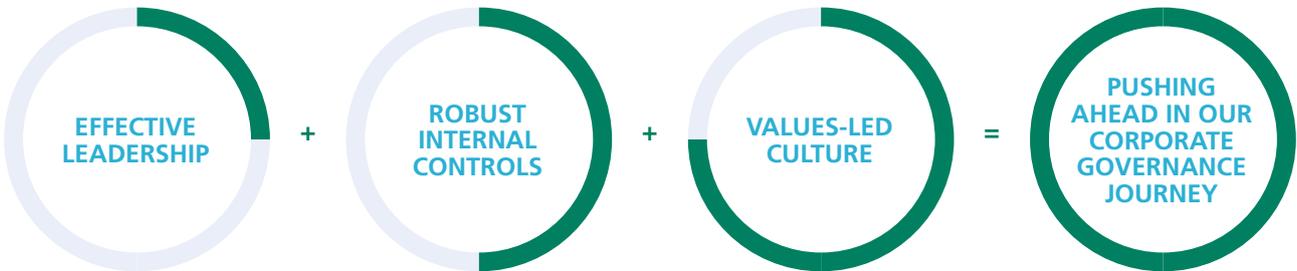




CORPORATE GOVERNANCE



Sembcorp Marine Ltd (“Sembcorp Marine” or the “Company”) believes that corporate governance principles should be embedded in its corporate culture. The Company’s corporate culture is anchored on (i) effective leadership, (ii) robust internal controls and (iii) a set of core values.

This report outlines Sembcorp Marine’s corporate governance practices with reference to Singapore Code of Corporate Governance 2012 (“Code”). 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.

PRINCIPLE 1
BOARD’S CONDUCT OF ITS AFFAIRS

The Board is responsible for overseeing the business affairs of the Company and its subsidiaries (collectively

the “Group”) and is accountable to shareholders for the long-term financial performance of the Group. The Board works with Management to achieve these goals set for the Group.

The key responsibilities of the Board include the following:

- Set strategic direction and review business plans;
- Approve policies, strategies and procedures;
- Approve budgets, major funding proposals, investment and divestment proposals;
- Approve the risk appetite statements;
- Approve the appointment of the Chief Executive Officer and Directors, appointment on Board committees and Board succession plan;
- Review Management’s performance towards achieving the Group’s goals; and
- Consider sustainability issues including environmental and social factors as material to the business.



Seven (7) committees have been established to help the Board discharge its stewardship and fiduciary obligations based on clearly defined terms of reference. These terms of reference are reviewed by the Board on a regular basis and any changes require the Board’s approval.

Other ad hoc committees may be formed from time to time to look into specific areas of the Group’s needs.



CORPORATE GOVERNANCE

Board Composition and Committees

Board Members	Audit Committee	Board Risk Committee	Executive Committee	Executive Resource & Compensation Committee	Nominating Committee	Special Committee	Transformation Committee
Tan Sri Mohd Hassan Marican			Chairman	Chairman	Member	Member	Chairman
Wong Weng Sun			Member				
Ajaib Haridass			Member	Member	Chairman	Member	
Tang Kin Fei			Member	Member	Member	Member	
Ron Foo Siang Guan	Chairman	Member					Member
Lim Ah Doo	Member	Chairman				Chairman	Member
Koh Chiap Khiong	Member	Member					Member
Eric Ang Teik Lim		Member		Member	Member		
Gina Lee-Wan		Member					
Bob Tan Beng Hai	Member		Member				
	3 of 4 are IDs	4 of 5 are IDs	3 of 5 are IDs	3 of 4 are IDs	3 of 4 are IDs	3 of 4 are IDs	3 of 4 are IDs

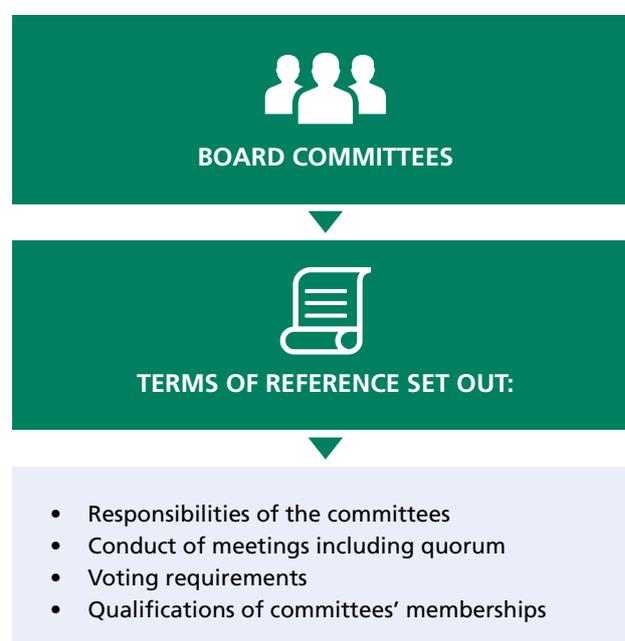
Note: IDs – Independent Directors

Other than the Audit Committee, Board Risk Committee, Executive Resource & Compensation Committee and Nominating Committee which were constituted in accordance with the Code, the Executive Committee (“Exco”) assists the Board in reviewing and approving matters as required under the Group’s policies. It also evaluates business opportunities for the Group.

The key responsibilities of the Exco include:

- Reviewing and providing recommendations on matters that would require Board’s approval, such as
 - Financial performance of subsidiaries;
 - Major projects’ progress;
 - Yard development;
 - Marketing reports;
 - Workplace Safety and Health performance; and

Board Committees





CORPORATE GOVERNANCE

- Approving certain matters specifically delegated by the Board such as investments, capital expenditure and expenses that exceed the limits that can be authorised by the President & CEO.

The Transformation Committee ("TC") was a special purpose committee formed to oversee the transformation efforts of the Group, taking into account the Group's business expansion in Singapore and globally. It was dissolved on 11 November 2016.

The Special Committee ("SC") conducts internal investigation into allegations of improper payments in Brazil and deals with issues arising in connection with the matter.

Key Features of Board Processes

The schedules of all Board and committee meetings and the Annual General Meeting ("AGM") are planned one year in advance. The Board meets at least four (4) times a year at regular intervals. Besides the scheduled meetings, the Board meets on an ad-hoc basis as warranted by particular circumstances. The Board holds an annual off-site strategy meeting to interact with senior management and have in-depth discussions on the Group's strategic direction. The Board also sets aside time at each quarterly scheduled meeting to meet without the presence of Management. In 2016, they met 5 times without the presence of Management.

A record of the Directors' attendance at Board and committee meetings during the financial year ended 31 December 2016 ("FY2016") is disclosed below.

Director	Board Meeting	Audit Committee Meeting	Board Risk Committee Meeting	Executive Committee Meeting	Executive Resource & Compensation Committee Meeting	Nominating Committee Meeting	Special Committee Meeting	Transformation Committee Meeting ⁶	Joint Audit and Board Risk Committee Meeting
	No. of Meetings held: 8	No. of Meetings held: 4	No. of Meetings held: 4	No. of Meetings held: 10	No. of Meetings held: 3	No. of Meetings held: 2	No. of Meetings held: 5	No. of Meetings held: 3	No. of Meetings held: 2
	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Tan Sri Mohd Hassan Marican	8			10	3	2	4	3	
Wong Weng Sun	7 ¹			10					
Ajaib Haridass ²	8		1	9	3	2	5		1
Tang Kin Fei	7 ³			9	3	2	5		
Ron Foo Siang Guan	8	4	4					3	2
Lim Ah Doo	8	4	4				5	2	2
Koh Chiap Khiong	8	4	4					3	2
Eric Ang Teik Lim ⁴	8		4		3	2			2
Gina Lee-Wan	8		4						1
Bob Tan Beng Hai ⁵	8	4		9					2

¹ Mr Wong Weng Sun did not attend one of the Board meetings, which was convened for Non-Executive Directors only.

² Mr Ajaib Haridass stepped down as a member of the Board Risk Committee on 18 April 2016.

³ Mr Tang Kin Fei was absent for one of the Board meetings as he was overseas.

⁴ Mr Eric Ang Teik Lim was appointed a member of Nominating Committee and Executive Resource & Compensation Committee on 1 January 2016.

⁵ Mr Bob Tan Beng Hai was appointed a member of the Executive Committee on 1 January 2016.

⁶ Transformation Committee was dissolved on 11 November 2016.



CORPORATE GOVERNANCE

Board Approval

The Company has documented a set of policies for matters that require Board's approval. Matters reserved for Board's approval are:

- Inter-company loans, investments and divestments, issuance of corporate guarantees, budgeted and unbudgeted capital and operating expenses exceeding certain thresholds;
- Corporate restructuring;
- Share issuances; and
- Interim dividends.

Induction for New Directors

Upon appointment, a new Director receives a letter of appointment setting out Director's duties, responsibilities and time commitment required of a Director. The Director also receives an information pack which contains the Group's organisation structure, senior management's contact details, the Company's constitution, group policies and a list of recent significant issues discussed at Board meetings.

A comprehensive orientation programme, including facility visits to the Group's various premises, is provided to all newly-appointed Directors. They are briefed on the Group's business activities, financial performance, governance and sustainability policies and practices, enterprise risk management, regulatory regime and their

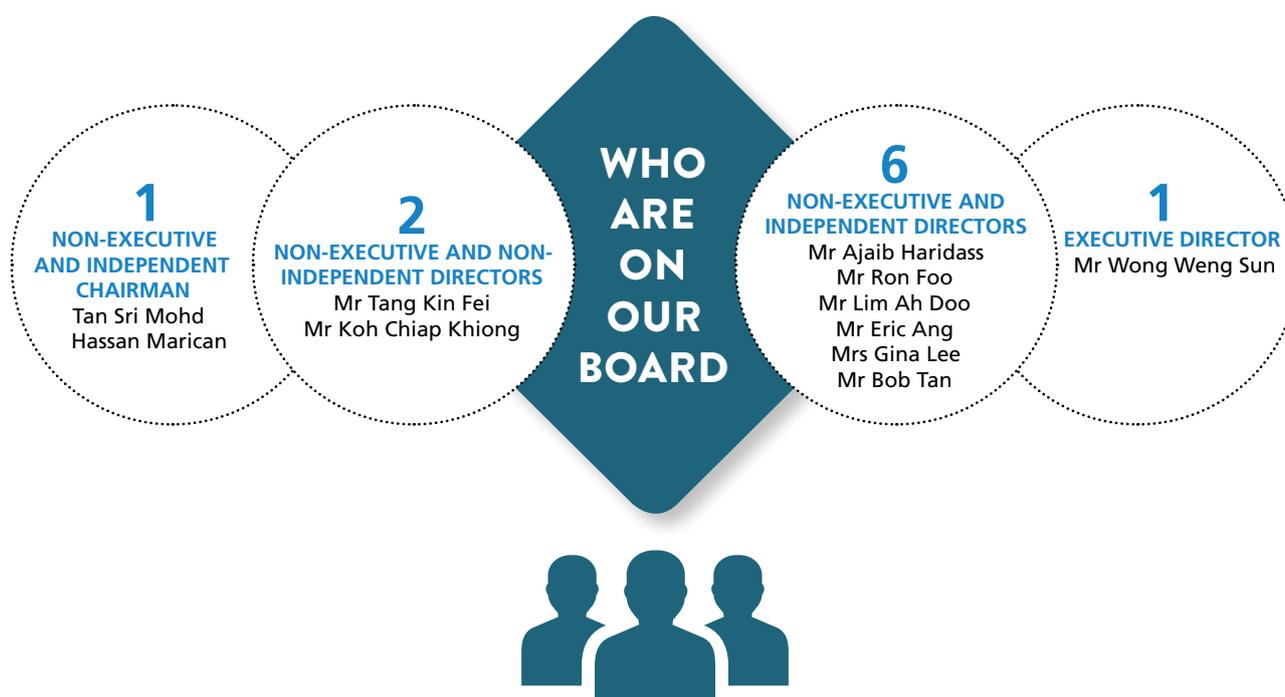
duties as directors to enable them to assimilate into their new roles. The programme also allows the new Director to get acquainted with senior management, thereby facilitating board interaction and independent access to senior management.

