

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

Sustainability at Sembcorp is about the creation of value over time for all our stakeholders, through an integrated approach that addresses evolving environmental, social and governance challenges and opportunities.

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 benefits its stakeholders.

Our board of directors oversees the business affairs of the Group and is collectively responsible for our long-term success. The main duties of the board include providing leadership on Sembcorp's overall strategy, which takes into consideration sustainability issues. Following our most recent materiality review, our management, with guidance from the board, has determined the environmental, social and governance (ESG) issues that are material to the Group's long-term sustainability. These 10 ESG issues are presented on page 97 of this annual report.

Sembcorp's Sustainability Steering Committee (SSC) provides strategic direction for managing sustainability-related risks and opportunities. It also guides the development and improvement of frameworks, policies, guidelines and processes to ensure that sustainability issues are effectively managed. The SSC is chaired by our Group Chief Financial Officer, and comprises senior executives across various functions. Cross-functional subcommittees are also formed to review our risks and opportunities as well as performance in each of our focus areas.

At the business unit level, economic, operational, as well as health and safety issues and other risks are reviewed by the head of operations at monthly business unit management meetings and

quarterly risk management committee meetings. The Group's performance in these areas is evaluated against internal targets. Business units also provide quarterly governance assurance certifications on the adequacy of their risk management and internal control systems in line with Sembcorp's Governance Assurance Framework.

We are a signatory to the United Nations Global Compact, and our key sustainability principles are set out in our Sustainability Policy. These principles are applied throughout our management systems and processes. We adopt a precautionary approach to avoid or minimise negative impacts. 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.

In 2016, Sembcorp was selected as an index component of the Dow Jones Sustainability Asia/Pacific Index, as well as the SGX Sustainability Leaders Index. We were also recognised as one of the top three most sustainable corporations in Singapore in the Channel NewsAsia Sustainability Ranking.



Sustainability contact

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

Key Performance Indicators

	2016	2015	2014
Environmental			
Climate Change			
Direct greenhouse gas (GHG) emissions ¹ (million tonnes of CO ₂ equivalent)	15.4	6.9	5.7
GHG emissions intensity ¹ (kilogrammes of CO ₂ equivalent per megawatt hour)	454.1	277.2 ²	248.8 ²
Local Environmental Protection			
Water withdrawal (million m ³)	1873.9	1823.1	1593.7
Waste generated ³ (thousand tonnes)	927.1	39.3	43.8
Hazardous waste (thousand tonnes)	11.9	10.4	12.6
Non-hazardous waste (thousand tonnes)	915.2	28.9	31.2
Social			
Health and Safety ^{4, 5}			
Number of fatalities	3	3	0
Lost time injury rate per million man-hours ⁶	1.2	1.3	3.5
Accident severity rate per million man-hours ⁷	17.2	12.9	59.4
Our People			
Employee turnover (voluntary and involuntary) ⁸ (%)	11.4	11.0	18.4
Average training hours per employee ⁹ (hours)	28.2	20.6	22.3
Community			
Community contributions (\$ million)	4.2	3.3	2.4

More performance data, including qualitative data on each of our material issues, is available in this ESG Review, as well as in the Sustainability section of our website.

Notes:

Please refer to the section on Reporting Framework and Scope on page 97 for details on our scope

¹ Emissions data covers entities that produce direct GHG emissions from the combustion of fossil fuel. It excludes emissions from anaerobic wastewater treatment plants and maintenance and servicing equipment. Commentary on our performance may be found on page 106 of this report

² GHG emissions intensity figures for 2014 and 2015 are estimated. A small proportion of data on energy attributed to steam production in 2014 and 2015 was not available and was estimated based on data from 2016

³ Data for waste generated excludes waste that is collected and incinerated for our customers. Commentary on our performance may be found on page 107 of this report

⁴ Health and safety data reflects group-wide performance within the reporting scope stated for each respective year. Data from 2015 onwards covers both assets in operation and under construction. A detailed breakdown of health and safety data is available in the Sustainability section of our website

