

Corporate Governance & Transparency

The Sembcorp Marine Group is committed to meeting high standards of corporate governance. Its corporate governance principles reflect its strong belief in protecting and enhancing shareholder value in a sustainable way. The Group firmly believes that the professionalism, integrity and commitment of its Board members and employees, supported by a sound system of policies, practices and internal controls are the cornerstones that will enable it to preserve long-term value and returns for its shareholders.

Sembcorp Marine endorses the principles of the Code of Corporate Governance issued by the Singapore Exchange Securities Trading Ltd. This report outlines Sembcorp Marine's corporate governance processes and activities for the financial year with reference to the principles set out in the Code.

Board of Directors

Effective Board to Lead and Effect Controls:

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with the management to achieve this and the management remains accountable to the Board.

The Board's responsibility is to oversee the business, affairs and performance of the Sembcorp Marine Group in the best interests of its shareholders. The Board focuses its activities on the Group's key requirements such as:

- Providing entrepreneurial leadership and directions of the Group
- Ensuring prudent and effective controls
- Setting values and standards to ensure obligations to shareholders are met
- Overseeing the proper conduct of the Group's business

To ensure efficient discharge of its responsibilities and to provide independent oversight of the management, the Board has established a number of Board committees, including the Audit Committee, Executive Resource & Compensation Committee, Nominating Committee, Board Risk Committee and the Executive Committee. These committees comprise mostly independent and/or non-executive directors. Other ad-hoc committees can be formed from time to time to look into specific areas when the need arises, such as the Special Committee established in 2007.

Attendance at Board and Committee Meetings

| Name of Director | Board Meetings (Board) | | Audit Committee Meetings (AC) | | Board Risk Committee Meetings (BRC) | | Executive Committee Meetings (EXCO) | | Nominating Committee Meetings (NC) | | Executive Resource & Compensation Committee Meetings (ERCC) | |
|----------------------------------|------------------------|------------|-------------------------------|------------|-------------------------------------|------------|-------------------------------------|------------|------------------------------------|------------|---|------------|
| | No. of Meetings Held# | Attendance | No. of Meetings Held# | Attendance | No. of Meetings Held# | Attendance | No. of Meetings Held# | Attendance | No. of Meetings Held# | Attendance | No. of Meetings Held# | Attendance |
| Goh Geok Ling | 11 | 11 | - | - | - | - | 2 | 2 | 1 | 1 | 4 | 4 |
| Richard Hale, OBE | 11 | 11 | 4 | 4 | 4 | 3 | - | - | - | - | - | - |
| Wong Weng Sun ¹ | 11 | 11 | - | - | - | - | 1 | 1 | - | - | - | - |
| Tan Kwi Kin | 11 | 9 | - | - | - | - | 1 | 1 | - | - | - | - |
| Tan Pheng Hock | 11 | 6 | - | - | - | - | - | - | 1 | 1 | 4 | 4 |
| Tan Tew Han ² | 2 | 1 | 1 | 1 | - | - | - | - | - | - | - | - |
| Ajaib Haridass | 11 | 10 | - | - | 4 | 4 | 2 | 2 | - | - | - | - |
| Tang Kin Fei | 11 | 11 | - | - | 4 | 3 | 2 | 2 | - | - | - | - |
| Ron Foo Siang Guan | 11 | 10 | 4 | 4 | 4 | 4 | - | - | - | - | - | - |
| Joseph Kwok Sin Kin ³ | 11 | 3 | - | - | - | - | - | - | 1 | 1 | 4 | 4 |
| Ngiam Joke Mui | 11 | 10 | - | - | - | - | - | - | - | - | - | - |
| Lim Ah Doo | 11 | 11 | 3 | 3 | - | - | - | - | - | - | - | - |

The number of meetings held during the period the director was a member of the Board, or when he was a member of a committee.
¹ Mr Wong Weng Sun was appointed to the Board on 1 May 2009. Mr Wong was previously alternate director to Mr Tan Kwi Kin.
² Mr Tan Tew Han stepped down as director on 24 February 2009.
³ Mr Joseph Kwok Sin Kin is currently stationed in San Francisco, USA.
 NB: Special Committee did not hold any meeting in FY2009 but decisions were made via e-mail correspondences

Membership in the different committees is carefully managed to ensure that there is equitable distribution of responsibilities among Board members, to maximise the effectiveness of the Board and foster active participation and contribution. Diversity of experiences and appropriate skills are also considered.

