

# CORPORATE GOVERNANCE

Sembcorp Marine Ltd and its subsidiaries ("Sembcorp Marine", "SCM" or the "Group") believe that good corporate governance supports long-term shareholder value. To strive for the highest standards of corporate performance and accountability, the Group has embedded corporate governance principles in its corporate culture. This culture is in turn anchored on effective leadership, robust internal controls and a set of core values.

### Governance Disclosure Guide

*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?*

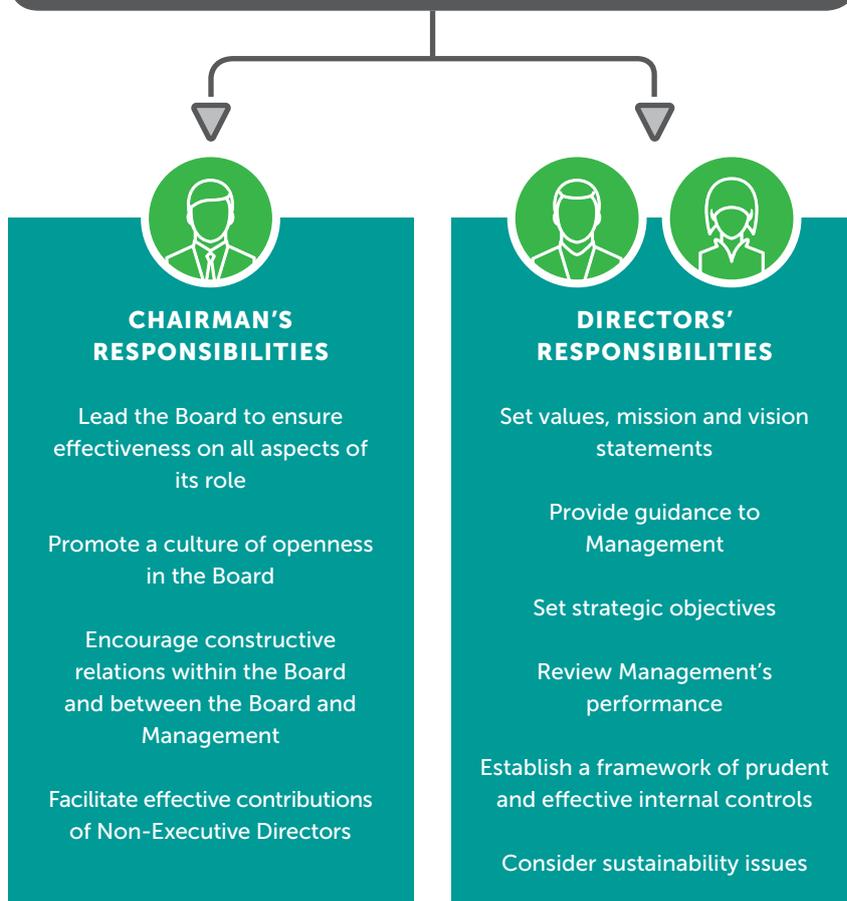
This report covers Sembcorp Marine's corporate governance practices with reference to the principles and guidelines of the Singapore Code of Corporate Governance 2012 (the "Code").

The Board is pleased to confirm that the Group has complied in all material aspects with the principles and guidelines set out in the Code and any deviations are explained in this report.

## SEMBCORP MARINE CORPORATE GOVERNANCE FRAMEWORK

### THE BOARD OF SEMBCORP MARINE

11 Directors | 8 Independent Directors | 2 Non-Independent Directors | 1 Executive Director



# CORPORATE GOVERNANCE

## AUDIT COMMITTEE

4 Independent Directors  
1 Non-Independent Director

### Key Responsibilities

Assist the Board in discharging its statutory and other responsibilities relating to internal controls, financial and accounting matters, compliance, and business and financial risk management

## BOARD RISK COMMITTEE

5 Independent Directors

### Key Responsibilities

Assist the Board in ensuring that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Group's assets, determine the nature and extent of the significant risks that the Board is willing to take in achieving its strategic objectives

## EXECUTIVE COMMITTEE

3 Independent Directors  
2 Non-Independent Directors

### Key Responsibilities

Assist the Board in reviewing and approving matters as required under the Group's policies

## EXECUTIVE RESOURCE & COMPENSATION COMMITTEE

4 Independent Directors

### Key Responsibilities

Assist the Board in overseeing the remuneration of the Board and senior management, and set appropriate remuneration framework and policies, including long-term incentive schemes, to deliver annual and long-term performance of the Group

## NOMINATING COMMITTEE

3 Independent Directors

### Key Responsibilities

Assist the Board in evaluating the performance of the Board, its committees and Directors; review the profile and independence of Directors; make recommendation to the Board on new appointment; re-nomination and retirement of Directors

## SPECIAL COMMITTEE

3 Independent Directors  
1 Non-Independent Director

### Key Responsibilities

Assist the Board in conducting internal investigations into allegations of improper payments in Brazil and deals with issues arising in connection with the matter

## BOARD MATTERS



### The Board's Conduct of its Affairs

#### PRINCIPLE 1:

*Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.*

The Board aims to create value for shareholders and ensure the Group's long-term success by focusing on the right business strategies, managing risk and ensuring a strong management

team, with proper succession planning and the right compensation framework. It also seeks to align the interests of the Board and Management with those of shareholders and balance the interests of all stakeholders. In addition, the Board sets the tone for the Group on ethics and values. To these ends, Sembcorp Marine has a set of well-defined policies and procedures to enhance corporate performance and accountability.

The Board's primary function is to protect the Group's assets and oversee its business affairs. The Board is accountable to shareholders for the long-term financial performance of the Group. It has reviewed and approved policies, annual budget,

major funding, investment and divestment proposals, risk tolerance levels and sustainability and material issues. It approved the appointment of Directors, decided composition of Board committees and remuneration for the Board and senior management.

The Group has established financial authorisation and approval limits for operating and capital expenditures, the procurement of goods and services, and the acquisition and divestment of investments. The Board approved transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to the Executive Committee and the President & CEO to optimise operational efficiency.

