



Semcorp's wind power assets in Madhya Pradesh, India

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

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

MANAGING SUSTAINABILITY

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

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

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

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

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

We are a signatory to the United Nations Global Compact, and our key sustainability principles are set out in our Sustainability Policy. These principles are applied throughout our management systems and processes. We adopt a precautionary approach to avoid or minimise negative impacts. A list of our policies, certified facilities as well as memberships and participation in external initiatives is available in the Sustainability section of our website.

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



Sustainability contact

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

Key Performance Indicators

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

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

Notes:

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

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

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

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

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

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

⁶ The lost time injury rate includes fatalities

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

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

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

ESG REVIEW | MANAGING SUSTAINABILITY

Materiality

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

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

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

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

Stakeholder Engagement

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

CASE STUDY Engaging with our community early

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

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

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

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

Reporting Framework and Scope

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

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

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

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

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

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

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

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

ESG REVIEW | MANAGING SUSTAINABILITY

Data measurement and quality

All data measurements are in line with GRI G4 recommendations for our chosen indicators. GHG emission factors are based on the 2006 Intergovernmental Panel for Climate Change (IPCC) guidelines, except for those relating to our operations on Teesside, UK, which use the stoichiometric basis of calculation. Global warming potential factors used are from the IPCC Fourth Assessment Report for the 100-year time horizon. Occupational health and safety indicators follow standards set out by the US National Institute for Occupational Safety and Health and the International Association of Oil and Gas Producers.

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

Our Supply Chain

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

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

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

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

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

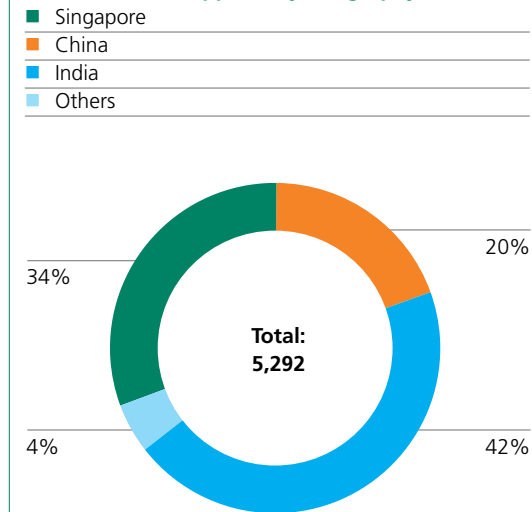
Supplier diversification

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

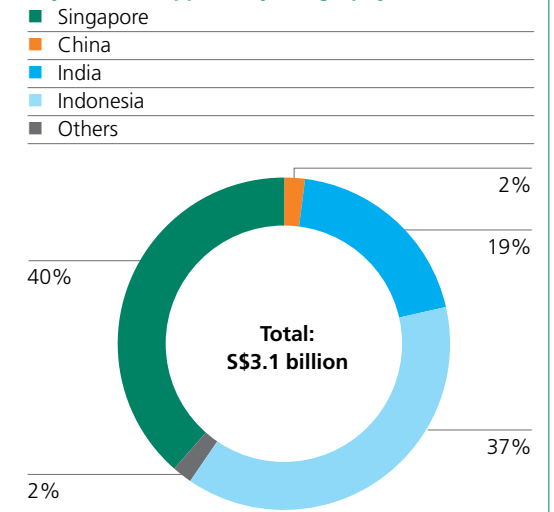
Fuel management

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

Distribution of Suppliers by Geography*



Payment to Suppliers by Geography*



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

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

* Data from some operations have been aggregated

Sembcorp's Unique Utilities Business

Innovative energy and water solutions

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

Energy efficiency and renewables:

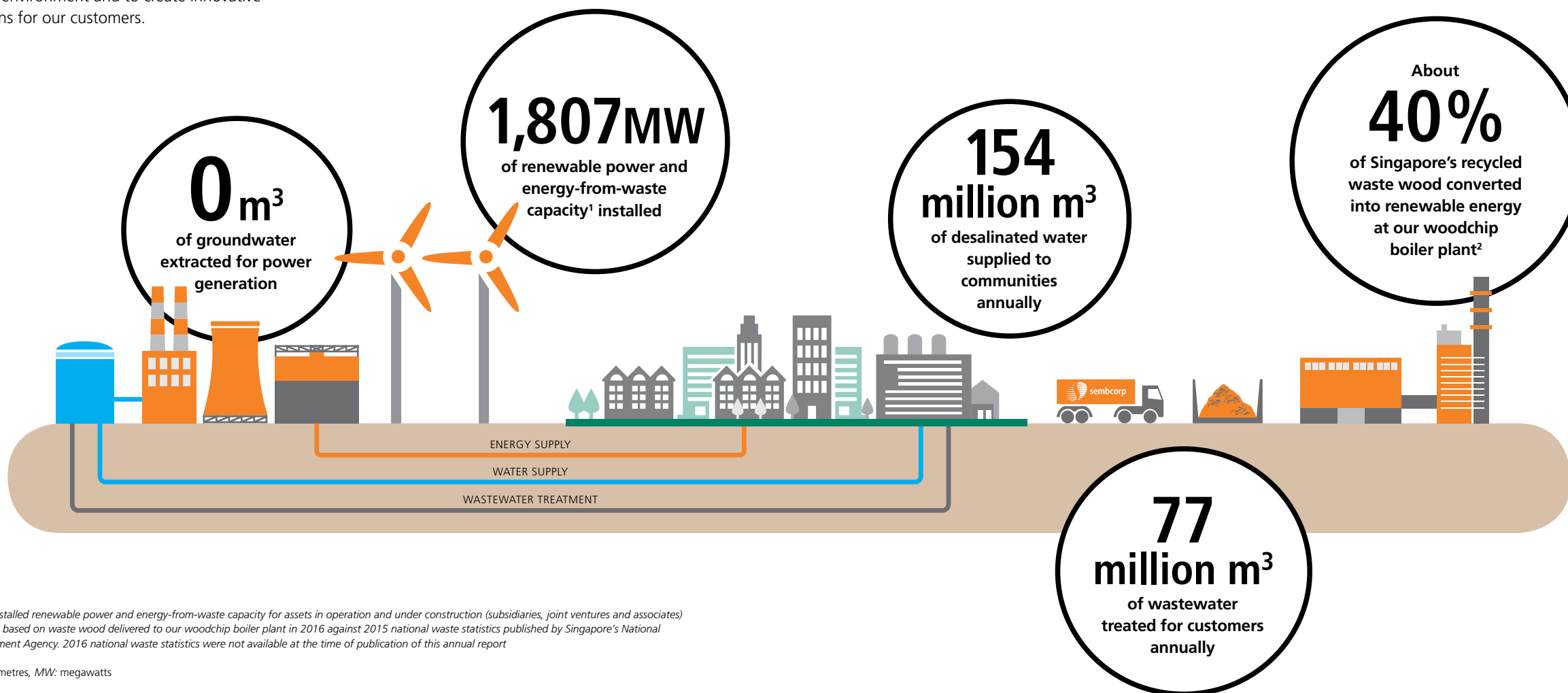
High efficiency, low emissions

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

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

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

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



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

m³: cubic metres, MW: megawatts

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

OUR MATERIAL ESG ISSUES

Environmental

To responsibly manage and reduce our impact on the environment as well as to effectively manage environmental risks to our operations

HIGHLIGHT Growing our Renewable Energy and Energy-from-Waste Business

We are committed in our focus to grow our renewable energy and energy-from-waste portfolio. We made good progress in Asia on this front in 2016. Our total renewable energy and energy-from-waste capacity (including capacity under joint ventures and associates) increased by 17% to 1,807 megawatts. Our renewable power capacity in operation and under

construction stands at 745 megawatts in China and 971 megawatts in India. We embarked on our first Singapore solar project, a 49%-owned rooftop solar photovoltaic system. With distributed solar energy likely to play a greater role in future energy solutions, this investment reflects the company's commitment to providing diverse and innovative solutions to our customers.

Why this is material

Climate Change

As an energy player, our power generation activities release greenhouse gas emissions that impact the climate. Events and actions by governments in response to climate change pose potential regulatory, physical and supply risks to our businesses. The Paris Agreement on climate change has been ratified by countries representing over 80% of global greenhouse gas emissions. However, as a provider of energy and water solutions, we recognise that we are also uniquely positioned to leverage opportunities that have arisen from climate change developments. From renewable energy to environmentally-friendly total water and wastewater solutions, we are actively investing in green business lines.

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 release of NO_x, SO_x and particulate matter, as well as the discharge of effluent and the disposal of waste. Improper or non-compliant emission, discharge or disposal not only result in harm to the environment, but also threaten the long-term viability of our business, and go against our Statement of Commitment to Environmental Protection.

Energy and Water Efficiency

Achieving optimal energy and water efficiency is a business driver for us. Maximising our efficiency and optimising our operations reduces our consumption of natural resources while enhancing our returns. In the face of rising energy costs and water scarcity, energy and water efficiency are becoming increasingly critical to ensure the long-term sustainability of our business.

Our approach

Climate Change

We are committed to managing the impact of our businesses on climate and the environment in a responsible manner. At the same time, we believe that our businesses, including our power generation business, support economic development and enhance the standard of living for communities. To mitigate potential regulatory, physical and supply risks, we are aligned with and support climate change positions set out by governments in their Intended Nationally Determined Contributions in countries where we have significant energy operations. We also review the potential impact of climate change on our facilities at project due diligence stage, to inform the design and construction of our assets and ensure we have the appropriate safeguards. We keep abreast of developments pertinent to climate change through participation on platforms such as Singapore's National Climate Change Network. We believe we are well-positioned to manage climate change risks and opportunities through:

i. Growing our renewable energy business as part of a balanced portfolio

We maintain a diversified energy generation portfolio of thermal and renewable energy assets comprising facilities fuelled by gas, coal, wind, solar, energy-from-waste and biomass. We believe that thermal energy continues to be relevant. In addition to gas, we believe that coal, an affordable and abundant fuel, will continue to play an important role in the fuel mix in rapidly developing economies. However, cleaner and higher-efficiency coal technologies will become increasingly important in meeting pressing needs for both electrification and lower emissions. On the other hand, significant focus has been placed on expanding our renewable and low-carbon energy portfolio. We strengthened our specialist renewable energy teams at our corporate office as well as in China and India in 2015 to

actively pursue renewable assets via acquisitions and organic growth. In 2016, our total renewable and low-carbon portfolio grew from 1,546 megawatts to 1,807 megawatts. Currently, we have renewable wind and solar power assets in Singapore, China and India, and both biomass and energy-from-waste operations in Singapore and the UK.

ii. Building and maintaining energy-efficient power and water facilities

Sembcorp builds energy-efficient facilities. These include assets utilising supercritical coal-fired technology, combined cycle gas turbines and combined power and desalination technologies. In addition, we incorporate energy efficiency considerations across the design, operation and maintenance phases of our facilities to further reduce our indirect carbon emissions. We utilise data and predictive analytics to improve plant efficiency and performance in our operations.

Local Environmental Protection

Sembcorp's Statement of Commitment to Environmental Protection and Environmental Protection Management Guidelines set out our principles and practices in the area of environmental protection. We aim to comply fully with all regulations and requirements, and consume resources prudently, focusing on reduction at source. We assess the impact of environmental risks and apply appropriate control measures to manage them. We apply stringent controls in the management of waste generated by our operations, strive at all times to adhere to discharge and emission limits set by local authorities and implement containment measures to minimise any direct impact to the environment and the surrounding community. As a wastewater treatment service provider, our capabilities in treating multiple streams of industrial wastewater from our customers allow us to meet effluent discharge standards. We also have a comprehensive

ESG REVIEW | OUR MATERIAL ESG ISSUES

water sampling and testing regime that helps us ensure compliance with such standards.

We aim to minimise impacts through prevention, reduction, reuse and recycling, and seek innovative ways to adopt a circular economy approach to waste. We actively develop capabilities to recover energy from waste. For example, at our Sembcorp Woodchip Boiler Plant in Singapore, woodchips processed from waste wood collected by our solid waste management operations are used to produce economical renewable steam. Also, treated effluent from our wastewater treatment facilities is further treated to produce demineralised water at our water reclamation facilities. We do not draw groundwater for power generation, but rely on seawater to meet the water needs of our power plants. In addition, our design and construction business utilises fly ash, a by-product of coal combustion in power plants, as a material for blended cement, mosaic tiles and hollow blocks.

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 the

assessments form part of our management of HSE risks and these recommendations are incorporated into the planning, designing, construction and commissioning of new plants.

Energy and Water Efficiency

Where viable, we invest in the latest technologies and utilise our capabilities as an industry leader to achieve better energy and water efficiency, including the reduction of water consumption through water reuse. Energy and water efficiency parameters are embedded in our plant operation management systems, and are monitored daily. These parameters are reported to management on a monthly basis where deviation and performance gaps are reviewed, and improvement plans are discussed for implementation. Our Group Technology department collaborates with academic and research institutions, technology suppliers and end users to develop innovative solutions and continuously improve our processes, ensuring the optimal performance of our facilities. We also utilise the Sembcorp Global Asset Management System, a data and predictive analytics tool, to help us optimise our operations and improve efficiency.