In addition, the Board has adopted a set of internal controls which sets out approval limits for transactions, procurement of goods and services, capital expenditure, investments and divestments, bank borrowings and cheque signatories' arrangements. Approval sub-limits are also provided at Management levels to facilitate operational efficiency.

Strong and Independent Board Exercising Objective Judgment

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. No individual or small group of individuals should be allowed to dominate the Board's decision making.

Chaired by Mr Goh Geok Ling, the Board had eleven directors of whom ten are non-executive directors, and five are independent directors. Mr Wong Weng Sun who was appointed the President & CEO and Director of Sembcorp Marine on 1 May 2009, is the

executive director. Mr Tan Kwi Kin stepped down as Group President and CEO and was appointed Senior Advisor of Sembcorp Marine on 1 May 2009.

The Board is composed of a majority of non-executive directors, five of whom are independent directors, independent of management and independent in terms of character and judgement. The criterion of independence is based on the definition given by the Code, which stipulates that an independent director is one who has no relationship with the company, its related companies or its officers that could interfere or be reasonably perceived to interfere with the exercise of the directors' independent business judgment with a view to decide in the best interests of the company in the conduct of the company's affairs. This enables the management to benefit from an external and objective perspective on issues that are brought before the Board.

To facilitate a more effective check on management, the non-executive directors have also met without the presence of management to discuss the performance of management.

The Nominating Committee considers Tan Pheng Hock and Ajaib Haridass, both non-executive directors, as independent non-executive directors, although they are related to the company by virtue of their position as a director in a related company, and a partner in a

Board Members for 2009

| Directors | Position held on the Board | Date of first appointment to the Board | Date of last re-election/re-appointment as director | Nature of Appointment |
|----------------------------|----------------------------|--|---|---------------------------------|
| Goh Geok Ling | Chairman | 14 February 2006 | 17 April 2009 | Non-Executive/ Non-Independent |
| Richard Hale, OBE | Deputy Chairman | 22 April 2008 | 17 April 2009 | Non-Executive/ Non-Independent |
| Wong Weng Sun ¹ | Director/President & CEO | 1 May 2009 | Not Applicable | Executive/ Non-Independent |
| Tan Kwi Kin ² | Director/Senior Advisor | 1 April 1990 | 17 April 2009 | Non-Executive / Non-Independent |
| Tan Pheng Hock | Director | 16 April 2001 | 17 April 2009 | Non-Executive/ Independent |
| Tan Tew Han ³ | Director | 17 April 2003 | 22 April 2008 | Non-Executive/ Independent |
| Ajaib Haridass | Director | 31 October 2003 | 17 April 2009 | Non-Executive/ Independent |
| Tang Kin Fei | Director | 1 May 2005 | 22 April 2008 | Non-Executive/ Non-Independent |
| Ron Foo Siang Guan | Director | 30 June 2006 | 20 April 2007 | Non-Executive/ Independent |
| Joseph Kwok Sin Kin | Director | 30 June 2006 | 20 April 2007 | Non-Executive/ Independent |
| Ngiam Joke Mui | Director | 24 November 2007 | 22 April 2008 | Non-Executive/ Non-Independent |
| Lim Ah Doo | Director | 7 November 2008 | 17 April 2009 | Non-Executive/ Independent |

¹ Mr Wong Weng Sun ceased as Alternate Director to Mr Tan Kwi Kin and was appointed Director/President & CEO on 1 May 2009.
² Mr Tan Kwi Kin stepped down as Group President & CEO and was appointed Senior Advisor on 1 May 2009.
³ Mr Tan Tew Han stepped down as Director on 24 February 2009.