Continuous Development Programme for Directors

Directors are updated regularly on industry trends and development, relevant laws and regulations and changing business risks during Board meetings or at specially-convened sessions. In the year under review, several of the Directors have also attended seminars such as Directors-in-Dialogue Forum organised by Temasek Management Services Pte Ltd.

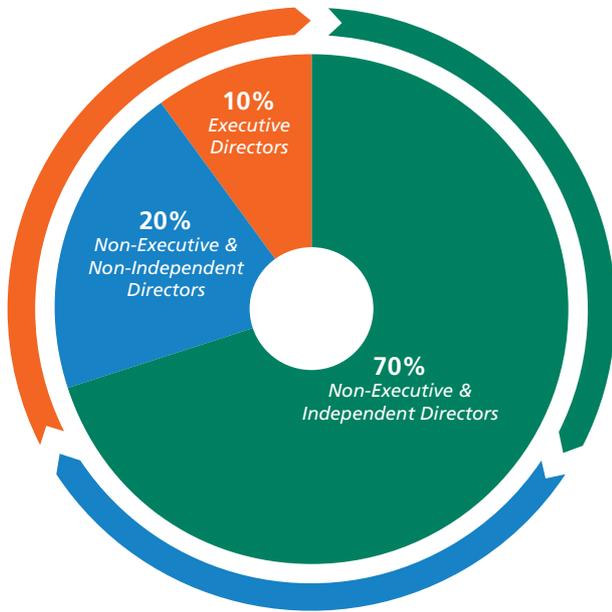
PRINCIPLE 2 BOARD'S COMPOSITION AND GUIDANCE

The Code provides that an Independent Director is one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment in the best interests of the Company. The Board comprises 10 directors, 7 of whom (including the Chairman of the Board) are Independent Directors, one of whom (the President & CEO of Sembcorp Marine) is an Executive Director, and the rest are Non-Executive and Non-Independent Directors.





CORPORATE GOVERNANCE



The Directors have a broad range of experience and deep industry expertise. The tenure of the Directors demonstrates a good balance between continuity and fresh perspectives. The size and composition of the Board are appropriate given the current size and geographic footprint of the Group's operations. The proportion of Independent and Non-Executive Directors on the Board (7 out of 10) is high.

The profile of each Director is set out on pages 42 to 47 of this Annual Report.

PRINCIPLE 3
CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)

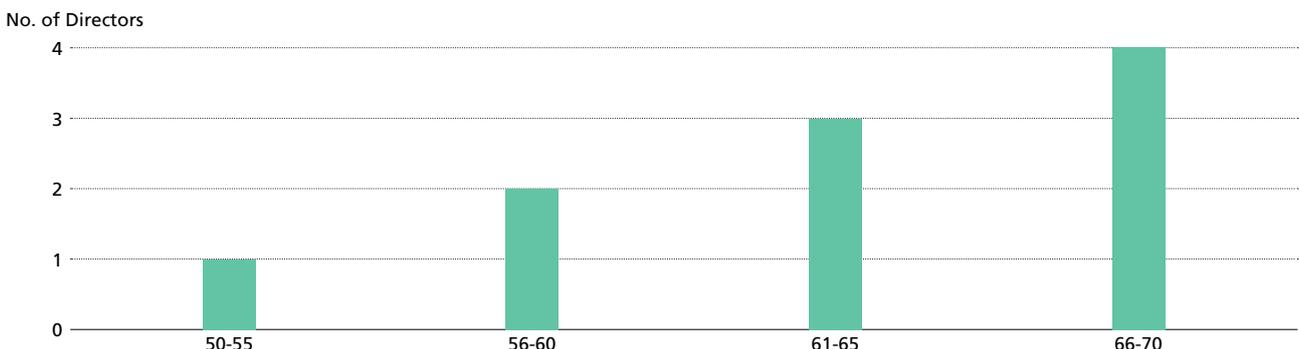
The Chairman of the Board and President & CEO are separate persons. This is to ensure a clear division of responsibilities, increased accountability and greater capacity for the Board to make independent decisions. The President & CEO is not related to the Chairman.

The Chairman is responsible for the leadership of the Board and ensures its effectiveness in all aspects of the Board's role. He monitors the translation of the Board's decisions and directions into executive action. He approves the agendas for the Board meetings and ensures sufficient time is allocated for thorough discussion of each agenda item. He promotes an open environment for debate, and ensures that the Independent Directors are able to speak freely and contribute effectively. He exercises control over the quality and quantity of information between the Board and Management. In addition, he provides close oversight, guidance, advice and leadership to the President & CEO and Management.

At AGMs / Extraordinary General Meetings ("EGMs"), the Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the Board and Management.

The President & CEO heads the Senior Management Committee ("SMC") and manages the operations of the Group in accordance with the Group's policies. He provides close oversight, guidance, advice and leadership to senior management on executing the Board's decisions. The SMC meets once a month to discuss major operational issues.

Directors' Age Group



CORPORATE GOVERNANCE

PRINCIPLE 4 BOARD MEMBERSHIP

The Nominating Committee (“NC”) comprises the following members, the majority of whom, including the Chairman, are non-executive and independent:

Mr Ajaib Haridass (Chairman)
Tan Sri Mohd Hassan Marican
Mr Tang Kin Fei
Mr Eric Ang Teik Lim

The key responsibilities of the NC include the following:

- Review the composition of the Board and its committees;
- Identify, review and recommend Board appointments for approval by the Board, taking into account the experience, expertise, knowledge and skills of the candidate and the needs of the Board;
- Conduct an evaluation of the performance of the Board, its committees and Directors on an annual basis;
- Determine independence of proposed and existing Directors, and assess if each proposed and/or existing Director is a fit and proper person and is qualified for the office of Director;
- Review and recommend to the Board the re-appointment of any Non-Executive Director having regard to their performance, commitment and ability to contribute to the Board as well as their skill-set;
- Conduct an annual assessment of whether each Director has sufficient time to discharge their responsibilities, taking into consideration multiple board representations and other principal commitments; and
- Review the Board’s succession plans for Directors, in particular, the Chairman and the President & CEO.

Rotation and Re-Election of Directors

The NC reviews and recommends to the Board the rotational and re-election of Directors at the AGM.

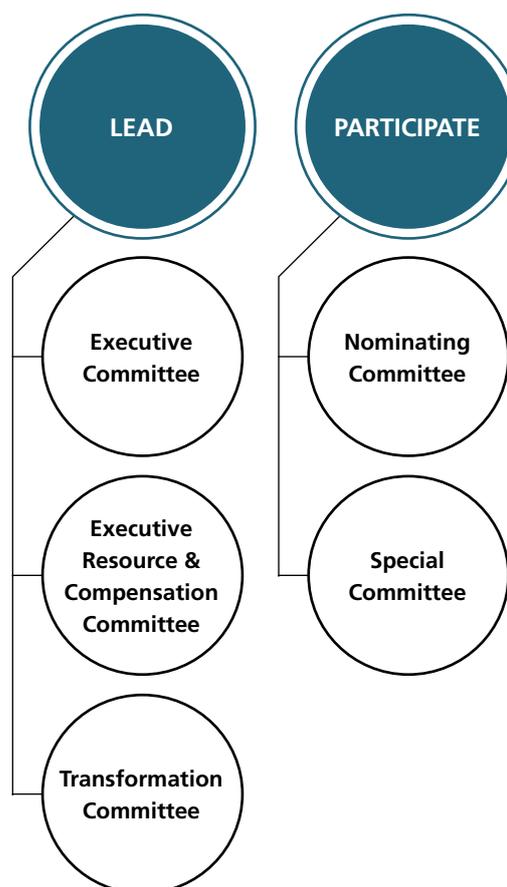
One-third of Directors who are longest-serving are required to retire from office every year at the AGM. Based on this rotation process, each Director is required to submit themselves for re-election by shareholders at least once every 3 years.

Where an incumbent Director is required to retire from office, the NC reviews the composition of the Board and decides whether to recommend that Director for re-election taking into account factors such as the Director’s attendance, participation, contribution and competing time commitments.

All Directors (including the President & CEO) are required to submit themselves for re-nomination and re-appointment at regular intervals and at least once every 3 years. Mr Ron Foo Siang Guan, Mr Koh Chiap Khiong and Mr Eric Ang Teik Lim will retire at the forthcoming AGM on 18 April 2017 pursuant to Article 94 of the Company’s Constitution, and have offered themselves for re-election.

All newly appointed Directors are also required to submit themselves for re-election at the AGM immediately following their appointments. Thereafter, they are subject to retirement by rotation in accordance with the Company’s constitution.

Chairman’s Role in Committees





CORPORATE GOVERNANCE

Annual Review of Directors' Independence

The NC reviews annually, and as and when circumstances require, if a Director is independent. The independence of each Director is assessed based on their business relationships with the Group, relationships with members of Management, relationships with the Company's substantial shareholder as well as the Director's length of service.

Tan Sri Mohd Hassan Marican is an Independent Director of Sembcorp Industries Ltd ("SCI"), a controlling shareholder of the Company. He is also a Senior International Advisor of Temasek International Advisors, a subsidiary of Temasek Holdings Ltd ("Temasek"). His appointments in both SCI and Temasek are non-executive in nature. SCM's transactions with SCI and Temasek were safe guarded by the IPT mandate. During FY2016, SCI provided consultancy services to SCM. The aggregate value of the transactions was not significant compared to the revenues of SCI and SCM. Tan Sri Mohd Hassan Marican was not involved in the decision makings of the transactions between SCI and SCM. The Board considers Tan Sri Mohd Hassan Marican to be an Independent Director of the Company as he has shown that he is able to exercise strong independent judgment in his deliberations and act in the best interests of the Company.

