



Environmental, Social and Governance Review

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Sembcorp actively contributes to improving living standards and quality of life for the local Myingyan community in Myanmar by providing educational support, enhancing access to water, upgrading and repairing community infrastructure and assisting in flood relief work


Sembcorp has long held a strong commitment to sustainability. We believe that responsible corporates can play a role as agents of transformation for a sustainable future. We see sustainability at our company as inextricably linked to our ability to deliver long-term value and growth to all our stakeholders.

Sustainability is one of the key pillars of our business strategy that underpins our value creation process. In 2018, we developed a framework to articulate and drive our ambition to create a sustainable future. As a Group, we want to enable a low-carbon and circular economy, empower our people and communities

and embed responsible business practices throughout our organisation.

We are a signatory to the United Nations Global Compact (UNGC) and a supporter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

We participate in RobecoSAM's annual Corporate Sustainability Assessment that determines inclusion in the Dow Jones Sustainability Index, as well as the CDP (formerly known as the Carbon Disclosure Project) climate change programme.

 For a list of our policies, certified facilities as well as memberships and participation in external initiatives, please visit the Reports & Policies and the Initiatives, Memberships and Certifications pages in the Sustainability section of our website.

In 2018, Sembcorp was once again selected as an index component of both the Dow Jones Sustainability Asia Pacific Index and the SGX Sustainability Leaders Index. We were conferred the Best Newcomer Award at the Sustainable Business Awards Singapore, and ranked sixth in the Singapore Governance and Transparency Index. At the Singapore Corporate Awards 2018, Sembcorp took home the gold award for the Best Annual Report for companies with market capitalisation of S\$1 billion and above. We were ranked 27th in the Top 100 Green Utilities and 11th in the Top Generators ranked by Renewables Capacity in Energy Intelligence's Top 100 Green Utilities.

Our Sustainability Framework




The United Nations (UN) forecasts that by 2030, world population will have surpassed 8.5 billion, and the threat of climate change coupled with growing demand for critical resources will add considerable stress to our societies and the environment. Our future depends on urgent action, new business models, innovative technology and behavioural change. We believe that we must be part of the sustainable development agenda, and have a responsibility to our stakeholders to provide solutions that create value and positive impact for society. By meeting the needs of society, while managing our material environmental, social and governance (ESG) risks and opportunities, we believe that we will succeed as a business and give our shareholders a sustainable return.

Our Sustainability Framework articulates three ambitions for the future and demonstrates our support for the UN Sustainable Development Goals (SDGs). It directs our approach to integrate sustainability and manage our material ESG issues within our business strategy.

Driven by Our Purpose

Our purpose and passion is to do good and play our part in creating a sustainable future. We deliver energy and innovative solutions that support development and create value – for our stakeholders and communities.

Underpinned by Our Values

-  **Creative Insight**
We innovate and solve complex problems
-  **Committed**
We walk the talk, do the right thing and deliver on our promises
-  **Connected**
We value our people, forge strong partnerships and care for our communities and the environment



ENABLING A LOW-CARBON AND CIRCULAR ECONOMY



3 GOOD HEALTH AND WELL-BEING



6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY




9 INDUSTRY, INNOVATION AND INFRASTRUCTURE




12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



EMBEDDING RESPONSIBLE BUSINESS PRACTICES



16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Climate Change

Reducing our greenhouse gas (GHG) emissions intensity and moving towards a balanced portfolio of low-carbon energy assets

Resource Management

Growing and innovating our business solutions to support a circular economy and ensuring we manage our operations efficiently to avoid or minimise the use of resources

Local Environmental Protection

Minimising negative environmental impacts and ensuring the highest standards of environmental management

Corporate Governance

Maintaining an effective governance and decision-making structure

Ethical Business and Compliance

Fostering an ethical culture and conducting our business with integrity, and ensuring we comply with all legal and regulatory requirements

Risk Management

Ensuring effective identification of material risks and putting in place an adequate and effective risk management and internal control system

Health and Safety

Making health and safety an integral part of our everyday business and culture

People

Creating a values-based and performance-led culture. Providing an engaging employment experience where our people can grow and excel

Community

Contributing to the sustainable development of our communities through engagement and partnerships and investing in initiatives that make a lasting positive impact





EMPOWERING OUR PEOPLE AND COMMUNITIES



3 GOOD HEALTH AND WELL-BEING



4 QUALITY EDUCATION



6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



11 SUSTAINABLE CITIES AND COMMUNITIES

Managing Sustainability

Sustainability governance

Sembcorp's 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. Our last materiality review was in 2016. In 2018, in line with the development of our Sustainability Framework, our management, with guidance from the board's Risk Committee, updated the ESG issues that are material to the Group's long-term sustainability. These nine ESG issues are presented in our Sustainability Framework on pages 78 and 79.

Sembcorp also has a Sustainability Steering Committee (SSC) that provides strategic direction for managing sustainability-related risks and opportunities. The SSC guides the development and improvement of frameworks, policies, guidelines, processes and initiatives to ensure that sustainability issues are effectively managed. It also directs the preparation of Sembcorp's Sustainability Report, and provides recommendations to the board's Risk Committee for approval. The SSC is chaired by our Group Chief Financial Officer, and comprises senior executives who are accountable for the management of Sembcorp's material issues.

In addition, our Integrated Assurance Framework ensures that key financial, operational, compliance and information technology (IT) risks are reviewed and tested using a robust assurance process.

As an initial but significant step, we revised the performance scorecard for our leadership team in 2018 to include specific

Board Statement

Sembcorp's board of directors is collectively responsible for the long-term success of the company. The board considers sustainability issues as part of its strategy formulation. It has determined Sembcorp's material ESG factors, and exercises oversight in the management and monitoring of our material ESG factors.

ESG components. With this, the award of our senior executives' performance incentives will specifically take into account ESG performance and the achievement of ESG targets. This underscores the importance we place on addressing ESG risks and opportunities.

Sustainability contact

We welcome feedback on our sustainability issues and reporting at sustainability@sembcorp.com.

Sustainable Development Goals

The SDGs and their accompanying targets were ratified by 193 states at the historic UN Summit in September 2015. The SDGs set out a plan of action needed to address areas of critical importance for humanity and the planet by 2030. The scale and ambition of the SDGs mean that they cannot be achieved by governments alone. Businesses and other organisations also play important roles in addressing the sustainable development agenda.



The Sustainable Development Goals offer businesses an invaluable opportunity to transform communities and economies for the better

Our commitment to enable a low-carbon and circular economy, empower our people and communities, and embed responsible business practices throughout our organisation, aligns with the framework set out by the SDGs.

We have reviewed the SDGs against our material issues to identify the most significant positive and negative impacts of our operations. We have also considered opportunities where we can make the biggest contributions towards the SDGs while growing our business sustainably.

[For more information on our support of the SDGs, please visit Our Approach page in the Sustainability section of our website.](#)

Our Commitment to SDG 6: Clean Water and Sanitation

Our suite of water solutions for industrial and municipal customers helps treat wastewater, reclaim and supply water. These solutions help prevent pollution while extending the use of water beyond one cycle, thus reducing the use of freshwater and potable water.

Target: In 2018, we reclaimed around 61 million m³ of water. We aim to develop a target in this area

Our Commitment to SDG 7: Affordable and Clean Energy

As an integrated energy player, our business strategy is aligned to meeting the global need to decarbonise. We aim to increase our share of renewable assets, while managing our existing thermal assets to operate at optimal efficiency.

Target: We plan to double our renewable energy generation capacity (from 2017 baseline) by 2022

BOARD OF DIRECTORS Risk Committee

Sustainability Steering Committee

Enabling a Low-carbon and Circular Economy

Environmental material issues

- Climate Change
 - Climate Change Working Committee
- Resource Management
- Local Environmental Protection

Empowering Our People and Communities

Social material issues

- Health and Safety
- People
- Community

Embedding Responsible Business Practices

Governance material issues


- Corporate Governance
- Ethical Business and Compliance
- Risk Management

Managing Sustainability

Key performance indicators

	2018	2017	2016
Environmental			
Climate Change^{1,2}			
Direct greenhouse gas (GHG) emissions (million tonnes of CO ₂ equivalent)	23.6	22.2 ^f	15.1 ^f
GHG emissions intensity (tonnes of CO ₂ equivalent per megawatt hour)	0.55	0.54 ^f	0.45
Renewable energy generation capacity (megawatts)	2,589	2,182	1,720
Local Environmental Protection			
Water withdrawal (million m ³)	1,794.0	1,782.3 ^e	1,874.0
Waste generated ³ (thousand tonnes)	1,713.3	1,452.7 ^e	927.1
Hazardous waste	39.9	10.0	11.9
Non-hazardous waste	1,673.4	1,442.7	915.2
Significant spills ⁴	0	0	0
Social			
Health and Safety⁵			
Number of fatalities ⁶	1	3	3
Lost time injury rate per million man-hours	0.5	1.1	1.2
Accident severity rate per million man-hours ⁷	10.1	15.3	17.2
People			
Employee turnover ⁸ (%)	11.6	10.1	11.4
Average training hours per employee ⁹	25.2	23.8	28.2 ^e
Community			
Community contributions ¹⁰ (S\$ million)	1.1	5.5	4.2

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

 For more information on our stakeholder engagement, materiality process and reporting scope and practice, please visit Our Approach page in the Sustainability section of our website.

¹ Emissions data covers entities that produce GHGs from the combustion of fossil fuels consumed in our Utilities business' assets. It excludes emissions from anaerobic wastewater treatment plants, and maintenance and servicing equipment. Only CO₂, CH₄ and N₂O emissions are included in the calculation of direct GHG emissions. Global warming potential factors used are from the UN 2006 Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report for 2016 data, and the IPCC Fifth Assessment Report for 2017 and 2018 data. A 100-year time horizon is applied. Commentary on our performance can be found on pages 91 and 92 of this report

² Emissions data for 2016 is presented using an operational approach, while emissions data for 2017 and 2018 are presented using an equity share approach

³ Data for waste generated excludes waste that is collected and incinerated for our customers

⁴ A significant spill is defined as that which resulted in a fine equal to or above S\$50,000

⁵ Health and safety data reflects group-wide performance. Data covers both assets in operation and under construction. A detailed breakdown of health and safety data is available in the Performance and Data Commentary report in Our Performance page in the Sustainability section of our website

⁶ Data covers employees and contractors as well as members of the public. Details of fatalities are reported on page 101

⁷ The accident severity rate excludes fatalities. The accident severity rate including fatalities is reported as part of detailed performance data, available in the Performance and Data Commentary report in Our Performance page in the Sustainability section of our website

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

⁹ Data covers permanent and contract employees

¹⁰ Data from 2017 onwards covers assets under construction

^f Indicates restated figure. Details can be found in the Performance and Data Commentary report of the respective year in Our Performance page in the Sustainability section of our website

^e Indicates data is based on management's best estimates; we have since refined the accuracy and consistency of the data

Our Supply Chain

We recognise the importance of integrating sustainability practices into our procurement and supply chain management processes.

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 provide fuel and chemicals needed to run our plants. EPC contractors provide detailed EPC 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 and from suppliers who share our commitment to sustainability. Our Group Procurement Policy provides guidelines and control principles for various stages of the procurement process.

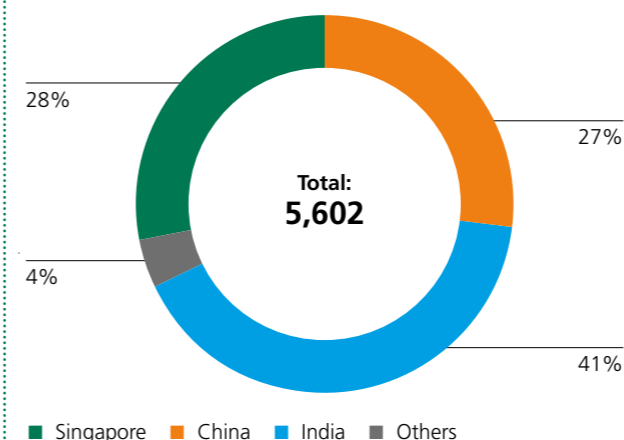
We value the opportunity to positively influence our service providers and suppliers towards greater health, safety and environment (HSE) awareness and social responsibility. In 2018, we launched our Supplier Code of Conduct. The Supplier Code defines the ESG standards of practice that we require of our suppliers. We will be implementing the Supplier Code across our markets in 2019, and will establish an annual assessment of procurement practices.

To improve the management of our suppliers and integrate the requirements of our Supplier Code across all stages of procurement, we are currently reviewing our due diligence process. For example, we have enhanced our existing vendor pre-qualification process to incorporate more extensive ESG criteria. Going forward, we will look into improving the evaluation of vendor performance for our critical suppliers.

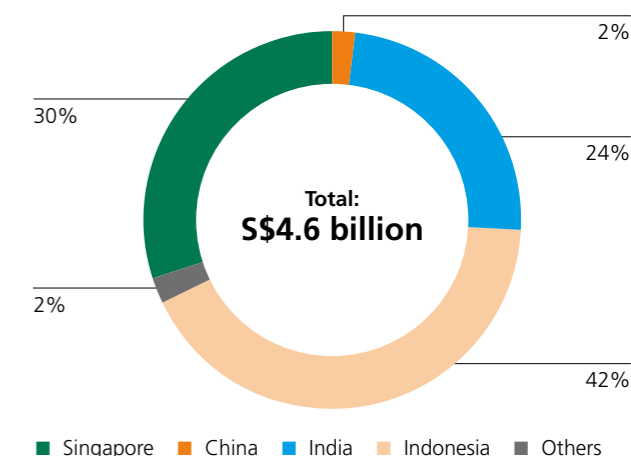
Supplier diversification

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.

Distribution of Suppliers by Geography¹



Payments to Suppliers² by Geography¹



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 for our power and water treatment plants.

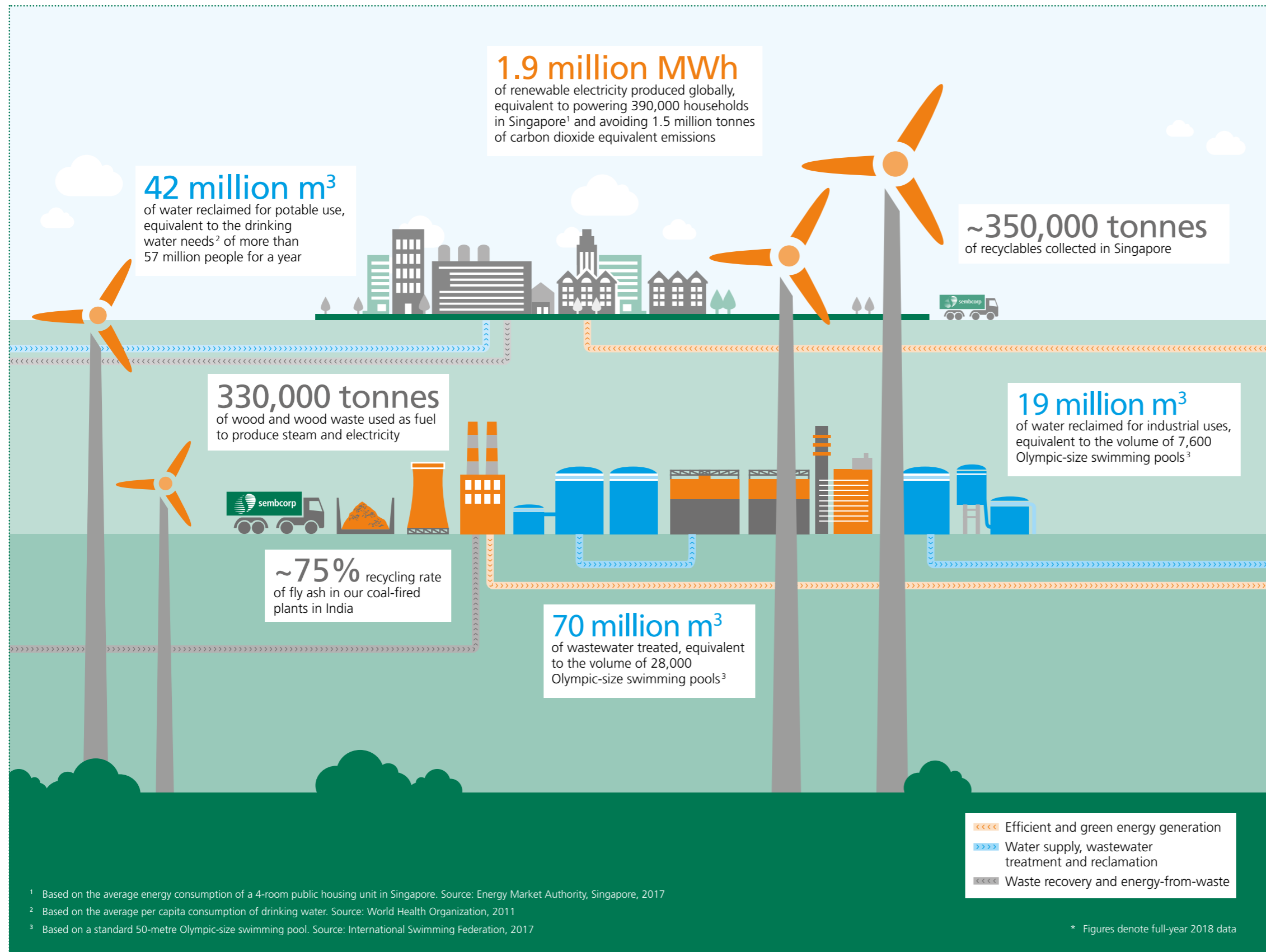
In 2018, our operations in our key markets of Singapore, China and India procured goods and services from 5,602 suppliers, with a total expenditure of S\$4.6 billion. Spending on local³ suppliers amounted to 42% for our Singapore operations, 100% for our China operations and 67% for our India operations. 42% of total payments to suppliers went to companies in Indonesia. This was mostly for our natural gas supply for Singapore operations and part of our coal supply for India thermal power operations.