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law firm rendering professional services to the Group, respectively. Notwithstanding this, the Nominating Committee assesses them to be independent directors due to their manifest ability to exercise strong independent judgement in their deliberations and act in the best interests of the company, and that the nature and scope of the business relationships are not significant in the context of the Group's and the companies' earnings or operations, and therefore do not undermine the independence of these directors.

The directors consider that the Board is of the appropriate size and with the right mix of skills and experience given the size of Sembcorp Marine. The Board members comprise business leaders, current or retired CEOs, bankers, professionals with financial background and a practising lawyer. Profiles of the Board's directors are found on pages 18 to 21 of this Annual Report.

Board Committees

Sembcorp Marine has six Board committees:

- Audit Committee
- Executive Resource & Compensation Committee
- Nominating Committee
- Risk Committee
- Special Committee
- Executive Committee

Board Composition and Committees

| Board Members | Audit Committee | Executive Resource & Compensation Committee | Nominating Committee | Risk Committee | Special Committee | Executive Committee | |
|----------------------------|-----------------|---|----------------------|----------------|-------------------|---------------------|--------|
| Goh Geok Ling | Member | Chairman | Member | Member | | Chairman | |
| Richard Hale, OBE | | | | | | | Member |
| Wong Weng Sun ¹ | | | | | | | Member |
| Tan Kwi Kin ² | Member | Member | Member | Chairman | Member | Member | |
| Tan Pheng Hock | | | | | | | |
| Ajaib Haridass | | | | | | | |
| Tang Kin Fei | | | | | | | |
| Ron Foo Siang Guan | Member | Member | Chairman | Member | Chairman | Member | |
| Joseph Kwok Sin Kin | | | | | | | |
| Ngiam Joke Mui | | | | | | | |
| Lim Ah Doo | Chairman | | | | Member | | |

¹ Appointed as a Member of the Executive Committee on 1 May 2009.

² Stepped down as Member of the Executive Committee with effect from 1 May 2009.

The Audit Committee

Principle 11: *The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.*

The Audit Committee currently comprises two independent directors: Mr Lim Ah Doo as Chairman of the Audit Committee and Mr Ron Foo as member, and one non-independent director, Mr Richard Hale, OBE as member.

The main responsibility of the Audit Committee is to review the Group's general policies and control procedures relating to financial statements and reporting, and review of internal control systems, interested persons transactions as well as any matters or issues that affect the performance of the Group. These reviews are done with the external auditor, internal auditor and the management. The Committee reviews the quarterly, half-yearly and annual results announcements in addition to the financial statements at Group and company levels before they are submitted to the Board for approval. The Committee also recommends the appointment of the external auditors.

In its role, the Audit Committee assists the Board of Directors in fulfilling its fiduciary responsibilities

relating to corporate accounting and reporting practices of the Group, and in respect of interested persons transactions. Its responsibility is to act in the interest of the shareholders as a whole. The Committee meets with the external and internal auditors, without the presence of the management, at least once a year to review the cooperation and assistance given by the management to its members.

The Audit Committee has reviewed the non-audit services provided by its external auditors to the Group, and is satisfied that the provision of non-audit services by the external auditors did not impair their independence as external auditors.

The Executive Resource & Compensation Committee

The Executive Resource & Compensation Committee (ERCC) is chaired by Mr Goh Geok Ling and its members for 2009 were Mr Joseph Kwok and Mr Tan Pheng Hock.

The primary purpose of the ERCC is to support and advise the company on remuneration matters and leadership development by:

- Overseeing development of leadership and management talent
- Ensuring that the Group has appropriate remuneration policies
- Design compensation packages with focus on long-term shareholders' returns

The ERCC reviews and approves remuneration and promotion of key executives and decides on issues pertaining to their development and succession. It also establishes guidelines on share plans and other long-term incentive plans and approves the grant of such incentives to key executives. The underlying philosophy is to motivate executives to maximise operating and financial performance and shareholders' value.

In addition, the Committee also reviews the remuneration of non-executive directors, executive director and senior executives, as well as major human resource management and compensation policies and practices for the rest of the Group.