Mr Ajaib Haridass is an Independent Director of SCI. The Company's transactions with SCI were safeguarded by the IPT mandate. During FY2016, SCI provided consultancy services to the Company. The aggregate value of the transactions was not significant compared to the revenues of SCI and the Company. Mr Haridass was not involved in the decision makings of the transactions between SCI and the Company. Mr Haridass' more than 13 years of service on the Company's Board has not affected his objectivity. He has continued to demonstrate ability to exercise strong independent judgment and act in the interests of the Company. Further, having gained in-depth understanding of the business and operating environment of the Company, Mr Haridass provides the Company with much needed experience and knowledge of the industry. His contributions have been valuable to the Company. The Board considers Mr Haridass to be an Independent Director of the Company.

Mr Eric Ang Teik Lim is a Senior Executive Advisor of DBS Bank Ltd ("DBS") which provides banking services to the Company. His appointment at DBS has not affected his independence as the services provided by DBS in FY2016 were standard services which were in the ordinary course of business of the Company and DBS. The aggregate amount paid was not significant compared to the revenues

of the Company and DBS. The Board considers Mr Ang to be an Independent Director of the Company.

Mrs Gina Lee-Wan is a partner of Allen & Gledhill ("A&G") which has rendered services to the Company during FY2016. Mrs Lee does not have an interest of more than 10% in A&G. The services were provided to the Company by other partners. Her independence has not been compromised as the aggregate value of the transactions during FY2016 was not significant compared to the revenues of the Company and A&G. The Board considers Mrs Lee to be an Independent Director of the Company.

The 2012 Code states that the independence of any director who has served on the Board beyond nine years from the date of his first appointment should be subject to particularly rigorous review. In this regard, the Board noted that Mr Ajaib Haridass was first appointed to the Board on 31 October 2003. However, the Board considered that Mr Haridass has demonstrated strong independence at Board, and board committee meetings, and is of the view that he has exercised independent judgment in the best interests of the Company in the discharge of his Director's duties. The Board therefore continued to consider Mr Haridass as an Independent Director.

Mr Ron Foo was appointed to the Board on 30 June 2006. He has served more than nine years on the Board. Although Mr Foo has served on the Board beyond nine years, he has continued to demonstrate strong independence in character and judgment in the discharge of his responsibilities as a Director of the Company. Accordingly, the Board has, on the recommendation of the Nominating Committee, continued to consider Mr Foo as an Independent Director of the Company.

Directors' Time Commitment

The NC conducts a review of the time commitment of each Director once annually.

The Board has adopted guidelines for addressing competing time commitments that are faced when Directors serve on multiple boards and have other principal commitments. The Company has determined that the maximum number of directorships in listed companies to be held by a Director on the Board be fixed at 6 to ensure that a Director will have sufficient time and attention for the affairs of the Company. For the year 2016, all Directors have met the guideline set by the Company on the number of directorships in listed companies. The Board is satisfied that each Director has committed sufficient time to the Company and has contributed meaningfully to the Group.



CORPORATE GOVERNANCE

The Board does not encourage the appointment of Alternate Directors. No Alternate Director is currently being appointed to the Board.

Selection Criteria and Nomination Process for Directors

The Board has a process for the selection, appointment and re-appointment of Directors. The NC leads in putting in place a formal and transparent process for the appointment and re-appointment of Directors to the Board. The NC recognises the importance of having an appropriate balance of industry knowledge, skills, background, experience, professional qualifications and gender in building an effective and cohesive Board.

The NC oversees a process for the appointment of Directors. Directors are selected for their experience and competencies and their ability to contribute to the Group. The NC regularly reviews the composition of the Board and Board committees. Before a new Director is appointed, suitable candidates are identified from various sources. Thereafter, it conducts an assessment to:

- Review the candidate (including qualifications, attributes, capabilities, skills, age, past experience); and
- Ascertain whether the candidate is independent from any substantial shareholders of the Group and/or from Management and business relationships with the Group.

The NC then interviews the shortlisted candidates and makes its recommendations to the Board. The successful candidate is then appointed as a Director of the Company in accordance with the Company's constitution. Upon the appointment of a new Director, the NC will recommend to the Board their appointment to the appropriate Board committee(s) after matching the Director's skill-set to the needs of each Board committee.

The NC reviews the contribution and performance of each existing Director before making recommendations to the Board for their re-election or re-appointment at the next AGM. Once the Board has considered and adopted the recommendations, the resolution proposing the re-election or re-appointment of a Director will be tabled at the AGM for shareholders' approval.

PRINCIPLE 5 BOARD PERFORMANCE

The NC assesses at least once annually to determine whether the Board and the committees are performing effectively and identifies steps for improvement. The Board believes that active participation and valuable contributions are essential to the overall effectiveness of the Board.

The NC reviews the performance of each individual Director based on factors such as the Director's attendance, preparedness, participation and contribution at Board meetings, and industry and business knowledge. The Chairman will act on the results of the performance evaluation and propose, where appropriate, new members to be appointed to the Board or seek the resignation of Directors.

Board Evaluation Process

The NC uses a Board evaluation framework to track and analyse Board performance, which includes an annual evaluation of Board performance and appraisal of Directors. The Board evaluation process is vital in helping the Board, committees and each individual Director improve and perform to their maximum capability.

Board Evaluation for 2016

Each Director was asked to complete a set of questionnaires and submit them directly to the Company Secretaries who collated the responses and produced a summary report for the NC. The NC analysed the report and submitted its findings to the Board.

Every Director participated and gave feedback on issues such as the Board's size and composition, quality of information provided to the Board, the Board's processes and accountability, risk and crisis management, effectiveness of committees and Directors' development.

The Board discussed the findings of the evaluation and implemented changes in response to the feedback given by the Directors, if necessary. Based on the overall assessment for 2016, the Board was effective as a whole.

PRINCIPLE 6 ACCESS TO INFORMATION

All Directors have access to complete and adequate information and resources. Directors are provided with electronic tablets to enable them to access Board and Board committee papers three (3) days prior to and during



CORPORATE GOVERNANCE

meetings. Management provides the Board with monthly management reports on the Group's operational and financial performance.

The Board has separate and independent access to the President & CEO, members of Senior Management and the Company Secretaries at all times. Management is also present at the meetings to address Directors' queries or to provide further insights into matters concerned.

The Company Secretaries attend most Board and committee meetings and are responsible for ensuring that meeting procedures are followed and applicable rules and regulations are complied with. The Company Secretaries ensure that good information flows within the Board and its committees, and between Senior Management and Non-Executive Directors. They assist the Board in the implementation and upkeep of good corporate governance and best practices across the Group.

The appointment and removal of each Company Secretary is a matter taken by the Board as a whole.

In the event that the Directors, either individually or as a group, require independent professional advice in the furtherance of their duties, the Company Secretaries will, upon approval by the Board, appoint a professional adviser to render such services. The cost of such services will be borne by the Company.

PRINCIPLE 7 **PROCEDURES FOR DEVELOPING REMUNERATION** **POLICIES**

The Executive Resource & Compensation Committee ("ERCC") comprises the following members, 3 of whom (including the Chairman) are Independent Directors and all of whom are Non-Executive Directors:

Tan Sri Mohd Hassan Marican (Chairman)

Mr Tang Kin Fei

Mr Ajaib Haridass

Mr Eric Ang Teik Lim

The ERCC has direct access to senior management. As a result of their membership in other committees, the members of the ERCC are able to make strategic remuneration decisions in an informed and holistic manner.

The key responsibilities of the ERCC include:

- Overseeing the governance of the Group's remuneration policy (including share plans and other long-term incentive plans);

- Overseeing the remuneration of senior executives, such as reviewing and approving the remuneration of the President & CEO for Board's approval;
- Overseeing plans to deepen core competencies, bench strength and leadership capabilities of senior management;
- Recommending the grant of incentives and annual variable bonus pool to the Board for approval; and
- Reviewing the remuneration of Non-Executive Directors and recommending to the Board to table at the AGM for shareholders' approval.

On an annual basis, a comprehensive talent management programme and succession plans are presented to the ERCC for review. The ERCC reviews the succession plans for key and critical positions to align the business goals and the Group's human capital needs. This enables the Company to identify the talent pool and allow focus and devotion of time and resources to leverage the full value and potential of identified successors.

The Company has engaged Mercer (Singapore) to advise the ERCC on remuneration of Directors and key executives. Mercer (Singapore) is an independent external consultancy firm. There is no relationship between the Company and Mercer (Singapore) that affects the independence and objectivity of Mercer (Singapore).

The President & CEO is not present during the discussions relating to his own remuneration, terms and conditions of service, and the review of his performance.

No ERCC member or Director is involved in deliberations on their own remuneration, compensation or any form of benefits. Hence, the Board believes in the ability of the ERCC to exercise considered judgment in its deliberations and act in the best interests of the Company.

The ERCC reviews the terms of the contracts of key management personnel to ensure that the terms are fair and reasonable, and termination clauses are not overly generous.

PRINCIPLE 8 **LEVEL AND MIX OF REMUNERATION**

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



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The President & CEO, as an Executive Director, does not receive a Director's fee. As a lead member of senior 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 on pages 157 to 164 and pages 280 to 281 of this Annual Report.

Remuneration of Non-Executive Directors

The ERCC reviews and recommends a framework to the Board for determining the remuneration of Non-Executive Directors, including the Chairman.

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

There is no change to the annual fee structure for the Board for 2016 from the fee structure in 2015.

The Director's fees payable to Non-Executive Directors comprise a cash component and a share component. The ERCC has determined that up to 30% of the aggregate Director's fees approved by shareholders for a particular financial year may be paid out in the form of restricted share awards under the Sembcorp Marine Restricted Share Plan 2010. The payment of Director's fees (both the cash and share components) is contingent upon shareholders' approval. Directors and their associates will abstain from voting on any resolution(s) relating to their remuneration.

Share awards granted under the Sembcorp Marine Restricted Share Plan 2010 to Directors as part of Director's fees will typically consist of the grant of fully paid shares outright with no performance and vesting conditions attached, but with a selling moratorium. Non-Executive Directors are required to hold shares in the Company (including shares obtained by other means) worth at least the value of their annual basic retainer fees (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.

The actual number of shares to be awarded to each Non-Executive Director will be determined by reference to the volume-weighted price of a share on the SGX-ST over the 14 trading days from (and including) the day on which the shares are first quoted ex-dividend after the AGM (or, if no final dividend is proposed at the AGM or if the resolution to approve such final dividend is not approved at the AGM, over the 14 trading days immediately following the date of the AGM). The number of shares to

Director's Fees Framework		\$
(i)	Board of Directors	
	- Basic	75,000
	- All-in Chairman's fees	600,000
(ii)	Audit Committee Executive Committee Transformation Committee Special Committee	
	- Chairman's allowance	50,000
	- Member's allowance	30,000
(iii)	Board Risk Committee	
	- Chairman's allowance	40,000
	- Member's allowance	25,000
(iv)	Executive Resource & Compensation Committee	
	- Chairman's allowance	35,000
	- Member's allowance	20,000
(v)	Nominating Committee	
	- Chairman's allowance	25,000
	- Member's allowance	15,000
(vi)	Attendance	
	- Board meeting	5,000
	- Committee meeting	2,500
	- Teleconference (Board meeting)	2,000
	- Teleconference (Committee meeting)	1,000
(vii)	Travel Allowance for overseas Directors	
	- < 4 hours (to & fro air travel time)	2,500
	- 4 to 15 hours (to & fro air travel time)	5,000
	- > 15 hours (to & fro air travel time)	10,000

Notes:

- (1) Mr Wong Weng Sun, being an Executive Director, does not receive any Director's fees.
- (2) Cash fees for executives of SCI (nominee Directors) are payable to SCI, but share awards are received by nominee Directors in their personal capacity.
- (3) Fees for Mr Eric Ang Teik Lim will be paid entirely in cash to his employer, DBS.
- (4) Attendance fees for committee meetings also apply to attendance at general meetings.
- (5) Chairman of the Board does not receive the annual basic retainer fees for Directors, any further fees or allowances for his services as Chairman or member of any Board committees.