¹ Data from some operations have been aggregated

² Payments made to suppliers include payments to governments, banks and financial institutions

³ Local suppliers are defined as suppliers and service providers who are registered in the country where the product or service was procured

Managing Sustainability



¹ Based on the average energy consumption of a 4-room public housing unit in Singapore. Source: Energy Market Authority, Singapore, 2017

² Based on the average per capita consumption of drinking water. Source: World Health Organization, 2011

³ Based on a standard 50-metre Olympic-size swimming pool. Source: International Swimming Federation, 2017

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. Our fuel management teams look into issues such as contract management, hedging / trading and procurement, as well as 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 supplies with reliable counterparties who have reserves that can sustain the useful lives of our assets. To further diversify our fuel mix and tap on sustainable sources, Sembcorp has increased our use of renewables and alternative fuels.

Innovative Solutions for a Sustainable Future

The challenge facing industries and communities today is one of balancing development with resource scarcity and environmental concerns. Sembcorp believes that we have a part to play in contributing to a sustainable future.

Our Utilities business uniquely offers energy, water and waste solutions. We leverage group capabilities and strengths to minimise the impact of our activities on the environment and create innovative solutions for our customers.

Enabling a Low-carbon and Circular Economy

<p>Climate Change</p> <p>Our Priorities Reducing our greenhouse gas (GHG) emissions intensity and moving towards a balanced portfolio of low-carbon energy assets</p> <p>Relevant SDGs </p> <p>How We Did in 2018 We grew our renewables capacity by around 20% to 2,600 megawatts. Our GHG emissions intensity was higher in 2018. However, we remain committed to meeting our 2022 target</p> <p>> Pages 87, 91 and 92</p>	<p>Resource Management</p> <p>Our Priorities Growing and innovating our business solutions to support a circular economy and ensuring we manage our operations efficiently to avoid or minimise the use of resources</p> <p>Relevant SDGs </p> <p>How We Did in 2018 We reclaimed around 61 million m³ of water. We aim to develop a target in this area</p> <p>> Pages 91 and 92</p>	<p>Local Environmental Protection</p> <p>Our Priorities Minimising negative environmental impacts and ensuring the highest standards of environmental management</p> <p>Relevant SDGs </p> <p>How We Did in 2018 We registered zero significant spills</p> <p>> Pages 92 and 93</p>
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Why this is material
Climate Change

As an energy producer, our power and steam generation activities release GHG emissions that contribute to climate change. Events and actions by governments in response to climate change pose potential regulatory, technological, physical and reputational risks to our businesses. One such significant development was the 2015 Paris Agreement on climate change, which countries accounting for over 88% of global GHG emissions have ratified. However, we recognise that in spite of these challenges, we are also uniquely positioned to leverage opportunities that have arisen from actions in response to climate change.

As part of Sembcorp's Climate Change Strategy, we have identified the climate-related risks and opportunities material to our Utilities business as follows:

- **Changes in policy and regulation:** Increasingly, governments are adapting their policies and regulations as part of country-level strategies to reduce emissions and support the transition to a low-carbon economy. Increasing global adoption of cap-and-trade schemes and carbon taxes will accelerate current trends favouring renewables, which in turn can significantly impact the future profitability of our assets and investments

- **Changes in technology and customer demand:** Falling costs and improved performance of new and emerging technologies such as photovoltaics, energy storage, smart grids and downstream technologies including electric vehicles and decentralised generation, are bringing about significant changes in the energy landscape. As a result of these technological changes, the needs of our markets and customers will change
- **Weather disruption:** Physical environmental risks, such as extreme weather linked to climate change, may cause disruptions to our assets and operations, and to the economic value chains and communities in which we operate. Exposure to physical risks varies widely across our operating geographies and across our businesses, from our power assets to our desalination plants
- **Stakeholder expectations:** Our stakeholders are increasingly focused on the impact of climate change and how we respond to climate change-related risks and opportunities. As a responsible corporate citizen, we recognise our obligations towards our stakeholders. Maintaining our stakeholder relationships is critical to our licence to operate and essential to protect our business reputation

Our climate change public disclosures are guided by the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

Resource Management

Global population growth and urbanisation have led to unprecedented demand for critical resources. This has underscored the need for us to consume resources responsibly, while pursuing innovations that support a circular economy. As an integrated energy player and a provider of water and waste management solutions, our innovative solutions help others on the journey towards sustainable development.

Operationally, achieving optimal energy and water efficiency are also business drivers for us. Maximising our efficiency and

optimising our operations reduces our consumption of natural resources and our impact on the environment.

Local Environmental Protection

As a result of the products and services we provide, our operations have varying direct and indirect impacts on the environment. These include the discharge of effluent and disposal of waste, as well as the release of air pollutants into the atmosphere. Any improper or non-compliant emission, discharge or disposal may result in harm to the environment and public health, and threaten our long-term viability.

Making Progress on Our Low-carbon Strategy

We are focused on becoming one of the region's leading independent renewable energy players. In 2018, we made notable progress towards growing our renewables and low-carbon portfolio. We grew our global renewables portfolio in operation and under development by around 20% to 2,600 megawatts.

In Singapore, we grew to become one of the nation's leading solar power players, with nearly 120 megawatt peak capacity of rooftop solar projects across over 1,500 sites.

In India, we emerged as the largest cumulative winner in the first three nationwide wind power auctions conducted by SECI, with 800 megawatts secured. In 2018, we further cemented our reputation and credibility as a green energy player when we became the first company to deliver installed capacity awarded under these contracts. Power generated with our first 250-megawatt SECI 1 project will be supplied to Jharkhand, Bihar, Uttar Pradesh and Delhi, and will power more than 216,000 homes while avoiding over 700,000 tonnes of carbon dioxide equivalent (CO₂e) emissions per annum.

In the UK, we acquired UK Power Reserve (UKPR), the UK's largest decentralised provider of balancing services with a nationwide fleet of rapid response gas engines and upcoming battery storage projects. UKPR's total capacity of 813 megawatts includes 120 megawatts of battery storage, making it the largest battery operator in the UK. UKPR will support and enable a renewable future for the UK by bridging supply gaps between intermittent renewables generation and conventional centralised thermal generation.

We also established a beachhead in Australia through our investment in Vellocet Clean Energy. Our investment will allow us to grow in the Australian power market, particularly in the direct supply of renewable energy to companies.

These projects demonstrate our commitment to our priority UN SDG 7 (Affordable and Clean Energy), which aims to ensure access to affordable, reliable, sustainable and modern energy for all.




Aerial view of small scale, rapid response gas engines at one of our UKPR sites

Our Material ESG Issues

Our approach

Climate Change

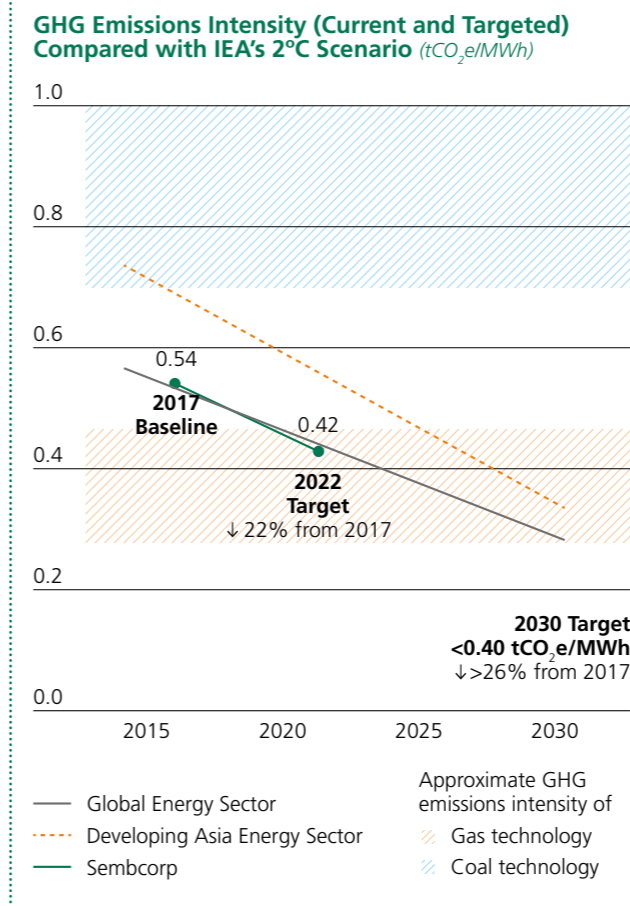
The table below sets out our management approach to climate change issues guided by TCFD recommendations.

 For more information on our Climate Change Strategy, please visit the Reports & Policies page in the Sustainability section of our website.

TCFD Recommended Disclosures	
<p> Governance</p> <p>Climate-related issues are managed through our Climate Change Working Committee (CCWC), led by the head of our Renewables & Environment business. The CCWC reports to the Sustainability Steering Committee</p>	<p>(SSC), which reports to the board's Risk Committee on sustainability issues including climate change. The achievement of our climate change targets is monitored and incentivised via the performance scorecards of our Group President & CEO and other relevant senior executives.</p>
<p> Strategy</p> <p>In formulating Sembcorp's Climate Change Strategy, the Group identified climate-related risks and opportunities for our Utilities business by evaluating four key risk factors: physical environmental impacts on our assets, brand and reputational risks, requirements for regulatory compliance, and product and market risks.</p> <p>We evaluated these climate-related risks and opportunities using near-term (2017 to 2022) and medium-term (2030) lenses, and also considered long-term (2050) trends such as a science-based target for the utilities sector by 2050. When evaluating our markets from a climate-based scenario lens, we used International Energy Agency (IEA) scenarios such as the New Policies Scenario and the 450 Scenario.</p>	<p>The key risks related to climate change that Sembcorp's businesses face are changes in policy and regulation, technology and customer demand, and weather disruption and stakeholder expectation.</p> <p>The findings from our climate-related scenario analysis shaped our strategy towards a more balanced energy portfolio. We will restrict our investments in coal-fired power plants and improve the energy efficiency of our existing plants. We will focus on growing our gas and renewables portfolio as well as our green business lines while exploring new business models, products and services that focus on energy efficiency, digitalisation and new energy solutions.</p>
<p> Risk Management</p> <p>As part of the development of our Climate Change Strategy, climate-related risks and opportunities were identified as described above. The ongoing identification, assessment and management of climate-related risks is complex and multi-dimensional. Currently, our markets and business units perform a high level impact assessment and review the adequacy and effectiveness of controls in addressing climate-related risks as part of our Governance Assurance Framework (GAF). We are in the midst of</p>	<p>transitioning from the GAF to an Integrated Assurance Framework, which provides a more holistic and robust basis of assurance for the adequacy and effectiveness of our risk management and internal control system.</p> <p>The process identifies risk, including climate-related risks, from a top-down strategic perspective and a bottom-up perspective from each key market. We are committed to strengthening our organisational capabilities in addressing climate-related risks.</p>
<p> Metrics and Targets</p> <p>The key metrics and targets we have set are reductions in our GHG emissions intensity and growth of our renewables portfolio.</p> <p>We have set emissions intensity targets to be in line with the scale of reductions required to keep the increase in global average temperature to below 2°C above pre-industrial levels as per projections in the IEA World Energy Outlook 2016. Our target is to reduce our GHG emissions intensity¹ from 0.54 tonnes of carbon dioxide equivalent per megawatt hour (tCO₂e/MWh) in 2017 to 0.42 tCO₂e/MWh by 2022, and to less than 0.40 tCO₂e/MWh by 2030.</p>	<p>We plan to achieve these targets through two key thrusts. The first is to reduce negative impact by reducing emissions; the second is to move towards a balanced portfolio of low-carbon energy assets by growing our renewables capacity.</p> <p>Our wind and solar energy assets generate low-carbon energy for customers. In 2018, we grew our wind and solar power capacity in operation and under development by around 20% to 2,600 megawatts. This is equivalent to taking approximately 550,000 cars off the road for a year² or avoiding 2.5 million tonnes of carbon dioxide equivalent (CO₂e) emissions.</p>

¹ Refers to GHG emissions intensity of our Utilities business' assets that produce GHGs from the combustion of fossil fuels

² Based on an average car emitting 4.6 tonnes of carbon dioxide per year. Source: US Environmental Protection Agency, 2017



Resource Management

Sembcorp provides solutions in energy, water and waste management that support a circular economy and help minimise the use of resources.

In addition, we are committed to innovation and undertake various initiatives to improve operational efficiency in our energy and water plants. We collaborate with institutions of higher learning, research institutes as well as private sector players to explore solutions. To further encourage innovation from the bottom up, Sembcorp's IDEA Awards Programme also recognises innovative ideas and efforts across the Group.

Energy management

Our power business generates electricity and steam. To ensure our assets generate energy efficiently, we invest in the latest technologies when developing new plants as well as retrofitting existing ones. We proactively pursue optimisation to improve our efficiency while reducing emissions. Energy efficiency parameters are embedded in our plant operation management systems and are monitored daily. A technical forum discussion is held monthly for our global energy

operations to facilitate best practice case studies and sharing of operational and efficiency issues.

Water and wastewater management

Our water business comprises industrial wastewater treatment, water reclamation and seawater desalination. Through these services, we are able to provide solutions to issues related to water scarcity as well as water pollution.

Sembcorp's comprehensive suite of water solutions is able to integrate water supply, wastewater treatment and water reclamation into a closed loop for our customers. This approach minimises liquid discharge and reduces environmental impact while conserving water resources. In treating industrial wastewater, we apply innovative technologies to treat multiple streams of industrial wastewater we receive from our customers. We leverage different wastewater influent profiles to optimise the wastewater treatment process. In doing so, we reduce both energy consumption and chemical use in our treatment process. In some of our plants, we further channel a proportion of treated water for reclamation, and the reclaimed water is supplied to our customers for their industrial processes. In Singapore, our NEWater plant produces reclaimed water that helps meet Singapore's potable water needs.

Our large-scale integrated power and desalination plants use multi-stage flash distillation and reverse osmosis to provide high-quality water to industries and households in water-scarce areas such as Oman and the UAE. Our desalination plant in the UAE uses waste steam from our power plant as part of its water production process.

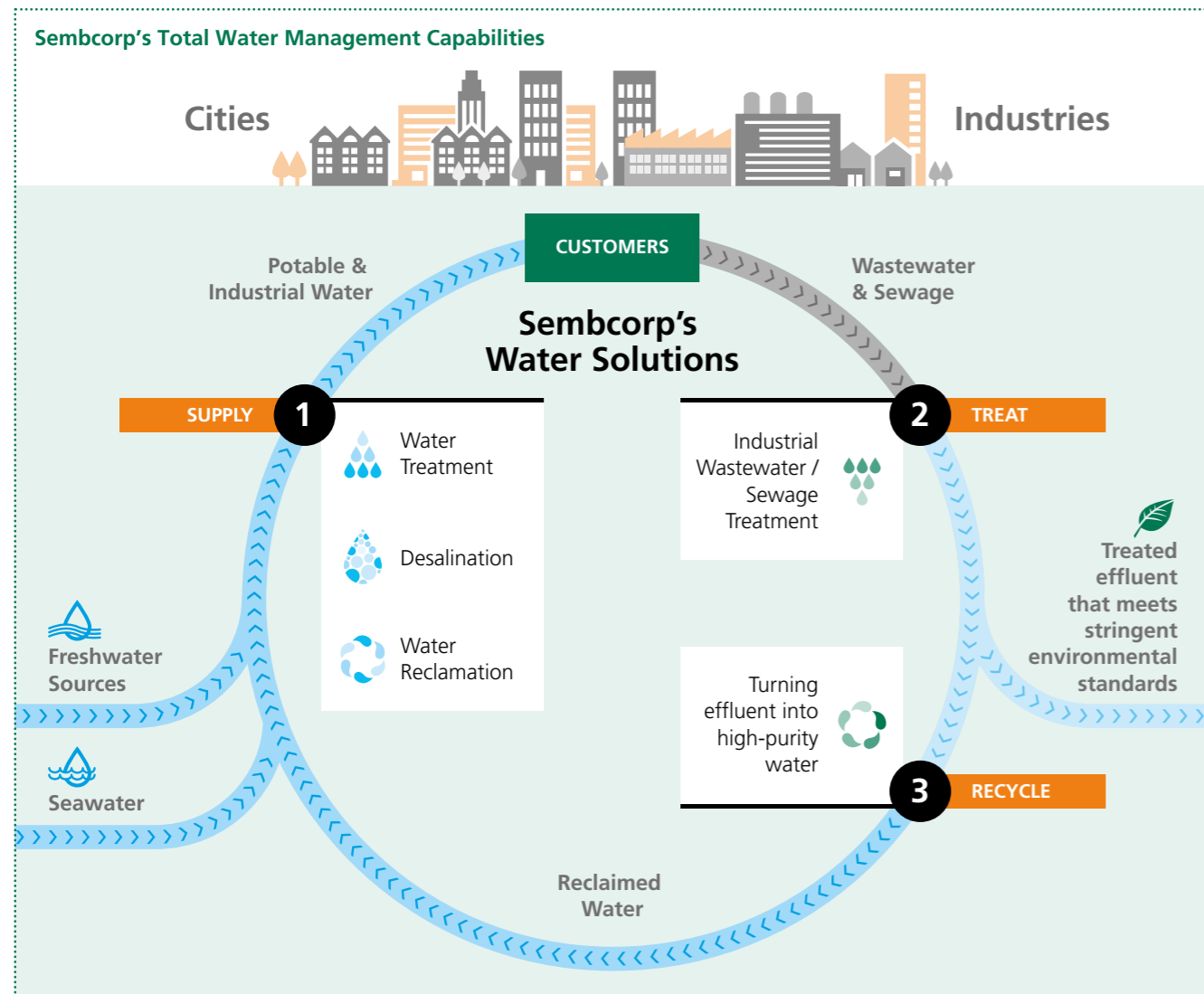
Energy plants use large amounts of water for cooling purposes. A majority of our energy plants use seawater for cooling purposes, to minimise the use of freshwater and groundwater. In some of our power plants, we further employ closed loop cooling water systems to minimise water drawn from the ocean.