On an annual basis, a comprehensive talent management programme and the succession plans were presented to the Committee for review. The Committee reviews the succession plans for key and critical positions to align the business goals and its 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 Committee currently involves and consults with human resources and compensation consultants to ensure inclusiveness in its deliberations and decisions and to keep in line with pay and employment conditions within the industry and in comparable companies.

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

While the Committee's Chairman is not independent, he is a non-executive director independent of the management with a clear separation from his role in management during the Committee's deliberations. No Committee member or any director is involved in deliberations on any remuneration, compensation, options or any form of benefits to be granted to himself.

Nominating Committee

The Nominating Committee was chaired by Mr Joseph Kwok and includes Mr Goh Geok Ling and Mr Tan Pheng Hock as members.

The primary purpose of this Committee is to support and advise Sembcorp Marine, its unlisted subsidiaries and, where applicable, unlisted associated companies by nominating suitable candidates who are best able to discharge their responsibilities as directors. This means evaluating the balance of skills, knowledge and experience of these boards and assessing the candidates for their regard for the law and the high standards of governance practised by the Group. Appointments to these boards are made on merit and against objective criteria. The Nominating Committee ensures that appointees have enough time available to devote to their directorship roles.

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The independence of each director is reviewed annually by the Committee.

Risk Committee

The Risk Committee was formed in April 2005 as part of Sembcorp Marine's effort to formalise and strengthen its risk management framework and processes. Prior to its formation, its roles and functions were carried out by the Audit Committee. This delineation enables a better focus on pertinent risk issues faced by the Group.

Currently, the Risk Committee comprises four members, namely Mr Ajaib Haridass as Chairman, Mr Tang Kin Fei, Mr Richard Hale, OBE and Mr Ron Foo.

The Committee's primary role and function is to assist the Board of Directors by reviewing the adequacy and effectiveness of the Group's risk management philosophy, strategies, policies & guidelines; Group-wide risk management plans, systems, processes controls and procedures; and the Group's risk portfolio and risk assessment including the treatment of identified risks.

Special Committee

The Special Committee was formed on 22 October 2007 in response to the discovery of the unauthorised foreign exchange transactions ("Unauthorised Transactions") undertaken by the former Director, Group Finance of Sembcorp Marine. Its primary role was to assist the Board in the investigations and to deal with issues and legal proceedings arising out of these Unauthorised Transactions.

The Special Committee is currently comprised of four members: Mr Ron Foo Siang Guan as Chairman, Mr Ajaib Haridass, Mr Tang Kin Fei and Mdm Ngiam Joke Mui as members.

Executive Committee

The Executive Committee was formed on 7 May 2008 to assist the Board in developing the overall strategy for the Group and supervises on behalf of the Board, the management of the Group's business and affairs.

The Executive Committee comprises four members: Mr Goh Geok Ling as Chairman, Mr Wong Weng Sun, Mr Ajaib Haridass and Mr Tang Kin Fei as members. Mr Tan Kwi Kin stepped down as a member of the Executive Committee on 1 May 2009 and was replaced by Mr Wong Weng Sun.

Chairman and Chief Executive Officer (CEO)

Principle 3: *There should be clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.*

There is a clear separation of the roles and responsibilities between the Chairman and the President & CEO. The President & CEO is not related to the Chairman.

The Chairman, who is non-executive, takes a leading role in the Sembcorp Marine Group's drive to achieve and maintain a high standard of corporate governance with the full support of the directors and the management.

He is responsible for the leadership of the Board, setting its agenda and ensuring its effectiveness in all aspects of its work. He acts independently in the best interests of the Group and shareholders. The Chairman facilitates the contribution of non-executive directors in particular and ensures constructive relations between executive and non-executive directors. He also ensures that the members of the Board work together with the management in constructive debate on various matters, including strategic and operational issues. Meanwhile, the President & CEO is charged with the executive responsibility of running the Group's business.

Formal Appointment and Re-Election of Directors

Principle 4: *There should be a formal and transparent process for the appointment of new directors to the Board.*



Results briefing for analysts and media.

