

# Governance Disclosure Guide

Guideline	Questions	How has Sembcorp complied?
General	<p>a. Has the company complied with all the principles and guidelines of the Singapore Code of Corporate Governance 2012 (the Code)? If not, please state the specific deviations and the alternative corporate governance practices adopted by the company in lieu of the recommendations in the Code.</p> <p>b. In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code?</p>	Sembcorp has complied in all material aspects with the principles and guidelines set out in the Code.

## Board Responsibility

Guideline 1.5	What are the types of material transactions which require approval from the board?	Significant investments and transactions exceeding threshold limits are approved by the board. Transactions below the threshold limit are approved by the board's Executive Committee and management to facilitate operational efficiency, in accordance with applicable financial authority limits.
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Guideline	Questions	How has Sembcorp complied?
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## Members of the Board

Guideline 2.6	<p>a. What is the board's policy with regard to diversity in identifying director nominees?</p>	The board seeks to ensure that it has the required diversity, including gender diversity, as well as competencies needed to support the company's growth. Best efforts are taken to ensure that in addition to contributing their valuable expertise and insights to board deliberations, directors also bring to the board independent and objective perspectives to allow balanced and well-considered decisions to be made.
	<p>b. Please state whether the current composition of the board provides diversity on each of the following – skills, experience, gender and knowledge of the company, and elaborate with numerical data where appropriate.</p>	In 2018, the Nominating Committee (NC) reviewed the composition of our board to ensure that it had the diversity and necessary competencies to support the company's growth. Our current board includes business leaders and professionals with strong experience in areas relevant to the Group's businesses. This includes experience in the engineering, petrochemical, oil, power and gas, and real estate industries, as well as the accounting, finance, legal and technology R&D sectors.
	<p>c. What steps has the board taken to achieve the balance and diversity necessary to maximise its effectiveness?</p>	With reference to the Group's strategies and business plans, the NC has reviewed the skills mix of board members to ensure that the board has the required diversity, including gender diversity, as well as the necessary competencies to support the company's growth. When the need for a new director arises, the NC will consult with management and identify a list of potential candidates. These candidates would be 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. All appointments to the board are made on merit and measured against objective criteria. Candidates must be able to discharge their responsibilities as directors while upholding the highest standards of governance practised by the Group.
Guideline 4.6	<p>Please describe the board nomination process for the company in the last financial year for:</p> <p>a. Selecting and appointing new directors and</p>	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.
	<p>b. Re-electing incumbent directors</p>	When reviewing the re-appointment and re-election of directors, the NC considers the directors' contributions, other board appointments and principal commitments to ensure they have sufficient time to discharge their responsibilities adequately. The board has adopted an internal guideline that seeks to address the competing time commitments that may be faced when a director holds multiple board directorship appointments.
		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.

## Governance Disclosure Guide

Guideline	Questions	How has Sembcorp complied?
<b>Members of the Board</b> <i>(cont'd)</i>		
Guideline 1.6	<p>a. Are new directors given formal training? If not, please explain why.</p> <p>b. What are the types of information and training provided to:</p> <p>i. new directors and</p> <p>ii. existing directors</p> <p>to keep them up to date?</p>	<p>Yes, the company conducts comprehensive orientation programmes for new directors.</p> <p>i. 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 prevention of insider trading, Code of Conduct, as well as guidelines on directors' fees. The company conducts comprehensive orientation programmes for new directors. These include briefings on board policies and processes, presentations by senior management about Sembcorp, our overall strategic plans and direction, financial performance and business activities in various markets, as well as facility visits.</p> <p>ii. The company provides our directors complete, adequate and timely information on an ongoing basis to enable them to make informed decisions, discharge their duties and keep abreast of the Group's operational and financial performance, key issues, challenges and opportunities. This includes management and operation reports, financial statements and quarterly highlights of the Group's performance and key developments. The board also has ready access to the Group President &amp; CEO, senior management, the company secretary and internal and external auditors at all times, should it need additional information. Details may be found on page 117 of the Corporate Governance Statement in this annual report.</p> <p>As part of training and professional development for the board, the company also ensures that directors are briefed from time to time on changes to regulations, guidelines and accounting standards, as well as other relevant trends or topics. These are done either during board meetings or at specially convened sessions, including training sessions and seminars conducted by external professionals which are funded by the company. Details may be found on page 111 of the Corporate Governance Statement in this annual report.</p>