**Governance Disclosure Guide**

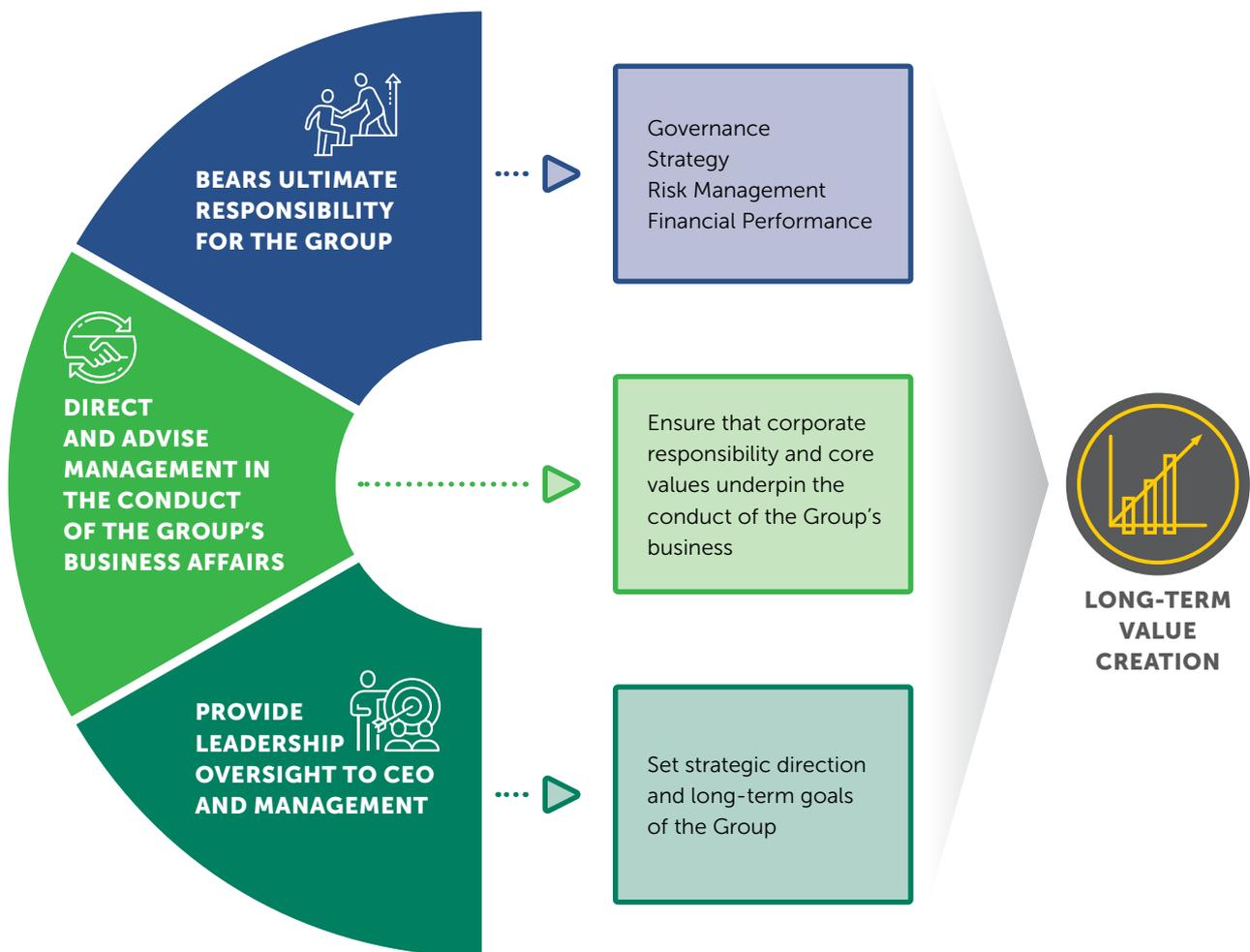
**Guideline 1.5:**

*What are the types of material transactions which require approval from the Board?*

**Material items that require the Board's approval include:**

- strategic direction and business plans
- policies and terms of reference
- annual budget
- full-year, half-year and quarterly financial results
- dividend policy and payout
- issue of shares
- board succession plans
- appointment and compensation for Group CEO
- appointment of Directors and appointment on Board committees
- major funding proposals, investment and divestment proposals
- risk appetite or tolerance level, risk strategy, policies for management of material risks
- major capital expenditures
- review of Management's performance
- sustainability issues material to the business

**ROLE OF THE BOARD**



# CORPORATE GOVERNANCE

Six (6) Board committees have been established to assist the Board in discharging its stewardship and fiduciary obligations. These Board committees have clearly written terms of reference setting out their compositions, authorities and duties, and report back to the Board. Their terms of reference have been reviewed by the Board on a regular basis and any change requires the Board's approval.

## Board Composition and Committees

Board Members	Audit Committee	Board Risk Committee	Executive Committee	Executive Resource & Compensation Committee	Nominating Committee	Special Committee
Tan Sri Mohd Hassan Marican			<b>Chairman</b>	<b>Chairman</b>	<b>Chairman<sup>1</sup></b>	Member
Ron Foo Siang Guan	<b>Chairman</b>	Member				
Bob Tan Beng Hai		<b>Chairman</b>	Member			<b>Chairman<sup>3</sup></b>
Eric Ang Teik Lim	Member <sup>4</sup>	Member		Member	Member	
Gina Lee-Wan		Member				Member <sup>5</sup>
William Tan Seng Koon		Member	Member	Member	Member <sup>6</sup>	
Patrick Daniel	Member <sup>7</sup>			Member <sup>7</sup>		
Tan Wah Yeow	Member <sup>8</sup>					
Neil McGregor			Member			
Koh Chiap Khiong	Member					Member
Wong Weng Sun			Member			
<b>4 of 5 are IDs    5 of 5 are IDs    3 of 5 are IDs    4 of 4 are IDs    3 of 3 are IDs    3 of 4 are IDs</b>						

- 1 *Tan Sri Mohd Hassan Marican was appointed as a member of the Nominating Committee ("NC") on 22 April 2014 and assumed chairmanship of the NC on 18 April 2018.*
- 2 *Mr Ajaib Haridass and Mr Lim Ah Doo retired as Directors of the Company on 18 April 2018.*
- 3 *Mr Bob Tan Beng Hai stepped down as a member of the Audit Committee on 21 February 2018. He was appointed as a member of the Special Committee ("SC") on 21 February 2018 and assumed chairmanship of the SC on 18 April 2018.*
- 4 *Mr Eric Ang Teik Lim was appointed as a member of the Audit Committee on 21 February 2018.*
- 5 *Mrs Gina Lee-Wan was appointed as a member of the Special Committee on 21 February 2018.*
- 6 *Mr William Tan Seng Koon was appointed as a member of the Nominating Committee on 18 April 2018.*
- 7 *Mr Patrick Daniel was appointed as a member of the Audit Committee and Executive Resource & Compensation Committee on 20 April 2018.*
- 8 *Mr Tan Wah Yeow was appointed as a member of the Audit Committee on 10 December 2018.*

In addition to the Audit Committee, Board Risk Committee, Executive Resource & Compensation Committee and Nominating Committee, all of which were constituted in accordance with the Listing Manual (the "Listing Manual") of the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the Code, the Executive Committee ("Exco") was constituted to assist the Board in reviewing and approving matters as required under the Group's policies. As at the end of 2018, the Exco comprised the following members, the majority of whom, including the Chairman, were non-executive and independent:

Tan Sri Mohd Hassan Marican  
(Chairman)  
Mr Bob Tan Beng Hai  
Mr Neil McGregor  
Mr William Tan Seng Koon  
Mr Wong Weng Sun

The key responsibilities of the SCM Exco include the following:

- reviewing and making recommendations on matters that would require Board's approval, such as
  - major projects tendered
  - progress of major projects
  - yards development
  - marketing
  - cybersecurity
  - tax issues
  - treasury shares and share buyback
- 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 Special Committee was constituted on 10 February 2015 to conduct internal investigations 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 SCM Board and committee meetings and the Annual General Meeting ("AGM") are planned one year in advance in consultation with the Directors. 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 strategy meeting to interact

with senior and middle management. In this meeting, the Board is briefed on developments in the markets in which the Group operates, is kept up to date on trends and has 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 2018, they met four (4) times without the presence of Management.

A record of the Directors' attendance at Board and Committee meetings during the financial year ended 31 December 2018 ("FY2018") is disclosed at page 84 of this Annual Report. Directors who are unable to attend a Board or Committee meeting in person can attend meetings via telephone conference as permitted by the Company's Constitution.