⁵ Data covers employees and contractors engaged to work on our sites. Details of fatalities are reported on page 118

⁶ The lost time injury rate includes fatalities

⁷ The accident severity rate excludes fatalities. The accident severity rate including fatalities is reported as part of detailed performance data, available in the Sustainability section of our website. We record lost time due to one fatality as 6,000 lost work days, in line with guidelines by the US National Institute for Occupational Safety and Health

⁸ Data covers both voluntary and involuntary turnover of permanent employees of Sembcorp and its subsidiaries, excluding Sembcorp Marine

⁹ A learning management system was launched in 2016 in Singapore, and will be progressively implemented across overseas operations. Consolidated training data is based on management's best estimates and we look to further refine the accuracy and consistency of the data

ESG REVIEW | MANAGING SUSTAINABILITY

Materiality

Materiality analysis enables Sembcorp to define sustainability issues that are of greatest significance to our businesses and stakeholders over the long term.

We conducted our first materiality analysis in 2012 and invited external stakeholder feedback on our material issues. In 2016, we conducted a review of our material issues which included a stakeholder engagement survey, inviting input from internal and external stakeholders globally. Over 300 stakeholders were invited to provide feedback on our material issues. Following the review, we have streamlined our areas of focus to 10 material ESG issues. For each material issue, we report its importance in the context of sustainability, its relevance to Sembcorp, as well as our management approach and performance.

Sustainability issues were identified in line with Global Reporting Initiative (GRI) G4 guidelines. The materiality review took into account GRI's

Electric Utilities Sector Supplement, the Dow Jones Sustainability Asia/Pacific Index and other relevant frameworks and peer reviews. We prioritised issues using a materiality matrix, taking into account their significance to Sembcorp and our stakeholders.

Stakeholder Engagement

We engage and receive feedback from a diverse range of stakeholders with the intention to improve our performance and drive long-term sustainability. Stakeholders are identified in accordance with the AA1000 Stakeholder Engagement Standard and they include customers, employees, financial institutions, governments and regulators, industry and academic groups, the investment community, the local community, and suppliers. Our stakeholders are managed by various departments at the corporate as well as local business unit level. More information on our engagement platforms can be found in the Sustainability section of our website.

CASE STUDY Engaging with our community early

As part of our environmental and social impact assessment for our greenfield investment in Myanmar, Sembcorp held stakeholder engagement sessions with the local community living within close proximity of our upcoming gas-fired power plant in the Myingyan district to understand and address their concerns.

Since 2015, we have held 27 sessions, some with as many as 91 attendees consisting of residents and workers from over 13 villages. We presented the development plan for our plant, which is expected to be completed in 2018, and gathered feedback from the local community.

Key issues raised include concerns over water intake and discharge, air and noise emissions as well as employment opportunities. These

concerns were taken into consideration and environmental and social management plans were created to manage the impact of our construction and operations. These plans included establishing proper water intake and discharge points along the Ayeyarwady River to ensure no groundwater was extracted and ensuring air and noise emissions follow local regulations and standards set by the International Finance Corporation and / or the World Health Organization. 25% of the headcount for the plant's construction workforce will be reserved for Myanmar nationals, and residents from the Myingyan community will be granted priority for employment during the plant's operational phase.

Reporting Framework and Scope

Our ESG Review is prepared in accordance with the GRI G4: Core option. It is guided by the SGX Sustainability Reporting Guide as well as the Ten Principles of the United Nations Global Compact. Our previous report was published in March 2015.

We report on our key ESG indicators in our annual report. A complete set of information, including our GRI content index, is available in the Sustainability section of our website.

Our report provides information on Sembcorp's subsidiaries and covers the calendar year. It excludes joint ventures, partnerships and associates for which Sembcorp does not have management and / or operational control. Our Marine business is excluded from this report as it is separately listed in Singapore and reports its activities independently. New acquisitions and subsidiaries are given one year

or more upon the completion of construction or agreement to integrate their reporting systems with that of the Group. Thereafter, their sustainability data will be reported externally once a full calendar year of data is collected. Data pertaining to entities divested during the year are excluded from our report. In 2015, we expanded the scope of our occupational health and safety reporting to include assets under construction, with data reported from the onset of construction activities.