Guideline	Questions	How has Sembcorp complied?
<b>Members of the Board</b> <i>(cont'd)</i>		
Guideline 4.4	<p>a. What is the maximum number of listed company board representations that the company has prescribed for its directors? What are the reasons for this number?</p> <p>b. If a maximum number has not been determined, what are the reasons?</p> <p>c. What are the specific considerations in deciding on the capacity of directors?</p>	<p>The board has determined that the maximum number of listed company board representations held by any Sembcorp director should not exceed five. This is based on the total time commitment required of our directors for involvement in our board and board committees. It aims to ensure that all directors have sufficient time and attention to devote to the affairs of the company and discharge their duties adequately.</p> <p>Not applicable.</p> <p>In deciding such matters, the board considers the total time commitment required of the directors for involvement in our board and board committees, as well as for their other appointments outside our company.</p>
<b>Board Evaluation</b>		
Guideline 5.1	<p>a. What was the process upon which the board reached the conclusion on its performance for the financial year?</p> <p>b. Has the board met its performance objectives?</p>	<p>Each director is required to complete a questionnaire on the effectiveness of the board and board committees, as well as individual directors' contributions and performance. The evaluation and feedback are then consolidated and presented to the board for discussion.</p> <p>Yes. The board believes that it has met its performance objectives. This is reflected in the overall long-term performance of the Group.</p>

## Governance Disclosure Guide

Guideline	Questions	How has Sembcorp complied?
<b>Independence of Directors</b>		
Guideline 2.1	Does the company comply with the guideline on the proportion of independent directors on the board? If not, please state the reasons for the deviation and the remedial action taken by the company.	Yes. The current board comprises 11 directors, nine of whom are independent directors.
Guideline 2.3	a. Is there any director who is deemed to be independent by the board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent? If so, please identify the director and specify the nature of such a relationship.	<p>Yes. Tan Sri Mohd Hassan Marican and Ajaib Haridass both sit on the board of Sembcorp Marine, a listed subsidiary of Sembcorp Industries from which the company has received payment in excess of S\$200,000 in aggregate for consultancy services and provision of utilities services. Mr Haridass retired from the board of Sembcorp Marine on April 18, 2018.</p> <p>Tham Kui Seng sits on the board of Sembcorp Design and Construction, a wholly-owned subsidiary of the company from which the company has received payment in excess of S\$200,000 for consultancy services.</p> <p>Dr Josephine Kwa Lay Keng is a director of the Agency for Science, Technology and Research (A*STAR), an organisation with which Sembcorp is jointly researching an R&amp;D project under the Sembcorp-EMA Energy Technology Partnership for which the company has made payment in excess of S\$200,000 for project cost.</p> <p>In addition, Tan Sri Mohd Hassan and Mr Tham hold the positions of Senior International Advisor and Corporate Advisor respectively at Temasek International Advisors, a subsidiary of Temasek. Mr Tham stepped down as Corporate Advisor in the first quarter of 2018.</p>
	b. What are the board's reasons for considering him independent? Please provide a detailed explanation.	<p>The board has assessed these matters and is of the view that the payments received from these subsidiaries are not significant in the context of the Group's earnings. The board believes that Tan Sri Mohd Hassan, Mr Haridass and Mr Tham's directorships in these subsidiaries have not and will not interfere, or be reasonably perceived to interfere, with their ability to exercise independent judgement and act in the best interests of Sembcorp.</p> <p>Dr Kwa's directorship on A*STAR will not interfere with her ability to exercise independent judgement and act in the best interest of Sembcorp. The board is of the view that the amount paid to A*STAR is insignificant in the context of the Group's earnings.</p> <p>Tan Sri Mohd Hassan and Mr Tham's roles as advisors at Temasek International Advisors are non-executive in nature and they are not involved in its day-to-day conduct of business. They are also not accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of Temasek. The board believes that they have acted and will continue to act in the best interests of Sembcorp.</p> <p>Hence, the board has determined that Tan Sri Mohd Hassan, Mr Haridass, Dr Kwa and Mr Tham are independent notwithstanding their relationships with Temasek, A*STAR and the Group's subsidiaries.</p>