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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 FY2016 is intended to be paid after the 2017 AGM has been held.

The shareholders of the Company had approved the payment of Directors' fees of up to S\$2,600,000 for FY2016 at the last AGM held on 18 April 2016. The total amount of Directors' fees paid to the Directors in FY2016 was S\$2,509,500, full details of which can be found on page 280 of this Annual Report. The Company will also be seeking shareholders' approval at the forthcoming AGM for the payment of Director's fees of S\$2,500,000 for year FY2017. Subject to shareholders' approval, the cash component of the Directors' fees for FY2017 is intended to be paid half-yearly in arrears. The share component of the Directors' fees for year FY2017 is intended to be paid after the 2018 AGM has been held.

The Company does not have a retirement remuneration plan for Non-Executive Directors.

Remuneration for Key Management Personnel

The Company'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 the key management personnel comprises three primary components:

- **Fixed Remuneration**

Fixed remuneration includes annual basic salary, and where applicable, fixed allowances, 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 and individual performance relative to market competitiveness of roles with similar responsibilities.

- **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 linked to the achievement of pre-agreed financial and non-financial performance targets, while the second is linked to the creation of economic value added ("EVA").

The EVA-linked bonus component is held in a "bonus bank". Typically, one-third of the balance in the bonus bank is paid out in cash each year, while the balance two-thirds are 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 the shareholders at an extraordinary general meeting of the Company held on 20 April 2010. Through the share-based incentives, the Company motivates key management personnel to continue to strive for the Group's long-term shareholder value. In addition, the 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.

Pay for Performance

As in prior years, a pay-for-performance study was conducted in 2016 by the Company's external consultant, 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 marine, energy services and engineering 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 those of peer companies. It found senior executive pay to be positioned competitively vis-à-vis the Group's relative size and performance. Executive compensation for the year had a robust correlation with the Group's earnings before interest and taxes and EVA. In the longer term, there was also an alignment between executives' total compensation (which includes share awards for the President & CEO and senior executives) and the Group's three-year earnings before interest and taxes, return on capital employed and total shareholder returns. 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.



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PRINCIPLE 9 DISCLOSURE OF REMUNERATION

Information regarding remuneration of each individual Director (including the President & CEO), and the top five (5) key is set out on pages 280 to 281 of this Annual Report.

Key management personnel include the President & CEO, Chief Operating Officer, Chief Financial Officer, Head of Singapore Yard Operations, Head of Repairs & Upgrades and Head of Offshore Platforms.

There were no employees who were immediate family members of a Director or the President & CEO, and whose remuneration exceeded \$50,000, during FY2016.

PRINCIPLE 10 ACCOUNTABILITY

The Board is accountable to shareholders and announces the Company's quarterly and full year financial results which present a balanced and understandable assessment of the Company's performance, position and prospects in a timely manner via SGXNet.

The Board ensures that the Company comply with the applicable legislative and regulatory requirements by establishing written policies, where appropriate.

The Company recognises the importance of providing the Board with accurate and relevant information on a timely basis. Hence, Management provides the Board with management accounts and foreign exchange hedging executive summary on a monthly basis, enabling the Board to make a balanced and informed assessment of the Company's performance, position and prospects.

PRINCIPLE 11 RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has in place a sound system of risk management and internal controls to safeguard shareholders' interests and the Group's assets. Oversight responsibility of risk management and internal controls is delegated by the Board to the Board Risk Committee ("BRC") and Audit Committee ("AC"). Both committees work closely to ensure that the system of risk management and internal controls maintained by Management is adequate and effective.

The BRC comprises the following members, 4 of whom (including the Chairman) are Independent Directors and all of whom are Non-Executive Directors:

Mr Lim Ah Doo (Chairman)
Mr Ron Foo Siang Guan
Mr Koh Chiap Khiong
Mr Eric Ang Teik Lim
Mrs Gina Lee-Wan

The key responsibilities of the BRC include:

- Assess the adequacy and effectiveness of the Group's risk management framework (including policies, procedures and processes);
- Review the Group's risk appetite and recommend to the Board the risk appetite tolerance limits or changes thereof;
- Oversee Management in the design, implementation and monitoring of the Group's risk management framework;
- Review and approve the Group's risk policies, plans, guidelines and limits; and
- Review the infrastructure and resources that support risk management such as human resources, IT systems, reporting structure and procedures.

To ensure that the system of risk management and internal controls is adequate and effective, Sembcorp Marine has implemented the Enterprise Risk Management ("ERM") programme since 2004. The ERM programme helps the Group identify, assess and manage key risks in the challenging business environment that it operates in.

Since 2012, Sembcorp Marine has put in place a risk governance assurance framework to assist the Board in forming an opinion on the adequacy and effectiveness of the system of risk management and internal controls. The risk governance assurance framework was developed with guidance from external consultants, and has been implemented for both Singapore and overseas shipyards.

During the year under review, the Board has received assurance from the President & CEO and the CFO that the financial records had been properly maintained and the financial statements gave a true and fair view of the Group's operations and finances, and that the Group's system of risk management and internal controls was adequate and effective.

The Board, having performed its review, and with the concurrence of AC and BRC, is satisfied that the financial, operational, compliance and information technology controls and risk management system were adequate and



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effective as at 31 December 2016 to meet the needs of the Group in the current business environment.

This opinion is based on Management's review and effort to continually strengthen the Group's risk mitigating measures and internal controls, reports by the Internal Audit and Group Risk Management departments and statutory audits conducted by the external auditors as well as documentation of risk governance assurance framework.

Internal controls, because of their inherent limitations, can provide only reasonable but not absolute assurance regarding the achievement of their intended control objectives. In this regard, the Board is satisfied that if significant internal control failures or weaknesses were to arise, necessary actions would be swiftly taken to remedy them.

The Risk Management Report is found on pages 95 - 101 of this Annual Report.

PRINCIPLE 12 **AUDIT COMMITTEE**

The AC comprises the following members, 3 of whom (including the Chairman) are Independent Directors and all of whom are Non-Executive Directors:

Mr Ron Foo Siang Guan (Chairman)
Mr Lim Ah Doo
Mr Bob Tan Beng Hai
Mr Koh Chiap Khiong

The Board is of the view that the members of the AC have the necessary financial management expertise and experience to discharge their responsibilities. Management, external auditors and internal auditors update the AC as and when there are changes to the accounting standards and issues which have a direct impact on financial statements.

The AC is empowered and functions in accordance with the provisions of Section 201B of the Companies Act, the Listing Manual of SGX-ST ("Listing Manual") and the Code. The AC has the authority to investigate any activity within its terms of reference. It has full access to and co-operation of Management, and full discretion to invite any Director or executive officer to attend its meetings. It is granted reasonable resources for discharging its functions properly. The key responsibilities of the AC include:

Financial Reporting

- Review the financial reporting process and ensure the integrity of the Group's consolidated financial statements;
- Review the Group's consolidated financial statements and any announcements relating to the Company's financial performance;
- Review the significant financial reporting issues and judgments so as to ensure the integrity of the consolidated financial statements of the Group; and
- Ensure that the consolidated financial statements of the Group are prepared in accordance with Singapore Financial Reporting Standards.

Internal Controls

- Review with the external auditors and internal auditors the adequacy of the internal control systems of the Group in relation to significant internal control issues which are likely to have a material impact on the Group's operating results and/or financial position;
- Review the representation and opinion of Management and internal auditors on internal controls, and the results of work performed by the internal and external auditors;
- Review and make amendments when necessary, to the Whistle Blowing Policy and Procedure adopted by the Company to address possible improprieties in financial reporting or other matters; and
- Commission and review the findings of investigations into matters where there is any failure of internal controls which has or is likely to have a material impact on the Group's operating results and/or financial position, and also into matters where there is any suspected fraud or irregularity, or infringement of any law, rule and regulation.

Internal Audit

- Review and approve the Internal Audit Charter and related policies;
- Review and approve the audit plans and annual budget of the internal auditors;
- Review and approve the Head of Internal Audit's appointment, performance and remuneration;
- Review the adequacy of staffing and qualification levels of the internal audit function;
- Review IPTs with the internal auditors;
- Meet with the internal auditors at least once a year in the absence of Management to review the assistance given by the Group's officers to the internal audit function, to determine that no restrictions are placed on them by Management; and



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- Review, at least annually, the adequacy and effectiveness of the internal audit function.

External Audit

- Review the audit plans of the external auditors;
- Review with the external auditors their statutory audit report on the annual account of the Group and other reports relating to internal controls and Management's response and actions to address any noted weaknesses;
- Review and assess annually that the external auditors' independence or objectivity is not impaired;
- Review and approve (prior to engagement) the non-audit services provided by the external auditors, and provide a confirmation in Sembcorp Marine's annual report that it had undertaken a review of these non-audit services and that such services, if any, would not affect the independence of the external auditors;
- Recommend the appointment or re-appointment of the external auditors and their audit fees to the Board; and
- Meet with the external auditors at least once a year in the absence of Management to review the assistance given by the Group's officers to the external auditors, to determine that no restrictions are placed on them by Management.

IPTs

- Review and approve, if so required, IPTs in accordance with the requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX").

Oversight of financial reporting and other key matters

- Review the quarterly, half-yearly and yearly consolidated financial statements of the Group, including announcements to shareholders prior to their submission to the Board; and
- Review Management's representation on financial matters and internal controls presented in the quarterly "Governance Assurance Certification" submissions.

In the year under review, the AC had met two (2) times with the external auditors and three (3) times with the internal auditors without the presence of Management.

The AC had reviewed all the non-audit services provided to the Group by KPMG LLP, the Company's external auditors, and is satisfied that such services had not affected the independence of the external auditors. A breakdown of the fees for audit and non-audit services paid to KPMG LLP for FY2016 are found on page 223 of this Annual Report.

During the year under review, the AC had carried out its duties in accordance with its terms of reference and the AC Chairman reports to the Board on AC's proceedings and on all significant matters relevant to the AC's duties and responsibilities at every quarterly Board meeting.

In appointing auditors for the Company and its subsidiaries and significant associated companies, the Company has complied with Rules 712 and 715 of the Listing Manual.