HIGHLIGHT Optimising Operational Performance with the Global Asset Management System

In 2016, the Sembcorp Global Asset Management System was implemented at our utilities operations in Singapore, India, UK, Oman and the UAE. This system, which enables process optimisation, troubleshooting and predictive analytics consolidates operational data from our global operations on a real-time basis. The system shortens lead time in identifying and resolving complex issues, leverages digital solutions to improve cost-effectiveness and enables effective

best practice sharing across the Group. Locally, the system supports plant operations by detecting anomalies, and through data analytics, provides a benchmark for best achievable plant performance. This strengthens our predictive maintenance capabilities to pre-empt and solve issues before they cause further disruptions. The system will help us improve efficiency, increase our plants' availability and reliability, and save maintenance costs.

Water availability

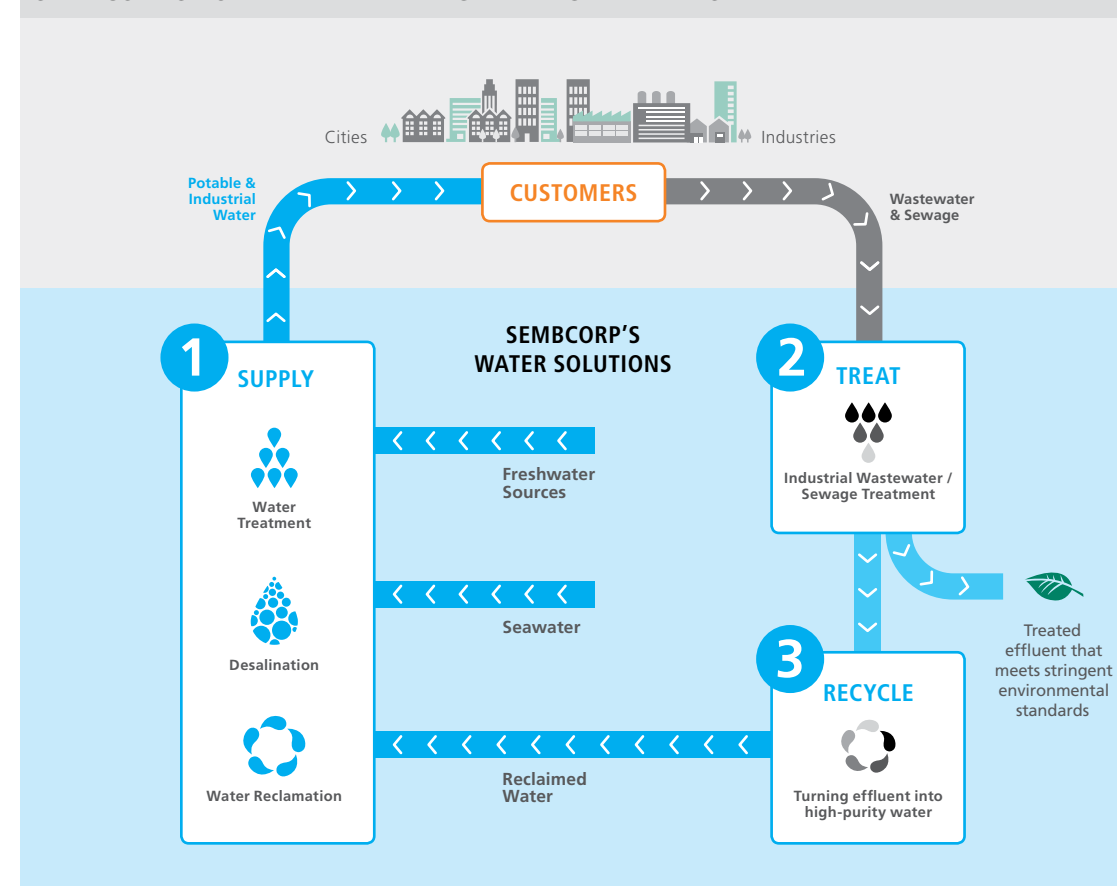
We leverage Sembcorp's total water management capabilities for better efficiency and resource conservation for our own operations as well as our customers. By integrating wastewater treatment, water reclamation and water supply into a "closed loop", we aim to minimise liquid discharge, reducing environmental impact while conserving water resources.

Our energy-efficient 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. In some of our power plants, we employ closed-loop cooling water systems to further minimise water drawn from the ocean.

Our energy and water efficiency efforts also apply to our office and administrative buildings, and we actively seek to reduce our consumption of energy and water through responsible use and equipment upgrades.

SEMBCORP'S TOTAL WATER MANAGEMENT CAPABILITIES



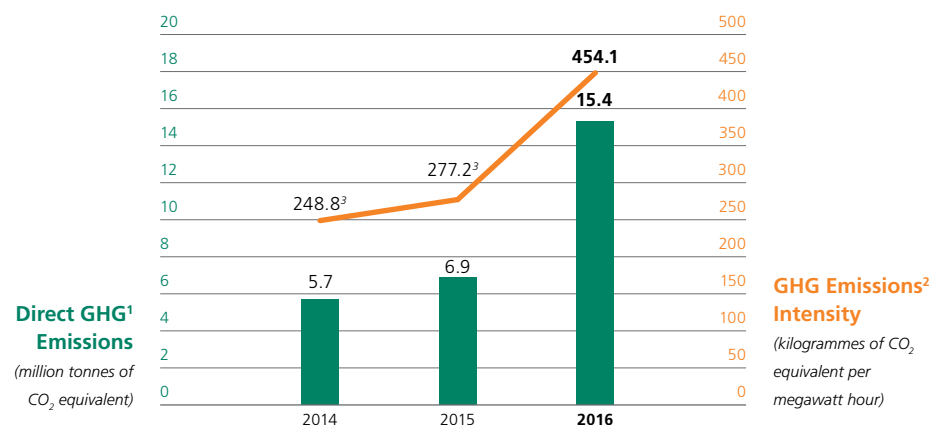
ESG REVIEW | OUR MATERIAL ESG ISSUES

Our performance

In 2016, we embarked on the replacement of the chillers at our corporate headquarters in Singapore. The building was awarded the Singapore Green Mark Gold Standard by the Building and

Construction Authority. The chillers for the building were replaced with a more energy-efficient system, resulting in an energy reduction of one million kilowatt hours of electricity per year.

Direct GHG Emissions (Scope 1) and GHG Emissions Intensity



The increase in direct GHG emissions and GHG emissions intensity was largely due to the inclusion of data from our first coal-fired power plant in India.

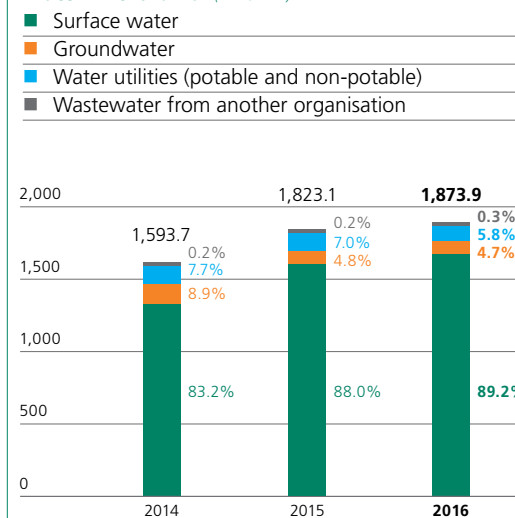
We report emissions from the combustion of biomass separately, in accordance with GRI guidelines. These emissions amounted to 600,000 tonnes of CO₂ equivalent in 2016 compared to 1.0 million tonnes in 2015.

¹ Emissions data covers entities that produce direct GHG emissions from the combustion of fossil fuel. It excludes emissions from anaerobic wastewater treatment plants and maintenance and servicing equipment. CO₂, CH₄ and N₂O emissions are included in the calculation of direct GHG emissions. HFCs, PFCs, SF₆ and NF₃ emissions are excluded. Global warming potential factors used are from the IPCC Fourth Assessment Report for the 100-year time horizon

² GHG emissions intensity refers to direct GHG emissions per megawatt hour of thermal and electrical energy produced. This covers energy assets in Singapore, India, Oman, UAE and the UK

³ GHG emissions intensity figures for 2014 and 2015 are estimated. A small proportion of data on energy attributed to steam production in 2014 and 2015 was not available and was estimated based on data from 2016

Water Withdrawal (million m³)



89.2% of our total water withdrawn was abstracted from surface sources.

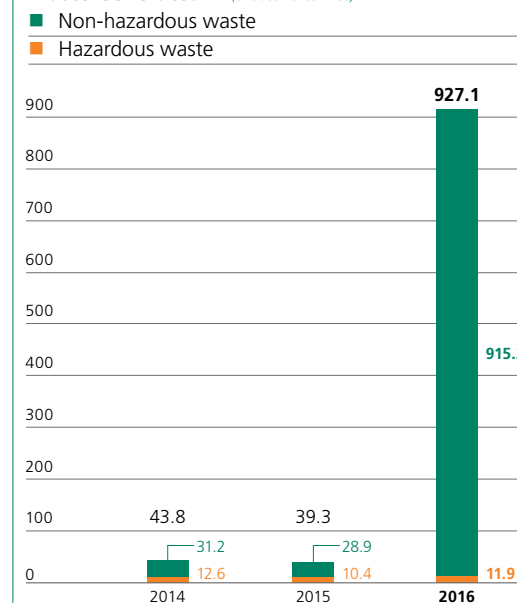
In 2016, 90.8% of surface water withdrawn was water abstracted from the ocean. More than half of this was desalinated into potable water for the community, and the rest was used as cooling water for Sembcorp's power plant operations and for our customers' plant processes. 8.9% of surface water withdrawn was from rivers and lakes for the production of potable water for the community, and the remaining 0.3% was for internal use.

Groundwater abstraction remained steady. 100% of groundwater abstracted was treated to produce potable water for the community.

79.4% of water we obtained from water utilities was non-potable industrial and domestic wastewater, which we reclaimed to produce high-grade industrial and potable water. The remaining 20.6% of water obtained from water utilities was potable water.

"Wastewater from another organisation" represents wastewater we treated for our customers. 55.3% of wastewater treated for customers was reclaimed and reused.

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



The significant increase in non-hazardous waste in 2016 was largely due to the inclusion of data from our first coal-fired power plant in India. The non-hazardous waste comprised mainly fly ash, a by-product of coal combustion in power plants. Our India operations have memoranda of understanding to sell up to 90% of their fly ash to be reused as a partial replacement for Portland cement in the production of concrete, although the uptake of the ash is dependent on market demand.

The slight increase in hazardous waste was largely due to the shutdown of a wastewater treatment plant in Singapore. Activated sludge that was needed in the plant as part of the wastewater treatment process had to be disposed of due to the shutdown of the plant. In addition, sludge produced in our wastewater plant in Silulumanzi, South Africa, was reclassified as hazardous rather than non-hazardous waste.

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

ESG REVIEW | OUR MATERIAL ESG ISSUES

Going forward

We will continue to monitor global, industry and peer action in relation to climate change closely. The way forward requires us to balance stakeholder interests against climate-related and environmental risks, and we are committed to building sustainable businesses that create and deliver long-term value.

We are in the process of implementing our Environmental and Social Policy for New Investments. This policy embeds social and environmental factors into our investment approval process to ensure social and environmental risks are accounted for at the onset of an investment.

We will continue to invest in technology to improve the environmental performance of our

facilities. Our operations in India will implement flue gas desulfurisation to reduce emissions while our operations in the UAE will use flue gas heat recovery to increase efficiency. Our energy-from-waste plant in Singapore is expected to commence operations in 2017. The plant will be fuelled by around 1,000 tonnes of industrial and commercial waste per day, roughly 14% of the total tonnage of waste bound for incineration in Singapore every day.

We will leverage the progressive implementation of the Sembcorp Global Asset Management System to strengthen in-house digitalisation and predictive analytics capabilities.



Climate Change

To have a business portfolio that balances the economic expectations of our stakeholders and our businesses' impact on the climate



Local Environmental Protection

To fulfil our duty to protect the environment and conserve resources, while providing competitive and reliable solutions for our stakeholders



Energy and Water Efficiency

To improve energy and water efficiency through good and economically viable environmental practices

Social

To be a responsible business that ensures the health and safety of our people, and makes a positive impact on our people and communities

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. The expansion of our business into developing economies also means we face challenges in building a local workforce that is attuned to our global health and safety standards. It is our priority 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 could result in a direct impact on people in the community.

Our People

Our employees play a vital role in ensuring we achieve our business strategy and goals. The nature of our business is such that we require specialised technical expertise. However, some of the markets in which we operate lack a qualified labour force with the necessary technical skill sets that our business demands. In other markets,

these skill sets are highly sought after across several industries. In addition, the commercial and regulatory environments we operate in are also becoming increasingly complex. Therefore, there is a critical need to retain and develop a capable and motivated workforce who possess a deep understanding of the company and its industry sectors. Of the issues relating to our people, our materiality review process has identified employee development, employee compensation and benefits, labour standards, human rights and diversity, as well as employee wellness to be important areas of focus.

Community

Sembcorp's long-term success is premised upon being a valued partner to the communities we are in, and we aim to contribute positively to these local communities. While Sembcorp's businesses play an important role in supporting economic development and improving the standard of living 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, we view our integration with, support of and contribution to our host communities as part of our licence to operate.

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Our approach

HIGHLIGHT Making a SafeStart Commitment

In 2016, we launched the SafeStart programme, which aims to emphasise the importance of health and safety to employees and contractors and encourage them to work towards the goal of zero injuries at the workplace. The programme, which was implemented locally in many of our operations, is led by the head of each business unit. Kick-off sessions were held at the start of the year, where a brief overview of the site's health and safety performance was

presented. Achievements relating to health and safety were commended while key challenges were brought to the table for discussion on the possible ways to improve collective and individual health and safety. Through strengthening the partnership between employees and contractors, the programme aims to drive health and safety ownership at all working levels and encourage a proactive safety culture.