Guideline	Questions	How has Sembcorp complied?
<b>Independence of Directors (cont'd)</b>		
Guideline 2.4	Has any independent director served on the board for more than nine years from the date of his first appointment? If so, please identify the director and set out the board's reasons for considering him independent.	<p>In the financial year 2018, the company did not have any director who has served beyond nine years from the date of his / her first appointment to the board.</p> <p>The board has set a term limit of nine years 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.</p> <p>In 2019, Ang Kong Hua and Tan Sri Mohd Hassan would have served on the board for more than nine years. The board has observed that over the tenure from 2010 until present, both Mr Ang and Tan Sri Mohd Hassan have shown strong independence of character and judgement in the discharge of their duties as directors. The directors have accumulated much knowledge of the business of Sembcorp and contributed actively to the board which is very valuable, particularly to the new management team and especially during this transformation period that the Group is undergoing. The board is of the opinion that the length of service will not change the independence of both directors. In fact, their length of service will assist the board to better understand the Group and our business over the long-term and therefore, better serve the interests of the company and our shareholders by having long-term familiarity with and understanding of the company and our operations and growth strategies. Therefore, after a rigorous and thorough review, the Nominating Committee recommended to the board that Mr Ang and Tan Sri Mohd Hassan shall remain independent despite serving more than nine years on the board, and the board concurred.</p>

## Governance Disclosure Guide

Guideline	Questions	How has Sembcorp complied?
<b>Disclosure on Remuneration</b>		
Guideline 9.2	Has the company disclosed each director's and the CEO's remuneration as well as a breakdown (in percentage or dollar terms) into base / fixed salary, variable or performance-related income / bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?	Yes. Information on each director's and the Group President & CEO's remuneration may be found under the related item in the Supplementary Information section of the Financial Statements in this annual report.
Guideline 9.3	a. Has the company disclosed each key management personnel's remuneration, in bands of S\$250,000 or in more detail, as well as a breakdown (in percentage or dollar terms) into base / fixed salary, variable or performance-related income / bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?	Information on key management personnel's remuneration can be found under the related item in the Supplementary Information section of the Financial Statements in this annual report.
	b. Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO).	The aggregate remuneration paid in financial year 2018 to the top five key management personnel, excluding our Group President & CEO, amounted to approximately S\$6 million comprising salaries and bonuses.
Guideline 9.4	Is there any employee who is an immediate family member of a director or the CEO, and whose remuneration exceeds S\$50,000 during the year? If so, please identify the employee and specify the relationship with the relevant director or the CEO.	No. In 2018, the company had no employees who were immediate family members of a director or the Group President & CEO.

Guideline	Questions	How has Sembcorp complied?
<b>Disclosure on Remuneration (cont'd)</b>		
Guideline 9.6	a. Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.	With the exception of our Group President & CEO who does not receive director's fees, all our board members are non-executive directors. Remuneration for our key management personnel and executive director comprises three primary components: fixed remuneration, as well as annual variable bonuses and share-based incentives that are conditional upon meeting certain performance targets.  Annual variable bonuses are linked to the achievement of pre-agreed financial and non-financial performance targets, as well as the creation of economic value added.  Share-based incentives are long-term incentive schemes which use methods fairly common among major local and multinational companies to incentivise and motivate employees to achieve pre-determined targets that create and enhance economic value for shareholders.
	b. What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?	Information on the remuneration received by key management and executive director and details on share-based incentives and performance targets are available in the Directors' Statement and Note 35 in the Notes to the Financial Statements in this annual report.
	c. Were all of these performance conditions met? If not, what were the reasons?	All the performance conditions under the Restricted Share Plan were met. As for the Performance Share Plan, not all the performance conditions were met against a background of adverse market conditions. Arising from the under-achievement of performance targets, 987,000 performance shares lapsed in 2018 and were not paid out.