The Board does not believe it is possible to compile a list of criteria which are appropriate to characterise, in all circumstances, whether a non-executive director is independent. It is the approach and attitude of each non-executive director which is important. The Board aims for diversity of knowledge and experience among its members in relation to the various businesses of the Group and the international nature of the Group.

The Board, through the delegation of its authority to the Nominating Committee, has used its best efforts to ensure that directors appointed to the Board possess the background, experience and knowledge in technology, business, finance and management skills critical to the Group's businesses and that each director brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

Sembcorp Marine believes that all directors should retire and offer themselves for re-election at regular intervals, subject to continued satisfactory

performance. The President & CEO, while also a board member, is also required to retire and offer himself for re-election. As nomination and election of board members is the prerogative and proper right of all shareholders, this ensures the planned and progressive renewal of the board.

The Company's Articles of Association require one-third of directors to retire and subject themselves to re-election by shareholders at every Annual General Meeting ("AGM"). In other words, no director stays in office for more than three years without being re-elected by shareholders. At the forthcoming AGM, Mdm Ngiam Joke Mui, Mr Ron Foo Siang Guan and Mr Joseph Kwok Sin Kin will retire by rotation pursuant to the one-third rotation rule.

In addition, any newly-appointed director will submit himself for retirement and election at the AGM immediately following his appointment. Thereafter, he is subject to the one-third rotation rule. Mr Wong Weng Sun, who was appointed to the Board on

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1 May 2009, will submit himself for retirement and re-election by shareholders at the forthcoming AGM.

Further, pursuant to the Companies Act, directors who are over the age of 70 would vacate their offices at the conclusion of every AGM, and be subject to re-appointment. For the forthcoming AGM, Mr Tan Kwi Kin and Mr Richard Hale, OBE would vacate their offices and submit themselves for re-appointment by the shareholders pursuant to Section 153(6) of the Companies Act.

Board Performance and Conduct of its Affairs

Principle 5: *There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.*

The Sembcorp Marine Group believes that active participation and valuable contributions are essential to the overall effectiveness of the Board. Newly-appointed directors are given briefings by the management. Facility visits to the premises are also arranged to enable them to acquire an understanding of the Group, its business activities and its strategic directions. Existing directors are also invited to such facility visits and orientation programmes.

Changes to regulations and accounting standards are monitored closely by the management. To keep pace with regulatory changes, which have an important bearing on the Group's or directors' disclosure obligations, the directors are briefed during Board meetings or at specially-convened sessions, including training sessions and seminars conducted by external professionals. Where necessary, the Group also sponsors its directors to training sessions, courses and seminars on new developments or changes in laws, regulations and accounting standards, which are of relevance to the Group.

Informal reviews of the Board composition and performance are undertaken on a continual basis by the Nominating Committee with inputs from the other Board members and the President & CEO to

ensure strong, independent and sound leadership for the continued success of the Group's business. In addition, to enhance our corporate governance practice, a yearly exercise was introduced to obtain feedback from each Director on the effectiveness of the Board as a whole. Directors are required to complete a questionnaire which includes factors such as the size and composition of the Board, the Board's access to information, Board processes and accountability as well as Board performance in relation to communication with senior management. Feedback from the Directors would be collated and discussed at a subsequent board meeting and used to highlight areas of strengths and weaknesses for future development of the Board and its committees as well as to further improve performance.

The Nominating Committee feels that the financial indicators set out in the Code as guides for evaluation of directors are more for the measurement of management's performance and thus, less applicable to directors. The Nominating Committee recognises the contribution of directors who, over time, have developed deep insights into the Group's businesses and would exercise its discretion to retain the services of such directors.

Full Access to Information and Resources

Principle 6: *In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.*

Directors at Sembcorp Marine have access to complete, adequate and timely information and resources. As a general rule, board papers are sent to directors at least 3 days before a board meeting so that they have the relevant information for consideration and deliberation at the meeting. Managers who can provide additional insight into the matters at hand would be present at the relevant time during the Board meetings.

The management further provides monthly management and other financial statements to the Board on business issues that require the Board's

decision in addition to ongoing reports relating to the Group's operational and financial performance. Where a physical board meeting is not possible, timely communication with members of the Board is effected through electronic means which include electronic mail and teleconferencing. Alternatively, the management will arrange to meet and brief each director personally before seeking the Board's approval.