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 injuries in our workplace, with a workforce that puts safety first. We benchmark the health and safety performance of our operations against relevant global industry safety statistics, such as the International Oil and Gas Producers Global Safety Performance Indicators, and aim for progressive improvement.

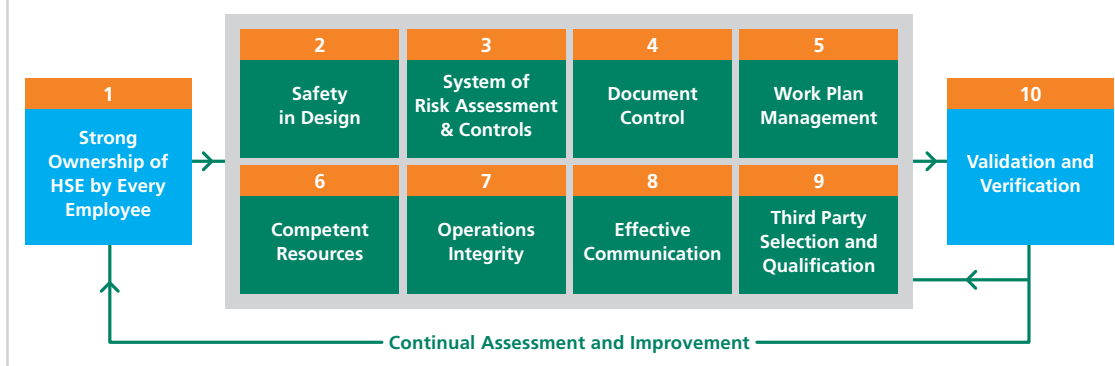
We have put in place structures and processes to meet our goal including:

- Board review

- Oversight by the board's Risk Committee
- Leadership by our Group President & CEO
- A Group HSE management system framework comprising
 - A Group HSE Policy; and
 - 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 the Sembcorp 10 Elements for Good HSE.

SEMBCORP'S 10 ELEMENTS FOR GOOD HSE



Assurance

HSE assurance is supported by an on-site validation and verification process which evaluates the effectiveness of the plants' or sites' HSE 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 form the basis for the development of improvement plans.

Training

Providing our employees with relevant HSE and technical capability development ensures that we have competent safety practitioners and safety-conscious line managers that support safe operations. Training is specific to the operations' or sites' 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 orientations for project development teams. An annual global HSE workshop is held as a platform for the learning and sharing of corporate initiatives and best practices from our different operations.

Product responsibility: safety and quality

Sembcorp is committed to designing, building, operating and maintaining facilities in a manner that safeguards people, property and the environment.

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 during various stages, from manufacturing to distribution and supply. We implement a robust maintenance and monitoring regime, which includes stringent inspections and the installation of 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.

Our 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 the local laws.

Our human resource practices are guided by the following:

- Oversight by the board's Executive Resource & Compensation Committee
- Oversight by the Senior Management Committee
- Talent Development Committees
- Sembcorp Leadership Framework
- Our Code of Business Conduct
- Our Employee Code of Conduct
- Our Grievance Handling Policy

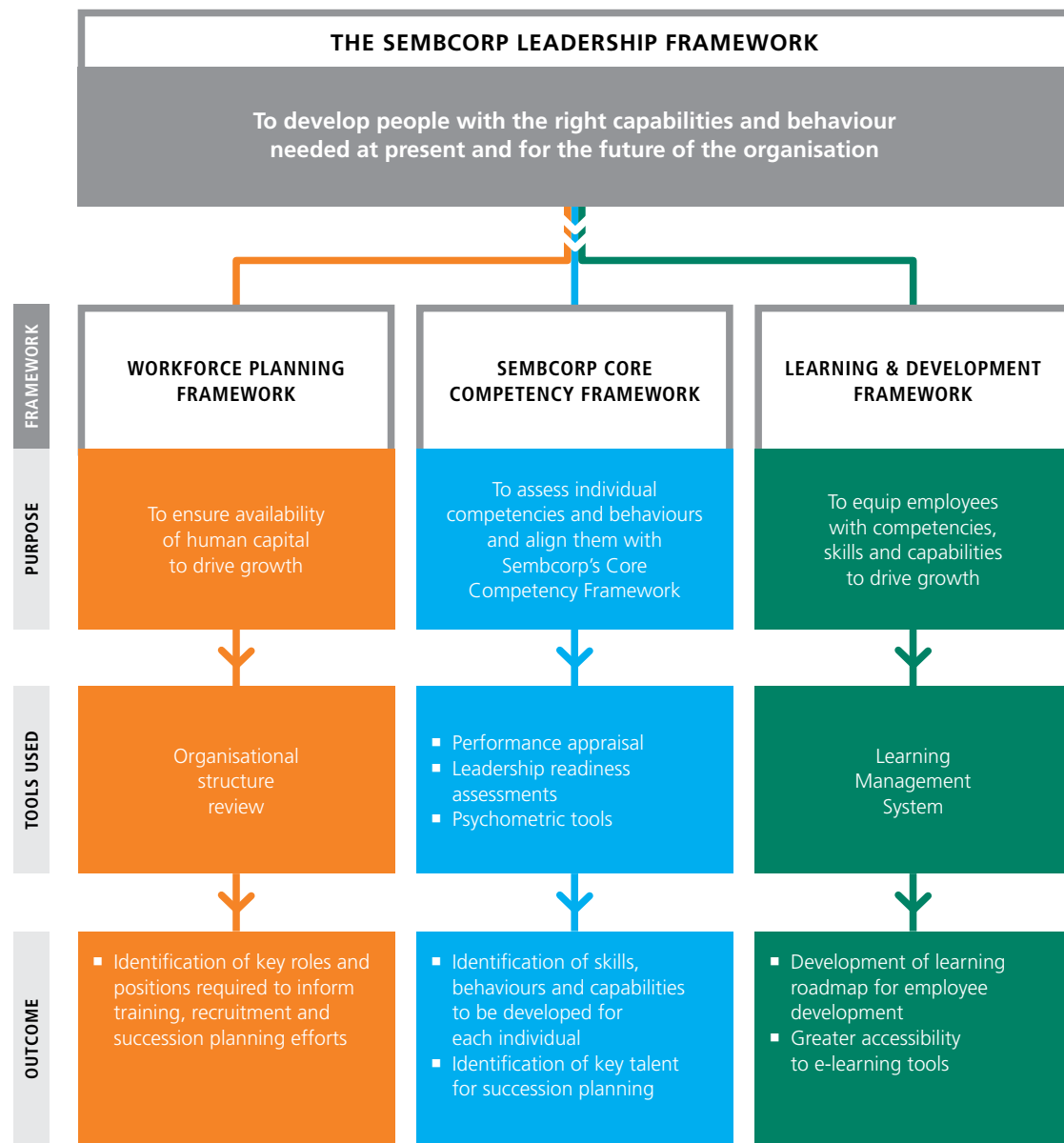
Human capital risk is also monitored as part of our key risk indicators and reported bi-annually to the board's Risk Committee.

Employee development

Employee development at Sembcorp is managed through the Sembcorp Leadership Framework, which comprises three components with distinct yet interrelated objectives to drive employee development. Workforce Planning supports organisational growth and ambition. The Core Competency component assesses employees' competencies and identifies capability gaps while setting performance expectations. Learning and Development programmes are then put in place to close the gaps identified.

To complement the Sembcorp Leadership Framework, Talent Development Committees at both group and business unit levels aim to build a strong pipeline of talent to support our organisation. The committees meet at least twice a year to review our talent pipeline for succession management and leadership development.

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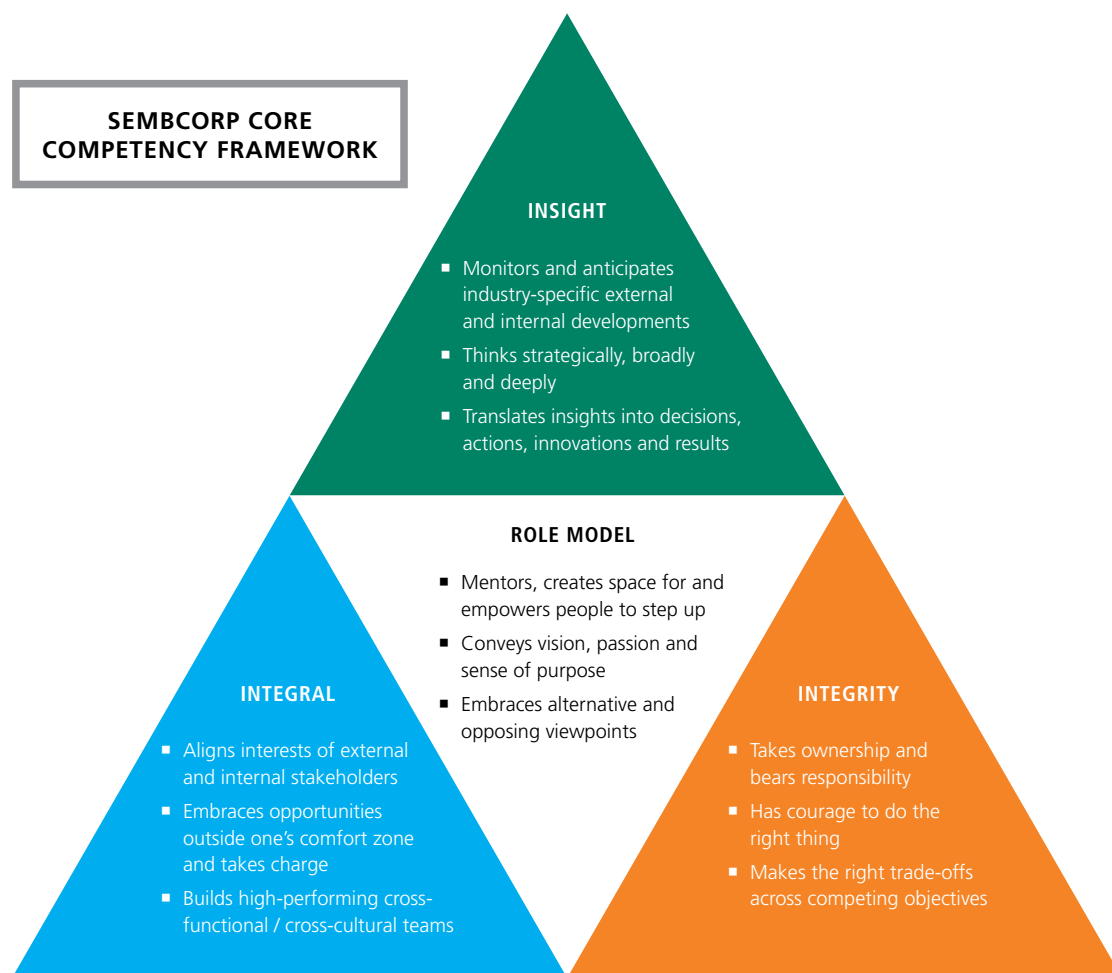
HIGHLIGHT Using Emergenetics to Improve Competency and Teamwork

As part of our Core Competency Framework, the Emergenetics assessment enhances employees' self-awareness and encourages empathy among team members. After taking the Emergenetics questionnaire, the individual receives a detailed profile describing their thinking and behavioural attributes. Since 2011, over 600 employees have taken the Emergenetics assessment in Singapore. In 2016, Emergenetics workshops were conducted

for close to 400 employees in China and India. Participant feedback indicated that the assessment was a useful tool for self-evaluation, to aid personal and professional development. In addition, through the sharing of Emergenetics profiles, the assessment promoted peer understanding and provided suggestions on how employees could engage other team members based on their thinking and behavioural attributes.



We invest in our people and aim to equip employees with the competencies, skills and capabilities they need to drive growth

**HIGHLIGHT** Launch of the Sembcorp Leaders Programme

As part of our Learning and Development Framework, the Sembcorp Leaders Programme aims to equip executives with the relevant competencies to support the growth of the company in an increasingly complex business environment. The programme consists of a series of training sessions to instil skills in employees

that are in line with Sembcorp's Core Competency Framework. Training topics include transformational leadership (*Role Model*), problem-solving and decision-making skills (*Insight*), anti-bribery and corruption (*Integrity*), and managing change and innovation (*Integral*). The pilot programme was launched in 2016 and will be rolled out in 2017.

Localisation is an important part of our strategy to grow our overseas businesses. When we begin operating in a new market, employees who are seconded from Singapore and other locations to start up the operations are given a clear responsibility to develop local talent. As the capabilities of local employees grow, the team is gradually localised, and the number of secondees progressively reduced.

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 relative placement 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.

We recognise that managing performance and development is a continuous process. Performance appraisals are done through informal feedback sessions and online systems where performance, expectations, training needs and targets are discussed and agreed upon by the employee and supervisor. As part of the performance appraisal, employees will be assessed against Sembcorp's Core Competency Framework. Going through the appraisal process helps inculcate core values in employees, and clearly articulates the competencies and functional skills needed for their development.