Waste management

We aim to apply a circular approach across our businesses. We operate energy-from-waste plants in Singapore and the UK, where energy is generated from waste. In our coal-fired power plants in India, fly ash is generated as a by-product of the combustion of coal. We channel the majority of this fly ash to vendors who recycle it into cement and bricks.

In our industrial wastewater treatment operations, we actively look to reduce the volume of sludge generated as a by-product of the treatment process. Where feasible, our sludge disposal vendors convert non-hazardous sludge into products such as bricks and plant fertiliser.

Our Material ESG Issues



Recovering Energy from Waste

In 2018, our Energy-from-Waste Plant in Singapore started commercial operation. The plant is designed to consume 1,000 tonnes of industrial and commercial waste per day collected by Sembcorp's solid waste management operations. We also recycle woodchips processed from construction and demolition waste to produce steam at our Woodchip Boiler Plant. In doing so, we use around 16%¹ of Singapore's wood waste annually. At our biomass plant in the UK, we also generated 232,000 megawatt-hours of electricity, which is equivalent to the annual electricity consumption of over 60,000 homes².

¹ Based on waste management figures. Source: National Environment Agency, Singapore, 2017

² Based on Sub-national Electricity and Gas Consumption Statistics. Source: Department for Business, Energy & Industrial Strategy, England, 2018

Local Environmental Protection

We are committed to integrating environmental protection and stewardship into our operations, in the belief that sound practices and performance in this area can help mitigate environmental risks while contributing to a sustainable future.

We adopt the Precautionary Principle in our approach to managing environmental risks, carefully assessing the potential environmental impacts from our operations and applying appropriate control measures to minimise them. In particular, we are focused on keeping our atmospheric emissions below legally acceptable levels, avoiding any pollution from effluents or disposal of waste and hazardous substances, preventing spills and environmental incidents, and monitoring our environmental noise.

We are guided by the principles and practices set out in our Statement of Commitment to Environmental Protection and

Environmental Protection Management Guidelines. We also aim to fully comply with all applicable environmental regulations and requirements.

We integrate environmental considerations as a priority in our planning for all existing and new operations, products and services. We conduct environmental assessments in accordance with national and / or international standards and methodologies. These include environmental and social impact assessments, environmental baseline studies and pollution control studies. Recommendations from these assessments form part of our management of health, safety and environment (HSE) risks, and these recommendations are incorporated into the planning, design, construction and operation of new plants.

We apply stringent controls to the management of waste generated by our operations and strive at all times to adhere to discharge and emission limits set by local authorities. We implement containment measures to minimise any direct impact on the environment and the surrounding community.

Our Group HSE Management System's Incident Investigation and Reporting Requirements allow us to take systematic steps and actions in response to HSE incidents and near misses, to prevent recurrence. Our Integrated Assurance Framework (IAF) sets out the three lines of defence that ensure compliance to our operating standards, and that such standards are effective.

 For more information on our IAF, please refer to page 104.

Our performance

In 2018, Sembcorp was ranked 27th in the Top 100 Green Utilities and 11th in the Top Generators ranked by Renewables Capacity in Energy Intelligence's Top 100 Green Utilities. Sembcorp is the only company from Singapore on the list, which ranks the world's leading electric utilities based on their renewable energy portfolios and GHG emissions. In 2018, we grew our renewables capacity by over 400 megawatts to 2,600 megawatts, resulting in renewables accounting for over 20% of our total energy generation capacity of nearly 12,500 megawatts.

As part of our continual efforts to ensure the accuracy and consistency of our environmental data, we adopted a cloud-based environmental data reporting system in 2018.

To further encourage innovation from the bottom up, Sembcorp's !DEA Awards Programme recognises innovative ideas and efforts across the Group. Some of the winning ideas in 2018 included autonomous drones for inspections, insulator and heater temperature controls, and the use of ultra low frequency technology to reduce biofouling.

Climate Change

We launched our Climate Change Strategy in 2018 and set reduction targets for our GHG emissions intensity as well as growth targets for our renewables capacity by 2022. We achieved healthy growth in our renewables portfolio in 2018. Our emissions intensity registered a slight increase. However, we remain committed to meeting our 2022 target. We increased our engagement on numerous platforms to highlight the importance for businesses to take action to combat climate change. Our Group President & CEO and other senior executives participated in various climate-related panel discussions, including a Carbon Pricing Leadership Coalition plenary and the CleanEnviro Summit.

Resource Management

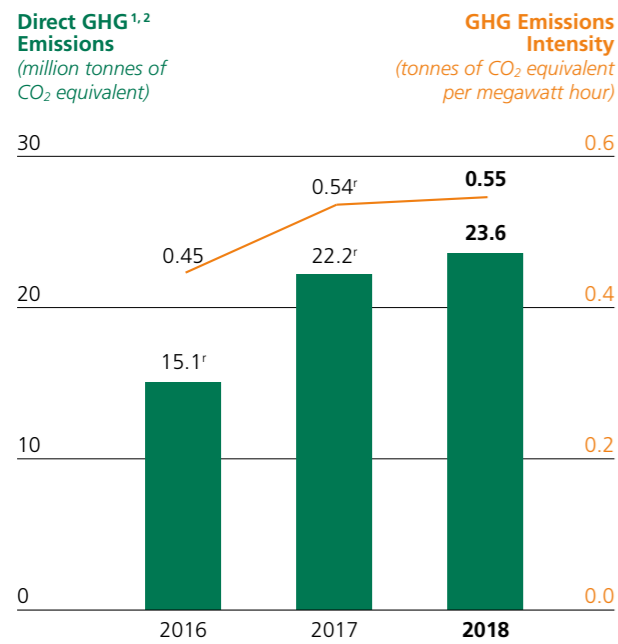
Across our plants, we pursue initiatives to increase efficiency. In the UK, we introduced the use of kaolin, a naturally occurring mineral, in our biomass power plant processes. This helps to reduce slag formation, leading to increased reliability, reduced maintenance costs and financial savings. In our India thermal plants, we introduced electric vehicles, buggies and bicycles for employees to quickly and safely move around our sites. This helps us reduce vehicular emissions. We also launched our Virtual Brain water monitoring system in our water plants in China. This system monitors and predicts water effluent quality against regulatory compliance standards and recommends corrective actions through machine learning. The Virtual Brain monitoring system will be progressively rolled out to our other water plants. In one of our Singapore wastewater treatment plants, we piloted a project using cutting-edge membrane and ozonator technologies to lower energy consumption. We also partnered with a Singapore university to develop an advanced biological process to achieve higher quality effluent at a lower treatment cost. These two projects are ongoing and, if successful, will help us reduce our environmental impact while bringing about energy and cost savings.

Our Material ESG Issues

In line with the methodology used for the development of our GHG emissions intensity targets, we started reporting our GHG emissions and emissions intensity using an equity share approach from 2017. The slight increase in the absolute emissions and emissions intensity in 2018 was due to increased electricity generation at our India thermal power plants.

We report emissions from the combustion of biomass separately, in accordance with Global Reporting Initiative Standards. These emissions amounted to approximately 447,000 tonnes of carbon dioxide equivalent in 2018, compared to around 442,000 tonnes in 2017.

Direct GHG Emissions (Scope 1) and GHG Emissions Intensity



¹ Emissions data covers entities that produce GHGs from the combustion of fossil fuels consumed in our Utilities business' assets. It excludes emissions from anaerobic wastewater treatment plants, and maintenance and servicing equipment. Only CO₂, CH₄ and N₂O emissions are included in the calculation of direct GHG emissions. Global warming potential factors used are from the UN 2006 Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report for 2016 data, and the IPCC Fifth Assessment Report for 2017 and 2018 data. A 100-year time horizon is applied

² Emissions data for 2016 is presented using an operational approach, while emissions data for 2017 and 2018 are presented using an equity share approach

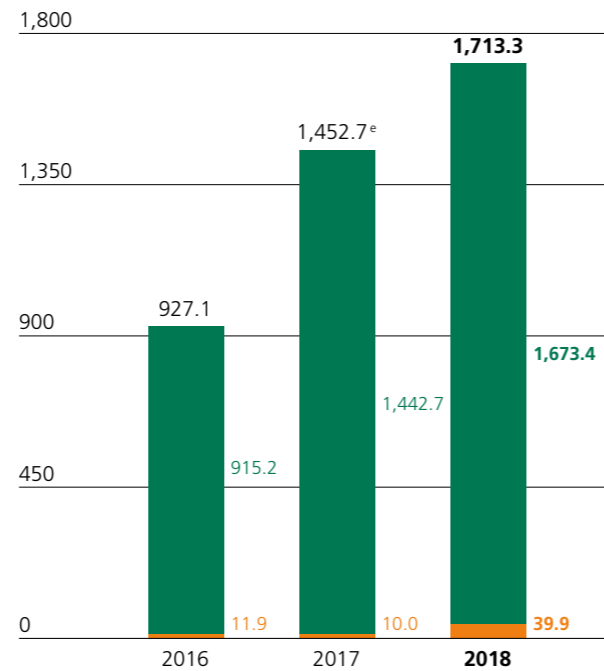
³ Indicates restated figure. After an internal verification exercise, direct GHG emissions for 2016 and 2017 have been restated to 15.1 and 22.2 million tonnes of CO₂ equivalent respectively, instead of 15.4 and 22.7 million tonnes of CO₂ equivalent as previously reported. GHG emissions intensity for 2017 has been restated to 0.54 tCO₂e/MWh instead of 0.55 tCO₂e/MWh as previously reported

Local Environmental Protection

The increase in non-hazardous waste generated in 2018 was due to increased electricity generation at our India thermal power plants. The non-hazardous waste comprised mainly fly ash, a by-product of coal combustion in power plants. In 2018, we achieved an overall fly ash recycling rate of nearly 75%, which amounted to nearly 1.1 million tonnes.

In 2018, we registered zero significant spills at our global operations. A significant spill is defined as that which resulted in a fine equal to or above \$50,000.

Waste Generated^{1,2} (thousand tonnes)

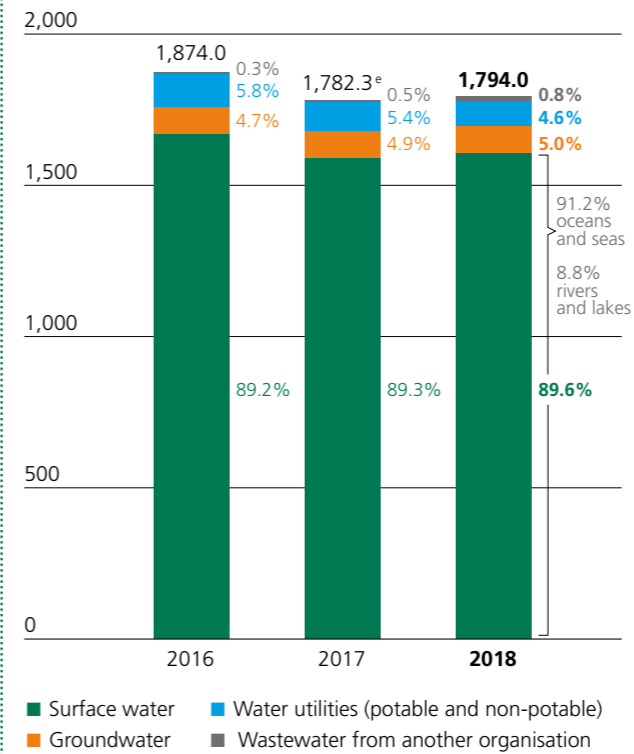


¹ The data excludes waste that is collected and incinerated for our customers

² Hazardous and non-hazardous waste are defined by relevant country regulations in each market

^e Indicates data is based on management's best estimates; we have since refined the accuracy and consistency of the data

Water Withdrawal^{1,2,3} (million m³)



¹ Data is collected from meters

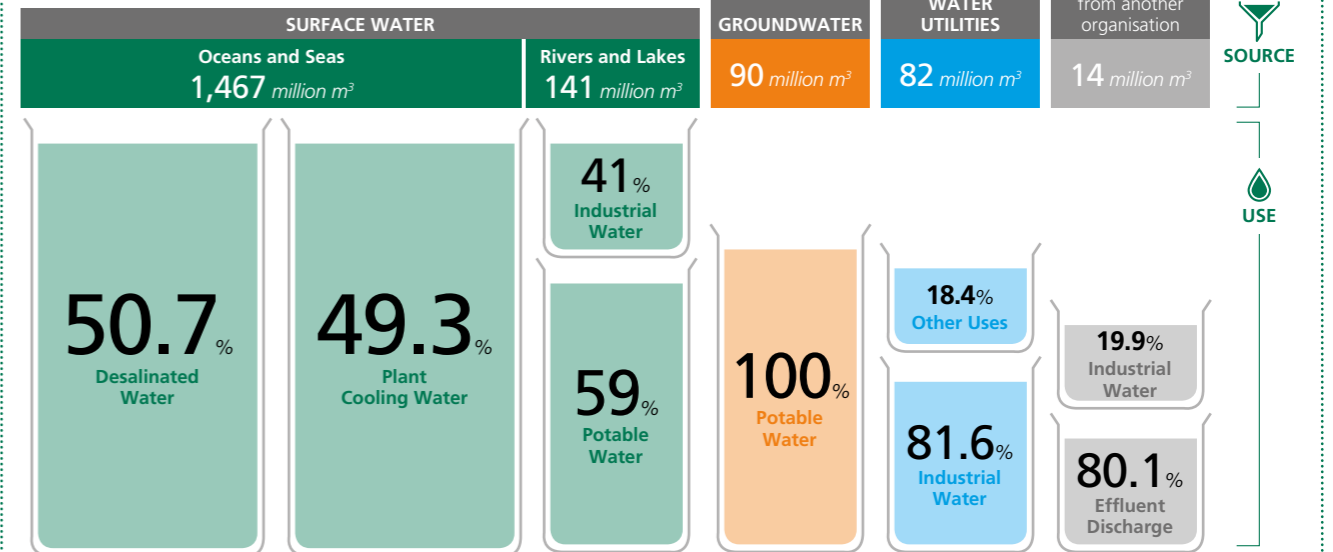
² Water withdrawn during asset construction as well as water withdrawn during plant commissioning for a closed loop cooling system is excluded from the reporting scope

³ Percentages may not add up to 100% as they are rounded to the nearest one decimal place

^e Indicates data is based on management's best estimates; we have since refined the accuracy and consistency of the data

In 2018, over 90% of the surface water drawn comprised water from oceans and seas. We saw a decrease of nearly 11% in the amount of water drawn from rivers and lakes. There was a decrease of around 14% in the water we obtained from water utilities, which was treated non-potable industrial and domestic wastewater. These decreases were due to the divestment of our South African municipal water assets in 2018.

Water Withdrawal by Source and Use



Our Material ESG Issues

Empowering Our People and Communities

Health and Safety	People	Community
<p>Our Priorities</p> <p>Making health and safety an integral part of our everyday business and culture</p>	<p>Our Priorities</p> <p>Creating a values-based and performance-led culture. Providing an engaging employment experience where our people can grow and excel</p>	<p>Our Priorities</p> <p>Contributing to the sustainable development of our communities through engagement and partnerships, and investing in initiatives that make a lasting positive impact</p>
<p>Relevant SDGs</p> 	<p>Relevant SDGs</p> 	<p>Relevant SDGs</p> 
<p>How We Did in 2018</p> <p>Our injury rates showed an overall improvement. Regrettably, we suffered one fatality in 2018. We are committed to achieving zero fatalities</p> <p style="text-align: right;">> Pages 100 and 101</p>	<p>How We Did in 2018</p> <p>We developed and launched the Sembcorp Mindset and Leadership Competencies. We also saw an increase in training hours from 2017, registering an average of 25.2 hours of training per employee</p> <p style="text-align: right;">> Pages 101 and 102</p>	<p>How We Did in 2018</p> <p>We made community investments of S\$1.1 million. 52% of our operations had local community engagement and development programmes</p> <p style="text-align: right;">> Page 102</p>

Why this is material

Health and Safety

Sembcorp develops and operates power and water plants as well as other facilities, where extensive health and safety precautions are required. It is our responsibility to ensure that globally, all our employees and contractors are competent and equipped to work safely. We recognise our duty of care to provide a safe workplace for those who step into our premises, and we work hard to fulfil that duty. The health and safety of our customers is also a key priority – especially in our municipal water operations, where any lapse in health and safety protocols can result in a direct impact on people in the community.

