and controls assessment process and also provides a framework for self assessment of risk-based controls.

In addition, a policy and manual governing internal controls were developed to provide our business units guidance in implementing, strengthening and maintaining an effective and adequate system of internal controls. We also continued to use forensic data analytics as a tool to uncover red flags and identify any gaps in internal controls to be addressed.

In 2014, a total of two significant fines amounting to S\$214,000 were incurred by our operations in Chile and China. We have looked into these incidents to ensure a non-recurrence.

With the increased threat of disease epidemics, we strengthened our readiness to respond to pandemic outbreaks through table-top exercises and emergency response drills in Singapore, the Middle East and South Africa. This included simulating a World Health Organisation declaration that an infectious disease had reached pandemic phase, and the activation of response measures such as isolation and contact tracing procedures.

As part of our continuous review of policies, Sembcorp introduced a business continuity management (BCM) policy which defines the BCM governance and implementation framework, and provides guidance to our operations in their business continuity planning activities.

As a testament to our ongoing commitment to excellence in corporate governance, financial reporting and disclosure, Sembcorp was ranked third on The Business Times Governance & Transparency Index in Singapore. We also won top awards in three out of five categories at the 2014 Singapore Corporate Awards. These included gold awards for Best Managed Board and Best Annual Report for companies with S\$1 billion and above in market capitalisation, as well as the gold award for Best Chief Executive Officer in the same category, which was awarded to Sembcorp Industries' Group President & CEO Tang Kin Fei. In addition, we were also named runner-up for the Singapore Corporate Governance Award under the category of companies with S\$1 billion and above in market capitalisation at the 15th Securities Investors Association (Singapore) Investors' Choice Award 2014.

Going forward

Sembcorp will continue to improve our risk management, governance and compliance processes. As part of building the right risk management culture, regular risk awareness refresher training and risk assessment workshops will be conducted.

People

To provide a fair, diverse and inclusive workplace, and continually improve our human resource management and people development

Why this is material

People development

Employees play a vital role in achieving our business strategy and goals. To be a high performance organisation, it is crucial to develop a competent, capable and motivated workforce that can meet the business challenges of today and tomorrow.

The nature of our business is such that we require specialist technical expertise. Some of the markets in which we operate lack a qualified labour force with the necessary technical skill sets that our business requires. In other markets, these skill sets are highly sought after across other industries. Additionally, the commercial and regulatory environment in which we operate is growing in complexity. Therefore, there is a critical need to attract, retain and develop competent employees who possess a deep understanding of the company and industry.

We believe that the career opportunities and structured development framework we offer are key to attracting, motivating and retaining talent.

We continually stay abreast of latest developments and industry best practice through our memberships and participation in external organisations such as the Singapore National Employers Federation, the Temasek Human Resource Council and The Conference Board, as well as numerous local roundtable groups.

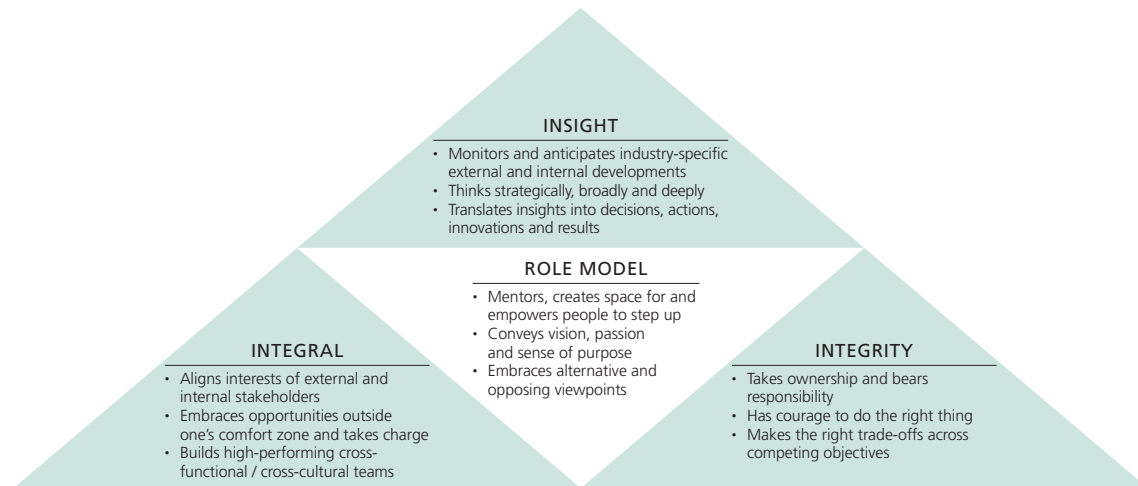
For further details of our approach and initiatives on labour relations, remuneration and employee welfare and engagement, please refer to the People portion in the Sustainability section of our website.

HIGHLIGHT

Investing in People

In 2014, we focused our efforts on implementing our competency framework, with the aim of improving competencies of managers and employees across the different functions of the organisation. We launched company-wide training programmes to equip our employees in aspects of functional and core competencies, such as coaching skills, performance management, presentation and writing skills. This training is ongoing across our organisation.

Sembcorp's Core Competency Framework



Management approach

Human resource policies and structure

Our human resource management approach is based on the key aspects of strategic workforce planning, our competency framework and creating development journeys for our employees.

The Senior Management Committee, supported by the Group Human Resources department, is responsible for setting key policies relating to our employees.