The Board has separate and independent access to the President & CEO, members of senior management and the Company Secretaries at all times. Where necessary, independent professional advice and consultations will be made available to directors to ensure that full information and advice are available before important decisions are made by the Board. All issues are actively debated by the Board and properly recorded.

The Company Secretaries assist the Chairman by preparing meeting agenda, attending, preparing minutes of board proceedings and ensuring good information flows within the Board and its committees. They assist the Board on compliance with the Company's Memorandum and Articles of Association, laws and regulations, including requirements of the Companies Act, Securities Futures Act, the Singapore Exchange Securities Trading Ltd (SGX-ST), the Accounting and Corporate Regulatory Authority and shareholders. The Company Secretaries assist the Board to upkeep and implement good corporate governance and best practices across the Group.

Competitive Board Remuneration

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 his own remuneration.*

Sembcorp Marine believes that the remuneration of its directors is adequate and competitive, in line with market norms. The fee structure for the directors had been revised by the Board in 2006 after benchmarking the directors' fees against those in the public and private sectors.

The directors' fee for 2009 is S\$1,157,833.00 which is derived from the following guidelines approved and adopted by the Board since Year 2007:

| Type of appointment | Remuneration \$ |
|--|----------------------------|
| (i) Board of Directors - Basic Fee - Chairman's allowance - Deputy Chairman's allowance | 50,000 45,000 25,000 |
| (ii) Audit Committee - Chairman's allowance - Members' allowance | 40,000 25,000 |
| (iii) Risk Committee - Chairman's allowance - Members' allowance | 25,000 15,000 |
| (iv) Executive Resource & Compensation Committee - Chairman's allowance - Members' allowance | 25,000 15,000 |
| (v) Nominating Committee - Chairman's allowance - Members' allowance | 25,000 15,000 |
| (vi) Executive Committee - Chairman's allowance - Members' allowance | 40,000 25,000 |

Notes:
(1) Mr Wong Weng Sun, as an Executive Director, does not receive any director's fee.
(2) The Directors also receive attendance fee of S\$2,000 (in-country) and S\$5,000 (out-country) for each board meeting, S\$1,000 (in-country) and S\$5,000 (out-country) for each Committee meeting and S\$1,000 (in-country) and S\$1,000 (during office hours) or S\$2,000 (outside office hours) (out-country) for each teleconference.
(3) The chairman and members of the Special Committee have waived their allowances for their appointment to the Special Committee.

The detailed breakdown of directors' remuneration is found on page 200 of the Annual Report.

The President & CEO, as Executive Director, does not receive any director's fees. As a lead member of the management, he draws a compensation consisting of a salary, allowances, bonuses, share-based incentives conditional upon meeting certain performance targets (details are available on page 200 of the Annual Report). Details on the share-based incentives and its fair value are available on pages 179 to 184 and page 186 of the Annual Report respectively.

Non-executive directors have remuneration packages that consist of a directors' fee component according to Sembcorp Marine's Directors' Fee Policy, an attendance fee component and a share-based incentives component according to the Company's

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Active participation by shareholders at 46th Annual General Meeting.

Employee Share Plan. Sembcorp Marine does not have a retirement plan for non-executive directors. The Directors' Fee Policy is based on a scale of fees divided into basic retainer fees as director and additional fees for attendance and service on Board committees (details are available on page 31 of the Annual Report). Details on the share-based incentives and its fair value are available on pages 179 to 184 and page 186 of the Annual Report respectively.

The basis of allocation of the share-based incentives takes into account a director's contributions and additional responsibilities at Board committees. The report on directors' remuneration is found on page 200 of the Annual Report.

Competitive Reward System and Disclosure on Remuneration

Principle 8: *The level of remuneration should be appropriate to attract, retain and motivate the*

directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Principle 9: *Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure 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 executives, and performance.*

Sembcorp Marine adopts a competitive remuneration and reward system that ensures good performance and retention of required talents and key executives. The company's remuneration and rewards system is anchored on individual performance, performance of the Group and its business units.