People

The industry we operate in is becoming increasingly complex due to market disruptions by technological advancement, climate change and resource scarcity. We have responded to these complexities by repositioning our businesses and organisation, pursuing growth strategies and building new capabilities. Our employees play a vital role in ensuring we achieve our business strategy and goals. There is therefore a critical need to develop and retain a capable, highly motivated and adaptable workforce to navigate this changing landscape. Of the issues relating to our people, our materiality review

process has identified the following to be important areas of focus:

- Employee development
- Employee compensation and benefits
- Employee engagement
- Employee wellness
- Diversity and equal opportunities
- Human rights and labour standards

Community

Sembcorp's long-term success is based on being a valued partner to the communities we operate in. While Sembcorp's businesses play an important role in supporting economic development and improving living standards in our communities, we recognise that there are social and environmental impacts on the communities around us as a result of the development and operation of our plants. Therefore, as part of our licence to operate, we aim to contribute to the sustainable development of our local communities through engagement and partnerships, and investing in initiatives that make a lasting positive impact.

Cultivating a Safety Culture

Health and safety is an integral part of our everyday business and culture. We recognise that having and maintaining good safety performance requires an organisational safety culture and the right mindset. Our past efforts in safety management have borne fruit, as we continue to see a downward trend in our injury rates.

To further improve our safety performance, we have embarked on a behaviour-based safety observation programme in Singapore. The programme focuses on cultivating an

organisational culture where safety is everybody's responsibility, through affirming positive safety behaviour and encouraging corrective actions. We are testing a web-based application to record observations and analyse the recorded safety performance data. Results from analyses done allow for the identification of gaps in safety performance, and hence feed into a more targeted response to enhancing safety. The programme will be progressively rolled out to Sembcorp employees across all markets.

Our approach

Health and Safety

Occupational health and safety

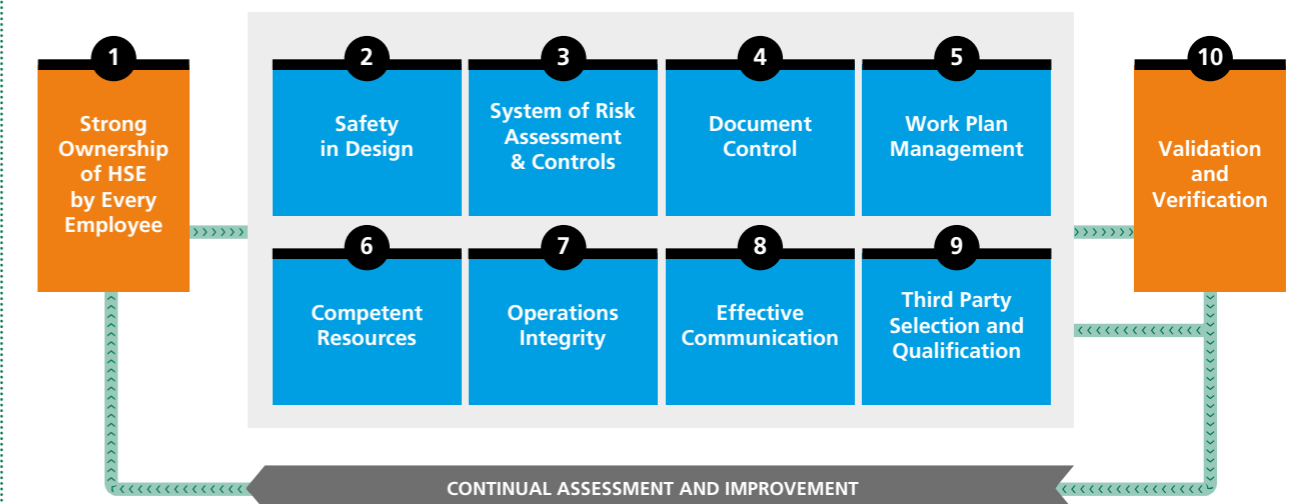
Our vision is to be an organisation with a proactive health and safety culture. We are committed to working towards the goal of zero fatalities and injuries in our workplace, with a workforce that puts safety first. We benchmark our health and safety performance against relevant global industry safety statistics, such as the International Oil and Gas Producers Global Safety Performance Indicators, and aim for progressive improvement. As our operations grow in different markets, the security of our staff and assets is also becoming increasingly important for us to manage. In response to this, we have adopted a phased approach in the development of our security management programme, starting with a focus on projects under development.

We have put in place structures and processes to meet our goal, including:

- Board review
- Oversight by the board's Risk Committee
- Leadership by our Group President & CEO
- A Group Health, Safety and Environment (HSE) management system framework comprising:
 - Group HSE Policy
 - Group HSE management system guidelines and standards

The Group HSE management system framework provides guidelines and standards detailing expectations and principles relating to different aspects and activities that take place at a plant or site. It is further supported by Sembcorp's 10 Elements for Good HSE. We value lives and are committed to safety, and believe that this is a responsibility shared by all employees across the organisation. Health and safety key performance indicators have been embedded into relevant employees' scorecards, and the award of performance incentives for all

Sembcorp's 10 Elements for Good HSE



Our Material ESG Issues

employees specifically takes into account the Group's health and safety performance for the year.

Assurance

Our Group Health, Safety, Security and Environment (HSSE) assurance is aligned with the Integrated Assurance Framework (IAF) that we are transitioning to. The IAF adopts a three lines of defence (LOD) approach that sets in place a robust accountability system in order to ensure that there is continual improvement.

For more information on our IAF, please refer to page 104.

- First LOD – regular site-level HSSE inspections and evaluation of HSSE control effectiveness are conducted at all plants and sites as part of our assurance regime
- Second LOD – on-site operations reviews conducted by subject matter experts from other markets and the Global Operations department evaluate the effectiveness of the plants' or sites' HSSE controls. On an annual basis, a validation and verification schedule is formulated using an internal risk-based assessment to ensure that the assurance exercise will focus on higher risk areas. Plants or sites with higher risk ratings will be given priority in the assurance exercise. The results of the assurance then form the basis for the development of improvement plans at the site

For more information on our on-site operations reviews, please refer to page 100.

- Third LOD – the integrated audit provides independent assurance to ensure compliance with our operating standards

Training

Providing our employees with relevant HSE and technical capability development ensures that we have competent safety practitioners and line managers who support safe operations. Training plans are tailored to the particular operation or site's risk profile and local conditions, and is conducted on an ongoing basis. Examples of operations-specific training include defensive driving at our solid waste management unit as well as project commissioning and construction orientation for project development teams. An annual global HSSE workshop is also held as a platform for the learning and sharing of corporate initiatives and best practices from our different operations.

Product responsibility: safety and quality

Product safety and compliance is a priority as non-compliance can result in serious health, safety and operational issues for our customers, many of whom depend on us for basic utilities or require our products for their industrial processes. Compliance testing of our products is done at various stages,

from manufacturing to distribution and supply. We have a robust maintenance and monitoring regime in place, which includes stringent inspections and preventive maintenance of all critical instruments including meters and sensors at both our and our customers' facilities. We also conduct regular laboratory tests to meet regulatory requirements and ensure that the water we produce is safe for our customers and end users.

People

Our operations span 15 countries across five continents where labour laws, regulations, employment codes and practices differ widely. All our local human resource policies comply with local laws.

Our human resource practices are guided by the following:

- Oversight by the board's Executive Resource & Compensation Committee
- Oversight by the Senior Leadership Council
- The Sembcorp Mindset and Leadership Competencies
- Our Code of Conduct
- Our Human Rights Policy
- Our Harassment Policy
- Our Grievance Handling Policy

Human capital risk is monitored as part of our key risk indicators and reported biannually to the board's Risk Committee.

Employee development

As part of equipping our workforce to respond effectively to change and disruptions in our operating context, we reviewed our approach to workforce management. A key outcome from this review was the development and launch of the Sembcorp Mindset and Leadership Competencies.

The Sembcorp Mindset determines who we are and how we should operate our business. Known as the five Cs – Creative Insight, Committed, Connected, Courageous and Curious – they represent our promise to internal and external stakeholders and are critical to support our business strategy as we adapt to changes in our operating context. The new Leadership Competencies define the key characteristics of a Sembcorp employee. Underpinning each of the above competencies are anchor behaviours that we have identified as critical to drive organisational performance and build future business leaders.

Employee development is a key lever of Sembcorp's transformation and is underpinned by the Leadership Competencies. With our training programmes, we aim to reskill employees to be future-ready by driving behavioural change. We are focused on building our internal leadership pipeline as part of succession planning. Part of supporting Sembcorp's transformation efforts also involves building our



digital capabilities to improve the efficiency of our business, the security of our and our customers' data, and our assets and operations.

We also ensure that local talent are placed in senior management roles in each market we are in. This is key to improving our ability to understand local market conditions, while supporting capability building in the local communities.

Effective performance management is also a critical component of Sembcorp's business transformation. It involves aligning our employees' competencies to our new business direction,

as well as recognising their contributions. This is facilitated through our newly launched performance management system LeAD (Lead, Appraise, Develop).

Employee compensation and benefits

To attract, motivate and retain employees, Sembcorp's remuneration and reward system is market competitive and performance-based. To determine salary levels and benefits, regular reviews and benchmarking are conducted against local standards and data from global market surveys and consultancy firms. In countries where there is a minimum wage policy, Sembcorp pays above the minimum wage.

Sembcorp adopts an equal pay policy where rewards are based entirely on merit and performance. Salary increases are based on individual performance and benchmarked against the external market as well as negotiations with employee unions and guidelines issued by the local government. Annual variable bonuses are based on the Group's performance as well as employees' performance against individual targets set jointly with their supervisors.

Providing an engaging employee experience

Employee engagement

As part of employee engagement, our senior leaders deliver consistent communications about the company's vision, strategy and progress. Quarterly staff communication sessions are conducted face-to-face where possible and via webcast to a global audience. Each session is also followed by an open dialogue where employees can send in their questions and feedback. Additionally in Singapore, we hold monthly "Meet

Aligning Goals and Developing Competencies

To support Sembcorp's ongoing transformation effort, we launched and rolled out our enhanced performance management system LeAD in our key markets of Singapore, India and China, and are rolling it out in phases in the UK. This system facilitates a more structured and concerted effort to set and cascade goals, and moves the focus of the performance management system from being an assessment mechanism to one that focuses on the coaching and development of staff. The Sembcorp Leadership Competencies were introduced as a key measure of performance to facilitate culture change as part of business transformation. Staff in these key markets have attended training on LeAD principles and the Sembcorp Leadership Competencies.

Our Material ESG Issues

the Leaders” sessions for our senior leaders to share about their personal leadership experiences and upcoming projects, as well as for employees to engage with them in an informal setting.

Over the course of the year, organisational updates, internal campaigns as well as business milestones are communicated via channels such as briefings and workshops, emails, the intranet and other interactive internal digital platforms.

Employee wellness

We recognise the impact of wellness on our employees’ overall effectiveness and have set aside a dedicated wellness budget in countries where we have major operations, such as Singapore, China and India. The budget is available for department heads to use for activities that encourage employee well-being and team bonding. We also provide Group Term Life and Group Personal Accident coverage in all our key markets. Besides mandatory medical screenings for employees potentially exposed to occupational health hazards, voluntary annual health screenings are available free of charge to all employees in Singapore, China, India, Oman and the UAE.

In 2018, we launched the Business Psychological Resilience Programme (B-PREP) in Singapore. B-PREP aims to provide employees with a safe, supportive and caring environment to seek help when exposed to critical incidents that impact them emotionally and psychologically.

Around the world, employee-led committees within our operations organise a range of recreational activities as well as nutrition and stress management programmes to support employees’ physical and mental well-being.

Promoting a fair and equitable work environment

Diversity and equal opportunities

Sembcorp is committed to promoting a fair and equitable work environment for all employees. We believe all employees should have the opportunity to thrive in a diverse workplace free from harassment. We recruit, promote, reward and provide career advancement and development opportunities based on merit and without discrimination on the basis of age, race, gender, sexual orientation, religion, family or marital status. Our Senior Leadership Council is represented by more than five different nationalities and our global workforce includes people from over 35 nationalities.

Human rights and labour standards

Our Human Rights Policy defines our responsibility to ensure the highest respect for human rights and the company’s expectations of our workers and business partners. We are committed to uphold and respect the spirit of the UN Universal Declaration of Human Rights and the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work. We are also guided by the UN Guiding

Principles on Business and Human Rights. Our Code of Conduct sets out our stance on fairness, opportunity, non-discrimination, dignity, respect and harassment. We abide by 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 in our operations.

We abide by local laws wherever we operate. Our Human Rights Policy states that Sembcorp employees are entitled to practise freedom of association and to be covered by collective bargaining agreements in the workplace, within the regulatory boundaries of each of the jurisdictions. We hold constructive ongoing engagements with employee unions in our various operations. In countries where our operations are covered by collective agreements, we abide by the terms stated in these agreements, including those relating to minimum notice periods. Procedures for grievance handling are also specified in the agreements. Where collective agreements do not exist, we abide by the terms stated in employment contracts.

Our grievance mechanisms are readily available and transparent. We strictly prohibit any form of retaliation against an individual who raises a grievance in good faith. The grievance procedure sets out our approach for the fair handling of employee grievances, and employees have confidential channels to submit feedback.

Our Grievance Handling Policy complements the group-wide Whistle-blowing Policy, which encourages all employees to report any possible improprieties on a confidential basis, without fear of recrimination. The company has an easily accessible whistle-blowing portal, and employees may also provide feedback via email or phone. The right to a work environment free from harassment is part of our Human Rights Policy. In the event of harassment, we ensure that remediation is undertaken in line with our Grievance Handling Policy.

For more information on our Code of Conduct, Human Rights Policy and Whistle-blowing Policy, please visit the Report & Policies page in the Sustainability section of our website.

Community

As we build successful and sustainable businesses, societies and communities benefit. Our operations generate employment, contracts for local suppliers and tax revenues for governments and result in infrastructure development in our host communities. The direct economic value generated and distributed by our businesses can be found on the following page. We also recognise that our operations bring changes to our communities and can have positive or adverse environmental and social impacts that vary across our operations.

As a company with operations across five continents, we understand first-hand how the needs of one community can

be very different from another. We believe that our local operations are best placed to not only understand the needs of the community, but also forge partnerships with local stakeholders. Therefore, while the Group provides the strategic framework, tools and guidelines to ensure consistency and acceptable standards, community assessments and engagements as well as contributions are managed at the local level.

Assessment and engagement

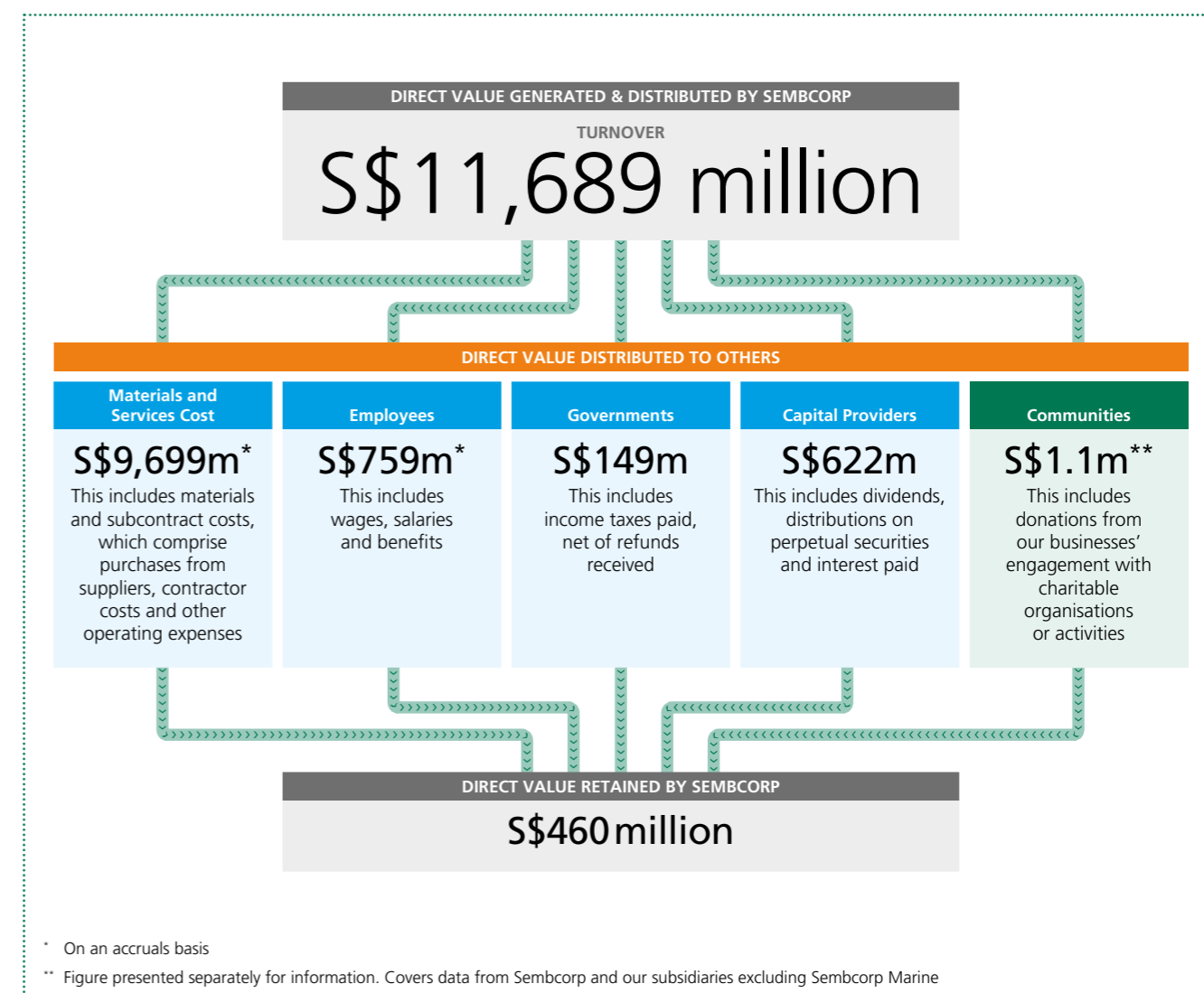
Our assessment and engagement of the community is guided by our Group Stakeholder and Community Engagement Policy as well as our Group Community Grievance Management Policy. Environmental and social impact studies are carried out in accordance with international and / or national standards for major new projects and expansions. These studies typically include social management plans that are implemented by the operations teams through the various stages of a site’s development.