The Group is committed to preserving and respecting human rights in our operating locations. Sembcorp fully supports basic principles of fairness and opportunity as well as dignity, respect and non-discrimination. With our headquarters based in Singapore, we abide by the approach to human rights taken by the Singapore government, and endorse the Employers' Pledge of Fair Employment Practices under Singapore's Tripartite Alliance for Fair and Progressive Employment Practices. We do not hire forced or child labour, and comply with local regulations restricting forced or child labour

wherever we operate. While our operations span six continents where labour laws, regulations and practices differ widely, we are committed to high standards of human resource management globally. We abide by local laws wherever we operate, including abiding by and exceeding minimum wage requirements where such laws exist. Examples of other diverse regulations our global operations comply with include the Broad-based Black Economic Empowerment Amendment Act 2013 in South Africa, and localisation requirements for our operations in Oman and the UAE.

For the convenience of our employees, our local human resource policies, as well as all other company policies and guidelines, are readily available and accessible on our intranet.

Five Key Principles of Fair Employment Practices Endorsed by Sembcorp

- ➔ Recruit and select employees on the basis of merit (such as skills, experience or ability to perform the job), and regardless of age, race, gender, religion, marital status and family responsibilities, or disability
- ➔ Treat employees fairly and with respect and implement progressive human resource management systems
- ➔ Provide employees with equal opportunity to be considered for training and development based on their strengths and needs to help them achieve their full potential
- ➔ Reward employees fairly based on their ability, performance, contribution and experience
- ➔ Abide by labour laws and adopt the Tripartite Guidelines on Fair Employment Practices

People development

People development is a key focus of our company's strategy, and is driven at the board level by the Executive Resource & Compensation Committee.

Sembcorp developed the My Career Journey @ Sembcorp framework to identify, develop and deploy employees to take up roles across the organisation. The framework encompasses three aspects:

i. Strategic workforce planning

Precise growth areas within Sembcorp are mapped, giving us a clear picture of skills and capabilities required. This helps us ensure that

the right people are in the right jobs, and can be deployed in the right locations.

ii. Competency framework

The competency framework spells out the competencies and behaviours expected of a Sembcorp employee. The framework is deployed through recruitment, assessment, development and career progression. This framework is also an evaluative tool that highlights areas of developmental need, not only for the individual, but also for the organisation as a whole to address.

iii. Development journeys

Employees are developed through on-the-job learning, exposure and formal training as well as a mentorship programme for high-potential employees.

The framework aligns the development of the organisation and individuals, addressing both organisational needs and employee aspirations.

Performance appraisals

All employees undergo half-yearly performance appraisals, where performance against expectations, training needs and targets for the coming year are discussed and agreed upon by employee and supervisor. As an assessment of core competencies and areas for improvement is embedded in the appraisal format, going through the appraisal process also helps to inculcate our core values in every employee, and provides clarity on the competencies and functional skills needed for their development.

Employee learning and development

To promote learning and development throughout the organisation, all supervisors are given the mandate to oversee and drive the development of their employees.

Our engineers and technicians receive up-to-date technical training by experts. All employees are also encouraged to attend professional courses relevant to their roles.

We offer employees the opportunity to develop their careers and gain international exposure through job rotations and attachments in different cultural and operational settings. We currently have more than 50 employees of different nationalities seconded from our Singapore offices to various overseas operations. We also provide internships and industrial attachments which offer students and Sembcorp scholars practical experience and exposure to our operations while they undergo their studies.

We support our employees in their pursuit of continuous improvement and higher qualifications and also sponsor selected employees who wish to pursue higher qualifications in fields of study relevant to their work. To develop our leaders, the company sponsors senior executives to undergo programmes at leading institutes such as Harvard Business School, The University of Pennsylvania Wharton School, INSEAD and Temasek's Business Leadership Centre. Sembcorp scholarships are also offered to promising students at various tertiary institutions, following which a comprehensive development plan is mapped out to groom them for management positions.

As an industry leader in various sectors, Sembcorp encourages our employees to share and exchange best practices through platforms such as seminars, roadshows and local and international conferences.

Developing local capability

We believe in recruiting and retaining local talent as a long-term investment and strategy for our operations. This leads to knowledge transfer and capability development for the local community.

Localisation plans play an important part in our strategy for the sustainable growth of our overseas projects. Targets are set to progressively localise our overseas operations' workforce across all positions, including management positions, in line with each jurisdiction's regulatory and operating environment. Where operations commence in a new market, employees who are seconded from our head office to start up the operations are given a clear responsibility to develop local talent. Capability development plans are designed for local employees hired and with the gradual localisation of the team, the number of expatriates seconded from head office is then progressively reduced.

All employees are given the same development opportunities across the Group, and at our overseas operations, local employees are also encouraged to develop their professional and managerial skills through international exposure, such as on-the-job training in Singapore or at other Sembcorp operations around the world.