This year, data from Thermal Powertech Corporation India and Sembcorp Green Infra have been included. Data on our procurement spending in our key operations in Singapore, China and India have also been included. We aim to work towards external assurance of the report.

The table below shows our reporting scope by business line and material issue.

MATERIAL ISSUES	ENVIRONMENTAL			SOCIAL			GOVERNANCE			
	Climate change	Local environmental protection	Energy and water efficiency	Health and safety	Our people	Community	Corporate governance	Risk management	Compliance	Ethical business practices
UTILITIES										
Existing assets										
Energy	•	•	•	•	•	•	•	•	•	•
Water		•	•	•	•	•	•	•	•	•
Solid waste management		•	•	•	•	•	•	•	•	•
Assets under construction				•			•	•	•	•
MARINE	<i>Our Marine business (Sembcorp Marine) is separately listed and reports its activities separately.</i>									
URBAN DEVELOPMENT				•	•	•	•	•	•	•
OTHER BUSINESSES				•	•	•	•	•	•	•

Information provided in the ESG Review relates to the subsidiaries of Sembcorp, excluding Sembcorp Marine. It excludes joint ventures, partnerships and associates for which Sembcorp does not have management and / or operational control

ESG REVIEW | MANAGING SUSTAINABILITY

Data measurement and quality

All data measurements are in line with GRI G4 recommendations for our chosen indicators. 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 the stoichiometric basis of calculation. Global warming potential factors used are from the IPCC Fourth Assessment Report for the 100-year time horizon. Occupational health and safety indicators follow standards set out by the US National Institute for Occupational Safety and Health and the International Association of Oil and Gas Producers.

While there are inherent limitations to the accuracy of data, we seek to minimise any errors and irregularities by strengthening our internal controls.

Our Supply Chain

We recognise the importance of evaluating our suppliers to ensure supply chain risks and negative impacts are minimised.

Sembcorp's main suppliers consist of original equipment manufacturers (OEMs), material suppliers, and engineering, procurement and construction (EPC) contractors.

OEMs supply us with large-scale equipment such as gas turbines and desalination units as well as process equipment such as switchgears and control systems. Material suppliers supply fuel and chemicals needed to run our plants. EPC contractors provide detailed engineering, procurement and construction services for our greenfield plants.

Our plants are designed and built to international codes and standards and it is with this perspective that we procure our equipment. We seek to ensure we procure high-quality and technologically advanced equipment that is durable. We have stringent requirements for quality and expect our suppliers to abide by our Code of Business Conduct. Our Group Procurement Policy provides guidelines and control principles for various stages of the procurement process.

Our key operations carry out an annual evaluation of vendor performance for our top suppliers. Through this process, we rate these suppliers on health, safety and the environment (HSE), as well as quality assurance and service level criteria. We also review their audited financial reports. In addition, for all our EPC contracts, contractors are assessed based on their track records with respect to safety, project type, size and location experience, among other evaluation criteria. We value the opportunity to positively influence our service providers and suppliers towards greater HSE awareness and social responsibility. We believe that securing a pool of suppliers that share our commitment to sustainability will mitigate risks to our operations and reputation.

