

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

### 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.

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 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. We are encouraged that our efforts towards excellent governance have been recognised. Sembcorp was ranked sixth in the 2016 edition of the Singapore Governance and Transparency Index, a well-respected index assessing the transparency of 631 Singapore listed companies. The index is a collaboration between CPA Australia, the Centre for Governance, Institutions and Organisations at NUS Business School, and the Singapore Institute of Directors, supported by The Business Times. At the SIAS Investors Choice Awards 2016, Sembcorp was also recognised as the Most Transparent Company under the Industrials category. This award honours public listed companies that have demonstrated exemplary corporate governance and transparency throughout the year.

### BOARD MATTERS

#### Board's Conduct of Affairs (Principle 1) Effective board to lead and effect controls

Sembcorp is led by an effective board comprising mainly independent non-executive directors. The board is headed by Ang Kong Hua. He is joined on the board by Tang Kin Fei, Bobby Chin Yoke Choong, Margaret Lui, Tan Sri Mohd Hassan Marican, Tham Kui Seng, Dr Teh Kok Peng, Ajaib Haridass, Neil McGregor, Nicky Tan Ng Kuang as well as Yap Chee Keong, who was appointed to the board on October 1, 2016.

#### Role of the board

The board is collectively responsible for the long-term success of the company. Each director exercises his / her 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, social and governance 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 directors and executive officers of the company have each given an undertaking that in the exercise of their powers and duties as a director or executive officer of the company, they shall

apply their best endeavours to comply with the requirements of the Singapore Exchange Securities Trading (SGX-ST), pursuant to or in connection with the SGX-ST Listing Manual from time to time in force, and use their best endeavours to procure that the company shall so comply.

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 Tang, Mrs Lui as well as Mr Tan.

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 and 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, Prof 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

## ESG REVIEW | CORPORATE GOVERNANCE STATEMENT

technologies for research and development as well as investment, and oversees the development and application of significant emerging and potentially disruptive technologies in the energy and water sectors. It also 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 Corporate Governance Statement. 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 provides a report on its activities. An additional board meeting is held at the end of each financial year to review the Group's strategy and to consider and approve the Group's budget for the following year. Ad-hoc board meetings may also be convened as necessary to consider other specific matters. At quarterly board meetings, time is set aside for the board to discuss management's performance. Members of management are not present at or privy to such discussions. Annually, a strategic review meeting is organised for the board to have in-depth discussions with management on the Group's strategy and other key issues. In 2016, this off-site meeting was held in November.

Board and board committee meetings, as well as annual general meetings (AGMs) of the company are scheduled in consultation with the directors before

the start of each year. Telephonic attendance and conference via audiovisual communication channels are allowed under the company's constitution to enable the participation of directors who are unable to be present. Decisions made by the board and board committees may be obtained at meetings or via circular resolution. Should a director be unable to attend any 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 2016 is set out on page 135.

### 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 that contains the Group's organisation structure, the contact details of members of senior management, the company's constitution, 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 comprehensive orientation programmes for new directors. These include briefings on board policies and processes, presentations by senior management about Sembcorp, its overall strategic plans and direction, financial performance and business activities in various markets, as well as facility visits.

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, at board dinners or at specially convened sessions, including training sessions and seminars conducted by external professionals which are funded by the company.

In 2016, the directors participated in the following briefings and updates provided by the company:

- Briefings on developments in accounting and governance standards presented by our external auditors at Audit Committee meetings
- Quarterly updates on the Group's business and strategic developments presented by the Group President & CEO to the board
- Quarterly overviews presented by the Group Risk and Governance departments to the Risk Committee on the Group's risk and controls environment and updates relating to risk management, governance initiatives and key emerging threats such as heightened risk of terrorist attacks
- Public conferences and forum discussions on best practices for boards, cybersecurity and risk management
- A series of briefings on relevant topics, such as regional geopolitical developments including China's foreign relations and security issues in the Asia Pacific, as well as technology developments for large-scale urban systems

Besides such briefings, articles and reports relevant to the Group's businesses are also circulated to the directors for information. Furthermore, to enhance understanding of the Group's businesses and engagement with its stakeholders, our directors regularly visit the Group's operations in different locations. In 2016, the directors went to India, China and Myanmar, visiting our facilities and meeting with government officials as well as key customers and partners. In conjunction with the visits, the directors also attended the opening

ceremony of our Sembcorp Gayatri Power Complex in India as well as the groundbreaking ceremony of the *Nanjing International Water Hub* in China.