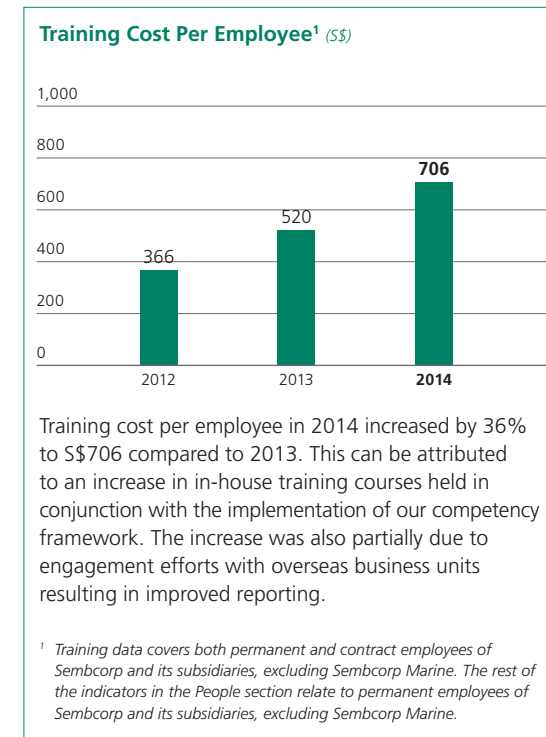
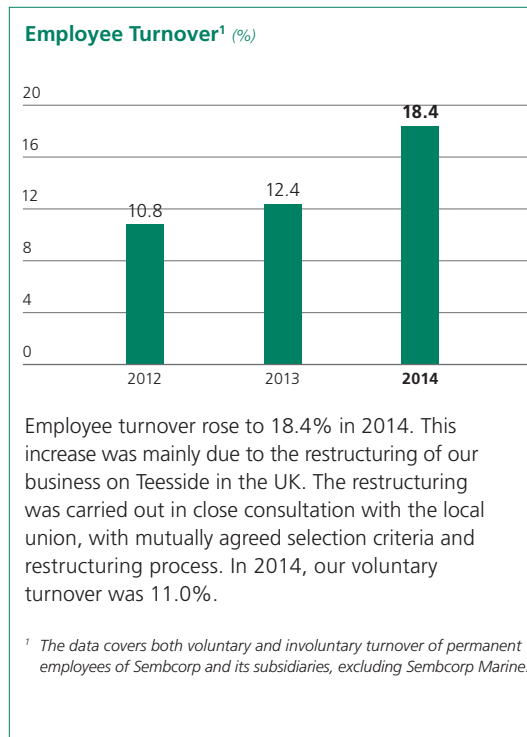
2014 performance

The continued implementation of our competency framework and the enhancement of our learning and development framework were our main areas of focus in 2014.

We remain committed to meeting our localisation targets. In 2014, three Omani employees underwent a customised training programme in Singapore. The programme consisted of on-site training at our operations, as well as workshop sessions.

Going forward

In 2015, we will focus on implementing the learning and development framework for employees. The framework will be guided by a learning strategy, and lays out a model to chart the most efficient and relevant way to execute learning needs.



Unless otherwise stated, all People data reported relates to Sembcorp's permanent employees. For more performance data, please refer to the People portion of the Sustainability section of our website.

Health, Safety and Environment
 To instil sound and practical health and safety management as part of our workplace culture, and protect the environment in the conduct of our business activities and generation of our products and services through good environmental practices

Why this is material

Occupational health and safety

Effective occupational health and safety management prevents and mitigates health and safety-related incidents, protects our workforce and helps to reduce disruption to our operations. It also ensures compliance with applicable laws and regulatory requirements in all the countries we operate in.

We regard the health and safety of our people as top priority, and seek to provide a working environment that exceeds regulatory obligations for our employees and others who work on or visit our premises. We are also committed to enforcing safe working practices within our sphere of influence.

Climate change

Our businesses are exposed to potential regulatory, physical and supply risks related to climate change, and as a company we also recognise the threat that climate change presents to the planet. We adhere to and support common policy positions adopted by governments on climate change, whilst keeping abreast of the wider body of academic and institutional research related to the subject.

We believe that our businesses can leverage innovative technology and renewable resources

to provide competitive and reliable energy and water solutions to customers and communities, while mitigating the impact of climate change.

Environmental protection

Sembcorp recognises its duty to conserve the natural environment and resources whilst going about its businesses. Our businesses consume primary resources and it is in these areas that our responsible stewardship can have the greatest impact.

HIGHLIGHT

Strengthening the Management and Governance of HSE

Excellence in HSE is a journey which requires constant vigilance and striving for continuous improvement. In 2014, we reviewed our frameworks for health and safety management and formulated a plan to enhance and strengthen them. The plan, which was endorsed by our board's Risk Committee and spearheaded by our Group President & CEO, aims to encourage a greater level of behavioural observation and intervention by employees and contractors, so as to prevent accidents and near-misses. Key elements of the plan include the formulation of Sembcorp Life Saving Rules, as well as the setting up of Safe Operation Committees at our operational and project sites to strengthen the management of HSE.

Management approach

HSE management is embedded alongside compliance with legal and regulatory requirements in work processes applicable to all phases of Sembcorp's business – from business development and project development, to asset management. We strive for continuous improvement in our HSE performance, and apply an integrated management approach in accordance with the Plan-Do-Check-Act methodology:



Sembcorp's HSE Strategy

Leadership commitment

- Board-level oversight
- HSE initiatives led by senior management

Continuous improvement

- Implementation of key HSE requirements
- Standardisation of management systems

Effective communication

- Reinforce HSE processes through effective communication

HSE policy and guidelines

Sembcorp's Group HSE Policy articulates our commitment to our stakeholders with respect to HSE. It is available in the Sustainability section of our website.

The Group's HSE guidelines outline the roles and responsibilities of the relevant departments and business units, in line with the Group HSE Policy. The guidelines are endorsed by the board's Risk Committee. Business units under the management and operational control of Sembcorp must comply with the requirements set out in the HSE guidelines, and must monitor performance relating to standardised key HSE indicators based on our 4/0 targets. The 4/0 targets refer to: zero harm to people, zero damage to the environment, zero damage to assets and zero non-compliance with legal and regulatory requirements.

The Group HSE department coordinates our global HSE efforts across our business units and establishes HSE reporting structures. It works closely with regional HSE coordinators to ensure the effective and timely management of HSE issues across the Group.