Community investment

Sembcorp’s global Corporate Social Responsibility (CSR) Framework provides a strategic and consistent approach for our charitable contributions and community investments. We focus on fostering environmental stewardship and improving quality of life for the communities we are in.

Our CSR Framework aligns the tracking and reporting of our community contributions with guidelines set by the LBG (formerly known as the London Benchmarking Group). This allows us to account for our total community giving using standard definitions and valuations, and helps us ensure that the contributions recorded are meaningfully spent on community investment activities.

For more information on our key programmes, please visit Our Focus Areas: Social page in the Sustainability section of our website.



Our Material ESG Issues

Securing Access to Clean Drinking Water

Sembcorp installed 14 water treatment plants within the 13 villages that surround the Sembcorp Myingyan Independent Power Plant in Myanmar, providing more than 19,000 people with access to clean drinking water within 500 metres of their homes. Toilets were also installed in schools within these communities. Additionally, given that the communities are located far away from the Ayeyarwady River, underground water tanks were also installed to provide a quick source of fire-fighting water.

U Chit Win, village head of one of the beneficiary villages, Sate Nyan Village, said, "We are thankful to Sembcorp for

the installation of the water treatment plant and underground water tank for fire-fighting purposes. Our family feels safer living in Myingyan because, with Sembcorp's help, my children have easy access to clean drinking water and our house is now safeguarded against fire."

In line with our commitment to our priority UN SDG 6 (Clean Water and Sanitation), this initiative has helped provide safe drinking water for the communities surrounding our plant, and improved water and sanitation management.



Our performance

Health and Safety

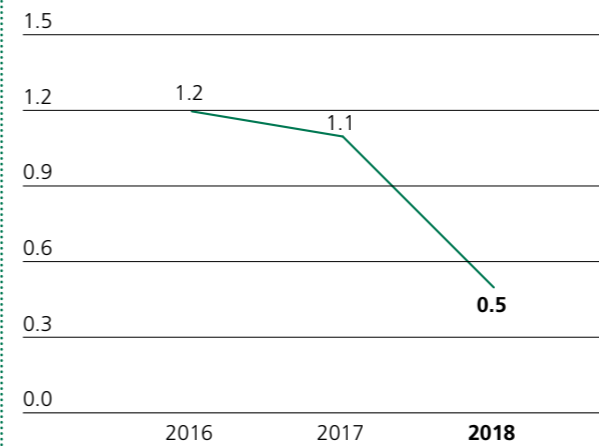
In line with our global footprint, we continued to focus on aligning our practices with international standards. Key initiatives include:

- Trade-based standards such as the Safe Lifting Operations and Working At Height standards were rolled out in 2018. We will implement a behaviour-based safety observation programme for all our operating assets by 2019
- Operations review activities were conducted to assist sites in identifying areas for improvement, such as operational processes and health and safety. The review exercise takes on a peer review approach, where each team conducting the operations review involves the participation of and feedback from other market functions. These collaborative efforts between our markets and Global Operations

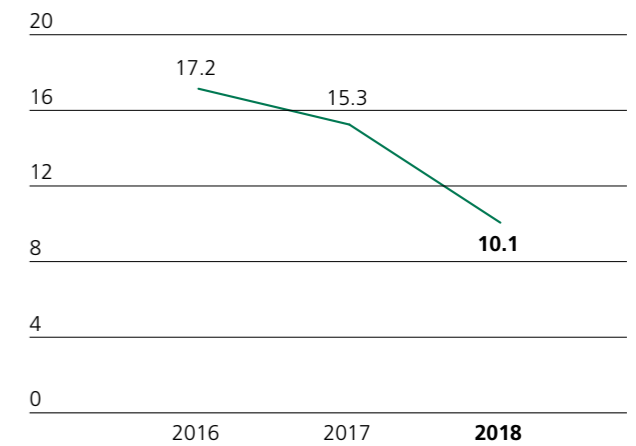
department aim to drive operational excellence by providing post-review support to the improvement efforts of each site

- An annual Global Operations and HSSE Workshop was last held in Singapore in April 2018. Critical control points for power assets were identified by representatives from all sites globally through a detailed process assessment exercise. These were then mapped to technical and HSSE standards, and, in response, site-specific standard operating procedures were developed to enhance risk management within our operations
- An injury case management programme was developed and piloted in Singapore. All injury cases are managed through a "Return To Work" programme, which encourages a positive safety culture by helping injured employees return to work quickly and supporting a culture of care in the company

Lost Time Injury Rate Per Million Man-hours^{1,2}



Accident Severity Rate Per Million Man-hours^{1,3}



¹ Group Health and Safety Performance is reported and recorded in accordance with the reporting requirements defined in the Group HSE Health and Safety Performance Reporting Standards. The principles adopted in the Standards are consistent with the general principles of the Global Reporting Initiative Standards, the International Oil and Gas Producers Association Reporting Standards, and the US National Institute for Occupational Safety and Health. Occupational health and safety data covers employees and contractors in our operational assets. It excludes data from administrative offices and service companies. All injuries involved male employees and contractors

² Lost time injury rate is defined as the number of fatalities and lost work day cases per million man-hours worked. It excludes first aid cases

³ Accident severity rate is defined as the number of lost work days per million man-hours worked. It has been charted to exclude fatalities. Accident severity rate including fatalities is reported as part of our detailed performance data available in the Performance and Data Commentary report in Our Performance page in the Sustainability section of our website

- The launch of our Group Security Management System, which sets a framework for the implementation of security policies and application of consistent security standards across our markets. These security standards are presently being developed and formalised

Sembcorp Mindset and Leadership Competencies. We also launched a new performance management system, LeAD, in our key markets of Singapore, India, China and the UK. There was 100% uptake of the system for the goal setting and performance review processes by over 3,500 staff in key markets within six months of its launch.

Despite our best efforts, it is with deep regret that we report one fatality in 2018 due to a contractor accident at one of our sites in India. We are deeply saddened by this incident. A thorough review has been carried out, following which additional safeguards have been implemented to minimise risks. We will strive to ensure that employees and contractors maintain safe work practices and also encourage other companies within our sphere of influence to do the same.

We continued with the Sembcorp Leaders' Programme (SLP), which has received consistently positive feedback. With the launch of the new Leadership Competencies, the SLP will be reviewed as part of the holistic Learning and Development framework to incorporate future skills needed to develop our employees and leaders.

We closely monitor our safety statistics to ascertain the effectiveness of our initiatives. We believe that our efforts to improve our operations' and sites' abilities to identify and address unsafe conditions or actions have borne fruit. In 2018, we were encouraged by positive results in both our operating assets as well as projects under construction. We saw a more than 50% decrease in our lost time injury rate, and our accident severity rate has seen a consistent decrease in the past three years.

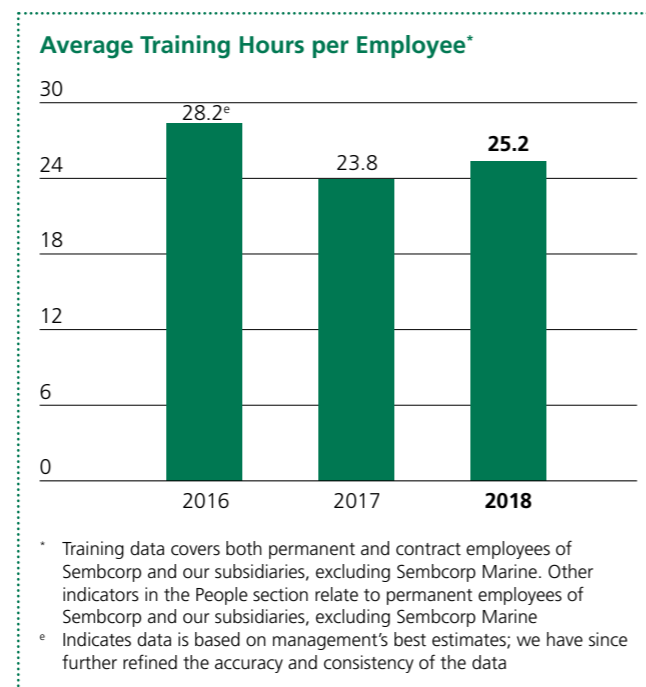
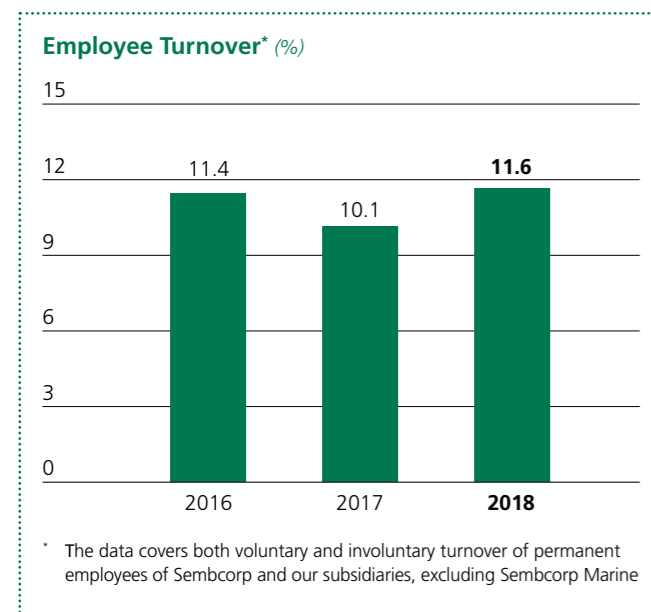
Employee turnover rate was stable, increasing slightly from 10.1% in 2017 to 11.6% in 2018. The voluntary turnover rate increased from 8.4% in 2017 to 9.3% in 2018. We recognise the potential impact that our transformation efforts may have on our employees, and remain committed to consistently engage our employees and equip them with skills to cope with future changes as we continue to implement our new strategy.

People

In 2018, a key enhancement of our approach to workforce management was the development and launch of the

The average number of training hours per employee was 25.2 hours in 2018, an increase from 23.8 hours in 2017. This increase reflects our efforts to build up our employees' capabilities to respond effectively to ongoing industry change and disruption.

Our Material ESG Issues



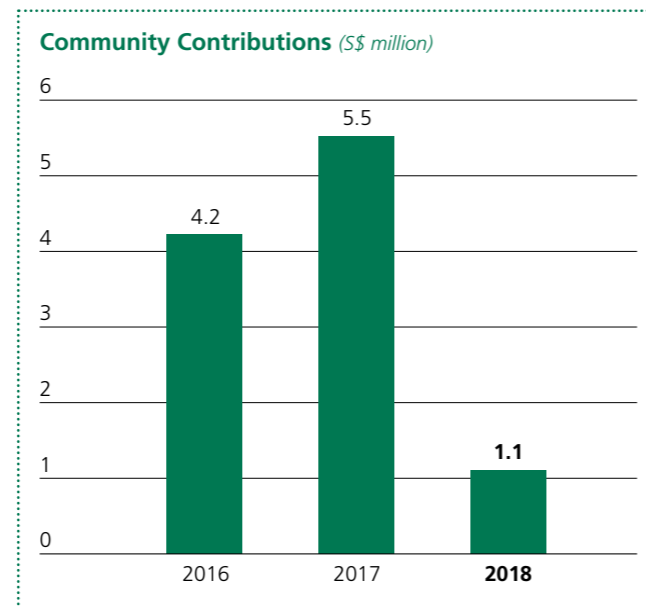
Community

In line with our commitment to manage our impact on the community responsibly and better mitigate the environmental and social impacts of our businesses, key community investments and programmes are designed in consultation with local communities as guided by our CSR Framework. In 2018, we reviewed and enhanced our CSR Framework to develop a more strategic approach with our community investments. The updated framework will be launched and implemented in 2019. We also plan to grow the percentage of our operations with community investment programmes.

As part of our commitment to SDG 6, one of our priority SDGs, we invested in programmes to secure access to safe drinking water for communities living in the vicinity of our plants. In 2018, we installed 14 water treatment plants in Myanmar. To date, we have installed a total of 27 water treatment plants that benefit more than 68,000 people in over 50 villages in India and Myanmar.

Our community investments also aim to impact the lives of youth in these communities. We have designed holistic education programmes that not only include the physical upgrading of school building infrastructure, but also awareness raising campaigns on issues such as personal healthcare and drug addiction. In 2018, we renovated over 35 schools and classrooms, benefitting more than 6,700 students in India and Myanmar.

In 2018, Sembcorp contributed S\$1.1 million in cash and in-kind to charities and community initiatives globally. Over S\$470,000 comprised mandatory contributions and close to S\$15,000 were leveraged contributions. These contributions supported



causes such as environmental and water conservation education, as well as youth development, apprenticeships and job training programmes. There was a decrease in our community investments as we paid out the final instalment of our investment in the enhancement of the Cool House at Singapore's National Orchid Garden in 2017.

Total volunteer man-hours amounted to more than 4,000 hours, of which over 25% was spent outside of working hours due to event requirements.

Embedding Responsible Business Practices

Corporate Governance

Our Priorities
Maintaining an effective governance and decision-making structure

Relevant SDGs
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

How We Did in 2018
We continue to be placed in the top 10 of the Singapore Governance & Transparency Index

> Page 108

Ethical Business and Compliance

Our Priorities
Fostering an ethical culture and conducting our business with integrity, and ensuring we comply with all legal and regulatory requirements

Relevant SDGs
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

How We Did in 2018
We rolled out our revised Code of Conduct and conducted training on the Code. Over 99% of our staff have since acknowledged their compliance with the Code

> Page 108

Risk Management

Our Priorities
Ensuring effective identification of material risks and putting in place an adequate and effective risk management and internal control system

Relevant SDGs
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

How We Did in 2018
We are in the midst of transitioning our current Governance Assurance Framework (GAF) to an Integrated Assurance Framework (IAF)

> Pages 104 and 108

Why this is material

Corporate Governance

We define corporate governance as the structures and processes in place for the transparent and accountable control and governance of our organisation. Well-defined corporate governance processes are essential to enhancing corporate accountability and long-term sustainability to preserve and maximise shareholder value.

Ethical Business and Compliance

Responsible business conduct and ethical business practices ensure the long-term viability of our businesses and build trust and confidence with our stakeholders. We are committed to high standards of behaviour and integrity in everything we do. We believe in conducting our business legally, fairly, honestly and with integrity, and expect the same of those whom we do business with. We have zero tolerance for fraud, bribery and corruption. Our businesses operate in highly regulated environments where non-compliance may subject us to statutory and regulatory fines and sanctions, including losing our licence to operate and material litigation. It may also result in damage to our reputation and credibility, limiting future growth opportunities.

Risk Management

Managing risk is an integral part of our business activities. As we continue to grow and expand globally, we are exposed to diverse risks, including strategic, financial, operational,

compliance and fraud risks. Besides helping to preserve our bottom line by reducing the likelihood and impact of potential losses, risk management provides a common basis to evaluate new business opportunities. It also assures our board and shareholders that key enterprise and business risks faced by the organisation have been identified, assessed and managed with appropriate risk mitigation measures and controls.

Our approach

Corporate Governance

Sembcorp is led by an effective board comprising mainly independent non-executive directors. The board is collectively responsible for providing overall strategic direction and ensuring the long-term success of the Group. Several board committees have been established with clear terms of reference, both to assist the board in fulfilling its responsibilities and to provide independent oversight of management.

Furthermore, the board and management of Sembcorp recognise that well-defined corporate governance processes are essential to enhancing corporate accountability and long-term sustainability, and are committed to high standards of governance to preserve and maximise shareholder value. We comply with the principles and guidelines set out in the Singapore Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore, and our corporate governance practices are set out in the Corporate Governance Statement in this annual report.

Our Material ESG Issues

To facilitate the effective execution of both our internal processes and business needs, we have in place a clearly defined organisational structure which includes detailed roles and responsibilities for key appointment holders. This is further supported by an established matrix for delegation of authority as well as financial authority limits, which have been approved by the board. A comprehensive set of group-wide governance and functional policies ensure entity-level controls are also implemented across the Group. The Group's internal controls policy and manual, which adopts principles of the Committee of Sponsoring Organizations of the Treadway Commission, provides a framework for what constitutes an effective and adequate system of internal controls. It also provides guidelines on the appropriate segregation of duties and a checklist of recommended internal controls for operations in our various markets to put in place.

We are in the midst of transitioning our current GAF to an IAF to provide a more holistic and robust basis of assurance for the adequacy and effectiveness of our risk management and internal control system. The process identifies risk from a top-down strategic perspective and a bottom-up perspective from each key market, putting greater emphasis on the three lines of defence (LOD) model.

a. First LOD

Key markets and business units are required to regularly review their risk and internal control environment to ensure that they operate within the prescribed risk appetite. This is done through a combination of detailed risk and control registers and review processes, established escalation procedures and well-defined consequence management. In addition, a rigorous management attestation process, the Management Control Assessment (MCA), is submitted quarterly by each market and business

unit to provide the assurance that its risk management and internal control system is adequate and effective.

b. Second LOD

The second LOD sets the policies, standards and standard operating procedures that the markets and business units are required to adopt. Additionally, submissions and responses from the MCA are further validated through substantive review by the business lines, subject matter experts and corporate functions as an added layer of assurance.

c. Third LOD

Group Integrated Audit (GIA) provides independent assurance across financial, operational, compliance and IT risks through a series of walkthroughs and substantive testing. Management works closely with GIA in closing out all material issues and gaps in a timely manner to ensure that there is continual improvement to our risk and controls environment as well as an effective feedback loop to the first and second LODs. External audit considers internal controls relevant to the preparation of financial statements to ensure they give a true and fair view.

