



**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.



### RISK MANAGEMENT MATURITY ASSESSMENT

The Management Board has assessed its Risk Management framework against a basic maturity model (from 'implemented' to 'optimized') across five interrelated components. The components are derived from COSO's framework 'Enterprise Risk Management - Integrating with Strategy and Performance'. The table below displays the Risk Management activities in their maturity level of robustness, as per end of 2019. Overall, the Risk Management framework is deemed to be at a 'Managed' level, with the exception of 'Information, Communication & Reporting', which is assessed to be at a 'Defined' level. The items in grey are the actions envisioned to be focused on in 2020.

The table below displays the highlights of the assessment as per end of 2019.

MATURITY	RISK MANAGEMENT COMPONENT				
	 Governance & Culture	 Strategy & Objective-setting	 Performance	 Review & Revision	 Information, Communication & Reporting
<b>OPTIMIZED</b>	Continue to strengthen the risk resilience of the Company by increasing risk ownership and associated behavior	Continue to improve alignment of focus between Strategy, including Sustainability, with Risk Management	Continue to improve the quality of risk identification and assessments methodologies for dedicated risks and opportunities	Continue to improve ERM enablers such as Risk Breakdown Structure. Further improve assurance activities in the business	Outlook 2021:  Develop and implement risk indicators to facilitate real-time scenario tracking
<b>MANAGED</b>	Risk-based decision making is part of the corporate culture. Cross-functional team work is in place. Tone at the top sets clear guidance, based on our corporate values	Strategic risks assessments, as aligned with strategy (e.g. on Fast4Ward®, Digital Transformation, China country risk, Fraud risk, and Climate Change impact) are conducted	Continuous improvement takes place on quality of risk assessments on special topics and the tracking of action plans	Risk enablers (GEMS procedures, risk tooling, Risk Appetite statements) are regularly reviewed and improved by the RAC	Continue to improve the quality, alignment and impact of risk reporting
<b>DEFINED</b>	The RAC meets regularly and includes Group Directors of assurance functions, such as: HSSE, Operational Excellence, Finance, ICOFR, Risk & Compliance, and Internal Audit	Key business priorities of business pillars are the foundation of the quarterly risk report  Risk Appetite Statements are updated based on Company Strategy and applied to business goals	Risk Management and ICOFR activities are scheduled on a frequent basis and aligned with the Company's strategy cycle	RAC ensures an integrated risk management approach across the assurance functions. With the Group Risk & Compliance function it periodically assesses the effectiveness of risk management, control framework	Reports can be derived real-time and with cross-functional insights from an online platform, which is maintained and updated across the organization
<b>REPEATABLE</b>	Identification, assessment and management of (financial) risks are Management's responsibility and are carried out with the support of dedicated Internal Control and Risk resources	Company's Risk Appetite Statement is set in agreement with the Management Board and is supported by the Supervisory Board	Strategy is leading in process of risk identification and risk assessment.  ICOFR matrices are improved with further specifications on where control activity takes places	Improved digital functionalities and methodologies are in place in risk management for the documentation and assessment of risks, as well as for the facilitation of risk workshops	Reports are built on information from ICOFR and risk registers maintained by the business pillars, workshops and interviews with key stakeholders and information from the Company's Integrity Line
<b>IMPLEMENTED</b>	Management Board meets senior business members on performance, realization of objectives and responses to emerging issues	Risk bearing financial processes are identified and the associated risks and controls are listed in the ICOFR Risk and Control matrices	A periodic review of the ICOFR matrices is performed to assess the effectiveness of the risk coverage over different locations including review by the Finance function and a review by Internal Audit	Letter of Representation process, whereby senior business members confirm on a quarterly basis that for their responsible area, the financial reports fairly present the position and results of the Company	Every quarter a risk report is drawn up that contains information on the Risk Appetite measurement, the significant risks and its mitigating measures