# CORPORATE GOVERNANCE

## Directors' Attendance at Board and Committee meetings during the financial year ended 31 December 2018

Director	Board Meeting	Audit Committee Meeting	Board Risk Committee Meeting	Executive Committee Meeting	Executive Resource & Compensation Committee Meeting	Nominating Committee Meeting	Special Committee Meeting
	No. of Meetings held:10	No. of Meetings held:4	No. of Meetings held:4	No. of Meetings held:9	No. of Meetings held:3	No. of Meetings held:2	No. of Meetings held:7
	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Tan Sri Mohd Hassan Marican <sup>1</sup>	10			9	3	2	6
Ajaib Haridass <sup>2</sup>	2			3	1	1	1
Ron Foo Siang Guan	9	4	4				
Lim Ah Doo <sup>2</sup>	2	1					2
Bob Tan Beng Hai <sup>3</sup>	10	1	4	9			7
Eric Ang Teik Lim <sup>4</sup>	8	3	4		3	2	
Gina Lee-Wan <sup>5</sup>	10		4				7
William Tan Seng Koon <sup>6</sup>	9		4	9	3	1	
Patrick Daniel <sup>7</sup>	6	2			1		
Neil McGregor	10			9			
Koh Chiap Khiong	9	4					4
Tan Wah Yeow <sup>8</sup>	–	–					
Wong Weng Sun <sup>9</sup>	7			9			

1. Tan Sri Mohd Hassan Marican was appointed as a member of the Nominating Committee ("NC") on 22 April 2014 and assumed chairmanship of the NC on 18 April 2018.
2. Mr Ajaib Haridass and Mr Lim Ah Doo retired as Directors of the Company on 18 April 2018.
3. Mr Bob Tan Beng Hai stepped down as member of the Audit Committee on 21 February 2018. He was appointed as a member of the Special Committee ("SC") on 21 February 2018 and assumed chairmanship of the SC on 18 April 2018.
4. Mr Eric Ang Teik Lim was appointed as a member of the Audit Committee on 21 February 2018.
5. Mrs Gina Lee-Wan was appointed as a member of the Special Committee on 21 February 2018.
6. Mr William Tan Seng Koon was appointed a member of the Nominating Committee on 18 April 2018.
7. Mr Patrick Daniel was appointed as a Director of the Company, a member of the Audit Committee and Executive Resource & Compensation Committee on 20 April 2018.
8. Mr Tan Wah Yeow was appointed as a Director of the Company and a member of the Audit Committee on 10 December 2018.
9. Mr Wong Weng Sun was not required to attend 3 ad hoc Board meetings which were for Non-Executive Directors only.

### Induction for New Directors

Two new Directors were appointed to the Board in FY2018. They each received a letter of appointment setting out their duties, obligations, responsibilities and time commitment required of a Director. They also received an information pack containing the Group's organisation structure, senior management's contact details, the Company's constitution document, group policies and a list of recent significant issues discussed at Board meetings.

**Governance Disclosure Guide**

**Guideline 1.6:**

Are new Directors given formal training? If not, please explain why.

A comprehensive orientation programme, including yard visits, has been provided to the newly-appointed Directors. They were briefed on the Group's business activities, financial performance, governance 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 allowed new Directors to get acquainted with senior management, thereby facilitating Board interaction and independent access to senior management. The new Directors are encouraged to undergo training in the role and responsibilities of a director of a listed company conducted by the Singapore Institute of Directors.

**Governance Disclosure Guide**

What are the types of information and training provided to (i) new directors and (ii) existing directors to keep them up to date

### Continuous Development for all Directors

The Board values ongoing professional development and recognises that it is important for Directors to be updated regularly on particular subjects, industry trends and development, relevant laws and regulations and changing business risks. Such updates can be conducted during Board meetings or at specially-convened sessions. During the year, several Directors attended the Directors-in-Dialogue Forum organised by Human Capital Leadership Institute, a subsidiary of Temasek Management Services Pte Ltd, in addition to courses conducted by the Singapore Institute of Directors.

During the financial year, Directors were also briefed on:

- megatrends; industry developments; outlook and overview of demand and supply of relevant markets; emerging trends; and threats from competitors
- developments in accounting and governance standards and revised Code of Corporate Governance and Listing Manual



### Board's Composition and Balance

**PRINCIPLE 2:**

*There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.*

**Governance Disclosure Guide**

**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 Code provides that an Independent Director is one who has no relationship with the Group, 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 with a view to the best interests of the Group. Additionally, under the Listing Manual, a Director will not be independent if he is employed by Sembcorp Marine or any of its related corporations for the current or past three financial years or has an immediate family member who is employed or has been employed by Sembcorp Marine or any of its related corporations for the current or any past three financial years, and whose remuneration is determined by the Executive Resource & Compensation Committee. The current SCM Board comprises 11 Directors, 8 of whom (including the Chairman of the Board) are Independent Directors, 2 are Non-Executive and Non-Independent Directors and 1 is an Executive Director.

# CORPORATE GOVERNANCE

## WHO WE ARE

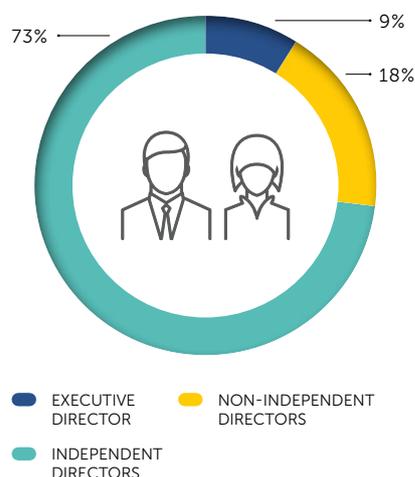
**Independent Chairman**  
Tan Sri Mohd Hassan Marican

**2 Non-Executive and Non-Independent Directors**  
Mr Neil McGregor  
Mr Koh Chiap Khiong

**7 Independent Directors**

Mr Ron Foo Siang Guan  
Mr Bob Tan Beng Hai  
Mr Eric Ang Teik Lim  
Mrs Gina Lee-Wan  
Mr William Tan Seng Koon  
Mr Patrick Daniel  
Mr Tan Wah Yeow

**1 Executive Director**  
Mr Wong Weng Sun



The size and composition of the Board are reviewed from time to time by the Nominating Committee (“NC”). The NC seeks to ensure that the size of the Board is conducive for effective discussion and decision making, and that the Board has an appropriate number of independent directors with a broad range of experience and deep industry knowledge, taking into account age, gender and other factors. Any potential conflicts of interest are taken into consideration.

The tenure of the current Directors demonstrates a good balance between continuity and fresh perspectives. The Board’s size and composition are appropriate given the size and geographic footprint of the Group’s operations. The proportion of Independent and Non-Executive Directors on the Board is high (8 out of 11, or 73%).

The profile of each Director is set out on pages 48 to 53 of this Annual Report.



**Chairman and Chief Executive Officer**

**PRINCIPLE 3:**

*There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company’s business. No one individual should represent a considerable concentration of power.*

The Chairman of the Board of SCM is a non-executive appointment and is separate from the office of the President & CEO. The Chairman leads the Board and is responsible for ensuring the effectiveness of the Board and its governance processes, while the President & CEO is responsible