The incentive compensation plan for key executives is tied to the creation of Economic Value Add (EVA), as well as the attainment of individual performance goals. An individual's incentive compensation is linked to the EVA created by Sembcorp Marine Group and its subsidiaries. A "bonus bank" is used to hold incentive compensation credited in any year. Typically, one-third of the available balance is paid out in cash each year, with the balance being carried forward to the following year. The balances carried forward may be reduced or increased in future, based on the yearly EVA performance of the Group and its subsidiaries.

Key executives are also rewarded based on actual performance relative to pre-agreed performance targets, which include financial and non-financial performance indicators such as EVA, total shareholder return and promoting and maintaining health, safety and environment issues. The Board believes that the current reward systems are in line with market norms and formulated to motivate executives to give their best to the Group. Rewards include long-term share-based incentives, which would further ensure the retention of the most talented and high performing executives in the Group. In view of the evolving practices at major public-listed companies and to enhance linkages between employee performance and long-term shareholder value creation, a review of the Group's share-based incentives was carried out in 2005.

The Company ceased to grant new share options since 2007. Instead, employees were awarded restricted stocks under the restricted stock plan. For further details on the share-based incentives and performance targets, please refer to pages 179 to 184 of this Report.

With respect to executive remuneration, the Board has decided not to prepare a separate remuneration report as most of the information is found in the directors' report. This Annual Report has indicated where the information required to be disclosed can be found.

Key executives include Managing Directors of Sembawang Shipyard Pte Ltd, PPL Shipyard Pte Ltd, SMOE Pte Ltd, the Executive Director of Jurong SML Pte Ltd, and the Chief Financial Officer.

The detailed breakdown of the key executives' remuneration is found on page 200 of the Annual Report.

Internal Controls and Risk Management

Principle 12: *The Board should ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.*

The Board, through the Risk Committee, provides oversight and ensures adequacy of the system set out to meet the requirements of Principle 12. This system of internal controls comprises the Group's internal financial controls, operational and compliance controls, and risk management policies and processes.

A review of the effectiveness of the Group's internal controls is conducted annually. This review is carried out via the Enterprise Risk Management ("ERM") programme and involves management, the Strategic Business Units ("SBUs"), Group Risk Management, Group Internal Audit and external consultants, where required.

The Group continues to maintain and improve the ERM programme which is currently into its 7th year since its inception in 2004. This programme provides a framework to identify, evaluate and manage key risks faced by the Group in the pursuit of its business objectives.

For more information on the Group's ERM programme, please refer to pages 36 to 38.

Whistle-Blowing Policy

Principle 12: *The Board should ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.*

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The Group has adopted a constructive whistle-blowing culture to detect and deter wrongdoing in preparing and implementing accurate and complete financial policies, reports and materials as well as the internal controls essential to support its financial and accounting systems and operations.

Demonstrating its pledge to good corporate governance, the Group provides an avenue for employees or any person to report any possible improprieties in matters of financial reporting or other matters that they may encounter to the Audit Committee or any other committees established by the Audit Committee for such purposes without fear of reprisal. The Audit Committee provides an oversight role in ensuring that the appropriate actions (including independent investigations) are undertaken to address any whistle-blow complaints.

The establishment of the whistle-blowing structure also augments the Group's ability to detect potential fraud, providing another level of comfort and assurance to investors.

Independent Internal Audit Function

Principle 13: *The company should establish an internal audit function that is independent of the activities it audits.*

Sembcorp Marine's internal audit function is supported by the Internal Audit Department which reports on audit matters directly to the Audit Committee Chairman and administratively to the President & CEO. This department plans its internal audit schedules in consultation with, but independent of, the management. Its plan is submitted to the Audit Committee for approval at the beginning of each year.

To ensure that the internal audits continue to be performed by competent professionals, the Internal Audit Department continues to recruit and employ suitably qualified staff. The internal audit practices of the Department are established with reference to the standards set by the Institute of Internal Auditors (IIA). Continual efforts are being made to

align the department's practices with the mandatory and strongly recommended guidance set forth in the new International Professional Practices Framework of the IIA. A quality assurance and improvement programme has also been established, comprising both internal and external assessments of the internal audit function.