Labour standards

We abide by local laws wherever we operate. Examples of regulations our global operations comply with include the Broad-based Black Economic Empowerment Amendment Act 2013 in South Africa, and localisation requirements as well as local labour laws that do not recognise the right of workers to organise and form trade unions in the Middle East. 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 engagement with employee unions in our various operations. In countries where our operations are covered by collective agreements, we abide by the terms stated in said agreements, including those relating to minimum notice periods. Procedures for grievance handling are also specified in the agreements. Our Grievance Handling Policy seeks to manage employee grievances in a fair and reasonable manner, with an escalation path to the Group President & CEO where necessary. Where collective agreements do not exist, we abide by the terms stated in employment contracts.

Human rights and diversity

We are committed to uphold and respect the spirit of the United Nations Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. We are a signatory to the United Nations Global Compact (UNGC), and have made a public commitment to respect the Ten Principles of the UNGC, one of which is human rights. We abide by the Employers' Pledge of Fair Employment Practices under Singapore's Tripartite Alliance for Fair and Progressive Employment Practices. Our Code of Business Conduct sets out our stance on fairness, opportunity, non-discrimination, dignity, respect and harassment. We do not hire forced or child labour in our operations.

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Employee wellness

We recognise the impact of wellness on our employees' overall effectiveness, and have set aside a dedicated wellness budget in countries of major operations such as Singapore, China, India, Oman and the UAE. The budget is available for department heads to use towards activities that encourage employee well-being and team bonding. Sembcorp was a founding member of the iCare Mental Health Alliance, which made efforts to improve the mental health of workers in Singapore. In addition, we specifically include coverage of treatment for mental health issues in our employee insurance coverage. 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, Oman and the UAE.

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.

Community

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 to 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

The assessment and engagement of the community is guided by our Group Stakeholder and Community Engagement Policy as well as our Group Community

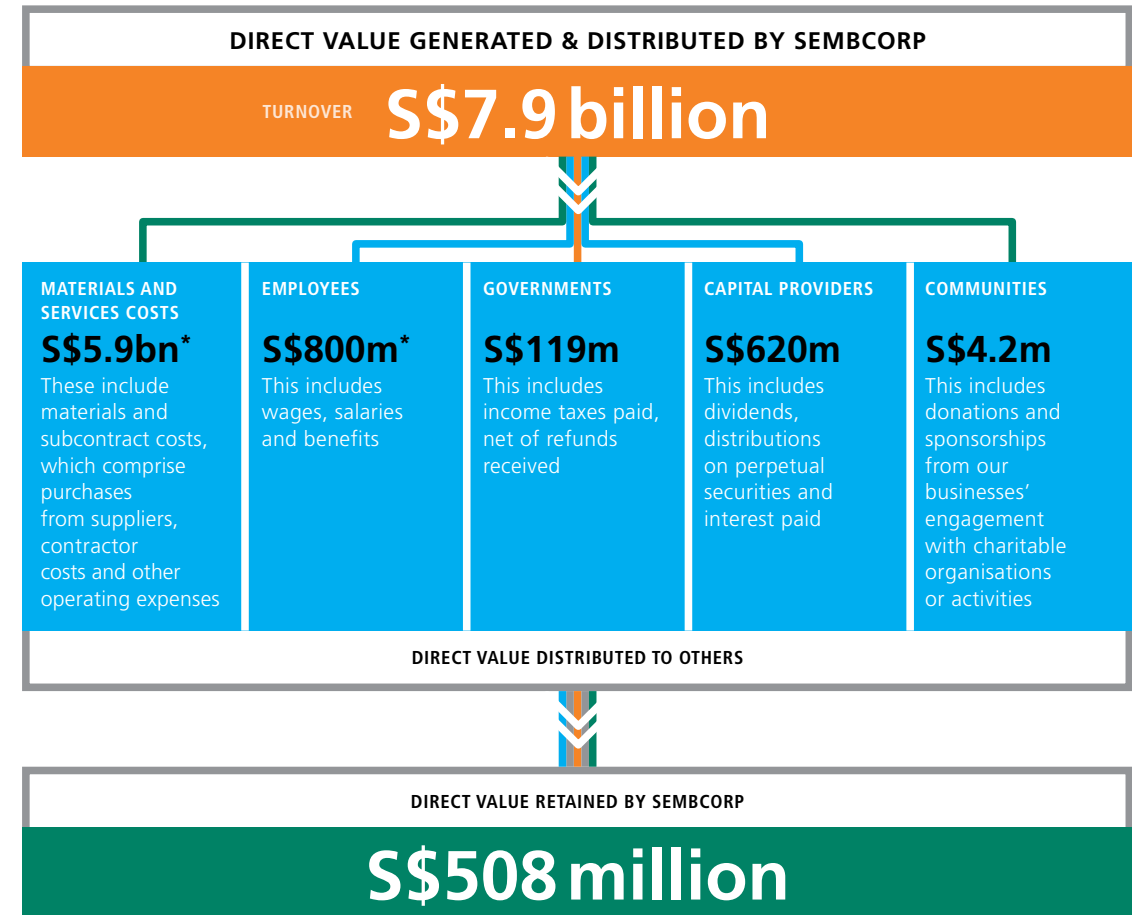
Grievance Policy. Environmental and social impact studies are carried out in accordance with international and / or national standards for major new projects and expansions. These studies typically include social management plans that are implemented by the operations teams through the various stages of the site's development.

Community contribution

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 the quality of life of the communities we are in.

Our CSR framework aligns the tracking and reporting of our community contributions with guidelines set by the London Benchmarking Group. This allows us to account for our total community giving – or the amount disbursed through sponsorships or donations – using standard definitions and valuations, and helps us ensure that the contributions recorded are meaningfully spent on community investment activities. More information on our key programmes may be found in the Sustainability section of our website.

 <p>ENVIRONMENT</p> <p>We are committed to fostering environmental stewardship in our community through contributions to sustainability and environmental initiatives.</p>	 <p>COMMUNITY</p> <p>We are committed to improving the living standards and quality of life of the community, such as through providing access to water, social welfare and education.</p>
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* On an accrued basis

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Our performance

Health and Safety

In 2016, we continued to implement several initiatives to improve our health and safety performance.

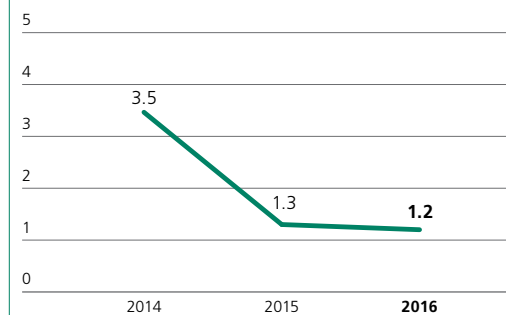
The key initiatives implemented include:

- Nurturing greater health and safety ownership through the SafeStart programme, which aims to strengthen the partnership between our employees and contractors. This programme was implemented by the heads of many of our operations worldwide.
- Enhancing our project development health and safety management through targeted focus on the management and surveillance of construction and commissioning activities, and increased engagement with contractors to ensure adherence to our health and safety requirements.
- In 2016, our annual validation and verification assurance programme was conducted, covering operations in Singapore, India, South Africa and Chile. The programme includes training and peer assistance elements, and serves a dual purpose as it reviews the health and safety performance of our operations, while enabling the sharing of good health and safety practices among peers.
- Conducting root cause analysis training to enhance the identification of health and safety root causes. This two-day training programme was conducted in Singapore involving colleagues from our global business units. This training aims to sharpen our capabilities in applying root cause analysis for incident investigation.

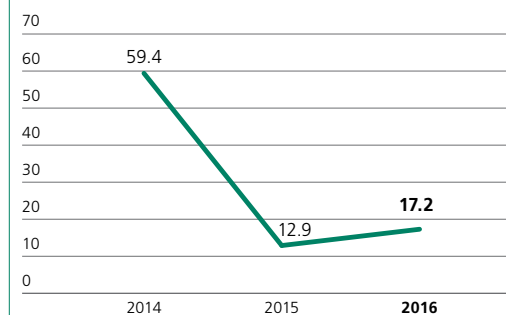
It is with great regret that we report three fatalities in 2016 which occurred at two of our construction sites. One fatality was due to a vehicular accident involving our contract worker at a construction site in Singapore. The other two were due to a fall from height and burn injuries sustained by contract workers constructing our second thermal power project in Andhra Pradesh, India. We are very saddened by the loss of these lives. Full support was rendered to the affected families by our operations and human resources teams. Every incident was thoroughly investigated to identify root causes and the necessary corrective actions were taken to prevent recurrence. Comprehensive reviews and assessments were also conducted and additional control measures implemented to minimise risk levels to as low as reasonably practicable. To ensure that we continually improve risk control, Operational Control and Safe Work Procedures are regularly reviewed to ascertain possible areas for improvement. A taskforce was also set up to review our Permit-to-Work systems and evaluate areas for improvement and standardisation.

Our health and safety performance charts reflect group-wide performance and cover both assets in operation and under construction.

Lost Time Injury Rate Per Million Man-hours^{1,2,3}



Accident Severity Rate Per Million Man-hours^{1,2,4}



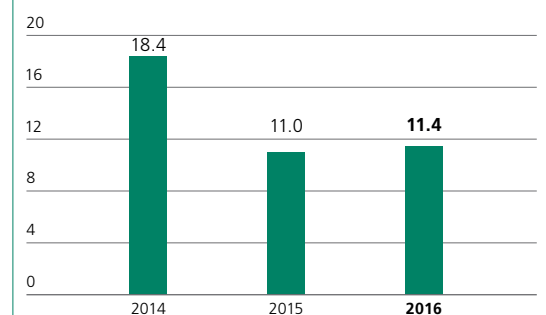
The lost time injury rate registered a slight decrease, due to improvements in performance across all operations, except for projects under construction. We recognise that there are improvements to be made for projects under construction, and we are in the process of further strengthening our health and safety controls. The accident severity rate increased due to longer recuperating times required for minor injuries such as sprains and cuts. We will continue to improve our performance through enhancing our health and safety risk assessments and management.

¹ Group figures are based on scope included in the reporting year. Our scope in 2014 only covered assets in operation, while our scope in 2015 and 2016 were expanded to include assets under construction
² Occupational health and safety data includes employees and contractors
³ The lost time injury rate includes fatalities
⁴ Accident severity rate excludes fatalities. Accident severity rate including fatalities is reported in our detailed performance data, available in the Sustainability section of our website. We record lost time due to one fatality as 6,000 lost work days, as per the US National Institute for Occupational Safety and Health

Our People

In 2016, we enhanced our Sembcorp Leadership Framework with the implementation of the Sembcorp Leaders Programme and the Occupational Personality Questionnaire and Motivation Questionnaire in Singapore. Emergenetics workshops were conducted for close to 400 employees in China and India. The assessment is a tool for self-evaluation which aims to aid personal and professional development, as well as promote peer understanding and empathy.

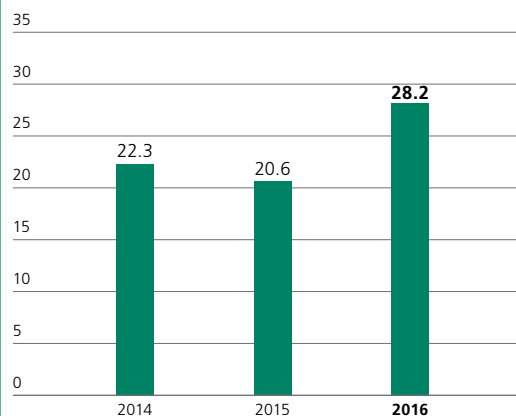
Employee Turnover (%)



Employee turnover rate was stable, increasing slightly from 11.0% in 2015 to 11.4% in 2016. The voluntary turnover rate was 9.1% in 2016. Employee turnover in 2014 was comparatively higher due to restructuring of operations in the UK in 2014.

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Average Training Hours Per Employee^{1,2}



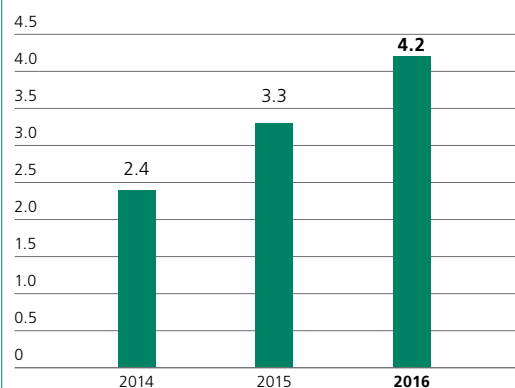
The average number of training hours per employee was 28.2 hours in 2016, which represented a 37% increase from 20.6 hours in 2015. This was due to the roll-out of various training programmes under the Sembcorp Leadership Framework, such as an Emergenetics assessment which was conducted for our China and India operations. Moving forward, we will continue to organise programmes to equip employees with skills and capabilities that are in line with our Core Competency Framework.

¹ Training data covers both permanent and contract employees of Sembcorp and its subsidiaries, excluding Sembcorp Marine. Other indicators in the People section relate to permanent employees of Sembcorp and its subsidiaries, excluding Sembcorp Marine

² A learning management system was launched in 2016 in Singapore, and will be progressively implemented across overseas operations. Consolidated training data is based on management's best estimates and we look to further refine the accuracy and consistency of the data

In 2016, Sembcorp contributed close to S\$4.2 million in cash and in-kind to charities and community initiatives globally. Over S\$500,000 comprised mandatory contributions and close to S\$13,000 comprised leveraged contributions. These contributions supported causes such as environmental and water conservation education, as well as youth development, apprenticeships and job training programmes. Total volunteer man-hours amounted to more than 14,000 hours, of which 20% were spent outside of working hours due to event requirements.