Sembcorp encourages the implementation of internationally recognised HSE management systems across our operations. For detailed disclosure of certifications achieved by Sembcorp's businesses, please refer to the Awards, Memberships and Certification portion of the Sustainability section of our website.

Training and audits

Adequate and relevant training is key to improving our HSE performance. Training needs arise from various situations, including new appointments, legal and / or regulatory requirements, as well as risk control and business needs. These needs are identified and the appropriate training implemented.

The Group HSE department also organises an annual global workshop. The workshop updates business units on our HSE priorities and facilitates the sharing of best practice case studies across a range of topics, including technical performance and cross-cultural HSE management. This helps our business units to learn from one another and improve their HSE performance, and supports their planning of the following year's goals and initiatives.

Periodic HSE cross-audits are also conducted for our overseas operations to ensure compliance and promote continuous improvement.

Occupational health and safety

We are committed to preventing and reducing workplace injuries and occupational illnesses through active management of risks associated with our activities and services. The Group HSE Management System requires our business units to have programmes in place to manage occupational health hazards and the risk of occupational illnesses. For example, it is a requisite for every operating site to appoint a dedicated HSE officer to support the management of HSE issues in accordance with our requirements and procedures. Monthly safety inspections are conducted, and findings are recorded, analysed and tabled for discussions. Examples of safe practices in operating units include mandatory precautions, such as permits to work, to ensure that our employees and contractors are equipped with the right training and equipment when performing potentially hazardous work. Identifying critical risk and safety elements for high risk activities, such as work at height and lifting operations, and ensuring strict adherence to safety requirements are also key controls enforced on our sites.

Project and asset life cycle risk assessment and prevention

As risk assessment is the cornerstone of effective health and safety management, we seek to ensure that all hazards have been identified and their risks assessed at all relevant stages of the project and asset life cycle: from pre-bid due diligence study, to design, construction, operation and decommissioning phases.

We implement suitable control systems, such as engineering safeguards (including guards, interlocks and local exhaust ventilation) and procedural safeguards (including permits to work, adequate training and supervision) to prevent harm to people and equipment at the point of risk. We emphasise the importance of providing and maintaining adequate workplace controls throughout the entire operation process.

Climate change

As a global energy player, we recognise that investing in energy-efficient, renewable and low-carbon technologies not only helps manage emissions, but also makes business sense. We are committed to setting achievable energy efficiency and renewable energy targets, and developing strategies to mitigate the impact of our operations on the environment.

We adopt a four-pronged approach to climate change:

- Maintaining a diversified generation portfolio
- Growing our renewable energy business as part of a balanced portfolio
- Energy-efficient power and water facilities
- Active stakeholder engagement

For further details on Sembcorp's approach to climate change, please refer to the HSE portion in the Sustainability section of our website.

Environmental protection

At Sembcorp, we aim to ensure adequate resources are allocated to maintain environmental quality where we operate.

Environmental studies are carried out in accordance with national and / or international standards and methodologies for new major projects and expansions. These studies include environmental impact assessments, environmental baseline studies and pollution control studies. All recommendations put forth from the assessments form part of our management of HSE risks and are incorporated in the planning, design, construction and commissioning of new plants.

Atmospheric emissions

Our management approach to reduce fuel consumption and increase energy efficiency also helps to reduce atmospheric emissions. In addition, we minimise atmospheric emissions through various technologies, including catalytic convertors and adjusting combustion temperatures for nitrogen oxide (NO_x) and carbon dioxide (CO₂) control. Emission levels are monitored at our energy plants, where emissions are significant.

Water

Sembcorp's facilities are able to effectively treat multiple streams of industrial wastewater to meet effluent discharge standards, including effluent with a wide-ranging chemical oxygen demand and salinity. Our comprehensive water sampling and testing regime ensures consistent compliance with such standards.

In designing our various wastewater treatment facilities, we employ a specialised configuration of treatment processes targeted at the expected feedwater profile, in order to treat the wastewater

in the most effective and energy-efficient manner. Treatment processes applied include mechanical, chemical, biological or membrane technologies, or a combination of a number of these.

Furthermore, we are able to use treated effluent from our wastewater treatment facilities to produce high-purity water for industrial use, such as high grade industrial water and demineralised water. By integrating wastewater treatment, water reclamation and water supply in a closed loop, Sembcorp helps its customers reduce their environmental impact and conserve water resources.

Sembcorp also owns and operates large-scale water reuse and seawater desalination facilities, which offer a sustainably-sourced, high-quality water supply for industries and households in water-scarce areas.

Waste and spills

Sembcorp actively develops capabilities to recover energy from waste. An example is our Sembcorp Woodchip Boiler Plant in Singapore, which uses woodchip processed from waste wood collected by our solid waste management arm to produce economical and renewable steam. This demonstrates our capability to manage the entire energy-from-waste value chain and leverages synergies between our energy and solid waste management businesses.

In addition, all hazardous waste generated by our operations or collected by us on behalf of our customers is disposed of in accordance with local regulations. In the instance of an emergency arising from major spillage or hazards at our industrial facilities, emergency response plans will be activated.