Risk Management

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 risks including significant risk exposures relating to foreign exchange rates, commodity prices and major investment projects as well as corresponding risk mitigation plans. HSE policies, guidelines and limits are also regularly

reviewed. Oversight for risk management within the Group's listed entities lies with their respective boards.

Risk appetite framework

The board has determined a risk appetite framework for Sembcorp that forms a common understanding among both our board and management to execute the Group's strategy and objectives. Under this framework, the board has approved risk appetite statements with respect to the areas below. These are aligned with how the Group categorises our material issues for the management and reporting of our overall sustainability performance:

a. Economic

Sembcorp actively pursues global strategies to deliver sustainable long-term value and growth. We will continue to invest in and develop our capabilities and expand our business in both existing and new markets. Investing in such markets inevitably carries with it inherent risks; however, the Group is a disciplined investor with a robust investment approval process that calls for the necessary due diligence and risk management to be done. The Group has set appropriate limits for investment exposure in each country to manage concentration risk.

The Group is committed to maintaining a strong financial position and targets to achieve an investment grade equivalent credit rating to ensure access to funding and protect shareholder value. The Group has a defined set of risk management policies to manage our financial risks. The Group will not take part in any form of transaction that is deemed speculative in nature, under any circumstances.

b. Environmental

Sembcorp is committed to operate in a socially responsible manner to manage our impact on the environment, as well as provide high quality products and services that contribute to the sustainable development of the communities in which we operate.

In addition to being committed to complying with all applicable environmental standards and requirements through our established internal policies and processes, we assess the impact of environmental and climate-related risks on our business, and apply appropriate control measures to manage them. Where viable, we also invest in the latest technologies and utilise our capabilities to achieve better operational efficiencies and promote environmental sustainability.

c. Social

Sembcorp is committed to being a responsible business that ensures the health and safety of our people, and makes a positive impact on our people and communities.

In our pursuit of operational excellence and business growth, Sembcorp will not compromise the health and safety of our internal and external stakeholders. The health and safety of all our employees, contractors, customers and the public is of paramount importance to the Group. We take a serious view of any breach of health and safety standards and regulations across all our operations and facilities.

Sembcorp recognises the need to have in place a strong and competent team that is committed to our values for transformation and growth. Sembcorp will continue to equip our employees with the relevant capabilities / competencies and provide an engaging employment experience, thereby creating a values-based and performance-led culture to ensure a sustainable business.

Sembcorp is also committed to building our digital capabilities to improve the efficiency of our business and maintain an effective control environment to manage the cyber risk exposure of our and our customers' data and our assets and operations.

In addition, Sembcorp believes that as an integral part of our communities, we should conduct our business in a responsible manner and make a positive contribution to the communities in which we operate. The Group is therefore committed to high standards of business conduct, engaging our stakeholders and managing our environmental and social impact on local communities responsibly.

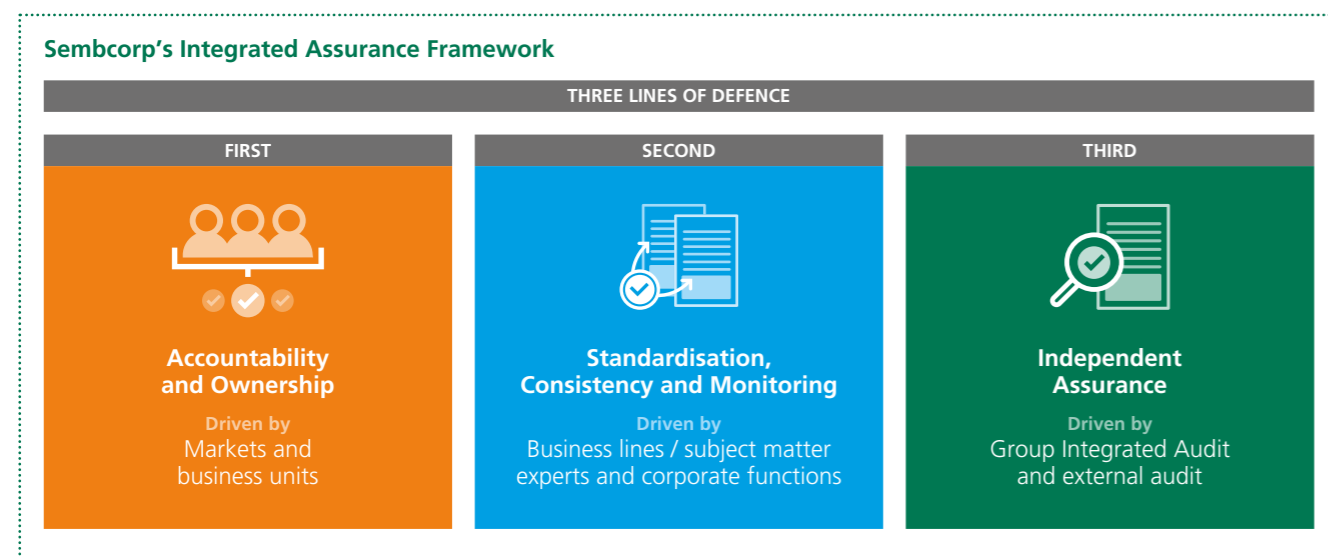
d. Governance

As a listed company on the Singapore Exchange that has both responsibility and accountability to a wide range of stakeholders, Sembcorp is committed to maintaining high standards of behaviour and integrity, and aims to be best in class for governance practices. The Group will strive to comply with all applicable laws and regulatory requirements in the countries where we operate, including adopting a zero tolerance stance towards any form of fraud, bribery and corruption. We expect all employees to adhere to the guidelines set forth in the company's Code of Conduct (CoC).

Our risk appetite statements are also supported by key risk indicators, which are monitored and reported to the board's Risk Committee on an ongoing basis.

Enterprise risk management

The Group is committed to ensuring that an effective and practical enterprise risk management (ERM) framework is in place. Our framework aims to safeguard our people and assets, protect shareholders' interests, facilitate informed decisions for value creation and ultimately enhance our brand and reputation. In designing our ERM framework, the Group has adapted and made reference to various industry risk



Our Material ESG Issues

management standards, such as ISO 31000 and the Enterprise Risk Management – Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission. This ensures 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 the right risk awareness culture. Our ERM framework specifically sets out a systematic and structured approach towards risk management through the following activities:

- Awareness training 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
- Continual improvement of risk management capabilities and mitigation measures

Our ERM framework is supported by the following key pillars:

a. Fraud Risk Management

The possibility of fraud is an inherent risk in any organisation. To manage this, the Group has established a fraud prevention policy, which has been approved by our board's Risk Committee. The policy provides a framework and comprehensive guidance on anti-fraud measures to proactively manage the risk of fraud, bribery and corruption. We actively influence and encourage our joint ventures and associates to adopt our fraud risk management framework. The Group maintains a zero tolerance policy for fraud, which we take to include corruption and bribery. This stance is regularly communicated to employees through awareness training and e-learning programmes.

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

- Code of Conduct
- Conflict of Interest Policy
- Gifts and Entertainment 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

Sembcorp has a Whistle-blowing Policy in place. We provide employees and external parties with well-defined and accessible channels through which they may, in confidence, raise concerns regarding possible improprieties in the conduct of business activities, financial reporting or other matters to the Audit Committee. This facilitates independent investigation of such matters for appropriate resolution. The policy is available on our website and is subject to review on a regular basis.

A whistle-blower may submit his / her allegations or concerns either by telephone, email, our whistle-blowing portal or other communication channels.

The company will take reasonable steps to protect the identity of the whistle-blower. The company does not condone retaliatory action against the whistle-blower. The whistle-blowing case will be received by the Head of GIA and an investigation will be conducted in compliance with the requirements set out in the company's Whistle-blowing Policy.

 For more information on our Whistle-blowing Policy, please refer to the Report & Policies page in the Sustainability section of our website.

b. Operational Risk Management

The Group's management of operational risk is focused on the following areas:

Crisis management and business continuity

A robust and effective crisis management framework is put in place with the Group's crisis management, emergency response and business continuity procedures and plans. These procedures and plans are regularly tested and fine-tuned. The Group also addresses crises and emergencies through the implementation of appropriate prevention, preparedness, and response and recovery programmes. Some of these material operational risks include natural disasters, terrorism, cybersecurity attacks, epidemic outbreak and failure of critical equipment.

Health, safety and the environment

A group-wide HSE management system which is aligned with international standards and industry best practice sets the standard for operations in the various markets to actively manage HSE risks.

Insurance

As a risk transfer mechanism, the Group has in place a comprehensive insurance programme to protect our worldwide business operations against financial loss arising from property damage, machinery breakdown, business interruption and / or third party liability. The Group has also engaged a panel of top-tier insurance consultants, leveraging their technical expertise and resources to negotiate competitive pricing and comprehensive coverage with insurance companies. To balance the cost of risk transfer, the Group focuses on insuring catastrophic events while maintaining our 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 power and utilities operations in Singapore and Teesside in the UK. Sembcorp Captive Insurance serves not only as an internal risk transfer mechanism, but also showcases the Group's efforts to promote greater accountability and responsibility in operations and maintenance. 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 should the need arise.

c. Financial, Market and Credit Risk Management

Sembcorp's financial, market and credit risk exposure is managed via established policies, including treasury policies, financial authority limits and Governance Assurance Certification.

Financial and market risks

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. Under the Group's overall treasury policy, transactions for speculative purposes are strictly not allowed.

Default and counterparty credit risks

A group-wide credit risk policy has been put in place to ensure that we transact with creditworthy counterparties as much as possible. We also screen for material concentrations of credit risk to ensure that no single counterparty or group-related counterparties has excessive credit exposure that may result in material impact on the Group in the event of a default.

d. Investment Risk Management


The Group has in place an investment approval process to ensure a prudent and disciplined approach to all investment decisions, including a country risk framework that sets appropriate country risk limits.

As at December 31, 2018, the countries outside of Singapore in which the Group has the largest investment exposure are India (\$3.6 billion), China (\$1.8 billion), Brazil (\$1.6 billion) and the UK (\$1.2 billion). Investment exposure comprises invested capital, including reserves and committed contingent support for projects and assets.

e. Tax Risk Management

It is our policy to comply with all relevant taxation laws, regulations and regulatory disclosure requirements.

In 2018, Singapore implemented Country-by-Country (CbC) Reporting for Singapore multinational enterprise (MNE) groups. As a Singapore-headquartered MNE, Sembcorp is required to file a CbC Report for financial years beginning on or after January 1, 2017. We are pleased to report that during the financial year, we filed the CbC Report in compliance with the submission requirements of the Inland Revenue Authority of Singapore.

 For more information on our ERM framework and a full description of our approach to managing the above risks as well as more information on our Tax Policy, please refer to Our Focus Areas: Governance page in the Sustainability section of our website.

Ethical Business and Compliance

Sembcorp's values of Creative Insight, Committed and Connected define our approach to sustainable growth, and form the foundation of Sembcorp's CoC. Employees are required to comply with the requirements of the CoC, which addresses Sembcorp's stance in the following ways:

- We treat each other fairly and with respect
- We protect personal information
- We do not bribe
- We deal with government officials responsibly
- We work with trustworthy business partners and representatives
- We compete ethically
- We avoid conflicts of interest
- We treat gifts, entertainment and hospitality responsibly
- We safeguard company assets and information
- We work with ethical suppliers
- We do not disclose or act on inside information
- We do not facilitate money laundering or financial crimes
- We maintain accurate records, contracts and sound internal controls
- We are good corporate citizens
- We are politically neutral
- We manage our health, safety, security and environmental responsibilities as our first priority

Our Material ESG Issues

The CoC is endorsed by the Board. Requirements of the CoC are communicated to employees globally through a message from the Group President & CEO, face to face training in the local language as well as a video presentation. Employees are required to complete an annual declaration to acknowledge that they have read and understood the principles and requirements of the CoC, and agree to comply with its principles and requirements and promptly report any violation through available reporting channels. Suppliers and contractors who work with Sembcorp are expected to respect and follow the CoC as well.

The CoC also provides for escalation procedures in the event of a breach of the CoC as well as feedback channels for employee clarification and queries.

Full compliance with all legal and regulatory requirements is the minimum expectation we prescribe for all our businesses. As part of our IAF, all heads of markets have to certify that they have complied with all relevant legal and regulatory requirements in their respective entities and countries of operation. Any monetary fines and non-monetary sanctions imposed on the markets are also to be reported.

In view of emerging concerns on data privacy, the Group has established the Group Personal Data Protection Policy which sets out the principles and processes to govern the collection, use, disclosure and retention of personal data across all markets and business units. Markets and business units are expected to abide by the policy, subject to local laws and regulations on data protection.

Regular audits are conducted by the GIA and Group HSSE departments to ensure compliance and also to identify gaps and lapses in compliance. They also work closely with management to develop action plans to prevent future recurrences of gaps and lapses.

Our performance

We continued to be ranked sixth in the Singapore Governance and Transparency Index, the leading index for assessing corporate governance practices of Singapore-listed companies.

In 2018, we undertook a suite of improvement initiatives following a group-wide bribery and corruption risk assessment in 2017. We enhanced our CoC and Anti-bribery and Corruption Policy to strengthen employees' understanding of their obligations and foster accountability and ownership of our ethical commitments. Extensive training and awareness programmes were conducted globally, including face to face training, train-the-trainers programme, a CoC video and monthly key compliance message communications. We conducted face to face training in our operations in Singapore, China, India, Bangladesh and Myanmar. For the remaining regions, training

was conducted via video conference and train-the-trainers programme. In 2018, 96% of employees underwent training in the enhanced CoC through various platforms, and over 99% of employees have acknowledged their compliance with the CoC. We also launched our whistle-blowing portal. The portal is available in the Whistle-blowing Policy document on our website. It has a pre-defined set of questions to guide whistle-blowers in providing the required information / documents in reporting their concerns and also to allow the investigation team to maintain communication.

In 2018, our operations in Chile paid significant* fines totalling S\$421,000. Two fines for incidents in 2016 and 2018 were for non-compliance with environmental regulations totalling S\$362,000. They pertained to odour issues and the discharge of sewage to the ocean, stemming from failures in sewage lifting stations. Remedial actions have been taken, including enhancing the electrical system of the lifting stations and level metering system to better manage sewage water discharge, and building a new sludge thickener and dewatering plant with bio-filter system for odour control. The other fine of S\$59,000 was for a delay in constructing a well in a timely manner as committed to under a Regulatory Development Plan in 2014. The well was completed thereafter and has been in operation since 2015.

In 2018, we embarked on transitioning from the GAF to an IAF to put greater emphasis on the three LOD model. Through the IAF structure, the respective LODs work closely to ensure that key financial, operational, compliance and IT risks are reviewed and tested using a robust assurance process. The IAF is expected to be implemented for all key markets by end 2019. The Audit Committee, supported by the Risk Committee, oversees the IAF and its implementation.

Our ongoing efforts to build in-house capabilities, readiness and resilience in crisis and emergency response situations require us to regularly conduct and participate in crisis simulation exercises and awareness training. While we recognise the importance of effective crisis response procedures and proactive stakeholder engagement to manage a crisis, we see the importance of helping affected employees cope with the psychological and emotional impacts, so that they can recover faster from an incident. We have developed a Business Psychological Resilience programme which complements the existing Group Crisis Management Framework and enhances Sembcorp's resilience in crisis and emergency response situations.

* A significant fine refers to a monetary sanction equal to or above S\$50,000 that was paid during the financial year

Corporate Governance Statement

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

The board and management of Sembcorp recognise that well-defined corporate governance processes are essential to 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), which is applicable to this corporate governance statement for the financial year 2018. 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 our 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 2018 edition of the Singapore Governance and Transparency Index, a well-respected index assessing the transparency of 589 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.

At the Singapore Corporate Awards 2018, Sembcorp won the gold award for Best Annual Report in the category for companies with S\$1 billion and above in market capitalisation.

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 our Group President & CEO Neil McGregor, as well as Margaret Lui, Tan Sri Mohd Hassan Marican, Tham Kui Seng, Dr Teh Kok Peng, Ajaib Haridass, Nicky Tan Ng Kuang, Yap Chee Keong, Jonathan Asherson OBE and Dr Josephine Kwa Lay Keng, who was appointed to the board on August 1, 2018.

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 interests 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, focusing on value creation, innovation and the need to ensure the 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 our obligations to shareholders and the Group's other 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 (ExCo)
- Audit Committee
- Risk Committee
- Executive Resource & Compensation Committee
- Nominating Committee
- Technology Advisory Panel

Special purpose committees are also established from time to time 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 among the different committees. Hence, membership of the ExCo, 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 his / her powers and duties as a director or executive officer of the company, he / she shall apply his / her 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 to use his / her 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 ExCo and management to facilitate operational efficiency, in accordance with applicable financial authority limits.


Executive Committee

The ExCo is chaired by Mr Ang and its members include Mr McGregor, Mrs Lui, Mr Tan and Mr Tham, who was appointed to the committee on May 1, 2018.

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

Technology Advisory Panel

The Technology Advisory Panel (TAP) comprises board members Mr Ang, Mr McGregor, Dr Teh, Dr Kwa and Mr Asherson, who was appointed to the panel on May 1, 2018, as well as co-opted members Prof Ng How Yong and Prof Lui Pao Chuen.