Community Contributions (\$ million)



In 2016, our community contributions in cash and in-kind increased by 26% compared to 2015. This was mainly due to the inclusion of our new operations in India, where a range of CSR activities relating to infrastructural improvements, education and healthcare were organised to benefit the surrounding community. Our operations in South Africa expanded their CSR contributions in the areas of drought awareness and prevention in response to the local drought crisis, and enhanced their contributions to education through sponsorships and bursaries at the local universities. In addition, we continued to contribute to the Sembcorp Cool House, a temperature-controlled glasshouse within the Singapore Botanic Gardens – a UNESCO World Heritage Site.

Community

In line with our commitment to manage our impact on the community responsibly, and to better mitigate the environmental and social impact of our businesses, we have developed an Environmental and Social Investment Policy for New Investments. The policy embeds the identification of key environmental and social related risks into the early stages of our investment approval process.

Going forward

Health and Safety

As Sembcorp continues to grow our footprint internationally, we will continue to focus on the following areas to align our businesses to global standards:

- Strengthening of health and safety ownership and leadership at all working levels
- Promotion of health and safety communication and engagement
- Strengthening of risk management and control measures for both project development and operational activities.

With the launch of several initiatives in previous years targeting health and safety management, we have seen improvements in health and safety practices and performance. We expect such improvements to continue. The validation and verification programme remains our key assurance

programme for compliance and improvement in health and safety performance. Visits are tailored and prioritised for sites which require more attention, and the target is to complete all scheduled validation and verification visits and ensure that the necessary improvements identified have been made in a timely manner.

Our People

Moving forward, we are preparing for the global roll-out of programmes under the Sembcorp Leadership Framework. We will also be launching an organisation survey to formally assess organisational health.

Community

We continue to enhance our internal processes for managing our impact on our communities. This includes the implementation and roll-out of our Environmental and Social Policy for New Investments to relevant stakeholders.



Health and Safety

To make health and safety management an integral part of everyday business and culture



Our People

To offer a compelling employment experience for our people to develop and excel



Community

To be a responsible business that makes a positive impact on our communities

Governance

To maintain high standards of behaviour and integrity and be best in class for governance practices

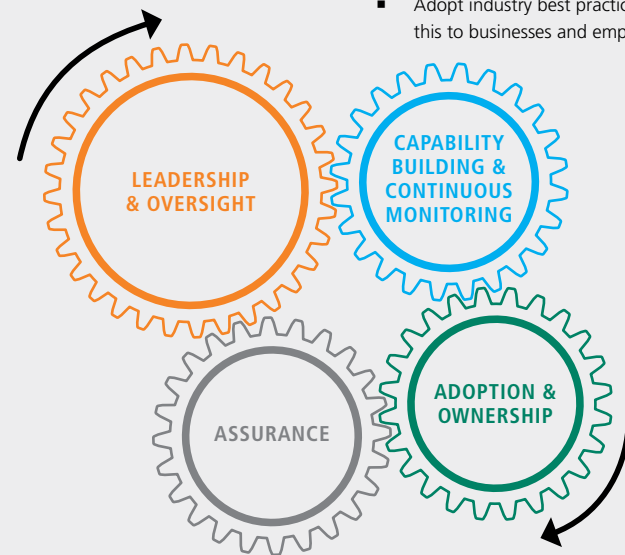
RISK & GOVERNANCE ECOSYSTEM

AUDIT & RISK COMMITTEES

- Oversee risk management and internal controls of the Group, and advise the board on such matters
- Determine the Group's overall risk appetite and tolerance
- Review and approve risk management and governance-related frameworks and policies

GROUP RISK & GOVERNANCE

- Develop the Group's overall risk management programme
- Design and own group-level risk management and governance frameworks and policies
- Monitor the status of implementation across entities within the Group
- Adopt industry best practice and communicate this to businesses and employees



INTERNAL AUDIT

- Audits the adequacy and effectiveness of our risk management and internal controls, using a risk-based methodology
- Provides independent assurance of compliance to relevant Group policies

BUSINESS UNITS

- Hold accountability for respective risks and controls
- Provide source information and assessment of risks and controls
- Develop operating procedures and manuals aligned with the Group's governance policies, to ensure legal, regulatory and contractual compliance
- Provide management assurance of compliance and adequacy of internal controls, backed by comprehensive self-review and certification

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 in enhancing corporate accountability and long-term sustainability to preserve and maximise shareholder value.

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 and controls.

Compliance

Sembcorp provides essential services which are highly regulated. We are committed to comply with all laws and regulations in the countries that we operate in. 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, thereby limiting future growth opportunities.

Ethical Business Practices

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. Sembcorp has zero tolerance for fraud, bribery and corruption.

Our approach

Corporate Governance

Sembcorp is led by an effective board mainly comprising 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 an independent oversight of management.

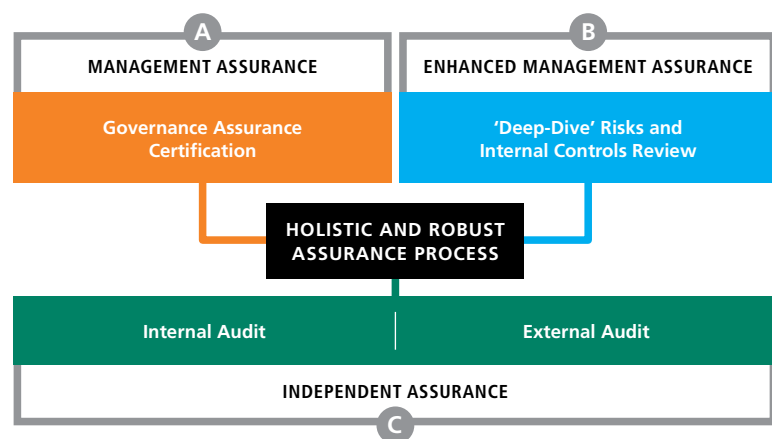
Furthermore, the board and management of Sembcorp recognises that well-defined corporate governance processes are essential in enhancing corporate accountability and long-term sustainability, and are committed to high standards of governance to preserve and maximise shareholder value. We comply with the principles and guidelines set out in the 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.

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 delegation of authority matrix and financial authority limits, which have been approved by the board. A comprehensive set of group-wide governance and functional policies that 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 our business units to put in place.

We have also put in place a Governance Assurance Framework to provide a holistic and robust basis of assurance for the adequacy and effectiveness of our risk management and internal control system.

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SEMBCORP'S GOVERNANCE ASSURANCE FRAMEWORK

a. Management assurance

The Governance Assurance Certification is a management certification process that is submitted quarterly by each business unit to certify that its risk management and internal controls system is adequate and effective. This certification is supported by regular internal risk management processes, including Risk Management Committee meetings and review of risk registers.

b. Enhanced management assurance

Key business units are required to perform a 'deep-dive' risks and internal controls review together with a risk control self-assessment by management.

c. Independent assurance

Internal audit provides independent assurance with a focus on operational risks and the general control environment. 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 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 following areas. These are aligned with how the Group categorises its material issues, for the management and the reporting of its overall sustainability performance:

HIGHLIGHT Using Technology to Enhance our Risk and Control Processes

A new online risk management and business continuity management system has been developed to improve our risk and governance process through enabling active management and monitoring, enhanced reporting, and analytics capabilities. When implemented, this system will promote greater accountability and provide a

central database of identified risks and internal controls put in place to mitigate these risks.

We have also leveraged data analytics to perform continuous monitoring of transactions in our Enterprise Resource Planning system to detect non-compliance to Group policies and be alerted of any potential fraud.

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 assets in both existing and new markets, with a particular emphasis on emerging 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 a defined set of country limits and the limit for investment exposure in countries deemed to be of high and medium risk has been set at no more than 65% of our total investment exposure. In addition, we also maintain appropriate single-country limits.

The Group commits 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 will not take part in any form of transaction that is deemed speculative in nature, under any circumstances.

b. Environmental

Sembcorp is committed to responsibly managing and reducing our impact on the environment as well as to effectively managing environmental risks to our operations.

Besides complying with all prescribed environmental standards and requirements

through our established internal policies and processes, we assess the impact of environmental risks and apply appropriate control measures to manage them. Where viable, we also invest in the latest technologies and utilise our capabilities as an industry leader to achieve better energy and water efficiency, including reduction of water consumption through water reuse.

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 both its internal and external stakeholders. The health and safety of all our employees is of paramount importance to the Group. We take a serious view of any breach in health and safety standards and regulations across all our operations and facilities.

Sembcorp also recognises the need to have in place a strong and competent workforce that is committed to our core values and ethical standards. The Group will also continue to attract, develop and retain employees with the relevant skill sets and competencies to meet our business needs and growth plans and ensure leadership continuity.

In addition, Sembcorp believes that as an integral part of our communities, we should

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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, to engaging our stakeholders and to managing our environmental and social impact on local communities responsibly.

d. Governance

As a listed company on the Singapore stock exchange that has both responsibility and accountability to a wide range of stakeholders, Sembcorp commits to maintain high standards of behaviour and integrity and be best in class for governance practices. The Group will comply with all applicable laws and regulatory requirements in the countries where it operates. Further, the Group adopts a zero tolerance stance towards any form of fraud, bribery or corruption and expects all employees to adhere to the guidelines set forth in the Code of Business Conduct.

The above risk appetite statements are also supported by key risk indicators, which are monitored and reported to the 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 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 trainings and workshops
- Risk identification and assessment
- Formulation of key risk management strategies
- Design and implementation of risk mitigation controls (preventive, detective and responsive controls)
- Monitoring and timely reporting of risk management performance and risk exposure levels
- Continuous improvement of risk management mitigation measures and capabilities

Our ERM framework is supported by the following key pillars:

a. Fraud risk management

Sembcorp has zero tolerance for fraud, which we take to include corruption and bribery. Our fraud risk management policy provides a framework and comprehensive guidance on anti-fraud measures to proactively manage the risk of fraud, bribery and corruption. This includes a whistle-blowing policy.

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

Detective anti-fraud measures

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

Responsive anti-fraud measures

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

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 are regularly tested and fine-tuned. The Group also addresses crises and emergencies through the implementation of appropriate prevention, preparedness, response and recovery programmes.

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 business units to actively manage HSE risks.

Insurance

The Group actively reviews its insurable and uninsurable risks, and identifies comprehensive and cost-effective risk management tools to manage such risks.

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 risk

The Group defines and utilises approved financial instruments to manage exposure to foreign exchange, commodity prices and interest rate fluctuations arising from operational, financing and investment activities. 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.

e. Tax risk management

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

For more details on our ERM framework and a full description of our approach to managing the above risks, please refer to the Sustainability section of our website.

Compliance

Full compliance to all legal and regulatory requirements is the minimum expectation we prescribe for all our businesses. As part of our Governance Assurance Framework, our Governance Assurance Certification process requires all heads of business units to certify that

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they have complied with all relevant legal and regulatory requirements in their respective entities and country of operation. Any monetary fines and non-monetary sanctions imposed on the business units are also to be reported.

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

Ethical Business Practices

Sembcorp's core values of *Insight*, *Integrity* and *Integral* define our approach to sustainable growth and form the foundation of Sembcorp's Business Principles and Code of Business Conduct (CBC). Employees are required to comply with the requirements of the CBC, which addresses Sembcorp's stance in the following key areas:

- Fairness and opportunity, harassment, information protection and insider trading, protection of company assets
- Integrity of information, gifts and entertainment, conflict of interest, corruption and bribery, facilitation payments, anti-competition and anti-trust laws, money laundering prevention, political contributions
- Contribution to our communities, health, safety and the environment

The CBC is publicly available on our website. Requirements of the CBC are communicated to employees globally through an e-learning course delivered in multiple languages. Employees are required to complete an annual declaration to acknowledge that they have read and understood the principles and requirements of the CBC and agree to comply with its principles and requirements and to promptly report any violation through available reporting channels. Suppliers and

contractors who work with Sembcorp are expected to respect and follow the CBC as well.

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

Our performance

The focus of our governance assurance process this year was to extend the implementation of the Governance Assurance Framework to new entities. We also continued to review and update the risk registers of existing entities to ensure that they remain relevant and up to date. Under a new requirement of India's Companies Act, the external auditors of our subsidiaries in India have opined that these subsidiaries have, in all material respects, an adequate internal financial controls system over financial reporting and that these controls were operating effectively as at March 31, 2016.

As part of our ongoing efforts to build in-house capabilities, readiness and resilience in crisis and emergency response situations, we have continued to conduct and participate in regular crisis simulation exercises and awareness trainings. In 2016, this included simulation exercises in Singapore, Oman and the UAE. The exercises were conducted in partnership with customers, local authorities and external agencies.

With heightened risk of terrorist attacks worldwide, we have also engaged an external consultant to review our security framework and ensure that our organisation and staff are well-prepared in responding to major security incidents. In September 2016, Temasek Foundation Cares launched the Stay Prepared – Business Psychological Resilience Programme (B-PREP) to establish a model for psychological resilience, which companies in Singapore can adopt to help manage the psychological and emotional impact of emergencies, threats and crises. As a B-PREP participant, we have embarked on building a team of trained personnel equipped to help affected persons cope with the

psychological and emotional impact of crises. We are also developing a psychological resilience framework in line with national resilience frameworks such as SG Secure and the National Care Management System.