### Board Composition and Guidance (Principle 2)

**Strong and independent board exercising objective judgement**

#### Board composition

The current board comprises 11 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, directors also bring to the board independent and objective perspectives to allow 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 28 to 35.

#### Review of directors' independence

The independence of each non-executive director is assessed annually. Each director is 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 / she considers himself / herself 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.

## ESG REVIEW | CORPORATE GOVERNANCE STATEMENT

Taking into account the views of the Nominating Committee, the board determined in 2016 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. 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. As at the time of publication of this report, Mr McGregor is Head of Temasek International's Energy and Resources Group, Head of Australia and New Zealand and Senior Managing Director of its Enterprise Development Group.

Mr Tang will retire as Group President & CEO on March 31, 2017 and Mr McGregor will be the Group President & CEO with effect from April 1, 2017.

Tan Sri Mohd Hassan Marican and Mr Haridass both sit 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. The board has assessed this matter and is of the view that the payment received from Sembcorp Marine is not significant in the context of the Group's earnings. The board believes that Tan Sri Mohd Hassan Marican and Mr Haridass'

directorships in Sembcorp Marine have not and will not interfere, or be reasonably perceived to interfere, with their ability to exercise independent judgement and act in the best interest of Sembcorp Industries.

A term limit of nine years is set for independent directors of the Group. Should the board decide to retain any director beyond this nine-year term, it will rigorously review the independence of that director and determine if he / she should continue to be regarded as an independent director. None of Sembcorp's current directors have served longer than nine years from the date of their appointment.

The board has determined that Mr Chin, a director on the board of Temasek, 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. All three directors have consistently exercised strong independent judgement in their deliberations. The board believes that they have acted and continue to 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.

### Board Members for 2016

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 19, 2016	Non-executive / Independent
Tang Kin Fei	Director	May 1, 2005	Apr 19, 2016	Executive / Non-independent
Bobby Chin Yoke Choong	Director	Dec 1, 2008	Apr 21, 2015*	Non-executive / Independent
Margaret Lui	Director	Jun 1, 2010	Apr 19, 2016	Non-executive / Non-independent
Tan Sri Mohd Hassan Marican	Director	Jun 16, 2010	Apr 19, 2016	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 21, 2015	Non-executive / Independent
Ajaib Haridass	Director	May 1, 2014	Apr 21, 2015*	Non-executive / Independent
Neil McGregor	Director	May 1, 2014	Apr 21, 2015*	Non-executive / Non-independent
Nicky Tan Ng Kuang	Director	Nov 1, 2015	Apr 19, 2016	Non-executive / Independent
Yap Chee Keong	Director	Oct 1, 2016	N.A.*	Non-executive / Independent

\* Up for retirement at the company's upcoming AGM

### Composition of Board Committees for 2016

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
Bobby Chin Yoke Choong		Chairman	Member		Member	
Margaret Lui	Member			Member	Member	
Tan Sri Mohd Hassan Marican				Member	Member	
Tham Kui Seng		Member	Member			
Dr Teh Kok Peng		Member		Member		Member
Ajaib Haridass		Member	Chairman			
Neil McGregor			Member			
Nicky Tan Ng Kuang <sup>1</sup>	Member					
Yap Chee Keong <sup>2</sup>		Member	Member			