No former partner or director of the Company's existing auditing firm or auditing corporation was appointed as a member of the Company's AC in FY2016.

AC's commentary on key financial reporting matters

The AC had discussed the key audit matters for FY2016 with Management and the external auditors. The AC concurs with the basis and conclusions included in the Independent Auditors' Report with respect to the key audit matters.

For more information on the key audit matters, please refer to page 166 to 172 of this Annual Report.

PRINCIPLE 13 INTERNAL AUDIT

Head of Internal Audit ("HIA") reports functionally to the AC and administratively to the President & CEO. The AC has empowered the Internal Audit Department ("IAD") with access to all functions, personnel and records in the organisation necessary for the performance of IAD's reviews and duties. The AC also ensures that the IAD is adequately resourced.

The key responsibilities of IAD include:

- Perform risk-based assurance reviews across the Group and provide opinion on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems except assurance and compliance reviews relating to Workplace Safety, Security and Environment which are mandatory and for which specialist licensed firms are engaged by the respective commercial entities;
- Assist in the deterrence of fraud through its internal audit activities by examining and evaluating the adequacy and effectiveness of the system of internal controls;
- Review IPTs and advise the AC whether the transactions are at arm's length;



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- Advise the AC on non-audit services (“NAS”) provided by the external auditors;
- Provide administrative support to the AC through the review of draft minutes of the AC meetings;
- To the extent that there is no conflict with its mission and independence of IAD, IAD will, within its expertise and upon request, perform consulting work to add value and improve the Group’s adequacy and effectiveness in risk management, control and governance;
- Facilitate the sharing of matters in order to better control practices and governance across the Group to promote awareness;
- IAD shall, upon instruction of the AC, conduct investigations into and report on incidents and allegations of possible improprieties in matters of financial reporting or other matters in accordance with the Whistle Blowing Policy and Procedure; and
- Where practically possible, IAD will extend its scope of work to include the associated companies and joint ventures of the Group.

IAD plans internal audit reviews and resource requirements in consultation with the AC. Its risk-based plan is submitted to the AC for approval at the beginning of each year and the AC reviews the internal audit reports quarterly. IAD conducts audit reviews to provide assurance that the internal controls are adequate and effective to meet the Group’s requirements. The assessment also covers risks arising from new lines of business or new products. Audit projects are planned based on the results of the assessment, with priority given to auditing higher risk areas.

IAD consists of suitably qualified professionals with the relevant experience and skill sets. Training and development opportunities are provided to these staff on an ongoing basis.

IAD employees are expected to observe, apply and uphold the Institute of Internal Auditors Code of Ethics and adhere to the conduct of integrity, objectivity and confidentiality at all times.

Quality assurance and key developments

In line with leading practices, IAD adopts the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors and had successfully completed an external Quality Assurance Review in 2012. This exercise will be conducted once every 5 years. The upcoming review is in 2017.

Whistle-Blowing Policy

The Group has put in place a whistle-blowing policy and procedure, for which the AC shall have oversight. Through this avenue, employees of the Group or any other persons may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The policy establishes various confidential channels of communication to report concerns about possible improprieties to the AC Chairman, HIA and Chief Risk Officer (CRO). This is to ensure independent investigation and appropriate follow-up actions are taken. The Group treats all information received as confidential and protects the identity of all whistleblowers. Anonymous report is accepted. Employees who acted in good faith will be protected from reprisals. Reports can be made by:

- Email to whistleblow@sembmarine.com;
- Phone call to HIA (DID: +65 6262-7818) or CRO (DID: +65 6262-7391); and
- Mail to Sembcorp Marine Limited at 29 Tanjong Kling Road, Singapore 628054 and addressed to AC Chairman, HIA or CRO.

Sembcorp Marine believes that effective safeguards against undesired business conduct have to go beyond a “tick-the-box” mentality. It is the objective of the Group to instil and enhance strong corporate governance practices across its group of companies.

SCM SPEAK-UP SERVICE



A whistle blow complaint can be submitted to the AC Chairman or Head of Internal Audit and/or Chief Risk Officer through one of the following channels:

- email to whistleblow@sembmarine.com (any email to this address is re-routed to AC Chairman, SCM HIA and SCM CRO); specifically for EJA Brazil, the email is denuncia@jurong.com.br or
- hard copy complaint letter post to Sembcorp Marine Ltd, 29 Tanjong Kling Road, Singapore 628054, addressed to AC Chairman, Head of Internal Audit or Chief Risk Officer; or
- telephone or meeting

Head of Internal Audit (DID: +65 6262 7818)
Chief Risk Officer (DID: +65 6262 7391)



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The Company advocates the following safeguards to maintain a strong risk and governance culture:

- From the top: The tone set by the Board and senior management is vital; it is akin to the moral compass of the organisation. The Group has in place a suite of comprehensive policies and Management Committees are formed to monitor compliance with these policies. The Group also conducts self-assessment on its key processes;
- Aligning employees' performance and incentives via key performance indicators or balanced scorecard;
- Respecting the voice of control functions: The Group believes that respect for the voice of control functions such as the risk management department is one of the key safeguards;
- Risk ownership: please refer to pages 95 - 101 of this Annual Report on Risk Management Report; and
- Requirement of Sembcorp Marine employees to abide by the Company's Code of Conduct, Conflict of Interests Policy, Code of Ethics, Anti-Bribery Compliance Policy, Fraud Risk Management Policy, etc.

All employees of the Group are required to read and acknowledge Sembcorp Marine's Code of Conduct.

PRINCIPLE 14 SHAREHOLDERS' RIGHTS

The Company is committed to treat all shareholders fairly and equitably. The Company recognises, protects and facilitates the exercise of shareholders' rights, and continually review and updates such governance arrangements.

The Company ensures the release of timely, adequate and relevant information to shareholders. The Company believes this practice is central to good corporate governance and enables shareholders to make informed decisions in respect of their investments in Sembcorp Marine Ltd. It does not practise selective disclosure of price-sensitive information.

The Company invites and encourages all registered shareholders to participate in the Company's general meetings. Each shareholder will receive a notice of meeting which is also advertised in the newspapers and released via SGXNet. Pursuant to the introduction of the new multiple proxies regime under the Singapore Companies (Amendment) Act 2014, indirect investors who hold Sembcorp Marine shares through a nominee company or custodian bank or through a CPF agent bank may attend and vote at the AGM or EGM.

PRINCIPLE 15 COMMUNICATION WITH SHAREHOLDERS

The Company has put in place a comprehensive investor relations program to promote regular, effective and conveys pertinent information to shareholders and complies with the guidelines set out in the Listing Manual when disclosing information.

The Company discloses accurate and timely information that is material or that may influence the price of Sembcorp Marine's shares on the SGXNet to all shareholders.

General meetings are the principal forum for dialogue with shareholders. There is a question and answer session during which shareholders may raise questions or share their views regarding the proposed resolutions and the Company's business and affairs.

The quarterly and full-year results announcements provide financial and other performance information of the Company as a whole as well as by business segments. This allows shareholders to gain better insight into the earning drivers within Sembcorp Marine. The earnings results are first released via SGXNet and posted on the SGX-ST website. Management then holds a face-to-face briefing to address media and analyst queries for the full-year and half-yearly financial results. For the first and third quarter results, Management holds a teleconference meeting with the analysts. Materials used at the briefing are made available on SGXNet and on the Company's website at www.sembmarine.com. In addition, investor relations and corporate communications personnel are available by email or telephone to answer questions from shareholders, media and analysts at any time as long as the information requested does not conflict with the SGX-ST's rules of fair disclosure.

Apart from regular meetings, email communications and teleconferences with investors and analysts, the CFO and the Head of Investor Relations also travel regularly to overseas road shows and conferences to reach out to foreign institutional investors.

The Company aims to balance returns to shareholders with the need for long-term sustainable growth. It strives to provide shareholders annually with a consistent and sustainable dividend based on cash position, working capital, capital expenditure plans, acquisition opportunities and market environment. The Board has



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recommended a final dividend of 1 Singapore cent (\$0.01) per share, bringing the total ordinary dividend for FY2016 to 2.5 Singapore cents (\$0.025), if the proposed dividend is approved by shareholders at the forthcoming AGM.

For further details on Sembcorp Marine's communication with its shareholders, please see the "Investor Relations" section of this Annual Report.

PRINCIPLE 16 CONDUCT OF SHAREHOLDERS' MEETINGS

All registered shareholders are invited to participate at shareholders' meetings. 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, are allowed to appoint more than two proxies to attend, speak and vote at shareholders' meetings. This will enable indirect investors, including CPF investors, to be appointed as proxies to participate at shareholders' meetings.

Voting in absentia by mail, facsimile or email is currently not permitted as such voting methods would need to be cautiously evaluated for feasibility to ensure that there is no compromise to the integrity of the information and the authenticity of the shareholders' identities.

The Company ensures that separate resolutions are proposed for substantially separate issues at general meetings.

All members of the Board as well as the CFO, Company Secretaries and the external auditors are required to attend all shareholders' meetings. The external auditors are present to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report.

The Company ensures that minutes of each meeting include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, and responses from the Board and Management. All minutes of shareholders' meetings are available to registered shareholders on request.

Since 2012, the Company has conducted electronic poll voting at shareholders' meetings for greater transparency in the voting process. 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 and is also announced after the meetings via SGXNet.

Dealings in Securities

The Company has put in place a policy on dealings in securities, which prohibits dealings in the Company's securities by its officers during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of the Company's financial year, and one month before the announcement of the Company's full year financial statements, and ending on the date of the announcement of the relevant results.

The officers and employees of the Company are expected to observe insider trading laws at all times and are prohibited from dealing in the Company's securities while in possession of price-sensitive information and on short-term considerations. Corporate Secretariat informs all Directors and relevant employees in advance of each blackout period.

IPTs

The Company has embedded procedures to comply with all regulations governing IPTs. Shareholders have approved the renewal of a general mandate for IPTs at the AGM on 18 April 2016. The mandate sets out the levels and procedures for obtaining approval for each type of IPTs covered under the mandate. Information regarding the mandate can be found on the Company's website at www.sembmarine.com.

All commercial entities are required to be familiar with the IPT mandate and report any such transactions to their respective finance departments. The Group Finance department consolidates the IPTs and keeps a register of the Company's IPTs.

Detailed information on IPTs for FY2016 is found on page 281 of this Annual Report.

Material contracts

Since the end of the previous financial year, no material contracts involving the interest of any Director or controlling shareholder of Sembcorp Marine have been entered into by the Company or any of its subsidiary companies, and no such contract subsisted as at 31 December 2016, save as disclosed via SGXNet.