In 2016, Sembcorp received the Most Transparent Company Award in the Industrials category at the Securities Investors Association (Singapore) Investors' Choice Awards. Sembcorp was also ranked sixth in the 2016 edition of the Singapore Governance and Transparency Index, a well-respected index assessing the transparency of 631 Singapore listed companies. The index is a collaboration between CPA Australia, the Centre for Governance, Institutions and Organisations at the National University of Singapore Business School, and the Singapore Institute of Directors, and is supported by The Business Times.

During the year, three significant fines amounting to S\$260,000 were incurred by our operations in Chile and China. One of our water treatment plants in Chile paid a total penalty of S\$156,000 for failure to provide continuous water supply and meet the required water pressure level on two occasions. New wells have been constructed and enhancements have been made to improve the capacity and water pressure. A water treatment plant in China was also fined S\$104,000 when samples tested by the Environmental Protection Bureau exceeded the chemical oxygen demand limit as a result of different laboratory testing methodologies. We have taken action to prevent recurrence of this incident.

There was no legal action initiated during the year in connection with anti-competitive behaviour, anti-trust or monopoly practices.

Going forward

We will continue to prescribe to and be guided by the below targets as we continue our journey in pursuit of excellence in the areas of corporate governance, risk management, compliance and ethical business practices.

Going forward, our focus will be to further improve and refine our risk management and governance processes. This includes exploring new e-learning training modules and implementing the new online risk management and business continuity management system for our key business units.

- **Corporate Governance**
To have an effective governance and decision-making structure
- **Risk Management**
To ensure effective identification and management of all material risks
- **Compliance**
To comply with all legal and regulatory requirements
- **Ethical Business Practices**
To ensure we conduct our businesses legally, fairly, honestly and with integrity

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

■ CORPORATE GOVERNANCE STATEMENT

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

The board and management of Sembcorp recognise that well-defined corporate governance processes are essential in enhancing corporate accountability and long-term sustainability, and are committed to high standards of governance to preserve and maximise shareholder value. This report sets out the company's corporate governance processes and activities for the financial year with reference to the principles set out in the Singapore Code of Corporate Governance 2012 (the Code). The board is pleased to report that the company has complied in all material aspects with the principles and guidelines set out in the Code, and any deviations are explained in this report.

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

BOARD MATTERS

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

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

Role of the board

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

- Provide leadership and guidance to management on the Group's overall strategy, taking into consideration sustainability issues and the need to ensure necessary financial and human resources are in place
- Ensure the adequacy of the Group's risk management and internal controls framework and standards, including ethical standards, and that its obligations to shareholders and other key stakeholders are met

- Review management performance and oversee the Group's overall performance objectives, key operational initiatives, financial plans and annual budget, major investments, divestments and funding proposals, quarterly and full-year financial performance reviews, risk management and corporate governance practices
- Provide guidance on sustainability issues such as environmental, social and governance factors, as part of the Group's overall business strategy

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

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

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

Composition of the board committees is structured to ensure an equitable distribution of responsibilities among board members, maximise the effectiveness of the board and foster active participation and contribution. Diversity of experience and appropriate skills are considered along with the need to maintain appropriate checks and balances between the different committees. Hence, membership of the Executive Committee, with its greater involvement in key businesses and executive decisions, and membership of the Audit and Risk Committees, with their respective oversight roles, are mutually exclusive.

The directors and executive officers of the company have each given an undertaking that in the exercise of their powers and duties as a director or executive officer of the company, they shall

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

The Group has adopted internal controls and guidelines that set out financial authorisation and approval limits for borrowings, including off-balance sheet commitments, investments, acquisitions, disposals, capital and operating expenditures, requisitions and expenses. Significant investments and transactions exceeding threshold limits are approved by the board while transactions below the threshold limits are approved by the Executive Committee and management to facilitate operational efficiency, in accordance with applicable financial authority limits.

Executive Committee

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

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

Technology Advisory Panel

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

The TAP provides guidance to the Group on its vision and strategy in leveraging technology to enhance Sembcorp's leadership in the energy and water industries. The panel advises on

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technologies for research and development as well as investment, and oversees the development and application of significant emerging and potentially disruptive technologies in the energy and water sectors. It also ensures the appropriate management of specialised research and development projects and systems for intellectual property creation and protection. In addition, the panel advises Sembcorp's board and management on technological trends and opportunities in line with the company's growth strategies.

The other committees' respective composition, roles and responsibilities are further explained in this Corporate Governance Statement. Minutes of board committee meetings are circulated to the board to keep directors updated on each committee's activities.

Meetings and attendance

The board meets on a quarterly basis to review and approve the release of the company's quarterly results, as well as to deliberate on key activities and business strategies, including significant acquisitions and disposals. At these board meetings, the Group President & CEO updates the board on the development and prospects of the Group's businesses and each board committee provides a report on its activities. An additional board meeting is held at the end of each financial year to review the Group's strategy and to consider and approve the Group's budget for the following year. Ad-hoc board meetings may also be convened as necessary to consider other specific matters. At quarterly board meetings, time is set aside for the board to discuss management's performance. Members of management are not present at or privy to such discussions. Annually, a strategic review meeting is organised for the board to have in-depth discussions with management on the Group's strategy and other key issues. In 2016, this off-site meeting was held in November.

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

the start of each year. Telephonic attendance and conference via audiovisual communication channels are allowed under the company's constitution to enable the participation of directors who are unable to be present. Decisions made by the board and board committees may be obtained at meetings or via circular resolution. Should a director be unable to attend any board or board committee meeting, he / she will still be sent the papers tabled for discussion and have the opportunity to separately convey any views to the chairman for consideration or further discussion with other directors. If necessary, a separate session may be organised for management to brief that director and obtain his / her comments and / or approval.

The directors' attendance at board and committee meetings held during the financial year 2016 is set out on page 135.

Board orientation and training

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

The company conducts comprehensive orientation programmes for new directors. These include briefings on board policies and processes, presentations by senior management about Sembcorp, its overall strategic plans and direction, financial performance and business activities in various markets, as well as facility visits.

As part of training and professional development for the board, the company ensures that directors are briefed from time to time on changes to

regulations, guidelines and accounting standards, as well as other relevant trends or issues. These are done either during board meetings, at board dinners or at specially convened sessions, including training sessions and seminars conducted by external professionals which are funded by the company.

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

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

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

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

Board Composition and Guidance (Principle 2)

Strong and independent board exercising objective judgement

Board composition

The current board comprises 11 directors, eight of whom are independent directors. Excluding the Group President & CEO, all the directors are non-executive. The board members include business leaders and professionals with strong experience relevant to the Group's businesses, from engineering, petrochemicals, oil and gas and real estate industries to accountancy, finance and legal sectors. Best efforts have been made to ensure that in addition to contributing their valuable expertise and insight to board deliberations, directors also bring to the board independent and objective perspectives to allow balanced and well-considered decisions to be made. The board is of the view that given that the majority of directors are non-executive and independent of management in terms of character and judgement, objectivity on issues deliberated is assured. Profiles of the directors may be found on pages 28 to 35.

Review of directors' independence

The independence of each non-executive director is assessed annually. Each director is required to complete a Director's Independence Checklist drawn up based on the guidelines provided in the Code. The checklist also requires each director to assess whether he / she considers himself / herself independent despite involvement in any of the relationships identified in the Code. Thereafter, the Nominating Committee reviews the completed checklists, assesses the independence of the directors and presents its recommendations to the board.

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Taking into account the views of the Nominating Committee, the board determined in 2016 that with the exception of Mr Tang, Mrs Lui and Mr McGregor, all of Sembcorp Industries' directors are independent. Mr Tang is Group President & CEO and an executive director. Mrs Lui is Chief Executive Officer of Azalea Asset Management, a related company of Temasek Holdings (Temasek) which holds more than 10% interest in the Group. As at the time of publication of this report, Mr McGregor is Head of Temasek International's Energy and Resources Group, Head of Australia and New Zealand and Senior Managing Director of its Enterprise Development Group.

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

Tan Sri Mohd Hassan Marican and Mr Haridass both sit on the board of Sembcorp Marine, a listed subsidiary from which the company has received payment in excess of S\$200,000 in aggregate for consultancy services and provision of utilities services. The board has assessed this matter and is of the view that the payment received from Sembcorp Marine is not significant in the context of the Group's earnings. The board believes that Tan Sri Mohd Hassan Marican and Mr Haridass'

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

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

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

Board Members for 2016

Board member	Position held on the board	Date of first appointment to the board	Date of last re-election / re-appointment as director	Nature of appointment
Ang Kong Hua	Chairman	Feb 26, 2010	Apr 19, 2016	Non-executive / Independent
Tang Kin Fei	Director	May 1, 2005	Apr 19, 2016	Executive / Non-independent
Bobby Chin Yoke Choong	Director	Dec 1, 2008	Apr 21, 2015*	Non-executive / Independent
Margaret Lui	Director	Jun 1, 2010	Apr 19, 2016	Non-executive / Non-independent
Tan Sri Mohd Hassan Marican	Director	Jun 16, 2010	Apr 19, 2016	Non-executive / Independent
Tham Kui Seng	Director	Jun 1, 2011	Apr 24, 2014*	Non-executive / Independent
Dr Teh Kok Peng	Director	Oct 15, 2012	Apr 21, 2015	Non-executive / Independent
Ajaib Haridass	Director	May 1, 2014	Apr 21, 2015*	Non-executive / Independent
Neil McGregor	Director	May 1, 2014	Apr 21, 2015*	Non-executive / Non-independent
Nicky Tan Ng Kuang	Director	Nov 1, 2015	Apr 19, 2016	Non-executive / Independent
Yap Chee Keong	Director	Oct 1, 2016	N.A.*	Non-executive / Independent

* Up for retirement at the company's upcoming AGM

Composition of Board Committees for 2016

Board member	Executive Committee	Audit Committee	Risk Committee	Executive Resource & Compensation Committee	Nominating Committee	Technology Advisory Panel
Ang Kong Hua	Chairman			Chairman	Chairman	Chairman
Tang Kin Fei	Member					Member
Bobby Chin Yoke Choong		Chairman	Member		Member	
Margaret Lui	Member			Member	Member	
Tan Sri Mohd Hassan Marican				Member	Member	
Tham Kui Seng		Member	Member			
Dr Teh Kok Peng		Member		Member		Member
Ajaib Haridass		Member	Chairman			
Neil McGregor			Member			
Nicky Tan Ng Kuang ¹	Member					
Yap Chee Keong ²		Member	Member			

Directors' Attendance at Board and Board Committee Meetings in 2016

Board member	Board meeting	Executive Committee meeting	Audit Committee meeting	Risk Committee meeting	Executive Resource & Compensation Committee meeting	Nominating Committee meeting	Technology Advisory Panel meeting	Annual general meeting
Total Number of Meetings Held in 2016								
	8	6	7	4	5	3	4	1
Ang Kong Hua	8/8	6/6	–	–	5/5	3/3	4/4	1/1
Tang Kin Fei	6/8*	6/6	5/7*	4/4	3/5*	3/3	4/4	1/1
Bobby Chin Yoke Choong	8/8	–	7/7	4/4	–	3/3	–	1/1
Margaret Lui	8/8	6/6	–	–	5/5	3/3	–	1/1
Tan Sri Mohd Hassan Marican	8/8	–	–	–	5/5	3/3	–	1/1
Tham Kui Seng	8/8	–	7/7	4/4	–	–	–	1/1
Dr Teh Kok Peng	8/8	–	7/7	–	5/5	–	4/4	1/1
Ajaib Haridass	8/8	–	7/7	4/4	–	–	–	1/1
Neil McGregor	8/8	–	–	4/4	–	–	–	1/1
Nicky Tan Ng Kuang ¹	7/8**	5/6**	–	–	–	–	–	1/1
Yap Chee Keong ²	2/2	–	1/1	1/1	–	–	–	–

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

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

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

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

Chairman and Chief Executive Officer (Principle 3)

Clear division of responsibilities between the board and management

The Chairman and the Group President & CEO are not related to each other. Their roles are kept separate to ensure a clear division of responsibilities, increased accountability and a greater capacity of the board for independent decision-making.

The Chairman, who is non-executive, chairs the board, ExCo, Executive Resource & Compensation Committee, Nominating Committee and the TAP. He leads and ensures an effective and comprehensive discussion on matters brought to the board, including strategic issues and business planning. The Chairman promotes an open environment for deliberation and ensures that board and board committee meetings are conducted in a manner that allows non-executive directors to participate in meaningful and active discussions. He also provides advice to management and monitors all follow-up actions following the board's decisions, ensuring that such decisions are translated into executive action. In addition, the Chairman provides leadership and guidance to management, particularly with regard to global growth strategy and project investments. He also helps to oversee the Group's talent management, and works with the Group President & CEO to ensure that robust succession plans are in place for key management positions.

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

Board Membership (Principle 4)

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

Nominating Committee

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

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

The key responsibilities of the NC are to:

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

Succession planning, appointment and re-appointment of directors

The NC seeks to refresh board membership progressively and in an orderly manner. All appointments to the board are made based on merit and measured against objective criteria. Candidates must be able to discharge their responsibilities as directors while upholding the highest standards of

governance practised by the Group. The board also recognises the contributions of directors who have, over time, developed deep insight into the Group's businesses. It exercises its discretion to retain the services of such directors where appropriate, to avoid an abrupt loss of experienced directors with a valuable understanding of the Group.

With reference to the Group's strategies and business plans, the NC reviews the skills mix of board members to ensure that the board has the required diversity, including gender diversity, as well as the competencies to support our growth. When the need for a new director arises, the NC consults with management and identifies a list of potential candidates. These candidates are sourced through an extensive network of contacts and external databases where appropriate, based on the skill sets, experience, knowledge and attributes required to lead the growth of the company. Thereafter, the NC will interview the candidates and make its recommendation to the board for approval. In accordance with the company's constitution, the new director will hold office until the next AGM and, if eligible, can stand for re-appointment.