2014 performance

It is of utmost importance to us that our operations do not pose a risk to the safety of our employees, contractors or local community. It is therefore with deep regret that we report that our company vehicles were involved in three fatal road traffic accidents, two in Singapore and one in South Africa. In Singapore, the first accident involved a waste truck colliding with a cyclist while reversing into a bin centre. The second took place while one of our company's waste trucks was travelling on a highway, when a motorcyclist in an adjacent lane skidded under our truck. In the first case, the driver was found to be at fault and dismissed from his employment with us. In the second case, the driver was cleared of wrongdoing and subsequently returned to work. In South Africa, our company vehicle collided with a pedestrian on a public road, and investigations are still ongoing. In all three cases, the drivers were immediately suspended from work while investigations were ongoing. The company and these employees fully cooperated with authorities conducting investigations into the incidents. Assistance was also rendered to families of the deceased, our drivers and their families. Drivers who returned to work underwent counselling beforehand to ascertain their ability to resume their duties. Corrective measures were put in place where necessary to prevent recurrence, and the lessons learnt were shared with other drivers and crew members through briefings.

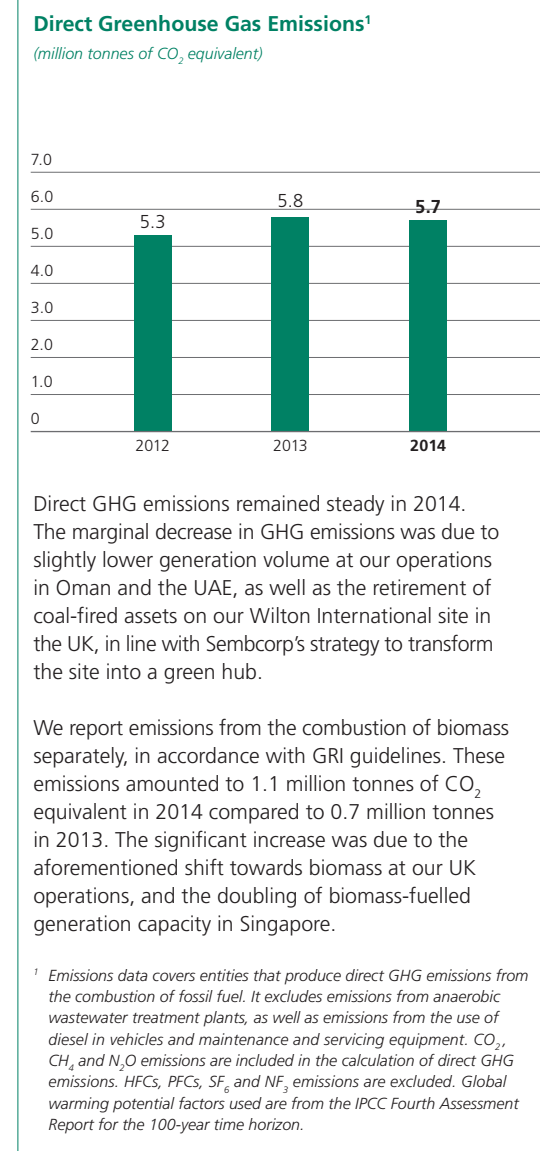
This year, with the endorsement of our board's Risk Committee, we developed a group-wide health and safety improvement plan. Adherence to the plan is mandatory for all our subsidiaries, including projects in development. Key elements of this plan include the formation of Safe Operation Committees on our sites, as well as the Sembcorp

Life Saving Rules. The rules, which apply to all employees and contractors working on our premises, set out clear and simple "dos" and "don'ts" for high risk activities. These rules aim to bring about a greater level of awareness, observation and intervention among our employees and contractors, so as to prevent accidents and near-misses. Non-adherence to these rules may result in the immediate removal of the employee or contractor from site as well as disciplinary action, depending on the severity of the infraction. A workshop spearheaded by our Group President & CEO and attended by the heads of key business units was held in December to launch and communicate this initiative.

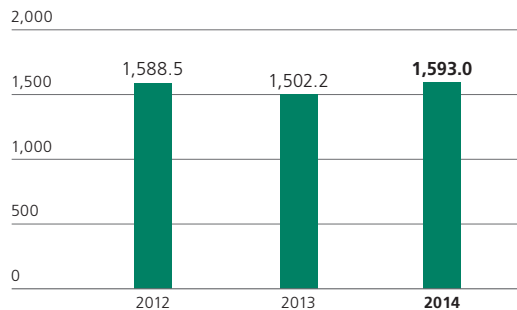
We recognise that adherence to plans and procedures is the first line of defence against incidents, and aim to tighten our validation and verification process to ensure these plans and procedures are implemented properly.

We remain committed to ensuring the efficiency of our operations while optimising our use of resources. In 2014, we finalised our plans for two energy efficiency initiatives for our operations in Singapore. We re-designed an existing boiler to use our customers' process by-product as fuel, thereby eliminating the need for natural gas as fuel for steam production. We also developed the Sembcorp Energy Optimiser. This online tool selects the most efficient and reliable mix of assets and fuel inputs to use based on energy demand and prices, in order to achieve higher reliability and efficiency.

Our NO_x emissions were 3,162 tonnes and our sulphur oxide (SO_x) emissions were 732 tonnes in 2014. Water discharged in 2014 amounted to 1,089 million cubic metres.



Water Withdrawal (million m³)



Water withdrawal increased by 6% in 2014 from the previous year, primarily due to increased activity from our water utilities business in Singapore and the Middle East.

Waste Disposal¹ (thousand tonnes)



Hazardous waste disposed increased by 34% against the previous year. This increase was due to the higher reliability of our operations, resulting in longer runs which produced a larger volume of ash. Non-hazardous waste increased by 36%. This increase was due to the aforementioned longer boiler runs at our operations, and a second boiler at our woodchip boiler plant in Singapore coming onstream, both of which contributed to larger volumes of ash. Major maintenance activities also contributed to the disposal of metal scrap.