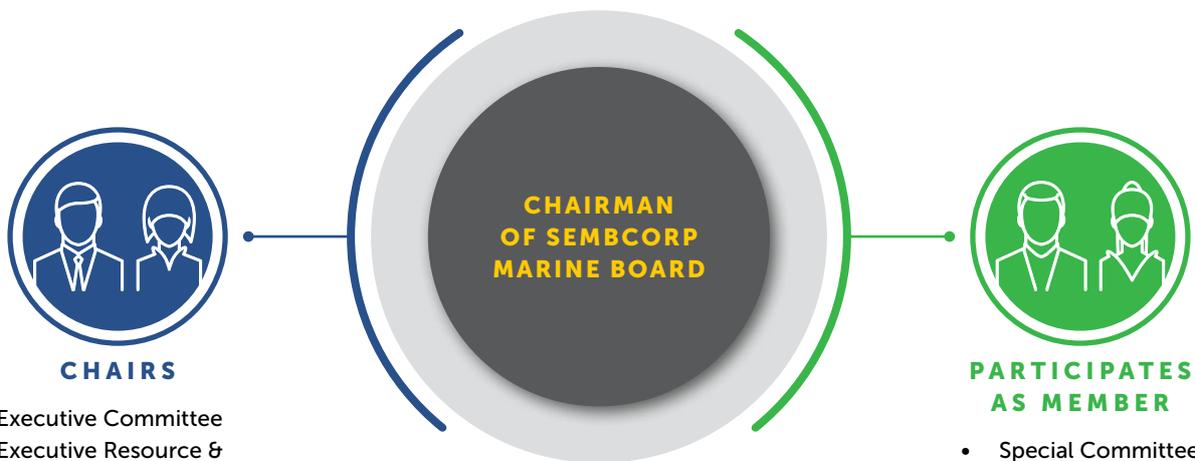
for following through the Board’s direction and managing the day-to-day operations. The President & CEO of SCM is not related to the Chairman. Sembcorp Marine confirms that it is in compliance with Listing Rule 1207(10A) which states that the relationship between the Chairman and CEO must be disclosed if they are immediate family members.

**The Role of Chairman**

The Chairman is responsible for the leadership of the Board and ensures its effectiveness in all aspects of the Board’s role, both inside and outside the boardroom. This includes setting the agendas for Board meetings and ensuring sufficient time is allocated for thorough discussion of each agenda item. SCM’s Chairman has promoted an

open environment for debate and has ensured that the Independent Directors are able to speak freely and contribute effectively. He has closely monitored the translation of the Board’s decisions and directions into executive action. He exercised control over the quality and quantity of information between the Board and Management. In addition, he has provided support, close oversight, guidance, advice and leadership, and acted as a sounding board for the President & CEO while respecting his executive responsibility.

At SCM’s annual general meeting (“AGM”) held on 18 April 2018, the Chairman played a pivotal role in fostering constructive dialogue between shareholders, the Board and senior 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 has provided 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.

 **Board Membership**

**PRINCIPLE 4:**  
*There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board.*

As at the end of 2018, the Nominating Committee (“NC”) comprised the following members, the majority of whom, including the Chairman, were non-executive and independent:

- Tan Sri Mohd Hassan Marican (Chairman)
- Mr Eric Ang Teik Lim
- Mr William Tan Seng Koon

The key responsibilities of the NC include:

- reviewing the composition of the Board and its committees
- identifying, reviewing and recommending Board appointments for approval by the Board, taking into account the experience, expertise, knowledge, skills and diversity of the candidate and the needs of the Board
- reviewing and recommending to the Board the re-appointment, re-election and retirement (if necessary) of Directors, having regard to their performance, commitment and ability to contribute to the Board as well as their skill-sets
- reviewing the Board’s succession plans for Directors, in particular, the Chairman and the CEO
- conducting an evaluation of the performance of the Board, its committees and Directors on an annual basis
- conducting an annual assessment of whether each Director has sufficient time to discharge their responsibilities, taking into consideration multiple board representations and other principal commitments
- determining independence of proposed and existing Directors, and assessing if each proposed and/or existing Director is a fit and proper person and is qualified for the office of Director

# CORPORATE GOVERNANCE

## Rotation and Re-election of Directors

The NC reviews and recommends to the Board the 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, all Directors (including the President & CEO) are required to submit themselves for re-election at least once every 3 years. Mrs Gina Lee-Wan, Mr Bob Tan Beng Hai and Mr Wong Weng Sun are required to retire at the forthcoming AGM on 16 April 2019 pursuant to Article 94 of the Company's Constitution. All three Directors 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. Mr Patrick Daniel and Mr Tan Wah Yeow will retire at the forthcoming AGM on 16 April 2019 pursuant to Article 100 of the Company's constitution, and have offered themselves for re-election.

Where a 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 competencies, attendance, participation, conflicts of interest, commitment, performance, contribution and competing time commitments.

## Annual Review of Directors' Independence

The NC reviews annually, or 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. None of the current Independent Directors is or has been employed by Sembcorp Marine or any of its related corporations for the current or any past three financial years. None of them has an immediate family member who is employed or has been employed by Sembcorp Marine or any of its related corporations for the past three financial years, and whose remuneration is determined by the Executive Resource & Compensation Committee.

The NC also reviewed the contribution and performance of each existing Director before making recommendations to the Board for their re-election at the next AGM. The Board has considered and adopted the NC's recommendations and resolutions proposing the re-election of Directors, to be tabled at the forthcoming AGM on 16 April 2019 for shareholders' approval.

### Governance Disclosure Guide

#### 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.*

Tan Sri Mohd Hassan Marican is an Independent Director of Sembcorp Industries Ltd ("SCI"), a controlling shareholder of Sembcorp Marine. He is also a Senior International Advisor of Temasek International Advisors, a subsidiary of Temasek Holdings Ltd ("Temasek"). Transactions between the Company and SCI, and between the Company and Temasek were safeguarded by the Interested Person Transactions ("IPT") mandate. During FY2018, SCI provided consultancy services to Sembcorp Marine. The aggregate value of the transactions was S\$250,000 and not significant compared to the revenues of SCI and Sembcorp Marine. Tan Sri Mohd Hassan Marican was not involved in the decisions of the transactions between SCI and Sembcorp Marine. The Board considers Tan Sri Mohd Hassan Marican to be an Independent Director of Sembcorp Marine as he has shown that he is able to exercise strong independent judgment in his deliberations and act in the best interests of the Group.

**Governance Disclosure Guide**

**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.*

The 2012 Code states that the independence of any Director who has served on the Board beyond nine years from the date of their first appointment should be subject to particularly rigorous review.

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The Nominating Committee has noted that Mr Ron Foo Siang Guan was first appointed to the Board on 30 June 2006. He has served more than 12 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, on the recommendation of the NC, continued to consider Mr Foo as an Independent Director.

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### Board Diversity

Sembcorp Marine recognises and embraces the benefits of diversity on the Board, and views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

The NC, in reviewing Board composition and succession planning, assesses the needs of the Board in terms of skills, experience, background, age, ethnicity and other relevant factors to provide the Board with the optimum mix of capabilities. All Board appointments were made based on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

**Governance Disclosure Guide**

**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 maximise its effectiveness?*

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The Board has ensured that Directors possess the background, relevant industry experience and knowledge in business, finance and management skills critical to the Group's business and that each Director brings to the Board independent and objective perspective to enable balanced and well considered decisions to be made.

Current Directors include business leaders, bankers and professionals with financial, engineering, media and legal backgrounds. The Board has one female member, or approximately 9% of Board members (1 out of 11 Board members).

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### Selection Criteria and Nomination Process for Directors

The Board has a process for the selection and appointment of Directors. The NC leads in the process for the appointment of Directors to the Board. The NC recognises the importance of having an appropriate balance of industry knowledge, core competencies, skills, background, experience, professional qualifications, conflicts of interest and diversity in building an effective and cohesive Board.

## Governance Disclosure Guide

### Guide 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.

When an existing Director chooses to retire or is required to retire from office by rotation, or the need for a new Director arises, the NC has reviewed the range of expertise, skills and attributes of the Board and composition of the Board. The NC identified and shortlisted a few candidates with appropriate profiles for nomination. Thereafter, the NC conducted an assessment to:

- review the candidates (including qualifications, attributes, capabilities, skills, age, past experience); and
- ascertain that the candidates are independent from any substantial shareholders of the Group and/or from Management and business relationships with the Group.