The company subscribes to the principle that all directors, including the Group President & CEO, should retire and submit themselves for re-election at regular intervals, subject to their continued satisfactory performance. The company's constitution requires a third of its directors to retire and subject themselves for re-election by shareholders at every AGM (one-third rotation rule).

In addition, all newly-appointed directors submit themselves for retirement and re-election at the AGM immediately following their appointment. Thereafter, these directors are subject to the one-third rotation rule.

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

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

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

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

Review of directors' time commitments

While reviewing the re-appointment and re-election of directors, the NC also considers the directors' other board directorship representations and principal commitments to ensure they have sufficient time to discharge their responsibilities adequately. Taking into consideration the total time commitment required of our directors for involvement in Sembcorp's board and board committees and for their other appointments outside our company, the board has determined that the maximum number of listed company board representations held by any Sembcorp Industries director should not exceed six.

For 2016, the board is satisfied that all directors have given sufficient time and attention to the affairs of the company and have discharged their duties adequately.

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Board Performance (Principle 5)

Active participation and valuable contributions are key to overall effectiveness of the board

Board evaluation process and performance criteria

The board believes that board performance is ultimately reflected in the long-term performance of the Group. Each year, in consultation with the NC, the board assesses its performance to identify key areas for improvement and requisite follow-up actions.

To provide feedback to aid in this assessment, each director is required to complete a questionnaire on the effectiveness of the board, board committees and directors' contribution and performance. The evaluation considers factors such as the size and composition of the board and board committees, board processes and accountability, board and board committees' development and effectiveness, information management, decision-making processes, risk and crisis management, succession planning, communication with senior management and stakeholder management. The evaluation and feedback are then consolidated and presented to the board for discussion on areas of strengths and weaknesses. The NC periodically reviews and improves the directors' questionnaire to further enhance assessment of board and board committee effectiveness. The assessment helps the directors to maintain focus on their key responsibilities, while improving board performance.

Access to Information (Principle 6)

Directors have complete, adequate and timely information and resources

Complete, adequate and timely information

The company recognises that directors should be provided with complete, adequate and timely information on an ongoing basis that enables them

to make informed decisions, discharge their duties and keep abreast of the Group's operational and financial performance, key issues, challenges and opportunities. Sembcorp's management furnishes management and operation reports as well as financial statements to the board on a regular basis. Financial highlights of the Group's performance and key developments are presented on a quarterly basis at board meetings and the Group President & CEO, Group Chief Financial Officer and members of senior management attend board and board committee meetings to provide insight into matters under discussion and address any queries that the directors may have.

In line with Sembcorp's strong commitment towards environmental responsibility, directors are provided with electronic tablets that give them access to board and board committee papers prior to and during meetings. As a general rule, the board and board committee papers are made available to directors a week prior to meetings. This is to give the directors sufficient time to review and consider matters at hand. It also ensures that discussions at the meetings can be focused on any questions arising from these matters. The board has ready and independent access to the Group President & CEO, senior management, the company secretary and internal and external auditors at all times, should it require additional information.

Company Secretary

The company secretary assists the Chairman to ensure good information flow within the board and its committees and between the board and senior management. In addition, the company secretary attends to corporate secretarial matters, such as arranging orientations for new directors and assisting with their professional development as required. In consultation with the Chairman and Group President & CEO, the company secretary assists the board with scheduling of board and board committee meetings, prepares meeting agendas and administers, attends and minutes

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

Independent professional advice

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

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies (Principle 7)

Remuneration of directors adequate and not excessive

With the assistance of the Executive Resource & Compensation Committee, the board ensures that a formal policy and transparent procedure for determining remuneration of executives and directors are in place.

Executive Resource & Compensation Committee

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

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

To this end, it:

- Assists the board to ensure that competitive remuneration policies and practices are in place and aligned with the prevailing economic environment
- Reviews the Directors' Fee Framework periodically and remuneration package of each member of key management, and endorses or makes further recommendations on such matters to the board for its consideration
- Establishes guidelines on share-based incentives and other long-term incentive plans and approves the grant of such incentives to key management personnel. These incentives serve to motivate executives to maximise operating and financial performance and shareholder value. They are aimed at aligning the interests of key management personnel with those of shareholders
- Reviews succession planning for key management personnel and the leadership pipeline for the organisation

In its deliberations, the ERCC takes into consideration industry practices and compensation norms. The Group President & CEO does not attend discussions relating to his own compensation, terms and conditions of service, or the review of his performance. In addition, no ERCC member or any director is involved in deliberations in respect of any remuneration, compensation, share-based incentives or any form of benefits to be granted to himself / herself.

The ERCC has access to expert professional advice on human resource matters whenever there is a need for such external consultation. In 2016, Mercer (Singapore) was engaged as external consultants to provide such advice. In engaging external consultants, the Group ensures that the relationship, if any, between them and these external consultants will not affect the independence and objectivity of the external consultants. In 2016, the ERCC undertook a review of the independence and

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objectivity of Mercer (Singapore) and has confirmed that it has no relationship with the company which would affect its independence.

In reviewing succession planning and the Group's leadership pipeline, the ERCC reviews the development of senior staff and assesses their strengths and development needs based on the Group's leadership competencies framework, with the aim of building talent and maintaining strong and sound leadership for the Group. On an annual basis, the ERCC reviews succession planning for the position of Group President & CEO and that of officers reporting directly to him, as well as for other selected key positions in the company. Potential internal and external candidates for succession are reviewed for different time horizons according to immediate, medium-term and long-term needs. In addition, the ERCC also reviews the company's obligation arising in the event of termination of the Group President & CEO and key management personnel's contracts of service, to ensure that such contracts contain fair and reasonable termination clauses.

Level and Mix of Remuneration (Principle 8)

Competitive reward system to ensure highest performance and retention of directors and key management personnel

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

The Group President & CEO, as an executive director, does not receive director's fees from Sembcorp. As a lead member of management, his compensation consists of his salary, allowances, bonuses and share-based incentives conditional upon meeting certain performance targets. Details on the share-based incentives and performance targets are available in the Directors' Statement and

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

Non-executive directors' fees

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

Directors' Fee Framework for FY2016*		S\$
Chairman's fee (all-in) ¹		750,000
Director's basic retainer fee		75,000
Executive Committee		
Chairman's allowance		50,000
Member's allowance		30,000
Audit Committee		
Chairman's allowance		50,000
Member's allowance		30,000
Executive Resource & Compensation Committee		
Chairman's allowance		35,000
Member's allowance		20,000
Risk Committee		
Chairman's allowance		35,000
Member's allowance		20,000
Nominating Committee		
Chairman's allowance		25,000
Member's allowance		15,000
Technology Advisory Panel / Others		
Chairman's allowance		25,000
Member's allowance		15,000
Attendance fees		
Board meeting		5,000
Committee meeting ²		2,500
Teleconference (board meeting)		2,000
Teleconference (committee meeting)		1,000
Travel allowance for overseas directors		
≤ 4 hours (to and fro air travel time)		2,500
> 4 to 15 hours (to and fro air travel time)		5,000
> 15 hours (to and fro air travel time)		10,000

Notes:

* 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 The attendance fee for committee meetings also applies to attendance at general meetings

The directors' fees payable to non-executive directors are paid in cash and in share awards under the Sembcorp Industries Restricted Share Plan 2010. The ERCC has determined that up to 30% of the aggregate directors' fees approved by shareholders for a particular financial year may be paid out in the form of restricted share awards. Directors' cash fees and share awards will only be paid and granted upon approval by shareholders at the company's AGM. Directors and their associates also abstain from voting on any resolution(s) relating to their remuneration.

Share awards granted under the Sembcorp Industries Restricted Share Plan 2010 to directors as part of directors' fees will consist of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. However, this does not apply to Mr Tang, as he does not receive directors' fees given that he is Group President & CEO of the company. Non-executive directors are required to hold shares in the company (including shares obtained by other means) worth the value of their annual basic retainer fee (currently S\$75,000); any excess may be disposed of as desired. A non-executive director may only dispose of all of his shares one year after leaving the board. Subject to shareholders' approval at the forthcoming AGM, the cash component of the directors' fees for the financial year 2017 is intended to be paid half-yearly in arrears.

The actual number of shares to be awarded to each non-executive director will be determined by reference to the volume-weighted average price of a share on the SGX-ST over the 14 trading days from (and including) the day the shares are first quoted ex-dividend after the AGM (or, if the resolution to approve the final dividend is not approved, over the 14 trading days immediately following the date of the AGM). The number of shares to be awarded will be rounded down to the nearest hundred and any residual balance will be settled in cash. The share component of the directors' fees for the financial year 2017 is

intended to be paid in 2018 after the AGM has been held.

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

Remuneration for key management personnel

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

■ Fixed remuneration

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

■ Annual variable bonuses

The annual variable bonus is intended to recognise the performance and contributions of the individual, while driving the achievement of key business results for the company. The annual variable bonus includes two components.

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

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

The second is linked to the creation of economic value added (EVA) and is designed to ensure alignment with sustainable value creation for the shareholders over the longer term. An EVA linked “bonus bank” is created for each executive. Typically, one-third of the bonus bank balance is paid out in cash each year, while the remaining two-thirds is carried forward to the following year. Such carried-forward balances of the bonus bank may either be reduced or increased in future, based on the yearly EVA performance of the Group and its subsidiaries. There are provisions in the EVA incentive plan to allow for forfeiture of the outstanding balances in the bonus bank in exceptional circumstances of misstatement of financial results or misconduct resulting in financial loss to the company.

■ Share-based incentives

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

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

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

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

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

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

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

Pay for performance

As in prior years, a pay-for-performance study was conducted in 2016 by our external consultants, Mercer (Singapore), to review the alignment between the Group's executive pay programme, shareholder returns and business results. The Group benchmarked itself against established global energy and utilities firms and comparably-sized local

listed companies with which the Group competes for talent and capital.

The study benchmarked different elements of senior executive pay, namely fixed remuneration, total cash remuneration and total compensation including long-term incentives, against that of peer companies. It found senior executive's fixed pay to be positioned competitively vis-à-vis the Group's relative size and complexity. The total cash component for the year had a robust correlation to the Group's profit from operations and EVA. The performance conditions for short-term and share-based-term incentive plans were generally met, except for total shareholder return conditions, which were impacted by adverse share price movement. As a result, the realised value of the share-based incentive award was much lower than the granted value. Overall, the study showed a strong correlation between the Group's executive pay and its business results and shareholder returns, indicating strong pay-for-performance alignment.

Disclosure on Remuneration (Principle 9)

The computation of non-executive directors' fees totalled S\$2,365,750 in 2016 (2015: S\$2,182,750). More information on directors and key management personnel's remuneration may be found under the related item in the Supplementary Information section of the financial statements in this annual report.

In 2016, the company had no employees who were immediate family members of a director or the Group President & CEO.

ACCOUNTABILITY AND AUDIT

Accountability (Principle 10)

The board is accountable to shareholders

Sembcorp is committed to open and honest communication with shareholders at all times. The company presents a balanced and clear assessment of the Group's performance, position and prospects to shareholders through the timely release of its quarterly and annual financial reports. The company believes that prompt compliance with statutory reporting requirements is imperative to maintaining shareholders' confidence and trust in the company. In line with stock exchange requirements, negative assurance statements were issued by the board to accompany the company's quarterly financial results announcements, confirming that to the best of its knowledge, nothing had come to its attention which would render the company's quarterly results false or misleading.

Risk Management and Internal Controls (Principle 11)

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

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

Risk Committee

The Risk Committee (RC) assists the board in overseeing risk management for the Group.

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The RC is headed by Mr Haridass, who is joined on the committee by Mr Chin, Mr McGregor, Mr Tham and Mr Yap, who was appointed to the RC on October 1, 2016. The RC's principal functions are to:

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

Adequate and effective system of internal controls

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

Our ERM framework is complemented by a governance assurance framework and a risk-based control self-assessment programme. During the year, the Group's risk profile was reviewed and updated.

The effectiveness of our internal controls was also assessed and enhanced through a combination of management control self-assessments, certifications and internal audits, as well as actions taken as a follow up to these exercises. For more information on the company's ERM framework, please refer to our website.

For the financial year under review, the board has been assured by the Group President & CEO and Group Chief Financial Officer that financial records have been properly maintained, that the financial statements give a true and fair view of the company's operations and finances and that the risk management and internal control systems of the Group are adequate and effective.

The board, with the concurrence of the Audit Committee, is of the opinion that the company's internal controls are adequate and effective as at December 31, 2016 to address the financial, operational, compliance and information technology risks of the Group. This assessment is based on the internal controls established and maintained by the Group, work performed by external and internal auditors and reviews performed by senior management. Internal controls, because of their inherent limitations, can provide reasonable but not absolute assurance regarding the achievement of their intended control objectives. In this regard, the board will ensure that should any significant internal control failings or weaknesses arise, necessary remedial actions will be swiftly taken.

Audit Committee (Principle 12)

The Audit Committee (AC) comprises independent, non-executive directors. The AC is chaired by Mr Chin and its members are Mr Tham, Dr Teh, Mr Haridass as well as Mr Yap, who joined the AC on October 1, 2016. The AC does not have any member who was a former partner or director of the company's external auditors, KPMG, within the last 12 months, or who holds any financial interest in KPMG.