Communication with Shareholders

Principle 10: *The Board should present a balanced and understandable assessment of the company's performance, position and prospects.*

Principle 14: *Companies should engage in regular, effective and fair communication with shareholders.*

Sembcorp Marine strives to provide fair and accurate communication with shareholders on its affairs on an ongoing basis. Sembcorp Marine's shareholders are entitled to regular, timely and comprehensive reports on financial information, material developments as well as an understanding of business directions and prospects.

The Board provides shareholders with an assessment of the Group's performance, position and prospects on a quarterly basis via quarterly announcements of results and timely announcements of significant transactions and developments as required by the SGX-ST. All price-sensitive information on Sembcorp Marine is disseminated to its shareholders via the SGXNET so as to ensure that all shareholders have access to material information at the same time. Financial and other performance information of the Group as a whole as well as by business segments are given at the release of quarterly results. This allows shareholders to gain better insight into the earning drivers within Sembcorp Marine.

During the release of earnings results, the announcement is first released by SGXNET onto the SGX-ST website. The management team then holds a briefing or teleconference for the media and analysts. Materials used at the briefing are made available on SGXNET and on the Group's corporate website at www.sembcorpmarine.com.sg. Following any release of earnings or price-sensitive

developments, investor relations personnel are available by email or telephone to answer questions from shareholders and the media as long as the information requested does not conflict with the SGX-ST's rules of fair disclosure.

Apart from the regular briefings provided to media and analysts, the management team also travels regularly to attend overseas road shows and exhibitions to reach out to foreign investors.

Greater Shareholder Participation at General Meetings

Principle 15: *Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.*

Sembcorp Marine recognises that good corporate governance requires active participation of shareholders in the decision-making at the general meetings of shareholders and encourages such participation.

Information on meetings of shareholders are made through notices published in the newspaper and reports or circulars sent to all shareholders. All registered shareholders are invited to participate in shareholder meetings. If they do not wish to attend in person, they can issue instructions to accept, reject or abstain on each individual item on the meeting agenda by giving instructions to their proxy. He or she is allowed to appoint up to two proxies to vote on his or her behalf at the meeting through proxy forms sent in advance.

Sembcorp Marine also allows CPF Investors to attend General Meetings as observers. The Chairman, President & CEO, Chairman of the Audit Committee as well as other directors will be present together with the Chief Financial Officer, the Company Secretaries and external auditors to answer questions raised by shareholders. Minutes of shareholder meetings are available on request by registered shareholders. Sembcorp Marine ensures that there are separate resolutions at general meetings on each substantially

separate issue and avoids "bundling" separate resolutions.

To facilitate attendance of shareholders at the Annual General Meeting and Extraordinary General Meeting, Sembcorp Marine arranged for buses to transport shareholders from convenient MRT stations to its registered office at 29 Tanjong Kling Road. The Group has always preferred holding the meetings at its registered office to offer shareholders the opportunity to visit the shipyard and acquaint themselves with the shipyard operations besides the opportunity to interact with the Chairman, Board of Directors and senior management of the Group. About 200 shareholders attended the AGM and EGM held on 17 April 2009.

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

Dealings in Securities

Sembcorp Marine has adopted a Code of Compliance on Dealings in Securities, which prohibit dealings in the company's securities by its officers during the period commencing one month prior to the announcement of its full-year results and two weeks prior to the quarterly results. Directors and executives are also expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

Interested Persons Transactions ("IPT")

Shareholders have adopted an IPT mandate relating to interested persons transactions of the Group. The IPT mandate sets out the levels and procedures to obtain approval for such transactions. Information regarding the mandate is available on the corporate website at www.sembcorpmarine.com.sg. All SBUs are required to be familiar with the IPT mandate and report any such transactions to the finance department. The finance department keeps a register of Sembcorp Marine's interested persons transactions. Information on interested persons transactions for 2009 is found on page 201.