### Directors' Attendance at Board and Board Committee Meetings in 2016

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	Annual general meeting
<b>Total Number of Meetings Held in 2016</b>								
	<b>8</b>	<b>6</b>	<b>7</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>1</b>
Ang Kong Hua	8/8	6/6	–	–	5/5	3/3	4/4	1/1
Tang Kin Fei	6/8*	6/6	5/7*	4/4	3/5*	3/3	4/4	1/1
Bobby Chin Yoke Choong	8/8	–	7/7	4/4	–	3/3	–	1/1
Margaret Lui	8/8	6/6	–	–	5/5	3/3	–	1/1
Tan Sri Mohd Hassan Marican	8/8	–	–	–	5/5	3/3	–	1/1
Tham Kui Seng	8/8	–	7/7	4/4	–	–	–	1/1
Dr Teh Kok Peng	8/8	–	7/7	–	5/5	–	4/4	1/1
Ajaib Haridass	8/8	–	7/7	4/4	–	–	–	1/1
Neil McGregor	8/8	–	–	4/4	–	–	–	1/1
Nicky Tan Ng Kuang <sup>1</sup>	7/8**	5/6**	–	–	–	–	–	1/1
Yap Chee Keong <sup>2</sup>	2/2	–	1/1	1/1	–	–	–	–

<sup>1</sup> Mr Tan was appointed a member of the Executive Committee with effect from January 1, 2016

<sup>2</sup> Mr Yap was appointed a director and member of the Audit Committee and Risk Committee with effect from October 1, 2016

\* As an executive director, Mr Tang was not required to attend the ad-hoc board, Audit Committee and Executive Resource & Compensation Committee meetings that were convened for non-executive directors only

\*\* Although Mr Tan was unable to attend one board meeting and one Executive Committee meeting, he conveyed his views / comments to the Board and Executive Committee for consideration prior to the meetings

### 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 an effective and comprehensive discussion on matters brought to the board, including strategic issues and 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 discussions. He also provides advice to management and monitors all follow-up actions following the board's decisions, ensuring that such decisions are translated into executive action. In addition, the Chairman provides leadership and guidance to management, particularly with regard to 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 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, Mrs Lui, Tan Sri Mohd Hassan Marican and Mr Chin. Three out of four NC members, including its chairman, are independent. They are Mr Ang, Tan Sri Mohd Hassan Marican and Mr Chin.

The NC is responsible for reviewing Sembcorp's board to ensure strong, independent and sound leadership to drive 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 expertise 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 based 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. It 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 diversity, as well as the competencies to support our growth. When the need for a new director arises, the NC consults with management and identifies a list of potential candidates. These candidates are sourced through an extensive network of contacts and external databases where appropriate, based on the skill sets, experience, knowledge and attributes required 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 constitution, 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 constitution requires 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.

Pursuant to the one-third rotation rule, Mr Chin, Mr Tham, Mr Haridass and Mr McGregor will retire at the forthcoming AGM. With the exception of Mr Chin, the respective directors will however submit themselves for re-election. Mr Chin, who

was appointed in December 2008 and has served for more than eight years on the board, is retiring at the forthcoming AGM in April 2017.

Mr Yap, who was newly appointed to the board on October 1, 2016, will also submit himself for retirement and re-election by shareholders at the forthcoming AGM.

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 2016, 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.

## ESG REVIEW | CORPORATE GOVERNANCE STATEMENT

### 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. The NC periodically reviews and improves the directors' questionnaire to further enhance assessment of board and board committee effectiveness. The assessment helps the directors to maintain focus on their key responsibilities, while improving board performance.

### 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 that enables 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 that the directors may have.

In line with Sembcorp's strong commitment towards environmental responsibility, directors are provided with electronic tablets that give them access to board and board committee papers prior to and during meetings. As a general rule, the board and board committee papers are made available to directors a week prior to meetings. This is to give the directors sufficient time to review and consider matters at hand. It also ensures that discussions at the meetings can be focused on any 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 require 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 Group President & CEO, the company secretary assists the board with scheduling of board and board committee meetings, prepares meeting agendas and administers, attends and minutes

board proceedings. The company secretary assists the board on the Group's compliance with the company's constitution and applicable regulations, including requirements of the Companies Act, Securities & Futures Act and SGX-ST Listing Manual. Moreover, the company secretary liaises on behalf of the company with SGX-ST, the Accounting and Corporate Regulatory Authority and when necessary, shareholders. The appointment and the removal of the company secretary are subject to the board's approval.

#### 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. He is joined on the committee by Mrs Lui, Tan Sri Mohd Hassan Marican as well as Dr Teh.