The NC then made its recommendations to the Board. The successful candidate was then appointed as a Director of the Company in accordance with the Company's Constitution. Upon the appointment of a new Director, the NC recommended 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 and taking into consideration an equitable distribution of responsibilities among Board members.

The NC has reviewed 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.

## Governance Disclosure Guide

### Guide 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?

## 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 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 be fixed at four to ensure that a Director will have sufficient time and attention for the affairs of the Company. For the year 2018, all Directors 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.

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



## Board Performance

### PRINCIPLE 5:

*There should be a formal annual assessment of the effectiveness of the Board as a whole and its Board committees and the contribution by each Director to the effectiveness of the Board.*

The NC assesses at least once annually 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 has reviewed 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 has acted on the results of the performance evaluation and proposed two new members to be appointed to the Board in FY2018. No resignation of Directors was sought.

**Governance Disclosure Guide**

**Guide 5.1:**

*What are the processes upon which the Board reached the conclusion on its performance for the financial year? Has the Board met its performance objectives?*

## Board Evaluation Process

The NC uses an evaluation questionnaire to analyse the performance of the Board and committees. The results of the questionnaire have been vital to helping the Board and committees improve and perform to their maximum capability.

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### Board Evaluation for 2018

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 a range of issues: the Board's size and composition; processes; access and quality of information provided to the Board; strategy and implementation; innovation and transformation; monitoring of Company's performance; key management personnel's performance evaluation; compensation and succession planning; stakeholders' management; risk and crisis management; and 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. Based on the assessment for 2018, the Board and committees were effective as a whole.

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### Access to Information

#### PRINCIPLE 6:

*In order to fulfil their responsibilities, Directors should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.*

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**Governance Disclosure Guide**

**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?*

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 meetings. Management has provided the Board with monthly management reports on the Group's operational and financial performance. In addition, Directors received analysts' reports, industry market updates, major projects tendered, progress updates on major projects, yard development updates, and summaries of decisions made by board committees on a quarterly basis.

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The Board continued to have separate and independent access to the President & CEO, members of senior management and the Company Secretaries at all times. Management was also present at board meetings to address Directors' queries or to provide further insights into matters concerned.

# CORPORATE GOVERNANCE

## Role of the Company Secretary

The Group has two joint Company Secretaries appointed by the Board. They attended all Board and most committee meetings and were responsible for ensuring that meeting procedures were followed and applicable rules and regulations complied with. The Company Secretary(ies) assisted the Board in implementing and strengthening corporate governance policies and practices.

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



### PRINCIPLE 7:

*There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding their own remuneration.*

As at end of 2018, the Executive Resource & Compensation Committee ("ERCC") comprised the following members, who were all Independent Directors:

- Tan Sri Mohd Hassan Marican (Chairman)
- Mr Eric Ang Teik Lim
- Mr William Tan Seng Koon
- Mr Patrick Daniel

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 recommending the remuneration of the President & CEO for Board's approval
- overseeing human capital plans to deepen core competencies, strength and leadership capabilities of senior management
- recommending the grant of incentives and annual variable bonus pool to the Board for approval
- 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 reviewed the succession plans for key and critical positions to align the business goals and the Group's human capital needs. This enabled the Company to assess the Group's talent pool and identify successors and ensure that time and resources were devoted to leverage their full potential.

The Company has engaged Mercer (Singapore) Pte Ltd ("Mercer") to advise the ERCC on remuneration of Directors and senior executives. Mercer is an independent external

consultancy firm. There is no relationship between the Group and Mercer that affects the independence and objectivity of Mercer.

The President & CEO was 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 was involved in the deliberations of 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 is satisfied that the terms of the contracts of senior executives are fair and reasonable, and that termination clauses are not overly generous.



### PRINCIPLE 8:

*The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.*

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

## 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 is based on a scale of fees divided into basic retainer fees, attendance fees and allowances for travel and service on Board Committees.

In 2016 and 2017, the Directors took a voluntary 10% reduction in Directors' fees in light of the challenging market conditions of the Company. For 2018, the Company engaged Mercer to undertake a review and benchmarking of the remuneration framework of the Group, including Directors. Following the review which took into account the earlier voluntary reduction of fees by the Directors, the attendance fees of the Directors were reduced.

In 2018, the Chairman of the Board continued to take a 10% reduction of his all-in fee as Chairman. The Chairman does not receive the basic fee for Directors nor any further fees or allowances for his services as chairman or member of any Board Committees.

For 2018, if there was no reduction in the attendance fees of the Board and reduction taken by the Chairman, the Directors' fees would have totalled S\$2,432,375. After taking into account the reduced attendance fees and reduction of the Chairman's fee, the total 2018 Directors' fees were S\$2,155,375, a reduction of 11.4%.

## Directors' Fees Framework

Description	Board	Audit Committee	Board Risk Committee	Executive Committee	Executive Resource & Compensation Committee	Nominating Committee	Special Committee
Basic Fee	S\$75,000						
Chairman (all-in fee) <sup>2</sup>	S\$600,000						
Committee Chairman's Fee		S\$50,000	S\$40,000	S\$50,000	S\$35,000	S\$25,000	S\$50,000
Committee Member's Fee		S\$30,000	S\$25,000	S\$30,000	S\$20,000	S\$15,000	S\$30,000

Types of Meeting Fees	Meeting Fees in FY2017	Meeting Fees in FY2018
Board	S\$5,000	S\$3,000
Committee	S\$2,500	S\$1,500
Committee (held on same day as Board)	S\$1,000	S\$1,000
Board (Teleconference)	S\$1,500	S\$1,500
Committee (Teleconference)	S\$1,000	S\$1,000
Overseas	S\$3,750	S\$5,000

Note: Attendance fees for committee meetings also apply to attendance at general meetings.

The Directors' 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 Directors' 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 balance 70% is paid in cash. The payment of Directors' fees (both

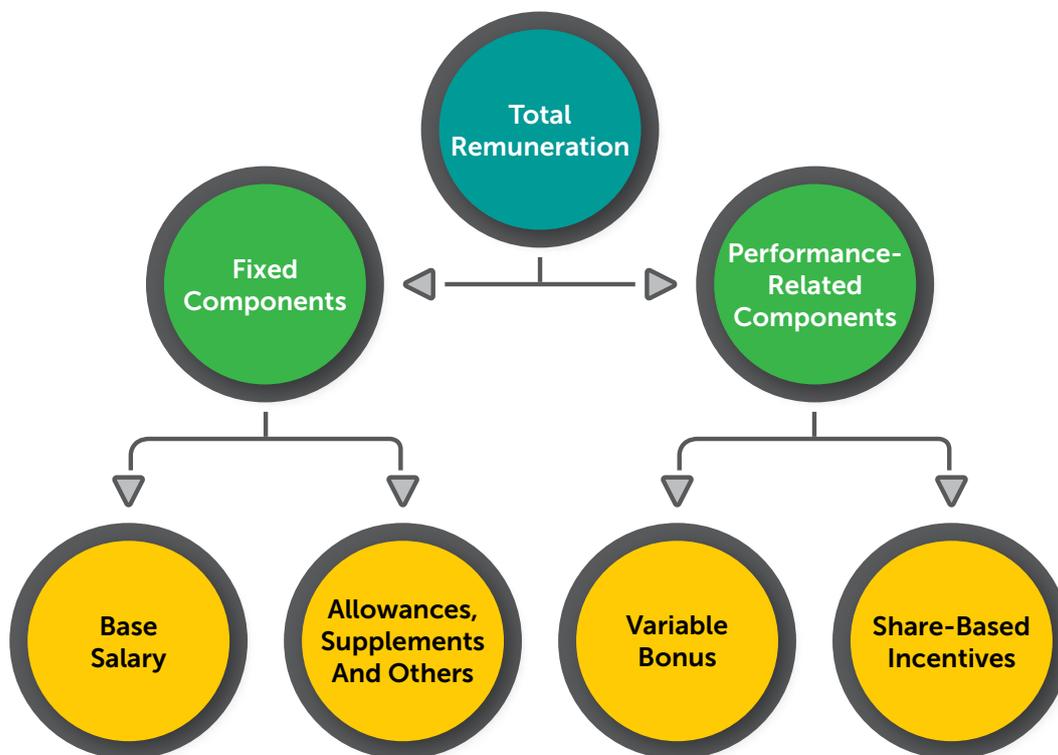
the cash and share components) is contingent upon shareholders' approval. Directors and their associates will abstain from voting on resolution(s) relating to their remuneration.