 Profiles of the members of the TAP may be found on pages 72 to 74.


The TAP provides guidance to the Group on our vision and strategy in leveraging technology to enhance Sembcorp's leadership in our business sectors. The panel advises on technologies for research and development (R&D) as well as investment, and oversees the development and application of significant emerging and potentially disruptive technologies relevant to Sembcorp. It also ensures the appropriate management of specialised R&D projects, tapping into various government grant support schemes and the external technological ecosystem, and provides guidance to develop 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 compositions, roles and responsibilities of the other committees – the Audit Committee, Risk Committee, Executive Resource & Compensation Committee and Nominating Committee – are explained in this corporate governance statement.

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 deliberate on key activities and business strategies, including significant acquisitions, disposals and operational matters, and approve the Group's budget for the following year. 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. Minutes of board committee meetings are circulated to the board to keep directors updated on each committee's activities. An additional board meeting is normally held at the end of each financial year to review the Group's strategy. 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 performance. Members of management are not present at or privy to such discussions. Annually, an off-site strategic review meeting is organised for the board to have in-depth discussions with management on the Group's strategy and other key issues relevant to the Group. In September 2018, this off-site meeting was held in the UK.

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 attend physically. Decisions made by the board and board committees may be obtained at meetings or via circular resolutions. Directors disclose personal interests in transactions and recuse themselves from discussions and decisions in the event of any conflict. 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 2018 is set out on page 113.

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, the respective committees' terms of reference, the Group's policies relating to disclosure of interests in securities and prevention of insider trading, Code of Conduct, 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, our 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 topics such as updates to the Code of Corporate Governance. These are done either during board meetings or at specially convened sessions, including training sessions and seminars conducted by external professionals which are funded by the company.

In 2018, 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 department to the Risk Committee on the Group's risk and controls environment and updates relating to risk management initiatives and key emerging threats, such as the heightened risk of cyber attacks
- Briefing on the new Code of Corporate Governance 2018 and directors' obligations and responsibilities under the Code by external legal advisors
- Public conferences, forum discussions and briefings on topics such as audit and financial reporting, regulatory and technological developments and complex industry systems engineering


Corporate Governance Statement

Besides such briefings, articles and reports relevant to the Group's businesses are also circulated to the directors for information. Furthermore, to enhance directors' understanding of the Group's businesses and promote their active engagement and stronger relationships with the Group's stakeholders, they regularly visit the Group's operations in different key markets. In 2018, the directors visited our facilities and met with government officials as well as key customers and partners as part of the board's off-site meeting in the UK.

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

Board composition

The current board comprises 11 directors, nine of whom are independent directors. All the directors are non-executive, except the Group President & CEO. The board members include business leaders and professionals with strong experience relevant to the Group's businesses, from the engineering, petrochemical, oil, power and gas and real estate industries to accountancy, finance, legal and technology R&D sectors. Best efforts have been made to ensure that in addition to contributing their valuable expertise and insights 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 there is a strong and independent element on the board. 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 68 to 71.

Board Members for 2018

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 20, 2018	Non-executive / Independent
Neil McGregor	Director	May 1, 2014	Apr 19, 2017	Executive / Non-independent
Margaret Lui	Director	Jun 1, 2010	Apr 20, 2018	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 19, 2017*	Non-executive / Independent
Dr Teh Kok Peng	Director	Oct 15, 2012	Apr 20, 2018	Non-executive / Independent
Ajaib Haridass	Director	May 1, 2014	Apr 19, 2017*	Non-executive / Independent
Nicky Tan Ng Kuang	Director	Nov 1, 2015	Apr 19, 2016*	Non-executive / Independent
Yap Chee Keong	Director	Oct 1, 2016	Apr 19, 2017	Non-executive / Independent
Jonathan Asherson OBE	Director	Jul 17, 2017	Apr 20, 2018	Non-executive / Independent
Dr Josephine Kwa Lay Keng	Director	Aug 1, 2018	N.A.*	Non-executive / Independent

* Up for retirement and re-election at the company's upcoming AGM

Review of directors' independence

Each director's independence is assessed annually by the board on an individual basis, focusing on each director's capacity to bring independence of judgement to board decisions. The directors are required to complete a Director's Independence Checklist 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.

In 2018, all directors except Mr McGregor and Mrs Lui declared themselves to be independent. The Nominating Committee has reviewed and recommended to the board, and the board has agreed and determined that with the exception of Mr McGregor and Mrs Lui, all members of Sembcorp's board for 2018 are independent. Mr McGregor is Group President & CEO and an executive director of Sembcorp. Mrs Lui is CEO of Azalea Investment Management, a related company of Temasek Holdings (Temasek) which holds more than 10% interest in the Group.

Tan Sri Mohd Hassan 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. Mr Haridass retired from the board of Sembcorp Marine on April 18, 2018. Mr Tham sits on the board of Sembcorp Design and Construction, a wholly-owned subsidiary of the company from which the company has received payment in excess of S\$200,000 for consultancy services. Tan Sri Mohd Hassan and

Composition of Board Committees for 2018

Board member	Executive Committee	Audit Committee	Risk Committee	Executive Resource & Compensation Committee	Nominating Committee	Technology Advisory Panel
Ang Kong Hua	Chairman			Chairman	Chairman	Chairman
Neil McGregor	Member					Member
Margaret Lui	Member			Member	Member	
Tan Sri Mohd Hassan Marican				Member	Member	
Tham Kui Seng ¹	Member			Member		
Dr Teh Kok Peng		Member	Member			Member
Ajaib Haridass		Member	Chairman			
Nicky Tan Ng Kuang	Member			Member	Member	
Yap Chee Keong		Chairman	Member			
Jonathan Asherson OBE ²		Member	Member			Member
Dr Josephine Kwa Lay Keng ³						Member

Directors' Attendance at Board and Board Committee Meetings in 2018

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
Total Number of Meetings Held in 2018	9	5	5	4	4	2	4	1
Ang Kong Hua	9/9	5/5	–	–	4/4	2/2	3/4*	1
Neil McGregor	9/9	5/5	5/5	4/4	4/4	2/2	3/4*	1
Margaret Lui	9/9	5/5	–	–	4/4	2/2	–	1
Tan Sri Mohd Hassan Marican	9/9	–	–	–	4/4	2/2	–	1
Tham Kui Seng ¹	9/9	3/3	3/3	2/2	2/2	–	–	1
Dr Teh Kok Peng	8/9	–	5/5	4/4	–	–	4/4	1
Ajaib Haridass	9/9	–	5/5	4/4	–	–	–	1
Nicky Tan Ng Kuang	8/9*	5/5	–	–	3/4	2/2	–	1
Yap Chee Keong	9/9	–	5/5	4/4	–	–	–	1
Jonathan Asherson OBE ²	8/9*	–	2/2	2/2	–	–	2/3*	1
Dr Josephine Kwa Lay Keng ³	4/4	–	–	–	–	–	4/4	–

¹ Mr Tham was appointed a member of the Executive Committee and Executive Resource & Compensation Committee with effect from May 1, 2018. He relinquished his membership of the Audit Committee and Risk Committee on May 1, 2018

² Mr Asherson was appointed a member of the Audit Committee, Risk Committee and Technology Advisory Panel with effect from May 1, 2018

³ Dr Kwa was appointed a director with effect from August 1, 2018. She has been an external co-opted member of the Technology Advisory Panel since January 1, 2013. Her service as an external co-opted member terminated with effect from August 1, 2018

* Directors conveyed their views / comments for consideration prior to the meetings they did not attend

Corporate Governance Statement

Mr Tham hold the positions of Senior International Advisor and Corporate Advisor respectively at Temasek International Advisors, a subsidiary of Temasek. Mr Tham stepped down as Corporate Advisor in the first quarter of 2018.

The board has assessed these matters and is of the view that the payments received from these subsidiaries are not significant in the context of the Group's earnings. The board believes that Tan Sri Mohd Hassan, Mr Haridass and Mr Tham's directorships in these subsidiaries have not and will not interfere, or be reasonably perceived to interfere, with their ability to exercise independent judgement and act in the best interests of Sembcorp.

Tan Sri Mohd Hassan and Mr Tham's roles as advisors at Temasek International Advisors are non-executive in nature and they are not involved in its day-to-day conduct of business. They are also not accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of Temasek. The board believes that they have acted and will continue to act in the best interests of Sembcorp.

Hence, the Nominating Committee has recommended, and the board has determined that Tan Sri Mohd Hassan, Mr Haridass and Mr Tham are independent notwithstanding their relationships with Temasek and the Group's subsidiaries.

The board also considers Dr Kwa independent notwithstanding her relationship with the company under Guidance Note 2.1(d) of the Code. Dr Kwa is a director of the Agency for Science, Technology and Research (A*STAR), an organisation with which Sembcorp is jointly researching an R&D project under the Sembcorp-EMA Energy Technology Partnership for which the company has made payment in excess of S\$200,000 for project cost. The board is of the view that the amount paid to A*STAR is insignificant in the context of the Group's earnings and Dr Kwa's directorship on ASTAR will not interfere with her ability to exercise independent judgement and act in the best interests of Sembcorp.

The Code recommends that the independence of any director who has served on the board beyond nine years from the date of his / her first appointment should be subject to a particularly rigorous review. The board has set a term limit of nine years for determining the independence of directors of the company. 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. In the financial year 2018, none of Sembcorp's current directors have served longer than nine years from the date of their appointment.

In 2019, Mr Ang and Tan Sri Mohd Hassan would have served on the board for more than nine years. The board has observed that over the tenure from 2010 until present, both Mr Ang and Tan Sri Mohd Hassan have shown strong independence of character and judgement in the discharge of their duties as directors. The directors have accumulated much knowledge of the business of Sembcorp and contributed actively to the board which is very valuable, particularly to the new management team and especially during this transformation period that the Group is undergoing. The board is of the opinion that the length of service will not change the independence of both directors. In fact, their length of service will assist the board to better understand the Group and our business over the long-term, and therefore better serve the interests of the company and our shareholders by having long-term familiarity with and understanding of the company and our operations and growth strategies. Therefore, after a rigorous and thorough review, the Nominating Committee recommended to the board that Mr Ang and Tan Sri Mohd Hassan shall remain independent despite serving more than nine years on the board, and the board concurred.

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 and independent, chairs the board, ExCo, Executive Resource & Compensation Committee, Nominating Committee and the TAP.

There is also a strong and independent element on the board, where nine out of 11 directors are independent. As such, the board has ascertained that there is no necessity to appoint a lead independent director.

The Chairman leads and ensures an effective and comprehensive discussion on matters brought to the board, including strategic issues and business planning. He ensures the board and board committee meetings are conducted in a manner that promotes open communication, participation and decision making. 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.

At AGMs and other shareholder meetings, the Chairman plays a pivotal role in fostering constructive dialogue between shareholders and the board and management.

The Group President & CEO makes strategic proposals to the board, develops and manages 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 key management personnel.

Board Membership (Principle 4)

Formal and transparent process for the appointment and re-appointment of directors

Nominating Committee

All the Nominating Committee (NC) members are non-executive directors, namely Mr Ang, Mrs Lui, Tan Sri Mohd Hassan and Mr Tan. Three out of four NC members, including its chairman, are independent. They are Mr Ang, Tan Sri Mohd Hassan and Mr Tan.

The NC is responsible for continually reviewing Sembcorp's board composition to ensure strong, independent and sound board leadership to drive the continued success of the company and our 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 committees' 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 insights 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 our 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, Tan Sri Mohd Hassan, Mr Tham, Mr Haridass and Mr Tan will retire and have offered themselves for re-election at the forthcoming AGM.

Dr Kwa, who was newly appointed to the board on August 1, 2018, will also retire and has offered herself for 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 to the board and Sembcorp adequately. The board has adopted an internal guiding principle that seeks to address the competing time commitments that may be faced when a director holds multiple board directorship representations. As a general rule, the board has determined that the maximum number of listed company board representations held by any Sembcorp director should not exceed five. However, the board recognises that the individual circumstances and capacity of each director are different and there may be circumstances in which the limit on board appointments may differ as appropriate.

For 2018, the NC has reviewed and recommended to the board and 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 improving the effectiveness of the board and board committees and requisite follow-up actions. The assessment helps the directors to maintain focus on their key responsibilities, while improving board performance.

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 individual 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 and technology 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 the assessment of the board and board committees' effectiveness.

For the financial year 2018, the evaluation indicated that the board and its committees continued to perform effectively to support Sembcorp.

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. 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 (CFO) 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 to 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, 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 and counsel at all times, should it require additional information or for advice and consultation.

Company Secretary

The appointment and the removal of the company secretary are subject to the board's approval. 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 in 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 (ACRA) 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. He is joined on the committee by Mrs Lui, Tan Sri Mohd Hassan, Mr Tan as well as Mr Tham. Mr Tham was appointed to the ERCC on May 1, 2018.

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 for the company and management 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 2018, Aon Hewitt (Singapore) was engaged as external consultants to provide such advice. In engaging external consultants, the Group ensures that the relationship, if any, between ourselves and these external consultants will not affect the independence and objectivity of the external consultants. In 2018, the ERCC undertook a review of the independence and objectivity of Aon Hewitt (Singapore) and confirmed that the Group had no relationship with the company that would affect the latter's independence.


In reviewing succession planning and the Group's leadership pipeline, the ERCC reviews the development of management and 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- and long-term needs. In addition, the ERCC also reviews the company's obligations arising in the event of termination of the contracts of service of the Group President & CEO and key management personnel, 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 our remuneration and reward system is aligned with the long-term interests and risk policies of the company. We also recognise 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 of the share-based incentives and performance targets are available in the Directors' Statement and Note 35 in the Notes to the Financial Statements in this annual report.

Non-executive directors' fees

An independent review of the Directors' Fee Framework was conducted in 2018 by our external consultants, Willis Towers Watson. It concluded that existing board retainer and committee retainer fees were competitive while the meeting attendance fee was higher than market. As a result, the board adopted a new fee framework with a reduced attendance fee which is aligned to the market.

The board also voluntarily took a 15% reduction of its financial year 2017 fee.

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

Directors' Fee Framework for 2018*

	S\$
Retainer fee (per annum)	
Chairman (all-in fee) ¹	750,000
Director's basic retainer	75,000
Chairman, Executive Committee	50,000
Chairman, Audit Committee	50,000
Chairman, Risk Committee	35,000
Chairman, Executive Resource & Compensation Committee	35,000
Chairman, Nominating Committee	25,000
Chairman, Technology Advisory Panel / Others	25,000
Member, Executive Committee	30,000
Member, Audit Committee	30,000
Member, Risk Committee	20,000
Member, Executive Resource & Compensation Committee	20,000
Member, Nominating Committee	15,000
Member, Technology Advisory Panel / Others	15,000
Attendance fee (per meeting)	
Board meeting (Local) ²	2,500
Board meeting (Overseas) ²	5,000
Committee / General meeting (Local) ²	1,500
Committee / General meeting (Overseas) ²	3,000
Committee / AGM & EGM (flat fee) ³	1,000
Teleconference (per meeting)	
Board meeting	1,500
Board committee meeting	1,000
General meeting	1,000

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

¹ 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

² Local – home country of the directors
Overseas – outside home country of the directors

³ Attendance fee for attending committee meeting is payable if such meetings are held on separate days from the board meeting. In the event that the committee meeting is held on the same day as the board meeting, only a flat fee of S\$1,000 is payable

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. Mr McGregor does not receive directors' fees as Group President & CEO of the company. The payment of directors' fees (both the cash and share components) is contingent on shareholders' approval. 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 non-executive 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. 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, subject to securities trading rules. 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 2019 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 2019 is intended to be paid in 2020 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 risk policies. Further, the level and mix of the variable remuneration is structured to ensure that the total remuneration for key management personnel is strongly aligned to the financial performance and returns delivered to shareholders. The strong relationship between pay and performance has been validated based on the pay-for-performance study conducted by our external consultants, Aon Hewitt (Singapore) in 2018.

- **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 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 our 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 (EGM) 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, 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 size of the restricted share awards granted in 2018 is based on the achievement of stretched financial and non-financial targets, with emphasis on organisational transformation to meet future challenges and adherence to environment, health and safety standards.

The restricted shares awarded will vest conditionally over a four-year period contingent on satisfactory individual performance of the recipient for the financial year preceding each tranche of vesting, and continued employment with the Group.

The performance share awards granted in 2018 were based on Total Shareholder Return, Return on Equity (excluding Sembcorp Marine), Total Renewable Capacity and implementation of digital initiatives to support the organisational transformation efforts. The grant will have a three-year performance period from January 1, 2018 to December 31, 2020. A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of performance shares eventually awarded.

The performance shares awarded will vest in two tranches, 50% vesting in March 2021 and 50% vesting in March 2022.

Pay for performance

As in prior years, a pay-for-performance study was conducted in 2018 by our external consultants, Aon Hewitt (Singapore), to review the alignment between the Group's executive pay programme and business results. The Group benchmarked ourselves against established comparable-sized local listed companies with whom the Group competes for talent and capital.

The study benchmarked different elements of senior executive pay, namely fixed remuneration, total cash remuneration and total remuneration including long-term incentives, against that of peer companies. It found fixed remuneration for senior executives at the Group to be positioned competitively vis-à-vis the Group's relative size and complexity. Further, the total remuneration over the last five years shows a robust correlation with the Group's key financial performance drivers, including profit from operations and EVA. The performance conditions for short-term incentive plans were only partially met. Additionally, the shareholder return performance conditions that feature in the long-term incentive plan were not met, due to adverse share price movements. As a result, the realised value of the share incentive award was much lower than the granted value.