¹ The data excludes waste that is collected and incinerated for our customers.

For more information on our HSE performance, please refer to the HSE portion in the Sustainability section of our website.

Going forward

While we have made improvements to our management of HSE, we recognise that there is much more to do. In the area of health and safety management, we are determined to strive for continuous improvement and instil a stronger, more pervasive safety culture. Ensuring responsible and safe operations remains our top priority. We will focus on establishing Safe Operation Committees in our global operations, as well as implementing and enforcing the Sembcorp Life Saving Rules. In our solid waste management operations, we plan to implement a mandatory defensive driving refresher course for drivers to improve their safety awareness. Real-time digital recording cameras

have been installed on most of our vehicles and monthly driver briefings using footage taken from vehicular recordings will be held to share lessons learnt, and further promote safe driving. A driver's handbook with safe driving tips which is currently available in English will be translated into Chinese and Malay languages.

We plan to implement our zero natural gas boiler project and Sembcorp Energy Optimiser at our Singapore operations after necessary regulatory approvals have been received.

Community

To be a responsible business, making a positive contribution to our communities

Why this is material

Community integration

Sembcorp provides solutions that are essential to everyday life. We view our support and contribution to our host communities as a part of our licence to operate. We are therefore committed to assessing and responsibly managing our impact, as well as investing in our local communities.

HIGHLIGHT

Inspiring the Next Generation of Energy Leaders

In 2014, we announced a partnership with Singapore's EMA to launch the Sembcorp-EMA Energy Challenge. This national annual competition aims to nurture and inspire youths in Singapore to become future energy professionals. Participants will take part in sharing sessions by industry experts and plant visits, and will then get to apply their knowledge to real-life challenges faced by power professionals in an exciting game. This initiative will complement what the students learn in school, show them what the life of a power engineer is like, and support the government's drive to attract more young people into the local energy industry.

Management approach

The needs of one community can be very different from another's, and it is our belief that our local operations will be in the best position to understand those needs and partner local stakeholders to help address them. Therefore, while the Group provides the strategic framework, tools and guidelines to

ensure consistency and acceptable standards, community integration is managed at the local level.

Sembcorp's global corporate social responsibility (CSR) framework establishes a strategic and consistent approach for our charitable contributions and community investments. We focus on fostering environmental stewardship as well as improving the living standards and quality of life of the communities we are in.



Environment

We are committed to fostering environmental stewardship in our community through contributions to sustainability and environmental initiatives.



Community

We are committed to improving the living standards and quality of life of the community, such as through providing access to energy and water, social welfare and education.

Our CSR framework also aligns the tracking and reporting of our community contributions with guidelines set by the London Benchmarking Group. This allows us to account for our total community giving using standard definitions and valuations, while ensuring that contributions recorded are meaningfully spent on community investment activities.

Assessing and responsibly managing our impact on local communities is key to successful community integration and acceptance. Environmental impact studies are carried out in accordance with national and / or international standards and methodologies

for new major projects and expansions. Some of these studies include social impact assessments and social management plans which are implemented through the various stages of the site's development.

We seek to nurture open communication in the communities we operate in. At our local sites, various communication platforms including community liaison panels and meetings, and telephone and email exchanges are utilised to connect with our communities.

2014 performance

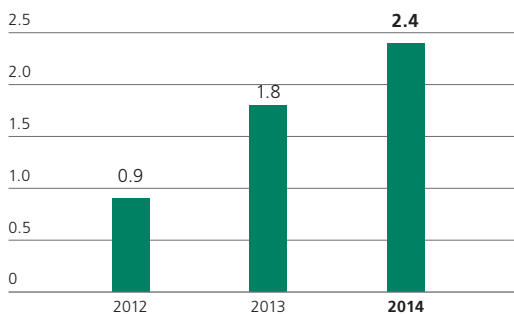
In 2014, Sembcorp and Sembcorp Marine contributed S\$5.7 million across our global operations in terms of charitable contributions and community investments. Excluding Sembcorp Marine's contribution, S\$2.4 million in cash, time and in-kind donations were contributed by Sembcorp. The contribution supported initiatives in aid of causes including youth development, environmental and water conservation education, as well as apprenticeships and job training programmes. During the year, we presented the Festival of Biodiversity in partnership with Singapore's National Parks Board (NParks). The event engaged more than 15,000 members of the public on Singapore's environment heritage and conservation. We received recognition for our support of environmental conservation with NParks naming a 100-year-old heritage tree in the Singapore Botanic Gardens after our company. This is a rare honour only given to a handful of companies who have made significant contributions over the years to the greening of Singapore.

73% of our operations had local community engagement and / or development programmes.

We continue to be committed to creating economic and social benefit for the communities in which we operate. Our products and services such as the provision of energy and water contribute to thriving local economies and healthy local communities.

For more information on our community initiatives, please refer to the Sembcorp in Our Communities page on our website.

Community Contributions¹ (S\$ million)



In 2014, our community contributions in cash, time and in-kind increased by 27% compared to 2013. This is mainly due to our contribution to enhance the Sembcorp Cool House, a temperature-controlled glasshouse at the National Orchid Garden within the Singapore Botanic Gardens. As part of Singapore's Jubilee celebrations, Sembcorp has committed to donate S\$10 million over four years to establish the Sembcorp Cool House as a world-class destination of educational and scientific value.

¹ Data excludes contributions by Sembcorp Marine.

Going forward

We will continue to enhance our Group's frameworks and guidelines, including the integration of impact assessments into our investment approval process.

