



OFFSHORE

ENERGY. COMMITTED.

ANNUAL REPORT 2018

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 2018 describes the boundaries within which SBM Offshore is willing to take risks in pursuit of its strategic objectives. Both the Management and Supervisory Boards review the Risk Appetite Statement annually to ensure that the Company maintains the balance between risk and reward, relative to potential opportunities.

The underlying risk appetite metrics and boundary thresholds include sections on financial, strategic, operational and technological risks. The Management and Supervisory Board's Audit and Finance Committee reviews these every quarter.

The Company has two explicit 'zero tolerance' criteria:

1. In relation to HSE 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 (core) values and 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 FCPA guide.

The most significant elements of the Company's Risk Appetite Statement are:

- SBM Offshore has no appetite for excessive commercial risk taking in Turnkey, nor in its Lease

and Operate segment. Prospects within the acceptability range shall be subject to detailed risk analysis and an individual business case.

- SBM Offshore has limited appetite to engage with vendors which rate unsatisfactory as a result of detailed financial health checks
- SBM Offshore is cautious in managing risk in pursuit of any non-traditional FPSO-related commercial opportunities in the oil segment. Every proposal in this segment is subject to a detailed risk analysis and robust business case.
- SBM Offshore is cautious in managing risk related to pre-completion funding of its projects. The Company manages its financial risks in order to provide adequate shareholder returns whilst at the same time ensuring that it maintains sufficient liquidity to fund new investments to secure profitable growth.
- SBM Offshore is cautious in managing risk related to client counterparty.
- SBM Offshore is cautious in managing risk from operations, such as those related to its resource capacity to execute projects.
- SBM Offshore is cautious in managing risk related to adoption of new technologies.
- SBM Offshore is cautious in managing risk related to corporate acquisitions/investments.

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

MANAGEMENT APPROACH

The identification, assessment and management of risk are Management's responsibility and are carried out with the support of dedicated Risk Management resources integrated into the Company's main business pillars. Under the leadership of the Group Risk and Compliance Director (GRCD), the business risk and compliance officers bring the necessary skills in monitoring, challenging and advising the business on identifying and properly managing risks associated with businesses operations and core processes.

The Risk Assurance Committee (RAC), chaired by the GRCD reviews the most significant risks faced by the Company and the relevant control measures. The RAC meets regularly and includes the group directors of all assurance functions, such as HSE, Quality assurance, Finance and Risk and Compliance as well as Internal Audit, representing the third line of