## Governance Disclosure Guide

Guideline	Questions	How has Sembcorp complied?
<b>Risk Management and Internal Controls</b>		
Guideline 6.1	What types of information does the company provide to independent directors to enable them to understand its business, the business and financial environment as well as the risks faced by the company? How frequently is the information provided?	<p>On an ongoing basis, directors are provided with complete, adequate and timely information to enable them to make informed decisions, discharge their duties and keep abreast of the Group's operational and financial performance, key issues, challenges and opportunities. Management and operation reports as well as financial statements are presented to the board on a regular basis.</p> <p>On a quarterly basis, financial highlights of the Group's performance and key developments are presented at board meetings.</p> <p>On a regular basis, risk-related reports are submitted to the Risk Committee (RC). The RC, comprising selected board members, assists the board in overseeing risk management for the Group. These reports include updates on the Group's risk portfolio and key risk indicators, reports on major risk exposure and any other risk-related issues, as well as actions taken to monitor and manage exposure to such risks or issues.</p> <p>For more details on briefings, updates and information provided to our directors, please refer to pages 111 and 117 of the Corporate Governance Statement in this annual report.</p>
Guideline 13.1	Does the company have an internal audit function? If not, please explain why.	Yes. The Group Integrated Audit (GIA) team reports directly to the Audit Committee on audit matters and to the Group President & CEO on administrative matters.
Guideline 11.3	a. In relation to the major risks faced by the company, including financial, operational, compliance, information technology and sustainability, please state the bases for the board's view on the adequacy and effectiveness of the company's internal controls and risk management systems.	<p>The Group has implemented robust mechanisms and systems to identify and manage the inherent risks in our business and strategy, and to monitor the Group's exposure to key risks that could impact the overall strategy and sustainability of the business. This is further supported by a system of internal controls, comprising a Code of Conduct, group-wide governance and internal control policies, procedures, guidelines dictating the segregation of duties, approval authorities and limits, as well as checks and balances embedded in business processes.</p> <p>The Group is also in the midst of transitioning our current Governance Assurance Framework (GAF) to an Integrated Assurance Framework (IAF) to put greater emphasis on the three lines of defence (LOD) model. Through the IAF structure, the respective LODs work together to ensure that key financial, operational, compliance and information technology (IT) risks are reviewed and tested using a robust assurance process. Under the IAF, a pragmatic and collaborative approach to risk and controls assessment has been established, with common and consistent criteria to assess the adequacy and effectiveness of risk management and internal controls.</p> <p><i>(cont'd overleaf)</i></p>

Guideline	Questions	How has Sembcorp complied?
<b>Risk Management and Internal Controls</b> <i>(cont'd)</i>		
Guideline 11.3	a. In relation to the major risks faced by the company, including financial, operational, compliance, information technology and sustainability, please state the bases for the board's view on the adequacy and effectiveness of the company's internal controls and risk management systems.	<p><i>(cont'd)</i></p> <p>Key markets (first LOD) are in the process of adopting and implementing the IAF, which requires them to work with the second LOD comprising business lines, subject matter experts and corporate functions, to perform a thorough review and assessment of their risks and internal controls and updating of the new risk and control registers. At the same time, clear escalation procedures, consequence management framework and key risk indicators that are aligned with the group's risk appetite are being developed as part of the IAF methodology. Collectively, this enables the Group to perform proactive management of key risks and controls. This enhances the Group reporting and monitoring capabilities and also cultivates a risk culture of accountability and ownership. As the third LOD, GIA provides independent assurance across financial, operational, compliance and IT risks through a series of walkthroughs and substantive testing. Management works closely with GIA in closing out all material issues and gaps in a timely manner to ensure that there is continual improvement to our risk and controls environment as well as an effective feedback loop to the first and second LODs. External audit considers internal controls relevant to the preparation of financial statements to ensure they give a true and fair view.</p> <p>The ERM framework and IAF are also complemented by a Management Control Assessment, which is a rigorous management attestation process submitted quarterly by each market and business unit to provide the assurance that its risk management and internal control system is adequate and effective. The submissions and responses are further validated through substantive review by our business lines, subject matter experts and corporate functions as an added layer of assurance.</p> <p>The IAF is expected to be implemented for all key markets by the end of 2019. The Audit Committee, supported by the Risk Committee, oversees the IAF and its implementation.</p> <p>During the year, the Group's risk profile was reviewed and updated and the effectiveness of our internal controls was assessed and enhanced through a combination of management control assessment and internal audits, as well as actions taken in follow up to these exercises.</p> <p>Based on the risk management and internal controls established and maintained by the Group, work performed by external and internal auditors, and reviews performed by senior management, the board, with the concurrence of the Audit Committee, is of the opinion that the company's risk management systems and internal controls were adequate and effective as at December 31, 2018 to address the financial, operational, compliance and IT risks of the Group.</p>