Authority and duties of the AC

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

- Review the company's policies, control procedures and accounting practices with external auditors, internal auditors and management
- Review and act in the interest of the shareholders in respect of interested person transactions, as well as any matters or issues that affect the financial performance of the Group
- Review the quarterly, half-year and full-year results announcements, accompanying press releases and presentation slides, as well as the financial statements of the Group and the adequacy and accuracy of information disclosed prior to submission to the board for approval

The AC has explicit authority to investigate any matter within its terms of reference. It has full access to and co-operation from management and full discretion to invite any director or executive officer to attend its meetings. It also has reasonable resources to enable it to discharge its function properly.

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

Key audit matters

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

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

External auditors

Each year, the AC reviews the independence of the company's external auditors and makes recommendations to the board on the re-appointment of the company's external auditors. During the year, the AC has reviewed the performance of the external auditors using audit quality indicators recommended by the Accounting and Corporate Regulatory Authority as reference.

The AC reviews and approves the external audit plan to ensure the adequacy of the audit scope. It also reviews the external auditors' management letter and monitors the timely implementation of required corrective or improvement measures. The AC meets external and internal auditors at least once a year without the presence of management. It has reviewed the nature and extent of non-audit services provided by the external auditors to the Group for the year, excluding services provided to Sembcorp Marine, a listed subsidiary that has its own audit committee. The AC is satisfied that the independence of the external auditors has not been impaired by their provision of non-audit services. Accordingly, the AC has recommended the re-appointment of the external auditors at the forthcoming AGM. Details of non-audit fees payable to the external auditors are found in Note 28(a) in the Notes to the Financial Statements in this annual report.

Whistle-blowing policy

The AC oversees the Group's whistle-blowing policy which has been implemented to strengthen corporate governance and ethical business practices across all business units. Employees are provided with accessible channels to report suspected fraud, corruption, dishonest practices or other misdemeanours to the Group's internal auditors and are protected from reprisal to the extent possible. This aims to encourage the reporting of such matters in good faith. For more information on our whistle-blowing policy, please refer to our website.

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

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

Adequacy of the internal audit function

The AC reviews the effectiveness of the internal audit function on an annual basis, including the adequacy of audit resources. GIA adopts a risk-based methodology in drawing up its annual internal audit plan, which is reviewed and approved by the AC.

GIA also assists the board and management in the discharge of their corporate governance responsibilities, as well as in improving and promoting effective and efficient business processes within the Group. Internal audit aims to ensure that the Group maintains a sound system of internal controls and that our operations comply with the internal control framework. Internal audit reports are reviewed by the AC.

Professional standards and competency

GIA employs qualified staff and provides them with training and development opportunities so that their technical knowledge remains current and relevant. GIA is guided by, and has met standards for, the professional practice of internal audit promulgated by the Institute of Internal Auditors (IIA). An external assessment of GIA affirmed that its internal audit activity conforms on the whole to the standards set by the IIA.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES**Shareholder Rights (Principle 14)**

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

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

Communication with Shareholders (Principle 15)**Regular, effective and fair communication with shareholders**

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

Disclosure of information on a timely basis

Sembcorp makes every effort to ensure that shareholders and capital market players have easy access to clear, meaningful and timely information on the company in order to make informed investment decisions. To do this, various channels including announcements, press releases, shareholder circulars and annual reports are utilised. All price-sensitive and material information

is disseminated via SGXNET on a non-selective basis and in a timely and consistent manner. The company's announcements are also uploaded on the company website, www.sembcorp.com, after dissemination on SGXNET.

The quarterly results release date is disclosed at least two weeks prior to the announcement date via SGXNET. On the date of announcement, the financial statements as well as the accompanying press release and presentation slides are released via SGXNET and on the company website. Thereafter, a briefing or teleconference by management is jointly held for the media and analysts. For first-half and full-year results announcements, results briefings are concurrently broadcasted live via webcast. Investor relations officers are available by email or telephone to answer questions from shareholders, analysts and the media as long as the information requested does not conflict with SGX-ST's rules of fair disclosure.

The company also maintains a dedicated investor relations section on its company website to cater to the specific information needs of shareholders, investors, analysts and the financial community. Designed to provide a convenient repository for investors' information needs, the site includes filings on the company's results announcements since the company's listing in 1998, an archive of the company's results briefing webcasts, downloadable five-year financial data, a calendar of upcoming events, as well as pertinent stock information such as dividend history, share price charts and analyst coverage. Investor relations contact information is also displayed on the website for direct shareholder enquiries.

Establishing and maintaining regular dialogue with shareholders

Sembcorp employs multiple communication platforms to engage with its shareholders. In addition to its results briefings, the company also maintains regular dialogue with its shareholders through investor-targeted events such as AGMs,

roadshows, conferences, site visits, group briefings and one-to-one meetings. These platforms offer opportunities for senior management and directors to interact first-hand with shareholders, understand their views, gather feedback and address concerns.

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

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

Dividend policy

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

Conduct of Shareholder Meetings (Principle 16)**Greater shareholder participation at general meetings**

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

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

review the documents. In line with the company's commitment towards environmental responsibility, the company's annual reports and circulars are sent to shareholders in the form of a CD-ROM. The annual reports and circulars may also be viewed on the company website. However, we are mindful that some shareholders may prefer to receive a printed copy and this will be provided upon request.

The company's constitution allows all shareholders the right to appoint up to two proxies to attend, speak and vote at general meetings on their behalf. Under the new multiple proxy regime, "relevant intermediaries", such as banks, capital markets services licence holders which provide custodial services for securities and the Central Provident Fund Board (CPF), are allowed to appoint more than two proxies to attend, speak and vote at general meetings. This will enable indirect investors, including CPF investors, to be appointed as proxies to participate at general meetings. Voting in absentia by mail, facsimile or email is currently not permitted. Such voting methods would need to be cautiously evaluated for feasibility to ensure that there is no compromise to the integrity of the information and the authenticity of the shareholders' identity.

The Group President & CEO delivers a short presentation at each AGM to shareholders to update them on the performance of Sembcorp's businesses. Every matter requiring approval at a general meeting is proposed as a separate resolution. Shareholders present are given an opportunity to clarify or direct questions on issues pertaining to the proposed resolutions before the resolutions are voted on. The board and management are in attendance to address these queries or concerns and obtain feedback from shareholders. External auditors and legal advisors are also present to assist the board as necessary.

The company conducts electronic poll voting at shareholder meetings for greater transparency in the voting process. Shareholders are informed of

the voting procedures governing such meetings. An independent scrutineer is engaged to review the electronic poll voting system and proxy verification process during the meetings to ensure that the information is compiled adequately and procedures are carried out effectively. The total number of votes cast for or against each resolution is tallied and displayed live on-screen to shareholders immediately after the vote has been cast. Voting results will also be announced after the meetings via SGXNET.

The company secretary records minutes from these shareholder meetings which includes relevant comments or queries from shareholders and responses from the board and management. The minutes are available upon request by shareholders.

Dealings in securities

The company has adopted a Code of Compliance on Dealing in Securities, which prohibits dealings in the company's securities by its directors and senior management within two weeks prior to the announcement of the company's financial statements for each of the first three quarters of its financial year and within one month prior to the announcement of the company's full-year financial statements. Directors and employees are advised to be mindful to observe insider trading laws at all times, even when dealing in the company's securities outside the prohibited trading period. They are also reminded not to deal in the company's securities on short-term considerations.

Interested person transactions

Shareholders have adopted an interested person transaction (IPT) mandate in respect of interested person transactions of the company. The IPT mandate defines the levels and procedures to obtain approval for such transactions. Information regarding the IPT mandate is available on the staff intranet. All business units are required to be familiar with the IPT mandate and report any interested person transactions to the company for

review by the AC. The Group maintains a register of the company's interested person transactions in accordance with the reporting requirements stipulated by Chapter 9 of the SGX-ST Listing

Manual. Information on interested person transactions for 2016 may be found in the related item under the Supplementary Information section of the financial statements in this annual report.

Governance Disclosure Guide

In line with Sembcorp's commitment towards high standards of corporate governance and disclosure, the company has completed a questionnaire with reference to the disclosure guide developed by the Singapore Exchange in 2015. The company's responses to the disclosure guide may be found on pages 348 to 359 of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

INVESTOR RELATIONS

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

In the context of constantly evolving 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 company website. In addition, we also organise company visits and facility tours to help investors gain insights into the Group's operations.

Proactive Communication with the Financial Community

During the year, senior management and the investor relations team actively engaged the financial community. We held nearly 130 one-on-one and group meetings with shareholders, analysts and potential investors. These included meetings during non-deal roadshows in Singapore, London, Amsterdam, New York, Los Angeles, San Francisco and Toronto. We participated in investor conferences including the Credit Suisse 19th Annual Asian Investment Conference in Hong Kong, as well as the HSBC ASEAN & India Conference 2016 and the Morgan Stanley 15th Annual Asia Pacific Summit in Singapore. We also continued to organise site visits to our facilities. In 2016, we organised a plant tour for analysts to the Sembcorp Gayatri Power Complex in India.

The visit provided analysts a first-hand look at our operations in India.

Commitment to Good Corporate Governance

Sembcorp continues to rank among the top companies in Singapore for good corporate governance and transparency. We were the sixth-highest ranked company in Singapore in the 2016 edition of the Singapore Governance & Transparency Index. Singapore's leading index assessing corporate governance practices of listed companies, the Singapore Governance & Transparency Index is a collaboration between CPA Australia, National University of Singapore Business School's Centre for Governance, Institutions and Organisations and the Singapore Institute of Directors. It compares the transparency of 631 Singapore-listed companies based on their annual financial announcements.

In addition, we were recognised as the Most Transparent Company in the Industrials category at the SIAS Investors' Choice Awards 2016. This award honours and recognises public listed companies that have demonstrated exemplary corporate governance and transparency throughout the year.

Total Shareholder Return

Sembcorp Industries' last traded share price in 2016 was S\$2.85 and the company ended the year with a market capitalisation of S\$5.1 billion. The company's share price averaged S\$2.75 during the year, registering a low of S\$2.19 in January and a high of S\$3.23 in March. Daily turnover averaged 5.8 million shares.

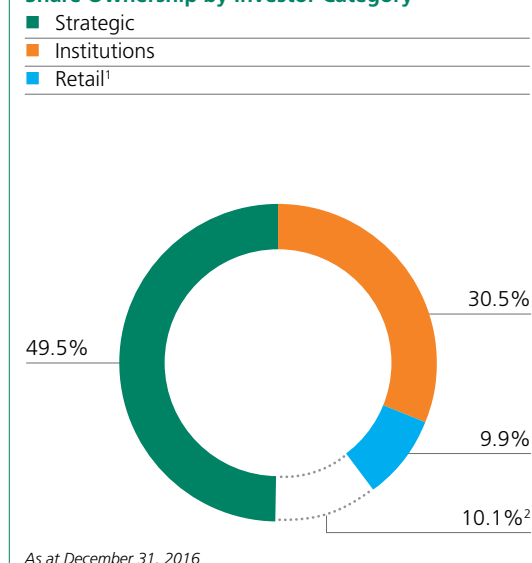
Sembcorp Industries' total shareholder return for 2016 stood at negative 3%. This was lower than the Straits Times Index's positive 4% and the MSCI Asia Pacific ex-Japan Industrials Index's negative 2%. However, this was more favourable than the FTSE ST Oil & Gas Index's negative 9%. During the year, the weak sentiment towards the oil and gas industry continued to weigh on our 60.9%-owned listed Marine subsidiary.

Sembcorp remains committed to delivering shareholder value amidst difficult operating conditions. For the financial year 2016, an interim dividend of 4 cents per ordinary share was declared and paid to shareholders in August 2016. In addition, a final dividend of 4 cents per ordinary share has been proposed, subject to approval by shareholders at the coming annual general meeting to be held in April 2017. Together with the interim dividend, this would bring our total dividend for 2016 to 8 cents per ordinary share.

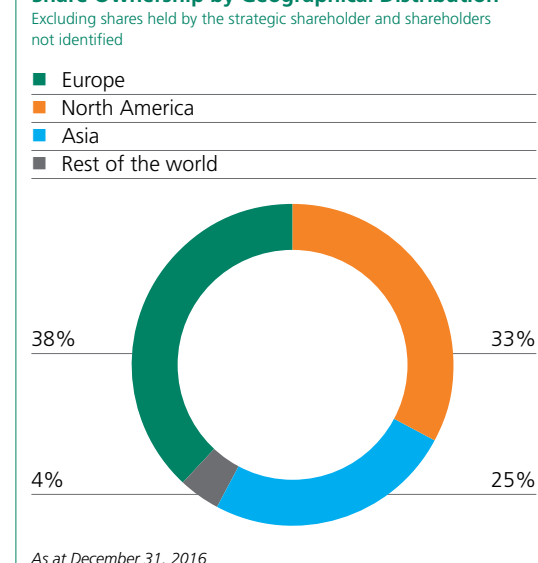
Shareholder Information

In 2016, 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 2016, institutional shareholders accounted for 31% of our issued share capital or 60% of free float, while retail shareholders¹ and shareholders not identified² held 20% of issued share capital or 40% of free float. In terms of geographical spread, excluding the stake held by Temasek Holdings and shareholders not identified, our largest geographical shareholding base was Europe with 38%, followed by shareholders from North America and Asia, which accounted for 33% and 25% of the shares respectively.

Share Ownership by Investor Category



Share Ownership by Geographical Distribution



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