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Governance Disclosure Guide

Questions	How the Company has complied
General	
Has the Company complied with all the principles and guidelines of 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. In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code?	The Company has complied in all material aspects with the principles and guidelines set out in the Code.
Board's Responsibility	
Guideline 1.5: What are the types of material transactions which require approval from the Board?	The Company has adopted a set of internal controls which sets out approval limits for different types of transactions. Board's approval is required if the amount of a transaction exceeds a pre-defined threshold.
Directors' Training	
Guideline 1.6: Are new Directors given formal training? If not, please explain why.	A comprehensive orientation programme, including facility visits to the Group's various premises, is provided to all newly-appointed directors.
What are the types of information and training provided to (i) new directors and (ii) existing directors to keep them up-to-date?	New Directors are briefed on the Group's business activities, financial performance, governance and sustainability policies and practices, enterprise risk management, regulatory regime and their duties as directors to enable them to assimilate into their new roles. Existing Directors are updated regularly on industry trends and development, relevant laws and regulations and changing business risks during Board meetings or at specially-convened sessions.
Directors' Independence	
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.	The current Board comprises 10 Directors, 7 of whom are Independent Directors.
Guideline 2.3: 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 relationship. What are the reasons for considering him independent? Please provide a detailed explanation.	<p>Tan Sri Mohd Hassan Marican is an Independent Director of Sembcorp Industries Ltd ("SCI"), a controlling shareholder of the Company. He is also a Senior International Advisor of Temasek International Advisors, a subsidiary of Temasek Holdings Ltd.</p> <p>Mr Ajaib Haridass is an Independent Director of SCI.</p> <p>Mr Eric Ang Teik Lim is a Senior Executive Advisor of DBS Bank Ltd ("DBS") which provides banking services to the Company.</p> <p>Mrs Gina Lee-Wan is a partner of Allen & Gledhill ("A&G") which had rendered services to the Company during FY2016.</p> <p>Please refer to pages 79 to 80 of this Annual Report.</p>



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Questions	How the Company has complied
Directors' Independence	
<p>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>	<p>Mr Ajaib Haridass was first appointed to the Board on 31 October 2003. The Board considered that Mr Haridass has demonstrated independence at Board, and board committee meetings, and is of the view that he has exercised independent judgment in the best interests of the Company in the discharge of his director's duties. The Board therefore continued to consider Mr Haridass as an independent director.</p> <p>Mr Ron Foo was appointed to the Board on 30 June 2006. He has served more than nine years on the Board. Although Mr Foo has served on the Board beyond nine years, he has continued to demonstrate strong independence in character and judgment in the discharge of his responsibilities as a Director of the Company. Accordingly, the Board has, on the recommendation of the Nominating Committee, continued to consider Mr Foo as an independent non-executive Director of the Company.</p>
Board Membership	
<p>Guideline 2.6: What is the Board's policy with regard to diversity in identifying director nominees? 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. What steps has the Board taken to achieve the balance and diversity necessary to maximize its effectiveness?</p>	<p>The Board ensures that Directors possess the background, experience and knowledge in technology, business, finance and management skills critical to the Group's business and that each director should bring to the Board an independent and objective perspective to enable balanced and well considered decisions to be made. Current Directors include business leaders, bankers and professionals with financial and legal backgrounds. The Nominating Committee reviews the composition of the Board and Board committees periodically to ensure that the Board is of an adequate size with the right mix of skills and experience that facilitates effective decision making.</p>
<p>Guideline 4.6: Please describe the board nomination process for the Company in the last financial year for (i) selecting and appointing new directors and (ii) re-electing incumbent directors.</p>	<p>The Nominating Committee assesses and shortlists a list of candidates for a new position on the Board when a need arises. The list of shortlisted candidates is submitted to the Board for review and approval and the successful candidate is then appointed as a director in accordance with the Company's constitution. The Nominating Committee reviews the contribution and performance of each existing director before making recommendations to the Board for his re-election or re-appointment at the next AGM. Once the Board has considered and adopted the Nominating Committee's recommendations, the resolution proposing the re-election or re-appointment of a director will be tabled at the AGM for shareholders' approval.</p>

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Questions	How the Company has complied
<p>Guideline 4.4: 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? If a maximum number has not been determined, what are the reasons? What are the specific considerations in deciding on the capacity of directors?</p>	<p>The Company has determined that the maximum number of directorship in listed companies to be held by a Director on the Board be fixed at 6 to ensure that a Director will have sufficient time and attention for the affairs of the Company.</p>
Board Evaluation	
<p>Guideline 5.1: What was the process upon which the Board reached the conclusion on its performance for the financial year? Has the Board met its performance objectives?</p>	<p>Each director was requested to complete a questionnaire based on certain areas of assessment. The evaluation and feedback from the Directors were consolidated and submitted to the Board for discussion and further improvements in its performance. Based on the overall assessment for 2016, the Board was effective as a whole.</p>
Disclosure on Remuneration	
<p>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?</p>	<p>Yes. This information can be found on pages 280 to 281 of this Annual Report.</p>
<p>Guideline 9.3: 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? Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO).</p>	<p>Yes. This information can be found on pages 280 to 281 of this Annual Report.</p>
<p>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.</p>	<p>The Company does not have any employees who is an immediate family member of a director or the CEO, and whose remuneration exceeds S\$50,000 in FY2016.</p>
<p>Guideline 9.6: Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria. What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes? Were all of these performance conditions met? If not, what were the reasons?</p>	<p>The remuneration of the key management personnel comprises three primary components: Fixed Remuneration, Annual Variable Bonuses and Share-based Incentives. Information on the remuneration received by the executive director and key management personnel as well as details on share-based incentives and performance targets is available on pages 280 to 281 of this Annual Report.</p>



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Questions	How the Company has complied
Risk Management and Internal Controls	
<p>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>	<p>Management provides the Board with management accounts and foreign exchange hedging executive summary on a monthly basis enabling the Board to make a balanced and informed assessment of the Company's performance, position and prospects.</p>
Risk Management and Internal Controls	
<p>Guideline 11.3: 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. 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: (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 (ii) the Company's risk management and internal control systems are effective? If not, how does the Board assure itself of points (i) and (ii) above?</p>	<p>The Company has put in place a risk governance assurance framework to assist the Board in forming an opinion on the adequacy and effectiveness of the system of risk management and internal controls. The risk governance assurance framework was developed with guidance from external consultants, and has been implemented for both Singapore and overseas shipyards.</p> <p>Yes, the Board has received assurance from the CEO and the CFO as well as the internal auditor that: (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 (ii) the Company's risk management and internal control systems are effective.</p>
<p>Guideline 12.6: Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial year. 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>The breakdown of the fees paid in total to the external auditors for audit and non-audit services for FY2016 can be found on page 223 of this Annual Report. The amount of non-audit fees compared to the total annual audit fees is 10%. The Audit Committee had reviewed the non-audit services provided by the external auditors during the financial year and is satisfied that the independence of the external auditors has not been impaired by the provision of these services. The external auditors have also provided confirmation of their independence.</p>
<p>Guideline 13.1: Does the Company have an internal audit function? If not, please explain why.</p>	<p>Yes. The head of the Internal Audit Department reports functionally to the Audit Committee and administratively to the President & CEO.</p>
Communication with Shareholders	
<p>Guideline 15.4: Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors? Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role? How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report?</p>	<p>Yes. Details are available in the Investor Relations chapter, pages 60 to 63 of this Annual Report.</p>
<p>Guideline 15.5: If the Company is not paying any dividends for the financial year, please explain why.</p>	<p>The Board has recommended a final dividend of 1 Singapore cent (\$0.01) per share, bringing the total ordinary dividend for FY2016 to 2.5 Singapore cents (\$0.025), if the proposed dividend is approved by shareholders at the forthcoming AGM.</p>

RISK MANAGEMENT

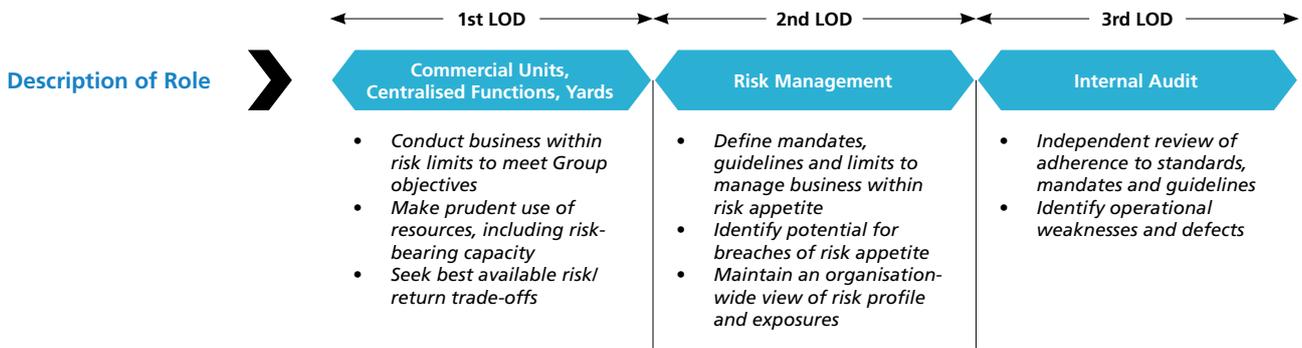
The oil & gas industry grappled with a severe downturn in 2016, with key players scaling back capital expenditure, renegotiating contractual terms and deferring deliveries. While the November 2016 agreement by OPEC & major non-OPEC countries to cut production generated positive market sentiment, a sustained and robust recovery may take a longer time.

Following through the agenda of Sembcorp Marine's Transformation for Growth strategy launched in 2015 to build resilience in an uncertain risk environment, the Group refined existing processes and governance structures across three lines of defence, namely:

- 1st Line of Defence (LOD): Commercial Units, Centralised Functions and Yards

- 2nd LOD: Risk Management; and
- 3rd LOD: Internal Audit.

There is now a clearer definition of roles, responsibilities and accountability. Metrics, trigger limits and controls were also developed to better identify and manage risks, and to assess the effectiveness of processes.

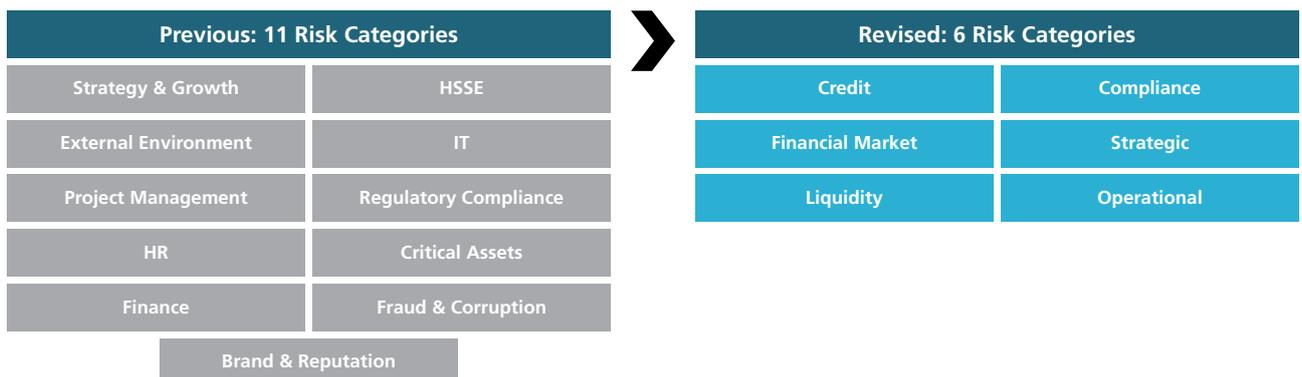


After reviewing its existing risk registers, the Group revised risk categories by organising them according to 'risk type' to better reflect the risk landscape and enable clearer assignment of risk ownership. Enterprise Risk Management (ERM) subcommittees were re-organised into risk categories to enable Group-wide view of risks. Yard-based chief risk officers were replaced by Risk

Champions (within the 1st LOD) in the business to align with the One Sembcorp Marine structure and to be responsible for risk management activities. In a dual reporting line model, the Risk Champions have a solid reporting line to the respective Commercial, Centralised Function and Yard Heads and a dotted reporting line to the Group Chief Risk Officer.