Overall, the study demonstrates sound correlation between the Group's executive pay, our key financial results, shareholder returns and peer company performance, thus reinforcing the strong pay-for-performance features underpinning the executive pay programme.

Disclosure on Remuneration (Principle 9)

Based on the revised Directors' Fee Framework, the computation of non-executive directors' fees totalled S\$2,206,333 in 2018 (2017: S\$1,938,769 – after applying the 15% reduction of their fees). The CEO and key management personnel also took a voluntary 10% to 15% reduction in pay given the difficult environment in 2018. More information on directors and key management personnel's remuneration can be found under the related item in the Supplementary Information section of the financial statements in this annual report.

In 2018, 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 our quarterly and annual financial results. 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 are 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.

The company also recognises the importance of providing the board with accurate and relevant information on a timely basis. Sembcorp management furnishes management and operations reports as well as financial statements to the board on a regular basis.

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 headed by Mr Haridass, who is joined on the committee by Mr Yap, Dr Teh and Mr Asherson, who was appointed to the committee with effect from May 1, 2018. Mr Tham, who served on the RC since April 2015, relinquished his membership on May 1, 2018 and joined the ExCo and ERCC.

The RC's principal functions are to:

- Review and endorse the Group's policies, guidelines and systems to govern the process for assessing and managing risk, including the risk appetite
- 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, insurance, human resources, information technology (IT) systems, and 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. Robust mechanisms and systems have been put in place to identify and manage the inherent risks in our business and strategy, and to monitor the Group's exposure to key risks that could impact the overall strategy and sustainability of the business. Supporting the ERM framework is a system of internal controls comprising a Code of 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 can be found on our website.

The Group is in the midst of transitioning our current Governance Assurance Framework (GAF) to an Integrated Assurance Framework (IAF) to put greater emphasis on the three lines of defence (LOD) model. Through the IAF structure, the respective LODs work together to ensure that key financial, operational, compliance and IT risks are reviewed and tested using a robust assurance process. Under the IAF, a pragmatic and collaborative approach to risk and controls assessment has been established, with common and consistent criteria to assess the risks and the adequacy and effectiveness of the internal controls.

Key markets, the first LOD, are in the process of adopting and implementing the IAF, which requires them to work with the second LOD comprising business lines, subject matter experts and corporate functions, to perform a thorough review and assessment of their risks and internal controls and updating of the new risk and control registers. At the same time, clear escalation procedures, consequence management framework and key risk indicators that are aligned with the Group's risk appetite are being developed as part of the IAF methodology. Collectively, this enables the Group to perform proactive management of key risks and controls. This enhances the Group's reporting and monitoring capabilities and also cultivates a risk culture of accountability and ownership. As the third LOD, Group Integrated Audit (GIA) provides independent assurance across financial, operational, compliance and IT risks through a series of walkthroughs and substantive testing. Management works closely with GIA in closing out all material issues and gaps in a timely manner to ensure that there is continual improvement to our risk and controls environment, as well as an effective feedback loop to the first and second LODs. External audit considers internal controls relevant to the preparation of financial statements to ensure they give a true and fair view.

The ERM framework and IAF are also complemented by a Management Control Assessment, which is a rigorous management attestation process submitted quarterly by each market and business unit to provide the assurance that its risk management and internal control system is adequate and effective. The submissions and responses are further validated through substantive review by the business lines, subject matter experts and corporate functions as an added layer of assurance.

During the year, the Group's risk profile was reviewed and updated. The adequacy and effectiveness of the Group's risk management and internal controls were also assessed and enhanced through a combination of management control assessment and integrated 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 CFO that financial records have been properly maintained, the financial statements give a true and fair view of the company's operations and finances, and 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 and risk management systems are adequate and effective as at December 31, 2018 to address the financial, operational, compliance and IT risks of the Group. This assessment is based on the risk management and 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.

The IAF is expected to be implemented for all key markets by end of 2019. The Audit Committee, supported by the Risk Committee, oversees the IAF and its implementation.

Audit Committee (Principle 12)

The Audit Committee (AC) comprises independent, non-executive directors. The AC is chaired by Mr Yap. He is joined by Dr Teh, Mr Haridass as well as Mr Asherson. Mr Asherson was appointed to the AC on May 1, 2018. Mr Tham, who served on the AC since August 2013, relinquished his membership on May 1, 2018 and joined the ExCo and ERCC.

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 discharging its statutory and other responsibilities on internal controls, financial and accounting matters, operational and compliance controls, and business and risk management practices of the Group. The AC has established terms of reference approved by the board and has explicit authority to investigate any matter as per its terms of reference. 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 (IPT), 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 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.

Key audit matters


The AC discusses the key audit matters with the management and external auditors on a quarterly basis to ensure that they are appropriately dealt with. 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 pages 145 to 153 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 their re-appointment. During the year, the AC reviewed the performance of the external auditors using audit quality indicators recommended by ACRA 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 31(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 markets, business lines and functional units. Employees are provided with accessible channels to report suspected fraud, corruption, dishonest practices or other misdemeanours to the Group's integrated auditors and are protected from reprisal to the extent possible. This aims to encourage the reporting of such matters in good faith. In 2018, GIA rolled out a whistle-blowing portal on the internet. This whistle-blowing portal has a pre-defined set of questions to guide whistle-blowers in providing the required information / documents in reporting their concerns and also to allow the investigation team to maintain communication.

 For more information on our Whistle-blowing Policy, please refer to our website.

Internal Audit (Principle 13)**Independent integrated audit function**

The integrated audit function is an important third line of defence for the company and a key component of the overall assurance framework.

The Group Integrated Audit (GIA) department provides assurance to the AC that risk management and internal control systems are in place to manage and govern key aspects of the Group's businesses, including our financial, operational, compliance and IT systems.

GIA has enhanced its audit approach by linking its integrated audit plan with the ERM framework and integrating operational and financial audits. Subject matter specialists were seconded from relevant departments to GIA for the purposes of these integrated audits. GIA is also deepening its capabilities in the areas of operations, IT, and workplace health, safety and environment audits. The GIA team has unrestricted access to all personnel, documents, accounts and property, records and correspondence and other data of the company. The auditors also have the right to enter any premises of the Group and to request any officer to furnish all information and such explanations deemed necessary for them to form an opinion on the probity of action and adequacy of systems and / or controls.

The Head of GIA reports directly to the AC and administratively to the Group President & CEO. The AC participates in the appointment, replacement or dismissal, as well as evaluation and compensation of the Head of GIA.

The AC reviews the proposed scope and performance of the GIA function, audit findings and management responses, and the Group's Integrated Audit Plan to ensure that it is comprehensive and to enable the effective and regular review of all activities within the purview of GIA. It ensures that no limitation on audit has been imposed. Integrated audit summary of findings and actions taken are reviewed and discussed at AC meetings.

Professional standards and competency

GIA comprises members with relevant qualifications and experience and the integrated audit is carried out based on the International Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

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 our 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 to the company website, 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 the company website. Thereafter, a briefing or teleconference by management is jointly held for the media and analysts. For half-year 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 and analysts 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 our 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 our shareholders. In addition to our results briefings, the company also maintains regular dialogue with our shareholders through investor-targeted events such as AGMs, roadshows, conferences, site visits, group briefings and one-on-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 on pages 128 and 129 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 our shareholders, and the practice is to consider declaring dividends on a biannual 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 our 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 stopped distributing our annual report and circular via CD-ROM since 2018. The company's annual reports and circulars are available on our website. Shareholders are encouraged to read the annual report on the company website. A booklet containing the Request Form, Notice of AGM and Proxy Form will be sent to shareholders, informing them that the annual report is available online and directing them to where they may view it. 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 that 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' identities.

The Group President & CEO delivers a short presentation to shareholders at each AGM 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, including 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 our 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 our financial year and within one month prior to the announcement of the company's full-year financial statements. A Policy on Prevention of Insider Trading has also been implemented and 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. The company also has an internal policy and procedure to manage and capture any interested person transactions. All markets, business lines and functional units are required to be familiar with the IPT mandate as well as the internal policy and procedure, and report interested person transactions to the company for review and approval 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 2018 may be found in the related item under the *Supplementary Information* section of the financial statements on page 330.


 Details on our IPT Mandate can be found on our website.

Code of Conduct

In maintaining an effective governance and effective decision-making structure, the Group Code of Conduct was revised and implemented in 2018. The Group President & CEO regularly talks about the code in key internal meetings, which demonstrates the tone at the top in the organisation. All employees and directors of the organisation were trained on the code and its key policies.

Governance disclosure guide

In line with Sembcorp's commitment to 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 334 to 345 of this annual report

Investor Relations

Sembcorp is 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 disclosure, transparency and corporate governance requirements, we aim to provide investors with an accurate, coherent and balanced account of the Group's performance and prospects. 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 website.

Proactive Communication with the Financial Community

During the year, senior management and the investor relations team actively engaged the financial community. We held one-on-one and group meetings with shareholders, analysts and potential investors. These included meetings during non-deal roadshows in Singapore, London, New York, Boston and Toronto led by our senior management. In 2018, our India management team also joined these roadshows. Besides roadshows, we also participated in investor conferences in Hong Kong and Singapore.

Commitment to Good Corporate Governance

As a strong endorsement of our excellence in corporate governance and disclosure, Sembcorp won the gold award for

Best Annual Report at the Singapore Corporate Awards 2018 in the category of large-cap companies with S\$1 billion and above in market capitalisation.

We continue to rank among the top companies in Singapore for good corporate governance and transparency. We were the sixth-highest ranked company in the 2018 edition of the Singapore Governance and Transparency Index (SGTI), Singapore's leading index assessing corporate governance practices of listed companies. The SGTI is a collaboration between CPA Australia, the Centre for Governance, Institutions and Organisations at National University of Singapore Business School, and the Singapore Institute of Directors. It compares the transparency of 589 Singapore-listed companies based on their annual financial announcements.

Total Shareholder Return

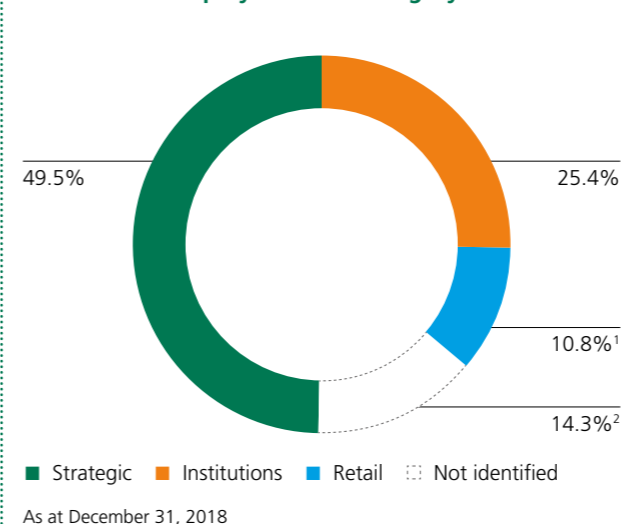
Sembcorp Industries' last traded share price in 2018 was S\$2.54 and the company ended the year with a market capitalisation of S\$4.5 billion. The company's share price averaged S\$2.93 during the year, registering a low of S\$2.45 in December and a high of S\$3.57 in February. Daily turnover averaged 3.9 million shares.

In 2018, Sembcorp Industries' total shareholder return for the year stood at negative 15%. This was lower than the Straits

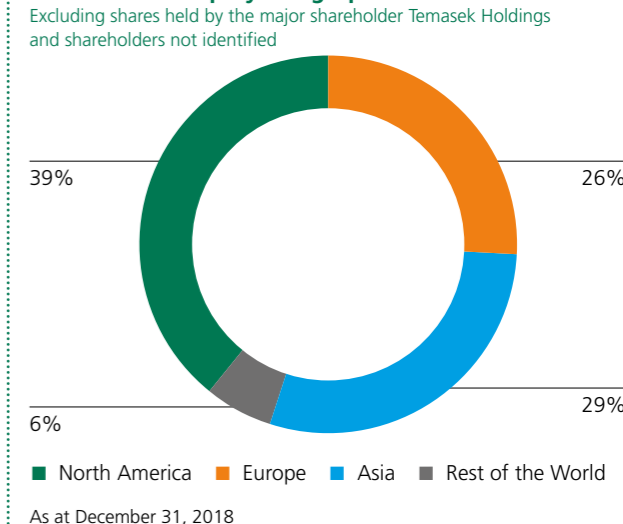


Sembcorp Group President & CEO Neil McGregor interacting with bankers and analysts

Share Ownership by Investor Category



Share Ownership by Geographical Distribution



Times Index's negative 6% and the MSCI Asia Pacific ex-Japan Industrials Index's negative 9%. The challenging operating environment in the oil and gas industry continued to weigh on the earnings of our Marine business, held through our listed subsidiary Sembcorp Marine. In 2018, the FTSE ST Oil & Gas Sector Index recorded a negative 20% return.

For the financial year 2018, an interim dividend of 2 cents per ordinary share was declared and paid to shareholders in August 2018. In addition, a final dividend of 2 cents per ordinary share has been proposed, subject to approval by shareholders at the coming annual general meeting to be held in April 2019. Together with the interim dividend, this would bring our total dividend for 2018 to 4 cents per ordinary share.

Shareholder Information

In 2018, 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 2018, institutional shareholders accounted for 25% of our issued share capital or half of free float, while retail shareholders¹ and shareholders not identified² accounted for the remaining half. In terms of geographical spread, excluding the stake held by Temasek Holdings and shareholders not identified, our largest geographical shareholding base was North America with 39%, followed by shareholders from Asia and Europe, which accounted for 29% and 26% of the shares respectively.

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

² Shareholders not identified include mainly shareholders that fall below the threshold of 250,000 shares

Independent Limited Assurance Report

Independent Practitioner's Limited Assurance Report on Sustainability Information of Sembcorp Industries Limited

Attention to the Board of Directors of Sembcorp Industries Limited

We have been engaged by Sembcorp Industries Limited (the "Company") to undertake a limited assurance engagement in respect of the selected sustainability information from the 2018 Sustainability Report of the Company described below for the year ended 31 December 2018 (the "Identified Sustainability Information").

Identified Sustainability Information

The respective Identified Sustainability Information for the year ended 31 December 2018 is set out below:

1. GRI 201-1: Direct economic value generated and distributed
2. GRI 303-1: Total water withdrawal by source
3. GRI 305-1: Direct (Scope 1) GHG emissions
4. GRI 305-4: GHG emissions intensity
5. GRI 306-2: Waste by type and disposal method
6. GRI 306-3: Significant spills
7. GRI 307-1: Non-compliance with environmental laws and regulations
8. GRI 401-1: Employee turnover
9. GRI 403-2: Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities
10. GRI 404-1: Average hours of training per year per employee
11. GRI 413-1: Operations with local community engagement, impact assessments and development programmes

Our assurance engagement was with respect to the year ended 31 December 2018. We have not performed any procedures with respect to (i) earlier periods and (ii) any other elements included in the Company's 2018 Sustainability Report, and in the annual report, website and other publications, and therefore do not express any conclusion thereon.

Reporting Criteria

The Identified Sustainability Information has been assessed against relevant criteria in the Global Reporting Initiative ("GRI") Sustainability Reporting Standards 2016 (the "Reporting Criteria").

Management's Responsibility for the Identified Sustainability Information

Management of the Company is responsible for the preparation of the Identified Sustainability Information in accordance with the Reporting Criteria. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of Identified Sustainability Information that is free from material misstatement, whether due to fraud or error.

Practitioner's Independence and Quality Control

We have complied with the independence and other ethical requirements of the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Singapore Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Identified Sustainability Information based on the procedures we have performed and the evidence we have obtained. We performed our limited assurance engagement in accordance with Singapore Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements other than Audits and Reviews of Historical Financial Information (the "Standard"). This Standard requires that we plan and perform our work to form the conclusion about whether the Identified Sustainability Information is free from material misstatement. The extent of our procedures depends on our professional judgement and our assessment of the engagement risk.

A limited assurance engagement involves assessing the suitability in the circumstances of the Company's use of the Reporting Criteria as the basis for the preparation of the Identified Sustainability Information, assessing the risks of material misstatement of the Identified Sustainability Information whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Identified Sustainability Information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures selected included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. Given the circumstances of the engagement, we also performed the following:

- Interviewed management and personnel in Group Human Resources & Organisation Development, Group Health, Safety, Security & the Environment, Group Ethics & Compliance, Group Finance and Group Strategic Communications & Sustainability departments in relation to the Identified Sustainability Information;
- Obtained an understanding of how the Identified Sustainability Information is gathered, collated and aggregated internally;
- Performed limited substantive testing, on a selective basis, of the Identified Sustainability Information (i) to verify the assumptions, estimations and computations made in relation to the Selected Sustainability Information; and (ii) to check that data had been appropriately measured, recorded, collated and reported, to the extent we considered necessary and appropriate to provide sufficient evidence for our conclusion; and
- Assessed the disclosure and presentation of the Identified Sustainability Information.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion about whether the Company's Identified Sustainability Information has been prepared, in all material respects, in accordance with the Reporting Criteria.

Inherent Limitations

In designing these procedures, we considered the system of internal controls in relation to the Identified Sustainability Information and reliance has been placed on internal controls where appropriate. Because of the inherent limitations in any accounting and internal control system, errors and irregularities may nevertheless occur and not be detected.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Identified Sustainability Information for the financial year ended 31 December 2018

is not prepared, in all material respects, in accordance with the Reporting Criteria.

Purpose and Restriction on Distribution and Use

This report, including our conclusion, has been prepared solely for the Company in accordance with the agreement between us. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work or this report.

Yours faithfully



PricewaterhouseCoopers LLP

Public Accountants and Chartered Accountants
Singapore

7 March 2019