## Governance Disclosure Guide

Guideline	Questions	How has Sembcorp complied?																		
<b>Risk Management and Internal Controls</b> <i>(cont'd)</i>																				
Guideline 11.3 <i>(cont'd)</i>	<p>b. In respect of the past 12 months, has the board received assurance from the CEO and the CFO as well as the internal auditor that:</p> <p>i. the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and</p> <p>ii. the company's risk management and internal control systems are effective</p> <p>If not, how does the board assure itself of points i. and ii. above?</p>	<p>Yes. For the financial year 2018, the board has been assured by the Group President &amp; CEO and Group CFO 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.</p>																		
Guideline 12.6	<p>a. Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial year.</p>	<p>As disclosed in Note 31 in the Notes to the Financial Statements, the fees paid / payable to external auditors for audit and non-audit services for the financial year are:</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">S\$ million</th> </tr> </thead> <tbody> <tr> <td colspan="2"><b>Audit fees paid / payable</b></td> </tr> <tr> <td>– To auditors of the company</td> <td style="text-align: right;">2</td> </tr> <tr> <td>– To other member firms of KPMG International</td> <td style="text-align: right;">2</td> </tr> <tr> <td></td> <td style="text-align: right;">4</td> </tr> <tr> <td colspan="2"><b>Non-audit fees paid / payable</b></td> </tr> <tr> <td>– To auditors of the company</td> <td style="text-align: right;">1</td> </tr> <tr> <td>– To other member firms of KPMG International</td> <td style="text-align: right;">1</td> </tr> <tr> <td></td> <td style="text-align: right;">2</td> </tr> </tbody> </table>		S\$ million	<b>Audit fees paid / payable</b>		– To auditors of the company	2	– To other member firms of KPMG International	2		4	<b>Non-audit fees paid / payable</b>		– To auditors of the company	1	– To other member firms of KPMG International	1		2
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	<p>b. If the external auditors have supplied a substantial volume of non-audit services to the company, please state the bases for the Audit Committee's view on the independence of the external auditors.</p>	<p>Non-audit fees included a S\$1.1 million fee paid in relation to a significant acquisition made in our Utilities business in 2018. The firm was selected based on expertise and merits in finance-related areas, experience and knowledge of the UK electricity market and regulation, and level of fee. Excluding the fee on the above appointment, non-audit fees amounted to 28% of the total annual audit fees and are not deemed substantial. The external auditors have also confirmed their independence.</p>																		

Guideline	Questions	How has Sembcorp complied?
<b>Communication with Shareholders</b>		
Guideline 15.4	<p>a. Does the company regularly communicate with shareholders and attend to their questions? How often does the company meet with institutional and retail investors?</p>	<p>Yes. Sembcorp regularly communicates with shareholders and addresses any queries raised. Investor relations and communications officers are also available by email or telephone to answer questions from shareholders, analysts and the media, as long as the information requested does not conflict with the SGX-ST's rules of fair disclosure.</p> <p>Details of shareholder meetings, including the frequency and examples of types of meetings, are available in the Investor Relations chapter and Corporate Governance Statement in this annual report.</p>
	<p>b. Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role?</p>	<p>Yes. Sembcorp has a dedicated investor relations team that communicates with investors.</p>
	<p>c. How does the company keep shareholders informed of corporate developments, apart from SGXNet announcements and the Annual Report?</p>	<p>Sembcorp uses multiple communication channels and platforms to keep our shareholders and the investing public informed and updated in accordance with the SGX-ST's rules of fair disclosure. Aside from the annual report and SGXNet announcements, channels utilised include results briefings, annual general meetings, investor roadshows, conferences, investor and media meetings, media interviews, site visits, news releases and circulars, the corporate website, group briefings and other appropriate channels.</p>
Guideline 15.5	<p>If the company is not paying any dividends for the financial year, please explain why.</p>	<p>Not applicable.</p> <p>For the financial year 2018, a final tax exempt one-tier dividend of 2 cents per ordinary share has been proposed subject to shareholders' approval. Together with the interim dividend of 2 cents per ordinary share that has already been paid out, this will bring our total dividend for the financial year to 4 cents per ordinary share.</p>