RISK GOVERNANCE STRUCTURE

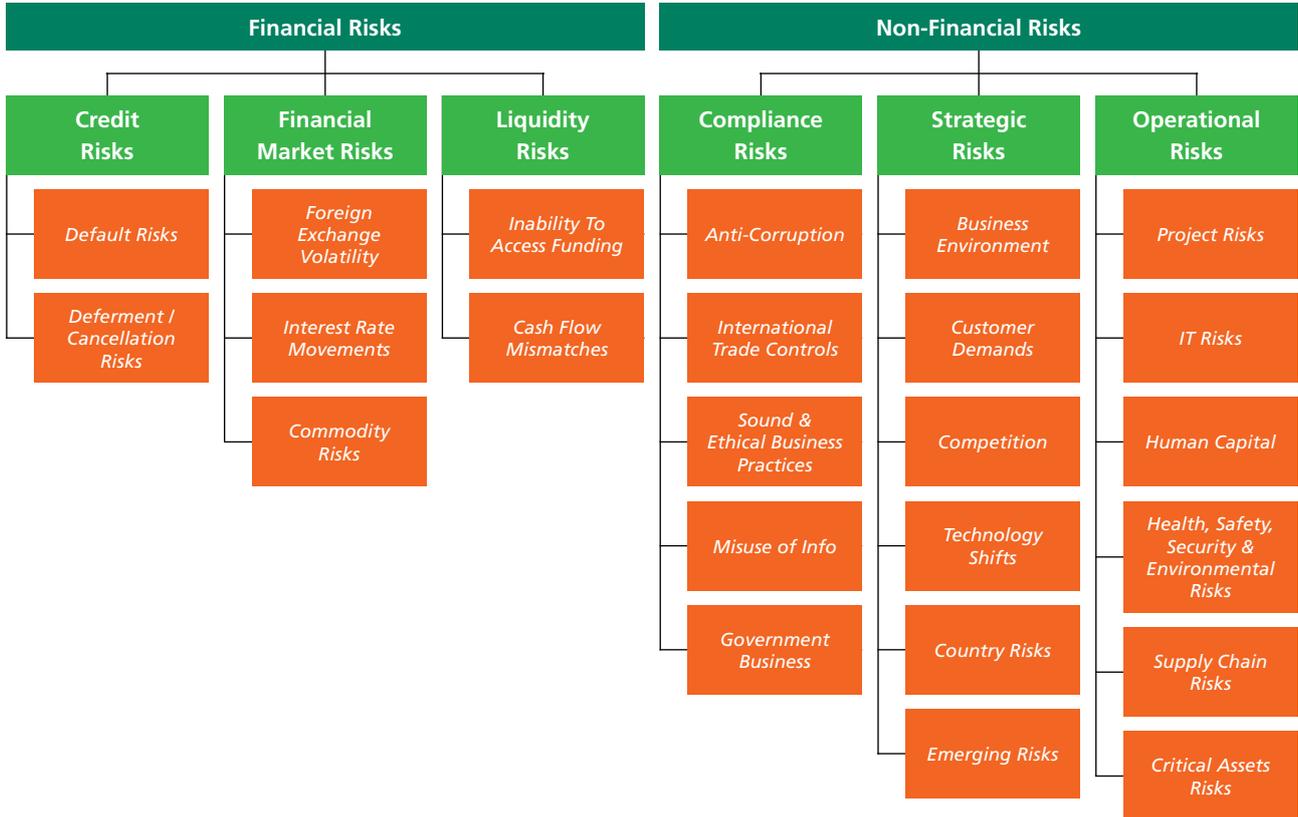
The responsibility for risk management and internal controls lies with the ERM Committee (ERMC). Chaired by the President & CEO, the ERMC drives key risk initiatives and reviews risk issues across the Group. The other members of the ERMC comprise the Heads of Commercial Units, Heads of Centralised Functions





RISK MANAGEMENT

Re-Categorisation to Facilitate Clearer Assignment of Risk Ownership



and Head of Singapore yards, who report on risk issues under their charge and champion their respective key risk areas.

Supporting the ERM Council are sub-committees responsible for specific risk areas: Customer Credit, Compliance, Project Risk Management, Finance, Human Resource, Supply Chain, Information Technology, Critical Assets, Insurance as well as Health, Safety, Security and Environment (HSSE). These sub-committees are chaired by senior management staff appointed by the President & CEO.

The ultimate responsibility for risk governance lies with the Board of Directors who sets an appropriate tone from the top, which is cascaded across the Group through policies and procedures. The Board Risk Committee (BRC) supports and assists the Board by assessing and ensuring the adequacy and effectiveness of the Group's risk management systems, framework, policies, procedures and processes; reviewing and endorsing the Group's risk appetite and risk tolerance limits for approval by the Board; reviewing risk reports from Management which include the Group's risk profile, major risk exposures and material risk issues; as well as Management's response and actions taken to monitor and control such exposures or issues.

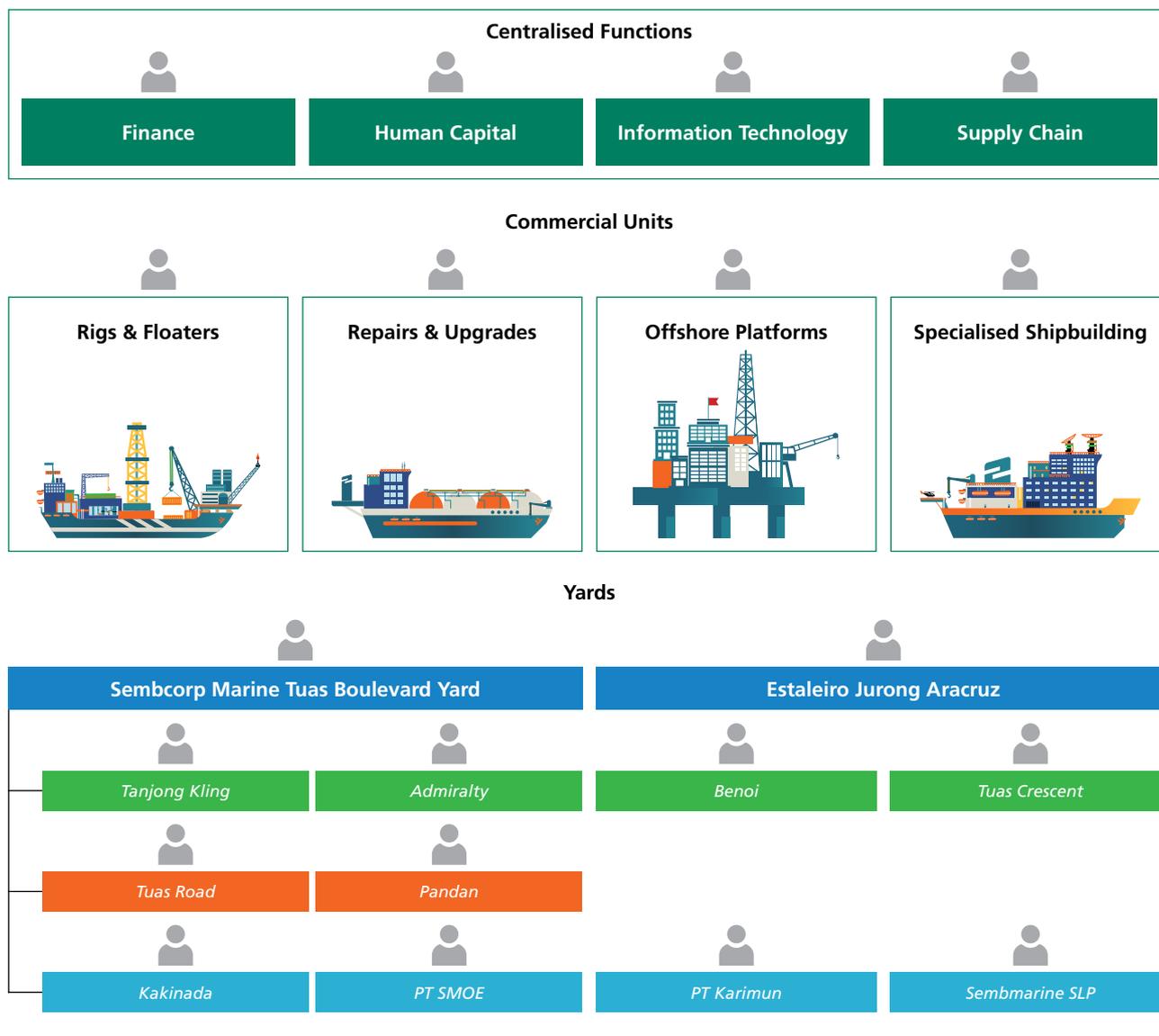
Risk Oversight & Governance Structure





RISK MANAGEMENT

Appointment of Risk Champions



KEY RISK MANAGEMENT INITIATIVES

Key risk management initiatives undertaken in FY2016 included:

RACI Rule Book

Previously defined RACI (i.e. Responsible, Accountable, Consulted, Informed) matrices for each of the six Risk Dimensions (i.e. Credit, Financial Market, Liquidity, Compliance, Strategic and Operational Risks) were mapped into process flowcharts to provide more clarity on assigned

risk responsibilities. The flowcharts document the step-by-step activities to be performed by stakeholders across the three lines of defence for policy and framework development; risk identification and assessment; risk mitigation; and risk monitoring and reporting. There is more clarity on what the various R, A, C, I assignments mean in terms of day-to-day responsibilities. The flow of information from one stakeholder to the next is shown schematically.

Risk Appetite Statements

The Risk Appetite Statements, metrics and tolerance limits were recalibrated to ensure an appropriate balance between Board oversight and engagement in the light of changes in the Group's operating environment, and to provide Management with a clear mandate for risk-taking. The corresponding Dashboard was reviewed by ERM and BRC regularly and (where applicable) specific control measures and corrective actions were discussed and executed.



RISK MANAGEMENT

Training and Communication

Road shows were conducted in Singapore and overseas yards to reinforce staff awareness of Corporate Governance, Risk Management and Internal Controls.