Share awards granted under the Sembcorp Marine Restricted Share Plan 2010 to Directors as part of Directors' fees 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 basic retainer fee (currently S\$75,000); any excess may be disposed of as desired. A Non-Executive Director may only dispose of all of his shares one year after leaving the Board.

# CORPORATE GOVERNANCE

## Remuneration of Senior Executives:



The actual number of shares awarded to each Non-Executive Director is 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 awarded is rounded down to the nearest hundred and any

residual balance settled in cash. The share component of the Directors' fees for FY2018 is intended to be paid after the 2019 AGM has been held.

The shareholders of the Company had approved the payment of Directors' fees of up to S\$2,500,000 for FY2018 at the last AGM held on 18 April 2018. The Company will be seeking shareholders' approval at the forthcoming 2019 AGM for payment of Directors' fees of S\$2,300,000 for FY2019. Subject to shareholders' approval, the cash component of the Directors' fees for

year 2019 is intended to be paid half-yearly in arrears. The share component of the Directors' fees for year 2019 is intended to be paid after the 2020 AGM.

### Remuneration for Senior Executives

The Company's remuneration and reward system for senior executives are 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.

- **Fixed Remuneration**

Fixed remuneration includes annual basic salary, and where applicable, fixed allowances, annual wage supplement and other emoluments. Base salaries of senior executives 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 Group. 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").

SCM's policy is to hold the EVA-linked bonus component 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. There are provisions in the EVA incentive plan to allow for forfeiture of the outstanding balances in the bonus bank in exceptional circumstances such as 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 senior executives to continue striving 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.

**Governance Disclosure Guide**

*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?*

**Governance Disclosure Guide**

*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? If not, what are the reasons for not disclosing so? Please disclose the aggregate remuneration paid to the top five management personnel (who are not Directors or the CEO).*



**Disclosure of Remuneration**

**Principle 9:**

*Each company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedures for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key management personnel, and performance.*

Information regarding remuneration of each Director (including the President & CEO) is set out on pages 332 to 333 of this Annual Report.

The top five key management personnel are the Director, Group Finance, Head of Singapore Yard Operations, Head of Rigs and Floaters, Chief Financial Officer and Chief Human Resource Officer. The aggregate remuneration, comprising total cash and benefits paid to these top five key management personnel for FY2018 is stated on page 332 of this Annual Report.

Due to the lower than expected levels of performance, the actual total compensation paid out to these executives, including bonus earned in previous years is on average 38% lower than the earned total compensation figures disclosed on page 332 of this Annual Report. Senior Management had also taken a salary reduction of 10% as well as pay freeze in 2017 until second half of 2018.

# CORPORATE GOVERNANCE

## Governance Disclosure Guide

### 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.

There were no employees who were immediate family members of a Director or the President & CEO, and whose remuneration exceeded S\$50,000, during FY2018.

## Pay for Performance

A pay for performance study was conducted again in 2018 to review the alignment between the Company's executive pay scheme and both the shareholder returns and business results. The Company's size and performance relative to its peer companies is positioned competitively vis-à-vis its senior executive pay relative to peer companies; indicating strong pay for performance alignment. Against the large-cap Singapore peer companies used for compensation benchmarking, fixed pay levels for the Company's senior executives are relatively conservative when assessed against the company size.

The executive incentive compensation for the year has a strong pay relationship (i.e. total cash) with its performance measured in both EBIT and EVA. On a longer-term perspective, the total compensation (which includes share awards to the CEO and senior executives) is also strongly correlated with the Company's Total Shareholders' Return (TSR) as well as with the Company's 3-year earnings before interest and tax (EBIT) and return on capital employed (ROCE) performance. Overall, the study showed a strong alignment between the Company's executive pay and its business results and shareholder returns given its financial results.

The President & CEO, as an Executive Director, does not receive Directors' fees and is remunerated as part of senior management. 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 174 to 187 of this Annual Report.



## Accountability

### Principle 10:

*The Board should present a balanced and understandable assessment of the company's performance, position and prospects.*

The Group recognises the importance of providing the Board with accurate and relevant information on a timely basis. Hence, Management provides the Board with daily news clippings and monthly management accounts. The monthly management report compares the Group's actual performance against the budget and highlights significant events and development, hence enabling the Board to make a balanced and informed assessment of the Company's performance, position and prospects.



## Risk Management and Internal Controls

### Principle 11:

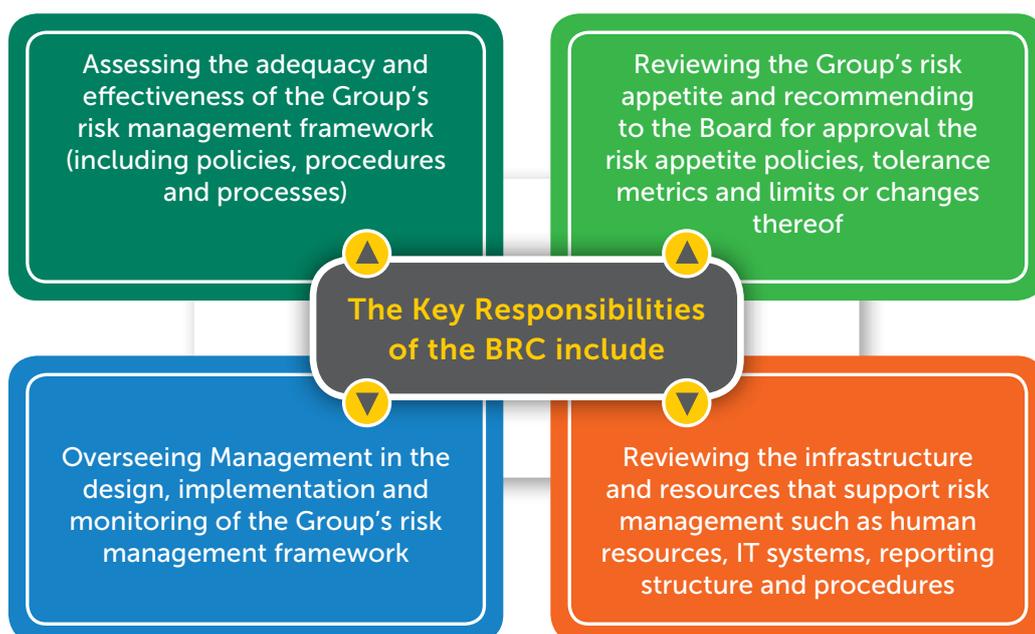
*The Board is responsible for the governance of risk. The Board should ensure that Management maintain a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.*

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") respectively. Both committees work closely to ensure that the system of risk management and internal controls maintained by Management is adequate and effective.