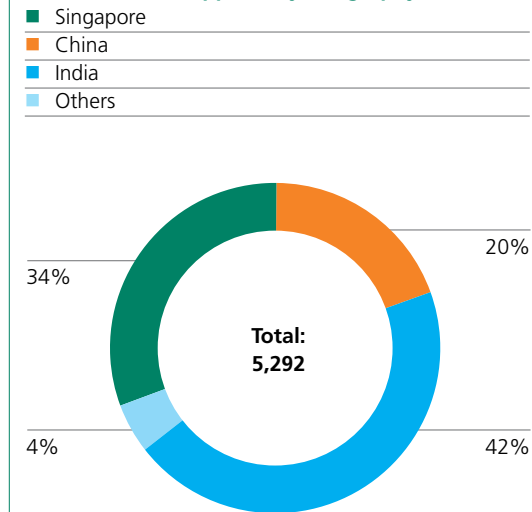
Supplier diversification

Our efforts to ensure supply chain security include diversifying supply to mitigate concentration risk. Coal supply is managed via a portfolio of suppliers and country sources, while in Singapore, Sembcorp's operations maintain at least one primary and one secondary supplier for critical spare parts and consumables, where possible.

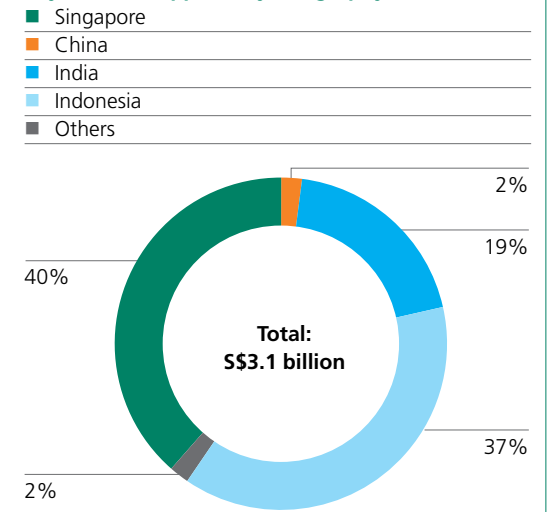
Fuel management

Fuel is a significant cost component for Sembcorp's power and steam generation operations. Therefore, managing our various fuel sources, along with their supply chains, is a key focus. In view of this, we have a Group Fuel Management department that looks into issues such as fuel contract management, fuel hedging / trading and fuel procurement, as well as fuel logistics such as transportation and shipping, to ensure the security and reliability of our fuel supply. We secure long-term contracts for coal and gas supply with reliable counterparties who have reserves that can sustain the useful life of our assets. To further diversify our fuel mix and tap on sustainable sources, Sembcorp has increased our use of renewables and alternative fuels.

Distribution of Suppliers by Geography*



Payment to Suppliers by Geography*



Our suppliers and contractors provide a wide range of products and services including fuel and equipment for electricity generation, chemicals for water treatment as well as maintenance services in our power plants and water treatment plants.

In 2016, our key operations in Singapore, China and India procured products and services from 5,292 suppliers, with a total procurement expenditure of S\$3.1 billion. 61% of our total procurement spending went to local suppliers in Singapore, China and India, and helped to support local economies. 37% of total payments to suppliers went to companies in Indonesia. This was mostly due to our natural gas supply for Singapore operations and part of our coal supply for India thermal power operations being from Indonesia.

* Data from some operations have been aggregated

Sembcorp's Unique Utilities Business

Innovative energy and water solutions

The challenge facing industries and communities today is one of balancing development with resource scarcity and environmental concerns. At Sembcorp, we believe that we have a part to play in contributing to a sustainable future. Our Utilities business uniquely offers both energy and water solutions. We leverage group capabilities and strengths to limit the impact of our activities on the environment and to create innovative solutions for our customers.

Energy efficiency and renewables:

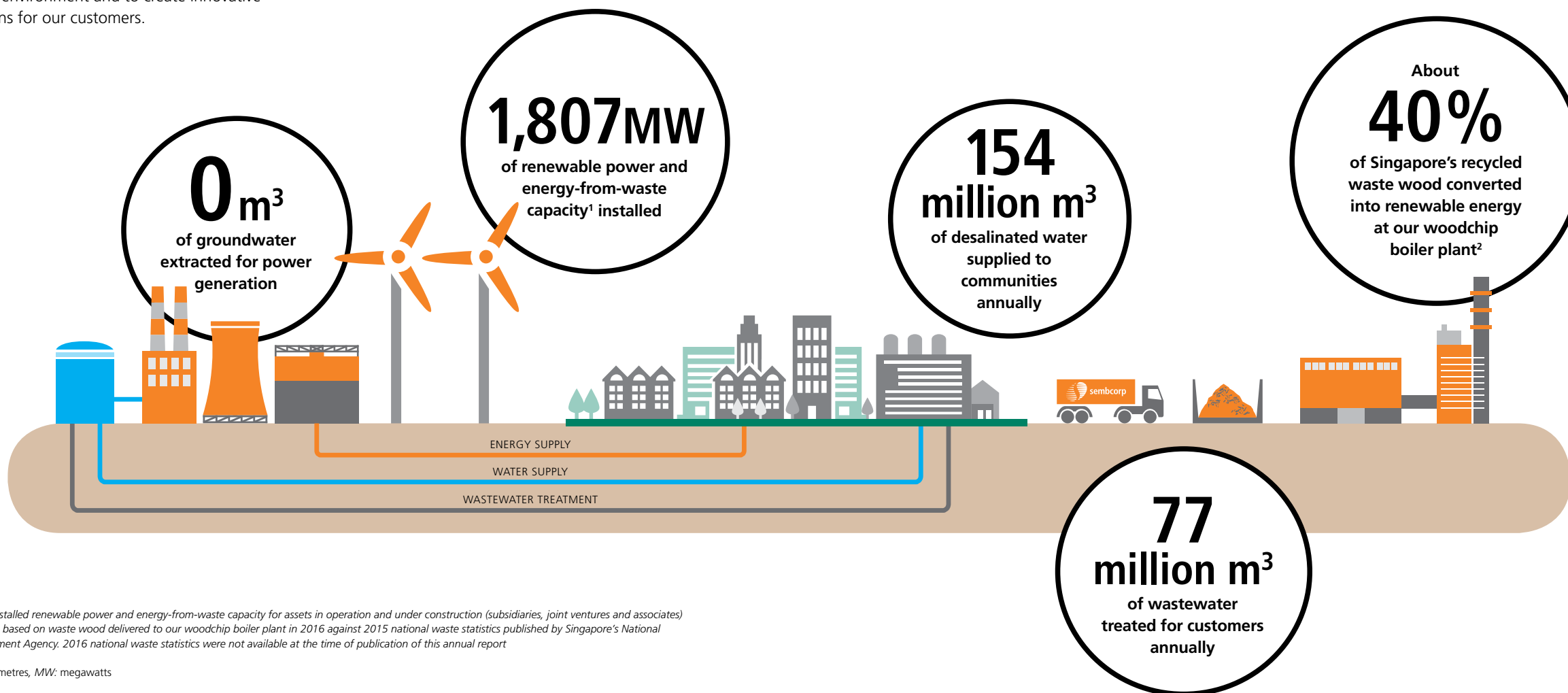
High efficiency, low emissions

We are focused on facilities that have high efficiency and low emissions. Our balanced portfolio of energy assets is able to run on a diverse range of fuels, including renewable sources. Our low-carbon energy portfolio includes renewable wind and solar power assets, as well as biomass and energy-from-waste assets.

Total water, wastewater and waste-to-resource solutions that conserve resources

Apart from growing our renewable energy business, we also leverage our water capabilities to reduce the environmental impact of our thermal energy business. For example, we reduce reliance on fresh water by using desalinated water for our power generation processes, in addition to recirculating

water for cooling purposes. In addition, we provide specialised solutions for water-stressed regions including large-scale seawater desalination and water reclamation. We also aim to minimise waste and its environmental impact through waste-to-resource facilities that recover valuable resources.



¹ Gross installed renewable power and energy-from-waste capacity for assets in operation and under construction (subsidiaries, joint ventures and associates)
² Figure is based on waste wood delivered to our woodchip boiler plant in 2016 against 2015 national waste statistics published by Singapore's National Environment Agency. 2016 national waste statistics were not available at the time of publication of this annual report

m³: cubic metres, MW: megawatts