Roundtables were held with stakeholders to discuss survey results of their awareness and perception of ERM. Strengths and improvement areas were identified. Required actions and ownership of next steps were agreed upon. The objective was to create greater awareness and understanding of the Risk mindset and tools.

Templates and Tools

An approval paper template (for projects, joint ventures and mergers & acquisitions) was launched to compel rigorous analysis of all relevant aspects of the proposed transaction, and organise evaluations and supporting details in a reader-friendly manner. Concise and coherent writing was emphasised. Approvers were able to focus on critical deal points.

The customer credit rating model was enhanced. It weighed salient quantitative and qualitative grading parameters so as to holistically assess the obligor's financial health, franchise and market reputation and determine probability of customer payment default. The tool has the flexibility to include an expert's opinion. It also incorporates a ratings outlook.

To reinforce the Sembcorp Marine Code of Conduct as well as enhance the Group's compliance culture, an interactive learning experience with global reach was rolled out. The scalable Anti-Bribery & Corruption (ABC) eLearning tool delivers training in a consistent manner to the Group's employees worldwide, gives staff flexibility on training time and provides administrative ease in respect of training and other summary records.

A credit ratings map (showing respective customers' credit ratings and exposures) was introduced for proactively tracking changes in customers' ratings, with additional focus given to contract termination and failure to take delivery after technical acceptance.

A transparent framework was launched to regularly monitor customer payment delays and corresponding remedial measures. The customers were grouped according to different watch categories: Insolvency; Legal Action Accounts; Deferment (due to deferral of payment terms or project delivery date deferment); and Delinquency.

Process Enhancements

The compliance screening process for third-party representatives was mapped. The Group subscribed to a tool which screens names for adverse media, politically exposed persons, sanctions, as well as regulatory and other enforcements.

Vendor on-boarding process was enhanced with improved ABC due diligence, sanctions screening and financial health checks; supplemented by periodic reviews.

Sembcorp Marine's core list of third-party representatives in various countries for the Group's Repairs & Upgrades business was re-screened. Besides ensuring that ABC due diligence was satisfactorily completed, absolute caps and stipulated corresponding approving authority for remuneration rates of marketing agents were stipulated.

Project tender procedures and cost estimation processes of Commercial Units were vetted to ensure that CTQs (Critical to Quality) are satisfied, including checks and balances.

KEY RISKS AND MITIGANTS

The Group's risk profile is updated regularly, factoring in external drivers that impact its business and operating environment as well as internal control measures so as to ascertain the resultant risk level.

Credit Risks

The Group updates credit ratings of customers regularly. Customers are tiered based on their credit grades and tracked accordingly. Where credits are weak, the Group requests for security and other credit enhancements. It monitors exposure to avoid concentration in weaker credit tiers as far as possible.

Limits are set for contracts with backend loaded payment terms. The Group prefers the customer to make progressive payments instead of giving the customer backend loaded payment terms. It aims to run down contracts with backend-loaded payment terms.

Where there are deferment requests, the Group strives to achieve win-win solutions, including slowing down construction and sale to other parties. The Group protects its position by securing technical acceptance and class certification.



RISK MANAGEMENT

Financial Market Risks

Sembcorp Marine monitors Foreign Exchange (FX) transactions compliance with its FX hedging policy via monthly FX exception reports to BRC and discussions at Finance Committee, Management and Board meetings. Treasury operations and transactions are audited annually.

The Group's exposure to financial market risks from changes in the interest rate environment is due mainly to its debt obligations. The Group's policy is to maintain an optimal interest cost structure using a combination of fixed and variable rates for the long-term and short-term borrowings. The Group uses interest rate swaps to reduce its exposure to interest rate volatility.

Liquidity Risks

Sembcorp Marine strives to monetise completed projects and discuss with customers about possible earlier payment milestones for existing contracts. Liquidity position is monitored regularly at Finance Committee, Management and Board meetings.

The Group controls costs to achieve better project margins and expand market reach to new customers and oil companies. It tracks all loan covenants and ensures that there will be no defaults. It monitors debt maturity profiles, tracks short-term loans which are used to finance long-term assets and closes any mismatch between short-term financing and long-term assets as much as possible.

The Group establishes good relationships and communication channels with financial institutions and banks to ensure that sufficient credit lines are available to meet liquidity needs. It negotiates milestone payments for existing contracts. It focuses on delivery and on achievement of billing milestones to expedite collection of payments from existing projects. The Group also accelerates settlement and collection of project variation orders.

Compliance Risks

Sembcorp Marine identifies compliance risks, tailors processes to address respective risk areas and ensures these processes are communicated and implemented. Its employees and third-party representatives are educated on Group policies and Code of Business Conduct, as well as applicable laws.

Control measures (e.g. dashboards and scorecards) are implemented to detect heightened compliance risks and/or violations.

The Group requires employees and third-party representatives to acknowledge regularly that they are compliant with the Sembcorp Marine compliance policies and Code of Business Conduct. Employees and third-party representatives are reminded to raise concerns about possible violations of law or policy through the Sembcorp Marine whistle-blowing channel.

The Group takes prompt corrective action to fix identified compliance weaknesses. It takes disciplinary action of up to and including termination of employment or termination of contract with third-party representatives, in the event that the employee or third-party representative fails to abide by Sembcorp Marine's compliance policies.

The Group makes appropriate disclosures to regulators and law enforcement authorities.

Strategic Risks

Sembcorp Marine scans the horizon for evolving global trends, industry opportunities and risks; discusses these issues with Management periodically; and presents them at the Board Strategy Retreat. It conducts rigorous due diligence for all investments and projects, and benchmarks them against criteria and related considerations stipulated in its internal Hurdle Rate methodology.

The Group engages external due-diligence advisers to augment its knowledge bank, where appropriate. It conducts rigorous post-investment performance reviews for all merger & acquisition deals regularly.

Operational Risks

- **Project Risks**

To minimise project delivery delays and negative variances between latest estimated and originally approved project contribution quantum, Sembcorp Marine makes sure that work processes are well understood at the outset so as to pre-empt working with incomplete, ambiguous or inaccurate requirements. The Group does periodic reviews to ensure that each project's work progress adhere to its planned schedule. Training is conducted to improve operation efficiency. Investments are made in modern equipment and technology. Under-utilised resources are redeployed. Resource allocation is prioritised for key deliveries. Actual project costs are controlled in order to achieve target contribution.



RISK MANAGEMENT

- **IT Risks**

IT policies, procedures and controls are in place to prevent the Group's IT assets and information from malicious attacks and hackings.

In order to achieve target Recovery Time Objective and Recovery Point Objective for critical system failures, the Group has put up disaster recovery plans for critical systems, which are tested and reviewed annually. The Group backs up data periodically. Backup data are stored at alternate and offshore data centres. Fire alarms and temperature sensors are installed, along with environmental security controls (e.g. fire suppression system, smoke detection system, water detection system, raised concrete floor) at the server room.

- **Human Capital**

In order not to exceed the target turnover rate for management staff and to achieve the desired succession index, Sembcorp Marine enhances its flexible benefits plan to improve staff welfare, allows job rotations among staff, and harmonises HR and employee welfare practices across the Group where possible. The Group continuously improves its on-boarding process, as well as reviews and, where possible, takes corrective actions based on constructive feedback from exit interviews. It identifies key personnel and grooms high-potential employees for leadership succession.

- **Health, Safety, Security & Environment Risks**

With zero tolerance for fatalities and so as not to exceed the target Workplace Injury Rate, Accident Severity Rate and Accident Frequency Rate, the Group implemented the following Sembcorp Marine Workplace Safety & Health (WSH) strategic thrusts (which are aligned with WSH 2018 and WSH 2018 Plus strategies):

- Continuous enhancement of HSE competencies and capabilities;
- Improvement in risk and safety management systems;
- Building up commitment and leadership towards collective WSH culture; and
- Involvement and support from stakeholders to develop a strong partnership and foster a positive HSE culture.

The Group investigates incidents thoroughly with collective efforts from all subject matter experts. It analyses all possible root causes and establishes corrective actions to prevent recurrence of similar incidents.

HSSE KPIs are reviewed with Management. Various HSE programmes are organised to instil HSE awareness in the workforce, along with risk intervention programmes for identified key risks.

The Group conducts on-site inspections, walkabouts and audits to identify all potential risks and hazards. It improves the Sembcorp Marine HSE management system by benchmarking the Group's HSE policy and procedures with applicable legal regulations and other industry best practices.

- **Supply Chain Risks**

The Group requires Procurement Heads to adhere to proper integrity standards and be accountable and transparent in all their dealings. Procedures are in place to ensure proper transaction documentation, good procurement practices, ethical behaviour and open and fair competition.

Competitive prices are solicited from various bidders with defined information to facilitate accurate technical and commercial evaluations.

The Group qualifies vendors to ensure a portfolio of best in-class vendors is available for use. These vendors are qualified based on their company profiles, financial standing, technical capability and expertise. Performances of key vendors are reviewed annually.

Purchase orders and procurement contracts are structured to promote effective and efficient administration during execution. Purchase orders or purchase contracts are issued in a timely manner in order to secure timely delivery of goods. To safeguard its interests, the Group has adequate terms and conditions in its purchase orders and



RISK MANAGEMENT

contracts. There are also effective controls to ensure that purchase terms and conditions are negotiated in conformity with the Company's procurement policy and procedures.

- **Critical Assets Risks**

Sembcorp Marine ensures that current systems, processes and controls in place are adequate and effective in procurement, construction, installation, operation, maintenance and certification of the Group's critical assets. It identifies, establishes and implements best practices and guidelines for the management of these critical assets.

Sembcorp Marine promotes Group-wide sharing of information and discussion concerning the quality, reliability and other material issues of equipment and machinery commonly used in the industry, including case studies of critical asset failures and near misses.

OTHER GROUP-WIDE RISK-BASED ACTIVITIES

Further to the key risk management initiatives and risk mitigating measures, the Group leverages a Control Self Assessment programme and Insurance programme to supplement its risk governance and risk management framework.

Control Self Assessment

The Group's Control Self Assessment (CSA) programme is an integral part of the overall risk and governance assurance framework. The CSA programme has been implemented in local yards since 2008 and was rolled out to overseas shipyards in 2013. A risk-based approach is taken to identify suitable processes and controls, for which CSA questionnaires would be completed by process and control owners on a quarterly basis. Updates on the CSA programme are reported at the BRC and ERM Committee meetings each quarter.

Through the programme, weaknesses in the control environment may be detected and reported to management in a structured and formalised approach and corrective action taken to strengthen the process to prevent future occurrences and lapses. In addition to providing assurance that key controls are adequate and effective, the CSA programme instils ownership among the process and control owners, and promotes a sense of accountability.

Insurance

The Group leverages insurance as a means of risk transfer where it is cost-effective, or required by contractual obligations or legislation (e.g. the Work Injury Compensation Act).

Insurance coverage has been undertaken by the Group against foreseeable events which may result in catastrophic financial losses. The Group's approach on insurance is to strike a balance between the risk management capabilities to mitigate risk levels, and the cost benefits of a comprehensive insurance programme.