As at the end of 2018, the BRC comprised the following members, all of whom (including the Chairman) are Independent Directors:

Mr Bob Tan (Chairman)  
Mr Ron Foo Siang Guan  
Mr Eric Ang Teik Lim  
Mrs Gina Lee-Wan  
Mr William Tan Seng Koon

The terms of reference of the BRC provide that the BRC shall comprise at least three members, the majority of whom, including the Chairman, have to be independent. Members of the BRC are appointed by the Board, on the recommendation of the NC. There is at least one common member between the BRC and the AC.



# CORPORATE GOVERNANCE

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. For more information on the Group's ERM programme, please refer to pages 106 to 115 of this Annual Report.

## Governance Disclosure Guide

### 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 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?*

Since 2012, the Group has put in place a Risk Governance and Assurance Framework ("RGAF") to assist the Board in forming an opinion on the adequacy and effectiveness of the system of risk management and internal controls. The RGAF takes a risk-based approach to identifying key risk areas as well as corresponding processes and controls, for which assessment is done to ensure adequate and effective controls are designed to mitigate the risks. The RGAF was developed with guidance from external consultants, and has been implemented for both Singapore and overseas shipyards. Information on risk management is set out on pages 106 to 115 of this Annual Report.

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

The Board is satisfied that as at 31 December 2018 the financial, operational, compliance and information technology controls and risk management system are adequate and effective to meet the needs of the Group in the current business environment. The AC and BRC, having performed their reviews, concurred with the Board's opinion.

This opinion is supported by Management's review and efforts 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; and documentation of the Group's 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.



## Audit Committee

### Principle 12:

*The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.*

As at the end of 2018, the AC comprised the following members, 4 of whom (including the Chairman) were Independent Directors and all of whom were Non-Executive Directors:

Mr Ron Foo Siang Guan (Chairman)  
Mr Eric Ang Teik Lim  
Mr Patrick Daniel

Mr Tan Wah Yeow  
Mr Koh Chiap Khiong

The terms of reference of the AC provide that the AC shall comprise at least three members, all non-executive, the majority of whom, including the Chairman, must be independent. At least two members, including the Chairman, should have recent and relevant accounting or related financial management expertise or experience. There is at least one common member between the BRC and the AC.

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.

### The Key Responsibilities of the AC include:

#### FINANCIAL REPORTING

- reviewing significant financial reporting issues and judgments so as to ensure the integrity of the Group's consolidated financial statements
- reviewing the Group's consolidated financial statements and any related announcements
- assessing, and challenging, where necessary, the accuracy, completeness and consistency of the consolidated financial statements (both final and interim), before they are submitted to the Board for approval
- reviewing the assurance certificate provided by the President & CEO and the CFO that the financial records have been properly maintained, and that the financial statements give 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

#### INTERNAL CONTROLS

- reviewing 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
- reviewing the representation and opinion of Management on internal controls, and the results of work performed by the internal and external auditors
- reviewing and making amendments when necessary, to the Whistle Blowing Policy and Procedure adopted by the Group to address possible improprieties in financial reporting or other matters
- commissioning and reviewing 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

- reviewing and approving the Internal Audit Charter and related policies
- reviewing and approving the audit plans and annual budget of the internal audit function
- reviewing and approving the Head of Internal Audit's appointment, performance and remuneration
- reviewing the adequacy of staffing and qualification levels of the internal audit function
- reviewing report on IPTs prepared by the internal audit department
- meeting 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
- reviewing, at least annually, the independence, adequacy and effectiveness of the internal audit function

# CORPORATE GOVERNANCE

## The Key Responsibilities of the AC include: (Con't)

### EXTERNAL AUDIT

- reviewing the audit plans of the external auditors
  - reviewing statutory audit report prepared by the external auditors on the full year consolidated financial statements of the Group and other reports relating to internal controls and Management's response and actions on any noted weaknesses
  - reviewing and assessing annually that the external auditor's independence or objectivity is not impaired
  - reviewing and approving (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
- recommending the appointment or re-appointment of the external auditors and their audit fees to the Board
  - meeting 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

### Interested Person Transactions (IPT)

- reviewing and approving, if so required, IPTs in accordance with the requirements of the Listing Manual and the IPT Mandate

In the year under review, the AC met four times with the external auditors and four times with the internal auditors without the presence of Management.

#### Governance Disclosure Guide

##### 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 review on the independence of the external auditors.

The AC reviewed all the non-audit services provided to the Group by KPMG LLP, the Company's external auditors. The amount of non-audit fees compared to the total annual audit fees is 8%. The AC is satisfied that the independence of the external auditors has not been impaired by the provision of these services. A breakdown of the fees for audit and non-audit services paid to KPMG LLP for FY2018 is found on page 264 of this Annual Report.

During the year under review, the AC carried out its duties in accordance with its terms of reference and the AC Chairman reported to the Board on all significant financial matters relating to the Group at every quarterly Board meeting.

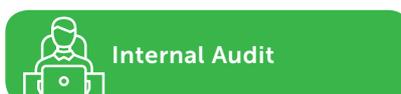
In appointing auditors for the Company, its subsidiaries and significant associated companies, the Company had complied with Rules 712 and 715 of the Listing Manual.

No former partner or director of the Company's existing auditing firm or auditing corporation, who has within a period of 12 months commencing on the date of his ceasing to be a partner of the auditing firm, was appointed as a member of the Group's AC in FY2018.

## Audit Committee Commentary on Key Financial Reporting Matters in Annual Report

The AC discussed the key FY2018 audit matters with Management and the external auditors. The AC concurred with the basis and conclusions included in the FY2018 Independent Auditor's Report with respect to the key audit matters.

For more information on the key audit matters, please refer to pages 189 to 197 of this Annual Report.



### Principle 13:

*The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.*

#### Governance Disclosure Guide

Guideline 13.1:

Does the Company have an internal audit function? If not, please explain why.

Sembcorp Marine's Internal Audit Department ("IAD") comprises a team of six (6) staff members, including the Head of Internal Audit ("HIA"). HIA reports functionally to the AC and administratively to the President & CEO. The AC has ensured that IAD consists of suitably qualified professionals with the relevant experience and requisite skill sets. Training and development opportunities are provided to these staff on an ongoing basis.

In line with leading practices, IAD adopts the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors ("IIA") and staff members are expected to observe, apply and uphold the Institute of Internal Auditors Code of Ethics at all times. IAD successfully completed an external Quality Assurance Review in 2017 and continues to meet or exceed the IAA Standards in all key aspects.

#### The Key Responsibilities of the IAD include:

- performing risk-based assurance reviews across the Group and providing opinions on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems; the one exception being assurance and compliance reviews relating to Health, Safety and Environment which are mandatory and for which specialist licensed firms are engaged by the respective commercial units
- assisting in the deterrence of fraud through its internal audit activities by examining and evaluating the adequacy and effectiveness of the system of internal controls
- reviewing IPTs and reporting to the AC whether the transactions are at arm's length
- to the extent that there is no conflict with the IAD's work and independence, IAD will, within its expertise and upon request, perform consulting work to add value and improve the Company's adequacy and effectiveness in risk management, controls and governance
- facilitating the sharing of matters in order to improve control practices and governance across the Group
- conducting upon the instruction of the AC, investigations into and reporting on incidents and allegations of possible improprieties in matters of financial reporting or other matters in accordance with the Whistle Blowing Policy and Procedure
- where possible, extending its scope of work to include the associated companies and joint venture companies of the Group

# CORPORATE GOVERNANCE

IAD adopts a risk-based approach in formulating the Group's annual audit plan. This plan is reviewed and approved by the AC at the beginning of each year and the AC reviews the internal audit reports quarterly. The reviews performed by IAD are aimed at assisting the Board in promoting sound risk management, robust internal controls and good corporate governance. This is done by assessing the design and operating effectiveness of controls that govern key business processes and risks identified in the overall risk framework of the Group. The assessment also covers risks arising from new lines of business or new products, and compliance with policies and procedures. Audit projects are planned based on the results of the assessment, with priority given to auditing higher risk areas.