CASE STUDY

Making a positive impact in Salalah, Oman

The accessibility of potable water is a key concern in the Middle East. Historically, groundwater formed the main source of water for the community, resulting in issues such as the risk of over-extraction.

With the opening of Sembcorp's Salalah independent water and power plant (IWPP), the first large-scale seawater desalination facility in the Salalah system, today 85% of the water needs in the Dhofar governorate are instead met through the plant's 69,000 cubic metres per day capacity. The plant currently supplies water to approximately 170,000 people.

The reliable provision of good quality desalinated water has enabled the region to reduce its withdrawal of groundwater. At the same time, this has helped to meet the rapidly increasing demand for water in the area.

The local population has benefitted from the marked improvement in the quality of water.

In the past, Dhofar's groundwater was at risk of contamination from factors such as saline intrusion and surface pollution. Filtered groundwater used by residents also had a high concentration of calcium and other minerals, resulting in health impacts from consumption, a chalky residue left on the skin after a bath, as well as sediment collection on washed crockery and utensils. With the supply of desalinated water from Sembcorp's Salalah IWPP, residents now enjoy a supply of good quality drinking water from a safe source and an improved quality of life.

Furthermore, the development of Sembcorp's Salalah IWPP has led to a significant contribution to the local economy. During the construction and development phase of the plant, monies paid to local businesses amounted to OMR45 million, or approximately S\$150 million.

INVESTOR RELATIONS

At Sembcorp, we are committed to ensuring that all capital market players have easy access to clear, reliable and meaningful information on our company in order to make informed investment decisions.

In the context of constantly evolving requirements of disclosure, transparency and corporate governance, we aim to provide investors with an accurate, coherent and balanced account of the Group's performance. Sembcorp has a dedicated investor relations team and communicates with the investing public through multiple platforms and channels. These include group briefings to analysts, investors and the media; one-on-one meetings with shareholders and potential investors; investor roadshows as well as the investor relations section of our corporate website. In addition, company visits and facility tours are also organised to help investors gain insights into the Group's operations.

PROACTIVE COMMUNICATION WITH THE FINANCIAL COMMUNITY

During the year, senior management and the investor relations team continued to actively engage with the financial community. We held over 150 one-on-one and group meetings with shareholders, analysts and potential investors. These included non-deal roadshows to international financial centres. In the Asia Pacific, we covered Singapore, Malaysia and Australia; in Europe, England, Scotland and Switzerland; and in North America, Canada and the US. We also participated in six investor conferences: the Credit Suisse 17th Annual Asian Investment Conference in Hong Kong, and in Singapore, the Maybank Invest ASEAN Conference,

the dbAccess Asia Conference, the Citibank ASEAN Investor Conference, the Macquarie ASEAN Conference and the Morgan Stanley 13th Annual Asia Pacific Summit. We also continued to organise site visits to our facilities on Jurong Island, Singapore to provide analysts and investors a first-hand look at our operations and allow them to gain a better understanding of Sembcorp's capabilities and operational track record.

COMMITMENT TO GOOD CORPORATE GOVERNANCE

As a strong endorsement of Sembcorp's excellence in corporate governance management and disclosure, Sembcorp won top awards in three out of five categories at the 2014 Singapore Corporate Awards. These included gold awards for Best Managed Board and Best Annual Report for companies with S\$1 billion and above in market capitalisation, as well as the gold award for Best Chief Executive Officer, which was awarded to Sembcorp Industries' Group President & CEO Tang Kin Fei. The Singapore Corporate Awards celebrate the best in corporate governance among listed companies, as well as individuals who, through their corporate practices, have helped to raise Singapore's standard of governance and disclosure. The awards are organised by the Institute of Singapore Chartered Accountants, the Singapore Institute of Directors and The Business Times, and

supported by the Accounting and Corporate Regulatory Authority and the Singapore Exchange.

In 2014, Sembcorp also improved its ranking on the Governance and Transparency Index (GTI) and became the third-highest ranked company on the GTI. A well-respected ranking exercise by the National University of Singapore Business School's Centre for Governance, Institutions and Organisations in collaboration with CPA Australia and The Business Times, the GTI assesses the transparency of 644 Singapore-listed companies' financial disclosures as well as their governance, ethics and rigour in financial reporting.

TOTAL SHAREHOLDER RETURN

Sembcorp Industries' last traded share price in 2014 was S\$4.45, and the company ended the year with a market capitalisation of S\$8.0 billion. The company's share price averaged S\$5.16 during the year, registering a high of S\$5.55 in April and a low of S\$4.10 in December. Daily turnover averaged 2.1 million shares. In May 2014, we paid out a final tax exempt one-tier dividend of 17 cents per ordinary share for the financial year 2013, comprising a final ordinary dividend of 15 cents per ordinary share and a final bonus dividend of 2 cents per ordinary share.

Falling oil prices, exacerbated by the decision of the Organization of the Petroleum Exporting Countries (OPEC) to maintain oil production levels, sparked a sell-off in oil and gas-related stocks globally. The negative sentiment on the sector has had an impact on the performance of Sembcorp Industries shares, and for 2014, total shareholder return stood at negative 16%. In relative terms, this performance compared favourably against the

FTSE ST Oil & Gas Sector Index's negative 23%; but against the broader market, this was below the Straits Times Index's positive 10% return and the MSCI Asia Pacific ex-Japan Industrials Index's flat performance.