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 the Directors' Fee Framework periodically and remuneration package of each member of key management, and endorses or makes further recommendations on such matters to the board for its consideration
- 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. They 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 2016, Mercer (Singapore) was engaged as external consultants to provide such advice. In engaging external consultants, the Group ensures that the relationship, if any, between them and these external consultants will not affect the independence and objectivity of the external consultants. In 2016, the ERCC undertook a review of the independence and

## ESG REVIEW | CORPORATE GOVERNANCE STATEMENT

objectivity of Mercer (Singapore) and has confirmed that it has no relationship 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 reviews succession planning for the position of Group President & CEO and that of officers reporting directly to him, as well as for 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. It also recognises 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' Statement and

Note 32 in the Notes to the Financial Statements in this annual report.

### Non-executive directors' 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 FY2016*		S\$
<b>Chairman's fee</b> (all-in) <sup>1</sup>		750,000
<b>Director's basic retainer fee</b>		75,000
<b>Executive Committee</b>		
Chairman's allowance		50,000
Member's allowance		30,000
<b>Audit Committee</b>		
Chairman's allowance		50,000
Member's allowance		30,000
<b>Executive Resource &amp; Compensation Committee</b>		
Chairman's allowance		35,000
Member's allowance		20,000
<b>Risk Committee</b>		
Chairman's allowance		35,000
Member's allowance		20,000
<b>Nominating Committee</b>		
Chairman's allowance		25,000
Member's allowance		15,000
<b>Technology Advisory Panel / Others</b>		
Chairman's allowance		25,000
Member's allowance		15,000
<b>Attendance fees</b>		
Board meeting		5,000
Committee meeting <sup>2</sup>		2,500
Teleconference (board meeting)		2,000
Teleconference (committee meeting)		1,000
<b>Travel allowance for overseas directors</b>		
≤ 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:

\* The directors' fee framework applies to all directors except the Group President & CEO, who is an executive director and does not receive any directors' fees

<sup>1</sup> With effect from January 1, 2014, the Chairman of our board only receives one all-in chairman's fee. He does 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

<sup>2</sup> 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 company's AGM. 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. However, this 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 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 the financial year 2017 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 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 the financial year 2017 is

intended to be paid in 2018 after the AGM 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 the performance target bonus, linked to the achievement of pre-agreed financial and non-financial performance targets, comprising strategy, business processes and organisation and people development. It is designed to support the Group's business strategy and the ongoing enhancement of shareholder value through the delivery of annual financial strategy and operational objectives. On an individual level, the performance target bonus will vary according to the actual

achievement of the Group, business unit and the individual performance.

The second is linked to the creation of economic value added (EVA) and is designed to ensure alignment with sustainable value creation for the shareholders over the longer term. An EVA linked “bonus bank” is created for each executive. Typically, one-third of the bonus bank balance is paid out in cash each year, while the remaining 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 shareholders at an extraordinary general meeting held by the company 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.

The performance share award is only granted to the Group President & CEO and top management while the restricted share award is granted to a broader group of executives. The number of performance and restricted shares awarded is determined using a valuation of the shares based on a Monte Carlo simulation. The share awards are conditional upon the achievement of pre-determined performance

targets over the performance period. The performance conditions and targets are approved by the ERCC at the beginning of the performance period and the final number of shares vested to the recipient will depend on the level of achievement of these targets over the performance period, subject to the approval of the ERCC.

The restricted share plan has a two-year performance period from January 1, 2016 to December 31, 2017. Vesting of shares is dependent on the following performance conditions:

- 50% based on Sembcorp Industries' return on total assets, excluding Sembcorp Marine
- 50% based on Sembcorp Industries' profit from operations, excluding Sembcorp Marine

The Performance Share Plan has a three-year performance period from January 1, 2016 to December 31, 2018. Vesting of shares is dependent on the following performance conditions:

- 30% based on Sembcorp Industries' relative total shareholder return – percentile ranking against the component stocks of the MSCI Asia Pacific ex-Japan Industrial Index
- 30% based on Sembcorp Industries' absolute total shareholder return against pre-determined target
- 40% based on Sembcorp Industries' earnings per share, excluding contribution from Sembcorp Marine

#### Pay for performance

As in prior years, a pay-for-performance study was conducted in 2016 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 against 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's fixed pay to be positioned competitively vis-à-vis the Group's relative size and complexity. The total cash component for the year had a robust correlation to the Group's profit from operations and EVA. The performance conditions for short-term and share-based-term incentive plans were generally met, except for total shareholder return conditions, which were impacted by adverse share price movement. As a result, the realised value of the share-based incentive award was much lower than the granted value. 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\$2,365,750 in 2016 (2015: S\$2,182,750). 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 this annual report.

