



OFFSHORE

ENERGY. COMMITTED.



ANNUAL REPORT 2019

3.7 RISK MANAGEMENT

3.7.1 COMPANY APPETITE FOR RISKS

Based on the Company’s activities and strategic pillars: Optimize, Transform and Innovate, the Company has identified the main risks associated with its activities and strategy. The Risk Appetite Statement 2019 sets the boundaries within which SBM Offshore is willing to take risks in pursuit of its strategic objectives. The Management Board reviews the Risk Appetite Statement annually to ensure that the Company maintains the balance between risk and reward, relative to potential opportunities. The measurement of the underlying metrics is done every quarter and presented to the Supervisory Board. The Company has two explicit ‘zero tolerance’ criteria:

1. In relation to HSSE and Process Safety Management:

SBM Offshore has zero tolerance for harm to people or for damage to its assets or the environment in the execution of its activities.

2. In relation to Compliance:

SBM Offshore has zero tolerance for non-compliance with the SBM Offshore Code of Conduct, its anti-corruption

policy and any related applicable laws and regulations. The Company will not work with business partners, contractors, vendors and clients:

- That are sanctioned from business by the World Bank and/or
- Whose decision makers/company executive leaders do not share the same fundamental business principles as SBM Offshore and/or
- Which do not have an effective compliance governance and compliance program proportioned to its size/ activities and in accordance with the Foreign Corrupt Practices Act (FCPA) guide.

The significant parts of SBM Offshore risk appetite statement, distinguished between 'no appetite' - and 'limited appetite' activities, are displayed below. In addition, SBM Offshore does have an appetite to pursue initiatives, including corporate investments and technology developments in Renewables & Gas. For more details, see section 2.3 Sustainability.

SBM Offshore has no- or well defined limited appetite for ...

FPSO-related contractual structures exposing the Company to reservoir risk
Projects or operational activities that do not anticipate environmentally-sound scrapping or recycling
Balance sheet risk as a result of commercial opportunities for which the bankability cannot be reasonably confirmed
Issuing Parent Company Guarantees (PCGs) on post-completion debt for our FPSO business
Corporate acquisitions/investments which could materialize into process safety risks
Commercial risk taking in Turnkey or in its Lease and Operate business
Financial exposure caused by i) negative working capital ii) credibility of customers or iii) liability towards the yards we engage with
Engagement with vendors which rate unsatisfactory as a result of our vendor qualification process
Cost of Non Quality for projects prior to and after warranty commencement
To engage in projects without the appropriate resourcing of key positions
Disruption due to application of unproven technologies
Corporate acquisitions other than to gain access to new skills, technology, or competitive advantage

3.7.2 DESIGN AND EFFECTIVENESS OF THE INTERNAL RISK MANAGEMENT AND CONTROL SYSTEM

MANAGEMENT APPROACH

Risk Management is a management responsibility and is carried out with dedicated focus across the Company. The Group Risk & Compliance function brings the skills to support the business in identifying and managing risks, thereby ensuring the risks are managed within the Risk Appetite in order for the Company to achieve its strategic

goals and objectives. The Risk Assurance Committee (RAC), chaired by the Group Risk & Compliance Director (GRCD) reviews the significant risks faced by the Company and the relevant control measures. The RAC guards an integrated risk management approach by bringing together the key heads of functions across the second and third line of defense, including the results of the annual Internal Control Over Financial Reporting (ICOFR) campaign. At least once every year, the Risk framework's effectiveness is assessed and discussed with the Supervisory Board.