The AC is satisfied that the IAD is independent and effective and that the IAD has adequate resources and appropriate standing to discharge its function effectively.

## Whistle-Blowing Policy

The Group has put in place a whistle-blowing policy and procedure, which the AC oversees. 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 such as suspected fraud, corruption, unethical practices or matters which may cause financial loss to the Group or damage the Group's reputation. The policy establishes various confidential channels of communication for reporting concerns about possible improprieties to the AC Chairman, HIA or Chief Risk Officer ("CRO"). This is to ensure independent and objective investigation and appropriate follow-up actions are taken. The Company treats all information received as

confidential and protects the identity of all whistleblowers. Anonymous reporting is also accepted. Employees who acted in good faith will be treated fairly and protected from reprisals. Reports can be made by

- Email to [whistleblow@sembmarine.com](mailto:whistleblow@sembmarine.com);
- Phone call to HIA (DID: +65 6262-7818) or CRO (DID: +65 6262-7391); or
- 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 undesirable 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. On an ongoing basis, the whistle-blowing policy is covered in the staff orientation programme.

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

- Clear direction from the top: The tone set by the Board and senior management is vital as it is akin to the moral compass of the organisation. The Company has in place a suite of comprehensive policies and Management Committees are formed to monitor compliance with these policies. The Company also conducts self-assessment on its key processes
- Aligning incentives: Employees' incentives are aligned with performance via key performance indicators or balanced scorecards
- Respecting the voice of control functions: The Company believes that respect for the voice of control functions such as the risk management department is one of the key safeguards

- Risk ownership: All key risks must have an identified "owner". Please refer to pages 106 to 115 of this Annual Report on Risk Management Report
- Compliance policies: All Sembcorp Marine employees are required to abide by the Company's Code of Business Conduct, Conflicts of Interest Policy, Code of Ethics, Anti-Bribery Compliance Policy and Fraud Risk Management Policy



## Shareholder Rights

### Principle 14:

*Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.*

Sembcorp Marine is committed to 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 Limited.

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, as well as posted on SGX-ST's and the Company's corporate websites. Pursuant to the introduction of the new multiple proxy regime under the Singapore Companies (Amendment) Act 2014, indirect investors who hold Sembcorp Marine's shares through a nominee company or custodian bank or through a CPF agent bank may attend and vote at the AGM or EGM.





**Communication  
with Shareholders**

**Principle 15:**

*Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.*

The Company is committed to disclosing accurate and timely information that is material or that may influence the price of Sembcorp Marine's shares on the SGXNET and on the corporate website to shareholders, analysts and other stakeholders. It does not practise selective disclosure of price-sensitive information.

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.

**Governance Disclosure Guide**

**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?*

The earnings results are first released via SGXNet and posted on the SGX-ST's and the Company's website at [www.sembmarine.com](http://www.sembmarine.com). 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. 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. Information on investor relations activities is on pages 59 to 62 of this Annual Report.

The Company operates in a cyclical industry. It aims to balance returns to shareholders with the need for long-term sustainable growth. Taking into account its cash position, working capital requirements, capital expenditure plans and investment opportunities, the Company strives to provide shareholders annually with a consistent and sustainable dividend.

**Governance Disclosure Guide**

**Guideline 15.5:**

*If the Company is not paying any dividends for the financial year, please explain why.*

For FY2018, after due deliberation, the Board adopted a prudent approach to conserving cash in light of the challenging business environment. As such, no interim and final dividend has been declared for FY2018. For FY2017, total dividend was 2.0 cents per share.

# CORPORATE GOVERNANCE



## Conduct of Shareholder Meetings

### Principle 16:

*Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.*

Sembcorp Marine delivers the Notice of AGM and related information at least 14 days ahead of the meeting, providing sufficient time for shareholders to review the Notice of AGM and appoint proxies to attend the AGM if they wish. The Notice of AGM is also advertised in the Business Times for the benefit of shareholders. Sembcorp Marine holds its general meetings at a central location in Singapore with convenient access to public transportation.

All registered shareholders are invited to participate at shareholders' meetings. Under the new multiple proxy regime, "relevant intermediaries" such as banks and nominee companies 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 Group has consistently ensured 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 senior management are required to attend all shareholders' meetings. The external auditors are also 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 record the substantial and relevant comments or queries from shareholders, and responses from the Board and Management. All minutes of shareholders' meetings are available on request by registered shareholders.

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

Sembcorp Marine has put in place a policy on dealings in securities, which prohibits dealings in the Sembcorp Marine's securities by its Directors, senior executives, persons who are in attendance at board, committees and senior management committee meetings and employees who are involved in the preparation ("officers") of the Group's financial statements. The "closed" period commences two weeks before the announcement

of the Sembcorp Marine's financial statements for each of the first three quarters of the Sembcorp Marine's financial year, and one month before the announcement of the Sembcorp Marine's full-year financial statements, and ending on the date of the announcement of the relevant results.

The policy also provides that any of the officers who are privy to any material unpublished price-sensitive information should not trade in Sembcorp Marine securities until the information is appropriately disseminated to the market, regardless of whether or not it is during the "closed" periods for trading in Sembcorp Marine securities.

The policy also discourages trading on short-term considerations. Corporate Secretariat sends quarterly reminders of the requirements under the policy to the officers in advance of each blackout period and reminds officers of their obligations under the insider trading laws.

### IPTs

Sembcorp Marine has embedded procedures to comply with all regulations governing IPTs. The IAD regularly reviews the IPTs entered into by the Group to verify the accuracy and completeness of the IPT disclosure and to determine whether the IPT reporting requirements under the SGX listing rules and the IPT Mandate have been adhered to. The report is submitted to the AC for review.

Shareholders have approved the renewal of a general mandate for IPTs at the AGM on 18 April 2018. 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 Sembcorp Marine's website at <https://www.sembmarine.com/investor-relations/circular-to-shareholder>.

All commercial units are required to be familiar with the IPT mandate and report any such transactions to Group Finance department.

Detailed information on IPTs for FY2018 is found on page 333 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 2018, save as disclosed via SGXNET.

### **Code of Business Conduct and Practice**

Sembcorp Marine has a Guidebook for the Code of Business Conduct that applies to all employees. The Guidebook sets out the Group's core values, how to conduct business with integrity, handling employees and community with fairness, protecting the Group's assets, dealing with conflicts of interest and protection of information. The Guidebook guides employees in carrying out their duties and responsibilities to the highest standards of personal and corporate integrity when dealing with Sembcorp Marine, its competitors, customers,

suppliers and communities. The Guidebook covers bribery and corruption, gifts and entertainment, fairness and opportunity, harassment, conflicts of interest, protection of assets, proprietary information, data protection, etc. The Guidebook is available on the corporate website.

Sembcorp Marine has established a crisis management policy on dealing with crisis. The policy sets out the process in which the Board of Directors and senior management are kept informed of corporate crisis in a timely manner, according to their severity. Such crisis may include events that have or are expected to have a significant impact, financial or reputational or otherwise, on the Group's business and operations.