Based on feedback from shareholders and in line with Sembcorp's commitment to deliver shareholder value, we paid an interim dividend for the first time to shareholders, increasing the frequency of dividend payments to twice a year. For the financial year 2014, an interim tax exempt one-tier dividend of 5 cents per ordinary share was declared and paid to shareholders in September 2014. In addition, a final tax exempt one-tier dividend of 11 cents per ordinary share has been proposed, subject to approval by shareholders at the next annual general meeting. Together with the interim dividend, this brings our total dividend for FY2014 to 16 cents per ordinary share.

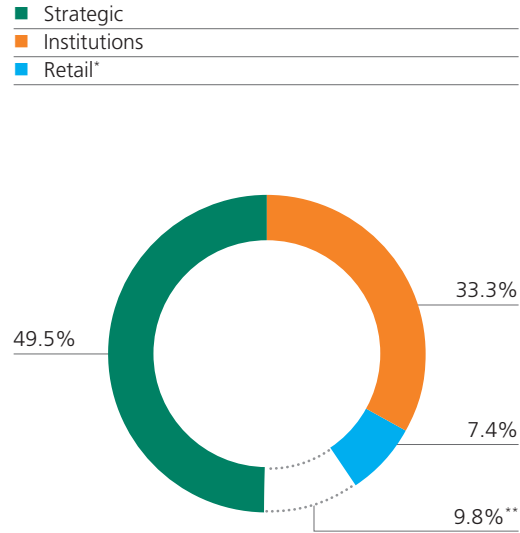
SHAREHOLDER INFORMATION

In 2014, institutional shareholders as a group continued to dominate Sembcorp's shareholder base. Other than our major shareholder Temasek Holdings which held 49.5% of our shares at the end of 2014, institutional shareholders accounted for 33.3% of our issued share capital or 66% of free float, while retail shareholders¹ and unidentified shareholders² held 17.2% of issued share capital or 34% of free float. In terms of geographical spread, excluding the stake held by Temasek Holdings, our largest geographical shareholding base was Europe with 14% of issued share capital, followed by shareholders from North America and Asia which accounted for 12% and 9% of our company's issued share capital respectively.

¹ Retail shareholders include private investors, brokers, custodians and corporates

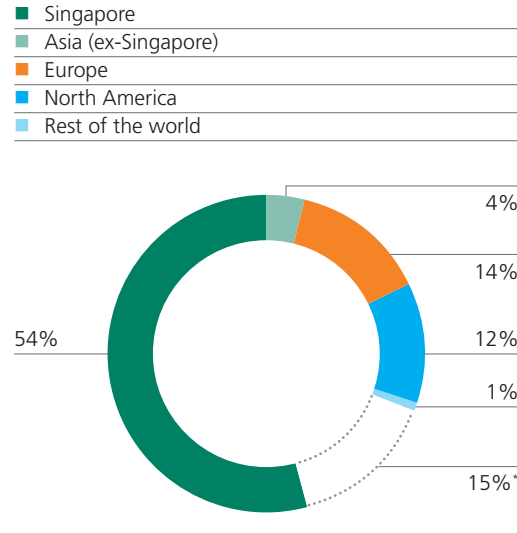
² Unidentified shareholders mainly include shareholders that fall below the threshold of 250,000 shares

Share Ownership by Investor Category



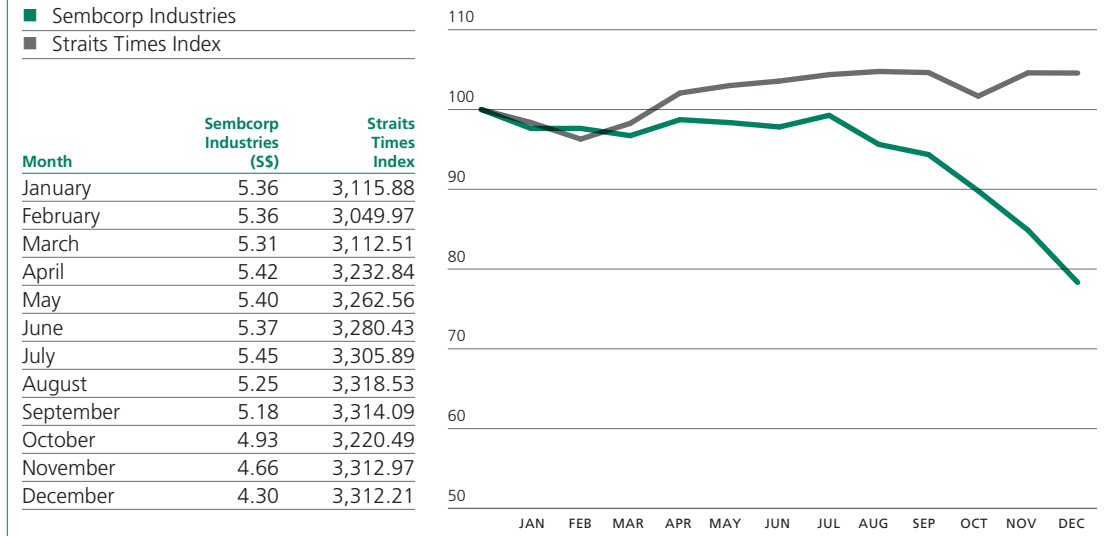
* Includes private investors, brokers, custodians and corporates
 ** Shareholders not identified mainly include those that fall below the threshold of 250,000 shares
 As at December 31, 2014

Share Ownership by Geographical Distribution



* Shareholders not identified mainly include those that fall below the threshold of 250,000 shares
 As at December 31, 2014

Average Monthly Sembcorp Industries Share Price and Straits Times Index in 2014 (rebased)



Average Monthly Traded Volume of Sembcorp Industries Shares in 2014 (thousands)