In 2016, 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.

## ESG REVIEW | CORPORATE GOVERNANCE STATEMENT

The RC is headed by Mr Haridass, who is joined on the committee by Mr Chin, Mr McGregor, Mr Tham and Mr Yap, who was appointed to the RC on October 1, 2016. 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 our website.

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 as a follow up to these exercises. For more information on the company's ERM framework, please refer to our website.

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.

The board, with the concurrence of the Audit Committee, is of the opinion that the company's internal controls are adequate and effective as at December 31, 2016 to address the financial, operational, compliance and information technology risks of the Group. This assessment is based on the internal controls established and maintained by the Group, work performed by external and internal auditors and reviews performed by senior management. 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 independent, non-executive directors. The AC is chaired by Mr Chin and its members are Mr Tham, Dr Teh, Mr Haridass as well as Mr Yap, who joined the AC on October 1, 2016. The AC does not have any member who was a former partner or director of the company's external auditors, KPMG, within the last 12 months, or who holds any financial interest in KPMG.

### 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, 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. It also has reasonable resources to enable it to discharge its function properly.

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

### Key audit matters

The AC has discussed the key audit matters with management and the external auditors. The AC concurs with the basis and conclusions included in the auditor's report with respect to the key audit matters.

For more information on the key audit matters, please refer to page 169 to 173 of this annual report.

### 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. During the year, the AC has reviewed the performance of the external auditors using audit quality indicators recommended by the Accounting and Corporate Regulatory Authority as reference.

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 28(a) in the Notes to the Financial Statements in this annual report.

### Whistle-blowing policy

The AC oversees the Group's whistle-blowing policy which has been implemented 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 our website.

**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 audit aims 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 are reviewed by the AC.

**Professional standards and competency**

GIA employs qualified staff and provides them with training and development opportunities 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 the 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 a 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 company website, [www.sembcorp.com](http://www.sembcorp.com), after dissemination on SGXNET.

The quarterly results release date is disclosed at least two weeks prior to the announcement date via SGXNET. On the date 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 broadcasted 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 SGX-ST's rules of fair disclosure.

The company also maintains a dedicated investor relations section on its company 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 and one-to-one meetings. These platforms offer opportunities for senior management and directors to interact first-hand with shareholders, understand their views, gather feedback and 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 maintaining 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 and 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 constitution allows all shareholders the right to appoint up to two proxies to attend, speak and vote at general meetings on their behalf. Under the new multiple proxy regime, "relevant intermediaries", such as banks, capital markets services licence holders which provide custodial services for securities and the Central Provident Fund Board (CPF), are allowed to appoint more than two proxies to attend, speak and vote at general meetings. This will enable indirect investors, including CPF investors, to be appointed as proxies to participate at general meetings. Voting in absentia by mail, facsimile or email is currently not permitted. 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. Shareholders are informed of

the voting procedures governing such meetings. An independent scrutineer is engaged to review the electronic poll voting system and proxy verification process during the meetings to ensure that the information is compiled adequately and procedures are carried out effectively. 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. Voting results will also be announced after the meetings via SGXNET.

The company secretary records minutes from these shareholder meetings which includes relevant comments or queries from shareholders and responses from the board and management. The minutes 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 advised to be mindful to observe insider trading laws at all times, even when dealing in the company's securities outside the prohibited trading period. They are also 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 for

review 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 2016 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 a questionnaire with reference to the disclosure guide developed by the Singapore Exchange in 2015. The company's responses to the disclosure guide may be found on pages 348 to 359 of this annual report.